

Massachusetts Housing Investment Corporation

Audited Consolidated Financial Statements

Years ended June 30, 1994 and 1993

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Massachusetts Housing Investment Corporation

Notes to Consolidated Financial Statements (continued)

4. Project Loans (continued)

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, 1994, MHIC had no delinquent or nonperforming project loans and there have been no charge-offs recorded to date.

5. Commitments

At June 30, 1994, MHIC had unfunded commitments to originate loans of \$18,612,000. These commitments have been established pursuant to MHIC's loan policy.

6. Leases

MHIC leases its facilities and certain furniture and equipment under operating leases which expire over the next forty 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, 1994:

1995	\$173,737
1996	153,612
1997	138,740
1998	22,667
1999	0
TOTAL	<u>\$488,756</u>

MHIC incurred rent expense associated with office space and equipment of approximately \$127,700 and \$91,135 in 1994 and 1993, respectively.

7. 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. MHIC contributed and charged to expense approximately \$39,000 in 1994 and \$23,000 in 1993.

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 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, 1994, outstanding borrowings under these agreements totaled \$52,250,000.

3. Notes Receivable from MHEF LP

The notes receivable from MHEF 1993-94 LP represents the present value (using an effective interest rate of approximately 8%) of future cash payments that will be received by MHIC for asset management and other services it will provide over the life of MHEF 1993-94 Limited Partnership, as specified in the partnership agreement. At June 30, 1994, \$1,626,709 is recorded as unearned fees.

4. Project Loans

MHIC provides loans for the development of affordable housing throughout Massachusetts.

Project loan activity is as follows:

	1994	1993
Beginning balance	\$ 3,172,543	\$ 927,756
Loan disbursements	8,352,914	7,452,787
Loan repayments	(7,344,915)	(5,208,000)
Project loans outstanding	4,180,542	3,172,543
Allowance for loan losses	(150,000)	(125,000)
Project loans, net	<u>\$ 4,030,542</u>	<u>\$ 3,047,543</u>

Massachusetts Housing Investment Corporation

Notes to Consolidated Financial Statements (continued)

1. Background and Accounting Policies (continued)

Project Loans and Allowance for Possible Project Loan Losses

Loans are stated at the amount of unpaid principal, net of unearned discount, 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

MHEF acts as general partner in MHEF 1993-94 LP and holds a 1% interest in the limited partnership. MHIC has agreed to provide underwriting, administrative, asset management and other services to the limited partnership. Asset management and servicing fees are recognized as the services are performed over the life of the limited partnership (estimated to be approximately 15 years). Project selection and underwriting fees are recognized at the time of the project closing. During 1994, MHIC recognized fees of approximately \$672,000 for services provided and costs incurred in connection with the formation and operations of MHEF 1993-94 LP.

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.

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 loans 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 equity investments.

In June 1993, MHIC established a wholly-owned subsidiary, Massachusetts Housing Equity Fund, Inc. (MHEF), which is the General Partner in the Massachusetts Housing Equity Fund 1993-94 Limited Partnership (MHEF 1993-94 LP), a limited partnership structured for investment in low-income housing projects in Massachusetts. MHIC has capitalized the General Partner in the amount of \$939,100. MHEF, as general partner of MHEF 1993-94 LP, has a 1% interest in MHEF 1993-94 LP profits, losses and distributions. At June 30, 1994, MHEF 1993-94 LP has total assets and partnership capital of approximately \$27,200,000 and \$23,500,000, respectively.

Principles of Consolidation

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

Accrual Basis

The consolidated financial statements have been prepared on an accrual basis.

Reclassifications

Certain amounts in the 1993 financial statements have been reclassified to conform to the 1994 presentation without effect on net income.

Massachusetts Housing Investment Corporation

Consolidated Statements of Cash Flows

	—Year ended June 30—	
	1994	1993
Operating Activities		
Excess of revenue over expenditures	\$ 8,305	\$ 2,251
Adjustments to reconcile excess of revenue over expenditures to net cash provided (used) by operating activities:		
Provision for loan losses	25,000	45,000
Depreciation and amortization expense	41,385	34,999
Decrease (increase) in amounts receivable	(137,623)	33,157
Decrease in unearned equity program fees		(190,176)
Increase in accrued interest and other liabilities	228,156	852
Total adjustments	156,918	(76,168)
Net cash provided (used) by operating activities	165,223	(73,917)
Investing Activities		
Increase in project loans, net	(1,007,999)	(2,244,787)
Decrease in money market deposits at member banks	1,007,999	1,244,787
Purchases of furniture, equipment and leasehold improvement	(166,347)	(37,829)
Net cash used in investing activities	(166,347)	(1,037,829)
Financing Activities		
Proceeds from notes payable to member banks		1,000,000
Net cash provided by financing activities	-0-	1,000,000
Net decrease in cash	(1,124)	(111,746)
Cash at beginning of year	200,998	312,744
Cash at end of year	\$ 199,874	\$ 200,998
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest on notes payable to member banks	\$ 616,173	\$ 910,423

See accompanying notes to consolidated financial statements.

Massachusetts Housing Investment Corporation

Consolidated Statements of Revenues and Expenditures

	—Year ended June 30—	
	1994	1993
Revenue		
Interest revenue:		
Interest on bank deposits	\$ 984,207	\$1,247,455
Interest on project loans	198,199	161,290
Total interest revenue	<u>1,182,406</u>	1,408,745
Interest expense on notes payable to member banks	612,466	867,302
Net interest revenue before provision for loan losses	<u>569,940</u>	541,443
Provision for loan losses	(25,000)	(45,000)
Net interest revenue after provision for loan losses	<u>544,940</u>	496,443
Equity program revenue:		
Fees related to MHEF 1993-94 LP	671,609	
Equity program fees	225,393	379,668
Total Revenue	<u>1,441,942</u>	876,111
Expenditures		
Salaries and employee benefits	818,730	550,721
Professional services	257,130	54,822
Occupancy, equipment and furniture	173,105	136,499
Other expenses	184,672	131,818
Total Expenditures	<u>1,433,637</u>	873,860
Excess of Revenue over Expenditures	8,305	2,251
Net assets at beginning of year	41,418	39,167
Net Assets at End of Year	<u>\$ 49,723</u>	<u>\$ 41,418</u>

See accompanying notes to consolidated financial statements.

Massachusetts Housing Investment Corporation

Consolidated Balance Sheets

	June 30	
	1994	1993
Assets		
Cash	\$ 199,874	\$ 200,998
Loan fund:		
Project loans, net of allowance for loan losses of \$150,000 in 1994 and \$125,000 in 1993	4,030,542	3,047,543
Money market deposits at member banks	48,069,458	49,077,457
Total loan fund	<u>52,100,000</u>	<u>52,125,000</u>
Notes receivable from MHEF 1993-94 LP	1,629,171	
Amounts receivable and other assets	198,686	61,063
Furniture, equipment and leasehold improvements, net of accumulated depreciation and amortization of \$129,951 in 1994 and \$88,565 in 1993	184,614	59,652
Total Assets	<u><u>\$54,312,345</u></u>	<u><u>52,446,713</u></u>
Liabilities and Net Assets		
Liabilities:		
Notes payable to member banks	\$52,250,000	52,250,000
Unearned fees	1,696,032	
Accrued interest and other liabilities	316,590	155,295
Total Liabilities	<u>54,262,622</u>	<u>52,405,295</u>
Net Assets	<u>49,723</u>	<u>41,418</u>
Total Liabilities and Net Assets	<u><u>\$54,312,345</u></u>	<u><u>\$52,446,713</u></u>

See accompanying notes to consolidated financial statements.

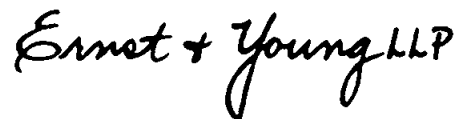
Report of Independent Auditors

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, 1994 and 1993, 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, 1994 and 1993, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.



August 12, 1994