
**Audited Consolidated
Financial Statements**

The Massachusetts
Housing Investment
Corporation

Years ended June 30, 1996
and 1995

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements (continued)

7. **Leases:** MHIC leases its facilities and certain furniture and equipment under operating leases which expire over the next thirty months and require various minimum rental payments. Future minimum payments, by year and in aggregate, under these noncancelable operating leases consist of the following at June 30, 1996:

1997	\$160,431
1998	\$43,639
1999	<u>\$1,620</u>
TOTAL	<u>\$205,690</u>

MHIC incurred rent expense associated with office space and equipment of approximately \$183,000 and \$175,000 in 1996 and 1995, respectively.

8. **Employee Benefit Plan:** As a tax-exempt 501(c)(3) corporation, MHIC established a noncontributory, defined contribution plan under Section 401(a) of the Internal Revenue Code covering all full-time employees. The only source of contributions under the Plan is the annual employer contribution. The employer contribution is based upon a percentage of employee salary. MHIC contributed and charged to expense approximately \$58,000 in 1996 and \$49,000 in 1995.

Massachusetts Housing Investment Corporation

Notes to Consolidated Financial Statements (continued)

2. Notes Payable to Member Banks: MHIC funds their loan pool through unsecured notes issued to member banks pursuant to a Master Membership Agreement. Under this agreement, all note proceeds not lent are required to be deposited in money market deposit accounts at the respective lending institutions. The notes accrue interest at 1% less than the annual interest rate earned on the interest-bearing accounts. All lent proceeds bear interest at the prime rate less 1%. These notes are renewable annually. If they are not renewed, they require no principal amortization for five years and then amortize over a five-year period at an amount equal to the stated amount of the note less the member's pro rata share of unfunded losses. At June 30, 1996, outstanding borrowings under these agreements totaled \$52,950,000.

3. Notes Receivable and Unearned Fees: The note receivable(s) from MHEF LPs represent the present value (using an effective interest rates that range from 8% to 9%) of future cash payments that will be received by MHIC for asset management and other services it will provide to the Partnerships, as specified in the partnership agreement. At June 30, 1996 and 1995, note receivable(s) are \$3,598,401 and \$881,837, respectively. At June 30, 1996 and 1995, note receivable(s) included accrued interest of \$347,013 and \$188,405, respectively.

Unearned equity fees reflect the fact that MHIC is obligated to provide future services to the Partnerships as consideration for the aforementioned note receivable(s). These services include underwriting investments, and long-term asset management and partnership administration. This obligation is reduced as services are provided, according to the revenue recognition methodology associated with the particular service (*see note 1, revenue recognition*). At June 30, 1996 and 1995, unearned equity fees are \$3,533,055 and \$1,268,421, respectively.

4. Project Loans: MHIC provides loans for the development of affordable housing throughout Massachusetts. Project loan activity is as follows:

	<u>1996</u>	<u>1995</u>
Beginning balance	\$ 4,816,715	\$ 4,180,542
Loan disbursements	12,668,729	13,861,223
Loan repayments	<u>(11,459,135)</u>	<u>(13,225,050)</u>
Project loans outstanding	6,026,309	4,816,715
Allowance for loan losses	<u>(200,000)</u>	<u>(175,000)</u>
Project loans, net	\$ 5,826,309	\$ 4,641,715

Project loans earn a variable rate of interest pursuant to MHIC's established loan policy and are secured by the underlying projects. In certain instances, the primary repayment of these loans will be received from the equity syndication payments provided to the project by the MHEF LP tax credit equity investment program. At June 30, 1996, MHIC had no delinquent or non performing project loans and there have been no charge-offs recorded to date.

5. Commitments: At June 30, 1996, MHIC had unfunded commitments to originate loans of \$25,054,747. These commitments have been established pursuant to MHIC's loan policy.

6. Loan Guarantee Commitments: MHIC provides project loan guarantees, whereby it administers construction loans for other parties, assumes the construction period risk, and secures its guarantee with cash collateral. Such transactions are treated as off-balance sheet liabilities and therefore not presented in the body of the financial statements. At June 30, 1996, loan guarantee commitments and amounts outstanding totaled \$6,145,721 and \$960,567, respectively.

Massachusetts Housing Investment Corporation

Notes to Consolidated Financial Statements

1. Background and Accounting Policies:

Purpose: On July 1, 1990, the Massachusetts Housing Investment Corporation (MHIC) was formally established as a Massachusetts-chartered, Chapter 180, not-for-profit corporation. MHIC's mission is to pool the resources of Massachusetts banks to improve and expand the financing of affordable housing throughout the state. To date, MHIC has established a loan pool which provides financing for affordable housing on a statewide basis to not-for-profit as well as for-profit developers. Prior to January 1994, MHIC managed a program that provided assistance to member banks in underwriting low income housing tax credit investments. In June 1993, MHIC established a wholly-owned subsidiary, Massachusetts Housing Equity Fund, Inc. (MHEF), which is the General Partner of three limited partnerships (the Partnerships) structured for investment in low-income housing projects in Massachusetts.

Principles of Consolidation: The consolidated financial statements include the accounts of MHIC and its wholly-owned subsidiary, MHEF. All significant inter-company transactions and balances have been eliminated in consolidation.

MHEF: MHIC has capitalized MHEF in the amount of \$1,403,185. MHEF, as general partner of the aforementioned Partnerships, has a 1% interest in their respective profits, losses, and distributions. MHEF accounts for its investment in the Partnerships using the equity method. Under the equity method, the investments are carried at cost and adjusted for the Partnership's share of income, losses, additional investments and cash. At June 30, 1996, the Partnerships have combined total assets and cumulative deficit of approximately \$32,112,133 and \$3,700,220 respectively.

Accrual Basis: The consolidated financial statements of MHIC have been prepared on an accrual basis.

Project Loans and Allowance for Possible Project Loan Losses: Loans are stated at the amount of unpaid principal, net of deferred loan fees and the allowance for loan losses. Interest on project loans is recognized as income by applying the interest rates to the principal amount outstanding. An allowance for project loan losses is maintained based upon the evaluation of the risks associated with the outstanding loans. Any losses or recoveries subsequently realized are charged or credited to the allowance.

Furniture, Equipment and Leasehold Improvements: Furniture, equipment and leasehold improvements are stated at cost, less accumulated depreciation and amortization. Depreciation is computed by the straight-line method using rates based on estimated useful lives.

Revenue Recognition for Fees Related to MHEF LP's: The Partnerships have contracted with MHIC to provide broad services to the Partnerships that include organization, syndication, underwriting, long-term asset management and partnership administration. Fees for syndicating and organizing the Partnerships are recognized when syndication is substantially complete. Fees for underwriting investments are recognized according to the percentage of work complete. Fees for asset management and partnership administration are recognized evenly over the life of the Partnerships (estimated to be approximately 15 years). In addition, MHIC monitors the construction process for the projects in which the Partnerships invest. The fee for this service is paid by the project's sponsor and is recognized over the estimated construction period. During 1996 and 1995, MHIC recognized fees of approximately \$1,795,000 and \$1,397,000 for services provided and costs incurred in connection with the formation and operations of the Partnerships.

Income Tax Status: MHIC has been granted tax-exempt status as a 501(c)(3) corporation under federal tax law. MHEF is a for-profit corporation and therefore is taxable for federal and state income tax purposes.

Risks and Uncertainties: Financial statements prepared in accordance with generally accepted accounting principles require the use of significant management estimates which affect the amounts and disclosures recorded in the financial statements. Actual results may differ from those estimates.

Massachusetts Housing Investment Corporation
Consolidated Statements of Cash Flows

	— Year ended June 30 —	
	1996	1995
Operating Activities		
Excess of revenue over expenditures	\$ 25,740	\$ 45,335
Adjustments to reconcile excess of revenue over expenditures to net cash used by operating activities:		
Provision for loan losses	25,000	25,000
Depreciation and amortization expense	89,839	82,744
(Increase) decrease in amounts receivable and other assets	3,152	(578,693)
Decrease in unearned fees	(256,937)	(214,580)
Increase (decrease) in accrued interest and other liabilities	41,956	(11,395)
Total adjustments	(96,990)	(696,924)
Net cash used by operating activities	(71,250)	(651,589)
Investing Activities		
Increase in project loans, net	(1,209,594)	(636,173)
Decrease in money market deposits at member banks	659,594	486,173
Payments received on notes receivable	31,991	747,334
Purchases of furniture, equipment and leasehold improvements	(36,802)	(122,367)
Net cash provided (used) by investing activities	(554,811)	474,967
Financing Activities		
Proceeds from notes payable to member banks	550,000	150,000
Net cash provided by financing activities	550,000	150,000
Net decrease in cash	(76,061)	(26,622)
Cash at beginning of year	173,252	199,874
Cash at end of year	\$ 97,191	\$ 173,252
Supplemental Disclosures of Cash Flow Information:		
Non-cash investing activity:		
Unearned fee recorded in exchange for notes receivable	\$ 2,748,555	\$ 0
Cash paid during the year for interest on notes payable to member banks	\$ 1,185,360	\$1,099,863

See accompanying notes to consolidated financial statements.

Massachusetts Housing Investment Corporation

Consolidated Statements of Revenues and Expenditures

	—Year ended June 30—	
	1996	1995
Revenue		
Interest revenue and fees:		
Interest on bank deposits	\$ 1,333,371	\$ 1,188,415
Interest on project loans, and loan guarantee fees	530,954	562,229
Total interest revenue	1,864,325	1,750,644
Interest expense on notes payable to member banks	(1,205,512)	(1,143,426)
Net interest revenue before provision for loan losses	658,813	607,218
Provision for loan losses	(25,000)	(25,000)
Net interest revenue after provision for loan losses	633,813	582,218
Equity program revenue:		
Fees related to MHEF LP's	1,795,117	1,397,292
Other equity program fees	51,500	55,554
Total Revenue	2,480,430	2,035,064
Expenditures		
Salaries and employee benefits	1,406,159	1,082,299
Professional services	396,471	379,376
Occupancy, equipment and furniture	265,674	264,064
Other expenses	386,386	263,990
Total Expenditures	2,454,690	1,989,729
Excess of Revenue over Expenditures	25,740	45,335
Net Assets at Beginning of Year	95,058	49,723
Net Assets at End of Year	\$ 120,798	\$ 95,058

See accompanying notes to consolidated financial statements.

Massachusetts Housing Investment Corporation

Consolidated Balance Sheets

	June 30	
	1996	1995
Assets		
Cash	\$ 97,191	\$ 173,252
Loan fund:		
Project loans, net of allowance for loan losses of \$200,000 in 1996 and \$175,000 in 1995	5,826,309	4,641,715
Money market deposits at member banks	46,923,691	47,583,285
Total loan fund	52,750,000	52,225,000
Notes receivable	3,598,401	881,837
Amounts receivable and other assets	774,227	777,379
Furniture, equipment and leasehold improvements, net of accumulated depreciation and amortization of \$191,432 in 1996 and \$212,695 in 1995	171,200	224,237
Total Assets	\$57,391,019	\$54,281,705
 Liabilities and Net Assets		
Liabilities:		
Notes payable to member banks	\$52,950,000	\$52,400,000
Unearned fees	3,973,070	1,481,452
Accrued interest and other liabilities	347,151	305,195
Total Liabilities	57,270,221	54,186,647
Net Assets	120,798	95,058
Total Liabilities and Net Assets	\$57,391,019	\$54,281,705

See accompanying notes to consolidated financial statements.

Report of Independent Auditors

Board of Directors
The Massachusetts Housing Investment Corporation

We have audited the accompanying consolidated balance sheets of the Massachusetts Housing Investment Corporation (the Corporation) as of June 30, 1996 and 1995, and the related consolidated statements of revenues and expenditures, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Massachusetts Housing Investment Corporation at June 30, 1996 and 1995, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Ernst + Young LLP

August 18, 1996