

# OFFICE OF PERFORMANCE MANAGEMENT & OVERSIGHT

## FISCAL 2012 ANNUAL REPORT

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. 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.

### 1) AGENCY INFORMATION

|             |   |       |           |
|-------------|---|-------|-----------|
| Agency Name | Massachusetts Growth Capital Corporation                      |       |           |
| Agency Head | Charles Grigsby   | Title | President |
| Website     | <a href="http://www.massgcc.com/">http://www.massgcc.com/</a> |       |           |
| Address     | 529 Main Street, Suite 1M8, Charlestown, MA 02129             |       |           |

### 2) MISSION STATEMENT

Please include the Mission Statement for your organization below.

*provide working capital loans to qualified Massachusetts based company's to support job growth and improve the economic climate of the Commonwealth*

### 3) OPERATIONS AND ACCOMPLISHMENT DETAILS

Please provide details on the agency's operations and accomplishments for Fiscal Year 2012 as **Attachment A**. Questions 5 through 10 will provide guidance on the type of information required under Chapter 240 of the Acts of 2010.

### 4) ACCOUNTING

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

|              | AMOUNT        |
|--------------|---------------|
| Receipts     | \$ 2,936,448  |
| Expenditures | \$ 2,518,940  |
| Assets       | \$ 47,645,370 |
| Liabilities  | \$ 2,096,606  |

### 5) INVESTMENTS OR GRANTS TO BUSINESSES OR INDIVIDUALS

Does your agency make **investments** and/or provide **grants** to businesses or individuals? **Yes X** **No**

If **Yes**, please provide detailed information on investments and/or grants made during FY12 in the Operations and Accomplishments 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:

**Small Business Technical Assistance Grant Program Attachment C**

### 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 FY12 in the Operations and Accomplishments 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 enter the debt or equity investment details here.]

### 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 FY12 in the Operations and Accomplishments 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:

**Subordinated Loans, Lines of Credit, Term Loans, Contract and Purchase Order Financing, partial or limited Guarantees Attachment D**

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

If your agency provides any other form of financing or financial assistance please include FY12 details in the Operations and Accomplishments 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:

None

### 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 Operations and Accomplishments 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:

### 10) TECHNICAL ASSISTANCE

If your agency provides technical assistance, please provide detailed information on technical assistance provided during FY12 in the Operations and Accomplishments 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:

Strategic Planning, Cost Structure/profitability, Sales Improvement, Operational Review, Financial Systems Assessment, Employment Law Services Attachment E

#### PLEASE NOTE:

THE FISCAL YEAR 2013 ANNUAL REPORT WILL REQUIRE DETAILS OF ABOVE MENTIONED CATEGORIES AS WELL AS PERFORMANCE TO PLAN AS OUTLINED IN YOUR AGENCY'S FISCAL 2013 BUSINESS 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 ARE APPROPRIATE TO ALIGN WITH THE STATEWIDE ECONOMIC DEVELOPMENT POLICY AND PLAN.

#### FILING INSTRUCTIONS:

THE FISCAL YEAR 2012 REPORT IS DUE NO LATER THAN MONDAY, OCTOBER 1ST. AN ELECTRONIC COPY OF THE REPORT AND ATTACHMENTS A & B SHOULD BE E-MAILED TO [ROB.ANDERSON@STATE.MA.US](mailto:ROB.ANDERSON@STATE.MA.US). THE OFFICE OF PERFORMANCE MANAGEMENT AND OVERSIGHT WILL REVIEW REPORTS PRIOR TO FILING WITH LEGISLATURE AND POSTING TO THE WEBSITE.

## **ATTACHMENT A**

### **LENDING ACTIVITY**

#### **Credits:**

MGCC will finish Fiscal Year 2012 with a strong lending record. Total commitments to 54 companies for the year will aggregate just under \$ 17,000,000. Those commitments, net of de-commitments, have leveraged \$ 73,431,000 in bank and non-bank lending activity. We anticipate that 12 % to 15 % of those commitments will not close, for any of several reasons.

There are 1,291 jobs maintained and created by this financing, excluding commitments that may not close.

Of the loans closed and expected to close, 22 % have been committed to women and minority owned companies.

The last Credit Committee meeting of the year resulted in a record approval of \$ 3,100,000, with two credits of \$1,000,000 or more. Our two newest lending officers are gaining traction in the marketplace and their increased production will assist in meeting 2013 goals.

#### **State Small Business Credit Initiative (SSBCI):**

We have closed on \$4,050,000 in loans using SSBCI Treasury funds, easily exceeding the requirement of 80 % of the U S Treasury's funds of \$ 3,483,018, received in January 2012. Meeting that benchmark allows MGCC to request the second tranche of \$ 1,161,006 this year.

#### **Loan Authority:**

The Credit Committee has authorized the President and Senior Management to approve and close loans up an aggregate of \$250,000, per borrower, providing the details of those financings at the next scheduled Credit Committee meeting. Additional oversight will be provided by a credit review undertaken by an external source, at least annually.

#### **Loan Loss Reserve:**

We are aware that we have been over-reserved as a result of a conservative approach starting out in 2010. Staff has recommended revisions that will reduce the amount reserved from 27.7 % of outstanding credits to a still conservative 13.3 %. We will discuss the new rating system with the outside consultant engaged to perform annual loan reviews, before requesting that the Credit Committee give final approval to the revised system.

### **FY 12 AUDIT**

Field work began on June 11 for the Fiscal Year 2012 audit. The Audit Committee can expect to review a draft in September for approval.

## **MARKETING**

MGCC engaged a public relations consultant to plan and orchestrate a press event on June 8 at Gloucester Engineering. The event showcased the Administration's support, via MGCC, of a heavy manufacturing company coming out of a bankruptcy proceeding and growing towards profitability, with a strong backlog. The event was covered in the Gloucester press, and received wide attention in electronic business news channels. (A sampling of press coverage will be handed out at the meeting). Assistant Secretary Michael Hunter spoke for the Administration.

## **COMPETITIVE GRANT PROGRAMS**

- The RFP for grants to non-profit providers of Technical Assistance to small businesses was issued on May 29. Responses are due by June 29. Applicants can request up to \$50,000, or up to \$75,000 if operating collaboratively. Reporting requirements have been strengthened and will require specific outcomes as opposed to hours of classes or numbers of participants served, etc. A grant of up to \$3,000 can be requested to partially defray the cost of installing reporting software.
- The 1 year (renewable) contract for a two tiered Capacity Building Program for Minority, Women and small contractors will be operated by Next Street Financial and will commence on July 11 with a press event, to which all directors are invited.

**ATTACHMENT B**

**THE ACCOMPANYING AUDITED FINANCIAL STATEMENTS ARE CURRENTLY IN DRAFT FORMAT AWAITING  
FINAL REVIEW.**

## ATTACHMENT C

### **MGCC FY2012 Small Business Technical Assistance Provider Grant Awardees**

The Massachusetts Growth Capital Corporation (MGCC) is pleased to announce that the following organizations have received Fiscal Year 2012 Small Business Technical Assistance Provider Grants:

Blackstone Valley Chamber of Commerce

Whitinsville, MA

[www.blackstonevalley.org](http://www.blackstonevalley.org)

Center for Women and Enterprise

Boston, MA

[www.cweonline.org](http://www.cweonline.org)

Coastal Community Capital

Centerville, MA

[www.coastalcommunitycapital.org](http://www.coastalcommunitycapital.org)

Community Business Network c/o

Jamaica Plain Neighborhood Corp.

Dorchester Bay

Viet Aid

[www.jpndc.org](http://www.jpndc.org)

[www.dbedc.org](http://www.dbedc.org)

[www.vietaid.org](http://www.vietaid.org)

Community Teamwork, Inc., Lowell Small

Business Assistance Center, Greater Lawrence Community Action Council

Lowell, MA

[www.lowellsmallbusiness.org](http://www.lowellsmallbusiness.org)

Community Development Partnership and

Cape Cod Hook Fishermen's Association

Eastham, MA

[www.capecdp.org](http://www.capecdp.org)

Fall River Chamber of Commerce and Industry, Inc. and the Fall River Area Chamber

Foundation, Inc.

Fall River, MA

[www.fallriverchamber.com](http://www.fallriverchamber.com)

Franklin County Community Development Corp.  
Greenfield, MA

Greater Gardner Community Development Corp.  
Gardner, MA  
[www.ggcdc.org](http://www.ggcdc.org)

Interise  
Boston, MA  
[www.interise.org](http://www.interise.org)

Pittsfield Economic Revitalization Corp.  
Pittsfield, MA  
Website in process.  
To contact Pittsfield Economic Revitalization Corp. please call 413-499-9371.

Quaboag Valley Community Development Corp.  
Ware, MA  
[www.qvcdc.com](http://www.qvcdc.com)

Southeastern Mass Agricultural Partnership, Inc.  
East Wareham, MA  
[www.semaponline.org](http://www.semaponline.org)

Twin cities Community Development Corp.  
Fitchburg, MA  
[www.twincitiescdc.org](http://www.twincitiescdc.org)

The purpose of the Small Business Technical Assistance Grant Program is to expand economic and entrepreneurial opportunity throughout the Commonwealth. The program is designed to complement and enhance the traditional public and private small business assistance network by providing technical assistance or training programs for underserved and disadvantaged businesses with 20 employees or fewer.

The total funding awarded in these grants was \$600,000. Grant amounts ranged from \$30,000 to \$75,000.

MGCC would like to thank these organizations for their work and dedication in helping support small businesses through the Commonwealth.

**ATTACHMENT D**

**LOAN(S) AND/OR GUARANTEE(S) MADE DURING FY12**

**ATTACHMENT E**  
**TECHNICAL ASSISTANCE PROGRAMS FY 2012**

FY2012  
Board Approvals  
(New Money Approved end of  
fiscal year)

**SUMMARY**

|                   |    |              |
|-------------------|----|--------------|
| LOANS COMMITTED   | 47 | \$16,543,000 |
| LOANS CLOSED      | 29 | \$9,288,000  |
| LOANS DECOMMITTED | 12 | \$4,005,000  |
| NET LOANS         | 35 | \$12,538,000 |

| date of<br>commit | Company                | City  | Loan         | Term Loan         | Financing/<br>Guaranty | Line<br>of Credit | Date<br>closed or<br>decommitted | Loan<br>Officer | Number of<br>Employees | Leverage          | What Company<br>does  | Minority owned<br>Women owned | Gateway   | E.T.A.            | Microloan        |                |                  |              |                   |                  |
|-------------------|------------------------|---|--------------|-------------------|------------------------|-------------------|----------------------------------|-----------------|------------------------|-------------------|---|-------------------------------|-----------|-------------------|------------------|----------------|------------------|--------------|-------------------|------------------|
|                   | <b>LOANS COMMITTED</b> |   |              |                   |                        |                   |                                  |                 |                        |                   |   |                               |           |                   |                  |                |                  |              |                   |                  |
| 1                 | 8/9/11                 | Old Time Sports, Inc                          | Salisbury    | 333,000           | 333,000                |                   | 8/23/11                          | Kim S           | 32                     | 2,931,000         | Wholesaler of sports apparel  |                               |           |                   | Yes              |                |                  |              |                   |                  |
| 2                 | 8/9/11                 | Hearth Wood Fire Bread Inc                    | Plymouth     | 150,000           | 150,000                |                   | 9/19/11                          | Joe             | 12                     | 345,000           | wholesale artisan bakery  | Women owned                   |           |                   | Yes              |                |                  |              |                   |                  |
| 3                 | 8/9/11                 | D&D Mulch & Landscape, Inc                    | Bellingham   | 300,000           | 300,000                |                   | 9/23/11                          | Joe             | 51                     | 4,029,000         | wholesaler of bark mulch  |                               |           |                   | Yes              |                |                  |              |                   |                  |
| 4                 | 8/9/11                 | Specialized Turning                           | Peabody      | 350,000           | 350,000                |                   | 10/12/11                         | Kim S           | 13                     | 605,000           | Precision Machine shop  |                               |           |                   | Yes              |                |                  |              |                   |                  |
| 5                 | 9/13/11                | Materials Systems Incorporated*               | Littleton    | 200,000           | 200,000                |                   | 10/14/11                         | Bob G           | 35                     | 1,300,000         | makes acoustic transducers  |                               |           |                   |                  |                |                  |              |                   |                  |
| 6                 | 10/11/11               | Interior Stone LLC                            | Waltham      | 200,000           |                        | 200,000           | 12/7/11                          | Kim F           | 27                     | 4,526,000         | installer of custom stone and tile  | Women owned                   |           |                   | Yes              |                |                  |              |                   |                  |
| 7                 | 11/8/11                | Montillio's Bakery*                           | Brockton     | 135,000           | 135,000                |                   | 12/7/11                          | Joe             | 63                     |                   | Bakery  |                               | yes       |                   | yes              |                |                  |              |                   |                  |
| 8                 | 10/11/11               | Bryant Associates, Inc                        | Boston       | 500,000           | 500,000                |                   | 12/15/11                         | Kim S           | 83                     | 4,538,000         | consulting firm for water resources   | minority owned                |           |                   | yes              |                |                  |              |                   |                  |
| 9                 | 12/13/11               | Falafel Republic Mediterranean Foods          | Rockland     | 200,000           |                        | 200,000           | 1/18/12                          | Kim F           | 4                      | 96,000            | sale & product development of falafel products                                |                               |           |                   | Yes              |                |                  |              |                   |                  |
| 10                | 1/17/11                | EMX Controls, Inc*                            | Uxbridge     | 250,000           |                        | 250,000           | 1/20/12                          | Joe             | 25                     | 6,519,000         | makes Industrial Automatic Control systems                                    |                               |           |                   | Yes              |                |                  |              |                   |                  |
| 11                | 10/11/11               | Outer Banks Equity Holdings, LLC*             | New Bedford  | 150,000           |                        | 150,000           | 1/24/12                          | Paul            | 5                      | 47,000            | Wastewater treatment system provider  | minority owned                | yes       |                   | yes              |                |                  |              |                   |                  |
| 12                | 11/8/11                | By Appointment Only, Inc                      | Andover      | 500,000           |                        | 500,000           | 2/2/12                           | Bob G           | 205                    | 2,398,000         | setting appts for sales executives of tech. co                                |                               |           |                   |                  |                |                  |              |                   |                  |
| 13                | 11/8/11                | Spencer Technologies*                         | Northborough | 350,000           | 350,000                |                   | by 3/31                          | Bob J           | 77                     | 6,657,000         | installer & servicer of cable equipment                                       |                               |           |                   | yes              |                |                  |              |                   |                  |
| 14                | 1/17/12                | Shamrock Moving and Storage, Inc.             | Wakefield    | 250,000           | 250,000                |                   | 2/17/12                          | Kim S           | 14                     | 459,000           | moving company throughout N.E.  |                               |           |                   | Yes              |                |                  |              |                   |                  |
| 15                | 1/17/12                | Tenebraex Corp                                | Boston       | 750,000           | 750,000                |                   | 3/6/12                           | Kim F           | 49                     | 4,457,000         | designs and manufactures optical products                                     | minority owned                |           |                   | Yes              |                |                  |              |                   |                  |
| 16                | 2/14/12                | Be Safer at Home                              | Woburn       | 150,000           | 50,000                 | 100,000           | 3/7/12                           | Bob G           | 11                     | 50,000            | Distributes Pers. Emergency Response Sys.                                     |                               |           |                   |                  |                |                  |              |                   |                  |
| 17                | 1/17/12                | ATC Technologies*                             | Wilmington   | 150,000           | 150,000                |                   | 3/13/12                          | Bob G           | 22                     | 1,194,000         | sells branded medical device products   |                               |           |                   | Yes              |                |                  |              |                   |                  |
| 18                | 12/13/11               | Excell Solutions, Inc.*                       | Billerica    | 150,000           | 150,000                |                   | 3/20/12                          | Bob G           | 26                     | 1,384,000         | Precision Machine shop  |                               |           |                   |                  |                |                  |              |                   |                  |
| 19                | 3/13/12                | Lavallee's Bakery Distributors                | Waltham      | 200,000           | 200,000                |                   | 4/17/12                          | Kim F           | 40                     |                   | distributor specialty breads & baked goods                                    |                               |           |                   |                  |                |                  |              |                   |                  |
| 20                | 11/8/11                | Jobs for Fall River                           | Fall River   | 500,000           | 500,000                |                   | 5/8/12                           | Jose            | 7                      |                   | provides credit to SBA in Fall River area                                     |                               | yes       |                   | yes              |                |                  |              |                   |                  |
| 21                | 4/10/12                | Communication Network Services Inc            | Canton       | 100,000           |                        | 100,000           | 5/24/12                          | Joe             | 3                      | 20,000            | Provides advanced networking and cabling systems                              |                               |           |                   | yes              |                |                  |              |                   |                  |
| 22                | 4/10/12                | The Ockers Company                            | Brockton     | 750,000           |                        | 750,000           | 6/5/12                           | Joe             | 30                     | 2,597,000         | Provides Sales and Service of Office Equipment                                |                               | yes       |                   | yes              |                |                  |              |                   |                  |
| 23                | 4/10/12                | United Esoterics LLC                          | Woburn       | 200,000           |                        | 200,000           | 6/8/12                           | Kim S           | 20                     | 857,000           | Provides lab services to physicians in advanced diagnostic technology         |                               |           |                   | yes              |                |                  |              |                   |                  |
| 24                | 4/10/12                | Savio Lighting, Inc.                          | Needham      | 250,000           | 100,000                | 150,000           | 6/14/12                          | Bob J           | 7                      |                   | Retail and wholesale of retail light lighting                                 | Minority owned                |           |                   |                  |                |                  |              |                   |                  |
| 25                | 3/13/12                | Tech Ridge, Inc.                              | Chelmsford   | 200,000           | 200,000                |                   | 6/18/12                          | Joe             | 15                     | 192,000           | Machine Shop  |                               |           |                   |                  |                |                  |              |                   |                  |
| 26                | 12/13/11               | Quaboaq Valley Business Assistance cc         | Ware         | 220,000           |                        | 220,000           | 6/22/12                          | Jose            | 6                      | 742,000           | provides credit to Quaboaq Valley in W. Mass                                  |                               |           |                   | Yes              |                |                  |              |                   |                  |
| 27                | 5/8/12                 | Sidekim, LLC                                  | Lynn         | 200,000           | 200,000                |                   | 6/26/12                          | Kim S           | 35                     | 87000             | Prepares and delivers meals to various organizations                          |                               | yes       |                   | yes              |                |                  |              |                   |                  |
| 28                | 4/10/12                | Comm-Tract Corporation                        | Waltham      | 800,000           |                        | 800,000           | 6/27/12                          | Bob G           | 23                     | 22,000            | Provides telecommunications solutions for Public and Private Organizations    |                               |           |                   |                  |                |                  |              |                   |                  |
| 29                | 5/8/12                 | By Appointment Only                           | Andover      | 500,000           |                        | 500,000           | 6/27/12                          | Bob G           | 20                     | 778,000           | Sales executives for technology companies                                     |                               |           |                   |                  |                |                  |              |                   |                  |
| 30                | 3/13/12                | Security Construction Services                | Hudson       | 500,000           |                        | 500,000           |                                  | Bob J           | 46                     | 1,490,000         | gen. contractor for government agencies                                       | Women owned                   |           |                   |                  |                |                  |              |                   |                  |
| 31                | 3/13/12                | Vocational Careers Corporation                | Woburn       | 500,000           | 500,000                |                   |                                  | Bob G           | 78                     | 1,960,000         | School preparing for State License Exams                                      |                               |           |                   |                  |                |                  |              |                   |                  |
| 32                | 5/8/12                 | Littleton Farm and Garden, Inc                | Littleton    | 100,000           | 100,000                |                   | 8/23/12                          | Bob J           | 15                     | 32000             | Retails lawn, garden, nursery wild bird and pet products                      |                               |           |                   |                  |                |                  |              |                   |                  |
| 33                | 5/8/12                 | Custom Seasonings, Inc.                       | Gloucester   | 200,000           |                        | 200,000           | 8/21/12                          | Kim S           | 16                     | 2884000           | Food manufacturer of spices   |                               |           |                   | yes              |                |                  |              |                   |                  |
| 34                | 6/12/12                | Bainbridge International Inc                  | Canton       | 1,250,000         | 1,250,000              |                   |                                  | Bob G           | 38                     | 4000000           | distributor of Marine Fabric and hardware                                     |                               |           |                   |                  |                |                  |              |                   |                  |
| 35                | 6/12/12                | Specta Medical Devices                        | Wilmington   | 1,000,000         | 1,000,000              |                   |                                  | Kim S           | 27                     | 2058000           | manufacturers needles, syringes, & scapels                                    |                               |           |                   |                  |                |                  |              |                   |                  |
|                   |                        | <b>SUBTOTAL - LOANS COMMITTED</b>             |              | <b>12,538,000</b> | <b>7,718,000</b>       | <b>600,000</b>    | <b>4,220,000</b>                 |                 | <b>1,180</b>           | <b>59,254,000</b> |   |                               |           |                   |                  |                |                  |              |                   |                  |
|                   |                        | <b>DECOMMITTED LOANS</b>                      |              |                   |                        |                   |                                  |                 |                        |                   |   |                               |           |                   |                  |                |                  |              |                   |                  |
| 36                | 9/13/11                | Pharmahealth Longterm Care, Inc.              | Fairhaven    | 1,000,000         |                        | 1,000,000         | 11/29/11                         | Bob J           | 65                     | 2,889,000         | long-term care pharmacy   |                               |           |                   | yes              |                |                  |              |                   |                  |
| 37                | 11/8/11                | WSI Manufacturing, Inc*                       | Waltham      | 100,000           |                        | 100,000           | 12/14/11                         | Bob J           | 18                     | 3,372,000         | wholesale distributor of HVAC products  |                               |           |                   | yes              |                |                  |              |                   |                  |
| 38                | 12/13/11               | Merchant Consulting Group, LLC                | Salem        | 250,000           | 250,000                |                   | 1/30/12                          | Kim S           | 16                     | 124,000           | Sales & Marketing for credit card processing                                  |                               | yes       |                   | Yes              |                |                  |              |                   |                  |
| 39                | 12/13/11               | Homisco, Inc.*                                | Melrose      | 250,000           | 250,000                |                   | 1/30/12                          | Kim S           | 33                     | 2,100,000         | Designs, installs & serves telecommunications                                 |                               |           |                   | Yes              |                |                  |              |                   |                  |
| 40                | 1/17/12                | Cenostar Corporation                          | Newburyport  | 125,000           |                        | 125,000           | 3/31/12                          | Bob J           | 1                      | 0                 | chemically treats Fumed Silica  |                               |           |                   | yes              |                |                  |              |                   |                  |
| 41                | 7/12/11                | North Central Mass Development Corp           | Fitchburg    | 150,000           |                        | 150,000           | 4/10/12                          | Jose            | 1                      | -                 | provides credit to SBA in Fitchburg Area                                      |                               | Yes       |                   | Yes              |                |                  |              |                   |                  |
| 42                | 9/13/11                | Franklin County Community Developme           | Greenfield   | 500,000           |                        | 500,000           | 4/10/12                          | Jose            | 9                      | 2,010,000         | provides capital to SBA in Franklin County                                    |                               |           |                   | yes              |                |                  |              |                   |                  |
| 43                | 2/14/12                | ServiceMaster                                 | Stoneham     | 250,000           | 125,000                | 125,000           | 5/30/12                          | Kim S           | 60                     | 775,000           | Com. & Res. Disaster cleaning & restoration                                   |                               |           |                   | Yes              |                |                  |              |                   |                  |
| 44                | 3/13/12                | Alexander Dental Lab                          | Upton        | 30,000            |                        | 30,000            | 5/30/12                          | Joe             | 0                      | 70000             | Dental Lab  |                               |           |                   | yes              |                |                  |              |                   |                  |
| 45                | 6/12/12                | Group Four Transducer, Inc                    | E Longmeadow | 350,000           | 350,000                |                   | 6/30/12                          | Arthur          | 12                     | 864000            | designs, distributes and man cell transducers for the scale & weight industry | minority owned                |           |                   |                  |                |                  |              |                   |                  |
| 46                | 6/12/12                | IPC Global Solutions                          | Taunton      | 500,000           | 500,000                |                   | 6/30/12                          | Joe             | 52                     | 13123000          | int'l manufacturer and supplier of filtration products                        |                               | yes       |                   | yes              |                |                  |              |                   |                  |
| 47                | 9/13/11                | Backstage Salon & Day Spa, Inc.               | Rowley       | 500,000           | 500,000                |                   | 41,151                           | Kim S           | 47                     | 190,000           | hair salon and spa  | Women owned                   |           |                   |                  |                |                  |              |                   |                  |
|                   |                        | <b>SUBTOTAL - DECOMMITMENTS</b>               |              | <b>4,005,000</b>  | <b>1,975,000</b>       | <b>125,000</b>    | <b>1,905,000</b>                 |                 | <b>314</b>             | <b>25,517,000</b> |   |                               |           |                   |                  |                |                  |              |                   |                  |
|                   |                        | <b>TOTAL COMMITMENTS, NOT YET FUNDED</b>      |              |                   |                        |                   |                                  |                 |                        |                   |   |                               |           |                   |                  |                |                  |              |                   |                  |
|                   |                        |   |              | <b>3,450,000</b>  | <b>2,750,000</b>       | <b>-</b>          | <b>700,000</b>                   |                 |                        |                   |   |                               |           |                   |                  |                |                  |              |                   |                  |
|                   |                        | <b>*Renewals and Increases Total</b>          |              |                   |                        |                   |                                  |                 |                        |                   |   |                               |           | <b>3,118,000</b>  |                  |                |                  |              |                   |                  |
|                   |                        | <b>FY12 Total Commitments</b>                 |              |                   |                        |                   |                                  |                 |                        |                   |   |                               |           | <b>16,543,000</b> | <b>9,693,000</b> | <b>725,000</b> | <b>6,125,000</b> | <b>1,494</b> | <b>84,771,000</b> | <b>7,071,000</b> |
|                   |                        | <b>TOTAL COMMITMENTS NET OF DECOMMITMENTS</b> |              |                   |                        |                   |                                  |                 |                        |                   |   |                               |           | <b>12,538,000</b> | <b>7,718,000</b> | <b>600,000</b> | <b>4,220,000</b> | <b>1,180</b> | <b>59,254,000</b> |                  |
|                   |                        |   |              |                   |                        |                   |                                  |                 |                        |                   | <b>% Approved \$</b>  | <b>49%</b>                    | <b>23</b> | <b>19.00%</b>     | <b>17.00%</b>    | <b>64%</b>     | <b>11%</b>       |              |                   |                  |

| Loan Officer    |     | MGCC TECHNICAL ASSISTANCE PROJECTS FY2012 |                     |                        |  |            |  |   |            |            |  |   |
|-----------------|-----|---|---------------------|------------------------|--|------------|--|---|------------|------------|--|---|
| August 29, 2012 |     | Company Name                              | Location            | Date                   | Company Description  | Employment | Amount   | Focus   | Status     | MBE or WBE | Consultant/ Staff Time                   | Results/Comments  |
| 4               | BG  | Excel Solutions                           | Billerica           | May 2011 ongoing       | Machine Shop   | 25         | Est staff hrs 8<br>hours per month<br>5/2011 - 12/2011 =<br>64<br>1/2012 - 4/2012 - 4<br>hrs per month<br>= 16<br>5/2012 - 2 hours<br>Total house 82<br>82-16 = total<br>66 FY12 | Strategic Planning/Accounting   | Ongoing    | WBE        | R Lewis                                  | Assisting the company with strategies to combine financials and reporting for acquired company.   |
| 7               |     | Imagination Brands                        | Beverly/<br>Gardner | July, 2011- Aug. 2011  | Art Product for Children   | 15         | Est Staff Hours 16   | Cost structure/profitability and cash flow planning and analysis to achieve a financing timeline  | Completed  | No         | B Germino<br>R Lewis                     | Provided the company advice on operations, facility consolidation to reduce costs and improve financing ability.  |
| 8               | KS  | Excel Mechanical/Energy                   | Somerville          | Aug. 2011 - Sept. 2011 | Geothermal - Plumbing, Heating & Cooling   | 15         | \$3,700  | Cost structure/profitability and cash flow planning and analysis to achieve a financing timeline  | Completed  | No         | George Maguire                           | Provided company assistance with putting together projections for MGCC. Helped focus on GPM analysis when pricing contracts.  |
| 9               | RJ  | ECI Biotech                               | Worcester           | Aug. 2011              | Manufacturer of infection detection sensors  | 25         | \$3,000  | Revenue timing - profitability and cash flow planning and analysis in order to achieve a financing timeline   | Completed  | No         | Reinhardt,<br>Lippencott and<br>Co.      | Company is a specialized medical products company in FDA approval phase. The TA was used to validate the plan and help determine if alternative financing might be available to the company and over what time frame. |
| 10              | JL  | All Can Eat Bakery                        | Randolph            | Sept. 2011             | Bakery   | 25         | \$4,000  | Cost structure/profitability and cash flow planning and analysis to achieve a financing timeline  | Ongoing    | No         | Profit Mgt, Inc.                         | Company is losing \$ and needs advice on how to fix the situation.  |
| 11              | KS  | Keystone Montessori School                | Chelmsford          | Sept. 2011             | Montessori School  | 25         | \$6,000  | Sales improvement   | Completed  | WBE        | Tucker Brown                             | Provided the company with TA matching grant to develop a more targeted product focus and marketing plan to improve revenues and debt service ability.   |
| 12              | KF  | Bryant Associates                         | Boston              | Sept. 2011             | Consulting firm for water resources  | 35         | Est. Staff Hours 3   | Review accounting software and reporting capabilities   | Completed  | MBE        | Staff Time                               | Approved financing with condition of evaluation of controls.  |
| 13              | JL  | Archie's General Contracting              | New Bedford         | Oct. 2011              | General contractor   | 11         | \$3,100  | Completion of Commercial financials for a three year period of time.  | In process | MBE        | Rainford and<br>Rainford                 | Waiting for completion of financials.   |
| 14              | RJ  | Bodytech, Inc./Fusion Sports Club         | Braintree           | Nov. 2011              | Fitness Club   | 25         | \$4,800  | Review operations and help with loan request  | Completed  | No         | Profit Mgt Inc.                          | Project has been completed. Company has withdrawn their loan request.   |
| 15              |     | El Mundo Spanish Newspaper                | Jamica Plain        | Nov. 2011              | Spanish Newspaper/website  | 15         | \$2,500  | Financial strategy for transition of management and growth. Possible loan applicant.  | In process | MBE        | Advanced International                   | Work is in process.   |
| 16              | KF  | Lyndell's Bakery                          | Malden              | Nov. 2011              | Bakery   | 40         | \$3,200  | Company in default with senior lender.  | Completed  | No         | Profit Management                        | Assist and advise the company with restructuring/sales of commercial baking business reposition potential retail business for continued operation. Waiting on report.   |
| 17              | JLR | Martin Luther King Empowerment Center     | Worcester           | Dec. 2011              | Training for micro and small enterprises   | 7          | \$8,000  | Credit Evaluation Processes and Procedures  | Completed  | MBE        | Essential Capital                        | The microloan program has the potential of touching 60 businesses per year at 4 employees per business it would total 240 employees per year.   |
| 18              | KS  | Maddison Associates                       | Revere              | Dec. 2011              | Installs interior and exterior architectural panels, siding, curtain wall and glass components | 22         | \$2,125  | Confirm numbers on information that was sent to MGCC  | Completed  | No         | Joe Sabelli                              | Outside independent CPA confirmed the numbers the company sent to MGCC were inaccurate.   |
| 19              | JL  | Ockers Group                              | Boston              | Jan. 2012              | Computer IT Intergration Specialists   |            | \$1,500  | Review operations and help with the assembling of accurate financial informatin to be used for loan request.  | Completed  | No         | Delta Consulting Group                   | Loan was approved by MGCC Credit Committee on April 19, 2012  |
| 20              | CG  | Collette Philips Communication            | Boston              |                        | Communications   |            |  |   |            | WBE        |  | Drafting scope of work.   |
| 21              | JLR | Dorchester Bay Economic Development Corp. | Dorchester          | Feb. 2012              | Real estate development and small business lending   | 34         | \$3,150  | New portfolio management software for growing loan portfolio  | Completed  | WBE        | Philadelphia Industrial Development Corp | Part of strategy to grow their micro and small business lending. Company has put in a \$200,000 loan request to MGCC.   |
| 22              | KF  | Tuckerman Steel Fabricators, Inc.         | East Boston         | Feb. 2012              | Builds and repairs bridges   | 20         | \$6,000  | Provide assistance with a go-forward plan that includes either bankruptcy or assignment for the benefit of creditors as the company's operations were impacted by fraud caused by the company's former CEO. A complete assessment was made and financial plan prepared and presented to owners Joe and Susan Burr. Susan has established a women owned entity to purchase the assets of the company and hopes to continue operations by raising capital and potentially applying for a loan from MCGG in the future. Tax issues need to be addressed first. | Completed  | WBE        | Profit Management                        | Full report has been provided and is in process of being reviewed   |

| Loan Officer    |    | MGCC TECHNICAL ASSISTANCE PROJECTS FY2012 |             |                             |                                      |            |         |   |           |            |                               |   |
|-----------------|----|---|-------------|-----------------------------|--------------------------------------|------------|---------|---|-----------|------------|-------------------------------|---|
| August 29, 2012 |    | Company Name                              | Location    | Date                        | Company Description                  | Employment | Amount  | Focus   | Status    | MBE or WBE | Consultant/ Staff Time        | Results/Comments                              |
| 23              | CG | Color Magazine                            | Boston      | March, 2012                 | Media                                | 3          | \$2,000 | Financial systems assessment  | Completed | WBE        | Advanced International        | Assessed business plan and accounting system. |
| 24              | BG | ATE Technologies                          | Wilmington  | March, 2012                 |                                      | 25         | \$7,000 | Review monthly cash flow, review business controls and financial projections, analyze inventory |           |            | FP Associates                 |   |
| 25              | CG | Onyx Spectrum Technology, Inc.            | Boston      | April, 2012 - July 31, 2012 | Technology                           | 3          | \$5,000 | Employment law services   | Ongoing   | WBE        | Athena Legal Strategies Group | Ongoing                                       |
| 26              | NM | Fulfillment Print & Mail Solutions, Inc.  | Haverhill   | May, 2012                   | Printing                             | 18         | \$5,000 | Financial review and advice   | Ongoing   | WBE        | Delta Consulting Group        | Ongoing                                       |
| 27              | JL | Ockers Group                              | Brockton    | May, 2012                   | Computer IT Intergration Specialists | 86         | \$2,500 | restate 2012 and 2012 projections and provide MGCC with monthly financials                      |           |            |                               |   |
| 28              |    | 3D Snergy Graphics, LLC                   | Marlborough | June, 2012                  |                                      | 18         | \$2,000 | Review of business plan, financial management and prepare projections                           |           |            |                               |   |

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**MGCC**

Massachusetts Growth Capital Corporation

*Growing the Economy of Tomorrow*

**GENERAL PURPOSE FINANCIAL STATEMENTS  
IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS AND  
OMB CIRCULAR A-133  
JUNE 30, 2012 AND 2011  
TOGETHER WITH  
INDEPENDENT AUDITOR'S REPORT**

10/1/2012

MASSACHUSETTS GROWTH CAPITAL CORPORATION

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JUNE 30, 2012 AND 2011

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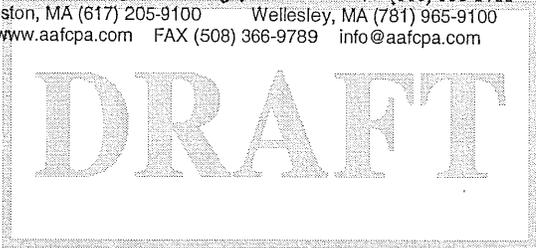


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UNQUALIFIED OPINION ON GENERAL PURPOSE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Independent Auditor's Report

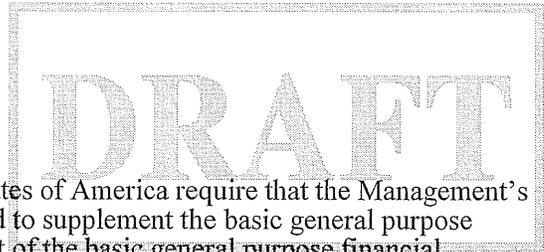
To the Board of Directors of Massachusetts Growth Capital Corporation:

We have audited the accompanying statements of net assets of Massachusetts Growth Capital Corporation (a component unit of the Commonwealth of Massachusetts) (MGCC) as of June 30, 2012 and 2011, and the related statements of revenues and expenses, changes in net assets and cash flows for the year ended June 30, 2012, and the period from October 1, 2010 (inception) through June 30, 2011. These general purpose financial statements are the responsibility of MGCC's management. 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 audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Massachusetts Growth Capital Corporation as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the year ended June 30, 2012, and the period from October 1, 2010 (inception) through June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 4, 2012, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



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 basic general purpose financial statements. Such information, although not a part of the basic 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 basic 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 basic general purpose financial statements, and other knowledge we obtained during our audit of the basic 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.

Our audits were made for the purpose of forming an opinion on the general purpose financial statements. The accompanying supplementary information on pages 19 through 22 for the year ended June 30, 2012, and the period from October 1, 2010 (inception) through June 30, 2011, is presented for additional analysis and is not a required part of the general purpose financial statements. Also, the accompanying supplementary schedule of expenditures of federal awards for the year ended June 30, 2012, 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 19 through 22 and the supplementary schedule of expenditures of federal awards are fairly stated in all material respects in relation to the general purpose financial statements as a whole.

Wellesley, Massachusetts  
October 4, 2012

MASSACHUSETTS GROWTH CAPITAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2012 AND 2011

DRAFT

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, 2012. 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, 2012, are included in a series of financial statements. In accordance with Governmental Accounting Standard Board Statement No. 34, *Basic Financial Statement - Management's Discussion and Analysis for State and Local Governments* (GASB No. 34), MGCC is considered a quasi-public entity that engages in only business-type activities. In accordance with GASB No. 34, MGCC issues a Statement of Net Assets, a Statement of Revenues and Expenses, a Statement of Changes in Net Assets, 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 19 and 22.

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 as a director, along with ten 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 30<sup>th</sup> fiscal year basis.

**Statement of Net Assets and Statements of Revenues and Expenses and Changes in Net Assets**

The *Statement of Net Assets* 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 assets and changes in them. MGCC's net assets, the difference between assets and liabilities, represent 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, 2012 AND 2011  
(Continued)

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Statement of Net Assets and Statements of Revenue and Expenses and Changes in Net Assets  
(Continued)

The *Supplemental Statement of Revenues, Expenses and Changes in Net Assets* shown within this report account for four 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. There is a possibility that the Commonwealth will make available as much as \$18,000,000 in new capital for MGCC from bond proceeds. Also included, are the other 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.

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. As of June 30, 2012, MGCC had not received the final approval to transfer the funds to MGCC's name. Subsequent to June 30, 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 and appropriated \$1.5 billion. Massachusetts' allocation is approximately \$22 million, of which approximately \$14 million is allocated for MGCC. In fiscal year 2012, MGCC received \$3,483,018 with a \$1,161,006 receivable at June 30, 2012. The balance of the funding will be disbursed through 2017.

The Federal Title IX Revolving Loan Funds and the State Small Business Credit Initiative are accounted for as a separate component of restricted net assets. The remaining net assets are restricted within the mandates of MGCC enabling legislation.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2012 AND 2011  
(Continued)

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**Condensed Financial Information**

**Assets total \$47,645,370. The major components are:**

**Cash and Cash Equivalents:** MGCC began the fiscal year with a total of \$26,205,200 in cash. At June 30, 2012, total cash was \$25,646,367, of which \$2,941,164 was restricted. The decrease in cash of \$558,833 was due to a higher volume of lending activities for the year ended June 30, 2012.

**Loans Receivable:** Loan receivables at June 30, 2012, totaled \$26,417,678, a net increase of \$2,223,230 from the previous year. The increase was due to a full twelve months of operations, with thirty-four loans closed compared to nine months of operations for the previous year, when twenty-one loans closed. The loan loss reserve increased \$2,796,426 to \$5,942,248. The primary reason for the increase was due to the reclassification of loans to a higher risk rating.

During fiscal year 2012, MGCC received \$6,940,514 in principal repayments, closed thirty-four loans totaling \$9,835,117, and two guarantees totaling \$1,200,000. Unfunded commitments at year-end totaled \$4,100,000. Write-offs for the year ended June 30, 2012, totaled \$679,148.

**Liabilities total \$2,096,606. 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 will 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. On April 24, 2012, a grant for \$250,000 was funded. The balance of the funds at June 30, 2012, was \$1,692,895.

**Accounts Payable, Accrued Payroll and Pension, and Other Accruals:** Accounts Payable totaled \$29,529, Accrued Payroll, Accrued Vacation and Pension totaled \$117,025, and Other Accruals totaled \$3,556.

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

**Revenues:**

Operating revenues totaled \$2,936,448. The majority of that amount, \$2,232,412, came from interest income on loans. Also, included in revenues were commitment and closing fees of \$434,296, management fees totaling \$27,314, interest income on cash and investments of \$209,927, and other income of \$32,499. The increase of \$873,298 over the prior year was mainly due to a twelve-month year compared to nine months for the previous year.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012 AND 2011

(Continued)

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**Condensed Financial Information** (Continued)

**Revenues:** (Continued)

On December 21, 2012, MGCC received \$3,483,018 from the Commonwealth. This represented the first tranche of the State Small Business Credit Initiative.

**Expenses:**

Expenses totaled \$2,518,940. The major components were employee compensation, including salaries of \$1,509,921, payroll tax and fringe benefits totaling \$444,140, professional fees of \$267,542, and occupancy of \$107,600. Expenses increased by \$682,042 over the prior year. The increase was mainly due to a twelve-month year compared to nine months for the prior year. There were some increases in payroll, fringe and professional fees; however, they were offset by decreases in information technology, internet, portfolio costs, and moving expenses.

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

Revenues ended the year less than the budget by \$399,000. This variance consisted primarily of \$367,000 off budget for interest income of our loan portfolio (referenced next paragraph). The \$91,000 shortfall of loan fees and bank interest income was partially offset by the more than planned management services of \$30,000 and an additional \$28,000 reimbursement of legal fees.

Our overall loan portfolio ended the year at \$26,418,000, a net increase of \$2.2 million from last year's ending balance of \$24,203,000, versus a budgeted net increase of \$8,621,000 for a total budget variance of \$6.4 million. The \$2.2 million actual net change was generated by \$9,835,000 of increases in the portfolio for funds issued to new and existing loan clients, reduced by write-offs of \$679,000, early client pay-offs of \$2,714,000, and principal payments of \$4,227,000. The overall variance to budget of new loans closed (\$6.4 million) was mostly due to the delay in the hiring of qualified loan officers and the necessary time of exposure to their respective markets required to generate leads and new clients. The \$6.4 million shortfall over the fiscal year is the primary factor in what caused the decrease in planned interest income from the loan portfolio of \$367,000.

Total actual operating expenses were less than the budgeted amounts by \$518,000. A summary of the major variances are as follows: Payroll was under estimated by \$169,000, largely attributed to the delay in the hiring of qualified loan and credit officers; medical insurance was over estimated by \$157,000 primarily due to the difference in the employee census and coverage required, as well as, the switch from Tufts Medical Plan to the Harvard Pilgrim Trust Plan in October, 2011. The amount planned for the Technical Assistance Program for the fiscal year of \$162,000 was not fully utilized due to the delay in implementing the program, thereby only spending \$68,000 for the year generating the \$95,000 favorable spending variance. Legal expenses ended the fiscal year at \$39,000 less than planned.

It should be recognized that MGCC had non-operating items that added \$263,000 to the overall positive impact of total changes in net assets when compared to the budget. MGCC issued \$1.1 million in grants and received the first tranche (\$3.5 million) of the annual \$4.6 million SSBCI funds for the first year of the program. As of the June 30<sup>th</sup> fiscal year ending date, MGCC recorded the receivable of the remaining third of the first annual \$4.6 million SSBCI funding to be received in fiscal year 2013.

**Subsequent Event:**

Since year end, a total of \$1,250,000 of new loans and guaranties were funded to four companies. Additionally, approximately \$2,917,000 in new loans has been committed to seven companies.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

STATEMENTS OF NET ASSETS  
JUNE 30, 2012 AND 2011

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| <u>ASSETS</u>   | <u>2012</u>   | <u>2011</u>   |
|---|---------------|---------------|
| <b>CURRENT ASSETS:</b>  |               |               |
| Cash and cash equivalents   | \$ 22,705,203 | \$ 23,990,612 |
| Restricted cash   | 2,941,164     | 2,214,588     |
| Accounts receivable   | 1,191,005     | 117,119       |
| Current portion of loans receivable, net of allowance for uncollectible loans of approximately \$1,225,000 and \$931,000 at June 30, 2012 and 2011, respectively            | 4,219,712     | 4,593,870     |
| Accrued interest receivable on loans, net of allowance for uncollectible amounts of approximately \$239,000 and \$161,000 at June 30, 2012 and 2011, respectively           | 235,204       | 201,268       |
| Prepaid expenses and other  | 65,970        | 33,600        |
| Total current assets  | 31,358,258    | 31,151,057    |
| <b>LOANS RECEIVABLE</b> , net of current portion and allowance for uncollectible loans of approximately \$4,717,000 and \$2,215,000 at June 30, 2012 and 2011, respectively | 16,255,718    | 16,462,531    |
| <b>PROPERTY AND EQUIPMENT</b> , net   | 31,394        | 52,702        |
| Total assets  | \$ 47,645,370 | \$ 47,666,290 |
| <b><u>LIABILITIES AND NET ASSETS</u></b>  |               |               |
| <b>CURRENT LIABILITIES:</b>   |               |               |
| Current portion of note payable   | \$ 41,959     | \$ 38,400     |
| Accounts payable and accrued expenses   | 150,110       | 127,515       |
| Advances and other escrows  | 211,642       | 292,220       |
| Special program escrow liability  | 1,692,895     | 1,937,681     |
| Total current liabilities   | 2,096,606     | 2,395,816     |
| <b>NOTE PAYABLE</b> , net of current portion  | -             | 42,318        |
| Total liabilities   | 2,096,606     | 2,438,134     |
| <b>NET ASSETS:</b>  |               |               |
| Restricted - State Small Business Credit Initiative   | 4,778,174     | -             |
| Restricted - Federal Title IX RLF   | 1,367,395     | 1,829,490     |
| Restricted by enabling legislation  | 39,403,195    | 43,398,666    |
| Total net assets  | 45,548,764    | 45,228,156    |
| Total liabilities and net assets  | \$ 47,645,370 | \$ 47,666,290 |

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

MASSACHUSETTS GROWTH CAPITAL CORPORATION

STATEMENTS OF REVENUES AND EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2012 AND THE PERIOD  
OCTOBER 1, 2010 (INCEPTION) THROUGH JUNE 30, 2011

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|   | <b>YEAR<br/>ENDED<br/>JUNE 30,<br/>2012</b> | <b>PERIOD<br/>ENDED<br/>JUNE 30,<br/>2011</b> |
|---|---|---|
| <b>OPERATING REVENUES:</b>  |   |   |
| Interest income on loans  | \$ 2,232,412                                | \$ 1,651,070                                  |
| Management and other fees   | 461,610                                     | 264,012                                       |
| Interest income on cash reserves                                    | 209,927                                     | 134,788                                       |
| Other revenue   | 32,499                                      | 13,280  |
|   | <u>2,936,448</u>                            | <u>2,063,150</u>                              |
| <b>OPERATING EXPENSES:</b>  |   |   |
| Employee compensation   | 1,954,061                                   | 1,391,032                                     |
| Professional fees   | 267,542                                     | 140,712                                       |
| Occupancy   | 107,600                                     | 79,353  |
| Information technology  | 28,964                                      | 34,675  |
| Depreciation  | 26,544                                      | 24,380  |
| Other expenses  | 19,962                                      | 43,547  |
| Travel  | 17,219                                      | 14,294  |
| Telephone   | 16,606                                      | 32,927  |
| Printing and postage  | 13,400                                      | 9,241   |
| Advertising   | 13,127                                      | 10,200  |
| Supplies  | 12,771                                      | 12,416  |
| Insurance   | 12,285                                      | 11,494  |
| Meetings  | 10,555                                      | 9,971   |
| Maintenance and repair  | 8,363                                       | 9,516   |
| Dues and memberships  | 6,956                                       | 5,506   |
| Credit reports  | 1,716                                       | 6,726   |
| Interest  | 1,269                                       | 908   |
|   | <u>2,518,940</u>                            | <u>1,836,898</u>                              |
| Total operating expenses before loan loss provision                 | <u>2,518,940</u>                            | <u>1,836,898</u>                              |
| Changes in net assets from operations before<br>loan loss provision | 417,508                                     | 226,252                                       |
| <b>LOAN LOSS PROVISION</b>  | <u>(3,640,924)</u>                          | <u>(1,633,299)</u>                            |
| Changes in net assets from operations                               | <u>(3,223,416)</u>                          | <u>(1,407,047)</u>                            |
| <b>NON-OPERATING REVENUE (EXPENSE):</b>                             |   |   |
| State appropriation   | 4,644,024                                   | 15,000,000                                    |
| Grant expense   | <u>(1,100,000)</u>                          | <u>(600,000)</u>                              |
| Total non-operating revenue (expense)                               | <u>3,544,024</u>                            | <u>14,400,000</u>                             |
| Changes in net assets   | <u>\$ 320,608</u>                           | <u>\$ 12,992,953</u>                          |

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

MASSACHUSETTS GROWTH CAPITAL CORPORATION

STATEMENTS OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2012 AND THE PERIOD  
OCTOBER 1, 2010 (INCEPTION) THROUGH JUNE 30, 2011

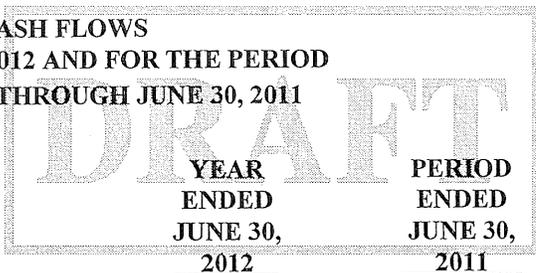
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|  |                      |
|--|----------------------|
| NET ASSETS, October 1, 2010 (Inception)            | \$ -                 |
| Capital transfers pursuant to enabling legislation | 32,235,203           |
| Changes in net assets                              | <u>12,992,953</u>    |
| NET ASSETS, June 30, 2011                          | 45,228,156           |
| Changes in net assets                              | <u>320,608</u>       |
| NET ASSETS, June 30, 2012                          | <u>\$ 45,548,764</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, 2012 AND FOR THE PERIOD  
OCTOBER 1, 2010 (INCEPTION) THROUGH JUNE 30, 2011



|   | YEAR<br>ENDED<br>JUNE 30,<br><u>2012</u> | PERIOD<br>ENDED<br>JUNE 30,<br><u>2011</u> |
|---|--|--|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |  |  |
| Receipts of interest income   | \$ 2,423,402                             | \$ 1,804,697                               |
| Receipts of management fees and other   | 533,731                                  | 291,708                                    |
| State appropriation   | 3,483,018                                | 15,000,000                                 |
| Other revenue   | 32,499                                   | 13,280                                     |
| Employee compensation   | (1,929,902)                              | (1,435,951)                                |
| Interest payments to lenders  | (1,269)                                  | (908)                                      |
| Payments for supplies and services  | (736,350)                                | (444,489)                                  |
| Grant expense   | (1,100,000)                              | (600,000)                                  |
|   | <u>2,705,129</u>                         | <u>14,628,337</u>                          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |  |  |
| Loans disbursed   | (9,835,117)                              | (5,474,110)                                |
| Proceeds from loan repayments   | 6,940,514                                | 6,850,677                                  |
| Interest earned on special program escrows  | 5,214                                    | 4,166                                      |
| Special program disbursement  | (250,000)                                | -  |
| Advances and other escrows  | (80,578)                                 | (24,248)                                   |
| Acquisition of property and equipment   | (5,236)                                  | (51,433)                                   |
|   | <u>(3,225,203)</u>                       | <u>1,305,052</u>                           |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |  |  |
| Repayments of principal of notes payable  | (38,759)                                 | (28,666)                                   |
| <b>NET INCREASE (DECREASE) IN CASH AND<br/>CASH EQUIVALENTS</b>                                 |  |  |
|   | (558,833)                                | 15,904,723                                 |
| <b>CASH AND CASH EQUIVALENTS, beginning of year</b>   | <u>26,205,200</u>                        | <u>10,300,477</u>                          |
| <b>CASH AND CASH EQUIVALENTS, end of year</b>   | <u>\$ 25,646,367</u>                     | <u>\$ 26,205,200</u>                       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |  |  |
| Changes in net assets   | \$ 320,608                               | \$ 12,992,953                              |
| Adjustments to reconcile changes in net assets to net cash<br>provided by operating activities: |  |  |
| Depreciation  | 26,544                                   | 24,380                                     |
| Loan loss provision   | 3,640,924                                | 1,633,299                                  |
| Changes in operating assets and liabilities:  |  |  |
| Accounts receivable   | (1,073,886)                              | 27,696                                     |
| Accrued interest receivable   | (199,286)                                | 18,839                                     |
| Prepaid expenses  | (32,370)                                 | (23,911)                                   |
| Accounts payable and accrued expenses   | 22,595                                   | (44,919)                                   |
|   | <u>\$ 2,705,129</u>                      | <u>\$ 14,628,337</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, 2012 AND 2011**

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**(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. Chapter 40W also authorized an appropriation of \$15,000,000 to MGCC from MassDevelopment, a Massachusetts quasi-public corporation. Incident to this appropriation, MGCC was requested to use \$600,000 toward Technical Assistance Grants to nonprofit providers in order to enhance delivery of technical assistance to small businesses across the Commonwealth. 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.

The following table summarizes the statement of net assets of the expired entities as of September 30, 2010. These assets and liabilities were transferred to MGCC effective October 1, 2010. Accordingly, the net assets of \$32,235,203 are reflected as capital transfers pursuant to enabling legislation on the accompanying statement of changes in net assets for the period October 1, 2010 through June 30, 2011.

|                                       | <u>MCDFC</u>        | <u>EST</u>          | <u>Total</u>        |
|---------------------------------------|---------------------|---------------------|---------------------|
| <b>Assets:</b>                        |                     |                     |                     |
| Cash and cash equivalents             | \$ 6,334,936        | \$ 3,965,541        | \$10,300,477        |
| Loan receivables                      | 12,674,585          | 11,180,441          | 23,855,026          |
| Other assets                          | 83,741              | 241,092             | 324,833             |
| Total assets                          | <u>\$19,093,262</u> | <u>\$15,387,074</u> | <u>\$34,480,336</u> |
| <b>Liabilities:</b>                   |                     |                     |                     |
| Accounts payable and accrued expenses | \$ 52,303           | \$ 23,716           | \$ 76,019           |
| Other liabilities                     | 2,059,730           | 109,384             | 2,169,114           |
| Total liabilities                     | 2,112,033           | 133,100             | 2,245,133           |
| <b>Net Assets</b>                     | <u>16,981,229</u>   | <u>15,253,974</u>   | <u>32,235,203</u>   |
| Total liabilities and net assets      | <u>\$19,093,262</u> | <u>\$15,387,074</u> | <u>\$34,480,336</u> |

MASSACHUSETTS GROWTH CAPITAL CORPORATION  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011  
(Continued)

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

**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 Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments*. GASB Statement No. 34 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 GASB Statement No. 34 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 GASB Statement No. 34, organizations like MGCC can use standards applicable to proprietary fund accounting, and are not required to follow the provisions of governmental fund accounting.

Pursuant to GASB Statement No. 20, *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 pronouncements.

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.

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 and 2011, is \$55,765 and \$83,523, respectively, of cash held by another component unit of the Commonwealth incident to the formation of MGCC as described on page 10.

Restricted Cash

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

Advertising Costs

MGCC expenses advertising costs as they are incurred.

MASSACHUSETTS GROWTH CAPITAL CORPORATION  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011  
(Continued)

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

**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Revenue Recognition

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

Property and Equipment and Depreciation

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

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

Estimates

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

Classification of Net Assets

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). Total funds earned to date were \$4,644,024. The net asset balance was \$4,778,174 as of June 30, 2012.

**Federal Title IX Revolving Loan Fund #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 asset balance was \$613,639 and \$1,120,299 as of June 30, 2012 and 2011, respectively.

**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. In December, 2011, MGCC received final approval to transfer the EDA RLF grants to MGCC. The net asset balance was \$753,756 and \$709,191 as of June 30, 2012 and 2011, respectively.

MASSACHUSETTS GROWTH CAPITAL CORPORATION  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011  
(Continued)

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

**SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Classification of Net Assets (Continued)

**Restricted by Enabling Legislation** - The remaining net assets are deemed restricted in accordance with GASB for purposes included within Chapter 40W, MGCC's enabling legislation. The net asset balance was \$39,414,260 and \$43,398,666 as of June 30, 2012 and 2011, respectively.

Subsequent Events

Subsequent events have been evaluated through October 4, 2012, which is the date the general purpose financial statements were available to be issued. See Note 6 and Note 9 for subsequent event disclosures.

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.

Income Taxes

MGCC follows the *Accounting for Uncertainty in Income Taxes* standard, which requires MGCC to report uncertain tax positions, related interest and penalties, and to adjust its assets and liabilities related to unrecognized tax benefits and accrued interest and penalties accordingly. As of June 30, 2012 and 2011, MGCC determined that there are no material unrecognized tax benefits to report. MGCC does not expect that the amounts of unrecognized tax benefits will change significantly within the next twelve months.

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, 2012 and 2011, MGCC had two and one outstanding guarantees with a value of \$1,450,000 and \$250,000, respectively. These guarantees will expire at various times through June, 2013.

Massachusetts Municipal Depository Trust Investments

MGCC holds investments in the Massachusetts Municipal Depository Trust (MMDT) in the amount of \$6,543,645 and \$6,275,130 at June 30, 2012 and 2011, 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.

MASSACHUSETTS GROWTH CAPITAL CORPORATION  
 NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
 JUNE 30, 2012 AND 2011  
 (Continued)

DRAFT

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

**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Massachusetts Municipal Depository Trust Investments (Continued)

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

|   | <u>2012</u> | <b>Cash Portfolio</b>                  |              |               |                |
|---|-------------|--|--------------|---------------|----------------|
|   |             | <b>Investment Maturities (in Days)</b> |              |               |                |
|   |             | <u>0-30</u>                            | <u>31-90</u> | <u>91-180</u> | <u>181-397</u> |
| Repurchase agreements                           |             | 18.7%                                  | 0.7%         | 0.2%          | - %            |
| Certificates of deposit                         |             | 5.0%                                   | 16.4%        | 9.5%          | 4.0%           |
| Commercial paper                                |             | 7.8%                                   | 10.9%        | 6.5%          | - %            |
| Medium term and other notes                     |             | - %                                    | - %          | - %           | 3.2%           |
| US Government and Government Agency Obligations |             | 4.2%                                   | 0.2%         | 0.3%          | 0.7%           |
| US Treasury Obligations                         |             | 1.3%                                   | 1.6%         | 4.9%          | 3.9%           |
| Other assets and liabilities, net               |             | - %                                    | - %          | - %           | - %            |

|   | <u>2011</u> | <b>Cash Portfolio</b>                  |              |               |                |
|---|-------------|--|--------------|---------------|----------------|
|   |             | <b>Investment Maturities (in Days)</b> |              |               |                |
|   |             | <u>0-30</u>                            | <u>31-90</u> | <u>91-180</u> | <u>181-397</u> |
| Repurchase agreements                             |             | 20.9%                                  | 1.4%         | 0.3%          | - %            |
| Certificates of deposit                           |             | 10.7%                                  | 19.5%        | 8.8%          | 10.0%          |
| Commercial paper                                  |             | 5.8%                                   | 5.2%         | 3.9%          | 0.7%           |
| Medium term notes                                 |             | 0.2%                                   | - %          | - %           | 4.9%           |
| U.S. Government and Government Agency Obligations |             | - %                                    | 0.3%         | - %           | - %            |
| U.S. Treasury Obligations                         |             | - %                                    | 0.7%         | 4.2%          | 1.2%           |
| Other assets and liabilities, net                 |             | 0.7%                                   | - %          | - %           | 0.6%           |

(2) **PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30:

|                                 | <u>2012</u>      | <u>2011</u>      |
|---------------------------------|------------------|------------------|
| Furniture and equipment         | \$152,752        | \$147,516        |
| Leasehold improvements          | 10,326           | 10,326           |
|                                 | <u>163,078</u>   | <u>157,842</u>   |
| Less - accumulated depreciation | 131,684          | 105,140          |
| Net property and equipment      | <u>\$ 31,394</u> | <u>\$ 52,702</u> |

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**  
(Continued)

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**(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 of 10% and a maximum 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 the company can maximize any traditional financing alternatives.

There were 115 and 92 loans receivable outstanding at June 30, 2012 and 2011, respectively. Loans receivable are stated net of allowance for losses as follows at June 30:

|   | <u>2012</u>         | <u>2011</u>         |
|---|---------------------|---------------------|
| Principal outstanding                         | \$26,417,678        | \$24,202,223        |
| Less - allowance for loan losses (see Note 4) | <u>(5,942,248)</u>  | <u>(3,145,822)</u>  |
| Loans receivable, net                         | <u>\$20,475,430</u> | <u>\$21,056,401</u> |

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

|      |             |
|------|-------------|
| 2013 | \$5,444,330 |
| 2014 | \$5,560,255 |
| 2015 | \$4,741,327 |
| 2016 | \$2,918,846 |
| 2017 | \$1,106,607 |

**(4) ALLOWANCES FOR LOSSES**

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

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

|                              | <u>2012</u>        |                  | <u>2011</u>         |                  |
|------------------------------|--------------------|------------------|---------------------|------------------|
|                              | <u>Loans</u>       | <u>Interest</u>  | <u>Loans</u>        | <u>Interest</u>  |
| Balance, beginning of period | \$3,145,822        | \$161,012        | \$ 2,554,338        | \$199,939        |
| Net provision for losses     | 3,475,574          | 165,350          | 1,612,314           | 20,985           |
| Write-offs                   | <u>(679,148)</u>   | <u>(87,530)</u>  | <u>(1,020,830)</u>  | <u>(59,912)</u>  |
| Balance, end of period       | <u>\$5,942,248</u> | <u>\$238,832</u> | <u>\$ 3,145,822</u> | <u>\$161,012</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.

MASSACHUSETTS GROWTH CAPITAL CORPORATION  
 NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
 JUNE 30, 2012 AND 2011  
 (Continued)

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

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 year ended June 30, 2012, and the period ended June 30, 2011, were \$175,122 and \$116,969, 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 assets as a liability. The performance of these entities could adversely affect the ability of MGCC to recover the committed investment. At June 30, 2012 and 2011, MGCC had commitments to lend of approximately \$4.1 million and \$2.9 million, respectively (see Note 3).

MGCC had commitments for guarantees of approximately \$200,000 and \$1 million at June 30, 2012 and 2011, respectively (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 commencing on October 1, 2012. As part of this lease agreement, MGCC's existing lease was extended through September 30, 2012, at the same monthly rent of \$8,817, while their new space is renovated. The lease requires MGCC to maintain certain insurance coverage, and pay for its proportionate share of real estate taxes and operating expenses. Monthly rent payments under this agreement range from \$13,445 to \$15,946, beginning January, 2013. Rent expense was \$107,600 and \$79,353 for the year ended June 30, 2012, and the period ended June 30, 2011, 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><br><u>June 30,</u> |           |
|---------------------------------------|-----------|
| 2013                                  | \$ 82,791 |
| 2014                                  | \$166,964 |
| 2015                                  | \$174,468 |
| 2016                                  | \$181,972 |
| 2017                                  | \$189,476 |
| 2018                                  | \$ 47,838 |

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**  
(Continued)

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(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, 2012 and 2011, MGCC's exposure for uninsured funds was approximately \$22,433,000 and \$25,006,000, 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 ESCROWS**

Surety Bond Guarantee

MGCC administered a Surety Bond Guarantee Program in accordance with Chapter 30, Section 38 of the Acts of 2009. MGCC was allowed to retain the interest earned on the funds. For the period ended June 30, 2011, MGCC earned interest of \$4,166 and administrative fee revenue of \$60,000. Unexpended funds under this program were repayable to the Commonwealth as of June 30, 2011, and accordingly, was presented as a liability in the accompanying 2011 statement of net assets and totaled \$1,937,681. During fiscal year 2012, the remaining balance of \$1,937,681 of the Surety Bond Guarantee Program was transferred to the Technical Assistance, Capacity Building and Educational Program described below.

Technical Assistance, Capacity Building and Educational

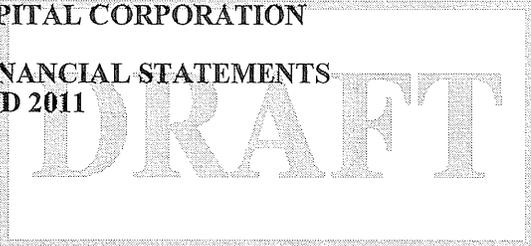
In April, 2012, MGCC entered into an agreement with the Executive Office of Administration and Finance (A & F) to manage a Technical Assistance, Capacity Building and Educational Program using the funds remaining from the Surety Bond Guarantee Program. This program is targeted to minority and women construction 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 2012 statement of net assets and totaled \$1,692,895.

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

(9) **NOTE PAYABLE**

Note payable consists of a U.S. Small Business Administration (SBA) loan for the purpose of funding the SBA micro-loan program. The loan accrues 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 and 2011). This note is secured by the micro-loans and matures in August, 2013. The note payable balance as of June 30, 2012 and 2011, was \$41,959 and \$80,718, respectively. Interest expense was \$1,269 and \$908 for the year ended June 30, 2012, and the period ended June 30, 2011. MGCC paid the remaining principal balance of the note subsequent to June 30, 2012.

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**  
 (Continued)



**(10) ADVANCES AND OTHER ESCROWS**

Advances and other escrows consist of the following at June 30:

|  | <u>2012</u>      | <u>2011</u>      |
|--|------------------|------------------|
| Collateral for financing arrangements:     |                  |                  |
| Greener Group                              | \$190,693        | \$190,252        |
| DKA Realty, Inc.                           | <u>20,949</u>    | <u>20,835</u>    |
| Total advances                             | <u>211,642</u>   | <u>211,087</u>   |
| Other:                                     |                  |                  |
| Massachusetts Bay Transportation Authority | -                | 74,846           |
| Massachusetts Port Authority               | <u>-</u>         | <u>6,287</u>     |
| Total other escrows                        | <u>-</u>         | <u>81,133</u>    |
| Total                                      | <u>\$211,642</u> | <u>\$292,220</u> |

**(11) CONDITIONAL GRANT**

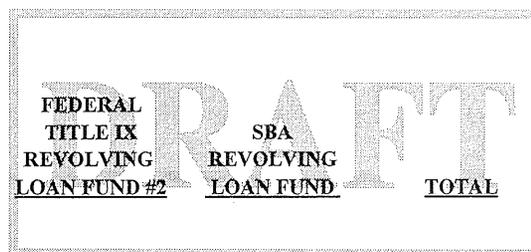
The Commonwealth has awarded MGCC a \$13,932,072 grant, of which \$4,664,024 was earned for the year ended June 30, 2012. At June 30, 2012, MGCC has only received \$3,483,018 of the amount earned, and accordingly, \$1,161,006 is included in accounts receivable in the accompanying statement of net assets. The balance of the grant of \$9,288,048 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, 2012.

**(12) RECLASSIFICATION**

Certain amounts in the 2011 general purpose financial statements have been reclassified to conform with the 2012 presentation.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

SUPPLEMENTAL STATEMENT OF NET ASSETS  
JUNE 30, 2012

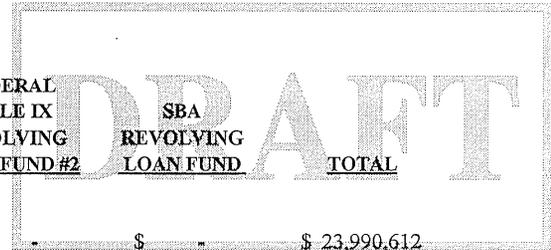


| <u>ASSETS</u>  | <u>MGCC</u>          | <u>STATE SMALL<br/>BUSINESS CREDIT<br/>INITIATIVE</u> | <u>FEDERAL<br/>TITLE IX<br/>REVOLVING<br/>LOAN FUND #1</u> | <u>FEDERAL<br/>TITLE IX<br/>REVOLVING<br/>LOAN FUND #2</u> | <u>SBA<br/>REVOLVING<br/>LOAN FUND</u> | <u>TOTAL</u>         |
|--|----------------------|---|--|--|--|----------------------|
| <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<br>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<br>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               |
| 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<br>for uncollectible loans of approximately \$4,717,000 | 11,770,368           | 2,397,117   | 821,266  | 1,249,068  | 17,899                                 | 16,255,718           |
| <b>PROPERTY AND EQUIPMENT</b> , net  | 31,394               | -   | -  | -  | -                                      | 31,394               |
| Total assets   | <u>\$ 39,844,872</u> | <u>\$ 5,146,155</u>                                   | <u>\$ 1,056,181</u>  | <u>\$ 1,517,887</u>  | <u>\$ 80,275</u>                       | <u>\$ 47,645,370</u> |
| <b><u>LIABILITIES AND NET ASSETS</u></b>   |                      |   |  |  |  |                      |
| <b>CURRENT LIABILITIES:</b>  |                      |   |  |  |  |                      |
| Current portion of note payable  | \$ -                 | \$ -  | \$ -   | \$ -   | \$ 41,959                              | \$ 41,959            |
| Accounts payable and accrued expenses  | 150,110              | -   | -  | -  | -                                      | 150,110              |
| Interfund (receivable) payable   | (1,624,035)          | 367,981   | 442,542  | 764,131  | 49,381                                 | -                    |
| Advances and other escrows   | 211,642              | -   | -  | -  | -                                      | 211,642              |
| Special program escrow liability   | 1,692,895            | -   | -  | -  | -                                      | 1,692,895            |
| Total current liabilities  | 430,612              | 367,981   | 442,542  | 764,131  | 91,340                                 | 2,096,606            |
| <b>NET ASSETS:</b>   |                      |   |  |  |  |                      |
| Restricted - State Small Business Credit Initiative  | -                    | 4,778,174   | -  | -  | -                                      | 4,778,174            |
| Restricted - Federal Title IX RLF  | -                    | -   | 613,639  | 753,756  | -                                      | 1,367,395            |
| Restricted by enabling legislation   | 39,414,260           | -   | -  | -  | (11,065)                               | 39,403,195           |
| Total net assets   | 39,414,260           | 4,778,174   | 613,639  | 753,756  | (11,065)                               | 45,548,764           |
| Total liabilities and net assets   | <u>\$ 39,844,872</u> | <u>\$ 5,146,155</u>                                   | <u>\$ 1,056,181</u>  | <u>\$ 1,517,887</u>  | <u>\$ 80,275</u>                       | <u>\$ 47,645,370</u> |

MASSACHUSETTS GROWTH CAPITAL CORPORATION

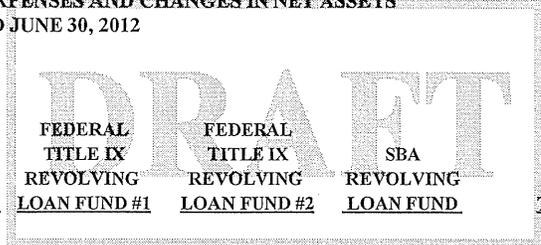
SUPPLEMENTAL STATEMENT OF NET ASSETS  
JUNE 30, 2011

| <u>ASSETS</u>   | <u>MGCC</u>          | <u>FEDERAL<br/>TITLE IX<br/>REVOLVING<br/>LOAN FUND #1</u> | <u>FEDERAL<br/>TITLE IX<br/>REVOLVING<br/>LOAN FUND #2</u> | <u>SBA<br/>REVOLVING<br/>LOAN FUND</u> | <u>TOTAL</u>         |
|---|----------------------|--|--|--|----------------------|
| <b>CURRENT ASSETS:</b>  |                      |  |  |  |                      |
| Cash and cash equivalents   | \$ 23,990,612        | \$ -   | \$ -   | \$ -                                   | \$ 23,990,612        |
| Restricted cash   | 2,127,933            | 2,000  | 1,132  | 83,523                                 | 2,214,588            |
| Accounts receivable   | 114,394              | 1,350  | 1,375  | -                                      | 117,119              |
| Current portion of loans receivable, net of allowance for uncollectible loans of approximately \$931,000            | 3,591,928            | 615,038  | 381,273  | 5,631                                  | 4,593,870            |
| Accrued interest receivable on loans, net of allowance for uncollectible amounts of approximately \$161,000         | 132,221              | 27,396   | 41,461   | 190                                    | 201,268              |
| Prepaid expenses and other  | 33,600               | -  | -  | -                                      | 33,600               |
| Total current assets  | 29,990,688           | 645,784  | 425,241  | 89,344                                 | 31,151,057           |
| <b>LOANS RECEIVABLE</b> , net of current portion and allowance for uncollectible loans of approximately \$2,215,000 | 14,341,573           | 1,361,789  | 734,011  | 25,158                                 | 16,462,531           |
| <b>PROPERTY AND EQUIPMENT</b> , net   | 52,702               | -  | -  | -                                      | 52,702               |
| Total assets  | <u>\$ 44,384,963</u> | <u>\$ 2,007,573</u>  | <u>\$ 1,159,252</u>  | <u>\$ 114,502</u>                      | <u>\$ 47,666,290</u> |
| <b><u>LIABILITIES AND NET ASSETS</u></b>  |                      |  |  |  |                      |
| <b>CURRENT LIABILITIES:</b>   |                      |  |  |  |                      |
| Current portion of note payable   | \$ -                 | \$ -   | \$ -   | \$ 38,400                              | \$ 38,400            |
| Accounts payable and accrued expenses   | 127,515              | -  | -  | -                                      | 127,515              |
| Interfund (receivable) payable  | (1,382,801)          | 887,274  | 450,061  | 45,466                                 | -                    |
| Advances and other escrows  | 292,220              | -  | -  | -                                      | 292,220              |
| Special program escrow liability  | 1,937,681            | -  | -  | -                                      | 1,937,681            |
| Total current liabilities   | 974,615              | 887,274  | 450,061  | 83,866                                 | 2,395,816            |
| <b>NOTE PAYABLE</b> , net of current portion  | -                    | -  | -  | 42,318                                 | 42,318               |
| Total liabilities   | 974,615              | 887,274  | 450,061  | 126,184                                | 2,438,134            |
| <b>NET ASSETS:</b>  |                      |  |  |  |                      |
| Restricted - Federal Title IX RLF   | -                    | 1,120,299  | 709,191  | -                                      | 1,829,490            |
| Restricted by enabling legislation  | 43,410,348           | -  | -  | (11,682)                               | 43,398,666           |
| Total net assets  | 43,410,348           | 1,120,299  | 709,191  | (11,682)                               | 45,228,156           |
| Total liabilities and net assets  | <u>\$ 44,384,963</u> | <u>\$ 2,007,573</u>  | <u>\$ 1,159,252</u>  | <u>\$ 114,502</u>                      | <u>\$ 47,666,290</u> |



MASSACHUSETTS GROWTH CAPITAL CORPORATION

SUPPLEMENTAL STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2012



|   | <u>MGCC</u>          | <u>STATE SMALL<br/>BUSINESS CREDIT<br/>INITIATIVE</u> | <u>FEDERAL<br/>TITLE IX<br/>REVOLVING<br/>LOAN FUND #1</u> | <u>FEDERAL<br/>TITLE IX<br/>REVOLVING<br/>LOAN FUND #2</u> | <u>SBA<br/>REVOLVING<br/>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              |
| Information technology  | 24,993               | -   | 2,129  | 1,842  | -                                      | 28,964               |
| Depreciation  | 23,456               | -   | 1,661  | 1,427  | -                                      | 26,544               |
| Other expenses  | 17,713               | -   | 1,188  | 954  | 107                                    | 19,962               |
| Travel  | 15,239               | -   | 1,077  | 903  | -                                      | 17,219               |
| Telephone   | 14,577               | -   | 1,053  | 872  | 104                                    | 16,606               |
| Printing and postage  | 11,797               | -   | 870  | 733  | -                                      | 13,400               |
| Advertising   | 11,256               | -   | 1,063  | 808  | -                                      | 13,127               |
| Supplies  | 11,201               | -   | 853  | 717  | -                                      | 12,771               |
| Insurance   | 10,842               | -   | 792  | 651  | -                                      | 12,285               |
| Meetings  | 9,476                | -   | 580  | 499  | -                                      | 10,555               |
| Maintenance and repair  | 7,303                | -   | 578  | 482  | -                                      | 8,363                |
| Dues and memberships  | 6,137                | -   | 439  | 380  | -                                      | 6,956                |
| Credit reports  | 1,491                | -   | 125  | 100  | -                                      | 1,716                |
| 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>     |
| Total operating expenses before<br>loan loss provision              |                      |   |  |  |  |                      |
| Changes in net assets from operations<br>before loan loss provision | 162,476              | 134,150   | 5,787  | 114,552  | 543                                    | 417,508              |
| <b>LOAN LOSS PROVISION</b>  | <u>(3,058,564)</u>   | <u>-</u>  | <u>(512,447)</u>   | <u>(69,987)</u>  | <u>74</u>                              | <u>(3,640,924)</u>   |
| Changes in net assets from operations                               | <u>(2,896,088)</u>   | <u>134,150</u>  | <u>(506,660)</u>   | <u>44,565</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   | <u>(1,100,000)</u>   | <u>-</u>  | <u>-</u>   | <u>-</u>   | <u>-</u>                               | <u>(1,100,000)</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 assets   | <u>(3,996,088)</u>   | <u>4,778,174</u>                                      | <u>(506,660)</u>   | <u>44,565</u>  | <u>617</u>                             | <u>320,608</u>       |
| <b>NET ASSETS, 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 ASSETS, June 30, 2012</b>                                    | <u>\$ 39,414,260</u> | <u>\$ 4,778,174</u>                                   | <u>\$ 613,639</u>  | <u>\$ 753,756</u>  | <u>\$ (11,065)</u>                     | <u>\$ 45,548,764</u> |

MASSACHUSETTS GROWTH CAPITAL CORPORATION

SUPPLEMENTAL STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE PERIOD OCTOBER 1, 2010 (INCEPTION) THROUGH JUNE 30, 2011

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|   | <u>MGCC</u>          | <u>FEDERAL<br/>TITLE IX<br/>REVOLVING<br/>LOAN FUND #1</u> | <u>FEDERAL<br/>TITLE IX<br/>REVOLVING<br/>LOAN FUND #2</u> | <u>SBA<br/>REVOLVING<br/>LOAN FUND</u> | <u>TOTAL</u>         |
|---|----------------------|--|--|--|----------------------|
| <b>OPERATING REVENUES:</b>  |                      |  |  |  |                      |
| Interest income on loans  | \$ 1,364,330         | \$ 157,888   | \$ 126,870   | \$ 1,982                               | \$ 1,651,070         |
| Management and other fees   | 264,012              | -  | -  | -                                      | 264,012              |
| Interest income on cash reserves                                    | 85,313               | 26,800   | 22,675   | -                                      | 134,788              |
| Other revenue   | 10,400               | 2,880  | -  | -                                      | 13,280               |
| Total operating revenues  | <u>1,724,055</u>     | <u>187,568</u>   | <u>149,545</u>   | <u>1,982</u>                           | <u>2,063,150</u>     |
| <b>OPERATING EXPENSES:</b>  |                      |  |  |  |                      |
| Employee compensation   | 1,210,063            | 95,839   | 85,130   | -                                      | 1,391,032            |
| Professional fees   | 130,295              | 6,425  | 3,992  | -                                      | 140,712              |
| Occupancy   | 57,995               | 11,584   | 9,774  | -                                      | 79,353               |
| Information technology  | 27,131               | 4,083  | 3,461  | -                                      | 34,675               |
| Depreciation  | 22,899               | 913  | 568  | -                                      | 24,380               |
| Other expenses  | 38,834               | 1,438  | 3,296  | (21)                                   | 43,547               |
| Travel  | 10,910               | 1,825  | 1,559  | -                                      | 14,294               |
| Telephone   | 26,491               | 3,854  | 2,582  | -                                      | 32,927               |
| Printing and postage  | 7,721                | 938  | 582  | -                                      | 9,241                |
| Advertising   | 7,586                | 1,312  | 1,302  | -                                      | 10,200               |
| Supplies  | 10,033               | 1,470  | 913  | -                                      | 12,416               |
| Insurance   | 9,350                | 1,323  | 821  | -                                      | 11,494               |
| Meetings  | 9,567                | 249  | 155  | -                                      | 9,971                |
| Maintenance and repair  | 8,109                | 868  | 539  | -                                      | 9,516                |
| Dues and memberships  | 4,112                | 860  | 534  | -                                      | 5,506                |
| Credit reports  | 5,179                | 954  | 593  | -                                      | 6,726                |
| Interest  | -                    | -  | -  | 908                                    | 908                  |
| Total operating expenses before<br>loan loss provision              | <u>1,586,275</u>     | <u>133,935</u>   | <u>115,801</u>   | <u>887</u>                             | <u>1,836,898</u>     |
| Changes in net assets from operations<br>before loan loss provision | 137,780              | 53,633   | 33,744   | 1,095                                  | 226,252              |
| <b>LOAN LOSS PROVISION</b>  | <u>(807,328)</u>     | <u>(395,271)</u>   | <u>(432,825)</u>   | <u>2,125</u>                           | <u>(1,633,299)</u>   |
| Changes in net assets from operations                               | <u>(669,548)</u>     | <u>(341,638)</u>   | <u>(399,081)</u>   | <u>3,220</u>                           | <u>(1,407,047)</u>   |
| <b>NON-OPERATING REVENUE (EXPENSE):</b>                             |                      |  |  |  |                      |
| State appropriations  | 15,000,000           | -  | -  | -                                      | 15,000,000           |
| Grant expense   | (600,000)            | -  | -  | -                                      | (600,000)            |
| Total non-operating revenue (expense)                               | <u>14,400,000</u>    | <u>-</u>   | <u>-</u>   | <u>-</u>                               | <u>14,400,000</u>    |
| Changes in net assets   | 13,730,452           | (341,638)  | (399,081)  | 3,220                                  | 12,992,953           |
| <b>NET ASSETS, October 1, 2010 (Inception)</b>                      |                      |  |  |  |                      |
| Capital transfers pursuant to enabling legislation                  | <u>29,679,896</u>    | <u>1,461,937</u>   | <u>1,108,272</u>   | <u>(14,902)</u>                        | <u>32,235,203</u>    |
| <b>NET ASSETS, June 30, 2011</b>                                    | <u>\$ 43,410,348</u> | <u>\$ 1,120,299</u>  | <u>\$ 709,191</u>  | <u>\$ (11,682)</u>                     | <u>\$ 45,228,156</u> |

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**  
**SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2012**

DRAFT

| <b>FEDERAL GRANTOR/<br/>PASS-THROUGH GRANTOR/<br/>PROGRAM TITLE</b> | <b>FEDERAL<br/>CFDA<br/>NUMBER</b> | <b>AGENCY OR<br/>PASS-THROUGH<br/>NUMBER</b> | <b>FEDERAL<br/>EXPENDITURES</b> |
|---|------------------------------------|--|---------------------------------|
| <b><u>U.S. Department of Commerce</u></b>                           |                                    |  |                                 |
| Direct Funding:   |                                    |  |                                 |
| Economic Adjustment Assistance                                      | 11.307                             | N/A  | \$3,230,192                     |
| <b><u>U.S. Small Business Administration</u></b>                    |                                    |  |                                 |
| Direct Funding:   |                                    |  |                                 |
| Secondary Market Lending Authority                                  | 59.056                             | N/A  | <u>80,718</u>                   |
| <b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>                         |                                    |  | <b><u>\$3,310,910</u></b>       |

**NOTE 1. BASIS OF PRESENTATION**

The accompanying Supplementary 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 United States 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 \$3,580,000 were outstanding at June 30, 2012.

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. One micro-loan was outstanding at June 30, 2012.



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DRAFT

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

To the Board of Directors of  
Massachusetts Growth Capital Corporation:

We have audited the general purpose financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of Massachusetts Growth Capital Corporation (a component unit of the Commonwealth of Massachusetts) (MGCC), as of and for the year ended June 30, 2012, which collectively comprise MGCC's general purpose financial statements and have issued our report thereon dated October 4, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of MGCC is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered MGCC's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MGCC's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

DRAFT

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether MGCC's general purpose financial statements are free of 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 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*.

We noted certain matters that we reported to management of MGCC in a separate letter dated October 4, 2012.

This report is intended solely for the information and use of the Board of Directors, management, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wellesley, Massachusetts  
October 4, 2012

**DRAFT**

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD  
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

**Independent Auditor's Report**

To the Board of Directors of  
Massachusetts Growth Capital Corporation:

**Compliance**

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, 2012. MGCC's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major Federal program is the responsibility of MGCC's management. Our responsibility is to express an opinion on MGCC's compliance based on our audit.

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. Our audit does not provide a legal determination of MGCC's compliance with those requirements.

In our opinion, MGCC complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended June 30, 2012.

**Internal Control Over Compliance**

Management of MGCC is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered MGCC's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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**Internal Control Over Compliance (Continued)**

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wellesley, Massachusetts  
October 4, 2012

MASSACHUSETTS GROWTH CAPITAL CORPORATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2012

DRAFT

I. SUMMARY OF AUDITOR'S RESULTS

General Purpose Financial Statements

An unqualified opinion was issued on the general purpose financial statements of the auditee.

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

An unqualified opinion was issued on compliance for major programs.

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, 2012

(Continued)

DRAFT

II. FINANCIAL STATEMENT FINDINGS IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS

None

III. FINDINGS AND QUESTIONS COSTS FOR FEDERAL AWARDS

None

DRAFT



**MGCC**

Massachusetts Growth Capital Corporation  
*Growing the Economy of Tomorrow*

**GENERAL PURPOSE FINANCIAL STATEMENTS  
IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS AND  
OMB CIRCULAR A-133  
JUNE 30, 2012 AND 2011  
TOGETHER WITH  
INDEPENDENT AUDITOR'S REPORT**

10/1/2012

MASSACHUSETTS GROWTH CAPITAL CORPORATION

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JUNE 30, 2012 AND 2011

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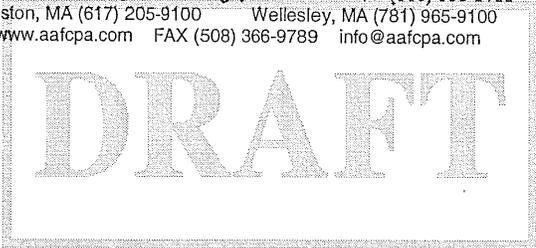


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UNQUALIFIED OPINION ON GENERAL PURPOSE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Independent Auditor's Report

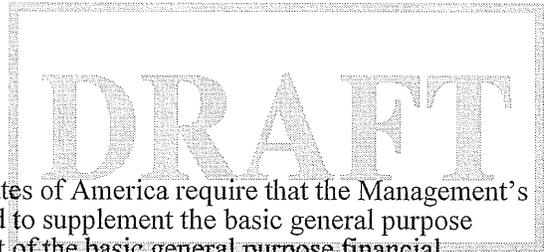
To the Board of Directors of Massachusetts Growth Capital Corporation:

We have audited the accompanying statements of net assets of Massachusetts Growth Capital Corporation (a component unit of the Commonwealth of Massachusetts) (MGCC) as of June 30, 2012 and 2011, and the related statements of revenues and expenses, changes in net assets and cash flows for the year ended June 30, 2012, and the period from October 1, 2010 (inception) through June 30, 2011. These general purpose financial statements are the responsibility of MGCC's management. 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 audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Massachusetts Growth Capital Corporation as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the year ended June 30, 2012, and the period from October 1, 2010 (inception) through June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 4, 2012, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



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 basic general purpose financial statements. Such information, although not a part of the basic 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 basic 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 basic general purpose financial statements, and other knowledge we obtained during our audit of the basic 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.

Our audits were made for the purpose of forming an opinion on the general purpose financial statements. The accompanying supplementary information on pages 19 through 22 for the year ended June 30, 2012, and the period from October 1, 2010 (inception) through June 30, 2011, is presented for additional analysis and is not a required part of the general purpose financial statements. Also, the accompanying supplementary schedule of expenditures of federal awards for the year ended June 30, 2012, 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 19 through 22 and the supplementary schedule of expenditures of federal awards are fairly stated in all material respects in relation to the general purpose financial statements as a whole.

Wellesley, Massachusetts  
October 4, 2012

MASSACHUSETTS GROWTH CAPITAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2012 AND 2011

DRAFT

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, 2012. 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, 2012, are included in a series of financial statements. In accordance with Governmental Accounting Standard Board Statement No. 34, *Basic Financial Statement - Management's Discussion and Analysis for State and Local Governments* (GASB No. 34), MGCC is considered a quasi-public entity that engages in only business-type activities. In accordance with GASB No. 34, MGCC issues a Statement of Net Assets, a Statement of Revenues and Expenses, a Statement of Changes in Net Assets, 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 19 and 22.

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 as a director, along with ten 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 30<sup>th</sup> fiscal year basis.

**Statement of Net Assets and Statements of Revenues and Expenses and Changes in Net Assets**

The *Statement of Net Assets* 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 assets and changes in them. MGCC's net assets, the difference between assets and liabilities, represent 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, 2012 AND 2011  
(Continued)

DRAFT

Statement of Net Assets and Statements of Revenue and Expenses and Changes in Net Assets  
(Continued)

The *Supplemental Statement of Revenues, Expenses and Changes in Net Assets* shown within this report account for four 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. There is a possibility that the Commonwealth will make available as much as \$18,000,000 in new capital for MGCC from bond proceeds. Also included, are the other 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.

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. As of June 30, 2012, MGCC had not received the final approval to transfer the funds to MGCC's name. Subsequent to June 30, 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 and appropriated \$1.5 billion. Massachusetts' allocation is approximately \$22 million, of which approximately \$14 million is allocated for MGCC. In fiscal year 2012, MGCC received \$3,483,018 with a \$1,161,006 receivable at June 30, 2012. The balance of the funding will be disbursed through 2017.

The Federal Title IX Revolving Loan Funds and the State Small Business Credit Initiative are accounted for as a separate component of restricted net assets. The remaining net assets are restricted within the mandates of MGCC enabling legislation.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2012 AND 2011  
(Continued)

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**Condensed Financial Information**

**Assets total \$47,645,370. The major components are:**

**Cash and Cash Equivalents:** MGCC began the fiscal year with a total of \$26,205,200 in cash. At June 30, 2012, total cash was \$25,646,367, of which \$2,941,164 was restricted. The decrease in cash of \$558,833 was due to a higher volume of lending activities for the year ended June 30, 2012.

**Loans Receivable:** Loan receivables at June 30, 2012, totaled \$26,417,678, a net increase of \$2,223,230 from the previous year. The increase was due to a full twelve months of operations, with thirty-four loans closed compared to nine months of operations for the previous year, when twenty-one loans closed. The loan loss reserve increased \$2,796,426 to \$5,942,248. The primary reason for the increase was due to the reclassification of loans to a higher risk rating.

During fiscal year 2012, MGCC received \$6,940,514 in principal repayments, closed thirty-four loans totaling \$9,835,117, and two guarantees totaling \$1,200,000. Unfunded commitments at year-end totaled \$4,100,000. Write-offs for the year ended June 30, 2012, totaled \$679,148.

**Liabilities total \$2,096,606. 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 will 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. On April 24, 2012, a grant for \$250,000 was funded. The balance of the funds at June 30, 2012, was \$1,692,895.

**Accounts Payable, Accrued Payroll and Pension, and Other Accruals:** Accounts Payable totaled \$29,529, Accrued Payroll, Accrued Vacation and Pension totaled \$117,025, and Other Accruals totaled \$3,556.

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

**Revenues:**

Operating revenues totaled \$2,936,448. The majority of that amount, \$2,232,412, came from interest income on loans. Also, included in revenues were commitment and closing fees of \$434,296, management fees totaling \$27,314, interest income on cash and investments of \$209,927, and other income of \$32,499. The increase of \$873,298 over the prior year was mainly due to a twelve-month year compared to nine months for the previous year.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012 AND 2011

(Continued)

DRAFT

**Condensed Financial Information** (Continued)

**Revenues:** (Continued)

On December 21, 2012, MGCC received \$3,483,018 from the Commonwealth. This represented the first tranche of the State Small Business Credit Initiative.

**Expenses:**

Expenses totaled \$2,518,940. The major components were employee compensation, including salaries of \$1,509,921, payroll tax and fringe benefits totaling \$444,140, professional fees of \$267,542, and occupancy of \$107,600. Expenses increased by \$682,042 over the prior year. The increase was mainly due to a twelve-month year compared to nine months for the prior year. There were some increases in payroll, fringe and professional fees; however, they were offset by decreases in information technology, internet, portfolio costs, and moving expenses.

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

Revenues ended the year less than the budget by \$399,000. This variance consisted primarily of \$367,000 off budget for interest income of our loan portfolio (referenced next paragraph). The \$91,000 shortfall of loan fees and bank interest income was partially offset by the more than planned management services of \$30,000 and an additional \$28,000 reimbursement of legal fees.

Our overall loan portfolio ended the year at \$26,418,000, a net increase of \$2.2 million from last year's ending balance of \$24,203,000, versus a budgeted net increase of \$8,621,000 for a total budget variance of \$6.4 million. The \$2.2 million actual net change was generated by \$9,835,000 of increases in the portfolio for funds issued to new and existing loan clients, reduced by write-offs of \$679,000, early client pay-offs of \$2,714,000, and principal payments of \$4,227,000. The overall variance to budget of new loans closed (\$6.4 million) was mostly due to the delay in the hiring of qualified loan officers and the necessary time of exposure to their respective markets required to generate leads and new clients. The \$6.4 million shortfall over the fiscal year is the primary factor in what caused the decrease in planned interest income from the loan portfolio of \$367,000.

Total actual operating expenses were less than the budgeted amounts by \$518,000. A summary of the major variances are as follows: Payroll was under estimated by \$169,000, largely attributed to the delay in the hiring of qualified loan and credit officers; medical insurance was over estimated by \$157,000 primarily due to the difference in the employee census and coverage required, as well as, the switch from Tufts Medical Plan to the Harvard Pilgrim Trust Plan in October, 2011. The amount planned for the Technical Assistance Program for the fiscal year of \$162,000 was not fully utilized due to the delay in implementing the program, thereby only spending \$68,000 for the year generating the \$95,000 favorable spending variance. Legal expenses ended the fiscal year at \$39,000 less than planned.

It should be recognized that MGCC had non-operating items that added \$263,000 to the overall positive impact of total changes in net assets when compared to the budget. MGCC issued \$1.1 million in grants and received the first tranche (\$3.5 million) of the annual \$4.6 million SSBCI funds for the first year of the program. As of the June 30<sup>th</sup> fiscal year ending date, MGCC recorded the receivable of the remaining third of the first annual \$4.6 million SSBCI funding to be received in fiscal year 2013.

**Subsequent Event:**

Since year end, a total of \$1,250,000 of new loans and guaranties were funded to four companies. Additionally, approximately \$2,917,000 in new loans has been committed to seven companies.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

STATEMENTS OF NET ASSETS  
JUNE 30, 2012 AND 2011

DRAFT

| <u>ASSETS</u>   | <u>2012</u>   | <u>2011</u>   |
|---|---------------|---------------|
| <b>CURRENT ASSETS:</b>  |               |               |
| Cash and cash equivalents   | \$ 22,705,203 | \$ 23,990,612 |
| Restricted cash   | 2,941,164     | 2,214,588     |
| Accounts receivable   | 1,191,005     | 117,119       |
| Current portion of loans receivable, net of allowance for uncollectible loans of approximately \$1,225,000 and \$931,000 at June 30, 2012 and 2011, respectively            | 4,219,712     | 4,593,870     |
| Accrued interest receivable on loans, net of allowance for uncollectible amounts of approximately \$239,000 and \$161,000 at June 30, 2012 and 2011, respectively           | 235,204       | 201,268       |
| Prepaid expenses and other  | 65,970        | 33,600        |
|   | 31,358,258    | 31,151,057    |
| <b>LOANS RECEIVABLE</b> , net of current portion and allowance for uncollectible loans of approximately \$4,717,000 and \$2,215,000 at June 30, 2012 and 2011, respectively | 16,255,718    | 16,462,531    |
| <b>PROPERTY AND EQUIPMENT</b> , net   | 31,394        | 52,702        |
|   | \$ 47,645,370 | \$ 47,666,290 |
| <b><u>LIABILITIES AND NET ASSETS</u></b>  |               |               |
| <b>CURRENT LIABILITIES:</b>   |               |               |
| Current portion of note payable   | \$ 41,959     | \$ 38,400     |
| Accounts payable and accrued expenses   | 150,110       | 127,515       |
| Advances and other escrows  | 211,642       | 292,220       |
| Special program escrow liability  | 1,692,895     | 1,937,681     |
|   | 2,096,606     | 2,395,816     |
| <b>NOTE PAYABLE</b> , net of current portion  | -             | 42,318        |
|   | 2,096,606     | 2,438,134     |
| <b>NET ASSETS:</b>  |               |               |
| Restricted - State Small Business Credit Initiative   | 4,778,174     | -             |
| Restricted - Federal Title IX RLF   | 1,367,395     | 1,829,490     |
| Restricted by enabling legislation  | 39,403,195    | 43,398,666    |
|   | 45,548,764    | 45,228,156    |
| Total liabilities and net assets  | \$ 47,645,370 | \$ 47,666,290 |

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

MASSACHUSETTS GROWTH CAPITAL CORPORATION

STATEMENTS OF REVENUES AND EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2012 AND THE PERIOD  
OCTOBER 1, 2010 (INCEPTION) THROUGH JUNE 30, 2011

DRAFT

|   | <b>YEAR<br/>ENDED<br/>JUNE 30,<br/>2012</b> | <b>PERIOD<br/>ENDED<br/>JUNE 30,<br/>2011</b> |
|---|---|---|
| <b>OPERATING REVENUES:</b>  |   |   |
| Interest income on loans  | \$ 2,232,412                                | \$ 1,651,070                                  |
| Management and other fees   | 461,610                                     | 264,012                                       |
| Interest income on cash reserves                                    | 209,927                                     | 134,788                                       |
| Other revenue   | 32,499                                      | 13,280  |
|   | <u>2,936,448</u>                            | <u>2,063,150</u>                              |
| <b>OPERATING EXPENSES:</b>  |   |   |
| Employee compensation   | 1,954,061                                   | 1,391,032                                     |
| Professional fees   | 267,542                                     | 140,712                                       |
| Occupancy   | 107,600                                     | 79,353  |
| Information technology  | 28,964                                      | 34,675  |
| Depreciation  | 26,544                                      | 24,380  |
| Other expenses  | 19,962                                      | 43,547  |
| Travel  | 17,219                                      | 14,294  |
| Telephone   | 16,606                                      | 32,927  |
| Printing and postage  | 13,400                                      | 9,241   |
| Advertising   | 13,127                                      | 10,200  |
| Supplies  | 12,771                                      | 12,416  |
| Insurance   | 12,285                                      | 11,494  |
| Meetings  | 10,555                                      | 9,971   |
| Maintenance and repair  | 8,363                                       | 9,516   |
| Dues and memberships  | 6,956                                       | 5,506   |
| Credit reports  | 1,716                                       | 6,726   |
| Interest  | 1,269                                       | 908   |
|   | <u>2,518,940</u>                            | <u>1,836,898</u>                              |
| Total operating expenses before loan loss provision                 |   |   |
|   | <u>2,518,940</u>                            | <u>1,836,898</u>                              |
| Changes in net assets from operations before<br>loan loss provision | 417,508                                     | 226,252                                       |
| <b>LOAN LOSS PROVISION</b>  | <b>(3,640,924)</b>                          | <b>(1,633,299)</b>                            |
| Changes in net assets from operations                               | <u>(3,223,416)</u>                          | <u>(1,407,047)</u>                            |
| <b>NON-OPERATING REVENUE (EXPENSE):</b>                             |   |   |
| State appropriation   | 4,644,024                                   | 15,000,000                                    |
| Grant expense   | <u>(1,100,000)</u>                          | <u>(600,000)</u>                              |
| Total non-operating revenue (expense)                               | <u>3,544,024</u>                            | <u>14,400,000</u>                             |
| Changes in net assets   | <u>\$ 320,608</u>                           | <u>\$ 12,992,953</u>                          |

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

MASSACHUSETTS GROWTH CAPITAL CORPORATION

STATEMENTS OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2012 AND THE PERIOD  
OCTOBER 1, 2010 (INCEPTION) THROUGH JUNE 30, 2011

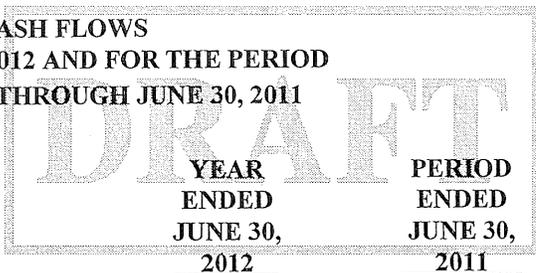
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|  |                      |
|--|----------------------|
| NET ASSETS, October 1, 2010 (Inception)            | \$ -                 |
| Capital transfers pursuant to enabling legislation | 32,235,203           |
| Changes in net assets                              | <u>12,992,953</u>    |
| NET ASSETS, June 30, 2011                          | 45,228,156           |
| Changes in net assets                              | <u>320,608</u>       |
| NET ASSETS, June 30, 2012                          | <u>\$ 45,548,764</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, 2012 AND FOR THE PERIOD  
OCTOBER 1, 2010 (INCEPTION) THROUGH JUNE 30, 2011



|   | YEAR<br>ENDED<br>JUNE 30,<br><u>2012</u> | PERIOD<br>ENDED<br>JUNE 30,<br><u>2011</u> |
|---|--|--|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |  |  |
| Receipts of interest income   | \$ 2,423,402                             | \$ 1,804,697                               |
| Receipts of management fees and other   | 533,731                                  | 291,708                                    |
| State appropriation   | 3,483,018                                | 15,000,000                                 |
| Other revenue   | 32,499                                   | 13,280                                     |
| Employee compensation   | (1,929,902)                              | (1,435,951)                                |
| Interest payments to lenders  | (1,269)                                  | (908)                                      |
| Payments for supplies and services  | (736,350)                                | (444,489)                                  |
| Grant expense   | (1,100,000)                              | (600,000)                                  |
|   | <u>2,705,129</u>                         | <u>14,628,337</u>                          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |  |  |
| Loans disbursed   | (9,835,117)                              | (5,474,110)                                |
| Proceeds from loan repayments   | 6,940,514                                | 6,850,677                                  |
| Interest earned on special program escrows  | 5,214                                    | 4,166                                      |
| Special program disbursement  | (250,000)                                | -  |
| Advances and other escrows  | (80,578)                                 | (24,248)                                   |
| Acquisition of property and equipment   | (5,236)                                  | (51,433)                                   |
|   | <u>(3,225,203)</u>                       | <u>1,305,052</u>                           |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |  |  |
| Repayments of principal of notes payable  | (38,759)                                 | (28,666)                                   |
| <b>NET INCREASE (DECREASE) IN CASH AND<br/>CASH EQUIVALENTS</b>                                 |  |  |
|   | (558,833)                                | 15,904,723                                 |
| <b>CASH AND CASH EQUIVALENTS, beginning of year</b>   | <u>26,205,200</u>                        | <u>10,300,477</u>                          |
| <b>CASH AND CASH EQUIVALENTS, end of year</b>   | <u>\$ 25,646,367</u>                     | <u>\$ 26,205,200</u>                       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |  |  |
| Changes in net assets   | \$ 320,608                               | \$ 12,992,953                              |
| Adjustments to reconcile changes in net assets to net cash<br>provided by operating activities: |  |  |
| Depreciation  | 26,544                                   | 24,380                                     |
| Loan loss provision   | 3,640,924                                | 1,633,299                                  |
| Changes in operating assets and liabilities:  |  |  |
| Accounts receivable   | (1,073,886)                              | 27,696                                     |
| Accrued interest receivable   | (199,286)                                | 18,839                                     |
| Prepaid expenses  | (32,370)                                 | (23,911)                                   |
| Accounts payable and accrued expenses   | 22,595                                   | (44,919)                                   |
|   | <u>\$ 2,705,129</u>                      | <u>\$ 14,628,337</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, 2012 AND 2011**

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**(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. Chapter 40W also authorized an appropriation of \$15,000,000 to MGCC from MassDevelopment, a Massachusetts quasi-public corporation. Incident to this appropriation, MGCC was requested to use \$600,000 toward Technical Assistance Grants to nonprofit providers in order to enhance delivery of technical assistance to small businesses across the Commonwealth. 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.

The following table summarizes the statement of net assets of the expired entities as of September 30, 2010. These assets and liabilities were transferred to MGCC effective October 1, 2010. Accordingly, the net assets of \$32,235,203 are reflected as capital transfers pursuant to enabling legislation on the accompanying statement of changes in net assets for the period October 1, 2010 through June 30, 2011.

|                                       | <u>MCDFC</u>        | <u>EST</u>          | <u>Total</u>        |
|---------------------------------------|---------------------|---------------------|---------------------|
| <b>Assets:</b>                        |                     |                     |                     |
| Cash and cash equivalents             | \$ 6,334,936        | \$ 3,965,541        | \$10,300,477        |
| Loan receivables                      | 12,674,585          | 11,180,441          | 23,855,026          |
| Other assets                          | 83,741              | 241,092             | 324,833             |
| Total assets                          | <u>\$19,093,262</u> | <u>\$15,387,074</u> | <u>\$34,480,336</u> |
| <b>Liabilities:</b>                   |                     |                     |                     |
| Accounts payable and accrued expenses | \$ 52,303           | \$ 23,716           | \$ 76,019           |
| Other liabilities                     | 2,059,730           | 109,384             | 2,169,114           |
| Total liabilities                     | 2,112,033           | 133,100             | 2,245,133           |
| <b>Net Assets</b>                     | <u>16,981,229</u>   | <u>15,253,974</u>   | <u>32,235,203</u>   |
| Total liabilities and net assets      | <u>\$19,093,262</u> | <u>\$15,387,074</u> | <u>\$34,480,336</u> |

MASSACHUSETTS GROWTH CAPITAL CORPORATION  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011  
(Continued)

DRAFT

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

**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 Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments*. GASB Statement No. 34 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 GASB Statement No. 34 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 GASB Statement No. 34, organizations like MGCC can use standards applicable to proprietary fund accounting, and are not required to follow the provisions of governmental fund accounting.

Pursuant to GASB Statement No. 20, *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 pronouncements.

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.

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 and 2011, is \$55,765 and \$83,523, respectively, of cash held by another component unit of the Commonwealth incident to the formation of MGCC as described on page 10.

Restricted Cash

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

Advertising Costs

MGCC expenses advertising costs as they are incurred.

MASSACHUSETTS GROWTH CAPITAL CORPORATION  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011  
(Continued)

DRAFT

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

**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Revenue Recognition

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

Property and Equipment and Depreciation

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

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

Estimates

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

Classification of Net Assets

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). Total funds earned to date were \$4,644,024. The net asset balance was \$4,778,174 as of June 30, 2012.

**Federal Title IX Revolving Loan Fund #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 asset balance was \$613,639 and \$1,120,299 as of June 30, 2012 and 2011, respectively.

**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. In December, 2011, MGCC received final approval to transfer the EDA RLF grants to MGCC. The net asset balance was \$753,756 and \$709,191 as of June 30, 2012 and 2011, respectively.

MASSACHUSETTS GROWTH CAPITAL CORPORATION  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011  
(Continued)

DRAFT

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classification of Net Assets (Continued)

**Restricted by Enabling Legislation** - The remaining net assets are deemed restricted in accordance with GASB for purposes included within Chapter 40W, MGCC's enabling legislation. The net asset balance was \$39,414,260 and \$43,398,666 as of June 30, 2012 and 2011, respectively.

Subsequent Events

Subsequent events have been evaluated through October 4, 2012, which is the date the general purpose financial statements were available to be issued. See Note 6 and Note 9 for subsequent event disclosures.

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.

Income Taxes

MGCC follows the *Accounting for Uncertainty in Income Taxes* standard, which requires MGCC to report uncertain tax positions, related interest and penalties, and to adjust its assets and liabilities related to unrecognized tax benefits and accrued interest and penalties accordingly. As of June 30, 2012 and 2011, MGCC determined that there are no material unrecognized tax benefits to report. MGCC does not expect that the amounts of unrecognized tax benefits will change significantly within the next twelve months.

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, 2012 and 2011, MGCC had two and one outstanding guarantees with a value of \$1,450,000 and \$250,000, respectively. These guarantees will expire at various times through June, 2013.

Massachusetts Municipal Depository Trust Investments

MGCC holds investments in the Massachusetts Municipal Depository Trust (MMDT) in the amount of \$6,543,645 and \$6,275,130 at June 30, 2012 and 2011, 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.

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**  
(Continued)

DRAFT

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

**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Massachusetts Municipal Depository Trust Investments (Continued)

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>Cash Portfolio</b>                  |              |               |                |
|---|--|--------------|---------------|----------------|
|   | <b>Investment Maturities (in Days)</b> |              |               |                |
|   | <u>0-30</u>                            | <u>31-90</u> | <u>91-180</u> | <u>181-397</u> |
| <b><u>2012</u></b>                              |  |              |               |                |
| Repurchase agreements                           | 18.7%                                  | 0.7%         | 0.2%          | - %            |
| Certificates of deposit                         | 5.0%                                   | 16.4%        | 9.5%          | 4.0%           |
| Commercial paper                                | 7.8%                                   | 10.9%        | 6.5%          | - %            |
| Medium term and other notes                     | - %                                    | - %          | - %           | 3.2%           |
| US Government and Government Agency Obligations | 4.2%                                   | 0.2%         | 0.3%          | 0.7%           |
| US Treasury Obligations                         | 1.3%                                   | 1.6%         | 4.9%          | 3.9%           |
| Other assets and liabilities, net               | - %                                    | - %          | - %           | - %            |

|   | <b>Cash Portfolio</b>                  |              |               |                |
|---|--|--------------|---------------|----------------|
|   | <b>Investment Maturities (in Days)</b> |              |               |                |
|   | <u>0-30</u>                            | <u>31-90</u> | <u>91-180</u> | <u>181-397</u> |
| <b><u>2011</u></b>                                |  |              |               |                |
| Repurchase agreements                             | 20.9%                                  | 1.4%         | 0.3%          | - %            |
| Certificates of deposit                           | 10.7%                                  | 19.5%        | 8.8%          | 10.0%          |
| Commercial paper                                  | 5.8%                                   | 5.2%         | 3.9%          | 0.7%           |
| Medium term notes                                 | 0.2%                                   | - %          | - %           | 4.9%           |
| U.S. Government and Government Agency Obligations | - %                                    | 0.3%         | - %           | - %            |
| U.S. Treasury Obligations                         | - %                                    | 0.7%         | 4.2%          | 1.2%           |
| Other assets and liabilities, net                 | 0.7%                                   | - %          | - %           | 0.6%           |

**(2) PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30:

|                                 | <b><u>2012</u></b> | <b><u>2011</u></b> |
|---------------------------------|--------------------|--------------------|
| Furniture and equipment         | \$152,752          | \$147,516          |
| Leasehold improvements          | <u>10,326</u>      | <u>10,326</u>      |
|                                 | 163,078            | 157,842            |
| Less - accumulated depreciation | <u>131,684</u>     | <u>105,140</u>     |
| Net property and equipment      | <u>\$ 31,394</u>   | <u>\$ 52,702</u>   |

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**  
(Continued)

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**(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 of 10% and a maximum 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 the company can maximize any traditional financing alternatives.

There were 115 and 92 loans receivable outstanding at June 30, 2012 and 2011, respectively. Loans receivable are stated net of allowance for losses as follows at June 30:

|   | <u>2012</u>         | <u>2011</u>         |
|---|---------------------|---------------------|
| Principal outstanding                         | \$26,417,678        | \$24,202,223        |
| Less - allowance for loan losses (see Note 4) | <u>(5,942,248)</u>  | <u>(3,145,822)</u>  |
| Loans receivable, net                         | <u>\$20,475,430</u> | <u>\$21,056,401</u> |

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

|      |             |
|------|-------------|
| 2013 | \$5,444,330 |
| 2014 | \$5,560,255 |
| 2015 | \$4,741,327 |
| 2016 | \$2,918,846 |
| 2017 | \$1,106,607 |

**(4) ALLOWANCES FOR LOSSES**

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

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

|                              | <u>2012</u>        |                  | <u>2011</u>         |                  |
|------------------------------|--------------------|------------------|---------------------|------------------|
|                              | <u>Loans</u>       | <u>Interest</u>  | <u>Loans</u>        | <u>Interest</u>  |
| Balance, beginning of period | \$3,145,822        | \$161,012        | \$ 2,554,338        | \$199,939        |
| Net provision for losses     | 3,475,574          | 165,350          | 1,612,314           | 20,985           |
| Write-offs                   | <u>(679,148)</u>   | <u>(87,530)</u>  | <u>(1,020,830)</u>  | <u>(59,912)</u>  |
| Balance, end of period       | <u>\$5,942,248</u> | <u>\$238,832</u> | <u>\$ 3,145,822</u> | <u>\$161,012</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.

MASSACHUSETTS GROWTH CAPITAL CORPORATION  
 NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
 JUNE 30, 2012 AND 2011  
 (Continued)

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

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 year ended June 30, 2012, and the period ended June 30, 2011, were \$175,122 and \$116,969, 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 assets as a liability. The performance of these entities could adversely affect the ability of MGCC to recover the committed investment. At June 30, 2012 and 2011, MGCC had commitments to lend of approximately \$4.1 million and \$2.9 million, respectively (see Note 3).

MGCC had commitments for guarantees of approximately \$200,000 and \$1 million at June 30, 2012 and 2011, respectively (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 commencing on October 1, 2012. As part of this lease agreement, MGCC's existing lease was extended through September 30, 2012, at the same monthly rent of \$8,817, while their new space is renovated. The lease requires MGCC to maintain certain insurance coverage, and pay for its proportionate share of real estate taxes and operating expenses. Monthly rent payments under this agreement range from \$13,445 to \$15,946, beginning January, 2013. Rent expense was \$107,600 and \$79,353 for the year ended June 30, 2012, and the period ended June 30, 2011, 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><br><u>June 30,</u> |           |
|---------------------------------------|-----------|
| 2013                                  | \$ 82,791 |
| 2014                                  | \$166,964 |
| 2015                                  | \$174,468 |
| 2016                                  | \$181,972 |
| 2017                                  | \$189,476 |
| 2018                                  | \$ 47,838 |

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**  
(Continued)

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(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, 2012 and 2011, MGCC's exposure for uninsured funds was approximately \$22,433,000 and \$25,006,000, 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 ESCROWS**

Surety Bond Guarantee

MGCC administered a Surety Bond Guarantee Program in accordance with Chapter 30, Section 38 of the Acts of 2009. MGCC was allowed to retain the interest earned on the funds. For the period ended June 30, 2011, MGCC earned interest of \$4,166 and administrative fee revenue of \$60,000. Unexpended funds under this program were repayable to the Commonwealth as of June 30, 2011, and accordingly, was presented as a liability in the accompanying 2011 statement of net assets and totaled \$1,937,681. During fiscal year 2012, the remaining balance of \$1,937,681 of the Surety Bond Guarantee Program was transferred to the Technical Assistance, Capacity Building and Educational Program described below.

Technical Assistance, Capacity Building and Educational

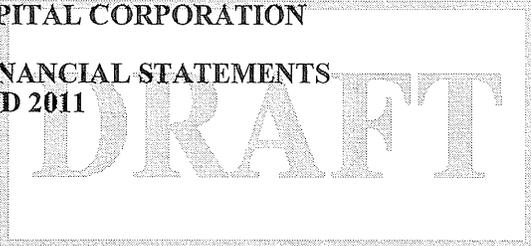
In April, 2012, MGCC entered into an agreement with the Executive Office of Administration and Finance (A & F) to manage a Technical Assistance, Capacity Building and Educational Program using the funds remaining from the Surety Bond Guarantee Program. This program is targeted to minority and women construction 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 2012 statement of net assets and totaled \$1,692,895.

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

(9) **NOTE PAYABLE**

Note payable consists of a U.S. Small Business Administration (SBA) loan for the purpose of funding the SBA micro-loan program. The loan accrues 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 and 2011). This note is secured by the micro-loans and matures in August, 2013. The note payable balance as of June 30, 2012 and 2011, was \$41,959 and \$80,718, respectively. Interest expense was \$1,269 and \$908 for the year ended June 30, 2012, and the period ended June 30, 2011. MGCC paid the remaining principal balance of the note subsequent to June 30, 2012.

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**  
 (Continued)



**(10) ADVANCES AND OTHER ESCROWS**

Advances and other escrows consist of the following at June 30:

|  | <u>2012</u>      | <u>2011</u>      |
|--|------------------|------------------|
| Collateral for financing arrangements:     |                  |                  |
| Greener Group                              | \$190,693        | \$190,252        |
| DKA Realty, Inc.                           | <u>20,949</u>    | <u>20,835</u>    |
| Total advances                             | <u>211,642</u>   | <u>211,087</u>   |
| Other:                                     |                  |                  |
| Massachusetts Bay Transportation Authority | -                | 74,846           |
| Massachusetts Port Authority               | <u>-</u>         | <u>6,287</u>     |
| Total other escrows                        | <u>-</u>         | <u>81,133</u>    |
| Total                                      | <u>\$211,642</u> | <u>\$292,220</u> |

**(11) CONDITIONAL GRANT**

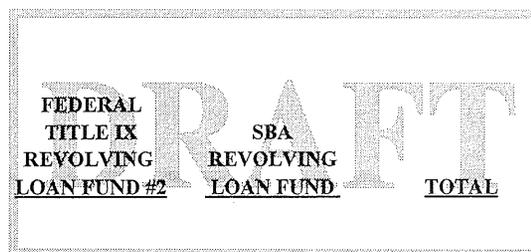
The Commonwealth has awarded MGCC a \$13,932,072 grant, of which \$4,664,024 was earned for the year ended June 30, 2012. At June 30, 2012, MGCC has only received \$3,483,018 of the amount earned, and accordingly, \$1,161,006 is included in accounts receivable in the accompanying statement of net assets. The balance of the grant of \$9,288,048 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, 2012.

**(12) RECLASSIFICATION**

Certain amounts in the 2011 general purpose financial statements have been reclassified to conform with the 2012 presentation.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

SUPPLEMENTAL STATEMENT OF NET ASSETS  
JUNE 30, 2012

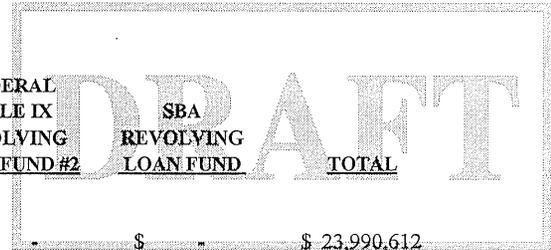


| <u>ASSETS</u>   | <u>MGCC</u>          | <u>STATE SMALL<br/>BUSINESS CREDIT<br/>INITIATIVE</u> | <u>FEDERAL<br/>TITLE IX<br/>REVOLVING<br/>LOAN FUND #1</u> | <u>FEDERAL<br/>TITLE IX<br/>REVOLVING<br/>LOAN FUND #2</u> | <u>SBA<br/>REVOLVING<br/>LOAN FUND</u> | <u>TOTAL</u>         |
|---|----------------------|---|--|--|--|----------------------|
| <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               |
| 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 | 11,770,368           | 2,397,117   | 821,266  | 1,249,068  | 17,899                                 | 16,255,718           |
| <b>PROPERTY AND EQUIPMENT</b> , net   | 31,394               | -   | -  | -  | -                                      | 31,394               |
| Total assets  | <u>\$ 39,844,872</u> | <u>\$ 5,146,155</u>                                   | <u>\$ 1,056,181</u>  | <u>\$ 1,517,887</u>  | <u>\$ 80,275</u>                       | <u>\$ 47,645,370</u> |
| <b><u>LIABILITIES AND NET ASSETS</u></b>  |                      |   |  |  |  |                      |
| <b>CURRENT LIABILITIES:</b>   |                      |   |  |  |  |                      |
| Current portion of note payable   | \$ -                 | \$ -  | \$ -   | \$ -   | \$ 41,959                              | \$ 41,959            |
| Accounts payable and accrued expenses   | 150,110              | -   | -  | -  | -                                      | 150,110              |
| Interfund (receivable) payable  | (1,624,035)          | 367,981   | 442,542  | 764,131  | 49,381                                 | -                    |
| Advances and other escrows  | 211,642              | -   | -  | -  | -                                      | 211,642              |
| Special program escrow liability  | 1,692,895            | -   | -  | -  | -                                      | 1,692,895            |
| Total current liabilities   | 430,612              | 367,981   | 442,542  | 764,131  | 91,340                                 | 2,096,606            |
| <b>NET ASSETS:</b>  |                      |   |  |  |  |                      |
| Restricted - State Small Business Credit Initiative   | -                    | 4,778,174   | -  | -  | -                                      | 4,778,174            |
| Restricted - Federal Title IX RLF   | -                    | -   | 613,639  | 753,756  | -                                      | 1,367,395            |
| Restricted by enabling legislation  | 39,414,260           | -   | -  | -  | (11,065)                               | 39,403,195           |
| Total net assets  | 39,414,260           | 4,778,174   | 613,639  | 753,756  | (11,065)                               | 45,548,764           |
| Total liabilities and net assets  | <u>\$ 39,844,872</u> | <u>\$ 5,146,155</u>                                   | <u>\$ 1,056,181</u>  | <u>\$ 1,517,887</u>  | <u>\$ 80,275</u>                       | <u>\$ 47,645,370</u> |

MASSACHUSETTS GROWTH CAPITAL CORPORATION

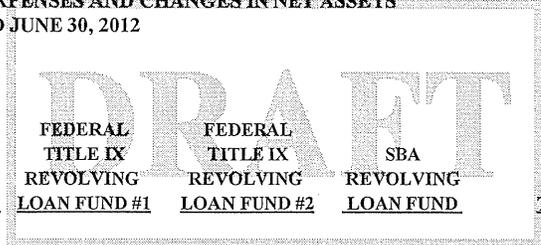
SUPPLEMENTAL STATEMENT OF NET ASSETS  
JUNE 30, 2011

| <u>ASSETS</u>   | <u>MGCC</u>          | <u>FEDERAL<br/>TITLE IX<br/>REVOLVING<br/>LOAN FUND #1</u> | <u>FEDERAL<br/>TITLE IX<br/>REVOLVING<br/>LOAN FUND #2</u> | <u>SBA<br/>REVOLVING<br/>LOAN FUND</u> | <u>TOTAL</u>         |
|---|----------------------|--|--|--|----------------------|
| <b>CURRENT ASSETS:</b>  |                      |  |  |  |                      |
| Cash and cash equivalents   | \$ 23,990,612        | \$ -   | \$ -   | \$ -                                   | \$ 23,990,612        |
| Restricted cash   | 2,127,933            | 2,000  | 1,132  | 83,523                                 | 2,214,588            |
| Accounts receivable   | 114,394              | 1,350  | 1,375  | -                                      | 117,119              |
| Current portion of loans receivable, net of allowance for uncollectible loans of approximately \$931,000            | 3,591,928            | 615,038  | 381,273  | 5,631                                  | 4,593,870            |
| Accrued interest receivable on loans, net of allowance for uncollectible amounts of approximately \$161,000         | 132,221              | 27,396   | 41,461   | 190                                    | 201,268              |
| Prepaid expenses and other  | 33,600               | -  | -  | -                                      | 33,600               |
| Total current assets  | 29,990,688           | 645,784  | 425,241  | 89,344                                 | 31,151,057           |
| <b>LOANS RECEIVABLE</b> , net of current portion and allowance for uncollectible loans of approximately \$2,215,000 | 14,341,573           | 1,361,789  | 734,011  | 25,158                                 | 16,462,531           |
| <b>PROPERTY AND EQUIPMENT</b> , net   | 52,702               | -  | -  | -                                      | 52,702               |
| Total assets  | <u>\$ 44,384,963</u> | <u>\$ 2,007,573</u>  | <u>\$ 1,159,252</u>  | <u>\$ 114,502</u>                      | <u>\$ 47,666,290</u> |
| <b><u>LIABILITIES AND NET ASSETS</u></b>  |                      |  |  |  |                      |
| <b>CURRENT LIABILITIES:</b>   |                      |  |  |  |                      |
| Current portion of note payable   | \$ -                 | \$ -   | \$ -   | \$ 38,400                              | \$ 38,400            |
| Accounts payable and accrued expenses   | 127,515              | -  | -  | -                                      | 127,515              |
| Interfund (receivable) payable  | (1,382,801)          | 887,274  | 450,061  | 45,466                                 | -                    |
| Advances and other escrows  | 292,220              | -  | -  | -                                      | 292,220              |
| Special program escrow liability  | 1,937,681            | -  | -  | -                                      | 1,937,681            |
| Total current liabilities   | 974,615              | 887,274  | 450,061  | 83,866                                 | 2,395,816            |
| <b>NOTE PAYABLE</b> , net of current portion  | -                    | -  | -  | 42,318                                 | 42,318               |
| Total liabilities   | 974,615              | 887,274  | 450,061  | 126,184                                | 2,438,134            |
| <b>NET ASSETS:</b>  |                      |  |  |  |                      |
| Restricted - Federal Title IX RLF   | -                    | 1,120,299  | 709,191  | -                                      | 1,829,490            |
| Restricted by enabling legislation  | 43,410,348           | -  | -  | (11,682)                               | 43,398,666           |
| Total net assets  | 43,410,348           | 1,120,299  | 709,191  | (11,682)                               | 45,228,156           |
| Total liabilities and net assets  | <u>\$ 44,384,963</u> | <u>\$ 2,007,573</u>  | <u>\$ 1,159,252</u>  | <u>\$ 114,502</u>                      | <u>\$ 47,666,290</u> |



MASSACHUSETTS GROWTH CAPITAL CORPORATION

SUPPLEMENTAL STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2012



|   | <u>MGCC</u>          | <u>STATE SMALL<br/>BUSINESS CREDIT<br/>INITIATIVE</u> | <u>FEDERAL<br/>TITLE IX<br/>REVOLVING<br/>LOAN FUND #1</u> | <u>FEDERAL<br/>TITLE IX<br/>REVOLVING<br/>LOAN FUND #2</u> | <u>SBA<br/>REVOLVING<br/>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              |
| Information technology  | 24,993               | -   | 2,129  | 1,842  | -                                      | 28,964               |
| Depreciation  | 23,456               | -   | 1,661  | 1,427  | -                                      | 26,544               |
| Other expenses  | 17,713               | -   | 1,188  | 954  | 107                                    | 19,962               |
| Travel  | 15,239               | -   | 1,077  | 903  | -                                      | 17,219               |
| Telephone   | 14,577               | -   | 1,053  | 872  | 104                                    | 16,606               |
| Printing and postage  | 11,797               | -   | 870  | 733  | -                                      | 13,400               |
| Advertising   | 11,256               | -   | 1,063  | 808  | -                                      | 13,127               |
| Supplies  | 11,201               | -   | 853  | 717  | -                                      | 12,771               |
| Insurance   | 10,842               | -   | 792  | 651  | -                                      | 12,285               |
| Meetings  | 9,476                | -   | 580  | 499  | -                                      | 10,555               |
| Maintenance and repair  | 7,303                | -   | 578  | 482  | -                                      | 8,363                |
| Dues and memberships  | 6,137                | -   | 439  | 380  | -                                      | 6,956                |
| Credit reports  | 1,491                | -   | 125  | 100  | -                                      | 1,716                |
| 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>     |
| Total operating expenses before<br>loan loss provision              |                      |   |  |  |  |                      |
| Changes in net assets from operations<br>before loan loss provision | 162,476              | 134,150   | 5,787  | 114,552  | 543                                    | 417,508              |
| <b>LOAN LOSS PROVISION</b>  | <u>(3,058,564)</u>   | <u>-</u>  | <u>(512,447)</u>   | <u>(69,987)</u>  | <u>74</u>                              | <u>(3,640,924)</u>   |
| Changes in net assets from operations                               | <u>(2,896,088)</u>   | <u>134,150</u>  | <u>(506,660)</u>   | <u>44,565</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   | <u>(1,100,000)</u>   | <u>-</u>  | <u>-</u>   | <u>-</u>   | <u>-</u>                               | <u>(1,100,000)</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 assets   | <u>(3,996,088)</u>   | <u>4,778,174</u>                                      | <u>(506,660)</u>   | <u>44,565</u>  | <u>617</u>                             | <u>320,608</u>       |
| <b>NET ASSETS, 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 ASSETS, June 30, 2012</b>                                    | <u>\$ 39,414,260</u> | <u>\$ 4,778,174</u>                                   | <u>\$ 613,639</u>  | <u>\$ 753,756</u>  | <u>\$ (11,065)</u>                     | <u>\$ 45,548,764</u> |

MASSACHUSETTS GROWTH CAPITAL CORPORATION

SUPPLEMENTAL STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE PERIOD OCTOBER 1, 2010 (INCEPTION) THROUGH JUNE 30, 2011

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|   | <u>MGCC</u>          | <u>FEDERAL<br/>TITLE IX<br/>REVOLVING<br/>LOAN FUND #1</u> | <u>FEDERAL<br/>TITLE IX<br/>REVOLVING<br/>LOAN FUND #2</u> | <u>SBA<br/>REVOLVING<br/>LOAN FUND</u> | <u>TOTAL</u>         |
|---|----------------------|--|--|--|----------------------|
| <b>OPERATING REVENUES:</b>  |                      |  |  |  |                      |
| Interest income on loans  | \$ 1,364,330         | \$ 157,888   | \$ 126,870   | \$ 1,982                               | \$ 1,651,070         |
| Management and other fees   | 264,012              | -  | -  | -                                      | 264,012              |
| Interest income on cash reserves                                    | 85,313               | 26,800   | 22,675   | -                                      | 134,788              |
| Other revenue   | 10,400               | 2,880  | -  | -                                      | 13,280               |
| Total operating revenues  | <u>1,724,055</u>     | <u>187,568</u>   | <u>149,545</u>   | <u>1,982</u>                           | <u>2,063,150</u>     |
| <b>OPERATING EXPENSES:</b>  |                      |  |  |  |                      |
| Employee compensation   | 1,210,063            | 95,839   | 85,130   | -                                      | 1,391,032            |
| Professional fees   | 130,295              | 6,425  | 3,992  | -                                      | 140,712              |
| Occupancy   | 57,995               | 11,584   | 9,774  | -                                      | 79,353               |
| Information technology  | 27,131               | 4,083  | 3,461  | -                                      | 34,675               |
| Depreciation  | 22,899               | 913  | 568  | -                                      | 24,380               |
| Other expenses  | 38,834               | 1,438  | 3,296  | (21)                                   | 43,547               |
| Travel  | 10,910               | 1,825  | 1,559  | -                                      | 14,294               |
| Telephone   | 26,491               | 3,854  | 2,582  | -                                      | 32,927               |
| Printing and postage  | 7,721                | 938  | 582  | -                                      | 9,241                |
| Advertising   | 7,586                | 1,312  | 1,302  | -                                      | 10,200               |
| Supplies  | 10,033               | 1,470  | 913  | -                                      | 12,416               |
| Insurance   | 9,350                | 1,323  | 821  | -                                      | 11,494               |
| Meetings  | 9,567                | 249  | 155  | -                                      | 9,971                |
| Maintenance and repair  | 8,109                | 868  | 539  | -                                      | 9,516                |
| Dues and memberships  | 4,112                | 860  | 534  | -                                      | 5,506                |
| Credit reports  | 5,179                | 954  | 593  | -                                      | 6,726                |
| Interest  | -                    | -  | -  | 908                                    | 908                  |
| Total operating expenses before<br>loan loss provision              | <u>1,586,275</u>     | <u>133,935</u>   | <u>115,801</u>   | <u>887</u>                             | <u>1,836,898</u>     |
| Changes in net assets from operations<br>before loan loss provision | 137,780              | 53,633   | 33,744   | 1,095                                  | 226,252              |
| <b>LOAN LOSS PROVISION</b>  | <u>(807,328)</u>     | <u>(395,271)</u>   | <u>(432,825)</u>   | <u>2,125</u>                           | <u>(1,633,299)</u>   |
| Changes in net assets from operations                               | <u>(669,548)</u>     | <u>(341,638)</u>   | <u>(399,081)</u>   | <u>3,220</u>                           | <u>(1,407,047)</u>   |
| <b>NON-OPERATING REVENUE (EXPENSE):</b>                             |                      |  |  |  |                      |
| State appropriations  | 15,000,000           | -  | -  | -                                      | 15,000,000           |
| Grant expense   | (600,000)            | -  | -  | -                                      | (600,000)            |
| Total non-operating revenue (expense)                               | <u>14,400,000</u>    | <u>-</u>   | <u>-</u>   | <u>-</u>                               | <u>14,400,000</u>    |
| Changes in net assets   | 13,730,452           | (341,638)  | (399,081)  | 3,220                                  | 12,992,953           |
| <b>NET ASSETS, October 1, 2010 (Inception)</b>                      |                      |  |  |  |                      |
| Capital transfers pursuant to enabling legislation                  | <u>29,679,896</u>    | <u>1,461,937</u>   | <u>1,108,272</u>   | <u>(14,902)</u>                        | <u>32,235,203</u>    |
| <b>NET ASSETS, June 30, 2011</b>                                    | <u>\$ 43,410,348</u> | <u>\$ 1,120,299</u>  | <u>\$ 709,191</u>  | <u>\$ (11,682)</u>                     | <u>\$ 45,228,156</u> |

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**  
**SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2012**

DRAFT

| <b>FEDERAL GRANTOR/<br/>PASS-THROUGH GRANTOR/<br/>PROGRAM TITLE</b> | <b>FEDERAL<br/>CFDA<br/>NUMBER</b> | <b>AGENCY OR<br/>PASS-THROUGH<br/>NUMBER</b> | <b>FEDERAL<br/>EXPENDITURES</b> |
|---|------------------------------------|--|---------------------------------|
| <b><u>U.S. Department of Commerce</u></b>                           |                                    |  |                                 |
| Direct Funding:   |                                    |  |                                 |
| Economic Adjustment Assistance                                      | 11.307                             | N/A  | \$3,230,192                     |
| <b><u>U.S. Small Business Administration</u></b>                    |                                    |  |                                 |
| Direct Funding:   |                                    |  |                                 |
| Secondary Market Lending Authority                                  | 59.056                             | N/A  | <u>80,718</u>                   |
| <b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>                         |                                    |  | <b><u>\$3,310,910</u></b>       |

**NOTE 1. BASIS OF PRESENTATION**

The accompanying Supplementary 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 United States 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 \$3,580,000 were outstanding at June 30, 2012.

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. One micro-loan was outstanding at June 30, 2012.



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

To the Board of Directors of  
Massachusetts Growth Capital Corporation:

We have audited the general purpose financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of Massachusetts Growth Capital Corporation (a component unit of the Commonwealth of Massachusetts) (MGCC), as of and for the year ended June 30, 2012, which collectively comprise MGCC's general purpose financial statements and have issued our report thereon dated October 4, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of MGCC is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered MGCC's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MGCC's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether MGCC's general purpose financial statements are free of 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 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*.

We noted certain matters that we reported to management of MGCC in a separate letter dated October 4, 2012.

This report is intended solely for the information and use of the Board of Directors, management, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wellesley, Massachusetts  
October 4, 2012

**DRAFT**

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD  
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

**Independent Auditor's Report**

To the Board of Directors of  
Massachusetts Growth Capital Corporation:

**Compliance**

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, 2012. MGCC's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major Federal program is the responsibility of MGCC's management. Our responsibility is to express an opinion on MGCC's compliance based on our audit.

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. Our audit does not provide a legal determination of MGCC's compliance with those requirements.

In our opinion, MGCC complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended June 30, 2012.

**Internal Control Over Compliance**

Management of MGCC is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered MGCC's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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**Internal Control Over Compliance (Continued)**

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wellesley, Massachusetts  
October 4, 2012

MASSACHUSETTS GROWTH CAPITAL CORPORATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2012

DRAFT

I. SUMMARY OF AUDITOR'S RESULTS

General Purpose Financial Statements

An unqualified opinion was issued on the general purpose financial statements of the auditee.

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

An unqualified opinion was issued on compliance for major programs.

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, 2012

(Continued)

DRAFT

II. FINANCIAL STATEMENT FINDINGS IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS

None

III. FINDINGS AND QUESTIONS COSTS FOR FEDERAL AWARDS

None