



**GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

# MASSACHUSETTS GROWTH CAPITAL CORPORATION

Contents  
June 30, 2020 and 2019

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## Independent Auditor's Report

To the Board of Directors of  
Massachusetts Growth Capital Corporation:

### **Report on the General Purpose Financial Statements**

We have audited the accompanying general purpose financial statements of Massachusetts Growth Capital Corporation (a component unit of the Commonwealth of Massachusetts) which comprise the statements of net position as of June 30, 2020 and 2019, and the related statements of revenues and expenses, changes in net position and cash flows for the years then ended, and the related notes to the general purpose financial statements.

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

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinion***

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the net position of Massachusetts Growth Capital Corporation as of June 30, 2020 and 2019, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 2 through 6 be presented to supplement the general purpose financial statements. Such information, although not a part of the general purpose financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the general purpose financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the general purpose financial statements, and other knowledge we obtained during our audit of the general purpose financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the general purpose financial statements as a whole. The accompanying supplemental information on pages 22 and 23 for the year ended June 30, 2020, is presented for purposes of additional analysis 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 additional 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 information is fairly stated in all material respects in relation to the general purpose financial statements as a whole.

*AAFCPA, Inc.*

Boston, Massachusetts  
October 8, 2020

## MASSACHUSETTS GROWTH CAPITAL CORPORATION

Management's Discussion and Analysis  
June 30, 2020 and 2019

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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, 2020. Please read it in conjunction with MGCC's general purpose financial statements, which begin on page 7.

### Basic General Purpose Financial Statements

The financial activities for the year ended June 30, 2020, are included in a series of general purpose financial statements. In accordance with the Governmental Accounting Standards Board standard, *Basic Financial Statement – Management's Discussion and Analysis for State and Local Governments*, MGCC is considered a quasi-public entity that engages in only business-type activities. In accordance with this standard, MGCC issues a Statement of Net Position, a Statement of Revenues and Expenses, a Statement of Changes in Net Position, and a Statement of Cash Flows. These statements provide information about the financial activities of MGCC as a whole. Combining schedules showing the consolidation of specific restricted funds are included as supplemental information, presented on pages 22 and 23.

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 financing for small businesses, including woman and minority-owned businesses and community development efforts. The purpose of MGCC is to create and preserve jobs and promote economic development, especially in underserved, gateway municipalities, and low and moderate-income communities.

By the terms of its enabling legislation, MGCC is governed by a twelve member Board of Directors. The Board is chaired by the Secretary of Housing and Economic Development, with the Secretary of Administration and Finance (A&F) as a director, along with ten other persons appointed by the Governor. Ten members have been appointed and confirmed as of the date of this report, there are two members whose terms have expired and we are awaiting re-appointment.

MGCC operates on a June 30 fiscal year basis.

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

The Statement of Net Position and the Statement of Revenues and Expenses include all assets, liabilities, revenues 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, revenues and expenses are recognized when earned or incurred regardless of when the cash is paid or received. Additionally, these statements report changes in MGCC's net position. MGCC's net position, difference between assets and liabilities, represents one way to measure MGCC's financial health or its financial position. You will also need to consider other non-financial factors when considering the overall financial health of MGCC.

The Supplemental Statement of Revenues, Expenses and Changes in Net Position shown within this report accounts 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 the Emerging Technology Fund administered by Mass Development. Capital also included accumulated net resources from MCDFC and EST transferred on October 1, 2010. These funds are restricted for the general purposes of MGCC as outlined in its enabling legislation.

## MASSACHUSETTS GROWTH CAPITAL CORPORATION

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

Transfer funding from the former EST included:

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

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

**State Small Business Credit Initiative:** In 2010, the "*Small Business Jobs Act of 2010*" created the State Small Business Credit Initiative (SSBCI) and appropriated \$1.5 billion. Massachusetts' allocation was approximately \$22 million, of which approximately \$14 million was allocated for MGCC. MGCC has matched the principal of loans made with SSBCI capital on a 50/50 basis.

**COVID-19 Recovery Loan Fund:** During fiscal year 2020, MGCC provided a \$20,000,000 emergency loan fund with loans up to \$75,000 to Massachusetts small businesses impacted by COVID-19. This fund was capitalized with \$10,000,000 from MGCC and a \$10,000,000 loan from Massachusetts Development Finance Agency (MDFA). These are three-year loans, with no payments for six months followed by thirty months of principal and interest, with an interest rate of 3%.

**Small Business Administration (SBA):** MGCC has entered into a contract with U.S. Small Business Administration on April 13, 2017, acting as its intermediary microloan lender and has committed funding up to \$350,000. The program is for loans under \$50,000 to small business in Massachusetts. As of June 30, 2020, MGCC has fully drawn the \$350,000. Currently there are eight microloan borrowers with a total outstanding loan balance of \$200,132. Total earned interest was \$14,294. On October 29, 2019, MGCC received an additional \$350,000 contract for additional microloans. As of June 30, 2020, there have been no drawdowns on the additional contract.

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

MGCC received a \$3,000,000 grant for Technical Assistance and Training for fiscal year 2020. MGCC issued \$2,992,771 in grants. MGCC continued to absorb the administrative and marketing expenses totaling approximately \$150,000 associated with this program.

MGCC has additional lending capacity through a line of credit that is maintained with East Boston Savings Bank for borrowings up to \$10,000,000.

### Condensed Financial Information

**Assets total \$53,821,812. The major components are:**

**Cash and Cash Equivalents - Restricted:** MGCC began the fiscal year with a total of \$29,330,473 in cash. At June 30, 2020, cash totaled \$20,563,182. The net decrease of \$8,767,291 was primarily due to funding \$20,000,000 of COVID-19 recovery loans, net of \$10,000,000 received from Massachusetts Development Finance Agency. Other factors affecting cash balances included net repayments exceeding new loans funded and an increase in early payoffs.

## MASSACHUSETTS GROWTH CAPITAL CORPORATION

Management's Discussion and Analysis  
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### Condensed Financial Information (Continued)

**Loans Receivable:** Loans receivable at June 30, 2020, totaled \$37,427,586, a net increase of \$14,984,228 from the previous year's \$22,443,358. MGCC disbursed \$5,190,009 in new loans and advances \$522,899 within its existing loan portfolio and disbursed \$20,000,000 in COVID-19 recovery loans. During the fiscal year, MGCC received \$7,518,165 in principal payments, including early payoffs of \$3,767,094, and closed thirteen loans totaling \$5,190,009. The average closed loan amount in the current fiscal year was \$399,000 compared to \$277,000 in the previous year. Total COVID-19 recovery loan repayments were received from seven borrowers totaling \$342,126 for the year ended June 30, 2020.

In the prior fiscal year, principal payments totaled \$8,691,064, including early payoffs of \$3,140,553 and closed seventeen loans totaling \$4,714,329.

The loan loss reserve increased to \$4,744,515 or 12.7% of loans receivable from \$3,933,178 or 17.5%, due to the continued monitoring of the portfolio and its risk. Ratings are reviewed quarterly and appropriate reserves established based on a risk rating matrix and understanding of collateral. Write offs for the current fiscal year of principal and interest were \$2,982,651. The increase in write-offs in fiscal year 2020 is due to several companies that ceased operations over the last eighteen months and repayment of further principal or interest is unlikely. For the most part, all collateral liquidations and collection efforts have been exhausted and it is felt that writing off the balances is prudent at this time.

### Liabilities total \$10,422,521. The major components are:

**Massachusetts Development Finance Agency (MDFA):** The contract commenced on March 10, 2020, with a \$10,000,000 Small Business Recovery Loan Fund (the "COVID-19 Recovery Loan Fund") from MDFA to provide emergency capital up to \$75,000 to Massachusetts-based businesses impacted by COVID-19 with under fifty full- and part-time employees, including nonprofits. The purpose of the program is consistent with MDFA's core mission of job creation and economic development and due a pressing need to provide additional funding to this sector of the economy on an expedited basis in order to save jobs and prevent small businesses from closing their doors entirely. MGCC contributed an additional \$10,000,000. Together, a total of \$20,000,000 is administered as a single fund. MGCC has the responsibility to review loan applications, underwrite, close and service these loans. Both parties have equal rights to the repayments of principal and interest received on loans made from the COVID-19 Recovery Loan Fund. MGCC will provide MDFA with a quarterly report on the loans made from the COVID-19 Recovery Loan Fund. Starting January 15, 2021 MGCC will wire MDFA's fifty percent share of the repayments of principal and interest to MDFA on a quarterly basis. As of June 30, 2020, the outstanding balance on this loan was \$10,000,000.

**SBA Note Payable:** The contract commenced on April 13, 2017, with a loan from U.S. Small Business Administration for \$350,000. As of June 30, 2020, MGCC has drawn the entire loan amount of \$350,000. MGCC is required to match 15% of the amount drawn and keep it in a separate bank account as Loan Loss Reserve Fund. MGCC started paying back since May 2018. Outstanding balance due to SBA as of June 30, 2020, was \$284,910.

**Accounts Payable, Accrued Expenses and Other:** Accounts payable, accrued expenses and other liabilities at June 30, 2020, totaled \$137,611 compared to \$108,248 for the prior year. The increase of \$29,363 was due to a net increase in accrued wages of \$10,408, accrued vacation of \$16,050 and other accrued expenses of \$2,905.

## MASSACHUSETTS GROWTH CAPITAL CORPORATION

Management's Discussion and Analysis  
June 30, 2020 and 2019

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### Condensed Financial Information (Continued)

**Revenues:** Operating revenues for 2020 totaled \$2,105,654 compared to \$2,603,368 for the prior year, a decrease of \$497,714. The major components of the overall decrease are a decrease of interest income on loan of \$541,715, offset with an increase of loan fee income of \$35,028 and an increase of investment income of \$8,973. Loan loss recovery decreased by \$371,692 from \$514,604 in 2019 to \$142,912 in 2020.

**Expenses:** Expenses for the year ended June 30, 2020, totaled \$3,032,042 compared to \$2,936,654 for the prior year, an increase of \$95,388. Employee compensation, recruitment, other expenses and occupancy increased by \$126,970 and were offset by decreases in professional fees, dues & membership and interest expense.

**Operating Loss:** Net loss from operations before loan loss recovery was \$926,388 for 2020 and \$333,286 for 2019, respectively.

MGCC had an increase in the loan loss reserve of \$811,337 in 2020 compared to \$154,343 in 2019 and an increase in write offs from \$237,995 in 2019 to \$2,982,651 in 2020.

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

Revenues ended the year less than the budget by a net of \$744,145. Portfolio income and loan fee income was off budget by \$740,490 and \$77,134, respectively, due to timing of loan closings and significantly lower loan volume. However, this was offset by an increase in investment income of \$73,480 and portfolio recoveries totaling \$142,912.

Our overall loan portfolio ended the year at \$37,427,586. If not for the additional \$19,657,874 COVID-19 Recovery Loan Fund, there was a net decrease of \$4,673,647 from last year's ending balance of \$22,443,358. The lower outstanding were due to lower than anticipated loan volume due to the competitive lending environment and the pandemic, and MGCC having two fewer loan officers for the majority of the year.

Operating expenses were higher than budget by \$99,773. This was principally due to recruiting expense and expenses related to the dealing with the pandemic.

### Subsequent Events

MGCC has been awarded two contracts. The first is to administer a microbusiness grant program for twenty-three towns in Massachusetts, with the lead town being Ashland. The total amount of the award is \$4,950,000, allocated to the towns by the individual amount they applied for. These are grants to businesses with fewer than five employees of up to \$10,000 each. MGCC will get a 12%, \$596,000 administrative fee to administer the program.

MGCC was awarded an EDA RLF for \$4,147,000 with \$3,770,000 for loan funds and \$377,000 in administrative money to run the fund.

MGCC has been awarded \$10,800,000 from the Department of Housing and Community Development (DHCD) to administer a microbusiness grant program, awarding grants up to \$10,000 to Massachusetts businesses with five or fewer employees. MGCC will received 7.5% or \$810,000 to administer the program.

Additionally, MGCC has been awarded \$10,000,000 from the Commonwealth of Massachusetts to administer a grant program for businesses with fifty or fewer employees, with grants up to \$50,000. MGCC will receive 5% or \$500,000 to administer the program.

## MASSACHUSETTS GROWTH CAPITAL CORPORATION

Management's Discussion and Analysis  
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### **Fiscal Year 2021 Outlook**

The last quarter of 2020 was a challenge for MGCC with the negative impacts of the COVID-19 pandemic and its impacts on small businesses. We assisted our portfolio companies by forgiving a month of interest totaling approximately \$145,000 and deferring all payments of principal and interest for three months. Additionally, we closed 328 COVID-19 Recovery Loans totaling \$19,657,874 (net of repayments) to small businesses in the Commonwealth to assist them through the effects of the pandemic.

We see the first half of 2021 as a continued challenge as we navigate the lingering effects of the pandemic. We see a changing landscape in commercial bank lending as credit will likely tighten in the coming months and lending will slow. A tightening of credit standards coupled with the impacts of the pandemic will create financing gap opportunities for MGCC.

MGCC has a grant pipeline to administer several programs to assist small businesses in the Commonwealth with grants. These grants will target women, minority and veteran-owned companies and those that did not receive any federal assistance. These grants have administrative monies associate with them to administer the programs.

MGCC will continue to concentrate on assisting women, minority owned companies and companies located in Gateway Cities. We will increase our contacts with our existing and new partners to expand access to capital and expand our reach.

Overall, we expect that fiscal year 2021 will be a challenging yet successful year for MGCC. We will continue to fulfill our mission and assist small business with both grants and lending.

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**Statements of Net Position  
June 30, 2020 and 2019

| <b>Assets</b>   | <b>2020</b>          | <b>2019</b>          |
|---|----------------------|----------------------|
| Current Assets:   |                      |                      |
| Cash and cash equivalents - restricted  | \$ 20,563,182        | \$ 29,330,473        |
| Accounts receivable   | 6,354                | 12,354               |
| Current portion of loans receivable, net of allowance for uncollectible loans of approximately \$1,548,000 and \$877,000 at June 30, 2020 and 2019, respectively    | 9,125,679            | 4,036,522            |
| Accrued interest receivable on loans, net of allowance for uncollectible amounts of approximately \$67,000 and \$57,000 at June 30, 2020 and 2019, respectively     | 448,889              | 346,371              |
| Prepaid expenses and other  | 90,270               | 77,574               |
| Total current assets  | 30,234,374           | 33,803,294           |
| Loans Receivable, net of current portion and allowance for uncollectible loans of approximately \$3,196,000 and \$3,056,000 at June 30, 2020 and 2019, respectively | 23,557,392           | 14,473,658           |
| Capital Assets, net   | 30,046               | 34,282               |
| Total assets  | <u>\$ 53,821,812</u> | <u>\$ 48,311,234</u> |
| <b>Liabilities and Net Position</b>   |                      |                      |
| Current Liabilities:  |                      |                      |
| Accounts payable, accrued expenses and other  | \$ 137,611           | \$ 108,248           |
| Current portion of notes payable  | 2,660,597            | 31,357               |
| Total current liabilities   | 2,798,208            | 139,605              |
| Notes Payable, net of current portion   | 7,624,313            | 192,102              |
| Total liabilities   | <u>10,422,521</u>    | <u>331,707</u>       |
| Net Position:   |                      |                      |
| Restricted - State Small Business Credit Initiative   | 14,718,423           | 14,755,164           |
| Restricted - Federal Title IX RLF   | 3,798,727            | 3,980,044            |
| Restricted - SBA Revolving Loan Fund  | (4,661)              | 8,617                |
| Restricted - COVID-19 Recovery Loan Fund  | (1,474,341)          | -                    |
| Restricted by enabling legislation  | 26,361,143           | 29,235,702           |
| Total net position  | <u>43,399,291</u>    | <u>47,979,527</u>    |
| Total liabilities and net position  | <u>\$ 53,821,812</u> | <u>\$ 48,311,234</u> |

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**

Statements of Revenues and Expenses  
For the Years Ended June 30, 2020 and 2019

|  | <u>2020</u>           | <u>2019</u>         |
|--|-----------------------|---------------------|
| <b>Operating Revenues:</b>   |                       |                     |
| Interest income on loans   | \$ 1,525,188          | \$ 2,066,903        |
| Interest income on cash reserves   | 403,649               | 394,676             |
| Loan origination fees and other  | 176,817               | 141,789             |
|  | <u>2,105,654</u>      | <u>2,603,368</u>    |
| <b>Operating Expenses:</b>   |                       |                     |
| Employee compensation  | 2,297,859             | 2,231,120           |
| Professional fees  | 232,529               | 267,247             |
| Occupancy  | 212,397               | 204,030             |
| Information technology   | 39,904                | 30,529              |
| Supplies   | 33,994                | 25,595              |
| Recruitment  | 30,000                | -                   |
| Dues and memberships   | 25,625                | 35,250              |
| Other expenses   | 23,875                | 18,011              |
| Depreciation   | 23,429                | 20,890              |
| Meetings   | 20,255                | 21,284              |
| Insurance  | 20,058                | 17,799              |
| Portfolio and credit administration  | 19,593                | 5,654               |
| Printing and postage   | 14,995                | 14,940              |
| Telephone  | 14,739                | 13,262              |
| Travel   | 12,402                | 10,282              |
| Advertising  | 5,495                 | 5,700               |
| Maintenance and repair   | 3,057                 | 4,309               |
| Interest expense   | 1,836                 | 10,752              |
|  | <u>3,032,042</u>      | <u>2,936,654</u>    |
| Changes in net position from operations<br>before loan loss recovery (provision) | (926,388)             | (333,286)           |
| <b>Loan Loss Recovery</b>  | 142,912               | 514,604             |
| <b>Loan Loss Provision</b>   | <u>(3,803,989)</u>    | <u>(417,338)</u>    |
| Changes in net position from operations  | <u>(4,587,465)</u>    | <u>(236,020)</u>    |
| <b>Non-Operating Revenue (Expense):</b>  |                       |                     |
| State appropriations   | 3,000,000             | 2,650,000           |
| Grant expense  | <u>(2,992,771)</u>    | <u>(2,644,999)</u>  |
| Total non-operating revenue (expense)  | <u>7,229</u>          | <u>5,001</u>        |
| Changes in net position  | <u>\$ (4,580,236)</u> | <u>\$ (231,019)</u> |

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

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**MASSACHUSETTS GROWTH CAPITAL CORPORATION**

Statements of Changes in Net Position  
For the Years Ended June 30, 2020 and 2019

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|                                     |                      |
|-------------------------------------|----------------------|
| <b>Net Position</b> , June 30, 2018 | \$ 48,210,546        |
| Changes in net position             | <u>(231,019)</u>     |
| <b>Net Position</b> , June 30, 2019 | 47,979,527           |
| Changes in net position             | <u>(4,580,236)</u>   |
| <b>Net Position</b> , June 30, 2020 | <u>\$ 43,399,291</u> |

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**

Statements of Cash Flows  
For the Years Ended June 30, 2020 and 2019

|   | <u>2020</u>           | <u>2019</u>          |
|---|-----------------------|----------------------|
| <b>Cash Flows from Operating Activities:</b>  |                       |                      |
| Receipts of interest income   | \$ 1,702,056          | \$ 2,442,637         |
| Receipts of loan origination and other fees   | 182,817               | 146,266              |
| Employee compensation   | (2,271,457)           | (2,207,619)          |
| Payments for supplies and services  | (720,489)             | (716,425)            |
|   | <u>(1,107,073)</u>    | <u>(335,141)</u>     |
| Net cash used in operating activities before<br>state appropriation and grant expense         |                       |                      |
|   | (1,107,073)           | (335,141)            |
| State appropriation   | 3,000,000             | 2,650,000            |
| Grant expense   | (2,992,771)           | (2,644,999)          |
|   | <u>(1,099,844)</u>    | <u>(330,140)</u>     |
| Net cash used in operating activities   |                       |                      |
|   | <u>(1,099,844)</u>    | <u>(330,140)</u>     |
| <b>Cash Flows from Investing Activities:</b>  |                       |                      |
| Loans disbursed   | (25,370,782)          | (5,125,801)          |
| Loan recoveries   | 142,912               | 514,604              |
| Proceeds from loan repayments   | 7,518,165             | 8,691,064            |
| Acquisition of property and equipment   | (19,193)              | -                    |
|   | <u>(17,728,898)</u>   | <u>4,079,867</u>     |
| Net cash provided by (used in) investing activities   |                       |                      |
|   | <u>(17,728,898)</u>   | <u>4,079,867</u>     |
| <b>Cash Flow from Financing Activities:</b>   |                       |                      |
| Proceeds from notes payable   | 10,100,000            | 100,000              |
| Payments on notes payable   | (38,549)              | (1,022,872)          |
|   | <u>10,061,451</u>     | <u>(922,872)</u>     |
| Net cash provided by (used in) financing activities   |                       |                      |
|   | <u>10,061,451</u>     | <u>(922,872)</u>     |
| <b>Net Change in Cash and Cash Equivalents - Restricted</b>                                   | <b>(8,767,291)</b>    | <b>2,826,855</b>     |
| <b>Cash and Cash Equivalents - Restricted:</b>  |                       |                      |
| Beginning of year   | <u>29,330,473</u>     | <u>26,503,618</u>    |
| End of year   | <u>\$ 20,563,182</u>  | <u>\$ 29,330,473</u> |
| <b>Cash Flows from Operating Activities:</b>  |                       |                      |
| Changes in net position   | \$ (4,580,236)        | \$ (231,019)         |
| Adjustments to reconcile changes in net position to net cash<br>used in operating activities: |                       |                      |
| Depreciation  | 23,429                | 20,890               |
| Loan loss recovery  | (142,912)             | (514,604)            |
| Loan loss provision   | 3,803,989             | 417,338              |
| Changes in operating assets and liabilities:  |                       |                      |
| Accounts receivable   | 6,000                 | 4,477                |
| Accrued interest receivable   | (226,781)             | (18,942)             |
| Prepaid expenses and other  | (12,696)              | (13,154)             |
| Accounts payable, accrued expenses and other  | 29,363                | 4,874                |
|   | <u>29,363</u>         | <u>4,874</u>         |
| Net cash used in operating activities   | <u>\$ (1,099,844)</u> | <u>\$ (330,140)</u>  |

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

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## MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements  
June 30, 2020 and 2019

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### 1. OPERATIONS AND NONPROFIT STATUS

Massachusetts Growth Capital Corporation (MGCC) is a component unit of the Commonwealth of Massachusetts (the Commonwealth) formed on October 1, 2010, under Chapter 40W of the Massachusetts General Laws. Chapter 40W effectively merged two pre-existing entities, Massachusetts Community Development Finance Corporation (MCDFC) and Economic Stabilization Trust Fund (EST). MGCC is exempt from Federal and state income taxes. The purpose of the legislation was to expand upon the success and the mission of the predecessor entities and to recapitalize the new organization. MGCC functions as a one-stop resource for debt 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.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation – GASB Standards

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

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

#### Cash and Cash Equivalents - Restricted

For the purpose of the statements of cash flows, cash and cash equivalents - restricted consist of checking, money market, savings accounts and amounts held in the Massachusetts Municipal Depository Trust (MMDT) cash portfolio (see Note 3). Cash and cash equivalents - restricted includes amounts restricted for certain lending and grant programs, loan matching requirements and loan commitments and holdbacks.

The MMDT cash portfolio is not registered with the Securities and Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner as a qualifying external investment pool as defined by GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The MMDT cash portfolio adheres to GASB Statement 79 (GASB 79), *Certain External Investment Pools and Pool Participants*, which amends Statement 31 and establishes accounting and financial reporting standards for state and local governments that participate in a qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost.

## MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements  
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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Cash and Cash Equivalents - Restricted (Continued)

Under the amortized cost valuation method, an investment is valued initially at its cost and thereafter adjusted for the amount of interest income accrued each day over the term of the investment to account for any difference between the initial cost of the investment and the amount payable at its maturity.

#### Loans Receivable and Allowance for Uncollectible Loans

Loans receivable are stated net of an allowance for uncollectible loans (see Notes 5 and 6). Interest on loans is calculated by using the simple interest method on monthly balances of the principal amount outstanding. The allowance for uncollectible loans and interest 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.

#### Guarantees

Guarantees are accrued for when the loss is probable.

#### Capital Assets and Depreciation

Purchased capital assets are comprised of furniture and equipment and 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 estimated useful lives of three to seven years.

#### Classification of Net Position

MGCC's financial resources are restricted as follows:

**State Small Business Credit Initiative** - The fund was capitalized in fiscal year 2012 with funds received from the Commonwealth. MGCC has received funding totaling \$14,002,536. MGCC has matched the principal of loans made with this capital on a 50/50 basis. The net position balance was \$14,718,423 and \$14,755,164 as of June 30, 2020 and 2019, respectively.

**Federal Title IX Revolving Loan Fund (RLF) #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. The net position balance was \$1,544,725 and \$1,598,694 as of June 30, 2020 and 2019, respectively.

**Federal Title IX Revolving Loan Fund (RLF) #2** - The fund was capitalized in fiscal year 1998 with a \$2,000,000 grant from EDA. Additionally, a contractual match of \$667,000 was initially provided by the former EST, for a total capitalization of \$2,667,000. The net position balance was \$2,254,002 and \$2,381,350 as of June 30, 2020 and 2019, respectively.

## MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements  
June 30, 2020 and 2019

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Classification of Net Position (Continued)

**Small Business Administration (SBA)** - MGCC has entered into a contract with the U.S. Small Business Administration on April 13, 2017, acting as its intermediary microloan lender and has committed funding up to \$350,000. The program is for loans under \$50,000 to small business in Massachusetts (see Note 5). As of June 30, 2020 and 2019, MGCC has drawn \$350,000 and \$250,000, respectively. In October 2019, MGCC received an additional \$350,000 contract from SBA for microloans, however, no amounts were drawn as of June 30, 2020. As of June 30, 2020 and 2019, there were eight and six microloan borrowers with a total outstanding loan balance of \$200,132 and \$169,931, respectively. The net position balance was \$(4,661) and \$8,617 as of June 30, 2020 and 2019, respectively.

**COVID-19 Recovery Loan Fund** - During fiscal year 2020, MGCC provided a \$20,000,000 emergency loan fund with loans up to \$75,000 to Massachusetts small businesses impacted by COVID-19. This fund was capitalized with \$10,000,000 from MGCC and a \$10,000,000 loan from Massachusetts Development Finance Agency (MDFA). These are three-year loans, with no payments for six months followed by thirty months of principal and interest, with an interest rate of 3% (see Notes 5 and 11). The net position balance was \$(1,474,341) as of June 30, 2020.

**Restricted by Enabling Legislation** - The remaining net position is deemed restricted in accordance with GASB for purposes included within Massachusetts General Laws Chapter 40W, MGCC's enabling legislation. The net position balance was \$26,361,143 and \$29,235,702 as of June 30, 2020 and 2019, respectively.

#### Revenue Recognition

Revenues from interest on loans and on cash and other sources are recorded as earned on the accrual basis of accounting. During fiscal year 2020, MGCC forgave a month of interest totaling approximately \$145,000, which has been netted against interest income on loans on the accompanying 2020 statement of revenues and expenses. Loan loss recoveries are recorded in the year of recovery when cash has been received or collection is assured. Loan origination fees, although usually reported as revenue over the duration of the loan, are reported as revenue upon close of the loan for MGCC given loans are historically paid off earlier than their maturity date. All other revenue is recorded as earned.

#### Advertising Costs

MGCC expenses advertising costs as they are incurred.

#### Grant Expense and State Appropriations

Grant expense consists of competitive grants given to nonprofit providers of technical assistance for micro and small businesses throughout Massachusetts. These grants were funded through grants of \$3,000,000 and \$2,000,000 from the Commonwealth during fiscal years 2020 and 2019, respectively, and is included in state appropriations in the accompanying statements of revenues and expenses. During fiscal year 2019, MGCC also received \$650,000 of bond proceeds that were passed through to a quasi-public corporation to provide grants to small businesses as part of the Small Business Innovation Research Program.

## MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements  
June 30, 2020 and 2019

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Statements of Revenues and Expenses

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating revenues and operating expenses in the accompanying statements of revenues and expenses. Non-operating revenue (expense) includes state appropriations revenue and related grant expense.

#### 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.

#### Fair Value Measurements

MGCC follows the accounting and disclosure standards pertaining to GASB 72, *Fair Value Measurement and Application*, for qualifying assets and liabilities. Fair value is defined as the price that MGCC would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

MGCC uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of MGCC. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

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

#### Subsequent Events

Subsequent events have been evaluated through October 8, 2020, which is the date the general purpose financial statements were available to be issued. See Note 12 for events that met the criteria for disclosure.

## MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements  
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### 3. MASSACHUSETTS MUNICIPAL DEPOSITORY TRUST INVESTMENTS

MGCC holds investments in MMDT in the amount of \$2,537,738 and \$2,495,784 at June 30, 2020 and 2019, 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 these investments are considered to be cash and restricted cash equivalents.

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

| <b>Securities with an<br/>Effective Maturity of:</b> | <b>Percentage of<br/>Total Net Position</b> |               |
|--|---|---------------|
|  | <b>2020</b>                                 | <b>2019</b>   |
| 1 - 30 Days  | 55.0%                                       | 74.1%         |
| 31 - 90 Days   | 23.2  | 18.3          |
| 91 - 180 Days  | 17.5  | 4.6           |
| 181 - Days or more                                   | 4.3   | 3.0           |
| Total  | <u>100.0%</u>                               | <u>100.0%</u> |

The MMDT cash portfolio may only invest in securities rated in the highest rating category (if rated) or evaluated by the portfolio's investment adviser to be of equivalent credit quality (if unrated) and bank deposits meeting the portfolio credit quality requirements of GASB 79. Investments that were permissible at the time acquired may continue to be held to the extent consistent with GASB 79.

Securities rated in the highest short-term rating category (and unrated securities of comparable quality) are identified as First Tier securities. Securities rated in the second highest short-term rating category (and unrated securities of comparable quality) are identified as Second Tier securities. The MMDT cash portfolio follows applicable regulations in determining whether a security is rated and whether a security rated by multiple nationally recognized statistical rating organizations in different rating categories should be identified as a First or Second Tier security.

Credit ratings for the securities in the cash portfolio are shown in the table below based on total market value as of June 30:

|      | <b>Cash Portfolio Quality<br/>Diversification</b> |                    |
|------|---|--------------------|
|      | <b>First Tier</b>                                 | <b>Second Tier</b> |
| 2020 | 100.0%  | - %                |
| 2019 | 100.0%  | - %                |

## MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements  
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### 4. CAPITAL ASSETS

Capital assets are comprised of furniture and equipment and consist of the following:

|                          | <u>Balance<br/>June 30,<br/>2018</u> | <u>2019<br/>Additions</u> | <u>Balance<br/>June 30,<br/>2019</u> | <u>2020<br/>Additions</u> | <u>Balance<br/>June 30,<br/>2020</u> |
|--------------------------|--------------------------------------|---------------------------|--------------------------------------|---------------------------|--------------------------------------|
| Cost                     | \$ 120,864                           | \$ -                      | \$ 120,864                           | \$ 19,193                 | \$ 140,057                           |
| Accumulated depreciation | <u>65,692</u>                        | <u>20,890</u>             | <u>86,582</u>                        | <u>23,429</u>             | <u>110,011</u>                       |
| Capital assets, net      | <u>\$ 55,172</u>                     | <u>\$ (20,890)</u>        | <u>\$ 34,282</u>                     | <u>\$ (4,236)</u>         | <u>\$ 30,046</u>                     |

### 5. 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 primarily makes loans of \$100,000 to \$1,000,000 for working capital, capital equipment and acquisition costs. Standard terms for these loans include interest at the *Wall Street Journal's* prime rate plus 5%, with a floor of 10%. The loans include both variable and fixed rate simple interest loans with typically up to five year maturities. The loans are also primarily secured by subordinated liens on assets ensuring that MGCC can maximize any traditional financing alternatives. MGCC also operates an emergency loan program to help businesses with the harsh weather conditions and other emergency situations. Emergency loans are made between \$5,000 and \$50,000, with a 3%-5% interest rate and a three-year maturity date. MGCC also offers loans to small businesses up to \$50,000, based on funding received from SBA (see Notes 2 and 11). Loans were made between \$10,000 and \$50,000, with a 7.5% interest rate and up to a six-year maturity. MGCC implemented a new program called Real Estate Enhancement Financing (REEF). These loans are provided to aid the purchase or refinancing of owner-occupied commercial real estate. These are targeted towards small businesses based in Massachusetts and MGCC provides five-year term loans at a rate of 2% plus the bank rate, amortized to match the banks amortization (typically 20-25 years).

During fiscal year 2020, received \$10,000,000 in funding from the Massachusetts Development Finance Agency (MDFA) to provide emergency capital of up to \$75,000 to Massachusetts based businesses impacted by COVID-19. These funds are matched by MGCC, creating a \$20,000,000 COVID-19 Recovery Loan Fund. These are three-year loans that bear interest at 3% (see Note 11). MGCC and MDFA each bear the risk of loss of 50% of total portfolio losses. Accordingly, 50% of COVID-19 Recover Loan Fund write-offs will ultimately reduce the required repayment of the note payable to MDFA. The allowance for uncollectible loans associated with the COVID-19 Recovery Loan Fund relates only to MGCC's share of the fund.

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**

Notes to General Purpose Financial Statements  
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**5. LOANS RECEIVABLE (Continued)**

Loans receivable are stated net of allowance for loan losses as follows at June 30:

|   | <u>2020</u> |                      | <u>2019</u> |                      |
|---|-------------|----------------------|-------------|----------------------|
| Principal outstanding:                                    |             |                      |             |                      |
| COVID-19 Recovery loans                                   | 328         | \$ 19,657,874        | -           | \$ -                 |
| All other loans   | <u>81</u>   | <u>17,769,712</u>    | <u>101</u>  | <u>22,443,358</u>    |
| Total principal   | <u>409</u>  | <u>37,427,586</u>    | <u>101</u>  | <u>22,443,358</u>    |
| Less - allowance for uncollectible loans<br>(see Note 6): |             |                      |             |                      |
| All other loans   |             | 3,270,174            |             | 3,933,178            |
| COVID-19 Recovery loans                                   |             | <u>1,474,341</u>     |             | -                    |
| Total allowance for uncollectible loans                   |             | <u>4,744,515</u>     |             | <u>3,933,178</u>     |
| Loans receivable, net                                     |             | <u>\$ 32,683,071</u> |             | <u>\$ 18,510,180</u> |

Future payments of principal of loans receivable are due as follows:

|            |               |
|------------|---------------|
| 2021       | \$ 10,673,695 |
| 2022       | \$ 10,081,367 |
| 2023       | \$ 9,229,163  |
| 2024       | \$ 3,580,996  |
| 2025       | \$ 1,293,445  |
| Thereafter | \$ 2,568,920  |

**6. ALLOWANCE FOR UNCOLLECTIBLE LOANS**

MGCC provides an allowance for expected loan and interest losses (see Notes 2 and 5). The allowance is based on MGCC's loan rating policy, which is updated periodically for changes related to individual loans receivable. The loan and interest loss allowance consists of the following as of June 30:

|                            | <u>2020</u>         |                  | <u>2019</u>         |                  |
|----------------------------|---------------------|------------------|---------------------|------------------|
|                            | <u>Loans</u>        | <u>Interest</u>  | <u>Loans</u>        | <u>Interest</u>  |
| Balance, beginning of year | \$ 3,933,178        | \$ 57,074        | \$ 3,778,835        | \$ 67,480        |
| Net provision for losses   | 3,679,726           | 124,263          | 392,338             | 25,000           |
| Write-offs                 | <u>(2,868,389)</u>  | <u>(114,262)</u> | <u>(237,995)</u>    | <u>(35,406)</u>  |
| Balance, end of year       | <u>\$ 4,744,515</u> | <u>\$ 67,075</u> | <u>\$ 3,933,178</u> | <u>\$ 57,074</u> |

MGCC writes off loan balances when amounts are determined to be uncollectible. In the above write-offs, loan balances from fourteen and two companies are included in the fiscal year 2020 and 2019 amounts, respectively. The increase in write-offs in fiscal year 2020 is due to several companies that ceased operations over the last eighteen months and repayment of further principal or interest is unlikely. For the most part, all collateral liquidations and collection efforts have been exhausted and it is felt that writing off the balances is prudent at this time.

## MASSACHUSETTS GROWTH CAPITAL CORPORATION

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### 7. DEFERRED COMPENSATION AND RETIREMENT PLANS

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

MGCC maintains an additional social security replacement plan for employees. This plan is eligible to all employees upon commencement of employment. MGCC makes monthly contributions equal to 11.2% of each participant's monthly compensation from inception of employment. Employees are immediately vested in the plan upon commencement of employment. Contributions made for the years ended June 30, 2020 and 2019, were \$200,127 and \$187,143, respectively, and are included in employee compensation in the accompanying statements of revenues and expenses.

### 8. COMMITMENTS AND OFF-BALANCE SHEET RISK

#### Lending and Guarantees

Commitments to originate loans are agreements to lend money, provided that there are no violations of any conditions established in the agreements. MGCC evaluates each request for financing on a case-by-case basis, including, but not limited to, eligibility as established by Chapter 40W of the Massachusetts General Laws, credit worthiness, collateral obtained, and any other prevailing economic factors. Once these commitments are made, MGCC is also subject to a degree of off-balance sheet risk, as MGCC has committed funds to an entity and such commitment is not recorded on the statements of net position as a liability. The performance of these entities could adversely affect the ability of MGCC to recover the committed investment. At June 30, 2020 and 2019, MGCC had commitments to lend of approximately \$1.1 million and \$6 million, respectively.

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, 2020 and 2019, MGCC had one and three outstanding guarantees with total value of \$1,000,000 and \$1,350,000, respectively. The remaining guarantee expires on July 1, 2021.

#### Facility Lease

MGCC leases office space in Charlestown, Massachusetts under a six-year lease agreement through August 2022. The lease requires MGCC to maintain certain insurance coverage and to pay for its proportionate share of real estate taxes and operating expenses. Monthly rent payments under the agreement range from \$13,785 to \$17,569 over the lease period.

MGCC has a tenant-at-will agreement with the Worcester Regional Chamber of Commerce. Monthly rent payments under this lease agreement for 2020 and 2019 were \$200.

Rent expense under these agreements was \$209,165 and \$200,300 for the years ended June 30, 2020, and 2019, respectively, and is included in occupancy in the accompanying statements of revenues and expenses.

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

|      |            |
|------|------------|
| 2021 | \$ 203,259 |
| 2022 | \$ 209,746 |
| 2023 | \$ 35,138  |

## MASSACHUSETTS GROWTH CAPITAL CORPORATION

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### 9. CONCENTRATION OF CREDIT RISK

MGCC maintains its cash and cash equivalents balances in a bank in Massachusetts and is insured within the limits of the Federal Deposit Insurance Corporation (FDIC) and the Depositors Insurance Fund (DIF). In addition, cash and cash equivalents included in MMDT (see Note 2) are not FDIC or DIF insured. At certain times, these cash balances exceeded the insured amounts. MGCC also holds funds in a bank that is insured under the FDIC limits, but not insured under DIF. As of June 30, 2020 and 2019, MGCC's exposure for uninsured funds was approximately \$3,333,000 and \$3,281,000, 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.

### 10. LINE OF CREDIT

MGCC maintains a revolving line of credit agreement with a bank for borrowings up to \$10 million. Borrowings under the agreement are due on demand and interest is payable monthly at the bank's base lending rate (3.25% and 5.50% at June 30, 2020 and 2019, respectively). The line of credit agreement matures on December 31, 2020. The line of credit is secured by substantially all assets. As of June 30, 2020 and 2019, there were no outstanding balances under this agreement. MGCC must meet certain covenants as specified in the agreement. MGCC was in compliance with these covenants at June 30, 2020 and 2019.

### 11. NOTES PAYABLE

MGCC received a \$10,000,000, interest free, note from the Massachusetts Development Finance Agency (MDFA) on March 27, 2020. Proceeds from this loan were used to provide emergency capital of up to \$75,000 to Massachusetts based businesses impacted by COVID-19 at an interest rate of 3% and a maturity of three-years (see Note 5). This note is payable in quarterly installments based on remittance of loan principal payments beginning in January 2021. COVID-19 Recovery Loan Fund balances deemed uncollectible by MGCC and MDFA will be applied against and reduce the loan balance due to MDFA by 50% of the loan fund write-offs.

MGCC entered into a three-year, \$1,000,000, interest free, contract loan with Massachusetts Housing Finance Agency (MHFA) on January 29, 2016. Proceeds from this loan provide MGCC capital for loans to minority and/or women-owned construction contractors. This loan was paid in full during fiscal year 2019.

MGCC was approved as a Small Business Administration (SBA) Statewide Microlender in the spring of 2017, and was awarded a \$350,000 loan to provide funding for loans less than \$50,000. There were no principal or interest payments required through April 2018. During fiscal years 2020 and 2019, MGCC drew down \$100,000 of loan proceeds each year. Beginning in May 2018, principal and interest payments totaling \$1,906 are due monthly, with the remaining balance of the loan due upon maturity, in April 2027. Interest accrues at either a rate of 0.625% or 1.875% based on the average size of microloans disbursed, re-evaluated annually in April (0.625% at June 30, 2020 and 2019). This note is secured by all amounts held in the SBA fund. As of June 30, 2020 and 2019, the outstanding principal balance was \$284,910 and \$223,459, respectively.

During October 2020, MGCC was awarded another \$350,000 loan from SBA to provide funding for loans less than \$50,000. During the first twelve months there is no principal or interest due. Interest accrues at either a rate of 0.50% or 1.75% based on the average size of microloans disbursed, re-evaluated annually. This note is secured by all amounts held in the SBA fund. As of June 30, 2020, MGCC has not drawn down any of these funds.

## MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements  
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### 11. NOTES PAYABLE (Continued)

Scheduled principal and estimated interest payments on the notes payable are shown below:

|            | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------|------------------|-----------------|--------------|
| 2021       | \$ 2,660,597     | \$ 1,750        | \$ 2,662,347 |
| 2022       | \$ 3,308,737     | \$ 1,547        | \$ 3,310,284 |
| 2023       | \$ 3,308,943     | \$ 1,341        | \$ 3,310,284 |
| 2024       | \$ 853,086       | \$ 1,135        | \$ 854,221   |
| 2025       | \$ 33,357        | \$ 927          | \$ 34,284    |
| Thereafter | \$ 120,190       | \$ 1,118        | \$ 121,308   |

### 12. SUBSEQUENT EVENTS

During fiscal year 2021, MGCC was awarded rights to administer a microbusiness grant program for 23 towns in Massachusetts, with the lead town being Ashland. The total amount of the award is \$4,950,000, allocated to each town based on the amount applied for. These are grants up to \$10,000 each to businesses with fewer than five employees. MGCC will get a 12% administrative fee of \$596,000 to administer the program.

During fiscal year 2021, MGCC was awarded additional EDA funds of \$4,147,000, with \$3,770,000 for loan funds and \$377,000 in administrative money to run the fund.

During fiscal year 2021, MGCC was awarded \$10,800,000 from the Department of Housing and Community Development (DHCD) to administer a microbusiness grant program, awarding grants up to \$10,000 to Massachusetts businesses with five or fewer employees. MGCC will received 7.5% or \$810,000 to administer the program.

During fiscal year 2021, MGCC was awarded \$10,000,000 from the Commonwealth of Massachusetts to administer a grant program for businesses with fifty or fewer employees, with grants up to \$50,000. MGCC will receive 5% or \$500,000 to administer the program.

### 13. RELATED PARTY TRANSACTIONS

A member of the Board of Directors is the President of a bank where MGCC holds a cash account.

During fiscal year 2020, a member of the Board of Directors received a \$75,000 COVID-19 Recovery Loan for a personal business.

### 14. OTHER CONTINGENCIES

MGCC, from time-to-time, is the defendant in lawsuits. It is management's experience that MGCC will prevail in these lawsuits. Accordingly, no amounts have been reflected in the accompanying general purpose financial statements for any potential liability resulting from these lawsuits.

## MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements  
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### 14. OTHER CONTINGENCIES (Continued)

#### Coronavirus

In March 2020, the COVID-19 coronavirus (COVID-19) pandemic emerged in the United States triggering widespread government mandated and voluntary business closures, which in turn have led to substantial interruptions in financial markets, employment and the economy as a whole. Though the potential financial effects cannot be reasonably estimated at this time, these circumstances may have adverse effects on MGCC, its operations and future general purpose financial statements.

Management of MGCC is monitoring these events closely to assess the financial impact of the situation and determine appropriate courses of action. As of the date of this report, MGCC is unable to accurately predict how COVID-19 will affect the results of its operations because the disease's severity and the duration of the outbreak are uncertain.

## MASSACHUSETTS GROWTH CAPITAL CORPORATION

### SUPPLEMENTAL INFORMATION JUNE 30, 2020

- Note 1:** The accompanying supplemental information summarizes the fund financial statements for certain funding sources at MGCC. Expenses presented within the supplemental statement of revenues, expenses and changes in net position include only expenses allowable by each funding source. Administrative expenses and certain overhead costs have not been allocated to reflect actual use. Accordingly, the total costs associated with managing each fund is not reflected in the supplemental statement of revenues, expenses and changes in net position.
- Note 2:** The SSCBCI fund financial statements include loan amounts matched 50/50 with funds from the MGCC general fund. Accordingly, the interest earned or loan loss provision (net of recoveries) on these loans are split 50/50 with the MGCC general fund. The amounts included on the transfer line items on the supplemental statement of revenues, expenses and changes in net position represent the transfer of interest and loan loss from SSBCI to the MGCC general fund, in accordance with the SSBCI agreement.
- Note 3:** The COVID-19 Recovery Loan fund financial statements includes amounts matched 50/50 from the MGCC general fund and financing provided by MDFA. Accordingly interest earned on these loans (beginning in fiscal year 2021) will be split with MGCC and MDFA. As both MGCC and MDFA bear the risk of loss of loans, any loan write-offs will be shared 50/50, with MDFA's portion reducing the note payable balance. The loan loss provision associated with this fund has been calculated solely on MGCC's portion of the fund.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Supplemental Statement of Net Position  
June 30, 2020

| <u>Assets</u>   | <u>MGCC</u>          | <u>COVID-19<br/>Recovery<br/>Loan<br/>Fund</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>Small<br/>Business<br/>Administration</u> | <u>Total</u>         |
|---|----------------------|--|---|--|--|--|----------------------|
| Current Assets:   |                      |  |   |  |  |  |                      |
| Cash and cash equivalents - restricted  | \$ 4,471,273         | \$ 342,126                                     | \$ 14,028,063   | \$ 1,092,013   | \$ 525,151   | \$ 104,556                                   | \$ 20,563,182        |
| Accounts receivable   | 1,279                | -  | -   | 1,125  | 3,875  | 75   | 6,354                |
| Current portion of loans receivable, net of allowance for uncollectible loans of approximately \$1,548,000  | 2,900,537            | 4,545,450                                      | 855,030   | 121,266  | 665,559  | 37,837                                       | 9,125,679            |
| Accrued interest receivable on loans, net of allowance for uncollectible amounts of approximately \$67,000  | 348,300              | -  | 33,618  | 17,294   | 48,219   | 1,458  | 448,889              |
| Prepaid expenses and other  | 90,270               | -  | -   | -  | -  | -  | 90,270               |
| Total current assets  | 7,811,659            | 4,887,576                                      | 14,916,711  | 1,231,698  | 1,242,804  | 143,926                                      | 30,234,374           |
| Loans Receivable, net of current portion and allowance for uncollectible loans of approximately \$3,196,000 | 7,993,682            | 13,638,083                                     | 465,079   | 313,027  | 1,011,198  | 136,323                                      | 23,557,392           |
| Capital Assets, net   | 30,046               | -  | -   | -  | -  | -  | 30,046               |
| Total assets  | <u>\$ 15,835,387</u> | <u>\$ 18,525,659</u>                           | <u>\$ 15,381,790</u>                                  | <u>\$ 1,544,725</u>  | <u>\$ 2,254,002</u>  | <u>\$ 280,249</u>                            | <u>\$ 53,821,812</u> |
| <b>Liabilities and Net Position</b>   |                      |  |   |  |  |  |                      |
| Current Liabilities:  |                      |  |   |  |  |  |                      |
| Accounts payable, accrued expenses and other  | \$ 137,611           | \$ -   | \$ -  | \$ -   | \$ -   | \$ -   | \$ 137,611           |
| Current portion of notes payable  | -                    | 2,628,063                                      | -   | -  | -  | 32,534                                       | 2,660,597            |
| Interfund (receivable) payable  | (10,663,367)         | 10,000,000                                     | 663,367   | -  | -  | -  | -                    |
| Total current liabilities   | (10,525,756)         | 12,628,063                                     | 663,367   | -  | -  | 32,534                                       | 2,798,208            |
| Notes Payable, net of current portion   | -                    | 7,371,937                                      | -   | -  | -  | 252,376                                      | 7,624,313            |
| Total liabilities   | (10,525,756)         | 20,000,000                                     | 663,367   | -  | -  | 284,910                                      | 10,422,521           |
| Net Position:   |                      |  |   |  |  |  |                      |
| Restricted - State Small Business Credit Initiative   | -                    | -  | 14,718,423  | -  | -  | -  | 14,718,423           |
| Restricted - Federal Title IX RLF   | -                    | -  | -   | 1,544,725  | 2,254,002  | -  | 3,798,727            |
| Restricted - SBA Revolving Loan Fund  | -                    | -  | -   | -  | -  | (4,661)                                      | (4,661)              |
| Restricted - COVID-19 Recovery Loan Fund  | -                    | (1,474,341)                                    | -   | -  | -  | -  | (1,474,341)          |
| Restricted by enabling legislation  | 26,361,143           | -  | -   | -  | -  | -  | 26,361,143           |
| Total net position  | 26,361,143           | (1,474,341)                                    | 14,718,423  | 1,544,725  | 2,254,002  | (4,661)                                      | 43,399,291           |
| Total liabilities and net position  | <u>\$ 15,835,387</u> | <u>\$ 18,525,659</u>                           | <u>\$ 15,381,790</u>                                  | <u>\$ 1,544,725</u>  | <u>\$ 2,254,002</u>  | <u>\$ 280,249</u>                            | <u>\$ 53,821,812</u> |

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**

 Supplemental Statement of Revenues, Expenses and Changes in Net Position  
 For the Year Ended June 30, 2020

|  | MGCC                 | COVID-19<br>Recovery<br>Loan<br>Fund | State Small<br>Business Credit<br>Initiative | Federal<br>Title IX<br>Revolving<br>Loan Fund #1 | Federal<br>Title IX<br>Revolving<br>Loan Fund #2 | Small<br>Business<br>Administration | Total                |
|--|----------------------|--------------------------------------|--|--|--|-------------------------------------|----------------------|
| <b>Operating Revenues:</b>   |                      |                                      |  |  |  |                                     |                      |
| Interest income on loans   | \$ 948,684           | \$ -                                 | \$ 308,033                                   | \$ 69,873  | \$ 184,304                                       | \$ 14,294                           | \$ 1,525,188         |
| Interest income on cash reserves   | 370,109              | -                                    | 28,716                                       | 2,539  | 2,124  | 161                                 | 403,649              |
| Loan origination fees and other  | 157,142              | -                                    | 2,150  | 775  | 4,600  | 12,150                              | 176,817              |
| Transfer of earnings   | 169,450              | -                                    | (169,450)                                    | -  | -  | -                                   | -                    |
| Total operating revenues   | <u>1,645,385</u>     | <u>-</u>                             | <u>169,449</u>                               | <u>73,187</u>                                    | <u>191,028</u>                                   | <u>26,605</u>                       | <u>2,105,654</u>     |
| <b>Operating Expenses:</b>   |                      |                                      |  |  |  |                                     |                      |
| Employee compensation  | 2,173,336            | -                                    | 61,685                                       | 18,589   | 32,174   | 12,075                              | 2,297,859            |
| Professional fees  | 170,100              | -                                    | 35,775                                       | 7,545  | 19,109   | -                                   | 232,529              |
| Occupancy  | 141,686              | -                                    | 45,480                                       | 6,878  | 18,353   | -                                   | 212,397              |
| Information technology   | 39,904               | -                                    | -  | -  | -  | -                                   | 39,904               |
| Supplies   | 33,994               | -                                    | -  | -  | -  | -                                   | 33,994               |
| Recruitment  | 30,000               | -                                    | -  | -  | -  | -                                   | 30,000               |
| Dues and memberships   | 25,625               | -                                    | -  | -  | -  | -                                   | 25,625               |
| Other expenses   | 23,292               | -                                    | 583  | -  | -  | -                                   | 23,875               |
| Depreciation   | 23,429               | -                                    | -  | -  | -  | -                                   | 23,429               |
| Meetings   | 20,255               | -                                    | -  | -  | -  | -                                   | 20,255               |
| Insurance  | 20,058               | -                                    | -  | -  | -  | -                                   | 20,058               |
| Portfolio and credit administration  | 19,593               | -                                    | -  | -  | -  | -                                   | 19,593               |
| Printing and postage   | 14,995               | -                                    | -  | -  | -  | -                                   | 14,995               |
| Telephone  | 14,739               | -                                    | -  | -  | -  | -                                   | 14,739               |
| Travel   | 11,045               | -                                    | -  | 398  | 959  | -                                   | 12,402               |
| Advertising  | 4,751                | -                                    | -  | 187  | 557  | -                                   | 5,495                |
| Maintenance and repair   | 3,057                | -                                    | -  | -  | -  | -                                   | 3,057                |
| Interest expense   | -                    | -                                    | -  | -  | -  | 1,836                               | 1,836                |
| Total operating expenses   | <u>2,769,859</u>     | <u>-</u>                             | <u>143,523</u>                               | <u>33,597</u>                                    | <u>71,152</u>                                    | <u>13,911</u>                       | <u>3,032,042</u>     |
| Changes in net position from operations<br>before loan loss recovery (provision) | (1,124,474)          | -                                    | 25,926                                       | 39,590   | 119,876  | 12,694                              | (926,388)            |
| <b>Loan Loss Recovery</b>  | 36,242               | -                                    | 106,670                                      | -  | -  | -                                   | 142,912              |
| <b>Loan Loss Provision Transfer</b>  | (62,668)             | -                                    | 62,668                                       | -  | -  | -                                   | -                    |
| <b>Loan Loss Provision</b>   | <u>(1,730,888)</u>   | <u>(1,474,341)</u>                   | <u>(232,005)</u>                             | <u>(93,559)</u>                                  | <u>(247,224)</u>                                 | <u>(25,972)</u>                     | <u>(3,803,989)</u>   |
| Changes in net position from operations  | <u>(2,881,788)</u>   | <u>(1,474,341)</u>                   | <u>(36,741)</u>                              | <u>(53,969)</u>                                  | <u>(127,348)</u>                                 | <u>(13,278)</u>                     | <u>(4,587,465)</u>   |
| <b>Non-Operating Revenue (Expense):</b>  |                      |                                      |  |  |  |                                     |                      |
| State appropriations   | 3,000,000            | -                                    | -  | -  | -  | -                                   | 3,000,000            |
| Grant expense  | (2,992,771)          | -                                    | -  | -  | -  | -                                   | (2,992,771)          |
| Total non-operating revenue (expense)  | <u>7,229</u>         | <u>-</u>                             | <u>-</u>                                     | <u>-</u>   | <u>-</u>   | <u>-</u>                            | <u>7,229</u>         |
| Changes in net position  | (2,874,559)          | (1,474,341)                          | (36,741)                                     | (53,969)   | (127,348)  | (13,278)                            | (4,580,236)          |
| <b>Net Position, June 30, 2019</b>   | <u>29,235,702</u>    | <u>-</u>                             | <u>14,755,164</u>                            | <u>1,598,694</u>                                 | <u>2,381,350</u>                                 | <u>8,617</u>                        | <u>47,979,527</u>    |
| <b>Net Position, June 30, 2020</b>   | <u>\$ 26,361,143</u> | <u>\$(1,474,341)</u>                 | <u>\$ 14,718,423</u>                         | <u>\$ 1,544,725</u>                              | <u>\$ 2,254,002</u>                              | <u>\$ (4,661)</u>                   | <u>\$ 43,399,291</u> |