COMMONWEALTH OF MASSACHUSETTS

Executive Office of Housing and Economic Development

OFFICE OF PERFORMANCE MANAGEMENT & OVERSIGHT

Massachusetts Business Development Corporation (MBDC)
Capital Access Program

FISCAL 2015 ANNUAL REPORT

INTRODUCTION

The MBDC Fiscal 2015 Annual Report complies with the requirements of the Office of Performance Management Oversight created by Chapter 240 of the Acts of 2010 – An Act Relative to Economic Development Reorganization. It includes goals set for the year and the performance measurements by which to evaluate goals, programs, and initiatives.

AGENCY OVERVIEW

MBDC works with financial institutions and small businesses within the Commonwealth to impact "Main Street" business creation and expansion through lending to smaller businesses.

The Capital Access Program (CAP) is designed to help small businesses (with less than $5 million in revenues) throughout Massachusetts obtain loans from participating banks. Using a cash collateral guarantee from a loan loss reserve fund, this program enables banks to make loans they might otherwise be unable to grant.

Loans guaranteed through this program may be used to start or expand businesses, or to provide permanent working capital to ensure continued profitable operations. Typical uses are equipment or inventory purchases and startup costs.

Since 1993 the state had invested $15.5 million to leverage over $347 million in private capital and had received more than $150 million in return on its investment. Over 5,500 small businesses in Massachusetts have received funding from CAP creating/retaining more than 39,000 jobs. Many of these jobs are located in our Gateway cities and towns.

CAP has been depleted of matching funds since February 2015. There is a $1.1 million funding that is in the final approval stages that will allow us to obtain $1.5 million in matching federal funds to help businesses in the CAP program.

FISCAL YEAR 2015 ANNUAL REPORT

GOALS	STRATEGY	MEASURMENTS
Create and Retain Jobs	CAP will analyze and track job creation and retention for each company financed.	Goal of 1,950 jobs created or retained; actual 2,826
Assist Main Street businesses in obtaining loans to start or expand business opportunities	CAP will continue its outreach efforts within the banking and small business community to increase program usage.	Goal of assisting 280 businesses; actual 255 (see note 1)
Leverage private sector financing by attracting bank loans into these companies	CAP will continue to market the program Through the MA Bankers Association And direct presentations to the banking community.	Goal of $15 million; actual: $15.1 million
Utilize state funds efficiently to stimulate job creation and retention	CAP will track all private sector investment to maximize private investment/minimize state investment in job creation activities	Cost per job created or retained <$300; actual $205
Invest state funds effectively by Impacting Main Street business Expansion in Gateway cities	CAP will promote the inner city Gateway Program within their communities	Goal of18%; actual 14% (see note 2)
(Note 1) CAP funding depleted February 2015. (Note 2) Due to limited funding increased match to Gateways was not achieved.		

CONTACTS:

Head of Agency:	Kenneth J. Smith, President	781-928-1111
Lead Contact:	David Harrington, Director of CAP	781-928-1117
Address:	Massachusetts Business Development Corporation	
	500 Edgewater Drive, Suite 555	
	Wakefield, MA 01880	

Massachusetts Business Development Corporation and Subsidiaries and Affiliate

Combined Financial Statements

Year Ended December 31, 2014

Massachusetts Business Development Corporation and Subsidiaries and Affiliate

COMBINED FINANCIAL STATEMENTS
Year Ended December 31, 2014

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McGladrey

INDEPENDENT AUDITOR'S REPORT

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

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Massachusetts Business Development Corporation and Subsidiaries and Affiliate which comprise the combined balance sheet as of December 31, 2014, and the related combined statements of operations, stockholders' equity, and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Massachusetts Business Development Corporation and Subsidiaries and Affiliate as of December 31, 2014, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

McGladrey LLP

Boston, Massachusetts
March 25, 2015

Massachusetts Business Development Corporation and Subsidiaries and Affiliate

Combined Balance Sheet
December 31, 2014

ASSETS	
Cash and cash equivalents	$ 11,286,415
Restricted cash	130,782
Loans receivable	48,391,242
Allowance for loan losses	(2,319,451)
Net loans receivable	46,071,791
Interest receivable	278,071
Fees receivable	360,444
Other receivables	114,845
Equity method investments	1,480,430
Cost basis investments	2,407,279
Trading securities	2,179,512
Deferred tax asset	2,407,650
Property and equipment, net	128,767
Other assets	462,773
Total assets	$ 67,308,759
LIABILITIES AND STOCKHOLDERS' EQUITY	
Notes payable to members	$ 50,500,000
Accounts payable and other accrued liabilities	3,405,806
Income taxes payable	96,668
Borrowers' deposits	282,944
Accrued interest payable	55,645
Deferred income	85,982
Total current liabilities	54,427,045
SSBCI funding	3,690,479
Commitments and Contingencies, (Note 9)	
Stockholders' equity:	
Common stock, $1 par value - 4,000,000 authorized; 165,382 shares issued and outstanding	165,382
Capital in excess of par value	1,786,101
Retained earnings	7,239,752
Total stockholders' equity	9,191,235
Total liabilities and stockholders' equity	$ 67,308,759

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

Massachusetts Business Development Corporation and Subsidiaries and Affiliate

Combined Statement of Operations
Year Ended December 31, 2014

Interest income:	
Interest on loans	$ 2,639,463
Interest on cash and cash equivalents	8,308
Total interest income	2,647,771
Interest expense	315,301
Net interest income	2,332,470
Provision for loan losses	388,000
Net interest income after provision for loan losses	1,944,470
Non-interest income:	
Loan servicing and processing fees	2,424,867
Contract revenue for loan and other management programs	1,008,054
Management fees	687,500
Income allocated from equity method investments	210,172
Net realized gain on investments sold	237,906
Net change in unrealized gain/(loss) on investments	(90,778)
Other income	667,195
Total non-interest income	5,144,916
Total income after provision for loan losses	7,089,386
Non-interest expense:	
Employee compensation and benefits	4,991,988
Rent	209,438
Depreciation and amortization	104,518
Professional services	220,625
Travel and entertainment	227,928
Other expenses	643,525
Total non-interest expense	6,398,022
Income before provision for taxes	691,364
Income tax expense	(218,468)
Net income	$ 472,896

Massachusetts Business Development Corporation and Subsidiaries and Affiliate

Combined Statement of Stockholders' Equity
Year Ended December 31, 2014

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings	Total Stockholders' Equity
Balance, December 31, 2013	165,382	$ 165,382	$ 1,786,101	$ 6,791,663	$ 8,743,146
Net income	-	-	-	472,896	472,896
Dividends paid ($0.15 per share)	-	-	-	(24,807)	(24,807)
Balance, December 31, 2014	165,382	$ 165,382	$ 1,786,101	$ 7,239,752	$ 9,191,235

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

Massachusetts Business Development Corporation and Subsidiaries and Affiliate

Combined Statement of Cash Flows
Year Ended December 31, 2014

Cash flows from operating activities:	
Net income	$ 472,896
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for loan losses	388,000
Depreciation and amortization	104,518
Income allocated from equity method investments	(210,172)
Net realized gain on investments sold	(237,906)
Net change in unrealized loss on investments	90,778
Changes in assets and liabilities:	
Increase in restricted cash	(196)
Increase in interest receivable	(53,614)
Increase in fees receivable and other assets	(48,644)
Increase in other receivables	(93,438)
Increase in deferred income taxes	(486,185)
Decrease in taxes payable	(15,753)
Increase in accounts payable and other accrued liabilities	395,907
Increase in borrowers' deposits	72,785
Increase in accrued interest payable	19,078
Increase in deferred income	22,222
Net cash provided by operating activities	420,276
Cash flows from investing activities:	
Net increase in loans	(10,964,281)
Distributions received from investments	317,074
Purchases of investments	(2,511,670)
Distributions from equity method investments	1,850,234
Purchases of property and equipment	(67,925)
Net cash used in investing activities	(11,376,568)
Cash flows provided by financing activities:	
Borrowing of notes payable to members	33,000,000
Repayment of notes payable to members	(15,000,000)
Net decrease in short term notes payable	(1,050,000)
Net increase in SSBCI Funding	1,627,044
Dividends paid	(24,807)
Net cash provided by financing activities	18,552,237
Increase in cash and cash equivalents	7,595,945
Cash and cash equivalents, beginning of year	3,690,470
Cash and cash equivalents, end of year	$ 11,286,415

Supplemental disclosures of cash flow information:

Cash paid during the year for:	
Interest	$ 296,224
Income taxes	$ 729,956

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

Massachusetts Business Development Corporation and Subsidiaries and Affiliate
Notes to Combined Financial Statements
Year Ended December 31, 2014

1. ORGANIZATION

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Use of Estimates

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Cash, Cash Equivalents and Restricted Cash

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

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

Concentration of Credit Risk

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

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

Operating Leases

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

Equity Method Investments

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

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

Massachusetts Business Development Corporation and Subsidiaries and Affiliate

Notes to Combined Financial Statements
Year Ended December 31, 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Equity Method Investments...continued

For the year ended December 31, 2014, the pertinent financial information pertaining to MBDC's investments in the Funds is as follows:

	Carrying Value	Fund Net Ownership Share	Fund Income (Loss)	MBDC Share of Net Income (Loss)
MB Capital Fund II, LLC[a]	$ 56,336	23.26 %	$ 46,810	$ 11,843
MB Capital Fund III, LLC[b]	1,424,094	18.18 %	$ 574,109	198,329
	$ 1,480,430			$ 210,172

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

Other Investments

The Company has investments, each representing less than a 20% ownership interest, in several venture funds as of December 31, 2014, which are accounted for at cost. The Company evaluates each investment to determine if any impairment exists at each reporting date. There was no impairment charge recorded for the year ended December 31, 2014 related to the investments held. These investments have a remaining unimpaired cost of $2,407,279 at December 31, 2014.

In addition, the Company held trading securities in a public company and other publicly traded investments. The Company reports these at fair value with increases or decreases in fair value recorded in earnings. During 2014, the Company recorded a decrease in fair value to the equity securities held of $90,778, resulting in a fair value of $2,179,512 at December 31, 2014.

Loans Receivable

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Loans Receivable...continued

At December 31, 2014, there were no loans on non-accrual status.

Nonrefundable loan origination fees and certain direct loan origination costs are deferred and recognized as an adjustment of the yield of the related loan. At December 31, 2014, net deferred costs of $50,837 are included in loans receivable in the accompanying combined balance sheet.

Allowance for Loan Losses

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

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

Impaired Loans

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

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

As of December 31, 2014, there were no impaired loans.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Section 504 Loans

On behalf of the SBA, NECDC grants long-term loans to small business concerns in New England that generate further economic activity and employment within New England. Serving as a conduit between the SBA and borrowers, NECDC administers and services the loans originated through the SBA Section 504 lending program. Long-term loans granted to small businesses are funded through the sale of debentures by and on behalf of the SBA that are subsequently marketed to the investing public through the Federal Financing Bank or private investors. Since a borrower is obligated to the SBA, the Federal Financing Bank or private investors, loans receivable and debentures payable are not recorded as assets and liabilities, respectively, by NECDC or the Company. As of December 31, 2014, NECDC services loans with an outstanding balance of $239,275,889.

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

At December 31, 2014, $6,525,264 in loans were outstanding under PCLP. NECDC has placed an amount in excess of the required 1%, or $130,782, of the total loan balance in a restricted cash account. Since the Company assumes all expenses of NECDC, a liability for the estimated loss is recorded by the Company.

At December 31, 2014, the SBA, through NECDC, had 67 loan commitments totaling approximately $57,936,000 that are outstanding under the SBA's Section 504 lending program.

Loan Servicing Rights

In November 2005, the SBA assigned the portfolio servicing rights of the Section 504 loan portfolio with an outstanding principal balance of $20,400,000 of Commercial Loan Partners to NECDC. As part of the assignment, NECDC assumed certain liabilities of Commercial Loan Partners in the amount of $241,097 and recorded an intangible asset in that amount. The servicing rights are being amortized using the proportional method. Amortization amounted to $18,790, for the year ended December 31, 2014. The remaining balance of the loan servicing rights is expected to be amortized over its remaining life of 3.6 years.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to amortized costs. No impairment of the loan servicing rights was identified during the year ended December 31, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Property and Equipment

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

Depreciation is based on the following estimated useful lives:

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

Transfers of Financial Assets

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

During the normal course of business the Company may transfer a portion of a financial asset, for example, a participant loan. In order to be eligible for sales treatment, the transfer of the portion of the loan must meet the criteria of a participating interest. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing. In order to meet the criteria of a participating interest, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have the same priority, the loan holders must have no recourse to the transferor other than standard representations and warranties and no loan holder has the right to pledge or exchange the entire loan. At December 31, 2014, there were no transfers of financial assets that were accounted for as secured borrowings.

Service, Processing Fees and Interest Income

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Service, Processing Fees and Interest Income...continued

In addition to these fees, NECDC also earns a share of the interest on the "float" related to SBA loans. Customers make monthly loan payments to the SBA. These loan payments are used by the SBA to make the payments on the debentures. Since the debentures require only semi-annual payments, the SBA earns interest on the float, which is shared with NECDC on a pro rata basis. The amount received in 2014 was $32,926, and is reflected in other income in the Statement of Operations.

Loans and Other Management Programs

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

Borrowers' Deposits

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

Income Taxes

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Income Taxes...continued

The Company had no uncertain tax positions requiring recognition as a liability at December 31, 2014. The Company's current and prior three tax years remain subject to examination.

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

3. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable at December 31, 2014, consisted of one class of loans, commercial loans, as follows:

Commercial loans:	
Term loans	$ 29,670,504
Revolving lines of credit	18,669,901
	48,340,405
Deferred loan origination costs and fees, net	50,837
Allowance for loan losses	(2,319,451)
Loans, net	$ 46,071,791

Activity in the allowance for loan losses for the year ended December 31, 2014 was as follows:

Balance at December 31, 2013	$ 1,995,129
Provision for loan losses	388,000
Loan charge off	(63,678)
Balance at December 31, 2014	$ 2,319,451

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

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

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

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

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

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

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

Loans rated CR – Collateral Review – Loans in this category exhibit the characteristics of a loan rated 5 – Substandard, with the additional characteristic that collection or liquidation in full would be improbable. As a result a review of the collateral is performed to determine a specific reserve to assign to loans in this category.

SBA and other guarantees – Loans in this category typically contain an SBA 7(a) guaranty. As a result, there is essentially no risk of loss associated with loans in this category.

The following table represents the Company's loans, net of SBA and other guarantees, by risk rating at December 31, 2014:

Pass	$ 22,897,237	47.4 %
AC – OAEM	10,785,436	22.3 %
4 – OAEM	6,587,676	13.6 %
5 – Substandard	670,982	1.4 %
CR – Collateral Review	-	- %
SBA and other guarantees	7,399,074	15.3 %
	$ 48,340,405	100.0 %

At December 31, 2014, there were no past due loans.

Specific loan loss reserves have been established for all 5 and CR rated loans. The established reserves for these loans are adequate to cover management's estimates of potential loan losses should liquidation be required. Specific loan loss reserves have been established for all 5 and CR rated loans and total approximately $207,000. The established reserves for these loans are adequate to cover management's estimates of potential loan losses should liquidation be required. All other loans have been collectively evaluated for impairment based upon their homogenous nature and are evaluated by their assigned internal risk rating.

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31 2014:

Furniture and fixtures	$ 81,277
Computer equipment	323,270
Leasehold improvements	79,312
Vehicles	84,758
	568,617
Accumulated depreciation	(439,850)
	$ 128,767

Depreciation expense was $85,728 for the year ended December 31, 2014.

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5. FAIR VALUE MEASUREMENTS

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

The fair value hierarchy is summarized as follows:

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

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

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

Fair Value on a Recurring Basis

The following table represents the fair value hierarchy for the Company's financial assets measured at fair value on a recurring basis as of December 31, 2014. These financial assets are included in other investments in the accompanying balance sheet.

	Level 1	Level 2	Level 3	Total
Trading securities	$ 2,179,512	$ -	$ -	$ 2,179,512
	$ 2,179,512	$ -	$ -	$ 2,179,512

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

Fair Value on a Non-recurring Basis

	Level 1	Level 2	Level 3	Total
Collateral dependent loans	$ -	$ -	$ 1,415,197	$ 1,415,197
	$ -	$ -	$ 3,822,476	$ 3,822,476

During 2014, the Company did not recognize any impairment on its cost method investments.

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6. NOTES AND LOANS PAYABLE TO MEMBERS

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

MBDC's outstanding borrowings from its Members are unsecured and consist of the following at December 31, 2014:

Series	Interest Rate	Date Due	Amount
YY	30 Day LIBOR plus 0.5%	September 30, 2015	$ 10,000,000
ZZ	30 Day LIBOR plus 0.5%	May 23, 2017	7,500,000
AA	30 Day LIBOR plus 0.5%	April 25, 2019	7,799,786
BB	30 Day LIBOR plus 0.5%	July 21, 2019	7,200,214
CC	30 Day LIBOR plus 0.5%	September 9, 2019	9,000,000
DD	30 Day LIBOR plus 0.5%	November 25, 2019	7,114,734
DD	30 Day LIBOR plus 2.0%	November 25, 2019	1,885,266
			$ 50,500,000

Each of the Member notes was issued with an original maturity period of five years. The weighted average interest rate during 2014 was 0.7765% on the Member notes and other short-term borrowings on the Company's line of credit.

The interest rate on the Member notes is adjusted monthly. Interest is payable semi-annually in arrears. Principal and interest can be prepaid at any time without penalty. The interest rate on the notes payable to Members at December 31, 2014 was 0.6535% for outstanding balances less than 50% of each member's limit and 2.1535% for outstanding balances in excess of 50% of each member's limit. At December 31, 2014, MBDC could borrow up to approximately $145,624,000 of additional funds from Members.

In addition, the Company has a line of credit agreement with Berkshire Bank which is scheduled to expire on August 21, 2016 and is renewable every two years. This agreement permits the Company to borrow up to $7,500,000 with interest at LIBOR based rates. At December 31, 2014, there was no balance outstanding on the line of credit. The interest rate in effect on the Company's line of credit at December 31, 2014 was 2.9035%. The line of credit has certain debt covenant requirements. At December 31, 2014 the Company was in compliance with those debt covenants.

7. STATE SMALL BUSINESS CREDIT INITIATIVE

In December 2011, the Company received the first installment of $2,697,300 from the Commonwealth of Massachusetts (the "State") under a federal economic development incentive program entitled State Small Business Credit Initiative ("SSBCI"). In March, 2014, the Company received the second installment of $1,907,600.

The Company has been informed by the State that additional amounts may be available in the future. Funds received under the SSBCI, net of an allowance for administrative fees of 5% on the initial installment and 3% on subsequent installments, are to be leveraged in conjunction with other participating lenders for qualifying loan programs and to fund existing "capital access" programs maintained by various banks.

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

A breakdown of the components of the liability at December 31, 2014 is as follows:

Funds available for loan participations	$ 1,726,262
Funds deployed in loan participations	1,727,496
Funds available for capital access premiums	236,721
Total SSBCI funding	$ 3,690,479

As of December 31, 2014, the Company had paid a total of $782,937 of capital access premiums, of which $266,301 were paid during 2014. Additionally, for the year ended December 31, 2014, the Company recognized interest income of $55,214 on SSBCI loan participations and was reimbursed for administrative expenses equal to that amount.

8. INCOME TAXES

The components of the income tax expense for the year ended December 31, 2014 are as follows:

Current	$ 704,653
Deferred	(486,185)
	$ 218,468

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8. INCOME TAXES...continued

The components of the net deferred tax asset at December 31, 2014 are as follows:

Deferred tax assets:		
Allowance for loan losses	$	828,381
Unrealized loss on investments		423,951
Partnership pass-throughs		270,745
Accrued expense		891,156
Deferred tax assets		2,414,233
Deferred tax liabilities:		
Depreciation and amortization		6,583
Deferred loan origination costs		-
Deferred tax liabilities		6,583
Net deferred tax asset	$	2,407,650

A valuation allowance is required against deferred tax assets if it is more likely than not that some or all of the deferred tax assets will not be realized. At December 31, 2014, there is no valuation allowance established, as the Company has determined that no such allowance is required.

The Company's effective tax rate in 2014 approximates the Federal statutory tax rate.

9. COMMITMENTS AND CONTINGENCIES

MBDC leases its main office location under a non-cancelable operating lease that expires on June 30, 2017. MBDC also leases a satellite office location in Hartford, CT under a non-cancellable lease expiring on November 30, 2015, and has three sub-lease agreements for office space in Providence, RI; Portland, ME; and Concord, NH where MBDC is a tenant-at-will. Rent expense was $209,438 in 2014. At December 31, 2014, future minimum lease payments were as follows:

2015	$	189,444
2016		168,388
2017		85,080
	$	442,912

The Company had $1,743,553 in investment commitments outstanding at December 31, 2014. In addition, there were $6,202,764 in loan commitments at December 31, 2014.

10. EMPLOYEE BENEFITS

MBDC may make discretionary contributions to its employees' individual retirement accounts. During 2014, MBDC contributed $518,228 to these accounts.

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11. RELATED PARTY TRANSACTIONS

MBDC acts as the fund manager for the Funds, receiving a management fee from each of these Funds for providing personnel, office space, supplies, and operating administrative and clerical services. The Funds have agreed to pay MBDC, on a quarterly basis, an annual management fee of 2.5% of the total committed capital of each Fund for these services until the respective closing dates of each Fund. The management fee is subject to reductions from this rate as defined by the limited liability agreements of each Fund. Total management fees earned in 2014 were $687,500.

NECDC has a service agreement with Pine Tree State Certified Development Corporation ("PTSCDC") whereby NECDC performs certain administrative and operational functions for PTSCDC and, in exchange received fees at contractually agreed upon rates for management and administrative services provided. The contractually agreed upon rates are designed to cover payroll, occupancy, and other costs related to these functions. The management fee income for the year ended December 31, 2014 was $40,839.

12. SUBSEQUENT EVENTS

The Company evaluates its December 31, 2014 combined financial statements for events through March 25, 2015, the date the financials were available to be issued.