



**GENERAL PURPOSE FINANCIAL STATEMENTS  
IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS AND  
UNIFORM GUIDANCE  
JUNE 30, 2018 AND 2017**

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**

Contents  
June 30, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 2 through 5 be presented to supplement the general purpose financial statements. Such information, although not a part of the general purpose financial statements, is required by the 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 19 and 20 for the year ended June 30, 2018, 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.

*Alexander, Grosser, Fenning & Co., P.C.*

Boston, Massachusetts  
October 11, 2018

## MASSACHUSETTS GROWTH CAPITAL CORPORATION

Management's Discussion and Analysis  
June 30, 2018 and 2017

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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, 2018. Please read it in conjunction with MGCC's general purpose financial statements, which begin on page 6.

### Basic General Purpose Financial Statements

The financial activities for the year ended June 30, 2018, 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 19 and 20.

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. Eleven members have been appointed and confirmed as of the date of this report, with one pending.

MGCC operates on a June 30th fiscal year basis.

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

The Statement of Net Position and the Statement of Revenues and Expenses include all assets, liabilities, 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

Management's Discussion and Analysis  
June 30, 2018 and 2017

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### 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.

**State Small Business Credit Initiative:** On September 27, 2010, the President of the United States signed into law the "*Small Business Jobs Act of 2010*" (the Act) to help increase credit availability for small businesses. The Act created the State Small Business Credit Initiative (SSBCI) and appropriated \$1.5 billion. Massachusetts' allocation 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.

**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. As of June 30, 2018, MGCC has drawn \$150,000. Currently, there are three microloan borrowers with a total outstanding loan balance of \$79,314.

The Federal Title IX Revolving Loan Funds, SSBCI and SBA 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.

#### Condensed Financial Information

**Assets total \$49,460,251. The major components are:**

**Cash and Cash Equivalents - Restricted:** MGCC began the fiscal year with a total of \$26,153,390 in cash. At June 30, 2018, cash totaled \$26,503,618. The net increase of \$350,228 was due to net repayments exceeding new loans funded and an increase in early payoffs.

**Loans Receivable:** Loans receivable at June 30, 2018, totaled \$26,246,616, a net decrease of \$1,068,637 from the previous year's \$27,315,253. MGCC disbursed \$8,337,461 in new loans and \$3,219,886 in advances on lines of credit. During the fiscal year, MGCC received \$12,369,574 in principal payments, including early payoffs of \$3,936,000, and closed 25 loans totaling approximately \$9,155,000. The average closed loan amount in the current fiscal year was \$366,000 compared to \$375,000 in the previous year.

In the prior fiscal year, principal payments totaled \$11,515,785, including early payoffs of \$1,800,273 with 28 loans and guarantees closed totaling \$10,492,000.

## MASSACHUSETTS GROWTH CAPITAL CORPORATION

Management's Discussion and Analysis  
June 30, 2018 and 2017

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### Condensed Financial Information (Continued)

The loan loss reserve increased to \$3,778,835 or 14.4% of loans receivable from \$2,742,589 or 10%, due to the continued monitoring of the portfolio and its risk. One large loan accounted for the majority of the increase. 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 \$258,489.

### Liabilities total \$1,249,705. The major components are:

**Construction Contract Financing Program (CCFP):** The contract commenced on January 29, 2016, with a loan from MHFA for \$1,000,000. The purpose of the program is to increase access to working capital for minority and/or women-owned construction contractors to mobilize their participation as subcontractors on construction projects financed by MHFA. The program will terminate on February 1, 2019, unless extended by written agreement. There have been no disbursements to date.

**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, 2018, MGCC has drawn \$150,000. MGCC is required to match 15% of the amount drawn and keep it in a separate bank account as Loan Loss Reserve Fund. Repayments began in May 2018. Outstanding balance due to SBA as of June 30, 2018, was \$146,331.

**Accounts Payable, Accrued Expenses and Other:** Accounts payable, accrued expenses and other at June 30, 2018, totaled \$103,374 compared to \$170,876 for the prior year. The decrease of \$67,502 was due to a decrease in the Technical Assistance (T/A) Capacity accrued expense. MGCC paid a substantial amount of T/A Capacity consulting expenses out of the main operating account during fiscal year 2018 which were previously reserved for in the T/A Capacity accrued expense account. As a result, MGCC re-classified the liability and reimbursed the main checking account with funds held in the MMDT cash account.

**Revenues:** Operating revenues for 2018 totaled \$2,800,900 compared to \$2,830,440 for the prior year, a decrease of \$29,540. The major components of the decrease are loan fees of \$44,137, with this being offset with an increase of portfolio interest income of \$2,293 and investment income of \$12,304.

**Expenses:** Expenses for the year ended June 30, 2018, totaled \$2,921,424 compared to \$2,845,187 for the prior year, an increase of \$76,237. Professional fees, occupancy and meetings increased by \$97,588, and were offset by decreases in supplies and information technology. MGCC continued to absorb the administrative and marketing expenses associated with the Small Business Technical Assistance program totaling approximately \$150,000.

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

Revenues ended the year less than the budget by a net of \$251,000. Portfolio income was off budget by \$427,400 due to timing of loan closings and lower loan volume. However, this was offset by an increase in investment income of \$66,700 and portfolio recoveries totaling \$108,600. There was also \$27,890 in management fees collected and other income was not budgeted.

Our overall loan portfolio ended the year at \$26,246,616, a net decrease of \$1,068,637 from last year's ending balance of \$27,315,253. The lower outstanding balance was due to lower than anticipated loan volume due to the competitive lending environment and MGCC having two fewer loan officers for the majority of the year.

Operating expenses were lower than budget by \$162,800. This was principally due to decreases in payroll and benefits.

## MASSACHUSETTS GROWTH CAPITAL CORPORATION

Management's Discussion and Analysis  
June 30, 2018 and 2017

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**Subsequent Event:** MGCC has been approved through the fiscal year 2019 Commonwealth Budget, for an additional \$2,000,000 in Technical Assistance and Training grants for fiscal year 2019. MGCC expects the contract during fiscal year 2019, with quarterly funding to follow. MGCC will continue to absorb the expenses associated with this program.

### **Fiscal Year 2019 Outlook**

The competitive market that dominated 2018 will continue into fiscal year 2019. Banks are aggressively adding loans to increase their outstanding's, which may negatively impact MGCC's loan volume. However, a tightening of credit standards coupled with the anticipated increase in interest rates may slow the banks' lending, creating financing gaps hence increasing MGCC volume. MGCC is also exploring new products that could assist in financing gaps in the marketplace, including a real estate product.

Despite the competitive environment, MGCC has a positive outlook for 2019. The lending pipeline is adequate and there are certain deals the banks continue to shy away from, including acquisitions, growth situations, and ownership transitions. The banks are still hesitant to do deals that lack sufficient collateral despite good cash flow; these are good situations for MGCC's involvement.

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 the access to capital and expand our reach.

Overall we expect that fiscal year 2019 will be a good year for MGCC, with continued positive cash flow, increased lending and a watchful eye on the risk of the portfolio and new loan originations.

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**Statements of Net Position  
June 30, 2018 and 2017

<b>Assets</b>	<b>2018</b>	<b>2017</b>
<b>Current Assets:</b>		
Cash and cash equivalents - restricted	\$ 26,503,618	\$ 26,153,390
Accounts receivable	16,831	8,726
Current portion of loans receivable, net of allowance for uncollectible loans of approximately \$846,000 and \$706,000 at June 30, 2018 and 2017, respectively	4,994,848	6,324,771
Accrued interest receivable on loans, net of allowance for uncollectible amounts of approximately \$67,000 and \$65,000 at June 30, 2018 and 2017, respectively	352,429	256,684
Prepaid expenses and other	64,420	65,325
<b>Total current assets</b>	<b>31,932,146</b>	<b>32,808,896</b>
Loans Receivable, net of current portion and allowance for uncollectible loans of approximately \$2,933,000 and \$2,037,000 at June 30, 2018 and 2017, respectively	17,472,933	18,247,893
Capital Assets, net	55,172	16,196
<b>Total assets</b>	<b>\$ 49,460,251</b>	<b>\$ 51,072,985</b>
<b>Liabilities and Net Position</b>		
<b>Current Liabilities:</b>		
Accounts payable, accrued expenses and other	\$ 103,374	\$ 170,876
Funds held for others	-	375,000
Current portion of notes payable	1,022,020	-
<b>Total current liabilities</b>	<b>1,125,394</b>	<b>545,876</b>
Notes Payable, net of current portion	124,311	1,000,000
<b>Total liabilities</b>	<b>1,249,705</b>	<b>1,545,876</b>
<b>Net Position:</b>		
Restricted - State Small Business Credit Initiative	14,457,618	14,373,211
Restricted - Federal Title IX RLF	4,122,481	4,042,338
Restricted - SBA Revolving Loan Fund	1,032	-
Restricted by enabling legislation	29,629,415	31,111,560
<b>Total net position</b>	<b>48,210,546</b>	<b>49,527,109</b>
<b>Total liabilities and net position</b>	<b>\$ 49,460,251</b>	<b>\$ 51,072,985</b>

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Operating Revenues:</b>		
Interest income on loans	\$ 2,272,976	\$ 2,270,683
Loan origination fees and other	271,297	315,434
Interest income on cash reserves	<u>256,627</u>	<u>244,323</u>
Total operating revenues	<u>2,800,900</u>	<u>2,830,440</u>
<b>Operating Expenses:</b>		
Employee compensation	2,221,934	2,214,488
Professional fees	271,857	246,503
Occupancy	191,561	144,846
Meetings	55,920	30,401
Supplies	35,941	43,064
Printing and postage	18,857	12,999
Advertising	17,472	19,690
Information technology	17,375	28,707
Insurance	17,288	17,435
Other expenses	15,989	29,167
Travel	15,869	13,180
Telephone	14,411	15,666
Dues and memberships	10,750	10,275
Portfolio and credit administration	6,068	8,713
Depreciation	5,924	5,970
Maintenance and repair	4,065	4,083
Interest expense	<u>143</u>	<u>-</u>
Total operating expenses	<u>2,921,424</u>	<u>2,845,187</u>
Changes in net position from operations before loan loss recovery (provision)	(120,524)	(14,747)
<b>Loan Loss Recovery</b>	114,962	161,443
<b>Loan Loss Provision</b>	<u>(1,297,195)</u>	<u>(1,025,379)</u>
Changes in net position from operations	<u>(1,302,757)</u>	<u>(878,683)</u>
<b>Non-Operating Revenue (Expense):</b>		
State appropriations	3,975,000	4,294,464
Grant expense	<u>(3,988,806)</u>	<u>(4,287,045)</u>
Total non-operating revenue (expense)	<u>(13,806)</u>	<u>7,419</u>
Changes in net position	<u>\$ (1,316,563)</u>	<u>\$ (871,264)</u>

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**

Statements of Changes in Net Position  
For the Years Ended June 30, 2018 and 2017

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<b>Net Position, June 30, 2016</b>	\$ 50,398,373
Changes in net position	<u>(871,264)</u>
<b>Net Position, June 30, 2017</b>	49,527,109
Changes in net position	<u>(1,316,563)</u>
<b>Net Position, June 30, 2018</b>	<u><u>\$ 48,210,546</u></u>

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**

Statements of Cash Flows  
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Cash Flows from Operating Activities:</b>		
Receipts of interest income	\$ 2,429,319	\$ 2,502,939
Receipts of loan origination and other fees	263,192	328,987
Employee compensation	(2,231,565)	(2,225,814)
Payments for supplies and services	<u>(750,532)</u>	<u>(657,212)</u>
Net cash used in operating activities before state appropriation and grant expense	(289,586)	(51,100)
State appropriation	3,975,000	4,326,964
Grant expense	<u>(3,988,806)</u>	<u>(4,287,045)</u>
Net cash used in operating activities	<u>(303,392)</u>	<u>(11,181)</u>
<b>Cash Flows from Investing Activities:</b>		
Loans disbursed	(11,557,347)	(14,268,511)
Loan recoveries	114,962	161,443
Proceeds from loan repayments	12,369,574	11,515,785
Acquisition of property and equipment	<u>(44,900)</u>	<u>(11,300)</u>
Net cash provided by (used in) investing activities	<u>882,289</u>	<u>(2,602,583)</u>
<b>Cash Flow from Financing Activity:</b>		
Proceeds from notes payable	150,000	-
Payments on notes payable	(3,669)	-
Proceeds from funds held for others	-	375,000
Payments for funds held by others	<u>(375,000)</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>(228,669)</u>	<u>375,000</u>
<b>Net Change in Cash and Cash Equivalents - Restricted</b>	350,228	(2,238,764)
<b>Cash and Cash Equivalents - Restricted:</b>		
Beginning of year	<u>26,153,390</u>	<u>28,392,154</u>
End of year	<u>\$ 26,503,618</u>	<u>\$ 26,153,390</u>
<b>Cash Flows from Operating Activities:</b>		
Changes in net position	\$ (1,316,563)	\$ (871,264)
Adjustments to reconcile changes in net position to net cash used in operating activities:		
Depreciation	5,924	5,970
Loan loss recovery	(114,962)	(161,443)
Loan loss provision	1,297,195	1,025,379
Changes in operating assets and liabilities:		
Accounts receivable	(8,105)	46,053
Accrued interest receivable	(100,284)	(12,067)
Prepaid expenses and other	905	6,837
Accounts payable, accrued expenses and other	<u>(67,502)</u>	<u>(50,646)</u>
Net cash used in operating activities	<u>\$ (303,392)</u>	<u>\$ (11,181)</u>

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

## MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements  
June 30, 2018 and 2017

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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. 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.

## MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements  
June 30, 2018 and 2017

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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 collectibility 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.

#### 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.

#### Funds Held for Others

Funds held for others consist of collateral for financing arrangements at June 30, 2017.

#### 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 received \$13,932,072 over a three-year period. During fiscal year 2017, there was an additional award of \$69,464. MGCC has matched the principal of loans made with this capital on a 50/50 basis. The net position balance was \$14,457,618 and \$14,373,211 as of June 30, 2018 and 2017, 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 \$1,679,344 and \$1,559,382 as of June 30, 2018 and 2017, 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 \$2,443,137 and \$2,482,956 as of June 30, 2018 and 2017, respectively.

**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, 2018, MGCC has drawn \$150,000. Currently, there are three microloan borrowers with a total outstanding loan balance of \$79,314. The net position balance was \$1,032 as of June 30, 2018.

**Restricted by Enabling Legislation** - The remaining net position is deemed restricted in accordance with GASB for purposes included within Chapter 40W, MGCC's enabling legislation. The net position balance was \$29,629,415 and \$31,111,560 as of June 30, 2018 and 2017, respectively.

## MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements  
June 30, 2018 and 2017

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Revenue Recognition

Revenues from interest on loans and on cash and other sources are recorded as earned on the accrual basis of accounting. Loan loss recoveries are recorded in the year of recovery when cash has been received or collection is assured. Loan origination fees are reported as revenue upon close of the loan. 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 \$750,000 and \$1,000,000 from the Commonwealth during fiscal years 2018 and 2017, respectively, and are included in state appropriations in the accompanying statements of revenues and expenses. During fiscal years 2018 and 2017, MGCC also received \$3,225,000 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.

#### 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 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.

## MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements  
June 30, 2018 and 2017

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Fair Value Measurements (Continued)

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 11, 2018, which is the date the general purpose financial statements were available to be issued. See Note 12 for an event that met the criteria for disclosure.

#### Guarantees

Guarantees are accrued for when the loss is probable.

### 3. MASSACHUSETTS MUNICIPAL DEPOSITORY TRUST INVESTMENTS

MGCC holds investments in MMDT in the amount of \$2,495,582 and \$2,456,609 at June 30, 2018 and 2017, 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 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:

<u>Securities with an Effective Maturity of:</u>	<u>Percentage of Total Net Position</u>	
	<u>2018</u>	<u>2017</u>
1 - 30 Days	71.7%	59.1%
31 - 90 Days	20.4	25.0
91 - 180 Days	7.9	14.0
181 - Days or more	<u>0.00</u>	<u>1.9</u>
Total	<u>100.0%</u>	<u>100.0%</u>

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**

Notes to General Purpose Financial Statements  
June 30, 2018 and 2017

**3. MASSACHUSETTS MUNICIPAL DEPOSITORY TRUST INVESTMENTS (Continued)**

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, 2018 and 2017:

	<b>Cash Portfolio Quality Diversification</b>	
	<b>First Tier</b>	<b>Second Tier</b>
2018	100.0%	- %
2017	100.0%	- %

**4. CAPITAL ASSETS**

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

	<b>Balance June 30, 2016</b>	<b>2017 Additions</b>	<b>Balance June 30, 2017</b>	<b>2018 Additions</b>	<b>Balance June 30, 2018</b>
Cost	\$ 64,664	\$ 11,300	\$ 75,964	\$ 44,900	\$ 120,864
Accumulated depreciation	<u>53,798</u>	<u>5,970</u>	<u>59,768</u>	<u>5,924</u>	<u>65,692</u>
Capital assets, net	<u>\$ 10,866</u>	<u>\$ 5,330</u>	<u>\$ 16,196</u>	<u>\$ 38,976</u>	<u>\$ 55,172</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 amortizing 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 a winter emergency loan to help businesses with the harsh weather conditions. Emergency loans were made between \$5,000 and \$10,000, with a 5% interest rate and a three-year maturity date. During fiscal year 2018, MGCC offered a new type of loan to small businesses up to \$50,000 based on funding received from SBA (see Note 2). Loans were made between \$10,000 and \$50,000, with a 7.5% interest rate and up to a six-year maturity.

## MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements  
June 30, 2018 and 2017

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### 5. LOANS RECEIVABLE (Continued)

There were 118 and 166 loans receivable outstanding at June 30, 2018 and 2017, respectively, including eight and thirty-nine winter emergency loans totaling \$29,074 and \$162,183 as of June 30, 2018 and 2017, respectively. Loans receivable are stated net of allowance for loan losses as follows at June 30:

	<u>2018</u>	<u>2017</u>
Principal outstanding	\$ 26,246,616	\$ 27,315,253
Less - allowance for uncollectible loans (see Note 6)	<u>3,778,835</u>	<u>2,742,589</u>
Loans receivable, net	<u>\$ 22,467,781</u>	<u>\$ 24,572,664</u>

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

2019	\$ 5,841,035
2020	\$ 5,165,590
2021	\$ 4,313,060
2022	\$ 3,158,932
2023	\$ 1,728,963
Thereafter	\$ 6,039,036

### 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>2018</u>		<u>2017</u>	
	<u>Loans</u>	<u>Interest</u>	<u>Loans</u>	<u>Interest</u>
Balance, beginning of year	\$ 2,742,589	\$ 65,020	\$ 2,245,315	\$ 57,675
Net provision for losses	1,292,656	4,539	994,667	30,712
Write-offs	<u>(256,410)</u>	<u>(2,079)</u>	<u>(497,393)</u>	<u>(23,367)</u>
Balance, end of year	<u>\$ 3,778,835</u>	<u>\$ 67,480</u>	<u>\$ 2,742,589</u>	<u>\$ 65,020</u>

MGCC writes off loan balances when amounts are determined to be uncollectible. Loan balances from six companies are included in the fiscal year 2018 write-offs above. Loan balances from five companies are included in the fiscal year 2017 write-offs above.

### 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, 2018 and 2017, were \$198,856 and \$197,969, respectively, and are included in employee compensation in the accompanying statements of revenues and expenses.

## MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements  
June 30, 2018 and 2017

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### 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, 2018 and 2017, MGCC had commitments to lend of approximately \$3.4 million and \$6.7 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, 2018 and 2017, MGCC had three and five outstanding guarantees with values of \$1,350,000 and \$1,405,000, respectively. These guarantees will expire at various times through May 2019.

#### 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.

On September 30, 2014, MGCC signed a one-year lease agreement with the Worcester Regional Chamber of Commerce with the option for four additional terms. Monthly rent payments under this lease agreement are \$200, and the lease renews annually.

Rent expense under these agreements was \$188,088 and \$141,920 for the years ended June 30, 2018, and 2017, 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:

2019	\$ 190,285
2020	\$ 196,772
2021	\$ 203,259
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 and not insured under DIF. As of June 30, 2018 and 2017, MGCC's exposure for uninsured funds was approximately \$3,271,000 and \$3,221,000, 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.

## MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements  
June 30, 2018 and 2017

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### 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 (5.00% and 4.25% at June 30, 2018 and 2017, respectively) and will mature on December 31, 2019. The line of credit is secured by substantially all assets. As of June 30, 2018 and 2017, 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, 2018.

### 11. NOTES PAYABLE

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. Such loans will be for a one-year term, with a maximum principal of \$200,000, at an interest rate of prime plus 2%. No such loans have been made as of June 30, 2018. MGCC shall repay the outstanding loan balance, net of any related outstanding loan receivables upon maturity on February 1, 2019. The balance of the related outstanding loan receivables shall be paid to MHFA as the payments are received. MHFA will absorb all losses associated with these loans.

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 2018, MGCC drew down \$150,000 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 beginning in April 2018 (0.625% at June 30, 2018). This note is secured by all amounts held in the SBA fund. As of June 30, 2018, the outstanding principal balance was \$146,331.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,022,020	\$ 852	\$ 1,022,872
2020	\$ 22,158	\$ 714	\$ 22,872
2021	\$ 22,297	\$ 575	\$ 22,872
2022	\$ 22,436	\$ 436	\$ 22,872
2023	\$ 22,577	\$ 295	\$ 22,872
2024 - 2027	\$ 34,843	\$ 176	\$ 35,019

### 12. SUBSEQUENT EVENT

During fiscal year 2019, MGCC was approved for an additional \$2,000,000 in Commonwealth funds to provide Technical Assistance and Training grants. MGCC expects the contract during fiscal year 2019, which will include quarterly funding thereafter. MGCC will continue to absorb the expenses associated with this program.

### 13. RELATED PARTY TRANSACTION

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

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**

Notes to General Purpose Financial Statements  
June 30, 2018 and 2017

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**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**

**SUPPLEMENTAL INFORMATION  
JUNE 30, 2018**

- 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 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.

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**

Supplemental Statement of Net Position  
June 30, 2018

<u>Assets</u>	MGCC	State Small Business Credit Initiative	Federal Title IX Revolving Loan Fund #1	Federal Title IX Revolving Loan Fund #2	Small Business Administration	Total
<b>Current Assets:</b>						
Cash and cash equivalents - restricted	\$ 14,737,214	\$ 10,607,910	\$ 470,884	\$ 619,965	\$ 67,645	\$ 26,503,618
Accounts receivable	13,681	-	125	3,025	-	16,831
Current portion of loans receivable, net of allowance for uncollectible loans of approximately \$846,000	2,557,357	1,729,819	343,150	351,042	13,480	4,994,848
Accrued interest receivable on loans, net of allowance for uncollectible amounts of approximately \$67,000	206,459	98,846	15,495	31,225	404	352,429
Prepaid expenses and other	64,420	-	-	-	-	64,420
<b>Total current assets</b>	<b>17,579,131</b>	<b>12,436,575</b>	<b>829,654</b>	<b>1,005,257</b>	<b>81,529</b>	<b>31,932,146</b>
Loans Receivable, net of current portion and allowance for uncollectible loans of approximately \$2,933,000	9,347,623	5,771,906	849,690	1,437,880	65,834	17,472,933
Capital Assets, net	55,172	-	-	-	-	55,172
<b>Total assets</b>	<b>\$ 26,981,926</b>	<b>\$ 18,208,481</b>	<b>\$ 1,679,344</b>	<b>\$ 2,443,137</b>	<b>\$ 147,363</b>	<b>\$ 49,460,251</b>
<b>Liabilities and Net Position</b>						
<b>Current Liabilities:</b>						
Accounts payable, accrued expenses and other	\$ 103,374	\$ -	\$ -	\$ -	\$ -	\$ 103,374
Current portion of notes payable	1,000,000	-	-	-	22,020	1,022,020
Interfund (receivable) payable	(3,750,863)	3,750,863	-	-	-	-
<b>Total current liabilities</b>	<b>(2,647,489)</b>	<b>3,750,863</b>	<b>-</b>	<b>-</b>	<b>22,020</b>	<b>1,125,394</b>
Notes Payable, net of current portion	-	-	-	-	124,311	124,311
<b>Total liabilities</b>	<b>(2,647,489)</b>	<b>3,750,863</b>	<b>-</b>	<b>-</b>	<b>146,331</b>	<b>1,249,705</b>
<b>Net Position:</b>						
Restricted - State Small Business Credit Initiative	-	14,457,618	-	-	-	14,457,618
Restricted - Federal Title IX RLF	-	-	1,679,344	2,443,137	-	4,122,481
Restricted - SBA Revolving Loan Fund	-	-	-	-	1,032	1,032
Restricted by enabling legislation	29,629,415	-	-	-	-	29,629,415
<b>Total net position</b>	<b>29,629,415</b>	<b>14,457,618</b>	<b>1,679,344</b>	<b>2,443,137</b>	<b>1,032</b>	<b>48,210,546</b>
<b>Total liabilities and net position</b>	<b>\$ 26,981,926</b>	<b>\$ 18,208,481</b>	<b>\$ 1,679,344</b>	<b>\$ 2,443,137</b>	<b>\$ 147,363</b>	<b>\$ 49,460,251</b>

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Supplemental Statement of Revenues, Expenses and Changes in Net Position  
For the Year Ended June 30, 2018

	MGCC	State Small Business Credit Initiative	Federal Title IX Revolving Loan Fund #1	Federal Title IX Revolving Loan Fund #2	Small Business Administration	Total
<b>Operating Revenues:</b>						
Interest income on loans	\$ 1,060,276	\$ 949,408	\$ 101,659	\$ 160,413	\$ 1,220	\$ 2,272,976
Loan origination fees and other	180,197	61,700	9,300	20,100	-	271,297
Interest income on cash reserves	167,173	80,292	2,565	6,584	13	256,627
Other revenue	545,700	(545,700)	-	-	-	-
Total operating revenues	<u>1,953,346</u>	<u>545,700</u>	<u>113,524</u>	<u>187,097</u>	<u>1,233</u>	<u>2,800,900</u>
<b>Operating Expenses:</b>						
Employee compensation	2,173,252	29,329	10,495	8,858	-	2,221,934
Professional fees	252,181	11,338	3,605	4,733	-	271,857
Occupancy	187,533	-	1,695	2,333	-	191,561
Meetings	54,864	-	444	612	-	55,920
Supplies	34,772	-	467	702	-	35,941
Printing and postage	18,594	-	106	157	-	18,857
Advertising	16,831	-	243	398	-	17,472
Information technology	17,105	-	98	172	-	17,375
Insurance	16,901	-	161	226	-	17,288
Other expenses	14,655	522	320	434	58	15,989
Travel	15,446	259	57	107	-	15,869
Telephone	14,141	-	110	160	-	14,411
Dues and memberships	10,570	-	75	105	-	10,750
Portfolio and credit administration	6,068	-	-	-	-	6,068
Depreciation	5,790	-	55	79	-	5,924
Maintenance and repair	3,966	-	41	58	-	4,065
Interest expense	-	-	-	-	143	143
Total operating expenses	<u>2,842,669</u>	<u>41,448</u>	<u>17,972</u>	<u>19,134</u>	<u>201</u>	<u>2,921,424</u>
Changes in net position from operations before loan loss recovery (provision)	(889,323)	504,252	95,552	167,963	1,032	(120,524)
<b>Loan Loss Recovery</b>	107,446	7,516	-	-	-	114,962
<b>Loan Loss Provision Transfer</b>	(419,846)	419,846	-	-	-	-
<b>Loan Loss Provision</b>	<u>(266,616)</u>	<u>(847,207)</u>	<u>24,410</u>	<u>(207,782)</u>	<u>-</u>	<u>(1,297,195)</u>
Changes in net position from operations	<u>(1,468,339)</u>	<u>84,407</u>	<u>119,962</u>	<u>(39,819)</u>	<u>1,032</u>	<u>(1,302,757)</u>
<b>Non-Operating Revenue (Expense):</b>						
State appropriations	3,975,000	-	-	-	-	3,975,000
Grant expense	(3,988,806)	-	-	-	-	(3,988,806)
Total non-operating revenue (expense)	<u>(13,806)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,806)</u>
Changes in net position	<u>(1,482,145)</u>	<u>84,407</u>	<u>119,962</u>	<u>(39,819)</u>	<u>1,032</u>	<u>(1,316,563)</u>
<b>Net Position, June 30, 2017</b>	<u>31,111,560</u>	<u>14,373,211</u>	<u>1,559,382</u>	<u>2,482,956</u>	<u>-</u>	<u>49,527,109</u>
<b>Net Position, June 30, 2018</b>	<u>\$ 29,629,415</u>	<u>\$ 14,457,618</u>	<u>\$ 1,679,344</u>	<u>\$ 2,443,137</u>	<u>\$ 1,032</u>	<u>\$ 48,210,546</u>

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**

Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2018

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<u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Commerce</b>			
Direct Funding:			
Economic Development Cluster:			
Economic Adjustment Assistance	11.307	N/A	<u>\$ 3,486,651</u>

**Note 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal assistance activity of MGCC and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

**Note 2. Federal Loans and Guarantees**

A predecessor of MGCC received \$4,000,000 in grants from the Economic Development Administration (EDA) of the U.S. Department of Commerce under Federal Title IX to create revolving loan funds (RLF). The purpose of the Federal Title IX RLF is to address actual and anticipated defense-related economic dislocations or other adjustment problems throughout the Commonwealth. Under the terms of these agreements, MGCC must match one-third of the amounts appropriated by EDA to fund each Federal Title IX RLF. RLF loans and credit lines totaling \$3,293,023 were outstanding at June 30, 2018.

**Note 3. Value of Federal Awards Expended**

The value of Federal awards expended under this program is the total of a) amount of outstanding loan balances funded by the EDA funds (\$3,293,023), plus b) any cash balances (\$1,090,849), plus c) administrative expenses paid out of the RLF income during the fiscal year (\$36,926), plus d) any write-off of RLF loans during the fiscal year (\$228,070). This total is then multiplied by 75%, which is the Federal Share, (\$3,486,651).

**Note 4. Indirect Cost Rate**

MGCC has elected not to use the 10% de minimis cost rate for its Federal programs.



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**Report on Internal Control Over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements Performed in Accordance  
With Government Auditing Standards**

Independent Auditor's Report

To the Board of Directors of  
Massachusetts Growth Capital Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the general purpose financial statements of Massachusetts Growth Capital Corporation (a component unit of the Commonwealth of Massachusetts) (MGCC), which comprise the statement of net position as of June 30, 2018, and the related statements of revenues and expenses, changes in net position and cash flows for the year then ended, and the related notes to the general purpose financial statements, and have issued our report thereon dated October 11, 2018.

**Internal Control Over Financial Reporting**

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

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

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

## Compliance and Other Matters

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

## Purpose of this Report

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



Boston, Massachusetts  
October 11, 2018



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**Report on Compliance for Each Major Federal Program and Report on Internal Control  
Over Compliance Required by the Uniform Guidance**

**Independent Auditor's Report**

To the Board of Directors of  
Massachusetts Growth Capital Corporation:

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

We have audited Massachusetts Growth Capital Corporation's (a component unit of the Commonwealth of Massachusetts) (MGCC) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on MGCC's major Federal program for the year ended June 30, 2018. MGCC's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal program.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for MGCC's major Federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about MGCC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

In our opinion, MGCC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended June 30, 2018.

## Report on Internal Control Over Compliance

Management of MGCC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to on page 23. In planning and performing our audit of compliance, we considered MGCC's internal control over compliance with the types of requirements that could have a direct and material effect on the major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MGCC's internal control over compliance.

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

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

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



Boston, Massachusetts  
October 11, 2018

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**

Schedule of Findings and Questioned Costs  
June 30, 2018

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

**General Purpose Financial Statements**

Type of auditor's report issued on whether the general purpose financial statements audited were prepared in accordance with GAAP: Unmodified

Is a "going concern" emphasis-of-matter paragraph included in the auditor's report?  Yes  No

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported

Noncompliance material to general purpose financial statements noted?  Yes  No

**Federal Awards**

Internal control over major Federal program:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  Yes  No

Identification of major Federal program:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Economic Development Cluster	11.307

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?  Yes  No

**2. GENERAL PURPOSE FINANCIAL STATEMENT FINDINGS**

None

**3. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None