

Massachusetts Housing Investment Corporation

Consolidated Financial Statements
And
Auditors' Report

December 31, 2008 and 2007



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Massachusetts Housing Investment Corporation

December 31, 2008

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Daniel Dennis & Company LLP

Certified Public Accountants

Board of Directors

Massachusetts Housing Investment Corporation

Independent Auditors' Report

We have audited the accompanying consolidated statements of financial position of Massachusetts Housing Investment Corporation (a non-profit corporation) and subsidiaries (the Corporation) as of December 31, 2008 and 2007, and the related consolidated statements of activities, 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 Massachusetts Housing Investment Corporation as of December 31, 2008 and 2007, and the consolidated changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the 2008 consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2008 consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2008 consolidated financial statements taken as a whole.

Daniel Dennis & Company LLP

April 13, 2009

Massachusetts Housing Investment Corporation
Consolidated Statements of Financial Position
December 31, 2008 and 2007

	2008	2007
<i>Assets:</i>		
Cash	\$ 9,457,993	\$ 7,874,029
Investment in marketable securities	7,293,671	-
Money market deposits at member corporations-loan fund	13,686	63,054
Contribution receivable	245,000	-
Project loans net of uncollectible accounts of \$0 in 2008 and \$5,888 in 2007	378,681	246,398
Loans to affiliates	13,298,027	6,733,915
Due from affiliates	1,115,265	3,326,504
Fee receivable—MHEF Partnerships	3,072,737	3,077,982
Amounts receivable and other assets	773,659	879,234
Furniture, equipment and leasehold improvements, net of accumulated depreciation of \$672,488 and \$508,108 in 2008 and 2007, respectively	<u>295,400</u>	<u>463,013</u>
Total assets	<u>\$ 35,944,119</u>	<u>\$ 22,664,129</u>
<i>Liabilities and net assets:</i>		
<i>Liabilities</i>		
Notes payable to member corporations	\$ 20,442,507	\$ 6,050,000
Unearned fees	8,525,257	9,781,412
Accrued interest and other liabilities	<u>1,373,954</u>	<u>1,740,214</u>
Total liabilities	<u>30,341,718</u>	<u>17,571,626</u>
<i>Net assets</i>		
Unrestricted	5,114,388	5,092,503
Temporarily restricted	<u>488,013</u>	<u>-</u>
Total net assets	<u>5,602,401</u>	<u>5,092,503</u>
Total liabilities and net assets	<u>\$ 35,944,119</u>	<u>\$ 22,664,129</u>

See accompanying notes to financial statements.

Massachusetts Housing Investment Corporation
Consolidated Statements of Activities
For The Years December 31, 2008 and 2007

	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<i>Revenue and Support:</i>						
Interest on bank deposits	\$ 527,941	\$ -	\$ 527,941	\$ 100,512	\$ -	\$ 100,512
Interest on loans to affiliates	30,010	-	30,010	48,893	-	48,893
Unrealized gains on investments	132,231	-	132,231	-	-	-
Management advisory fees	231,257	-	231,257	271,906	-	271,906
Portfolio servicing fees	173,602	-	173,602	492,043	-	492,043
Origination fees	139,607	-	139,607	153,750	-	153,750
NMTC program revenue	2,317,785	-	2,317,785	2,906,915	-	2,906,915
Fees related to MHEF limited partnerships	2,350,912	-	2,350,912	2,858,139	-	2,858,139
Other equity program fees	49,122	-	49,122	71,130	-	71,130
Contributions	131,987	488,013	620,000	-	-	-
Net assets released from restrictions	-	-	-	77,528	(77,528)	-
Total revenue and support	<u>6,084,454</u>	<u>488,013</u>	<u>6,572,467</u>	<u>6,980,816</u>	<u>(77,528)</u>	<u>6,903,288</u>
<i>Expenditures:</i>						
Salaries and employee benefits	3,979,799	-	3,979,799	4,576,175	-	4,576,175
Occupancy, equipment and furniture	365,155	-	365,155	323,219	-	323,219
Professional services	630,682	-	630,682	1,079,562	-	1,079,562
Depreciation	164,379	-	164,379	175,835	-	175,835
Other expenditures	922,554	-	922,554	710,662	-	710,662
Total expenditures	<u>6,062,569</u>	<u>-</u>	<u>6,062,569</u>	<u>6,865,453</u>	<u>-</u>	<u>6,865,453</u>
Increase (decrease) net assets	21,885	488,013	509,898	115,363	(77,528)	37,835
Net assets at beginning of year	<u>5,092,503</u>	<u>-</u>	<u>5,092,503</u>	<u>4,977,140</u>	<u>77,528</u>	<u>5,054,668</u>
Net assets at end of year	<u>\$ 5,114,388</u>	<u>\$ 488,013</u>	<u>\$5,602,401</u>	<u>\$ 5,092,503</u>	<u>\$ -</u>	<u>\$ 5,092,503</u>

See accompanying notes to financial statements.

Massachusetts Housing Investment Corporation
Consolidated Statements of Cash Flows
For The Years December 31, 2008 and 2007

	2008	2007
<i>Operating activities:</i>		
Increase in net assets	\$ 509,898	\$ 37,835
<i>Adjustments to reconcile increase in net assets to net cash provided by operating activities:</i>		
Depreciation and amortization expense	164,379	175,835
Unrealized gains on investments	(132,231)	-
Bad debt expense	-	5,888
Interest earned on money market deposits at member corporations	-	(1,172)
Decrease in amounts receivable and other assets	2,071,814	2,752,372
Decrease in unearned fees	(1,256,155)	(1,734,590)
Decrease in accrued interest and other liabilities	(366,260)	(615,644)
Decrease on notes receivable—MHEF Partnerships	<u>5,245</u>	<u>2,491,469</u>
Net cash provided by operating activities	<u>996,690</u>	<u>3,111,993</u>
<i>Investing activities:</i>		
Funds advanced under project loans	(132,282)	(297,761)
Payments received under project loans	-	389,589
Payments received on loans to affiliates	2,305,888	4,597,930
Funds advanced under loans to affiliates	(8,870,000)	(8,855,888)
Purchase of marketable securities	(7,161,440)	-
Purchases of furniture, equipment and leasehold improvements	-	(11,487)
Withdrawal from money market deposits	<u>52,601</u>	<u>100,000</u>
Net cash used for investing activities	<u>(13,805,233)</u>	<u>(4,077,617)</u>
<i>Financing activities:</i>		
Proceeds from notes payable	15,125,500	6,000,000
Repayment of notes payable	<u>(732,993)</u>	<u>(100,000)</u>
Net cash provided by financing activities	<u>14,392,507</u>	<u>5,900,000</u>
Net increase in cash	1,583,964	4,934,376
Cash at beginning of year	<u>7,874,029</u>	<u>2,939,653</u>
Cash at end of year	<u>\$ 9,457,993</u>	<u>\$ 7,874,029</u>
<i>Supplemental information</i>		
Interest paid	<u>\$ 400,193</u>	<u>\$ -</u>

See accompanying notes to financial statements.

Massachusetts Housing Investment Corporation

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

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' lenders and investors to improve and expand the financing of affordable housing and community development throughout the state. MHIC has established three main financing programs to carry out its mission:

Loan Program

The loan program focuses on providing debt financing to developers of affordable housing. From its inception in 1990 through December 2000, MHIC utilized a loan pool structure to extend this financing. The loan-pool was funded with the proceeds from below market rate loans (member loans) made to MHIC from participating member corporations. In January 2001, MHIC converted the loan pool to a limited liability company structure. As a result, the member loans were converted to equity interests in a new entity, MHIC, LLC (the LLC). In addition, the various project loans, deposit accounts and reserves owned by MHIC were transferred to the LLC in exchange for extinguishing the member loans. MHIC is the manager of the LLC (see Note 2, Loan Program).

Low Income Housing Tax Credit (LIHTC) Program

The LIHTC program utilizes the federal low-income housing tax credit to provide equity financing to developers of affordable housing. The initial role of the program was to assist member corporations in underwriting low-income housing tax credit investments. The program, through MHIC's wholly-owned subsidiary Massachusetts Housing Equity Fund, Inc. (MHEF), is now a full-service syndicator of limited partnerships or limited liability companies (the Partnerships) structured for investment in low-income housing projects (Operating Partnerships) in Massachusetts. MHEF was formed in June 1993 and is currently the General Partner of fourteen Partnerships.

New Markets Tax Credit (NMTC) Program

The NMTC program utilizes the federal new markets tax credit to provide debt and equity financing to businesses that serve or operate in low-income communities. As of December 31, 2008, MHIC had received five allocations of new markets tax credits totaling \$364,000,000 and as of December 31, 2007, MHIC had received four allocations of new markets tax credits totaling \$259,000,000.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2008 and 2007

1. *Background and Accounting Policies - continued*

New Markets Tax Credit (NMTC) Program - continued

MHIC has utilized these allocations to syndicate three investment companies that are structured for investment in community development entities (MHIC-CDEs), which in turn provide financing to qualifying businesses.

Basis of Presentation

Net assets and revenues, gains and losses are classified based on the existence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently restricted net assets—Net assets subject to donor-imposed stipulations that they be maintained in perpetuity by MHIC.

Temporarily restricted net assets—Net assets subject to donor-imposed stipulations that may or will be met by actions of MHIC and/or the passage of time.

Unrestricted net assets—Net assets not subject to donor-imposed stipulations.

Contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Temporarily restricted net assets at December 31, 2008 reflect grant funds that will be used in support of financing foreclosed properties as part of a state-wide neighborhood stabilization initiative.

Principles of Consolidation

The consolidated financial statements include the accounts of MHIC and its wholly-owned subsidiaries, Massachusetts Housing Equity Fund, Inc. (MHEF) and Neighborhood Stabilization Loan Fund LLC (NSLF). All significant intercompany transactions and balances have been eliminated in consolidation.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2008 and 2007

1. *Background and Accounting Policies - continued*

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 that range from 3 to 5 years. Assets with a cost of greater than \$1,000 and a useful life of greater than one year are capitalized.

Revenue Recognition

Loan program fee revenue reflects fees earned on a contractual basis for services provided to the LLC (see Note 2).

Equity program revenue reflects fees for services that include organization, syndication, underwriting, long-term asset management and Partnership administration. The fees for syndicating and organizing the Partnerships are recognized when syndication is complete. Fees for underwriting investments are recognized at the time the underlying properties are acquired.

The fees for asset management and Partnership administration are recognized over the life of the Partnerships (estimated to be approximately 15 years). Certain refundable fees are deferred until the potential obligation lapses.

New markets program fee revenue reflects fees earned on a contractual basis for services provided to the MHIC-CDEs (see Note 5).

Grants are recognized as revenue in the period in which the conditions, if any, of the grant are satisfied.

Income Tax Status

In February 1993, MHIC was granted tax-exempt status as a 501(c)(3) corporation under federal tax law. MHEF, Inc. is a for-profit corporation and therefore is subject to federal and state income taxes. The activity of MHEF Holdings, as a wholly owned limited liability company, is reported on the tax return of MHEF, Inc.

Use of Estimates

Financial statements prepared in accordance with accounting principles generally accepted in the United States require the use of significant management estimates that affect the amounts and disclosures recorded in the consolidated financial statements. Actual results may differ from those estimates.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2008 and 2007

1. *Background and Accounting Policies - continued*

Cash and Cash Equivalents

MHIC considers highly liquid investments with original maturities of three months or less to be cash equivalents.

Fair Value of Financial Instruments

The fair value of all reported assets and liabilities which represent financial instruments (other than those held for trading purposes) approximate the carrying values of such amounts.

Functional Expenses

Expenses charged directly to program, and management and general are based on specific identification. Indirect expenses are allocated based on methodologies determined by management. The amounts applicable to each category are as follows:

<i>Description</i>	<i>2008</i>	<i>2007</i>
Program support	\$ 5,087,596	\$ 6,022,897
Management and general	<u>974,973</u>	<u>842,556</u>
Total	<u>\$ 6,062,569</u>	<u>\$ 6,865,453</u>

Investments

MHIC carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values based on quoted prices in active markets in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.

Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107, "Disclosure about Fair Value of Financial Instruments," requires disclosure of an estimate of fair value of certain financial instruments. MHIC's significant financial instruments are cash, accounts receivable, marketable equity securities, and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2008 and 2007

2. *Loan Program*

The loan program utilizes a structure whereby investors invest in a limited liability company (MHIC, LLC) which in turn provides financing to low-income housing and community development projects. The interest on this financing is passed-through to investors to provide a "reasonable" return on investment. The initial capitalization of the LLC was effected by a Contribution Agreement whereby member corporations contributed loans made to MHIC under the former loan pool structure (member loans) to the LLC in exchange for LLC membership interests. In addition, MHIC and the LLC entered into a Participation Agreement that provided for the LLC to purchase an undivided 100% interest in the project loans, bank accounts and reserves owned by MHIC (associated with the former loan pool) in exchange for the discharge of the member loans.

The proceeds of member loans for member corporations that have elected to remain in the loan pool (and not convert to the LLC structure) are held in deposit accounts at those institutions. The terms of the member loans are pursuant to a Master Member Agreement and accrue interest at 1% less than the annual interest rate earned on the interest-bearing deposit accounts.

MHIC earns advisory fees for managing the affairs of the LLC pursuant to the terms of an Advisory Agreement. The scope of services under the Advisory Agreement includes managing the orderly underwriting, approval and origination of loans and acquisition of investments, servicing loans and investments, establishing loan and investment policies, supervising and managing the requisition and disbursement of funds for loans, investing idle funds, business development and various other services that may be required by the LLC in the ordinary course of its business.

Under the terms of the Advisory Agreement, fees to MHIC are provided for as follows:

A management and advisory fee equal to an annual percentage rate of 0.75% of the average value of the aggregate capital commitments of all Investor Members of the LLC during such payment period;

A portfolio and servicing fee equal to an annual percentage rate of 1.50% of the average amount of real estate investments outstanding during a given payment period;

A financing commitment fee equal to an annual percentage rate of 0.50% of the average amount of funded and unfunded commitments for real estate investments existing during a given payment period.

An origination fee, payable by borrowers, that typically ranges from .5% to 1% of a given loan amount. The origination fees are typically paid to the LLC and subsequently passed-through to MHIC.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2008 and 2007

2. *Loan Program - continued*

In addition, MHIC is entitled to an available earnings fee, based upon the degree to which the LLC achieves certain performance hurdles. MHIC shall receive the amounts described below in the following priority.

First, after payment of a 4% return to the members of the LLC, MHIC shall receive 10% of all remaining available earnings until the members have received a return equal to the federal funds rate.

Second, MHIC shall receive 40% of all remaining available earnings until members have received a return equal to the federal funds rate plus 2%.

Third, MHIC shall receive 60% of all remaining available earnings until members have received a return equal to the federal funds rate plus 4%.

Fourth, MHIC shall receive 75% of all remaining available earnings.

During the year ended December 31, 2008 and 2007, MHIC earned total fees for services to the LLC of \$404,859 and \$763,949, respectively. Amounts payable to MHIC at December 31, 2008 and 2007 were \$176,300 and \$207,801, respectively.

For the years ended December 31, 2008 and 2007, MHIC waived certain fees due under the terms of the Agreement in order to improve the return to the LLC's members.

3. *Massachusetts Housing Equity Fund, Inc. (MHEF)*

As of December 31, 2008 and 2007, MHIC's investment in MHEF amounted to \$2,901,315 and \$2,901,274, respectively. MHEF, as general partner of the aforementioned Partnerships, has a .01% 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 MHEF's share of income or loss from the Partnerships, additional investments and cash distributions.

The Partnerships, as limited partners in the various Operating Partnerships, are subject to risks inherent in the ownership of property which is beyond their control, such as fluctuations in occupancy rates and operating expenses, variations in rental schedules, proper maintenance of facilities and continued eligibility of tax credits. If the cost of operating a property exceeds the rental income earned thereon, the Partnership, or MHEF acting independently as an investor, may deem it in its best interest to voluntarily provide funds in order to protect its investment.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2008 and 2007

3. *Massachusetts Housing Equity Fund, Inc. (MHEF) - continued*

At December 31, 2008 and 2007, the Partnerships have combined total assets of \$287 million and \$300 million, respectively, and combined cumulative deficits of approximately \$263 million and \$234 million, respectively.

4. *Neighborhood Stabilization Loan Fund LLC*

NSLF is organized as a single-member Massachusetts limited liability company, with MHIC as the sole member and program administrator. The purpose of NSLF is to provide loans to local organizations whose goal is the purchase and rehabilitation of foreclosed residential properties in neighborhoods in Massachusetts with a concentration of foreclosed properties. NSLF intends to secure debt as its primary source of capital, which it intends to re-lend. As of December 31, 2008, one of six anticipated loans to NSLF has closed and no loans to projects have been made.

At December 31, 2008, the fund had total assets of \$1,007,196 and MHIC's investment amounted to \$189.

5. *New Markets Tax Credit Program Revenue*

MHIC has entered into agreements (the Agreements) with the various MHIC-CDEs to provide various professional, administrative and management services. The fees for these services were determined by MHIC. Under the terms of the Agreements, MHIC will provide the following services:

Organization Services

These include all administrative and management support in connection with the formation of the MHIC-CDEs. Fees for these services are incurred in proportion to QEIs made by the Investment Company. MHIC-CDEs maximum obligation under the agreements is \$2,671,300, of which \$2,671,300 and \$2,486,272 was incurred as of December 31, 2008 and 2007, respectively. These fees are included in NMTC program revenue in the accompanying statement of activities and totaled \$185,028 and \$502,396 for the years ended December 31, 2008 and 2007, respectively.

Acquisition Services

These include legal and professional services required to close loans to or investments in qualifying businesses. MHIC-CDEs maximum obligation under these agreements is \$6,421,300, of which \$6,162,777 and \$4,939,771 was incurred as of December 31, 2008 and 2007, respectively. These fees are included in NMTC program revenue in the accompanying statement of activities and totaled \$1,223,006 and \$1,424,199 for the years ended December 31, 2008 and 2007, respectively.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2008 and 2007

5. *New Markets Tax Credit Program Revenue - continued*

Management Services

These include asset management services to monitor business and compliance aspects of MHIC-CDEs' loans and investments. MHIC also monitors MHIC-CDEs' compliance with reporting and other requirements of the *Internal Revenue Code (IRC)*. MHIC-CDEs' maximum obligation under the agreements for Fund I and Fund II CDEs is \$1,580,000 to be earned over seven and ten years, respectively. In addition, the agreement for Fund III CDEs allows fees of up to \$600,000 annually. As of December 31, 2008 and 2007 \$1,098,955 and \$519,055 were incurred, respectively. These fees are included in NMTC program revenue in the accompanying statement of activities and totaled \$579,900 and \$204,419 for the years ended December 31, 2008 and 2007, respectively.

Origination Fees

MHIC shall be entitled to receive all origination fees charged by the CDEs in Fund III in connection with Target Investments, provided that origination fees charged to a particular Target shall not in any event exceed in the aggregate 1% of the amount of the Target Investments provided to such Target. MHIC utilizes the origination fee to pay for all professional service and other expenses it incurs in closing the Target Investments. These fees are included in NMTC Program Revenue in the accompanying statement of activities and totaled \$329,851 and \$775,901 for the years ended December 31, 2008 and 2007, respectively.

6. *Project Loans*

Project loans are loans made to low-income housing and community development projects and are offered in conjunction with financing provided by affiliates of MHIC. MHIC typically provides the predevelopment or high loan-to-value component of the financing for a given transaction. Project loans earn interest at either fixed or variable rates that range from 4% to 6% and are secured, in a subordinated position, by the underlying real estate. At December 31, 2008 and 2007, the outstanding project loan balances were as follows:

	2008	2007
Beginning balance	\$ 252,286	\$ 344,114
Loan disbursements	126,395	297,761
Loan repayments	<u>-</u>	<u>(389,589)</u>
Ending balance	378,681	252,286
Uncollectible accounts	<u>-</u>	<u>(5,888)</u>
Net balance	<u>\$ 378,681</u>	<u>\$ 246,398</u>

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2008 and 2007

7. *Loans to Affiliates*

MHIC provides loans to affiliates to help affiliates bridge timing-related financing funding gaps.

Loan activity for the years ended December 31, 2008 and 2007 was as follows:

	<i>2008</i>	<i>2007</i>
Beginning balance	\$ 6,733,915	\$ 2,475,957
Loan disbursements	8,870,000	8,855,888
Loan repayments	<u>(2,305,888)</u>	<u>(4,597,930)</u>
Ending balance	<u>\$ 13,298,027</u>	<u>\$ 6,733,915</u>

Loans to affiliates are callable upon demand and the proceeds for a given transaction are typically outstanding for less than one year. Loans to affiliates earn a variable rate of interest (that ranges from 0% to 6.5%) and are unsecured.

8. *Investments in Marketable Securities*

Investments in marketable securities consist of Ginnie Mae pass-through securities and common stock of a de novo bank.

The Ginnie Mae securities were purchased as collateral for certain borrowing transactions with the Federal Home Loan Bank of Boston. There is an active secondary market for these securities and management considers them held “for-sale”. The underlying assets consist of mortgage loans that are insured by the federal government.

At December 31, 2008, the securities were valued at \$7,268,671, with \$6,897,973 representing outstanding principal on the underlying mortgages and \$370,698 representing unamortized premium. During 2008 MHIC recorded a temporary gain on investment of \$132,231 in connection with marking the investment to market.

The investment in the common sock of the de novo bank is recorded at cost. At December 31, 2008, the value of the stock is listed at \$25,000.

9. *Notes Payable*

Prior to the conversion as discussed in Note 1, MHIC funded a loan pool through unsecured notes issued to member corporations pursuant to a Master Membership Agreement. Under this agreement, all note proceeds not currently used to fund projects are deposited in interest-bearing deposit accounts at their respective lending institutions. Note proceeds that are not used to fund projects accrue interest at 1% less than the annual interest rate earned on the interest-bearing deposit accounts.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2008 and 2007

9. Notes Payable - continued

All proceeds that are lent to projects earn interest at the prime rate less 1%. For the periods ended December 31, 2008 and 2007, MHIC did not incur or pay any interest expense to member corporations since the interest rate on the note payable was less than 0%. These notes are renewable annually (applicable only to members that elected not to convert to the LLC). If the notes are not renewed, they require no principal amortization for five years and then amortize over a subsequent 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 December 31, 2007 outstanding borrowings under these agreements totaled \$50,000.

MHIC received the following financing in connection with being used as a conduit for an affiliate, MHIC, LLC, to borrow from the Federal Home Loan Bank of Boston (FHLB).

MHIC borrowed \$6,570,000 from the Federal Home Loan Bank of Boston ("FHLB") which represents a pass-through receivable from MHIC, LLC. MHIC received two advances from FHLB. The first advance of \$4.32 million bears interest at a fixed rate of 3.95% and will mature in February 2011.

The second advance of \$2.25 million bears interest at a fixed rate of 4.05% and will mature in February 2012. Payment of interest is due on a monthly basis. Principal is due at maturity. At December 31, 2008 the total outstanding balance under the notes was \$6,570,000 and accrued interest was 21,797.

MHIC borrowed \$7,555,500 million from MHIC, LLC, an affiliate organization (see Note 2) to purchase Ginnie Mae securities that were used as collateral to borrow from FHLB. MHIC received two advances from MHIC, LLC. The first advance of \$7,300,000 bears interest at 5.131% and will mature in August 2023. The second advance of \$255,500 bears interest at 0% and will mature in August 2023. Debt service payments are due monthly and are tied to the cash received from the associated Ginnie Mae investments. At December 31, 2008 the total outstanding balance under the notes was \$6,872,507 and accrued interest was \$30,440.

MHIC has borrowed \$6,000,000 from Bank of America at 3% which also represents a pass-through receivable due from MHIC, LLC in connection with an accelerated plan of redemption for \$8,000,000 of Bank of America's investment in MHIC LLC. The proceeds have been used by MHIC LLC, to provide loans for the development of affordable housing in targeted areas. The loan bears interest at a fixed rate of 3% and quarterly payments of interest only are due until the loan matures on October 15, 2016.

NLSF has borrowed \$1,000,000 from the Hyams Foundation, Inc, a Massachusetts not-for-profit corporation. The loan bears interest at 2% simple and matures December 23, 2023. Payment of interest is due on a monthly basis. Principal is due at maturity.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2008 and 2007

9. Notes Payable - continued

Scheduled payments of principal are due as follows:

2009	\$	-
2010		-
2011		4,320,000
2012		2,250,000
2013		1,000,000
Thereafter		<u>12,872,507</u>
Total	\$	<u>20,442,507</u>

10. MHEF Fee Receivable and Unearned Fees

MHEF fee receivable represents cash payments that will be received by MHIC from the Partnerships for asset management and other services it will provide to the Partnerships, as specified in the Partnership Agreements.

Unearned equity fees reflect MHIC's obligation to provide future services to the Partnerships as consideration for the aforementioned fees receivable. These services include underwriting investments, 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).

At December 31, 2008 and 2007, unearned fees were \$8,525,257 and \$9,781,412, respectively.

11. Cash and Cash Equivalents

At December 31, 2008, cash and cash equivalent balances are held at financial institutions with federal insured limits of up to \$250,000 for each financial institution. Balances held at these institutions during the year can exceed this limit. MHIC has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

12. Leases

MHIC leases its facilities and certain furniture and equipment under operating leases that expire over future periods and require various minimum rental payments.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2008 and 2007

12. Leases - continued

Future minimum payments, by year and in aggregate, under these noncancelable operating leases consist of the following at December 31, 2008:

2009	\$	264,231
2010		264,231
2011		264,231
2012		198,174
		<hr/>
Total	\$	<u>990,867</u>

MHIC incurred lease expenses associated with office space and equipment of \$335,045 and \$290,604 for the years ended December 31, 2008 and 2007, respectively.

13. 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 employer contribution is based upon a percentage of employee salary. In July 1999, MHIC amended the Plan to include a 100% match of employee contributions up to 3% of a given employee's salary. In addition, MHIC established a rabbi-trust to supplement the retirement plan of its President and CEO, which included an initial contribution of \$150,000, and subsequent contributions of \$25,000 per quarter thereafter, beginning in calendar year 2007. MHIC contributed and charged to expense \$313,451 and \$332,292 for the year ended December 31, 2008 and 2007, respectively. These amounts are reflected in salaries and employee benefits in the accompanying consolidated statements of activities and changes in net assets.

14. Grant Awards

In 2008 MHIC received two grants totaling \$620,000 to support its efforts to provide financing to stabilize neighborhoods with high concentrations of foreclosures. The grants will be used to provide operating support to Community Development Corporations and to pay for market studies, environment reviews and consultant costs associated with the initiative. At December 31, 2008 temporarily restricted net assets consist of unexpected grant funds of \$488,013.

15. Contributions Receivable

Contributions receivable are expected to be realized in one year or less and amounted to \$245,000 at December 31, 2008.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2008 and 2007

16. Guarantees Provided for Borrowing Facilities of Affiliates

As of December 31, 2008, MHIC is the guarantor on several borrowing facilities of its affiliates, which have an overall outstanding balance of \$9,450,000. These credit facilities are primarily secured by pledges of first mortgage loans, unconditional investor notes, or partnership interests. In the event that the borrowings of the affiliates can not be repaid as scheduled and the above mentioned primary collateral is not sufficient to cover the outstanding balance, MHIC would assure the obligation. MHIC has not recognized any obligations relative to the guarantees.

17. Fixed Assets

Property and equipment consists of the following:

	2008	2007
Furniture	\$ 217,435	\$ 217,435
Equipment	260,271	263,504
Leasehold improvements	<u>490,182</u>	<u>490,182</u>
Total fixed assets	967,888	971,121
Accumulated depreciation	<u>(672,488)</u>	<u>(508,108)</u>
Total	<u>\$ 295,400</u>	<u>\$ 463,013</u>

Supplemental Schedules

Massachusetts Housing Investment Corporation
Supplemental Consolidating Schedule of Financial Position
December 31, 2008

	<i>MHIC</i>	<i>Subsidiaries</i>	<i>Elimination</i>	<i>Consolidated</i>
<i>Assets:</i>				
Cash	\$ 7,956,504	\$ 1,501,489	\$ -	\$ 9,457,993
Investment in marketable securities	7,293,671	-	-	7,293,671
Money market deposits at member corporations - loan fund	13,686	-	-	13,686
Contribution receivable	245,000	-	-	245,000
Project loans	378,681	-	-	378,681
Loans to affiliates	13,298,027	-	-	13,298,027
Due from affiliates	1,115,265	-	-	1,115,265
Investment in subsidiaries	2,901,504	-	(2,901,504)	-
Fee receivable - MHEF Partnerships	3,072,737	-	-	3,072,737
Amounts receivable and other assets	766,652	7,007	-	773,659
Due from parent	-	2,402,385	(2,402,385)	-
Furniture, equipment and leasehold improvements, net of accumulated depreciation and amortization	295,400	-	-	295,400
Total assets	<u>\$37,337,127</u>	<u>\$ 3,910,881</u>	<u>\$(5,303,889)</u>	<u>\$35,944,119</u>
<i>Liabilities and net assets:</i>				
<i>Liabilities:</i>				
Notes payable to member corporations	\$19,442,507	\$ 1,000,000	\$ -	\$20,442,507
Due to subsidiary	2,402,385	-	(2,402,385)	-
Unearned fees	8,525,257	-	-	8,525,257
Accrued interest and other liabilities	1,364,577	9,377	-	1,373,954
Total liabilities	<u>31,734,726</u>	<u>1,009,377</u>	<u>(2,402,385)</u>	<u>30,341,718</u>
<i>Net assets:</i>				
Unrestricted	5,114,299	2,901,504	(2,901,504)	5,114,299
Temporarily restricted	488,013	-	-	488,013
Total net assets	<u>5,602,312</u>	<u>2,901,504</u>	<u>(2,901,504)</u>	<u>5,602,312</u>
Total liabilities and net assets	<u>\$37,337,038</u>	<u>\$ 3,910,881</u>	<u>\$(5,303,889)</u>	<u>\$35,944,030</u>

Massachusetts Housing Investment Corporation
Supplemental Consolidating Schedule of Activities and Changes in Net Assets
December 31, 2008

	<i>MHIC</i>	<i>Subsidiaries</i>	<i>Elimination</i>	<i>Consolidated</i>
<i>Change in net assets:</i>				
Revenues				
Interest revenue:				
Interest on bank deposits	\$ 527,622	\$ 319	\$ -	\$ 527,941
Interest on project loans	30,010	-	-	30,010
Unrealized gains on investments	132,231	-	-	132,231
Management and advisory fees	231,257	-	-	231,257
Portfolio servicing fees	173,602	-	-	173,602
Origination fees	139,607	-	-	139,607
NMTC program revenue	2,317,785	-	-	2,317,785
Fees related to MHEF limited partnerships	2,350,912	-	-	2,350,912
Other equity program fees	49,122	-	-	49,122
Contributions	620,000	-	-	620,000
Gain from investment in subsidiaries	230	-	(230)	-
	<u>6,572,378</u>	<u>319</u>	<u>(230)</u>	<u>6,572,467</u>
Total revenues				
Expenditures				
Salaries and employee benefits	3,979,799	-	-	3,979,799
Occupancy, equipment and furniture	365,155	-	-	365,155
Professional services	630,682	-	-	630,682
Depreciation	164,379	-	-	164,379
Other expenditures	922,465	89	-	922,554
	<u>6,062,480</u>	<u>89</u>	<u>-</u>	<u>6,062,569</u>
Total expenditures				
Increase in net assets	509,898	230	(230)	509,898
Net assets at beginning of year	<u>5,092,503</u>	<u>2,901,274</u>	<u>(2,901,274)</u>	<u>5,092,503</u>
Net assets at end of year	<u>\$5,602,401</u>	<u>\$ 2,901,504</u>	<u>\$(2,901,504)</u>	<u>\$ 5,602,401</u>