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OFFICE OF PERFORMANCE MANAGEMENT AND OVERSIGHT

Massachusetts Growth Capital Corporation

Annual Report for 2017 Fiscal Year

The Massachusetts Growth Capital Corporation (MGCC) 2017 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 metrics to evaluate goals, programs, and initiatives.

AGENCY OVERVIEW

General Description

MGCC is a small business loan fund providing working capital to small businesses, minority owned and women owned businesses, to create and maintain jobs in the Commonwealth. MGCC lends to businesses unable to access credit from traditional lenders or are unable to get additional credit from an existing lender. Consequently, each loan is customized to solve a specific financing problem using term loans, lines of credit, partial and limited guarantees, over advances, contract financing, or a combination of these tools. MGCC also manages a competitive technical assistance grant program to assist non-profits around the State to provide skilled assistance to small businesses in their regions, this program is subject to funding from the FY 2017 State budget. Additionally, a turn-around management assistance program is operated to provide financial, management and operational and problem solving to companies, either currently in the loan portfolio or to potential borrowers.

Mission

Massachusetts Growth Capital Corporation creates and preserves jobs at small businesses, including woman, immigrant, veteran and minority owned businesses, and promotes economic development in underserved, Gateway cities and low and moderate income communities.

Annual Budget

Annual projected revenues of approximately \$3MM.

FY2017 REPORT DETAILS

Goal: Increase the overall total loans closed to \$13,250,000 annually.

Strategy	Measurement(s)	Outcome(s)
<ul style="list-style-type: none"> - Continue emphasis on outreach to key partners. -Effective marketing materials. -Regular Business Development meetings. 	<ul style="list-style-type: none"> - Measure number of new loans approved and closed on a quarterly basis to overall plan. - Current pipeline reports to ensure robust activity bi-weekly. -Quarterly review of activity. 	<ul style="list-style-type: none"> • 34 loans for \$14.8MM

Goal: Sustain and increase the number of loans to businesses in Gateway Cities and underserved communities to 30%.

Strategy	Measurement(s)	Outcome(s)
<ul style="list-style-type: none"> -Increase outreach to Gateway Cities and underserved communities in the Commonwealth. -Utilize products and programs to promote loans to businesses in Gateway Cities including Diversity Goal Support, LISC, MassHousing. 	<ul style="list-style-type: none"> -Measure the number of loans in Gateway Cities and underserved communities quarterly compared to the total number of loans. -Quarterly meetings with LISC and MassHousing. 	<ul style="list-style-type: none"> • Overall- 22.5% • FY2017-25.7%

Goal: Sustain and increase the number of loans to minority owned businesses to 25%.

Strategy	Measurement(s)	Outcome(s)
<ul style="list-style-type: none"> -Increase outreach to minority owned companies. -Utilize products and programs to promote loans to minority owned businesses including Diversity Goal Support, LISC, MassHousing. 	<ul style="list-style-type: none"> -Measure the number of loans to minority owned companies quarterly compared to the total number of loans. -Quarterly meetings with LISC and MassHousing. 	<ul style="list-style-type: none"> • Overall- 16% • Fy2017-11.4%

Goal: Sustain and increase the number of loans to women owned businesses to 25%. Work with partner organizations to market to targeted businesses.

Strategy	Measurement(s)	Outcome(s)
<ul style="list-style-type: none"> -Increase outreach to women owned companies in the Commonwealth. -Utilize products and programs to promote loans to women owned businesses including Diversity Goal support, LISC, MassHousing. 	<ul style="list-style-type: none"> -Measure the number of loans to women owned companies quarterly compared to the total number of loans for that quarter. -Quarterly meetings with LISC and MassHousing. 	<ul style="list-style-type: none"> • Overall-13.5% • FY2017-3%

Goal: Increase outreach calling goals per loan officer to 20 per month, including at least 5 to be joint calls

with state partners.

Strategy	Measurement(s)	Outcome(s)
-Monthly call report completed by loan officer. -Emphasis on calling with state partners	-Review quarterly call activity with loan officers individually. -Review joint calling efforts of individual officers and organizations.	<ul style="list-style-type: none">• 467 calls and meetings conducted

Goal: Small Business Technical Assistance Grant Program

Strategy	Measurement(s)	Outcome(s)
- Outreach to all grant recipients promoting the program and support.	-Semi-annual review of results from grantees.	<ul style="list-style-type: none">• 32 Grantees, \$950,000 awards• 1,694 businesses received technical assistance (financial management and construction management assistance)• 55% Women-Owned• 51% Minority-Owned• 32% Immigrant-Owned• 61% From Low to Moderate Income Communities

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**FY2017 Small Business Technical Assistance Funds Disbursement Schedule
FY 2017 (July 1, 2016 -June 30, 2017)**

FY 2017 Grantees	Awarded Amount
ACCION East	\$ 10,000
Artmorpheus	\$ 25,000
Blackstone Valley Chamber of Commerce	\$ 35,000
Carrot Project	\$ 25,000
Center for Women and Enterprise	\$ 30,000
Coastal Community Capital	\$ 40,000
Commonwealth Kitchen (Crop Circle Kitchen)	\$ 35,000
Community Development Partnership-Cape CDP	\$ 40,000
Community Economic Development Center of South East Mass.	\$ 35,000
Community Teamwork, Merrimack Valley Small Business Center	\$ 30,000
Cooperative Fund of New England	\$ 15,000
Dorchester Bay EDC	\$ 20,000
E for All	\$ 40,000
Franklin County CDC	\$ 60,000
Hispanic American Institute, Inc (NEW)	\$ 10,000
Interise	\$ 20,000
Jamaica Plain NDC	\$ 40,000
Lawrence Partnership (NEW)	\$ 10,000

**FY2017 Small Business Technical Assistance Funds Disbursement Schedule
FY 2017 (July 1, 2016 -June 30, 2017)**

Mass MoCa	\$	40,000
Mill Cities Community Investment	\$	35,000
New Bedford Economic Development Council	\$	20,000
New Vue (Former Twin Cities CDC)	\$	40,000
North Central Mass Development Corporation	\$	20,000
North Shore Community Development Coalition (NEW)	\$	10,000
Nuestra Comunidad Development Corporation/LISC	\$	35,000
Nuestras Raices	\$	30,000
Pittsfield Economic Revitalization Corp. (PERC)	\$	25,000
Quaboag Valley CDC	\$	40,000
Quincy 2000 Collaborative	\$	20,000
Southeast Asian Coalition of Massachusetts (NEW)	\$	30,000
SMOC-South Middlesex Opportunity Council	\$	20,000
SPARK-Greater Holyoke Chamber (Centennial foundation)	\$	30,000
TOTAL GRANT	\$	915,000



**GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

MASSACHUSETTS GROWTH CAPITAL CORPORATION

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June 30, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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 18 and 19 for the year ended June 30, 2017, 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, Cronson, Finning & Co., P.C.

Boston, Massachusetts
October 12, 2017

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Management's Discussion and Analysis
June 30, 2017 and 2016

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, 2017. 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, 2017, 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 18 and 19.

MGCC is a component unit of the Commonwealth of Massachusetts (the Commonwealth) that was formed on October 1, 2010, from the combination of two pre-existing entities, the Massachusetts Community Development Finance Corporation (MCDFC) and the Economic Stabilization Trust Fund (EST), as required by Chapter 40W of the Massachusetts General Laws. All assets, liabilities, and obligations from MCDFC and EST were transferred to MGCC as of October 1, 2010. The purpose of the merger was to expand upon the success and the mission of the predecessor entities and to recapitalize the merged organization. MGCC functions as a one-stop resource for debt financing for small businesses, including woman and minority-owned businesses and community development efforts. The purpose of MGCC is to create and preserve jobs and promote economic development, especially in underserved, gateway municipalities, and low and moderate-income communities.

By the terms of its enabling legislation, MGCC is governed by a twelve member Board of Directors. The Board is chaired by the Secretary of Housing and Economic Development, with the Secretary of Administration and Finance (A&F) as a director, along with ten other persons appointed by the Governor. Ten members have been appointed and confirmed as of the date of this report, with two 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, 2017 and 2016

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. As of June 30, 2017, MGCC has earned and received the entire allocation. MGCC has matched the principal of loans made with SSBCI capital on a 50/50 basis. Reporting is required for these funds through December, 2020.

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

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

Condensed Financial Information

Assets total \$51,072,985. The major components are:

Cash and Cash Equivalents - Restricted: MGCC began the fiscal year with a total of \$28,392,154 in cash. At June 30, 2017, cash totaled \$26,153,390. The net decrease of \$2,238,764 was due to new loans, and an increase in utilization of borrower's lines of credit and a decrease in early payoffs.

Loans Receivable: Loans receivable at June 30, 2017, totaled \$27,315,253, a net increase of \$2,255,333 from the previous year's \$25,059,920. MGCC disbursed \$9,710,026 in new loans and \$4,503,003 in advances on lines of credit and capitalized interest of \$55,482. During the fiscal year, MGCC received \$11,515,785 in principal payments, including early payoffs of \$1,800,273, and closed 28 loans totaling approximately \$10,492,000. The average closed loan amount in the current fiscal year was \$375,000 compared to \$247,000 in the previous year.

In fiscal year 2016, principal payments totaled \$8,111,072, including early payoffs of \$3,691,665, with 53 loans and guarantees closed totaling \$10,821,530.

The loan loss reserve increased to \$2,742,589 or 10% of loans receivable from \$2,245,315, or 9% of loans receivable, due to the continued monitoring of the portfolio and its risk. Ratings are reviewed quarterly and appropriate reserves established based on a risk rating matrix and understanding of collateral. Write offs for the current fiscal year of principal and interest were \$520,760.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Management's Discussion and Analysis
June 30, 2017 and 2016

Condensed Financial Information (Continued)

Liabilities total \$1,545,876. 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.

Collateral Escrow Agreement: MGCC entered into this agreement on March 28, 2017, with a loan customer. This agreement allows MGCC to hold \$375,000 of the borrower's funds in its general account until the borrower satisfies the financial reporting requirements. Subsequent to year end, MGCC returned \$200,000.

Accounts Payable, Accrued Expenses and Other: Accounts payable, accrued expenses and other at June 30, 2017, totaled \$170,876 compared to \$221,522 for the prior year. The decrease of \$50,646 was due to a decrease in accrued expenses.

Revenues: Operating revenues for 2017 totaled \$2,830,440 compared to \$2,786,707 for the prior year, an increase of \$43,733. The major components of the increase are portfolio interest income of \$247,299 and investment income of \$25,414 with these increases being offset with a reduction in loan fees of \$78,980 and grant administration revenue of \$150,000.

Expenses: Expenses for the year ended June 30, 2017, totaled \$2,845,187 compared to \$2,946,351 for the prior year, a decrease of \$101,164. Payroll, rent and technical assistance decreased by \$129,316, and were offset by increases in office expense, unemployment expense and marketing. MGCC continued to absorb the administrative and marketing expenses associated with the Small Business Technical Assistance program totaling approximately \$125,000.

Analysis of Significant Variations between Original and Budgeted Amounts

Revenues ended the year less than the budget by a net of \$81,212. Portfolio income was off budget by \$354,484, due to timing of loan closings and slightly lower loan volume. However, this was offset by an increase in loan fees, investment income and portfolio recoveries totaling \$245,382. There was also \$27,890 in management fees collected and other income was not budgeted.

Our overall loan portfolio ended the year at \$27,315,253, a net increase of \$2,255,333 from last year's ending balance of \$25,059,920. MGCC ended the fiscal year over budget by approximately \$1,462,000, due to loan closings and higher utilization of borrowers' lines of credit.

Operating expenses were lower than budget by \$138,024. This was principally due to decreases in payroll and benefits, rent (MGCC had 2 months free rent commencing with a new lease) and travel.

Subsequent Event: MGCC has been approved through the fiscal year 2018 Commonwealth Budget, for an additional \$750,000 in Technical Assistance and Training grants for fiscal year 2018. MGCC expects the contract in the second quarter of 2018, with quarterly funding to follow. MGCC will continue to absorb the expenses associated with this program.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Management's Discussion and Analysis
June 30, 2017 and 2016

Fiscal Year 2018 Outlook

The competitive market that dominated 2017 will continue into fiscal year 2018. Banks are aggressively adding loans to increase their outstandings, 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 and hence increasing MGCC volume.

Despite the competitive environment, MGCC has a positive outlook for 2018. 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 MGCCs' 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.

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. It is anticipated the program will start up in the second quarter of fiscal year 2018.

Overall we expect that fiscal year 2018 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 CORPORATIONStatements of Net Position
June 30, 2017 and 2016

Assets	2017	2016
Current Assets:		
Cash and cash equivalents - restricted	\$ 26,153,390	\$ 28,392,154
Accounts receivable	8,726	54,779
Current portion of loans receivable, net of allowance for uncollectible loans of approximately \$706,000 and \$485,000 at June 30, 2017 and 2016, respectively	6,324,771	4,928,807
Accrued interest receivable on loans, net of allowance for uncollectible amounts of approximately \$65,000 and \$58,000 at June 30, 2017 and 2016, respectively	256,684	275,329
Prepaid expenses and other	65,325	72,162
Total current assets	32,808,896	33,723,231
Loans Receivable, net of current portion and allowance for uncollectible loans of approximately \$2,037,000 and \$1,760,000 at June 30, 2017 and 2016, respectively	18,247,893	17,885,798
Capital Assets, net	16,196	10,866
Total assets	<u>\$ 51,072,985</u>	<u>\$ 51,619,895</u>
Liabilities and Net Position		
Current Liabilities:		
Accounts payable, accrued expenses and other	\$ 170,876	\$ 221,522
Funds held for others	375,000	-
Total current liabilities	545,876	221,522
Long-term Debt:		
Note Payable	1,000,000	1,000,000
Total liabilities	<u>1,545,876</u>	<u>1,221,522</u>
Net Position:		
Restricted - State Small Business Credit Initiative	14,373,211	14,191,253
Restricted - Federal Title IX RLF	4,042,338	4,202,508
Restricted by enabling legislation	31,111,560	32,004,612
Total net position	<u>49,527,109</u>	<u>50,398,373</u>
Total liabilities and net position	<u>\$ 51,072,985</u>	<u>\$ 51,619,895</u>

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

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MASSACHUSETTS GROWTH CAPITAL CORPORATION

Statements of Revenues and Expenses
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues:		
Interest income on loans	\$ 2,270,683	\$ 2,023,384
Loan origination fees and other	315,434	394,414
Interest income on cash reserves	244,323	218,909
Administrative portion of grant revenue	-	150,000
	<u>2,830,440</u>	<u>2,786,707</u>
Operating Expenses:		
Employee compensation	2,214,488	2,244,790
Professional fees	246,503	281,264
Occupancy	144,846	196,924
Supplies	43,064	18,342
Meetings	30,401	36,712
Other expenses	29,167	31,389
Information technology	28,707	20,376
Advertising	19,690	5,111
Insurance	17,435	16,658
Telephone	15,666	26,500
Travel	13,180	19,137
Printing and postage	12,999	18,781
Dues and memberships	10,275	9,185
Portfolio and credit administration	8,713	9,231
Depreciation	5,970	6,327
Maintenance and repair	4,083	5,624
	<u>2,845,187</u>	<u>2,946,351</u>
Changes in net position from operations before loan loss provision	(14,747)	(159,644)
Loan Loss Recovery	161,443	5,834
Loan Loss Provision	<u>(1,025,379)</u>	<u>(452,621)</u>
Changes in net position from operations	<u>(878,683)</u>	<u>(606,431)</u>
Non-Operating Revenue (Expense):		
State appropriations	1,069,464	2,000,000
Grant expense	<u>(1,062,045)</u>	<u>(2,059,313)</u>
Total non-operating revenue (expense)	<u>7,419</u>	<u>(59,313)</u>
Changes in net position	<u>\$ (871,264)</u>	<u>\$ (665,744)</u>

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Statements of Changes in Net Position
For the Years Ended June 30, 2017 and 2016

Net Position, June 30, 2015	\$ 51,064,117
Changes in net position	<u>(665,744)</u>
Net Position, June 30, 2016	50,398,373
Changes in net position	<u>(871,264)</u>
Net Position, June 30, 2017	<u>\$ 49,527,109</u>

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Receipts of interest income	\$ 2,502,939	\$ 2,158,604
Receipts of loan origination and other fees	328,987	396,398
Administrative portion of grant revenue	-	150,000
Employee compensation	(2,225,814)	(2,407,450)
Payments for supplies and services	<u>(657,212)</u>	<u>(658,618)</u>
Net cash used in operating activities before state appropriation and grant expense	(51,100)	(361,066)
State appropriation	1,101,964	6,756,804
Grant expense	<u>(1,062,045)</u>	<u>(2,059,313)</u>
Net cash provided by (used in) operating activities	<u>(11,181)</u>	<u>4,336,425</u>
Cash Flows from Investing Activities:		
Loans disbursed	(14,268,511)	(10,821,530)
Loan recoveries	161,443	6,050
Proceeds from loan repayments	11,515,785	8,111,702
Acquisition of property and equipment	<u>(11,300)</u>	<u>-</u>
Net cash used in investing activities	<u>(2,602,583)</u>	<u>(2,703,778)</u>
Cash Flow from Financing Activity:		
Proceeds from note payable	-	1,000,000
Proceeds from funds held for others	<u>375,000</u>	<u>-</u>
Net cash provided by financing activities	<u>375,000</u>	<u>1,000,000</u>
Net Change in Cash and Cash Equivalents	(2,238,764)	2,632,647
Cash and Cash Equivalents:		
Beginning of year	<u>28,392,154</u>	<u>25,759,507</u>
End of year	<u>\$ 26,153,390</u>	<u>\$ 28,392,154</u>
Cash Flows from Operating Activities:		
Changes in net position	\$ (871,264)	\$ (665,744)
Adjustments to reconcile changes in net position to net cash provided by (used in) operating activities:		
Depreciation	5,970	6,327
Loan loss recovery	(161,443)	(5,834)
Loan loss provision	1,025,379	452,621
Changes in operating assets and liabilities:		
Accounts receivable	46,053	4,758,788
Accrued interest receivable	(12,067)	(83,689)
Prepaid expenses and other	6,837	(7,047)
Accounts payable, accrued expenses and other	<u>(50,646)</u>	<u>(118,997)</u>
Net cash provided by (used in) operating activities	<u>\$ (11,181)</u>	<u>\$ 4,336,425</u>

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements
June 30, 2017 and 2016

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 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, 2017 and 2016

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 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 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. MGCC earned and received the final payment during fiscal year 2016. The net position balance was \$14,373,211 and \$14,191,253 as of June 30, 2017 and 2016, respectively.

Federal Title IX Revolving Loan Fund (RLF) #1 - The fund was capitalized in 1993 with a \$2,000,000 grant from the Economic Development Administration of the U.S. Department of Commerce (EDA). Additionally, a contractual match of \$667,000 was initially provided by the former EST, for a total capitalization of \$2,667,000. The net position balance was \$1,559,382 and \$1,751,825 as of June 30, 2017 and 2016, 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 \$2,482,956 and \$2,450,683 as of June 30, 2017 and 2016, respectively.

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 \$31,111,560 and \$32,004,612 as of June 30, 2017 and 2016, respectively.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements
June 30, 2017 and 2016

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

Grant expense consists of competitive grants given to nonprofit providers of technical assistance to micro and small businesses throughout Massachusetts. These grants were funded through grants of \$1,000,000 and \$2,000,000 from the Commonwealth during fiscal years 2017 and 2016, respectively, and which are included in state appropriations in the accompanying statements of revenues and expenses.

Statements of Revenues and Expenses

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

Fair Value Measurements

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

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

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.
- Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements
June 30, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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.

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.

Subsequent Events

Subsequent events have been evaluated through October 12, 2017, which is the date the general purpose financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the general purpose financial statements.

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 \$2,456,609 and \$2,444,359 at June 30, 2017 and 2016, 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>2017</u>	<u>2016</u>
1 - 30 Days	59.1%	54.7%
31 - 90 Days	25.0	28.9
91 - 180 Days	14.0	10.8
181 - Days or more	<u>1.9</u>	<u>5.6</u>
Total	<u>100.0%</u>	<u>100.0%</u>

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements
June 30, 2017 and 2016

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, 2017 and 2016:

	Cash Portfolio Quality Diversification	
	First Tier	Second Tier
2017	100.0%	- %
2016	97.0%	3.0%

4. CAPITAL ASSETS

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

	Balance June 30, 2015	2016 Additions	Balance June 30, 2016	2017 Additions	Balance June 30, 2017
Cost	\$ 64,664	\$ -	\$ 64,664	\$ 11,300	\$ 75,964
Accumulated depreciation	<u>47,471</u>	<u>6,327</u>	<u>53,798</u>	<u>5,970</u>	<u>59,768</u>
Capital assets, net	<u>\$ 17,193</u>	<u>\$ (6,327)</u>	<u>\$ 10,866</u>	<u>\$ 5,330</u>	<u>\$ 16,196</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.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements
June 30, 2017 and 2016

5. LOANS RECEIVABLE (Continued)

There were 166 and 168 loans receivable outstanding at June 30, 2017 and 2016, respectively, including 39 winter emergency loans totaling \$162,183 and \$262,353 as of June 30, 2017 and 2016, respectively. Loans receivable are stated net of allowance for loan losses as follows at June 30:

	<u>2017</u>	<u>2016</u>
Principal outstanding	\$ 27,315,253	\$ 25,059,920
Less - allowance for uncollectible loans (see Note 6)	<u>2,742,589</u>	<u>2,245,315</u>
Loans receivable, net	<u>\$ 24,572,664</u>	<u>\$ 22,814,605</u>

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

2018	\$ 7,030,687
2019	\$ 4,655,498
2020	\$ 3,829,306
2021	\$ 2,746,086
2022	\$ 979,887
2023-2026	\$ 8,073,789

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>2017</u>		<u>2016</u>	
	<u>Loans</u>	<u>Interest</u>	<u>Loans</u>	<u>Interest</u>
Balance, beginning of year	\$ 2,245,315	\$ 57,675	\$ 1,801,186	\$ 49,183
Net provision for losses	994,667	30,712	444,129	8,492
Write-offs	<u>(497,393)</u>	<u>(23,367)</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 2,742,589</u>	<u>\$ 65,020</u>	<u>\$ 2,245,315</u>	<u>\$ 57,675</u>

MGCC writes off loan balances when amounts are determined to be uncollectible. Loan balances from five companies are included in the fiscal year 2017 write-offs above. There were no write offs in fiscal year 2016.

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, 2017 and 2016, were \$197,969 and \$196,608, 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, 2017 and 2016

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, 2017 and 2016, MGCC had commitments to lend of approximately \$6.7 million and \$9.7 million, respectively (see Note 5).

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, 2017 and 2016, MGCC had five and nine outstanding guarantees with values of \$1,405,000 and \$2,143,000, respectively. These guarantees will expire at various times through June 2018.

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 are no principal or interest payments required for the first twelve months. Interest will accrue thereafter at either a rate of 0.625% or 1.875% based on the average size of microloans disbursed. This note is secured by all amounts held in the SBA fund and has a ten year term.

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 \$141,920 and \$196,924 for the years ended June 30, 2017, and 2016, 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:

2018	\$ 181,636
2019	\$ 190,285
2020	\$ 196,772
2021	\$ 203,259
2022	\$ 209,746
2023	\$ 35,138

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to General Purpose Financial Statements
June 30, 2017 and 2016

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, 2017 and 2016, MGCC's exposure for uninsured funds was approximately \$3,221,000 and \$3,198,000, respectively. MGCC has not experienced any losses in such accounts and management believes the credit risk related to MGCC's cash and cash equivalents is not significant.

10. LINE OF CREDIT

MGCC maintains a revolving line of credit agreement with a bank for borrowings up to \$10 million. Borrowings under the agreement are due on demand and interest is payable monthly at the bank's base lending rate (4.25% and 3.50% at June 30, 2017 and 2016, respectively) and will mature on December 31, 2017. The line of credit is secured by substantially all assets. As of June 30, 2017 and 2016, 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, 2017.

11. NOTE 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 2017. 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.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

SUPPLEMENTAL INFORMATION

JUNE 30, 2017

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 SSCBCI to the MGCC general fund, in accordance with the SSCBCI agreement.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Supplemental Statement of Net Position
June 30, 2017

Assets	MGCC	State Small Business Credit Initiative	Federal Title IX Revolving Loan Fund #1	Federal Title IX Revolving Loan Fund #2	Total
Current Assets:					
Cash and cash equivalents - restricted	\$ 15,490,959	\$ 8,856,151	\$ 645,246	\$ 1,161,034	\$ 26,153,390
Accounts receivable	9,038	(3,187)	25	2,850	8,726
Current portion of loans receivable, net of allowance for uncollectible loans of approximately \$706,000	3,579,782	2,164,924	287,430	292,635	6,324,771
Accrued interest receivable on loans, net of allowance for uncollectible amounts of approximately \$65,000	116,774	110,492	9,972	19,446	256,684
Prepaid expenses and other	65,325	-	-	-	65,325
Total current assets	19,261,878	11,128,380	942,673	1,475,965	32,808,896
Loans Receivable, net of current portion and allowance for uncollectible loans of approximately \$2,037,000	7,219,607	9,404,586	616,709	1,006,991	18,247,893
Capital Assets, net	16,196	-	-	-	16,196
Total assets	<u>\$ 26,497,681</u>	<u>\$ 20,532,966</u>	<u>\$ 1,559,382</u>	<u>\$ 2,482,956</u>	<u>\$ 51,072,985</u>
Liabilities and Net Position					
Current Liabilities:					
Accounts payable, accrued expenses and other	\$ 170,876	-	-	-	\$ 170,876
Funds held for others	-	375,000	-	-	375,000
Interfund (receivable) payable	(5,784,755)	5,784,755	-	-	-
Total current liabilities	(5,613,879)	6,159,755	-	-	545,876
Note Payable	1,000,000	-	-	-	1,000,000
Total liabilities	<u>(4,613,879)</u>	<u>6,159,755</u>	<u>-</u>	<u>-</u>	<u>1,545,876</u>
Net Position:					
Restricted - State Small Business Credit Initiative	-	14,373,211	-	-	14,373,211
Restricted - Federal Title IX RLF	-	-	1,559,382	2,482,956	4,042,338
Restricted by enabling legislation	31,111,560	-	-	-	31,111,560
Total net position	31,111,560	14,373,211	1,559,382	2,482,956	49,527,109
Total liabilities and net position	<u>\$ 26,497,681</u>	<u>\$ 20,532,966</u>	<u>\$ 1,559,382</u>	<u>\$ 2,482,956</u>	<u>\$ 51,072,985</u>

MASSACHUSETTS GROWTH CAPITAL CORPORATION

 Supplemental Statement of Revenues, Expenses and Changes in Net Position
 For the Year Ended June 30, 2017

	<u>MGCC</u>	<u>State Small Business Credit Initiative</u>	<u>Federal Title IX Revolving Loan Fund #1</u>	<u>Federal Title IX Revolving Loan Fund #2</u>	<u>Total</u>
Operating Revenues:					
Interest income on loans	\$ 839,284	\$ 1,193,526	\$ 108,441	\$ 129,432	\$ 2,270,683
Loan origination fees and other	178,069	95,050	16,740	25,575	315,434
Interest income on cash reserves	154,575	72,834	6,080	10,834	244,323
Transfer	680,705	(680,705)	-	-	-
Total operating revenues	<u>1,852,633</u>	<u>680,705</u>	<u>131,261</u>	<u>165,841</u>	<u>2,830,440</u>
Operating Expenses:					
Employee compensation	2,049,921	118,189	23,971	22,407	2,214,488
Professional fees	127,461	95,774	10,614	12,654	246,503
Occupancy	130,989	-	6,399	7,458	144,846
Supplies	38,926	40	1,898	2,200	43,064
Meetings	27,553	-	1,344	1,504	30,401
Other expenses	24,295	2,197	1,215	1,460	29,167
Information technology	26,038	-	1,229	1,440	28,707
Advertising	17,764	-	932	994	19,690
Insurance	15,804	-	750	881	17,435
Telephone	14,200	-	675	791	15,666
Travel	11,590	352	594	644	13,180
Printing and postage	11,790	-	565	644	12,999
Dues and memberships	9,336	-	426	513	10,275
Portfolio and credit administration	7,894	-	364	455	8,713
Depreciation	5,412	-	258	300	5,970
Maintenance and repair	3,702	-	176	205	4,083
Total operating expenses	<u>2,522,675</u>	<u>216,552</u>	<u>51,410</u>	<u>54,550</u>	<u>2,845,187</u>
Changes in net position from operations before loan loss recovery (provision)	(670,042)	464,153	79,851	111,291	(14,747)
Loan Loss Recovery	130,084	31,359	-	-	161,443
Loan Loss Provision Transfer	(351,659)	351,659	-	-	-
Loan Loss Provision	60,610	(734,677)	(272,294)	(79,018)	(1,025,379)
Changes in net position from operations	<u>(831,007)</u>	<u>112,494</u>	<u>(192,443)</u>	<u>32,273</u>	<u>(878,683)</u>
Non-Operating Revenue (Expense):					
State appropriations and grant revenue	1,000,000	69,464	-	-	1,069,464
Grant expense	(1,062,045)	-	-	-	(1,062,045)
Total non-operating revenue (expense)	<u>(62,045)</u>	<u>69,464</u>	<u>-</u>	<u>-</u>	<u>7,419</u>
Changes in net position	(893,052)	181,958	(192,443)	32,273	(871,264)
Net Position, June 30, 2016	<u>32,004,612</u>	<u>14,191,253</u>	<u>1,751,825</u>	<u>2,450,683</u>	<u>50,398,373</u>
Net Position, June 30, 2017	<u>\$ 31,111,560</u>	<u>\$ 14,373,211</u>	<u>\$ 1,559,382</u>	<u>\$ 2,482,956</u>	<u>\$ 49,527,109</u>



Commonwealth of Massachusetts

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OFFICE OF PERFORMANCE MANAGEMENT AND OVERSIGHT

Massachusetts Growth Capital

Annual Plan for 2017 Fiscal Year

The Massachusetts Growth Capital Corporation (MGCC) Fiscal 2017 Annual Plan 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

MGCC is a small business loan fund providing working capital to small businesses, minority owned and women owned businesses, to create and maintain jobs in the Commonwealth. MGCC lends to businesses unable to access credit from traditional lenders or are unable to get additional credit from an existing lender. Consequently, each loan is customized to solve a specific financing problem using term loans, lines of credit, partial and limited guarantees, over advances, contract financing, or a combination of these tools.

MGCC also manages a competitive technical assistance grant program to assist non-profits around the state to provide skilled assistance to small businesses in their regions, this program is subject to funding from the FY 2017 State budget. Additionally, a turn-around management assistance program is operated to provide financial, management and operational and problem solving to companies, either currently in the loan portfolio or to potential borrowers.

FISCAL YEAR 2017 ANNUAL PLAN

Goal	Strategy	Metric
Increase the overall total loans closed to \$13,250,000 annually.	- Continue emphasis on outreach to key partners. -Effective marketing materials.	- Measure number of new loans approved and closed on a quarterly basis to overall plan.

	<ul style="list-style-type: none"> -Regular Business Development meetings. 	<ul style="list-style-type: none"> - Current pipeline reports to ensure robust activity bi-weekly. -Quarterly review of activity.
<p>Sustain and increase the number of loans to businesses in Gateway Cities and underserved communities to 30%.</p>	<ul style="list-style-type: none"> -Increase outreach to Gateway Cities and underserved communities in the Commonwealth -Utilize products and programs to promote loans to businesses in Gateway Cities including Diversity Goal Support, LISC, MassHousing. 	<ul style="list-style-type: none"> -Measure the number of loans in Gateway Cities and underserved communities quarterly compared to the total number of loans. -Quarterly meetings with LISC and MassHousing.
<p>Sustain and increase the number of loans to minority owned businesses to 25%.</p>	<ul style="list-style-type: none"> -Increase outreach to minority owned companies. -Utilize products and programs to promote loans to minority owned businesses including Diversity Goal Support, LISC, MassHousing. 	<ul style="list-style-type: none"> -Measure the number of loans to minority owned companies quarterly compared to the total number of loans. -Quarterly meetings with LISC and MassHousing.
<p>Sustain and increase the number of loans to women owned businesses to 25%.</p> <p>Work with partner organizations to market to targeted businesses</p>	<ul style="list-style-type: none"> -Increase outreach to women owned companies in the Commonwealth. -Utilize products and programs to promote loans to women owned businesses including Diversity Goal support, LISC, MassHousing. 	<ul style="list-style-type: none"> -Measure the number of loans to women owned companies quarterly compared to the total number of loans for that quarter. -Quarterly meetings with LISC and MassHousing.
<p>Increase outreach calling goals per loan officer to 20 per month, including at least 5 to be joint calls with state partners.</p>	<ul style="list-style-type: none"> -Monthly call report completed by loan officer. -Emphasis on calling with state partners 	<ul style="list-style-type: none"> -Review quarterly call activity with loan officers individually. -Review joint calling efforts of individual officers and organizations.

Small Business Technical Assistance Grant Program	-Outreach to all grant recipients promoting the program and support.	-Semi-annual review of results from grantees.
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