OFFICE OF PERFORMANCE MANAGEMENT & OVERSIGHT
FISCAL 2014 ANNUAL REPORT GUIDANCE

The Office of Performance Management & Oversight (OPMO) measures the performance of all public and quasi-public entities engaged in economic development. All agencies are required to submit an Annual Report demonstrating progress against plan and include additional information as outlined in Chapter 240 of the Acts of 2010.

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

Filing Instructions:

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

1) AGENCY INFORMATION

Agency Name	**Massachusetts Business Development Corp**
Agency Head	**Kenneth J. Smith**
Title	**President**
Website	**www.bdcnewengland.com**
Address	**500 Edgewater Drive, Suite 555, Wakefield, MA 01880**

2) MISSION STATEMENT

Please include the Mission Statement for your organization below.

To impact "Main Street" business creation and expansion through lending to smaller businesses throughout the Commonwealth

3) PERFORMANCE AGAINST PLAN REPORT

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

4) Accounting

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

	Amount
Receipts	**$See attached**
Expenditures	**$**
Assets	**$**
Liabilities	**$**

5) Investments or Grants to Businesses or Individuals

Does your agency make **investments** and/or provide **grants** to businesses or individuals? **Yes** ☐ **No X**
If **Yes**, please provide detailed information on investments and/or grants made during FY14 in the **Performance Against Plan Report – Attachment A** section of this report. Information should include the number, nature and amounts of investments made and grants awarded by your agency along with job, investment and/or other economic development impact. Please list the name(s) of the investment and/or grant programs offered by your agency in the space provided below:

3T

6) Debt or Equity Investment Details

Is your agency involved in **debt** or **equity investments** for businesses? **Yes** ☐ **No X**
If **Yes**, please provide detailed information on debt and/or equity investments made during FY14 in the **Performance Against Plan Report – Attachment A** section of this report along with job, investment and/or other economic development impact. Please list the name(s) of the debit and/or equity investments programs offered by your agency in the space provided below:

3T

7) Loan Details

Is your agency involved in **real estate loans**, **working capital loans**, or any **other type of loan** or **guarantee**? **Yes X** **No** ☐
If **Yes**, please provide detailed information on loan(s) and/or guarantee(s) made during FY14 in the **Performance**

Against Plan Report – Attachment A section of this report along with job, investment and/or other economic development impact. Please list the types of loan(s) and/or guarantee(s) offered by your agency in the space provided below:

3T

8) Other forms of Financing or Financial Assistance?

If your agency provides any other form of financing or financial assistance, please include FY14 details in the **Performance Against Plan Report – Attachment A** section of this report along with job, investment and/or other economic development impact. Please list the types of other forms of financing offered by your agency in the space provided below:

3T

9) Patents or Products

Does your agency track **patents** or **products** resulting from agency-funded activities? **Yes** ☐ **No X**
If **Yes**, please include details in the **Performance Against Plan Report – Attachment A** section of this report along with job, investment and/or other economic development impact. Please list the agency-funded activities of your agency that promote patent and product advancement in the space provided below:

3T

10) Technical Assistance

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

3T

11) Management Team

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

The information on the website is accurate and current.

12) Board of Directors

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

EXHIBIT A

PERFORMANCE AGAINST PLAN REPORT FY 2014

Our performance was measured in 5 different categories

1. Number of loans
2. Total jobs created/retained
3. Total private sector funds and leverage ratio
4. Cost per job created/retained
5. Loans to businesses in gateway cities

1) In fiscal year 2014 261 companies received program funding versus a goal of 275, 95% achievement. We strongly believe that but for the uncertainty pertaining to the status of the program as far as recapitalization the goal would have been achieved.

2) A total of 2,072 jobs were created /retained versus a goal of 1,850 122% achievement

3) Total private sector funding was $15,638,023 or 120% of the $13,000,000 goal and a leverage ratio of $20:10.

4) The program cost per job created/retained was $264.22 in line with our stated goal of under $300.00.

5) 17% of all loans were to companies located in gateway cities

EXHIBIT A

Massachusetts Business Development Corporation
CAP Program Activity Between 07/01/2013 and 06/30/2014

PERIOD LOANS BY INDUSTRY:

INDUSTRY TYPE	NUMBER OF LOANS	DOLLAR AMOUNT	PERCENT OF DOLLARS
Agribusiness	28	$1,244,285	7.96
Mining/Construction	30	$2,031,000	12.99
Manufacturing	20	$1,304,550	8.34
Transportation	19	$1,200,365	7.68
Wholesale	15	$1,230,997	7.87
Retail	64	$3,549,690	22.70
Finance/Real Estate	4	$185,000	1.18
Service/Misc.	81	$4,892,137	31.28
TOTALS:	261	$15,638,024	100.00

BREAKDOWN BY LOAN SIZE IN PERIOD:

LOAN SIZE RANGE	NUMBER OF LOANS	DOLLAR AMOUNT	PERCENT OF DOLLARS
$0 - $24,999	105	$1,305,075	8.35
$25,000 - $49,999	60	$1,875,640	11.99
$50,000 - $99,999	48	$3,025,210	19.35
$100,000 - $249,999	35	$4,484,099	28.67
$250,000 - $499,999	9	$2,948,000	18.85
$500,000 and above	4	$2,000,000	12.79
TOTALS:	261	$15,638,024	100.00

BREAKDOWN BY SALES OF BORROWER IN PERIOD:

SALES RANGE	NUMBER OF LOANS	DOLLAR AMOUNT	PERCENT OF DOLLARS
$0 [Start-up]	23	$873,550	5.59
Less than $100,000	40	$870,268	5.57
$100,000 - $249,999	39	$1,211,357	7.75
$250,000 - $499,999	51	$2,586,764	16.54
$500,000 - $1,000,000	44	$2,070,230	13.24
Over $1,000,000	64	$8,025,855	51.32
TOTALS:	261	$15,638,024	100.00

BREAKDOWN BY NUMBER OF BORROWER'S EMPLOYEES IN PERIOD:

RANGE	NUMBER OF LOANS	DOLLAR AMOUNT	PERCENT OF DOLLARS
0 - 9	211	$11,182,709	71.51
10 - 24	38	$3,576,825	22.87
25 - 49	2	$200,000	1.28
50 - 99	9	$178,490	1.14
100 - 249	1	$500,000	3.20
250 +	0	$0	0.00
TOTALS:	261	$15,638,024	100.00

TOP BANKS BY DOLLAR AMOUNT OF LOANS ENROLLED DURING PERIOD:

BANK NAME	NUMBER OF LOANS	AMOUNT ENROLLED
Mutual Bank	37	$1,493,000
Cape Cod Five	25	$1,142,000
Santander	10	$992,000
Bay State Savings Bank	14	$956,344
Peoples Bank	6	$807,861

PERIOD PEFORMANCE DATA: 07/01/2013 THROUGH 06/30/2014

Total amount of CAP loans:	$15,638,023.54
Amount of loans enrolled:	$10,940,190.19
Amount of program reserve deposits:	$547,469.14
Amount of reserve paid by banks/borrowers:	$341,612.37
Accrued interest on reserves:	$1,540.51
Less net claims paid:	($350,010.86)
Less interest w/d to defer administrative costs:	$0.00
Net change in total reserves during period:	$540,611.16
Smallest amount enrolled:	$1,000.00
Largest amount enrolled:	$375,000.00
Average amount enrolled:	$42,159.40
Jobs created by CAP loans:	221
Jobs retained by CAP loans:	1,851
Agency deposit per job created/retained:	$2,477
Loan-to-program-deposit ratio:	$20.10: $1
Wtd. avg. interest rate of loans:	5.58%
EZ/EC borrowers:	18.39%
EZ/EC loans:	21.35%
Lines of credit:	38.29%
Term loans:	61.71%

CAPSYS/pstd

Massachusetts Business Development Corporation and Subsidiaries and Affiliate

Financial Statements

Year Ended December 31, 2013

Massachusetts Business Development Corporation and Subsidiaries and Affiliate

FINANCIAL STATEMENTS
Year Ended December 31, 2013

CONTENTS

McGladrey

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors, Stockholders, and Members of
Massachusetts Business Development Corporation and Subsidiaries and Affiliate
Wakefield, Massachusetts

Report on the Financial Statements

We have audited the accompanying combined financial statements of Massachusetts Business Development Corporation and Subsidiaries and Affiliate which comprise the balance sheet as of December 31, 2013, and the related combined statements of operations, stockholders' equity, and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Massachusetts Business Development Corporation and Subsidiaries and Affiliate as of December 31, 2013, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

McGladrey LLP

Boston, Massachusetts
March 17, 2014

Massachusetts Business Development Corporation and Subsidiaries and Affiliate

Balance Sheet
December 31, 2013

ASSETS	
Cash and cash equivalents	$ 3,690,470
Restricted cash	130,586
Loans receivable	37,490,639
Allowance for loan losses	(1,995,129)
Net loans receivable	35,495,510
Interest receivable	224,457
Fees receivable	355,444
Other receivables	21,407
Equity method investments	3,120,492
Other investments	2,245,067
Deferred tax asset	1,921,465
Property and equipment, net	146,570
Loan servicing rights, net	87,648
Other assets	350,271
Total assets	$ 47,789,387
LIABILITIES AND STOCKHOLDERS' EQUITY	
Short term notes payable	$ 1,050,000
Notes payable to members	32,500,000
Accounts payable and other accrued liabilities	3,009,899
Income taxes payable	112,421
Borrowers' deposits	210,159
Accrued interest payable	36,567
Deferred income	63,760
Total current liabilities	36,982,806
SSBCI funding	2,063,435
Commitments and Contingencies, (Note 9)	
Stockholders' equity:	
Common stock, $1 par value - 4,000,000 authorized; 165,382 shares issued and outstanding	165,382
Capital in excess of par value	1,786,101
Retained earnings	6,791,663
Total stockholders' equity	8,743,146
Total liabilities and stockholders' equity	$ 47,789,387

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

Massachusetts Business Development Corporation and Subsidiaries and Affiliate

Statement of Operations
Year Ended December 31, 2013

Interest income:	
Interest on loans	$ 2,286,390
Interest on cash and cash equivalents	8,236
Total interest income	2,294,626
Interest expense	300,339
Net interest income	1,994,287
Provision for loan losses	135,000
Net interest income after provision for loan losses	1,859,287
Non-interest income:	
Loan servicing and processing fees	2,323,998
Contract revenue for loan and other management programs	918,467
Management fees	687,500
Income allocated from equity method investments	236,260
Net realized gain on investments sold	628,453
Net change in unrealized gain on investments	834,371
Other income	483,924
Total non-interest income	6,112,973
Total income after provision for loan losses	7,972,260
Non-interest expense:	
Employee compensation and benefits	5,913,499
Rent	207,552
Depreciation and amortization	84,721
Professional services	231,662
Travel and entertainment	193,801
Impairment of cost method investments	338,876
Other expenses	567,044
Total non-interest expense	7,537,155
Income before provision for taxes	435,105
Income tax benefit	17,204
Net income	$ 452,309

Massachusetts Business Development Corporation and Subsidiaries and Affiliate

Statement of Stockholders' Equity
Year Ended December 31, 2013

	Common Stock		Capital in Excess of	Retained	Total Stockholders'
	Shares	Amount	Par Value	Earnings	Equity
Balance, December 31, 2012	166,282	$ 166,282	$ 1,800,501	$ 6,364,163	$ 8,330,946
Shares repurchased	(900)	(900)	(14,400)	-	(15,300)
Net income	-	-	-	452,309	452,309
Dividends paid ($0.15 per share)	-	-	-	(24,809)	(24,809)
Balance, December 31, 2013	165,382	$ 165,382	$ 1,786,101	$ 6,791,663	$ 8,743,146

Massachusetts Business Development Corporation and Subsidiaries and Affiliate

Statement of Cash Flows
Year Ended December 31, 2013

Cash flows from operating activities:	
Net income	$ 452,309
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for loan losses	135,000
Depreciation and amortization	84,721
Income allocated from equity method investments	(236,260)
Impairment of cost method investments	338,876
Net realized gain on investments	(628,453)
Net change in unrealized gain on investments	(834,371)
Deferred income taxes	(605,317)
Changes in assets and liabilities:	
Increase in restricted cash	(238)
Increase in interest receivable	(3,795)
Decrease in fees receivable and other assets	79,928
Decrease in other receivables	102,195
Decrease in taxes payable	(174,988)
Increase in accounts payable and other accrued liabilities	1,574,955
Increase in borrowers' deposits	26,342
Decrease in accrued interest payable	(2,234)
Decrease in deferred income	(16,398)
Net cash provided by operating activities	292,272
Cash flows from investing activities:	
Net increase in loans	(194,076)
Distributions received on investments	34,400
Purchases of investments	(180,000)
Proceeds from sale of investments	628,453
Distributions from equity method investments	460,373
Purchases of property and equipment	(137,812)
Net cash provided by investing activities	611,338
Cash flows used in financing activities:	
Net increase in short term notes payable	1,050,000
Net decrease in SSBCI Funding	(130,554)
Common stock redeemed	(15,300)
Dividends paid	(24,809)
Net cash provided by financing activities	879,337
Increase in cash and cash equivalents	1,782,947
Cash and cash equivalents, beginning of year	1,907,523
Cash and cash equivalents, end of year	$ 3,690,470
Supplemental disclosures of cash flow information:	
Cash paid during the year for:	
Interest	$ 276,837
Income taxes	$ 763,153

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

Massachusetts Business Development Corporation and Subsidiaries and Affiliate

Notes to Financial Statements
Year Ended December 31, 2013

1. ORGANIZATION

The accompanying combined financial statements include the accounts of Massachusetts Business Development Corporation ("MBDC" or the "Company") and its wholly-owned subsidiaries, BDC New England, BDC Capital Corporation, BDC Finance Corporation, as well as its affiliate, New England Certified Development Corporation ("NECDC") (collectively, the "Entities"). NECDC is an affiliate by virtue of its common management.

MBDC was formed in 1953 to promote economic development within the Commonwealth of Massachusetts and assists small and middle-market companies in finding solutions to their capital needs through private, state, and federal programs. MBDC also participates in small business loans in conjunction with other banks and/or the Small Business Administration ("SBA").

BDC New England was formed in November 2004, as a wholly-owned subsidiary, to foster business expansion in all New England states.

BDC Capital Corporation was formed in May 2008, as a wholly-owned subsidiary, to establish a corporate name that better reflects the diverse nature of the financial product offerings of the Entities.

BDC Finance Corporation was formed in November 2009, as a wholly-owned subsidiary, to provide a corporate identity for the Company's entry into new product lines.

NECDC, which is an affiliate of the Company, was granted certification by the SBA in 1982 under Section 108.503 of the SBA's Rules and Regulations. NECDC is a regional certified development company licensed under the SBA to provide for the extension of SBA 504 loans.

In May 2013, the Shareholders and Members of the Company approved eight amendments to the charter of the Company. The eight amendments modified the terms of membership, revising member limits to allow the Company to borrow increased amounts from members, providing additional investment options for members, and reducing the notice period for member withdrawal from five to three years. The charter amendments were developed to allow the Company to fund future loan growth.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These combined financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The financial statements include the Company's wholly-owned subsidiaries and its affiliate, NECDC. All significant intercompany transactions have been eliminated in consolidation and combination.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. Significant estimates made by management include the allowance for loan losses, the valuation of investments, and income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents consist of demand deposit and money market accounts. The Company considers all highly liquid investments purchased with an original maturity of three months or less at the date of purchase to be cash equivalents. Cash equivalents are carried at cost, which approximates their fair market value.

Restricted cash relates to the Premier Certified Lending Program ("PCLP") agreement with the SBA requiring a minimum of 1% of all outstanding PCLP loans to be set aside to provide collateral for any potential instances of default.

Concentration of Credit Risk

The charter of MBDC allows for a broad range of loan and investment activities. MBDC typically engages in lending to smaller companies located throughout New England where the potential for economic expansion and job creation is high. Accordingly, the portfolio includes credits that would not typically be underwritten by regulated financial institutions.

The Company maintains its cash accounts at several major financial institutions whose deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000 per depositor. At various times throughout the year, the Company had uninsured balances. The Company does not believe that such deposits are subject to an unusual level of risk.

Operating Leases

The Company recognizes rent expense related to leased office space on a straight-line basis over the term of the lease. The difference between rent expense and rent paid is the result of escalation provisions and any lease incentives, such as free rent periods provided by the lessor and is classified as accounts payable and other accrued liabilities in the accompanying balance sheet.

Equity Method Investments

MBDC has ownership interests in two investment funds (the "Funds") that provide debt and equity financing to small businesses. MBDC is the manager of each of the Funds and in that role is responsible for their management and operation. Due to the substantive participating rights of the non-manager members, consolidation is not required. As a result, MBDC accounts for its investments in the Funds under the equity method of accounting. In exchange for the managerial and administrative services provided to the Funds, MBDC receives annual management fees (see Note 11 for additional information). In addition, MBDC may receive an incentive distribution based upon 20% of the cumulative positive earnings of the Funds after the Funds' members receive 100% of their contributed capital. Due to the consideration that future performance of the Fund may cause this amount to decrease or ultimately not be paid, MBDC defers recognition of this income until received. As such, this incentive allocation is not included in the carrying value of the investment at year end.

The Funds follow investment company accounting guidance and report their assets at fair value. Therefore, MBDC's carrying value of its equity method investment approximates fair value.

Massachusetts Business Development Corporation and Subsidiaries and Affiliate

Notes to Financial Statements
Year Ended December 31, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Equity Method Investments...continued

For the Years Ended December 31, 2013, the pertinent financial information pertaining to MBDC's investments in the Funds is as follows:

	Carrying Value	Fund Net Ownership Share	Fund Income (Loss)	MBDC Share of Net Income (Loss)
MB Capital Fund II, LLC[(a)]	$ 76,544	23.26 %	$ (14,328)	$ (3,421)
MB Capital Fund III, LLC[(b)]	3,043,948	18.18 %	$ 1,647,803	$ 239,681
	$ 3,120,492			

(a) Due to limitations on certain investors in MB Capital Fund II, income (loss) is not always shared proportionately to each investor's ownership share.
(b) Fund income disclosed is reported gross and does not reflect the 20% incentive allocation to the Company.

Other Investments

The Company has investments, each representing less than a 20% ownership interest, in several venture funds as of December 31, 2013, which are accounted for at cost. The Company evaluates each investment to determine if any impairment exists at each reporting date. There was an impairment charge of $338,876 recorded for the year ended December 31, 2013 related to the investments held. These investments have a remaining unimpaired cost of $230,000 at December 31, 2013.

In addition, the Company held warrants received in connection with a loan which has since been repaid and equity securities in a public company, which are recorded at fair value. During 2013, the warrants were repurchased by the investee company, net of the Company's $500 exercise price. The shares were repurchased at a per share price of $12.58, resulting in a realized gain of $628,453. During 2013, the Company recorded an increase in fair value to the equity securities held of $1,039,568, resulting in a fair value of $2,015,067 at December 31, 2013.

The changes in the fair value of the aforementioned securities are recognized in the net realized, ($628,453), and unrealized gain, ($834,381), on investments in the accompanying statement of operations.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**...continued

Loans Receivable

Loans receivable are secured, in most cases, by mortgages on real estate, security interests in machinery and equipment, accounts receivable, inventories and assignments of leases and life insurance policies. A substantial number of loans are also personally guaranteed. All loans are made to entities in New England. The majority of loans have repayment terms requiring level monthly principal payments over the terms of the loans, which generally range from 1 to 20 years, plus interest. Substantially all loans are written with variable rate terms.

Interest income on loans is recognized over the term of the loan and is calculated using the simple interest method on principal amounts outstanding. Variable rate loans are based on either the 30 day LIBOR or the prime rate plus a margin. It is MBDC's policy to cease accrual of interest on loans when the loan repayment status is in excess of 90 days past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received, until such time as the loan is returned to accrual status.

At December 31, 2013, there were no loans on non-accrual status.

Nonrefundable loan origination fees and certain direct loan origination costs are deferred and recognized as an adjustment of the yield of the related loan. At December 31, 2013, net deferred costs of $94,375 are included in loans receivable in the accompanying combined balance sheet.

Allowance for Loan Losses

The adequacy of the allowance for loan losses is evaluated on a periodic basis throughout the year by management. The allowance for loan losses is maintained at a level that represents the Company's best judgment of the inherent loss of the loan portfolio. Factors considered in evaluating the adequacy of the allowance include previous loss experience, current economic conditions and their effect on borrowers, the performance of individual loans in relation to contract terms and estimated fair values of underlying collateral. The provision for loan losses charged to operations is the amount necessary to maintain the allowance at a level adequate to absorb inherent losses. Loan losses are charged against the allowance when management believes that the collectability of the principal is unlikely.

The allowance for loan losses is based on estimates and ultimate losses may vary from these estimates. The estimates are reviewed periodically, with any necessary adjustments reported in earnings in the period in which they become known.

Impaired Loans

A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Management considers all loans on nonaccrual status with insufficient collateral to be impaired and classifies them as doubtful. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price, or the fair value of the collateral if the loan is collateral-dependent. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through the allowance for loan losses.

Massachusetts Business Development Corporation and Subsidiaries and Affiliate

Notes to Financial Statements
Year Ended December 31, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Impaired Loans...continued

If a loan is impaired or the borrower is experiencing financial difficulty, the Company may restructure the loan. If a concession is granted to a borrower experiencing financial difficulty the restructuring is considered to be a troubled debt restructuring. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

As of December 31, 2013, there was one impaired loan with an outstanding balance of $55,505, net of related guarantees, see Note 3. The loans collateral dependent, and the Company has reflected appropriate reserves to record the loan net of the fair value of collateral in the accompanying combined balance sheet.

Section 504 Loans

On behalf of the SBA, NECDC grants long-term loans to small business concerns in New England that generate further economic activity and employment within New England. Serving as a conduit between the SBA and borrowers, NECDC administers and services the loans originated through the SBA Section 504 lending program. Long-term loans granted to small businesses are funded through the sale of debentures by and on behalf of the SBA that are subsequently marketed to the investing public through the Federal Financing Bank or private investors. Since a borrower is obligated to the SBA, the Federal Financing Bank or private investors, loans receivable and debentures payable are not recorded as assets and liabilities, respectively, by NECDC or the Company. As of December 31, 2013, NECDC services loans with an outstanding balance of $231,117,890.

NECDC is a PCLP agent for the SBA with authority to approve, close and service SBA Section 504 loans without individual loan authorization from the SBA. In consideration of the services provided and income earned by NECDC, for each loan processed as a PCLP agent, NECDC is required to place 1% of the loan balance in a restricted bank account with joint access by NECDC and the SBA. Such amount is available to absorb losses on such loans for which NECDC assumes a maximum exposure of up to 10% of all losses.

At December 31, 2013, $7,330,479 in loans were outstanding under PCLP. NECDC has placed an amount in excess of the required 1%, or $130,586, of the total loan balance in a restricted cash account. Since the Company assumes all expenses of NECDC, a liability for the estimated loss is recorded by the Company.

At December 31, 2013, the SBA, through NECDC, had 66 loan commitments totaling approximately $50,201,000 that are outstanding under the SBA's Section 504 lending program.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Loan Servicing Rights

In November 2005, the SBA assigned the portfolio servicing rights of the Section 504 loan portfolio with an outstanding principal balance of $20.4 million of Commercial Loan Partners to NECDC. As part of the assignment, NECDC assumed certain liabilities of Commercial Loan Partners in the amount of $241,097 and recorded an intangible asset in that amount. The servicing rights are being amortized using the proportional method. Amortization amounted to $18,790, for the year ended December 31, 2013. The remaining balance of the loan servicing rights is expected to be amortized over its remaining life of 4.6 years.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to amortized costs. No impairment of the loan servicing rights was identified during the year ended December 31, 2013.

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the shorter of the lease term or the estimated useful life of the asset. Upon sale or retirement, the asset cost and related accumulated depreciation are removed from the respective amounts, and any gain or loss is reflected in operations. Ordinary maintenance and repair costs are expensed as incurred.

Depreciation is based on the following estimated useful lives:

Furniture and fixtures	10 years
Computer equipment	5 years
Leasehold improvements	Useful life or term of lease, whichever is shorter
Vehicles	4 years

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

During the normal course of business the Company may transfer a portion of a financial asset, for example, a participant loan. In order to be eligible for sales treatment, the transfer of the portion of the loan must meet the criteria of a participating interest. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing. In order to meet the criteria of a participating interest, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have the same priority, the loan holders must have no recourse to the transferor other than standard representations and warranties and no loan holder has the right to pledge or exchange the entire loan. At December 31, 2013, there were no transfers of financial assets that were accounted for as secured borrowings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Service, Processing Fees and Interest Income

NECDC earns processing fees up to 1.5% of the original loan balance when a debenture is sold by the SBA to the Federal Financing Bank or private investors. After the SBA funds each loan, at which time the 1.5% fee is recognized in income, NECDC is responsible for managing and servicing the lending relationship with the customer on behalf of the SBA. This includes monitoring payment status, performing site visits to the customer, obtaining updated financial information and other credit monitoring services. NECDC earns monthly service fees for performing this work.

In addition to these fees, NECDC also earns a share of the interest on the "float" related to SBA loans. Customers make monthly loan payments to the SBA. These loan payments are used by the SBA to make the payments on the debentures. Since the debentures require only semi-annual payments, the SBA earns interest on the float, which is shared with NECDC on a pro rata basis. The amount received in 2013 was $33,170, and is reflected in other income in the Statement of Operations.

Loans and Other Management Programs

MBDC serves as administrator for various loan programs for the Commonwealth of Massachusetts. These programs were designed to simplify borrowings for small business owners and to provide access to capital where access to borrowings is difficult to obtain. Since MBDC only administers these programs, loans receivable are not recorded as assets. In return for administering these programs, MBDC receives monthly or quarterly fees and is reimbursed for certain operating costs, as defined by the respective programs.

Borrowers' Deposits

Borrowers' deposits consist of good faith deposits received from loan applicants at the time of loan application. Deposits are typically returned to the borrower when an approved loan closes and is funded, or if a loan is cancelled may be retained by the Company for loan processing work performed prior to cancellation.

Income Taxes

The Company accounts for income taxes using the liability method whereby deferred tax asset and liability account balances are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates that will be in effect when the differences are expected to reverse.

The Company records deferred tax assets to the extent it believes there will be sufficient future taxable income to utilize those assets upon reversal of the temporary differences. To the extent deferred tax assets may be unable to be utilized, the Company records a valuation allowance against the potentially unrealizable amount and records a charge against earnings.

The calculation of the Company's tax liabilities involves uncertainties in the application of complex tax regulations in several different tax jurisdictions. The Company is periodically reviewed by tax authorities regarding the amount of taxes due. These reviews include questions regarding the timing and amount of deductions. In evaluating the exposure associated with various filing positions, the Company records a liability based on a more-likely-than-not recognition threshold.

Massachusetts Business Development Corporation
and Subsidiaries and Affiliate
Notes to Financial Statements
Year Ended December 31, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Income Taxes...continued

The Company had no uncertain tax positions requiring recognition as a liability at December 31, 2013. The Company's current and prior three tax years remain subject to examination.

Due to ever-changing tax laws and income tax rates, significant judgment is required to estimate the effective tax rate that will apply to tax differences that are expected to reverse in the future. The Company must also make estimates about the sufficiency of taxable income in future periods to offset any deductions related to deferred tax assets currently recorded. These estimates could have a significant impact on the combined financial statements.

3. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable at December 31, 2013, consisted of one class of loans, commercial loans, as follows:

Commercial loans:	
Term loans	$ 27,355,905
Revolving lines of credit	10,040,359
	37,396,264
Deferred loan origination costs and fees, net	94,375
Allowance for loan losses	(1,995,129)
Loans, net	$ 35,495,510

Activity in the allowance for loan losses for the year ended December 31, 2013 was as follows:

Balance at December 31, 2012	$ 1,863,517
Provision for loan losses	135,000
Loan charge off	(3,388)
Balance at December 31, 2013	$ 1,995,129

Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the businesses. A weakened economy, and resultant decreased consumer spending, could have an effect on the credit quality in this segment.

The Company uses a five grade internal loan rating system for all loans in its portfolios to monitor credit risk as follows:

Loans rated (P) – Pass – Loans in this category are considered "pass" rated loans with low credit risk

Loans rated AC – OAEM (Abundance of Collateral – Other Asset Especially Mentioned) – Loans in this category exhibit or have exhibited characteristics of a loan rated 4 – OAEM, but with a strong collateral position as a mitigation to credit risk.

3. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES...continued

Loans rated 4 – OAEM (Other Asset Especially Mentioned) – Loans in this category have or have had minor credit quality concerns and are being monitored by Company management.

Loans rated 5 – Substandard – Loans in this category exhibit specific credit weakness and are being individually evaluated for collateral sufficiency by Company management.

Loans rated 6 – Doubtful – Loans in this category exhibit the characteristics of a loan rated 5 – Substandard, with the additional characteristic that collection or liquidation in full would be improbable.

The following table represents the Company's loans, net of SBA and other guarantees, by risk rating at December 31, 2013:

Pass	$ 17,358,552	59.7 %
AC - OAEM	9,437,001	32.5 %
4 – OAEM	1,263,909	4.4 %
5 – Substandard	938,470	3.2 %
6 – Doubtful	55,505	0.2 %
	29,053,437	100.0 %
SBA and other guarantees	8,342,827	
Total loans	$ 37,396,264	

At December 31, 2013, there was one past due loan, with an outstanding balance of $55,505, net of guarantees, that was 60 to 90 days past due. The gross average outstanding balance of this loan during 2013 was $245,822. Interest earned on this loan during 2013 was $14,835, and is included in Interest on loans in the Statement of Operations. This loan is rated 6 – Doubtful, and is considered impaired at December 31, 2013.

Specific loan loss reserves have been established for all 5 and 6 rated loans. The established reserves for these loans are adequate to cover management's estimates of potential loan losses should liquidation be required.

Specific loan loss reserves have been established for all 5 and 6 rated loans and total approximately $443,000. The established reserves for these loans are adequate to cover management's estimates of potential loan losses should liquidation be required. All other loans have been collectively evaluated for impairment based upon their homogenous nature and are evaluated by their assigned internal risk rating.

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

Furniture and fixtures	$ 93,638
Computer equipment	349,992
Leasehold improvements	79,312
Vehicles	111,363
	634,305
Accumulated depreciation	(487,735)
	$ 146,570

Depreciation expense was $65,931 for the year ended December 31, 2013.

5. FAIR VALUE MEASUREMENTS

MBDC measures the fair value of certain assets based upon valuation techniques that include observable and unobservable inputs and assumptions that market participants would use in pricing these assets and liabilities and uses a fair value hierarchy that prioritizes the information used to develop those assumptions.

The fair value hierarchy is summarized as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Fair Value on a Recurring Basis

The following table represents the fair value hierarchy for the Company's financial assets measured at fair value on a recurring basis as of December 31, 2013. These financial assets are included in Other investments in the accompanying balance sheet.

	Level 1	Level 2	Level 3	Total
Other investments	$ 2,015,067	$ -	$ -	$ 2,015,067
	$ 2,015,067	$ -	$ -	$ 2,015,067

The Company's other investments recorded at fair value on a recurring basis consist of various investments including mutual funds, equity securities and money market funds. These investments are valued based upon the most recently quoted market price at year end.

As discussed in Note 2, the Company held warrants, which were exercised and repurchased by the investee company during 2013. The shares were repurchased at a per share price if $12.58, resulting in a realized gain of $628,453.

Massachusetts Business Development Corporation and Subsidiaries and Affiliate

Notes to Financial Statements
Year Ended December 31, 2013

5. **FAIR VALUE MEASUREMENTS**...continued

Fair Value on a Recurring Basis...continued

Activity in the level 3 investments for the years ended December 31, 2013 was as follows:

Balance, January 1, 2013	$ 205,187
Net change in unrealized gain on exercise of warrants	(205,187)
Realized gain on exercise of warrants	628,453
Net cash received for warrants	(628,453)
Balance, December 31, 2013	$ -

Fair Value on a Non-recurring Basis

	Level 1	Level 2	Level 3	Total
Cost method investments	$ -	$ -	$ 230,000	$ 230,000
Collateral dependent loans	-	-	2,274,989	2,274,989
	$ -	$ -	$ 2,504,989	$ 2,504,989

During 2013, the Company recognized $338,876 of impairment on its cost method investments, respectively. The Company recognized impairment to reduce the cost method investments to the amounts ultimately expected to be realized.

6. **NOTES AND LOANS PAYABLE TO MEMBERS**

MBDC obtains funds from the sale of its stock and loans from financial institutions, primarily banks and insurance companies. As Members of MBDC, such institutions are contractually obligated to lend money to the Company upon call, according to the MBDC charter and terms of their membership agreements. Such loans are made on terms consistent with the existing outstanding member note series as indicated in the conditions of membership.

MBDC's outstanding borrowings from its Members are unsecured and consist of the following at December 31, 2013:

Series	Interest Rate	Date Due	Amount
WW	30 Day LIBOR plus ½%	July 27, 2014	$ 7,000,000
XX	30 Day LIBOR plus ½%	September 10, 2014	8,000,000
YY	30 Day LIBOR plus ½%	September 30, 2015	10,000,000
ZZ	30 Day LIBOR plus ½%	May 23, 2017	7,500,000
			$ 32,500,000

6. NOTES AND LOANS PAYABLE TO MEMBERS...continued

Each of the Member notes was issued with an original maturity period of five years. The weighted average interest rate during 2013 was 0.9704% on the Member notes and other short-term borrowings on the Company's line of credit.

The interest rate on the Member notes is adjusted monthly. Interest is payable semi-annually in arrears. Principal and interest can be prepaid at any time without penalty. The interest rate on the notes payable to Members at December 31, 2013 was 0.6655%. At December 31, 2013, MBDC could borrow up to approximately $104,500,000 of additional funds from Members.

In addition, the Company has a line of credit agreement with Berkshire Bank which is scheduled to expire on August 21, 2014 and is renewable every two years. This agreement permits the Company to borrow up to $7,500,000 with interest at LIBOR based rates. At December 31, 2013, $1,050,000 was outstanding on the line of credit. The interest rate in effect on the Company's line of credit at December 31, 2013 was 2.914%. At December 31, 2013, the Company was not in compliance with one line of credit debt covenant. The bank has waived this requirement at December 31, 2013. In addition, the bank has amended the definition of the covenant to more accurately capture the operating cash flow of the Company.

7. STATE SMALL BUSINESS CREDIT INITIATIVE

In December 2011, the Company received the first installment of $2,697,300 from the Commonwealth of Massachusetts (the "State") under a federal economic development incentive program entitled State Small Business Credit Initiative ("SSBCI"). The Company has been informed by the State that additional amounts may be available in the future. Funds received under the SSBCI, net of an allowance for administrative fees of 5%, are to be leveraged in conjunction with other participating lenders for qualifying loan programs and to fund existing "capital access" programs maintained by various banks.

The funding under SSBCI is limited in its use for certain loan participation programs, capital access premiums, and administrative expenses, which meet the criteria as stipulated in the program guidelines. Because these funds are contractually committed to the SSBCI Program and there is no stated repayment date for the funds received, the amount is presented outside of current liabilities in the accompanying balance sheet.

A breakdown of the components of the liability at December 31, 2013 is as follows:

Funds available for loan participations	$ 2,063,435
Total SSBCI funding	$ 2,063,435

As of December 31, 2013, the Company had paid a total of $516,636 of capital access premiums, of which $123,239 were paid during 2013. Additionally, for the year ended December 31, 2013, the Company recognized interest income of $60,406 on SSBCI loan participations and was reimbursed for administrative expenses equal to that amount.

Massachusetts Business Development Corporation and Subsidiaries and Affiliate

Notes to Financial Statements
Year Ended December 31, 2013

8. INCOME TAXES

The components of the income tax benefit for the year ended December 31, 2013 are as follows:

Current	$	588,113
Deferred		(605,317)
	$	(17,204)

The components of the net deferred tax asset at December 31, 2013 are as follows:

Deferred tax assets:		
Allowance for loan losses	$	693,355
Unrealized loss on investments		319,456
Partnership pass-throughs		142,067
Accrued expense		815,882
Deferred tax assets		1,970,760
Deferred tax liabilities:		
Depreciation and amortization		16,497
Deferred loan origination costs		32,798
Deferred tax liabilities		49,295
Net deferred tax asset	$	1,921,465

A valuation allowance is required against deferred tax assets if it is more likely than not that some or all of the deferred tax assets will not be realized. During the year ended December 31, 2013, the Company recognized a decrease in the valuation allowance of $133,805, fully eliminating the valuation allowance as the Company determined that certain capital loss carry forwards will be able to be utilized.

The Company's effective tax rate in 2013 was (4.0%), 38% lower than the Federal statutory tax rate of 34%. The difference is primarily due to the reversal of deferred tax valuation allowances deemed no longer necessary.

9. COMMITMENTS AND CONTINGENCIES

MBDC leases its main office location under a non-cancelable operating lease that expires on June 30, 2017. MBDC also leases a satellite office location in Hartford, CT under a non-cancellable lease expiring on November 30, 2015, and has three sub-lease agreements for office space in Providence, RI; Portland, ME; and Concord, NH where MBDC is a tenant-at-will. Rent expense was $207,552 in 2013. At December 31, 2013, future minimum lease payments were as follows:

2014	$	189,228
2015		189,444
2016		168,388
2017		85,080
	$	632,140

The Company had $5,481,819 in investment commitments outstanding at December 31, 2013. In addition, there were $2,459,479 in loan commitments at December 31, 2013.

10. EMPLOYEE BENEFITS

MBDC may make discretionary contributions to its employees' individual retirement accounts. During 2013, MBDC contributed $495,475 to these accounts.

11. RELATED PARTY TRANSACTIONS

MBDC acts as the fund manager for the Funds, receiving a management fee from each of these Funds for providing personnel, office space, supplies, and operating administrative and clerical services. The Funds have agreed to pay MBDC, on a quarterly basis, an annual management fee of 2.5% of the total committed capital of each Fund for these services until the respective closing dates of each Fund. The management fee is subject to reductions from this rate as defined by the limited liability agreements of each Fund. Total management fees earned in 2013 were $687,500.

12. SUBSEQUENT EVENTS

The Company evaluates its December 31, 2013 financial statements for events through March 17, 2014, the date the financials were available to be issued.

On March 5, 2014 the Company executed an amendment to its line of credit agreement, modifying the definition of certain debt covenants and extending the term to August 21, 2016, see Note 6.

Office of Performance Management & Oversight

Massachusetts Business Development Corporation

Fiscal 2014

Economic Development Business Plan

MBDC

Capital Access Program

Mission Statement

To impact "Main Street" business creation and expansion through lending to smaller, community-based businesses throughout the Commonwealth

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

Goals	Strategy	Performance Measurement
Assist Main Street businesses in obtaining loans to expand business opportunities	CAP will undertake extensive outreach efforts within the banking and small business community to increase program usage.	CAP will lend to 275 new Main Street businesses this year.
Create/Retain Jobs	CAP will analyze and track job creation and retention for each company financed.	CAP funding will create or retain 1,850 jobs this fiscal year.
Leverage private sector financing by attracting bank loans into these companies	CAP will continue to market CAP in conjunction with Mass. Bankers Association to maximize the number of CAP banks to assist Main Street businesses in their communities.	CAP will attract $13 million in new private sector loans into these 275 businesses and achieve a leverage ratio of 21:1 private/public sector funds usage.
Utilize state funds efficiently to stimulate job creation and retention	CAP will track all other private sector investment to maximize private investment and minimize state investment in job creation activities.	Cost per job created /retained under CAP will be less than $300 per job.
Invest state funds effectively by impacting Main Street business expansion in many cities and towns	CAP will work with all 351 cities and towns to promote use of the CAP program within their communities.	CAP will focus on increasing loans to Gateway cities, approximately 15% last year.