



MASSACHUSETTS GROWTH CAPITAL CORPORATION
EMPOWERING SMALL BUSINESS

BASIC FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Contents
June 30, 2023 and 2022

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Independent Auditor's Report

To the Board of Directors of
Massachusetts Growth Capital Corporation:

Opinion

We have audited the basic financial statements of the business-type activities of Massachusetts Growth Capital Corporation (a component unit of the Commonwealth of Massachusetts) (MGCC), as of and for the years ended June 30, 2023 and 2022, and the related notes to the basic financial statements, which collectively comprise MGCC's basic financial statements as listed in the table of contents.

In our opinion, the accompanying basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Massachusetts Growth Capital Corporation as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of MGCC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the basic financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, which raise substantial doubt about MGCC's ability to continue as a going concern for twelve months beyond the basic financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the basic financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the basic financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the basic financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the basic financial statements.
- Obtain an understanding of internal control relevant to the audit 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 MGCC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the basic financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, which raise substantial doubt about MGCC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying supplemental information shown on pages 25 and 26 as of and for the year ended June 30, 2023, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information shown on pages 25 and 26 is fairly stated in all material respects in relation to the basic financial statements as a whole.

AAFCPA, Inc.

Boston, Massachusetts
December 12, 2023

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Management's Discussion and Analysis
June 30, 2023 and 2022

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, 2023. Please read it in conjunction with MGCC's basic financial statements, which begin on page 7.

Basic Financial Statements

The financial activities for the year ended June 30, 2023, are included in a series of basic 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 25 and 26.

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 separated) Economic Development, with the Secretary of Administration and Finance (A&F) as a director, along with ten other persons appointed by the Governor. Ten members have been appointed and confirmed as of the date of this report, there are two members whose terms have expired and we are awaiting re-appointment.

MGCC operates on a June 30 fiscal year basis.

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

The Statement of Net Position and the Statement of Revenues and Expenses include all assets, liabilities, net position, revenues and expenses of MGCC as a whole. This activity is recorded using the economic resources measurement focus and the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Under the accrual basis of accounting, revenues and expenses are recognized when earned or incurred regardless of when the cash is paid or received. Additionally, these statements report changes in MGCC's net position. MGCC's net position, difference between assets and liabilities, represents one way to measure MGCC's financial health or its financial position. You will also need to consider other non-financial factors when considering the overall financial health of MGCC.

The Supplemental Statement of Revenues, Expenses and Changes in Net Position shown within this report accounts for 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, 2023 and 2022

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

MGCC: (Continued)

COVID-19 Recovery Loan Fund: During fiscal year 2020, MGCC provided a \$20,000,000 emergency loan fund with loans up to \$75,000 to Massachusetts small businesses impacted by COVID-19. This fund was capitalized with \$10,000,000 from MGCC and a \$10,000,000 loan from Massachusetts Development Finance Agency (MDFA). These are three-year loans, with no payments for six months followed by thirty months of principal and interest, with an interest rate of 3%. As of June 30, 2023, there have been twenty-six borrowers, with a total loan amount of \$533,186, that have not applied and approved for loan forgiveness.

Small Business Administration (SBA): MGCC has entered into contracts with U.S. Small Business Administration on April 13, 2017 and October 29, 2019, for \$350,000 on each date, totaling \$700,000, acting as its intermediary microloan lender. The program is for loans under \$50,000 to small businesses in Massachusetts. As of June 30, 2023, MGCC has fully drawn the \$700,000. Currently there are sixteen microloan borrowers with a total outstanding loan balance of \$466,297.

Federal Title IX Revolving Loan Fund #3: In fiscal year 2021, MGCC applied and was awarded with a \$4,147,000 grant from EDA. As of June 30, 2023, MGCC has requested and received \$1,282,688 and forfeited the remaining award amount. Currently there are three RLF loan borrowers with a total outstanding loan balance of \$295,883.

State Small Business Credit Initiative Fund #2: In fiscal year 2023, the State Small Business Credit Initiative (SSBCI) received \$10 billion as part of the "American Rescue Plan Act", of which MGCC was awarded an allocation of a combined \$76,591,178. During fiscal year 2023, MGCC received \$16,893,558. MGCC has matched the principal of loans made with SSBCI capital on a 50/50 basis. Currently there is one SSBCI loan borrower with a total outstanding loan balance of \$500,000.

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

MGCC received a \$7,000,000 grant for Technical Assistance and Training for fiscal year 2023. MGCC issued \$6,627,750 in grants and recognized \$372,250 in admin revenue.

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

COVID-19 Relief Grant Programs: Starting in fiscal year 2021 through June 30, 2023, due to the urgent need to help thousands of small businesses in Massachusetts during the Pandemic, MGCC was assigned and awarded approximately \$1,016,000,000 through seventeen contracts (including \$187,000,000 through eight contracts during fiscal year 2023) with various Massachusetts agencies and has paid out a total of approximately \$760,376,000. During fiscal year 2023, MGCC had recognized approximately \$27,636,000 of total revenue, comprised of approximately \$22,777,000 of grant commitments and approximately \$4,859,000 of administrative revenue. As of June 30, 2023, MGCC has a grant receivable of \$1,166,336, a grant payable of \$3,262,559 and deferred revenue of \$8,376,360 relating to these contracts.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Management's Discussion and Analysis
June 30, 2023 and 2022

Condensed Financial Information

Assets total \$81,830,925. The major components are:

Cash and Cash Equivalents - Restricted: MGCC began the fiscal year with a total of \$58,679,360 in cash. At June 30, 2023, cash totaled \$39,595,874. The net decrease of \$19,083,486 was primarily due to a redeployment of cash toward debt security investments of approximately \$35,700,000, offset by \$16,893,558 received from SSBCI Fund #2 loan fund program from which MGCC has lent out just \$500,000.

Loans Receivable: Loans receivable at June 30, 2023, totaled \$5,627,791, a net decrease of \$1,854,575 from the previous year's \$7,482,366. The decrease was due to continuous early payoff of existing loans. MGCC disbursed approximately \$1,417,000 in new loans and advances within its existing loan portfolio. During the fiscal year, MGCC received approximately \$3,272,000 in principal payments, including early payoffs of \$2,665,867 and closed eleven loans totaling approximately \$1,417,000. The average closed loan amount in the current fiscal year was \$130,232. Total COVID-19 recovery loan repayments were received totaling \$517,619 for the year ended June 30, 2023

In the prior fiscal year, principal payments totaled \$6,469,634, including early payoffs of \$5,022,431 and loans written-off of totaling \$2,315,370. MGCC also forgave \$16,198,901 of COVID-19 recovery loans during fiscal year 2022. MGCC closed five loans and made advances totaling \$1,275,000.

The loan loss reserve decreased to \$2,443,908 or 43% of loans receivable from \$3,272,602 or 44%. MGCC continuously monitors its loan portfolio and its risk. Ratings are reviewed quarterly, and appropriate reserves are established based on a risk rating matrix and understanding of collateral. There have been no write-offs for the current fiscal year based on the latest loan quarterly review due to their collectability or adequate collaterals.

Grant receivable: Grant receivable, totals \$1,166,336, consisted of awarded grants not yet received as of June 30, 2023.

Liabilities total \$14,861,538. The major components are:

Grant Payable: Grant payable, totals \$3,262,559, consisted of awarded grants not yet distributed as of June 30, 2023, including \$2,501,875 from Biz M Power Grant, \$574,636 from SBTA WMBE & Online Tool Grant, and few smaller amounts from other grants.

Massachusetts Development Finance Agency (MDFA): The contract commenced on March 10, 2020, with a \$10,000,000 Small Business Recovery Loan Fund (the COVID-19 Recovery Loan Fund) from MDFA to provide emergency capital up to \$75,000 to Massachusetts-based businesses impacted by COVID-19 with under fifty full- and part-time employees, including nonprofits. The purpose of the program is consistent with MDFA's core mission of job creation and economic development and due a pressing need to provide additional funding to this sector of the economy on an expedited basis in order to save jobs and prevent small businesses from closing their doors entirely. MGCC contributed an additional \$10,000,000. Together, a total of \$20,000,000 is administered as a single fund. MGCC has the responsibility to review loan applications, underwrite, close and service these loans. Both parties have equal rights to the repayments of principal and interest received on loans made from the COVID-19 Recovery Loan Fund. MGCC will provide MDFA with a quarterly report on the loans made from the COVID-19 Recovery Loan Fund. Starting January 15, 2021, MGCC started wiring MDFA's fifty percent share of the repayments of principal and interest to MDFA on a quarterly basis. As of June 30, 2023, the outstanding balance on this loan was \$1,001,298.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Management's Discussion and Analysis
June 30, 2023 and 2022

Condensed Financial Information (Continued)

Deferred Grant Revenue: Deferred grant revenue, totaled \$8,376,360, consisted of deferred revenue from awarded grants not yet distributed as of June 30, 2023, including \$2,995,312 from Biz-M-Power Grant, \$3,375,000 from Real Estate Grant and \$1,442,750 from CDFI Grants, and few smaller amounts from other grants.

SBA Note Payables: The contract commenced on April 13, 2017, with a loan from U.S. Small Business Administration for \$350,000. As of June 30, 2023, MGCC has drawn the entire loan amount of \$350,000. MGCC is required to match 15% of the amount drawn and keep it in a separate bank account as Loan Loss Reserve Fund. MGCC started paying back in May 2018. Outstanding balance due to SBA as of June 30, 2023, was \$161,326. For the second SBA loan for \$350,000 commenced on October 29, 2019, MGCC started paying back in October 2021. Outstanding balance due to SBA as of June 30, 2023, was \$278,145.

Accounts Payable, Accrued Expenses and Other: Accounts payable, accrued expenses and other liabilities on June 30, 2023, totaled \$365,169 compared to \$225,686 for the prior year. The increase of \$139,483 was due mostly to a net increase in accrued wages of accrued vacation and billing cycle.

Revenues: Operating revenues for 2023 totaled \$8,067,553 compared to \$6,640,716 for the prior year, an increase of \$1,426,837. The major components of the overall increase are an increase of \$723,121 in investment income, \$598,363 of interest on cash reserve, \$844,678 in grant revenue - SSBCI #2 - admin fee and a decrease in interest income on loans, loan origination fees and other and grant revenue - EDA - admin fee totaling \$710,456.

Expenses: Expenses for the year ended June 30, 2023, totaled \$6,935,983 compared to \$5,231,569 for the prior year, an increase of \$1,704,414. Due to the effort to rescue as many small businesses as possible during the COVID-19 pandemic, MGCC had used all possible resources available to distribute a total of over \$29 million to thousands of small businesses. Employee compensation and related payroll taxes and benefits increased by \$1,108,946, contract services increased by \$342,452 and information technology increased by \$76,703.

Net income from operations for 2023 before loan loss recovery was \$1,131,570 compared to net income from operations for fiscal year 2022 before loan loss recovery of \$1,409,147.

MGCC had a decrease in the loan loss reserve of \$828,694 in fiscal year 2023 compared to a decrease of \$1,748,382 in fiscal year 2022 and no write-offs in fiscal year 2023 compared to \$2,315,370 in fiscal year 2022.

Analysis of Significant Variations between Original and Budgeted Amounts

Revenues ended the year more than the budget by a net of \$933,800. Portfolio income was continually off budget by \$324,700 due to the significant small number of loan closings, only eleven new loans with total amounts of \$1,432,000 and significant numbers of loan pay offs, fifteen loans with total amounts of \$2,208,842, resulting in a much lower loan volume. However, Interest income on deposits was over the budget by \$937,900 due to high interest rate and large deposits. Also, grant income was over the budget by \$508,000.

Our overall loan portfolio ended the year at \$5,627,791. The lower loan portfolio outstanding was due to much lower than anticipated loan volume due to the competitive lending environment and the pandemic. MGCC added a chief lending officer.

Operating expenses were higher than budget by \$594,800. This was principally due to an increase in payroll and benefits of \$166,000, in staffing of \$311,100, in information technology of \$153,100, in professional fees of \$55,200 to operate COVID-19 grant funding and offset by approximately \$90,600 decrease in other expenses due to less loan activity, travel, meetings and sponsorship.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Management's Discussion and Analysis
June 30, 2023 and 2022

Subsequent Events

The Small Business Technical Assistance Grant program (SBTA) that is funded via the Commonwealth's annual operating budget was approved for a record \$5 million for fiscal year 2024.

MGCC is a party to a lawsuit brought by Pacific Legal Foundation against the Inclusive 3 Small Business Grant Program. We are currently working with attorneys to come to a resolution.

MGCC paid \$746,387 to MDFA as part of the remaining outstanding loan balance.

Fiscal Year 2024 Outlook

We anticipate fiscal year 2024 to be a successful year for MGCC. We see an increased demand for lending and our SBTA grant has been funded for \$5 million.

We foresee a tightening of credit by banks which will leave small businesses seeking alternative capital, which is exactly what MGCC was created for. Early in the new fiscal year we see an increase in demand for our products and expect it to continue. Additionally, we have reacted to the market with improved loan terms which will both assist businesses and make our products more attractive.

We will continue to work closely with our existing partners and expand that network throughout the year.

Overall, we expect to continue to fulfill our mission of assisting small businesses in the Commonwealth.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Statements of Net Position
June 30, 2023 and 2022

Assets	2023	2022
Current Assets:		
Cash and cash equivalents - restricted	\$ 39,595,874	\$ 58,679,360
Investments - restricted	35,723,121	-
Grants receivable	1,166,336	33,760,325
Current portion of loans receivable, net of allowance for uncollectible loans of approximately \$617,000 and \$1,306,000 at June 30, 2023 and 2022, respectively	866,951	1,742,925
Accrued interest receivable on loans, net of allowance for uncollectible amounts of approximately \$199,000 and \$80,000 at June 30, 2023 and 2022, respectively	182,342	272,688
Prepaid expenses and other	302,714	37,876
Total current assets	77,837,338	94,493,174
Loans Receivable, net of current portion and allowance for uncollectible loans of approximately \$1,827,000 and \$1,967,000 at June 30, 2023 and 2022, respectively	2,316,932	2,466,839
Right-to-Use Asset - facility lease, net	1,368,165	32,824
Capital Assets, net	308,490	68,085
Total assets	\$ 81,830,925	\$ 97,060,922
Liabilities and Net Position		
Current Liabilities:		
Accounts payable, accrued expenses and other	\$ 365,169	\$ 225,686
Current portion of notes payable	1,077,447	572,773
Current portion of lease liability	171,630	34,948
Deferred revenue	8,376,360	8,327,922
Grants payable	3,262,559	37,868,707
Total current liabilities	13,253,165	47,030,036
Lease Liability, net of current portion	1,245,051	-
Notes Payable, net of current portion	363,322	952,578
Total liabilities	14,861,538	47,982,614
Net Position:		
Restricted - Federal Title IX RLF	987,176	832,317
Restricted - SBA Revolving Loan Fund	84,830	61,911
Restricted - COVID-19 Recovery Loan Fund	(178,790)	(404,267)
Restricted - State Small Business Credit Initiative #2	16,179,738	-
Restricted by enabling legislation	49,896,433	48,588,347
Total net position	66,969,387	49,078,308
Total liabilities and net position	\$ 81,830,925	\$ 97,060,922

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Statements of Revenues and Expenses
For the Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating Revenues:		
Grant revenue - COVID-19 - admin fee	\$ 4,859,057	\$ 4,885,176
Grant revenue - SSBCI #2 - admin fee	844,678	-
Investment income	723,121	-
Interest income on cash reserves	711,610	113,247
Interest income on loans	501,271	785,489
State appropriations - admin fee	372,250	375,000
Loan origination fees and other	55,566	274,116
Grant revenue - EDA - admin fee	-	207,688
Total operating revenues	<u>8,067,553</u>	<u>6,640,716</u>
Operating Expenses:		
Employee compensation	4,455,311	3,346,365
Contract services	911,132	568,680
Information technology	488,095	411,392
Professional fees	303,210	352,023
Amortization of right-to-use lease asset	197,004	196,946
Dues and memberships	122,190	67,606
Supplies	118,796	55,728
Interest expense	76,751	8,826
Recruitment	67,500	-
Other expenses	59,058	71,068
Depreciation	41,807	18,360
Insurance	27,040	74,186
Telephone	18,325	13,531
Meetings	12,753	5,873
Portfolio and credit administration	10,791	15,365
Occupancy	9,491	8,811
Travel	9,326	5,198
Printing and postage	7,403	11,611
Total operating expenses	<u>6,935,983</u>	<u>5,231,569</u>
Changes in net position from operations before loan loss recovery (provision)	1,131,570	1,409,147
Loan Loss Provision	709,935	(730,382)
Loan Loss Recovery	694	379,129
Changes in net position from operations	<u>1,842,199</u>	<u>1,057,894</u>
Non-Operating Revenue (Expenses):		
Grant revenue - COVID-19	22,776,757	69,016,965
Grant revenue - SSBCI #2	16,048,880	-
State appropriations	6,627,750	6,625,000
Grant revenue - EDA	-	574,999
Grant expense	(6,627,750)	(6,625,000)
Grant expense - COVID-19	(22,776,757)	(69,016,965)
Total non-operating revenue (expenses)	<u>16,048,880</u>	<u>574,999</u>
Changes in net position	<u>\$ 17,891,079</u>	<u>\$ 1,632,893</u>

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Statements of Changes in Net Position
For the Years Ended June 30, 2023 and 2022

Net Position , June 30, 2021	\$ 47,445,415
Changes in net position	<u>1,632,893</u>
Net Position , June 30, 2022	49,078,308
Changes in net position	<u>17,891,079</u>
Net Position , June 30, 2023	<u><u>\$ 66,969,387</u></u>

MASSACHUSETTS GROWTH CAPITAL CORPORATION

 Statements of Cash Flows
 For the Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities:		
Receipts of grant revenue - COVID-19 - admin fee	\$ 4,859,057	\$ 4,885,176
Receipts of interest income	1,184,468	1,060,964
Receipts of investment income	291,553	-
Receipts from State appropriation - admin fee	372,250	375,000
Receipts of loan origination and other fees	55,566	284,394
Receipts of grant revenue - EDA - admin fee	-	207,688
Receipts of grant revenue - SSBCI #2 - admin fee	844,678	-
Payments for employee compensation	(4,383,998)	(3,310,564)
Payments for supplies and services	(2,385,341)	(1,638,008)
Interest payments to lessor	(53,188)	(6,369)
Net cash provided by operating activities before state appropriation and grant expense	<u>785,045</u>	<u>1,858,281</u>
State appropriation	6,627,750	6,625,000
Grant expense	(6,627,750)	(6,625,000)
Net cash provided by operating activities	<u>785,045</u>	<u>1,858,281</u>
Cash Flows from Investing Activities:		
Purchase of investments	(35,291,553)	-
Grant expense - COVID-19	(57,382,905)	(58,017,499)
Loans disbursed	(1,417,493)	(1,275,000)
Loan recoveries	694	379,129
Proceeds from loan repayments	3,272,068	6,469,634
Acquisition of capital assets	(282,212)	(16,195)
Net cash used in investing activities	<u>(91,101,401)</u>	<u>(52,459,931)</u>
Cash Flow from Financing Activities:		
Grant revenue - COVID-19	55,419,184	54,300,278
Grant revenue - SSBCI #2	16,048,880	-
Grant revenue - EDA	-	574,999
Principal payment of lease liability	(150,612)	(203,377)
Proceeds from notes payable	-	350,000
Payments on notes payable	(84,582)	(8,105,304)
Net cash provided by financing activities	<u>71,232,870</u>	<u>46,916,596</u>
Net Change in Cash and Cash Equivalents - Restricted	(19,083,486)	(3,685,054)
Cash and Cash Equivalents - Restricted:		
Beginning of year	<u>58,679,360</u>	<u>62,364,414</u>
End of year	<u>\$ 39,595,874</u>	<u>\$ 58,679,360</u>
Cash Flows from Operating Activities:		
Changes in net position	\$ 17,891,079	\$ 1,632,893
Adjustments to reconcile changes in net position to net cash provided by operating activities:		
Depreciation	41,807	18,360
Amortization of right-to-use lease asset	197,004	196,946
Loan loss recovery	(694)	(379,129)
Loan loss provision	(709,935)	730,382
Unrealized gains	(431,568)	-
Grant revenue - EDA	-	(574,999)
Grant revenue - SSBCI #2	(16,048,880)	-
Changes in operating assets and liabilities:		
Accounts receivable	-	10,278
Accrued interest receivable	(28,413)	162,228
Prepaid expenses and other	(264,838)	52,575
Accounts payable, accrued expenses and other	139,483	8,747
Net cash provided by operating activities	<u>\$ 785,045</u>	<u>\$ 1,858,281</u>
Supplemental Non-Cash Disclosure:		
Unrealized gains	<u>\$ 431,568</u>	<u>\$ -</u>

The accompanying notes are an integral part of these basic statements.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to Basic Financial Statements
June 30, 2023 and 2022

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 basic financial statements were prepared on the accrual basis of accounting. Because MGCC is a quasi-public corporation, its accounting policies and basic financial statement presentation is governed by standards issued by the Governmental Accounting Standards Board (GASB). MGCC follows GASB Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments*. This standard outlines financial reporting requirements for state and local governments. MGCC is considered a special purpose government organization that conducts only business-type activities within the meaning of this standard, and therefore, only has enterprise funds within its proprietary fund within the meaning of GASB No. 34. MGCC has no governmental funds. As such, MGCC is not required to present government-wide financial statements, but rather only the accompanying fund basic financial statements. In applying the provisions of this standard, organizations like MGCC can use standards applicable to proprietary fund accounting, and are not required to follow the provisions of governmental fund accounting.

MGCC follows the GASB standard, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. In accordance with GASB No. 62, MGCC has elected to apply the provisions of all relevant pronouncements of Financial Accounting Standards Board (FASB) that do not conflict with or contradict GASB codifications. References to generally accepted accounting procedures (U.S. GAAP) in these notes are to the FASB Accounting Standards Codification (ASC) and the GASB Codification.

Cash and Cash Equivalents - Restricted

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

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

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to Basic Financial Statements
June 30, 2023 and 2022

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents - Restricted (Continued)

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

Grants Receivable and Allowance for Uncollectible Grants

Grants receivable include amounts earned on grants paid or committed to be paid to grantees, but have not yet been paid to MGCC. The allowance for doubtful accounts is based on management's estimate and collection history with the related funders. There was no allowance recorded as of June 30, 2023 and 2022.

Loans Receivable and Allowance for Uncollectible Loans

Loans receivable are stated net of an allowance for uncollectible loans (see Notes 5 and 6). Interest on loans is calculated by using the simple interest method on monthly balances of the principal amount outstanding. The allowance for uncollectible loans and interest is established through a provision for loan losses charged to operations. The allowance is an amount that management believes will be adequate to absorb expected losses on existing loans that may become uncollectible. Management evaluates loan collectability through consideration of factors, such as previous loss experience, performance of individual loans in accordance with contract terms, financial strength and cash flows of the borrower, realizable values of collateral, and current economic conditions that may affect the borrower's ability to repay.

Guarantees

Guarantees are accrued for when the loss is probable.

Investments

Investments are recorded in the basic financial statements at fair value. If an investment is directly held by MGCC and an active market with quoted prices exists, the market price of an identical security is used to report fair value. Investments are not insured and are subject to market fluctuations.

Investment income consists of interest and realized and unrealized gains and losses on investments. Interest income is recorded as earned. Realized gains and losses on investment transactions are recorded using the first-in, first-out method.

Investments are reflected as short-term assets in accordance with MGCC's intent to hold the investments until maturity of twelve months or fewer as of June 30, 2023.

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.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to Basic Financial Statements
June 30, 2023 and 2022

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

MGCC accounts for any lease (see Note 9) with a term greater than one year in accordance with GASB 87, *Leases*. Accordingly, the net present value of the estimated future minimum payments are reflected as a right-to-use asset and lease liability for the lessee. The right-to-use assets will be recognized on a straight-line basis over the lesser of the life of the asset or the remaining lease period.

Grants Payable

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

Deferred Revenue

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

Estimates

The preparation of basic 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 basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Classification of Net Position

MGCC's financial resources are restricted as follows:

Federal Title IX Revolving Loan Fund (RLF) #3 - During fiscal year 2021, MGCC was awarded a grant from EDA of \$3,770,000 to capitalize the fund and \$377,000 to cover administration costs to run the fund. Through June 30, 2022, MGCC drew down \$1,282,687 (including \$207,688 in administrative fees) on the grant. The remaining balance of the award was forfeited. The net position balance was \$987,176 and \$832,317 as of June 30, 2023 and 2022, respectively.

Small Business Administration (SBA) - MGCC has entered into a contract with the U.S. Small Business Administration on April 13, 2017, acting as its intermediary microloan lender and has committed funding up to \$350,000. The program is for loans under \$50,000 to small businesses in Massachusetts (see Note 5). As of June 30, 2023 and 2022, MGCC has drawn \$350,000. In October 2019, MGCC received an additional \$350,000 contract from SBA for microloans, MGCC drew down all \$350,000 during fiscal year 2022. As of June 30, 2023 and 2022, there were sixteen and eleven microloan borrowers with a total outstanding loan balance of \$466,297 and \$264,548, respectively. The net position balance was \$84,830 and \$61,911 as of June 30, 2023 and 2022, respectively.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to Basic Financial Statements
June 30, 2023 and 2022

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classification of Net Position (Continued)

COVID-19 Recovery Loan Fund - During fiscal year 2020, MGCC provided a \$20,000,000 emergency loan fund with loans up to \$75,000 to Massachusetts small businesses impacted by COVID-19. This fund was capitalized with \$10,000,000 from MGCC and a \$10,000,000 loan from Massachusetts Development Finance Agency (MDFA). These are three-year loans, with no payments for six months, followed by thirty months of principal and interest, with an interest rate of 3% (see Notes 5 and 12). The net position balance was \$(178,790) and \$(404,267) as of June 30, 2023 and 2022, respectively. During fiscal year 2022, MGCC received approval from the Commonwealth to utilize some of the COVID-19 Relief Grant funds to forgive \$16,198,901 of recovery loans. No loans were forgiven during fiscal year 2023.

State Small Business Credit Initiative Fund #2 - The fund was capitalized in fiscal year 2023 with funds received from the Commonwealth. MGCC has received funding totaling \$16,893,558 (including \$844,678 in administrative fees). MGCC has matched the principal of loans made with this capital on a 50/50 basis. The net position balance was \$16,179,738 as of June 30, 2023.

Restricted by Enabling Legislation - The remaining net position is deemed restricted in accordance with GASB for purposes included within Massachusetts General Laws Chapter 40W, MGCC's enabling legislation. The net position balance was \$49,896,433 and \$48,588,347 as of June 30, 2023 and 2022, respectively.

Advertising Costs

MGCC expenses advertising costs as they are incurred.

Revenue Recognition

Revenues from interest on loans and on cash and other sources are recorded as earned on the accrual basis of accounting. Loan loss recoveries are recorded in the year of recovery when cash has been received or collection is assured. Loan origination fees, although usually reported as revenue over the duration of the loan, are reported as revenue upon close of the loan for MGCC given loans are historically paid off earlier than their maturity date. Grant revenue - COVID-19 is recognized as grants to small businesses are committed. Grant revenue - COVID-19 - admin fee is recognized pro-rata based on the total grants provided during the course of the year. All other revenue is recorded as earned.

State Appropriations, Grant Revenue and Grant Expense

State appropriations are recognized as grants are committed to Massachusetts nonprofit providers for technical assistance for micro and small businesses. State appropriations totaled of \$7,000,000 (including \$372,250 and \$375,000 of admin fees) from the Commonwealth during fiscal years 2023 and 2022, respectively, and is included in state appropriations in the accompanying statements of revenues and expenses.

During fiscal year 2021, MGCC received an award from EDA totaling \$4,147,000, to capitalize a new revolving loan fund for \$3,770,000 and \$377,000 to cover administrative costs. These funds were earned and available to draw down when MGCC had committed loans to borrowers. During fiscal year June 30, 2022, MGCC drew down \$782,687 (including \$207,688 in admin fees associated with the grant) for lending and, accordingly, has recognized the revenue, which is reflected as grant revenue - EDA in the accompanying statements of revenues and expenses. The remaining balance of unrecognized funds was forfeited.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to Basic Financial Statements
June 30, 2023 and 2022

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

State Appropriations, Grant Revenue and Grant Expense (Continued)

In fiscal year 2023, MGCC was allocated \$76,591,178 (\$51,500,000 for Loan Participations and \$25,091,178 for Loan Guarantees) of State Small Business Credit Initiative (SSBCI) money received by the Commonwealth of Massachusetts from the United States Department of Treasury. These funds are being provided to MGCC over in three tranches commencing in fiscal year 2023. Subsequent tranches will be received after 80% of the previous tranche has been deployed. In fiscal year 2023, MGCC earned \$16,048,880 of these funds as revolving loan funds. In addition, MGCC earned \$844,678 of additional funds to be utilized to cover direct administrative costs, which is reflected as grant revenue - SSBCI #2 - admin fee in the accompanying statements of revenues and expenses.

COVID-19 Grant Funding

Since fiscal year 2021, MGCC has received a total of \$21,500,000 of grant funds from the Commonwealth to recapitalize local Community Development Financial Institutions (CDFIs).

During fiscal year 2021, MGCC was awarded \$734,600,000 of grant funds from the Commonwealth to provide grants to small businesses up to \$75,000 to assist in the economic hardship caused by the COVID-19 pandemic. Grant revenue includes approximately \$7,500,000 of grants previously committed that did not get funded and were reversed during fiscal year 2022. During fiscal year 2022, MGCC received approval to utilize \$16,927,844 of these funds to forgive the majority of the recovery loan portfolio, as well as pay back borrowers who previously paid their loan off in full. MGCC also repaid the Commonwealth \$14,152,321 of these funds during fiscal year 2022.

During fiscal year 2022, MGCC was awarded \$75,000,000 of grant funds from the Commonwealth to provide grants to small businesses up to \$75,000 to assist in the economic hardship caused by the COVID-19 pandemic.

During fiscal year 2023, MGCC received a total of \$185,000,000 across seven grants from the Commonwealth to provide grants to small businesses, hotels, motels, movie theatres and restaurants.

Covid-19 - Grant funds recognized as revenue during fiscal years 2023 and 2022 are as follows:

<u>Grant Type</u>	<u>2023</u>		
	<u>Total Recognized</u>	<u>Admin Revenue</u>	<u>Grant Revenue</u>
CDFI	\$ 1,799,125	\$ 125,250	\$ 1,673,875
2021 Small Business	7,554,382	421,500	7,132,882
2022 Small Business	2,020,637	2,020,637	-
2023 Small Business	<u>16,261,670</u>	<u>2,291,670</u>	<u>13,970,000</u>
	<u>\$ 27,635,814</u>	<u>\$ 4,859,057</u>	<u>\$ 22,776,757</u>
<u>2022</u>			
<u>Grant Type</u>	<u>Total Recognized</u>	<u>Admin Revenue</u>	<u>Grant Revenue</u>
CDFI	\$ 4,661,374	\$ 150,249	\$ 4,511,125
2021 Small Business	(2,019,842)	880,634	(2,900,476)
2022 Small Business	<u>71,260,609</u>	<u>3,854,293</u>	<u>67,406,316</u>
	<u>\$ 73,902,141</u>	<u>\$ 4,885,176</u>	<u>\$ 69,016,965</u>

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to Basic Financial Statements
June 30, 2023 and 2022

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statements of Revenues and Expenses

Transactions deemed by management to be ongoing, major or central to the provision of program services are reported as operating revenues and operating expenses in the accompanying statements of revenues and expenses. Non-operating revenue (expenses) include state appropriations revenue, related grant expense, and COVID-19 grant activity.

Fair Value Measurements

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

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

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

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

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

Subsequent Events

Subsequent events have been evaluated through December 12, 2023, which is the date the basic financial statements were available to be issued. See Note 14 for events that met the criteria for disclosure within basic financial statements.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to Basic Financial Statements
June 30, 2023 and 2022

3. MASSACHUSETTS MUNICIPAL DEPOSITORY TRUST INVESTMENTS

MGCC holds investments in MMDT in the amount of \$2,654,153 and \$2,550,657 at June 30, 2023 and 2022, 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; these investments are considered to be cash and restricted cash equivalents.

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

<u>Securities with an Effective Maturity of:</u>	<u>Percentage of Total Net Position</u>	
	<u>2023</u>	<u>2022</u>
s1 - 30 Days	77.2%	72.7%
31 - 90 Days	10.3	21.2
91 - 180 Days	8.4	3.6
181 - Days or more	<u>4.1</u>	<u>2.5</u>
Total	<u>100.0%</u>	<u>100.0%</u>

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

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

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

	<u>Cash Portfolio Quality Diversification</u>	
	<u>First Tier</u>	<u>Second Tier</u>
2023	100.0%	- %
2022	100.0%	- %

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to Basic Financial Statements
June 30, 2023 and 2022

4. CAPITAL ASSETS AND RIGHT-TO-USE ASSET - FACILITY LEASE

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

	<u>Balance June 30, 2021</u>	<u>2022 Additions</u>	<u>Balance June 30, 2022</u>	<u>2023 Additions</u>	<u>Balance June 30, 2023</u>
Cost	\$ 203,053	\$ 16,195	\$ 219,248	\$ 282,212	\$ 501,460
Accumulated depreciation	<u>132,803</u>	<u>18,360</u>	<u>151,163</u>	<u>41,807</u>	<u>192,970</u>
Capital assets, net	<u>\$ 70,250</u>	<u>\$ (2,165)</u>	<u>\$ 68,085</u>	<u>\$ 240,405</u>	<u>\$ 308,490</u>

Changes in right-to-use asset-facility lease are as follows for the year ended June 30, 2023:

	<u>Balance June 30, 2022</u>	<u>2023 Additions</u>	<u>2023 Deletions</u>	<u>Balance June 30, 2023</u>
Right-to-use lease asset	\$ 426,716	\$ 1,532,345	\$ (426,716)	\$ 1,532,345
Less - accumulated amortization	<u>393,892</u>	<u>197,004</u>	<u>(426,716)</u>	<u>164,180</u>
Right-to-use asset-facility - lease, net	<u>\$ 32,824</u>	<u>\$ 1,335,341</u>	<u>\$ -</u>	<u>\$ 1,368,165</u>

Changes in right-to-use asset-facility lease are as follows for the year ended June 30, 2022:

	<u>Balance June 30, 2021</u>	<u>2022 Additions</u>	<u>Balance June 30, 2022</u>
Right-to-use lease asset	\$ 426,716	\$ -	\$ 426,716
Less - accumulated amortization	<u>196,946</u>	<u>196,946</u>	<u>393,892</u>
Right-to-use asset-facility - lease, net	<u>\$ 229,770</u>	<u>\$ (196,946)</u>	<u>\$ 32,824</u>

5. LOANS RECEIVABLE

MGCC functions as a one-stop resource for debt financing for small businesses, including woman- and minority-owned business and community development efforts. MGCC's main function to date has been to provide working capital debt financing. MGCC primarily makes loans of \$100,000 to \$1,000,000 for working capital, capital equipment and acquisition costs. Standard terms for these loans include interest at the *Wall Street Journal's* prime rate plus 5%, with a floor of 10%. The loans include both variable and fixed rate simple interest loans with typically up to five-year maturities. The loans are also primarily secured by subordinated liens on assets ensuring that MGCC can maximize any traditional financing alternatives. MGCC also operates an emergency loan program to help businesses with the harsh weather conditions and other emergency situations. Emergency loans are made between \$5,000 and \$50,000, with a 3% to 5% interest rate and a three-year maturity date. MGCC also offers loans to small businesses up to \$50,000, based on funding received from SBA (see Notes 2 and 12). Loans were made between \$12,000 and \$50,000, with a 7.5% - 8.25% interest rate and up to a six-year maturity. MGCC also offers a program called Real Estate Enhancement Financing (REEF). These loans are provided to aid the purchase or refinancing of owner-occupied commercial real estate. These are targeted towards small businesses based in Massachusetts and MGCC provides five-year term loans at a rate of 2%, plus the bank rate, amortized to match the bank's amortization (typically twenty to twenty-five years).

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to Basic Financial Statements
June 30, 2023 and 2022

5. LOANS RECEIVABLE (Continued)

During fiscal year 2020, MGCC received \$10,000,000 in funding from MDFA to provide emergency capital of up to \$75,000 to Massachusetts-based businesses impacted by COVID-19. These funds are matched by MGCC, creating a \$20,000,000 COVID-19 Recovery Loan Fund. These are three-year loans that bear interest at 3% (see Note 12). During fiscal year 2021, MGCC extended the repayment terms to begin in fiscal year 2022. MGCC and MDFA each bear the risk of loss of 50% of total portfolio losses. Accordingly, 50% of COVID-19 Recovery Loan Fund write-offs will ultimately reduce the required repayment of the note payable to MDFA. The allowance for uncollectible loans associated with the COVID-19 Recovery Loan Fund relates only to MGCC's share of the fund.

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

	<u>2023</u>	<u>2022</u>
Principal outstanding:		
All other loans	44 \$ 5,094,605	46 \$ 6,435,504
COVID-19 Recovery loans	<u>26 533,186</u>	<u>27 1,046,862</u>
Total principal	<u>70 5,627,791</u>	<u>73 7,482,366</u>
Less - allowance for uncollectible loans (see Note 6):		
All other loans	2,230,634	2,852,280
COVID-19 Recovery loans	<u>213,274</u>	<u>420,322</u>
Total allowance for uncollectible loans	<u>2,443,908</u>	<u>3,272,602</u>
Loans receivable, net	3,183,883	4,209,764
Less - current portion of loans receivable, net	<u>866,951</u>	<u>1,742,925</u>
Long-term portion of loans receivable, net	<u>\$ 2,316,932</u>	<u>\$ 2,466,839</u>

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

2024	\$ 1,483,981
2025	\$ 811,387
2026	\$ 771,765
2027	\$ 597,526
2028	\$ 421,223
Thereafter	\$ 1,541,909

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to Basic Financial Statements
June 30, 2023 and 2022

6. ALLOWANCE FOR UNCOLLECTIBLE LOANS

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

	2023		2022	
	<u>Loans</u>	<u>Interest</u>	<u>Loans</u>	<u>Interest</u>
Balance, beginning of year	\$ 3,272,602	\$ 80,000	\$ 5,020,984	\$ 89,402
Net provision for loan losses	(828,694)	118,759	566,988	163,394
Write-offs	<u>-</u>	<u>-</u>	<u>(2,315,370)</u>	<u>(172,796)</u>
Balance, end of year	<u>\$ 2,443,908</u>	<u>\$ 198,759</u>	<u>\$ 3,272,602</u>	<u>\$ 80,000</u>

MGCC writes off loan balances when amounts are determined to be uncollectible. There were no write-offs during fiscal year 2023. In the above write-offs, loan balances from five companies are included in the fiscal year 2022 amount.

Impaired Loans

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

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

Risk Rating	2023		2022	
	<u>Loan Balance</u>	<u>Loan Loss Allowance</u>	<u>Loan Balance</u>	<u>Loan Loss Allowance</u>
1 - 3	\$ 1,576,206	\$ -	\$ 1,269,031	\$ -
4	511,952	-	813,653	-
5	1,826,209	730,484	3,545,133	1,418,053
6	<u>1,713,424</u>	<u>1,713,424</u>	<u>1,854,549</u>	<u>1,854,549</u>
	<u>\$ 5,627,791</u>	<u>\$ 2,443,908</u>	<u>\$ 7,482,366</u>	<u>\$ 3,272,602</u>

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to Basic Financial Statements
June 30, 2023 and 2022

6. ALLOWANCE FOR UNCOLLECTIBLE LOANS (Continued)

Troubled Debt Restructurings

A troubled debt restructuring (TDR) occurs when a creditor, for economic or legal reasons related to a borrower's financial condition, grants a concession to the borrower that it would not otherwise consider, such as below-market interest rates, principal reductions extending the maturity of a loan, or a combination of these. In certain instances, MGCC makes loan amendments to extend the loan term or reduce the interest rate. If MGCC determines that the amendment is not due to the financial difficulties of the borrower and continues to expect full repayment of the loan, the amendment is not classified as a TDR. During fiscal year 2022, as part of bankruptcy proceedings, MGCC entered into a new loan agreement with a new five-year maturity and reduced interest rate with one borrower. Under the new loan agreement, the interest rate was reduced from 10% to 8%. The loan was repaid in full during the year ended June 30, 2023. Outstanding principal on the loan was \$181,066 with an allowance of \$72,426 as of June 30, 2022. There were no loan modifications classified as TDRs as of June 30, 2023.

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, 2023 and 2022, were \$392,145 and \$290,325, respectively, and are included in employee compensation in the accompanying statements of revenues and expenses.

8. COMMITMENTS AND OFF-BALANCE SHEET RISK

Lending and Guarantees

Commitments to originate loans are agreements to lend money, provided that there are no violations of any conditions established in the agreements. MGCC evaluates each request for financing on a case-by-case basis, including, but not limited to, eligibility as established by Chapter 40W of the Massachusetts General Laws, credit worthiness, collateral obtained, and any other prevailing economic factors. Once these commitments are made, MGCC is also subject to a degree of off-balance sheet risk, as MGCC has committed funds to an entity and such commitment is not recorded on the statements of net position as a liability. The performance of these entities could adversely affect the ability of MGCC to recover the committed investment. As of June 30, 2023, MGCC had commitments to lend of approximately \$1,300,000. As of June 30, 2022, MGCC had no commitments.

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, 2022, MGCC had one outstanding guarantee with a total value of \$1,000,000, which expired on June 30, 2023.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to Basic Financial Statements
June 30, 2023 and 2022

9. LEASES

MGCC leased office space in Charlestown, Massachusetts under a six-year lease agreement through August 2022. The lease required 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 ranged from \$13,785 to \$17,569 over the lease period. In October 2022, MGCC entered into a seven-year lease extension expiring on September 30, 2029. Monthly rent payments under the agreement range from \$21,083 to \$25,175 over the lease period. MGCC received a one-month lease allowance totaling \$21,083 for October 2022. Common area maintenance charges totaled \$5,829 and \$3,300 during fiscal years 2023 and 2022, respectively, and are included in occupancy in the accompanying statements of revenue and expenses.

MGCC had a tenant-at-will agreement with the Worcester Regional Chamber of Commerce. Monthly rent payments under this lease agreement for 2023 and 2022 were \$200. Rent expense under this agreement was \$2,400 for the years ended June 30, 2023 and 2022, and is included in occupancy in the accompanying statements of revenues and expenses.

Future minimum payments under these lease obligations are as follows for the years ending June 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 171,630	\$ 87,055	\$ 258,685
2025	\$ 191,043	\$ 75,427	\$ 266,470
2026	\$ 211,962	\$ 62,503	\$ 274,465
2027	\$ 234,471	\$ 48,183	\$ 282,654
2028	\$ 258,775	\$ 32,362	\$ 291,137
Thereafter	\$ 359,697	\$ 15,722	\$ 375,419

10. CONCENTRATION OF CREDIT RISK

MGCC maintains its cash and cash equivalents balances in two banks in Massachusetts and is insured within the limits of the Federal Deposit Insurance Corporation (FDIC). In addition, cash and cash equivalents included in MMDT (see Note 2) are not FDIC insured. At certain times, these cash balances exceeded the insured amounts. As of June 30, 2023, MGCC's exposure for uninsured funds was approximately \$39,096,000, in accordance with GASB Statement No. 40. MGCC has not experienced any losses in such accounts and management believes the credit risk related to MGCC's cash and cash equivalents is not significant.

11. 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 (8.25% and 4.75% at June 30, 2023 and 2022, respectively). The line matures January 30, 2024. The line of credit is secured by substantially all assets. As of June 30, 2023 and 2022, 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, 2023 and 2022.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to Basic Financial Statements
June 30, 2023 and 2022

12. NOTES PAYABLE

MGCC received a \$10,000,000, interest-free, note from MDFA on March 27, 2020. Proceeds from this loan were used to provide emergency capital of up to \$75,000 to Massachusetts-based businesses impacted by COVID-19 at an interest rate of 3% and a maturity of three-years (see Note 5). This note is payable in quarterly installments based on remittance of loan principal payments beginning in January 2021. COVID-19 Recovery Loan Fund balances deemed uncollectible by MGCC and MDFA will be applied against and reduce the loan balance due to MDFA by 50% of the loan fund's write-offs. As of June 30, 2023 and 2022, the outstanding principal balance was \$1,001,298.

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. Principal and interest payments are due monthly in the amount of \$2,857 with a balloon payment of approximately \$74,000 due upon maturity, in April 2027. Interest accrues at either a rate of 0.625% or 1.875% based on the average size of microloans disbursed, re-evaluated annually in April (0.625% at June 30, 2023 and 2022). This note is secured by all amounts held in the SBA fund. As of June 30, 2023 and 2022, the outstanding principal balance was \$161,326 and \$202,776, respectively.

During October 2020, MGCC was awarded another \$350,000 loan from SBA to provide funding for loans less than \$50,000. During the first twelve months, there is no principal or interest due. MGCC drew down the entire \$350,000 during October 2021. Beginning in October 2021, principal and interest payments totaling \$3,241 are due monthly, with the remaining balance of loan due upon maturity in September 2030. Interest accrues at either a rate of 0.50% or 1.75% based on the average size of microloans disbursed, re-evaluated annually in October (0.50% as of June 30, 2023 and 2022). This note is secured by all amounts held in the SBA fund. As of June 30, 2023 and 2022, the outstanding principal balance was \$278,145 and \$321,277, respectively.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 1,077,447	\$ 2,775	\$ 1,080,222
2025	\$ 76,626	\$ 2,298	\$ 78,924
2026	\$ 77,107	\$ 1,817	\$ 78,924
2027	\$ 105,068	\$ 1,227	\$ 106,295
2028	\$ 44,088	\$ 552	\$ 44,640
Thereafter	\$ 60,433	\$ 306	\$ 60,739

13. INVESTMENTS

As of June 30, 2023, MGCC's investments consist of the following:

US Treasury Bills	\$ 35,688,620
Mutual Funds:	
Money Market	<u>34,501</u>
Total investments	<u>\$ 35,723,121</u>

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Notes to Basic Financial Statements
June 30, 2023 and 2022

14. SUBSEQUENT EVENTS

During fiscal year 2023, the Small Business Technical Assistance program that is funded via the Commonwealth's annual operating budget was approved for a record \$5,000,000 for fiscal year 2024.

During fiscal year 2024, MGCC paid \$746,387 to MDFA pertaining to the outstanding loan balance (see Note 12).

15. RELATED PARTY TRANSACTIONS

A member of the Board of Directors who left the Board in June 2022 is the President of a bank where MGCC holds a cash account.

16. OTHER CONTINGENCIES

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

MASSACHUSETTS GROWTH CAPITAL CORPORATION

SUPPLEMENTAL INFORMATION

JUNE 30, 2023

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

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Supplemental Statement of Net Position
June 30, 2023

Assets	MGCC	State Small Business Credit Initiative Fund #2	COVID-19 Recovery Loan Fund	Federal Title IX Revolving Loan Fund #3	Small Business Admin- istration	Total
Current Assets:						
Cash and cash equivalents - restricted	\$ 20,900,009	\$ 17,135,444	\$ 734,705	\$ 784,480	\$ 41,236	\$ 39,595,874
Investments	35,723,121	-	-	-	-	35,723,121
Grants receivable	1,166,336	-	-	-	-	1,166,336
Current portion of loans receivable, net of allowance for uncollectible loans of approximately \$617,000	303,745	83,333	318,306	54,734	106,833	866,951
Accrued interest receivable on loans, net of allowance for uncollectible amounts of approximately \$199,000	155,080	3,185	5,258	2,051	16,768	182,342
Prepaid expenses and other	302,714	-	-	-	-	302,714
Total current assets	58,551,005	17,221,962	1,058,269	841,265	164,837	77,837,338
Loans Receivable, net of current portion and allowance for uncollectible loans of approximately \$1,827,000	1,393,284	416,667	1,606	145,911	359,464	2,316,932
Right-to-Use Asset - facility lease, net	1,368,165	-	-	-	-	1,368,165
Capital Assets, net	308,490	-	-	-	-	308,490
Total assets	\$ 61,620,944	\$ 17,638,629	\$ 1,059,875	\$ 987,176	\$ 524,301	\$ 81,830,925
Liabilities and Net Position						
Current Liabilities:						
Accounts payable, accrued expenses and other	\$ 365,169	\$ -	\$ -	\$ -	\$ -	\$ 365,169
Current portion of notes payable	-	-	1,001,298	-	76,149	1,077,447
Current portion of lease liability	171,630	-	-	-	-	171,630
Deferred revenue	8,376,360	-	-	-	-	8,376,360
Grants payable	3,262,559	-	-	-	-	3,262,559
Interfund (receivable) payable	(1,696,258)	1,458,891	237,367	-	-	-
Total current liabilities	10,479,460	1,458,891	1,238,665	-	76,149	13,253,165
Lease Liability, net of current portion	1,245,051	-	-	-	-	1,245,051
Notes Payable, net of current portion	-	-	-	-	363,322	363,322
Total liabilities	11,724,511	1,458,891	1,238,665	-	439,471	14,861,538
Net Position:						
Restricted - Federal Title IX RLF	-	-	-	987,176	-	987,176
Restricted - SBA Revolving Loan Fund	-	-	-	-	84,830	84,830
Restricted - COVID-19 Recovery Loan Fund	-	-	(178,790)	-	-	(178,790)
Restricted - State Small Business Credit Initiative #2	-	16,179,738	-	-	-	16,179,738
Restricted by enabling legislation	49,896,433	-	-	-	-	49,896,433
Total net position	49,896,433	16,179,738	(178,790)	987,176	84,830	66,969,387
Total liabilities and net position	\$ 61,620,944	\$ 17,638,629	\$ 1,059,875	\$ 987,176	\$ 524,301	\$ 81,830,925

MASSACHUSETTS GROWTH CAPITAL CORPORATION

Supplemental Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2023

	MGCC	State Small Business Credit Initiative Fund #2	COVID-19 Recovery Loan Fund	Federal Title IX Revolving Loan Fund #3	Small Business Admin- istration	Total
Operating Revenues:						
Grant revenue - COVID-19 - admin fee	\$ 4,859,057	\$ -	\$ -	\$ -	\$ -	\$ 4,859,057
Grant revenue - SSBCI #2 - admin fee	844,678	-	-	-	-	844,678
Investment income	723,121	-	-	-	-	723,121
Interest income on cash reserves	446,102	265,177	-	-	331	711,610
Interest income on loans	393,715	9,449	23,325	49,524	25,258	501,271
State appropriations - admin fee	372,250	-	-	-	-	372,250
Loan origination fees and other	50,566	5,000	-	-	-	55,566
Transfer of earnings	151,476	(139,813)	(11,663)	-	-	-
Total operating revenues	<u>7,840,965</u>	<u>139,813</u>	<u>11,662</u>	<u>49,524</u>	<u>25,589</u>	<u>8,067,553</u>
Operating Expenses:						
Employee compensation	4,439,136	-	-	16,175	-	4,455,311
Contract services	911,132	-	-	-	-	911,132
Information technology	488,095	-	-	-	-	488,095
Professional fees	272,413	4,923	-	25,874	-	303,210
Amortization of right-to-use lease asset	172,734	3,726	-	20,544	-	197,004
Dues and memberships	122,190	-	-	-	-	122,190
Supplies	118,796	-	-	-	-	118,796
Other expenses	59,048	10	-	-	-	59,058
Interest expense	74,081	-	-	-	2,670	76,751
Recruitment	67,500	-	-	-	-	67,500
Depreciation	41,807	-	-	-	-	41,807
Insurance	27,040	-	-	-	-	27,040
Telephone	18,325	-	-	-	-	18,325
Meetings	12,753	-	-	-	-	12,753
Portfolio and credit administration	10,791	-	-	-	-	10,791
Occupancy	8,743	121	-	627	-	9,491
Travel	8,230	175	-	921	-	9,326
Printing and postage	7,403	-	-	-	-	7,403
Total operating expenses	<u>6,860,217</u>	<u>8,955</u>	<u>-</u>	<u>64,141</u>	<u>2,670</u>	<u>6,935,983</u>
Changes in net position from operations before loan loss recovery (provision)	980,748	130,858	11,662	(14,617)	22,919	1,131,570
Loan Loss Provision	326,644	-	213,815	169,476	-	709,935
Loan Loss Recovery	694	-	-	-	-	694
Changes in net position from operations	<u>1,308,086</u>	<u>130,858</u>	<u>225,477</u>	<u>154,859</u>	<u>22,919</u>	<u>1,842,199</u>
Non-Operating Revenue (Expenses):						
Grant revenue - COVID-19	22,776,757	-	-	-	-	22,776,757
Grant revenue - SSBCI #2	-	16,048,880	-	-	-	16,048,880
State appropriations	6,627,750	-	-	-	-	6,627,750
Grant revenue - EDA	-	-	-	-	-	-
Grant expense	(6,627,750)	-	-	-	-	(6,627,750)
Grant expense - COVID-19	(22,776,757)	-	-	-	-	(22,776,757)
Total non-operating revenue (expenses)	<u>-</u>	<u>16,048,880</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,048,880</u>
Changes in net position	1,308,086	16,179,738	225,477	154,859	22,919	17,891,079
Net Position:						
June 30, 2022	<u>48,588,347</u>	<u>-</u>	<u>(404,267)</u>	<u>832,317</u>	<u>61,911</u>	<u>49,078,308</u>
June 30, 2023	<u>\$ 49,896,433</u>	<u>\$ 16,179,738</u>	<u>\$ (178,790)</u>	<u>\$ 987,176</u>	<u>\$ 84,830</u>	<u>\$ 66,969,387</u>