



**GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Contents
June 30, 2021 and 2020

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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, 2021 and 2020, 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, 2021 and 2020, 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 basic general purpose financial statements. Such information, although not a part of the basic 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 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.

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 23 and 24 as of and for the year ended June 30, 2021, is presented for purposes of additional analysis and is not a required part of the basic 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 basic general purpose financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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 basic general purpose financial statements or to the basic 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 basic general purpose financial statements as a whole.

AAFCPA, Inc.

Boston, Massachusetts
October 7, 2021

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Management's Discussion and Analysis
June 30, 2021 and 2020

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, 2021. 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, 2021, 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 23 and 24.

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, net position, 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 five basic fund groups, which all are considered restricted in nature. Brief explanations of these fund categories are as follows:

MGCC: In its initial year, MGCC received \$15,000,000 in new capital from 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

Management's Discussion and Analysis
June 30, 2021 and 2020

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

MGCC: (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.

Federal Title IX Revolving Loan Fund #3: In fiscal year 2021, MGCC has applied for and been awarded with a \$4,147,000 grant from EDA. As of June 30, 2021, MGCC has requested and received \$500,000 for a prospective borrower.

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%. As of June 30, 2021, there have been 288 borrowers, totaling \$16,770,561 (including outstanding loans of \$15,968,061 and previously repaid loans of \$802,500), have applied and approved for loan forgiveness.

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 businesses in Massachusetts. As of June 30, 2021, MGCC has fully drawn the \$350,000. Currently, there are eleven microloan borrowers with a total outstanding loan balance of \$305,330. Total earned interest in fiscal year 2021 was \$22,565. On October 29, 2019, MGCC received an additional \$350,000 contract for additional microloans. As of June 30, 2021, 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 has additional lending capacity through a line of credit that is maintained with East Boston Savings Bank for borrowings up to \$10,000,000.

COVID-19 Relief Grant Programs: During fiscal year 2021, due to the urgent need to help thousands of small businesses in Massachusetts during the COVID-19 pandemic, MGCC had been assigned and awarded \$761,350,000 through ten contracts with various Massachusetts agencies. As of June 30, 2021, MGCC has received \$727,244,029 from those contracts and has distributed \$687,643,204 in total to approximately fifteen thousand small businesses throughout the Commonwealth. MGCC has a grant receivable balance of \$16,606,088, a grant payable of \$43,068,122, and a deferred revenue balance of \$5,890,392, relating to these contracts.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Management's Discussion and Analysis
June 30, 2021 and 2020

Condensed Financial Information

Assets total \$105,910,078. The major components are:

Cash and Cash Equivalents - Restricted: MGCC began the fiscal year with a total of \$20,563,182 in cash. At June 30, 2021, cash totaled \$62,364,414. The net increase of \$41,801,232 was primarily due to \$32,352,426 of COVID-19 relief grants not yet distributed, \$6,236,315 net repayments exceeding new loans funded and an increase in early payoffs, and \$500,000 received from the EDA for Revolving Loan Fund # 3.

Loans Receivable: Loans receivable at June 30, 2021, totaled \$31,191,271, a net decrease of \$6,236,315 from the previous year's \$37,427,586. MGCC disbursed \$100,000 in new loans and advances \$125,000 within its existing loan portfolio. During the fiscal year, MGCC received \$6,461,315 in principal payments, including early payoffs of \$3,987,969. The average closed loan amount in the current fiscal year was \$50,000 compared to \$399,000 in the previous year. Total COVID-19 recovery loan repayments were received from 36 borrowers totaling \$1,844,500 for the year ended June 30, 2021.

In the prior fiscal year, principal payments totaled \$7,518,165 including early payoffs of \$3,767,094 and closed thirteen loans totaling \$5,190,009

The loan loss reserve increased to \$5,020,984 or 16.1% of loans receivable from \$4,744,515 or 12.7% due to the vigorously 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. There have been no write offs for the current fiscal year based on the latest loan quarterly review due to their collectability or adequate collaterals.

Grants receivable: Grant receivable, totaled \$16,606,088, consisted of awarded and billed grants not yet received as of June 30, 2021.

Liabilities total \$58,456,108. The major components are:

Grants Payable: Grants payable, totaled \$43,068,122, consisted of awarded grants not yet distributed as of June 30, 2021, including \$39,272,747 from COVID-19 Relief Grants and \$3,795,375 from Small Business Technical Assistance (SBTA) grants.

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 on January 15, 2021, MGCC will wire MDFA's fifty percent share of the repayments of principal and interest to MDFA on a quarterly basis. In March 2021, MGCC has returned \$963,313 of unused funds to MDFA. As of June 30, 2021, the outstanding balance on this loan was \$9,036,687.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Management's Discussion and Analysis
June 30, 2021 and 2020

Condensed Financial Information (Continued)

Deferred Grant Revenue: Deferred grant revenue, totaled \$5,890,392, consisted of deferred revenue from grants received not yet earned as of June 30, 2021, primarily from COVID-19 Relief Grants.

SBA Note Payable: The contract commenced on April 13, 2017, with a loan from the U.S. Small Business Administration (SBA) for \$350,000. As of June 30, 2021, 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, 2021, was \$243,968.

Accounts Payable, Accrued Expenses and Other: Accounts payable, accrued expenses and other liabilities at June 30, 2021, totaled \$216,939 compared to \$137,611 for the prior year. The increase of \$79,328 was due mostly to a net increase in accounts payable of \$49,130, accrued wages and related of \$24,779, accrued vacation of \$13,384, and net a decrease in accrued expenses of \$7,965.

Revenues: Operating revenues for 2021 totaled \$8,866,446 compared to \$2,105,654 for the prior year, an increase of \$6,760,792. The components of the overall increase are a grant income of \$7,248,399 in total admin fees relating to the COVID-19 Relief Grant Program and the SBTA program, offset with a decrease of loan portfolio interest income of \$255,494, a decrease of interest income on cash reserves of \$113,350, and a decrease of loan fee income of \$118,763.

Expenses: Expenses for the year ended June 30, 2021, totaled \$5,225,355 compared to \$3,032,042 for the prior year, an increase of \$2,193,313. Due to the effort to rescue as many small businesses as possible during the COVID-19 pandemic, MGCC had used all possible resources available to award a total of \$730,731,326 to over fifteen thousand small businesses, including SBTA grants. As a result, employee compensation and related payroll taxes and benefits increased by \$1,300,062, contract services expense of \$603,643, information technology of \$290,870, professional fees of \$26,376, and supplies of \$12,234, and were offset by recruitment, travel and others.

Net income from operations for 2021 before loan loss recovery was \$3,641,091 for 2021 and net loss from operations for 2020 before loan loss recovery was \$926,388.

MGCC had an increase in the loan loss reserve of \$298,796 in 2021 compared to \$3,803,989 in 2020 and decrease in write offs from \$2,982,651 in 2020 to no write offs in 2021.

Analysis of Significant Variations between Original and Budgeted Amounts

Revenues ended the year more than the budget by a net of \$6,405,333. Portfolio income was continually off budget by \$771,140 due to the significant small number of loan closings, only two new loans with total amounts of \$100,000 and significant numbers of loan pay offs, 45 loans with total amounts of \$3,987,969, resulting in a much lower loan volume. Investment income was also off budget by \$164,626 due to almost zero interest rate. However, this was offset by grant income of \$7,248,399 and an increase in loan loss recovery income of \$29,884.

Our overall loan portfolio ended the year at \$31,191,271. The lower loan portfolio outstanding was due to much lower than anticipated loan volume due to the competitive lending environment and the pandemic. MGCC having no additional loan officers, just one new credit analyst for the majority of the year.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Management's Discussion and Analysis
June 30, 2021 and 2020

Analysis of Significant Variations between Original and Budgeted Amounts (Continued)

Operating expenses were higher than budget by \$2,201,185. This was principally due to a significant increase in payroll and benefits of \$1,297,005, contract services of \$565,243, information technology of \$330,774, professional fees of \$84,609 to operate COVID-19 grant funding, and offset by approximately \$90,000 decrease in other expenses due to less loan activity, travel, meetings, and sponsorship.

Subsequent Events

The Small Business Technical Assistance (SBTA) program that is funded through the Commonwealth's annual operating budget was approved for \$7,000,000 for fiscal year 2022.

For Recovery Loan Forgiveness Program, MGCC had returned \$802,500 to fifteen borrowers who had fully or partially paid back their loans and forgiven 273 additional recovery loans for a total of \$15,968,061. As a result, MGCC has returned an additional \$8,114,030 to MDFA. The remaining MDFA loan balance of \$922,657 represents its 50% share of the current remaining recovery loan portfolio of \$1,845,313 in total.

Fiscal Year 2022 Outlook

Fiscal year 2022 will continue to be a challenge for small businesses in the Commonwealth due to the continued impacts from the pandemic. For MGCC we see our role continuing to support small businesses through our lending as well as supporting the technical assistance organizations throughout the Commonwealth.

We feel that for the first half of the year lending will continue to be slow as the Federal stimulus monies continue to support small businesses and the appetite for debt is very light. Banks continue to support their customers; however, we feel that this may begin to change as banks continue to assess their portfolios. Any tightening of credit will enhance MGCC's lending activities.

MGCC has several new small business grant products that will be available through the year and as we continue to ramp these up, we expect volume to increase and the products to become popular with businesses. We will closely be working with our partners to continue to strengthen the small business support and eco-system in the Commonwealth.

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 2022 will be a challenging yet successful year for MGCC. We will continue to fulfill our mission and assist small businesses with both grants and lending.

MASSACHUSETTS GROWTH CAPITAL CORPORATIONStatements of Net Position
June 30, 2021 and 2020

Assets	2021	2020
Current Assets:		
Cash and cash equivalents - restricted	\$ 62,364,414	\$ 20,563,182
Accounts receivable	10,278	6,354
Grants receivable	16,606,088	-
Current portion of loans receivable, net of allowance for uncollectible loans of approximately \$1,705,000 and \$1,548,000 at June 30, 2021 and 2020, respectively	19,614,112	9,125,679
Accrued interest receivable on loans, net of allowance for uncollectible amounts of approximately \$89,000 and \$67,000 at June 30, 2021 and 2020, respectively	598,310	448,889
Prepaid expenses and other	90,451	90,270
Total current assets	99,283,653	30,234,374
Loans Receivable, net of current portion and allowance for uncollectible loans of approximately \$3,316,000 and \$3,196,000 at June 30, 2021 and 2020, respectively	6,556,175	23,557,392
Capital Assets, net	70,250	30,046
Total assets	<u>\$ 105,910,078</u>	<u>\$ 53,821,812</u>
Liabilities and Net Position		
Current Liabilities:		
Accounts payable, accrued expenses and other	\$ 216,939	\$ 137,611
Current portion of notes payable	8,454,320	2,660,597
Deferred revenue	5,890,392	-
Grants payable	43,068,122	-
Total current liabilities	57,629,773	2,798,208
Notes Payable, net of current portion	826,335	7,624,313
Total liabilities	<u>58,456,108</u>	<u>10,422,521</u>
Net Position:		
Restricted - State Small Business Credit Initiative	15,056,297	14,718,423
Restricted - Federal Title IX RLF	4,655,956	3,798,727
Restricted - SBA Revolving Loan Fund	41,638	(4,661)
Restricted - COVID-19 Recovery Loan Fund	(1,336,003)	(1,474,341)
Restricted by enabling legislation	29,036,082	26,361,143
Total net position	<u>47,453,970</u>	<u>43,399,291</u>
Total liabilities and net position	<u>\$ 105,910,078</u>	<u>\$ 53,821,812</u>

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

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MASSACHUSETTS GROWTH CAPITAL CORPORATION

Statements of Revenues and Expenses
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Revenues:		
Grant revenue - COVID-19 - admin fee	\$ 6,799,269	\$ -
Interest income on loans	1,269,694	1,525,188
State appropriations - admin fee	449,130	-
Interest income on cash reserves	290,299	403,649
Loan origination fees and other	58,054	176,817
	<u>8,866,446</u>	<u>2,105,654</u>
Total operating revenues		
Operating Expenses:		
Employee compensation	3,597,921	2,297,859
Contract services	603,643	-
Information technology	330,774	39,904
Professional fees	258,905	232,529
Occupancy	217,071	212,397
Other expenses	70,707	23,875
Supplies	46,228	33,994
Depreciation	22,792	23,429
Insurance	21,151	20,058
Dues and memberships	18,461	25,625
Printing and postage	11,208	14,995
Telephone	10,548	14,739
Meetings	6,453	20,255
Portfolio and credit administration	6,449	19,593
Interest expense	1,800	1,836
Maintenance and repair	924	3,057
Travel	320	12,402
Recruitment	-	30,000
Advertising	-	5,495
	<u>5,225,355</u>	<u>3,032,042</u>
Total operating expenses		
Changes in net position from operations before loan loss recovery (provision)	3,641,091	(926,388)
Loan Loss Recovery	232,384	142,912
Loan Loss Provision	<u>(298,796)</u>	<u>(3,803,989)</u>
Changes in net position from operations	<u>3,574,679</u>	<u>(4,587,465)</u>
Non-Operating Revenue (Expenses):		
Grant revenue - COVID-19	722,025,848	-
State appropriations	8,685,478	3,000,000
Grant revenue - EDA	500,000	-
Grant expense	(8,705,478)	(2,992,771)
Grant expense - COVID-19	<u>(722,025,848)</u>	<u>-</u>
Total non-operating revenue (expenses)	<u>480,000</u>	<u>7,229</u>
Changes in net position	<u>\$ 4,054,679</u>	<u>\$ (4,580,236)</u>

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Statements of Changes in Net Position
For the Years Ended June 30, 2021 and 2020

Net Position, June 30, 2019	\$ 47,979,527
Changes in net position	<u>(4,580,236)</u>
Net Position, June 30, 2020	43,399,291
Changes in net position	<u>4,054,679</u>
Net Position, June 30, 2021	<u><u>\$ 47,453,970</u></u>

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Statements of Cash Flows

For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities:		
Receipts of grant revenue - COVID-19 - admin fee	\$ 6,799,269	\$ -
Receipts of interest income	1,388,245	1,702,056
Receipts from State appropriation - admin fee	449,130	-
Receipts of loan origination and other fees	54,130	182,817
Payments for employee compensation	(3,559,758)	(2,271,457)
Payments for supplies and services	(1,563,658)	(720,489)
Net cash provided by (used in) operating activities before state appropriation and grant expense	3,567,358	(1,107,073)
State appropriation	8,685,478	3,000,000
Grant expense	(8,705,478)	(2,992,771)
Net cash provided by (used in) operating activities	<u>3,547,358</u>	<u>(1,099,844)</u>
Cash Flows from Investing Activities:		
Grant expense - COVID-19	(678,957,726)	-
Loans disbursed	(225,000)	(25,370,782)
Loan recoveries	232,384	142,912
Proceeds from loan repayments	6,461,315	7,518,165
Acquisition of capital assets	(62,996)	(19,193)
Net cash used in investing activities	<u>(672,552,023)</u>	<u>(17,728,898)</u>
Cash Flow from Financing Activities:		
Grant revenue - COVID-19	711,310,152	-
Grant revenue - EDA	500,000	-
Proceeds from notes payable	-	10,100,000
Payments on notes payable	(1,004,255)	(38,549)
Net cash provided by financing activities	<u>710,805,897</u>	<u>10,061,451</u>
Net Change in Cash and Cash Equivalents - Restricted	41,801,232	(8,767,291)
Cash and Cash Equivalents - Restricted:		
Beginning of year	<u>20,563,182</u>	<u>29,330,473</u>
End of year	<u>\$ 62,364,414</u>	<u>\$ 20,563,182</u>
Cash Flows from Operating Activities:		
Changes in net position	\$ 4,054,679	\$ (4,580,236)
Adjustments to reconcile changes in net position to net cash provided by (used in) operating activities:		
Depreciation	22,792	23,429
Loan loss recovery	(232,384)	(142,912)
Loan loss provision	298,796	3,803,989
Grant revenue - EDA	(500,000)	-
Changes in operating assets and liabilities:		
Accounts receivable	(3,924)	6,000
Accrued interest receivable	(171,748)	(226,781)
Prepaid expenses and other	(181)	(12,696)
Accounts payable, accrued expenses and other	79,328	29,363
Net cash provided by (used in) operating activities	<u>\$ 3,547,358</u>	<u>\$ (1,099,844)</u>

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements
June 30, 2021 and 2020

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 follows GASB Statement No. 34, *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 within the meaning of GASB No. 34. 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*. In accordance with GASB No. 62, 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 include 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
June 30, 2021 and 2020

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.

Grants Receivable and Allowance for Uncollectible Grants

Grants receivable includes amounts earned on grants paid or committed to be paid to grantees, but have not yet been paid to MGCC. The allowance for doubtful accounts is based on management's estimate and collection history with the related funders. There was no allowance recorded as of June 30, 2021.

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.

Grants Payable

Grants payable are recorded when a grantee has been identified and value of the grant has been determined.

Deferred Revenue

Deferred revenue consists of grant advances. These amounts will be recognized as revenue when the grants have been committed.

Estimates

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

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements
June 30, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classification of Net Position

MGCC's financial resources are restricted as follows:

State Small Business Credit Initiative - The fund was capitalized in fiscal year 2012 with funds received from the Commonwealth. MGCC 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 \$15,056,297 and \$14,718,423 as of June 30, 2021 and 2020, 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 \$1,688,115 and \$1,544,725 as of June 30, 2021 and 2020, 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 \$2,467,841 and \$2,254,002 as of June 30, 2021 and 2020, respectively.

Federal Title IX Revolving Loan Fund (RLF) #3 - The fund was capitalized in fiscal year 2021 with a grant award of \$3,770,000 from EDA. During fiscal year 2021, MGCC drew down \$500,000 for a prospective borrower. MGCC also was awarded \$377,000 to cover administration costs to run the fund. The net position balance was \$500,000 as of June 30, 2021.

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 businesses in Massachusetts (see Note 5). As of June 30, 2021 and 2020, MGCC has drawn \$350,000. In October 2019, MGCC received an additional \$350,000 contract from SBA for microloans, however, no amounts were drawn as of June 30, 2021 and 2020. As of June 30, 2021 and 2020, there were eleven and eight microloan borrowers with a total outstanding loan balance of \$305,330 and \$200,132, respectively. The net position balance was \$41,638 and \$(4,661) as of June 30, 2021 and 2020, 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 \$(1,336,003) and \$(1,474,341) as of June 30, 2021 and 2020, respectively.

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 \$29,036,082 and \$26,361,143 as of June 30, 2021 and 2020, respectively.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements
June 30, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

MGCC expenses advertising costs as they are incurred.

Revenue Recognition

Revenues from interest on loans and on cash and other sources are recorded as earned on the accrual basis of accounting. During fiscal year 2020, MGCC forgave a month of interest totaling approximately \$145,000, which has been netted against interest income on loans in 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. Grant revenue - COVID-19 - admin fee is recognized pro-rata based on the total grants provided during the course of the year. All other revenue is recorded as earned.

State Appropriations, Grant Revenue and Grant Expense

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 State appropriations of \$9,134,608 (including \$449,130 of admin fee) and \$3,000,000 from the Commonwealth during fiscal years 2021 and 2020, respectively, and is included in state appropriations in the accompanying statements of revenues and expenses.

During fiscal year 2021, MGCC was awarded \$752,100,000 of grant funds from the Commonwealth to provide grants to small businesses up to \$75,000 to assist in the economic hardship caused by the COVID-19 pandemic. Total grants provided as of June 30, 2021, was \$722,025,848 and is reflected as grant expense - COVID-19 in the accompanying 2021 statement of revenues and expenses. MGCC earned \$728,825,117 in grant revenue, including \$6,799,269 in admin fees, associated with providing these grants.

During fiscal year 2021, MGCC received an award from EDA totaling \$4,147,000, to capitalize a new revolving loan fund for \$3,770,000 and \$377,000 to cover administrative costs. These funds are earned and available to draw down when MGCC has committed loans to borrowers. During fiscal year 2021, MGCC drew down \$500,000 for a committed prospective borrower, and accordingly has recognized the revenue, which is reflected as grant revenue - EDA in the accompanying 2021 statement of revenues and expenses.

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 (expenses) include state appropriations revenue, related grant expense, and COVID-19 grant activity.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements
June 30, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 7, 2021, 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 within general purpose financial statements.

3. MASSACHUSETTS MUNICIPAL DEPOSITORY TRUST INVESTMENTS

MGCC holds investments in MMDT in the amount of \$2,542,498 and \$2,537,738 at June 30, 2021 and 2020, 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.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements
June 30, 2021 and 2020

3. 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, which are disclosed as follows as of June 30:

<u>Securities with an Effective Maturity of:</u>	<u>Percentage of Total Net Position</u>	
	<u>2021</u>	<u>2020</u>
1 - 30 Days	52.2%	55.0%
31 - 90 Days	31.7	23.2
91 - 180 Days	11.1	17.5
181 - Days or more	<u>5.0</u>	<u>4.3</u>
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:

	<u>Cash Portfolio Quality Diversification</u>	
	<u>First Tier</u>	<u>Second Tier</u>
2021	100.0%	- %
2020	100.0%	- %

4. CAPITAL ASSETS

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

	<u>Balance June 30, 2019</u>	<u>2020 Additions</u>	<u>Balance June 30, 2020</u>	<u>2021 Additions</u>	<u>Balance June 30, 2021</u>
Cost	\$ 120,864	\$ 19,193	\$ 140,057	\$ 62,996	\$ 203,053
Accumulated depreciation	<u>86,582</u>	<u>23,429</u>	<u>110,011</u>	<u>22,792</u>	<u>132,803</u>
Capital assets, net	<u>\$ 34,282</u>	<u>\$ (4,236)</u>	<u>\$ 30,046</u>	<u>\$ 40,204</u>	<u>\$ 70,250</u>

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements
June 30, 2021 and 2020

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% to 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. During fiscal year 2020, 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 bank's amortization (typically 20 to 25 years).

During fiscal year 2020, MGCC received \$10,000,000 in funding from 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). During fiscal year 2021, MGCC extended the repayment terms to begin in fiscal year 2022. MGCC and MDFA each bear the risk of loss of 50% of total portfolio losses. Accordingly, 50% of COVID-19 Recovery 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.

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

	<u>2021</u>		<u>2020</u>	
Principal outstanding:				
COVID-19 Recovery loans	307	\$ 17,813,374	328	\$ 19,657,874
All other loans	<u>62</u>	<u>13,377,897</u>	<u>81</u>	<u>17,769,712</u>
Total principal	<u>369</u>	<u>31,191,271</u>	<u>409</u>	<u>37,427,586</u>
Less - allowance for uncollectible loans (see Note 6):				
All other loans		3,684,981		3,270,174
COVID-19 Recovery loans		<u>1,336,003</u>		<u>1,474,341</u>
Total allowance for uncollectible loans		<u>5,020,984</u>		<u>4,744,515</u>
Loans receivable, net		26,170,287		32,683,071
Less - current portion of loans receivable, net		<u>19,614,112</u>		<u>9,125,679</u>
Long-term portion of loans receivable, net		<u>\$ 6,556,175</u>		<u>\$ 23,557,392</u>

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements
June 30, 2021 and 2020

5. LOANS RECEIVABLE (Continued)

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

2022	\$ 21,318,810
2023	\$ 3,079,806
2024	\$ 2,440,714
2025	\$ 1,371,953
2026	\$ 822,149
Thereafter	\$ 2,157,839

Current portion of notes receivable (2022) includes \$15,968,061 of COVID-19 Recovery loans that were forgiven in fiscal year 2022.

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:

	2021		2020	
	Loans	Interest	Loans	Interest
Balance, beginning of year	\$ 4,744,515	\$ 67,075	\$ 3,933,178	\$ 57,074
Net provision for losses	276,469	22,327	3,679,726	124,263
Write-offs	-	-	(2,868,389)	(114,262)
Balance, end of year	<u>\$ 5,020,984</u>	<u>\$ 89,402</u>	<u>\$ 4,744,515</u>	<u>\$ 67,075</u>

MGCC writes off loan balances when amounts are determined to be uncollectible. In the above write-offs, loan balances from fourteen companies are included in the fiscal year 2020 amount. There were no write-offs during fiscal year 2021.

Troubled Debt Restructurings

There have been no loan modifications classified as troubled debt restructurings as of June 30, 2021 or 2020.

Impaired Loans

MGCC identifies a loan as impaired when it is probable that interest and/or principal will not be collected according to the contractual terms of the loan agreement. In accordance with guidance provided by the criteria under ASC Topic, *Impairment (Recoverability)*, management employs one of three methods to determine and measure impairment: the Present Value of Future Cash Flow Method; the Fair Value of Collateral Method; and the Observable Market Price of a Loan Method. To perform an impairment analysis, MGCC reviews a loan's internally assigned risk rating, its outstanding balance, value of the collateral, guarantors, and a current report of the action being implemented. Based on the nature of the specific loan, one of the impairment methods is chosen or any impairment is determined, based on criteria established for impaired loans.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements
June 30, 2021 and 2020

6. ALLOWANCE FOR UNCOLLECTIBLE LOANS (Continued)

Impaired Loans (Continued)

MGCC uses a six number-based credit rating system, with "1" representing the highest quality/lowest risk credits and "6" representing the lowest quality/highest risk credits. The following table presents the Loan Fund's loans receivable balances and related allowance by risk rating at June 30:

Risk Rating	2021		2020	
	Loan Balance	Loan Loss Allowance	Loan Balance	Loan Loss Allowance
1 - 3	\$ 3,042,511	\$ -	\$ 3,890,637	\$ -
4	19,380,727	1,336,003	28,077,728	1,474,341
5	6,571,068	1,988,014	2,574,847	885,799
6	<u>2,196,965</u>	<u>1,696,967</u>	<u>2,884,374</u>	<u>2,384,375</u>
	<u>\$ 31,191,271</u>	<u>\$ 5,020,984</u>	<u>\$ 37,427,586</u>	<u>\$ 4,744,515</u>

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, 2021 and 2020, were \$327,319 and \$200,127, 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, 2021 and 2020, MGCC had commitments to lend of approximately \$1.6 million and \$1.1 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, 2021 and 2020, MGCC had one outstanding guarantee with a total value of \$1,000,000. The remaining guarantee expires on July 1, 2022.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements
June 30, 2021 and 2020

8. COMMITMENTS AND OFF-BALANCE SHEET RISK (Continued)

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 had a tenant-at-will agreement with the Worcester Regional Chamber of Commerce. Monthly rent payments under this lease agreement for 2021 and 2020 were \$200.

Rent expense under these agreements was \$214,794 and \$209,165 for the years ended June 30, 2021, and 2020, 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:

<u>Fiscal Year</u>	
2022	\$ 209,746
2023	\$ 35,138

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, 2021 and 2020, MGCC's exposure for uninsured funds was approximately \$3,343,000 and \$3,333,000, respectively, in accordance with GASB Statement No. 40. 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% at June 30, 2021 and 2020). The line of credit agreement matures on December 31, 2021. The line of credit is secured by substantially all assets. As of June 30, 2021 and 2020, 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, 2021 and 2020.

11. NOTES PAYABLE

MGCC received a \$10,000,000, interest-free, note from 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's write-offs. As of June 30, 2021 and 2020, the outstanding principal balance was \$9,036,687 and \$10,000,000, respectively.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements
June 30, 2021 and 2020

11. NOTES PAYABLE (Continued)

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 year 2020, MGCC drew down the remaining \$100,000 of loan proceeds. 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, 2021 and 2020). This note is secured by all amounts held in the SBA fund. As of June 30, 2021 and 2020, the outstanding principal balance was \$243,968 and \$284,910, 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, 2021 and 2020, MGCC has not drawn down any of these funds.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 8,454,320	\$ 1,547	\$ 8,455,867
2023	\$ 340,495	\$ 1,341	\$ 341,836
2024	\$ 340,701	\$ 1,135	\$ 341,836
2025	\$ 33,357	\$ 927	\$ 34,284
2026	\$ 33,566	\$ 718	\$ 34,284
Thereafter	\$ 78,216	\$ 401	\$ 78,617

Current portion of notes payable (2022) includes 50% of the COVID-19 Recovery Loans that were forgiven in fiscal year 2022 (see Note 12).

12. SUBSEQUENT EVENTS

During fiscal year 2022, the Small Business Technical Assistance program that is funded via the Commonwealth's annual operating budget was approved for a record \$7,000,000 for fiscal year 2022.

During fiscal year 2022, as part of the COVID-19 Small Business grants, a Loan Forgiveness Program was established for the COVID-19 Recovery Loans that were loaned in fiscal year 2020. Any business that received a loan was able to apply to have the loan forgiven or, if they had paid it back, they could apply for a grant of equal amount. Total loans approved for forgiveness totaled approximately \$16,771,000, including approximately \$802,000 of loans that had already been repaid to MGCC.

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.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements
June 30, 2021 and 2020

14. OTHER CONTINGENCIES

General Contingency

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.

COVID-19

During fiscal year 2021, COVID-19 continued to be a global pandemic. Federal, state and local governments in the United States have imposed restrictions on travel and business operations. While the business disruption is currently expected to be temporary, there is considerable uncertainty around the duration and the impact it will have on MGCC's operations and financial position. As a result, the adverse impact COVID-19 will have on MGCC's businesses, operating results, cash flows, and financial condition is uncertain. It is management's opinion that the adverse impact, if any, would not be material.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

SUPPLEMENTAL INFORMATION JUNE 30, 2021

- 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 SSBCI 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 2022) are 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, 2021

Assets	MGCC	COVID-19 Recovery Loan Fund	State Small Business Credit Initiative	Federal Title IX Revolving Loan Fund #1	Federal Title IX Revolving Loan Fund #2	Federal Title IX Revolving Loan Fund #3	Small Business Administration	Total
Current Assets:								
Cash and cash equivalents - restricted	\$ 42,932,174	\$ 1,844,500	\$ 14,631,829	\$ 1,481,864	\$ 974,047	\$ 500,000	\$ -	\$ 62,364,414
Accounts receivable	5,553	-	-	325	4,075	-	325	10,278
Grants receivable	16,606,088	-	-	-	-	-	-	16,606,088
Current portion of loans receivable, net of allowance for uncollectible loans of approximately \$1,705,000	2,219,304	16,137,831	444,079	69,493	674,926	-	68,479	19,614,112
Accrued interest receivable on loans, net of allowance for uncollectible amounts of approximately \$89,000	440,751	-	72,331	18,549	59,830	-	6,849	598,310
Prepaid expenses and other	90,451	-	-	-	-	-	-	90,451
Total current assets	62,294,321	17,982,331	15,148,239	1,570,231	1,712,878	500,000	75,653	99,283,653
Loans Receivable, net of current portion and allowance for uncollectible loans of approximately \$3,316,000	4,846,742	339,540	260,195	117,884	754,963	-	236,851	6,556,175
Capital Assets, net	70,250	-	-	-	-	-	-	70,250
Total assets	\$ 67,211,313	\$ 18,321,871	\$ 15,408,434	\$ 1,688,115	\$ 2,467,841	\$ 500,000	\$ 312,504	\$ 105,910,078
Liabilities and Net Position								
Current Liabilities:								
Accounts payable, accrued expenses and other	\$ 216,939	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 216,939
Current portion of notes payable	-	8,421,583	-	-	-	-	32,737	8,454,320
Deferred revenue	5,890,392	-	-	-	-	-	-	5,890,392
Grants payable	43,068,122	-	-	-	-	-	-	43,068,122
Interfund (receivable) payable	(11,000,222)	10,621,187	352,137	-	-	-	26,898	-
Total current liabilities	38,175,231	19,042,770	352,137	-	-	-	59,635	57,629,773
Notes Payable, net of current portion	-	615,104	-	-	-	-	211,231	826,335
Total liabilities	38,175,231	19,657,874	352,137	-	-	-	270,866	58,456,108
Net Position:								
Restricted - State Small Business Credit Initiative	-	-	15,056,297	-	-	-	-	15,056,297
Restricted - Federal Title IX RLF	-	-	-	1,688,115	2,467,841	500,000	-	4,655,956
Restricted - SBA Revolving Loan Fund	-	-	-	-	-	-	41,638	41,638
Restricted - COVID-19 Recovery Loan Fund	-	(1,336,003)	-	-	-	-	-	(1,336,003)
Restricted by enabling legislation	29,036,082	-	-	-	-	-	-	29,036,082
Total net position	29,036,082	(1,336,003)	15,056,297	1,688,115	2,467,841	500,000	41,638	47,453,970
Total liabilities and net position	\$ 67,211,313	\$ 18,321,871	\$ 15,408,434	\$ 1,688,115	\$ 2,467,841	\$ 500,000	\$ 312,504	\$ 105,910,078

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Supplemental Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2021

	MGCC	COVID-19 Recovery Loan Fund	State Small Business Credit Initiative	Federal Title IX Revolving Loan Fund #1	Federal Title IX Revolving Loan Fund #2	Federal Title IX Revolving Loan Fund #3	Small Business Administration	Total
Operating Revenues:								
Grant revenue - COVID-19 - admin fee	\$ 6,799,269	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,799,269
Interest income on loans	928,631	-	108,664	32,270	177,564	-	22,565	1,269,694
State appropriations - admin fee	449,130	-	-	-	-	-	-	449,130
Interest income on cash reserves	268,908	-	18,770	1,574	930	-	117	290,299
Loan origination fees and other	31,266	-	-	-	225	26,313	250	58,054
Transfer of earnings	63,717	-	(63,717)	-	-	-	-	-
Total operating revenues	<u>8,540,921</u>	<u>-</u>	<u>63,717</u>	<u>33,844</u>	<u>178,719</u>	<u>26,313</u>	<u>22,932</u>	<u>8,866,446</u>
Operating Expenses:								
Employee compensation	3,509,379	-	22,511	3,605	36,113	26,313	-	3,597,921
Contract services	603,643	-	-	-	-	-	-	603,643
Information technology	330,774	-	-	-	-	-	-	330,774
Professional fees	249,080	-	5,171	741	3,913	-	-	258,905
Occupancy	205,780	-	5,943	851	4,497	-	-	217,071
Other expenses	70,454	-	132	20	101	-	-	70,707
Supplies	46,228	-	-	-	-	-	-	46,228
Depreciation	22,792	-	-	-	-	-	-	22,792
Insurance	21,151	-	-	-	-	-	-	21,151
Dues and memberships	18,461	-	-	-	-	-	-	18,461
Printing and postage	11,208	-	-	-	-	-	-	11,208
Telephone	10,548	-	-	-	-	-	-	10,548
Meetings	6,453	-	-	-	-	-	-	6,453
Portfolio and credit administration	6,449	-	-	-	-	-	-	6,449
Interest expense	-	-	-	-	-	-	1,800	1,800
Maintenance and repair	924	-	-	-	-	-	-	924
Travel	320	-	-	-	-	-	-	320
Total operating expenses	<u>5,113,644</u>	<u>-</u>	<u>33,757</u>	<u>5,217</u>	<u>44,624</u>	<u>26,313</u>	<u>1,800</u>	<u>5,225,355</u>
Changes in net position from operations before loan loss recovery (provision)	3,427,277	-	29,960	28,627	134,095	-	21,132	3,641,091
Loan Loss Recovery	123,623	-	108,761	-	-	-	-	232,384
Loan Loss Provision Transfer	307,915	-	(307,915)	-	-	-	-	-
Loan Loss Provision	<u>(1,163,876)</u>	<u>138,338</u>	<u>507,068</u>	<u>114,763</u>	<u>79,744</u>	<u>-</u>	<u>25,167</u>	<u>(298,796)</u>
Changes in net position from operations	<u>2,694,939</u>	<u>138,338</u>	<u>337,874</u>	<u>143,390</u>	<u>213,839</u>	<u>-</u>	<u>46,299</u>	<u>3,574,679</u>
Non-Operating Revenue (Expenses):								
Grant revenue - COVID-19	722,025,848	-	-	-	-	-	-	722,025,848
State appropriations	8,685,478	-	-	-	-	-	-	8,685,478
Grant revenue - EDA	-	-	-	-	-	500,000	-	500,000
Grant expense	(8,705,478)	-	-	-	-	-	-	(8,705,478)
Grant expense - COVID-19	<u>(722,025,848)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(722,025,848)</u>
Total non-operating revenue (expenses)	<u>(20,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>500,000</u>	<u>-</u>	<u>480,000</u>
Changes in net position	2,674,939	138,338	337,874	143,390	213,839	500,000	46,299	4,054,679
Net Position:								
June 30, 2020	<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>-</u>	<u>(4,661)</u>	<u>43,399,291</u>
June 30, 2021	<u>\$ 29,036,082</u>	<u>\$ (1,336,003)</u>	<u>\$ 15,056,297</u>	<u>\$ 1,688,115</u>	<u>\$ 2,467,841</u>	<u>\$ 500,000</u>	<u>\$ 41,638</u>	<u>\$ 47,453,970</u>