

Massachusetts Housing Investment Corporation

Consolidated Financial Statements
And
Auditors' Report

December 31, 2009 and 2008



Daniel Dennis & Company LLP
Certified Public Accountants

116 Huntington Avenue
Boston, MA 02116
(617) 262-9898
FAX: (617) 437-9937

Web Site: <http://www.danieldennis.com>

Massachusetts Housing Investment Corporation

December 31, 2009

Contents

Report of Independent Auditors	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities and Changes in Net Assets.....	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5
Other Financial Information	
Consolidating Schedule of Financial Position.....	19
Consolidating Schedule of Activities and Changes in Net Assets	20

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, 2009 and 2008, 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 audit in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2009 and 2008, 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 2009 consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2009 consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2009 consolidated financial statements taken as a whole.

Daniel Dennis & Company LLP

April 14, 2010

Massachusetts Housing Investment Corporation
Consolidated Statements of Financial Position
December 31, 2009 and 2008

	2009	2008
<i>Assets:</i>		
Cash	\$ 4,877,344	\$ 9,457,993
Investment in marketable securities	6,861,646	7,293,671
Money market deposits at member corporations-loan fund	-	13,686
Contribution receivable	-	245,000
Project loans net of uncollectible accounts of \$0 in 2009 and 2008	6,582,979	378,681
Loans to affiliates	14,237,201	13,298,027
Due from affiliates	252,041	1,115,265
Fee receivable—MHEF Partnerships	1,663,517	3,072,737
Amounts receivable and other assets	685,283	773,659
Furniture, equipment and leasehold improvements, net of accumulated depreciation of \$786,458 and \$672,488 in 2009 and 2008, respectively	<u>181,784</u>	<u>295,400</u>
Total assets	<u>\$ 35,341,795</u>	<u>\$ 35,944,119</u>
<i>Liabilities and net assets:</i>		
<i>Liabilities</i>		
Notes payable to member corporations	\$ 20,061,965	\$ 20,442,507
Unearned fees	7,551,386	8,525,257
Accrued interest and other liabilities	<u>1,930,726</u>	<u>1,373,954</u>
Total liabilities	<u>29,544,077</u>	<u>30,341,718</u>
<i>Net assets</i>		
Unrestricted	5,654,724	5,114,388
Temporarily restricted	<u>142,994</u>	<u>488,013</u>
Total net assets	<u>5,797,718</u>	<u>5,602,401</u>
Total liabilities and net assets	<u>\$ 35,341,795</u>	<u>\$ 35,944,119</u>

See accompanying notes to financial statements.

Massachusetts Housing Investment Corporation
 Consolidated Statements of Activities
 For The Years December 31, 2009 and 2008

	2009		2008		Total
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	
<i>Revenue and Support:</i>					
Interest on bank deposits	\$ 484,561	\$ -	\$ 484,561	\$ -	\$ 527,941
Interest on loans to affiliates	105,924	-	105,924	-	30,010
Unrealized (loss)/gains on investments	(12,944)	-	(12,944)	-	132,231
Management advisory fees	-	-	-	-	231,257
Portfolio servicing fees	-	-	-	-	173,602
Origination fees	-	-	-	-	139,607
NMTC program revenue	3,163,837	-	3,163,837	-	2,317,785
LIHTC program revenue	2,484,380	-	2,484,380	-	2,350,912
Other equity program fees	15,903	-	15,903	-	49,122
Contributions	-	-	-	488,013	620,000
Net assets released from restrictions	345,019	(345,019)	-	-	-
	<u>6,586,680</u>	<u>(345,019)</u>	<u>6,241,661</u>	<u>488,013</u>	<u>6,572,467</u>
Total revenue and support					
<i>Expenditures:</i>					
Salaries and employee benefits	3,902,259	-	3,902,259	-	3,979,799
Occupancy, equipment and furniture	356,822	-	356,822	-	365,155
Professional services	421,858	-	421,858	-	630,682
Depreciation	113,970	-	113,970	-	164,379
Other expenditures	1,251,435	-	1,251,435	-	922,554
	<u>6,046,344</u>	<u>-</u>	<u>6,046,344</u>	<u>-</u>	<u>6,062,569</u>
Total expenditures					
Increase (decrease) net assets	540,336	(345,019)	195,317	488,013	509,898
Net assets at beginning of year	<u>5,114,388</u>	<u>488,013</u>	<u>5,602,401</u>	<u>5,092,503</u>	<u>5,092,503</u>
Net assets at end of year	<u>\$ 5,654,724</u>	<u>\$ 142,994</u>	<u>\$ 5,797,718</u>	<u>\$ 488,013</u>	<u>\$ 5,602,401</u>

See accompanying notes to financial statements.

Massachusetts Housing Investment Corporation
Consolidated Statements of Cash Flows
For The Years December 31, 2009 and 2008

	2009	2008
<i>Operating activities:</i>		
Increase in net assets	\$ 195,317	\$ 509,898
<i>Adjustments to reconcile increase in net assets to net cash provided by operating activities:</i>		
Depreciation and amortization expense	113,970	164,379
Unrealized loss/(gains) on investments	12,944	(132,231)
Decrease in amounts receivable and other assets	1,196,600	2,071,814
Decrease in unearned fees	(973,871)	(1,256,155)
Increase/(decrease) in accrued interest and other liabilities	556,772	(366,260)
Decrease on notes receivable—MHEF Partnerships	<u>1,409,220</u>	<u>5,245</u>
Net cash provided by operating activities	<u>2,510,952</u>	<u>996,690</u>
<i>Investing activities:</i>		
Funds advanced under project loans	(7,185,736)	(132,282)
Payments received under project loans	981,438	-
Payments received on loans to affiliates	30,000	2,305,888
Funds advanced under loans to affiliates	(969,174)	(8,870,000)
Redemption/(purchase) of marketable securities	419,081	(7,161,440)
Purchases of furniture, equipment and leasehold improvements	(354)	-
Withdrawal from money market deposits	<u>13,686</u>	<u>52,601</u>
Net cash used for investing activities	<u>(6,711,059)</u>	<u>(13,805,233)</u>
<i>Financing activities:</i>		
Proceeds from notes payable	5,793,305	15,125,500
Repayment of notes payable	<u>(6,173,847)</u>	<u>(732,993)</u>
Net cash (used)/provided by financing activities	<u>(380,542)</u>	<u>14,392,507</u>
Net (decrease)/increase in cash	(4,580,649)	1,583,964
Cash at beginning of year	<u>9,457,993</u>	<u>7,874,029</u>
Cash at end of year	<u>\$ 4,877,344</u>	<u>\$ 9,457,993</u>
<i>Supplemental information</i>		
Interest paid	<u>\$ 436,641</u>	<u>\$ 400,193</u>

See accompanying notes to financial statements.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

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, 2009, MHIC has received six allocations of new markets tax credits totaling \$454,000,000 and as of December 31, 2008, MHIC has received five allocations of new markets tax credits totaling \$364,000,000.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2009 and 2008

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, 2009 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, 2009 and 2008

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.

MHIC evaluates tax positions taken or expected to be taken in its tax returns to determine whether the tax positions are *more-likely-than-not* of being sustained by the applicable tax authority. Tax positions not deemed to meet the *more-likely-than-not* threshold, along with accrued interest and penalty thereon would be recorded as an expense in the current year financial statements. At December 31, 2009 MHIC believes that it has no uncertain tax positions within any of its open tax years.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2009 and 2008

1. Background and Accounting Policies - continued

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.

Cash and Cash Equivalents

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

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>2009</i>	<i>2008</i>
Program support	\$ 4,891,897	\$ 5,087,596
Management and general	<u>1,154,447</u>	<u>974,973</u>
Total	<u>\$ 6,046,344</u>	<u>\$ 6,062,569</u>

Investments and Investment Income

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See the note below (Fair Value of Measurements) for discussion of fair value measurements.

Dividends, interest and gains and losses on investments are reported as increases or decreases in unrestricted net assets unless a donor or law temporarily or permanently restricts their use.

Fair Value Measurements

Fair Value Measurements, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2009 and 2008

1. *Background and Accounting Policies - continued*

Fair Value Measurements - continued

The three levels of the fair value hierarchy are described below:

- Level 1 Inputs – Quoted prices for identical assets or liabilities in active markets;
- Level 2 Inputs – Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets in inactive markets; or inputs other than quoted prices that are observable, such as models or other valuation methodologies;
- Level 3 Inputs – Unobservable inputs for where there is little, if any, market activity.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2009 and 2008

2. *Loan Program - continued*

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.

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, 2009 and 2008, MHIC earned total fees for services to the LLC of \$0 and \$404,859, respectively. Amounts payable to MHIC at December 31, 2009 and 2008 were \$0 and \$176,300, respectively.

For the years ended December 31, 2009 and 2008, MHIC waived certain fees due under the terms of the Agreement in order to improve the return to the LLC's members.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2009 and 2008

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

As of December 31, 2009 and 2008, MHIC's investment in MHEF amounted to \$2,901,279 and \$2,901,315, 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.

At December 31, 2009 and 2008, the Partnerships have combined total assets of \$303 million and \$287 million, respectively, and combined cumulative deficits of approximately \$278 million and \$263 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 has secured debt as its primary source of capital, which is used to provide financing for the acquisition and rehabilitation of foreclosed properties. As of December 31, 2009, NSLF has note payables of \$6,793,304 and project loan receivables of \$6,291,959.

At December 31, 2009 and 2008, NSLF had total assets of \$6,906,241 and \$1,007,196, and MHIC's investment amounted to \$54,410, and \$189, respectively.

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:

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2009 and 2008

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

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 Qualified Equity Investments (QEIs) made by the Investment Company. MHIC-CDEs maximum obligation under the agreements is \$2,821,625, of which \$2,783,625 and \$2,671,300 was incurred as of December 31, 2009 and 2008, respectively. These fees are included in NMTC program revenue in the accompanying statement of activities and totaled \$112,325 and \$185,028 for the years ended December 31, 2009 and 2008, 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 \$8,331,770, of which \$8,060,024 and \$6,162,777 was incurred as of December 31, 2009 and 2008, respectively. These fees are included in NMTC program revenue in the accompanying statement of activities and totaled \$1,897,247 and \$1,223,006 for the years ended December 31, 2009 and 2008, respectively.

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, 2009 and 2008 \$1,866,681 and \$1,098,955 were incurred, respectively. These fees are included in NMTC program revenue in the accompanying statement of activities and totaled \$767,765 and \$579,900 for the years ended December 31, 2009 and 2008, 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.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2009 and 2008

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

Origination Fees - continued

These fees are included in NMTC Program Revenue in the accompanying statement of activities and totaled \$0 and \$329,851 for the years ended December 31, 2009 and 2008, respectively.

Allocation Reservation Fees

In order to hold an allocation of NMTC for deals that have fallen past their projected closing, MHIC is charging an allocation reservation fee that equals 2% of the total allocation being held for the project. The allocation is only held for an agreed upon period of time; however the fee is due and payable regardless of the project closing by the deadline. If the project does not close by the deadline, holding the allocation is at the discretion of the allocatee. These fees are included in NMTC Program Revenue in the accompanying statement of activities and totaled \$366,500 for the year ended December 31, 2009.

Fund Structuring Fee

MHIC is entitled to take a fund structuring fee for work performed in organizing the structure of a NMTC transaction. During 2009, MHIC received a structuring fee on Boston Conservatory totaling \$20,000. This amount is include in NMTC Program Revenue in the accompany statement of activities.

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, 2009 and 2008, the outstanding project loan balances were as follows:

	<i>2009</i>	<i>2008</i>
Beginning balance	\$ 378,681	\$ 252,286
Loan disbursements	7,185,736	126,395
Loan repayments	<u>(981,438)</u>	<u>-</u>
Ending balance	6,582,979	378,681
Uncollectible accounts	<u>-</u>	<u>-</u>
Net balance	<u>\$ 6,582,979</u>	<u>\$ 378,681</u>

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2009 and 2008

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, 2009 and 2008 was as follows:

	<i>2009</i>	<i>2008</i>
Beginning balance	\$ 13,298,027	\$ 6,733,915
Loan disbursements	969,174	8,870,000
Loan repayments	<u>(30,000)</u>	<u>(2,305,888)</u>
Ending balance	<u>\$ 14,237,201</u>	<u>\$ 13,298,027</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, 2009 and 2008, the securities were valued at \$6,861,646 and 7,268,671, respectively, with \$6,742,359 and \$6,897,973, respectively representing outstanding principal on the underlying mortgages and \$218,764 and \$238,467, respectively representing unamortized premium. During 2009 and 2008, MHIC recorded an unrealized (loss)/gain on investment of \$(12,944) and \$132,231, respectively.

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. MHIC's investment was liquidated at cost in 2009.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2009 and 2008

8. Investments in Marketable Securities – continued

Following is a description of the valuation methodologies used for assets at fair value. There have been no changes in the methodologies used at December 31, 2009 and 2008.

Investments in Marketable Securities

The Ginnie Mae's securities are backed by U.S. Government securities and estimated based on quoted market prices for securities of similar maturity.

MHIC classifies its investments into Level 1, which relate to securities traded in an active market, Level 2, which relate to securities not traded on an active market but for which observable market inputs are readily available and Level 3 which relate to securities not actively traded and for which no significant observable inputs are readily available. At December 31, 2009 and 2008, all of the MHIC's investments were Level 3 investments.

The following presents a reconciliation of the MHIC's beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3):

<i>2009</i>	<i>Ginnie Mae - Mortgage-Backed Securities</i>	<i>Veritas Bank</i>	<i>Total</i>
Balance, Beginning of Year	\$ 7,268,671	\$ 25,000	\$ 7,293,671
Unrealized losses relating to instruments still held at the reporting date	(12,944)	-	(12,944)
Purchases, sales, issuances and and settlements (net)	<u>(394,081)</u>	<u>(25,000)</u>	<u>(419,081)</u>
Balance, End of Year	<u>\$ 6,861,646</u>	<u>\$ -</u>	<u>\$ 6,861,646</u>

<i>2008</i>	<i>Ginnie Mae - Mortgage-Backed Securities</i>	<i>Veritas Bank</i>	<i>Total</i>
Balance, Beginning of Year	\$ -	\$ -	\$ -
Unrealized gains relating to instruments still held at the reporting date	132,231	-	132,231
Purchases, sales, issuances and and settlements (net)	<u>7,136,440</u>	<u>25,000</u>	<u>7,161,440</u>
Balance, End of Year	<u>\$ 7,268,671</u>	<u>\$ 25,000</u>	<u>\$ 7,293,671</u>

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2009 and 2008

9. Notes Payable

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, 2009 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, 2009 and 2008, the total outstanding balance under the notes was \$698,660 and \$6,872,507, respectively, and accrued interest was \$0 and \$30,440, respectively.

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 April 9, 2014. Payment of interest is due on a monthly basis. Principal is due at maturity.

NLSF has borrowed \$1,000,000 from the Department of Housing and Community Development under the Affordable Housing Trust Fund Statute. The loan bears no interest and, the entire amount shall be payable in full on April 9, 2014.

NLSF has borrowed \$2,000,000 from the Boston Foundation, Inc, a Massachusetts not-for-profit corporation. The loan bears interest at 2% simple and matures April 9, 2014. 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, 2009 and 2008

9. Notes Payable - continued

NLSF has borrowed \$1,000,000 from the Living Cities Catalyst Fund LLC, a Delaware limited liability company. The loan bears interest at 5% simple and matures April 9, 2014. Payment of interest is due on a monthly basis. Principal is due at maturity.

As of December 31, 2009, pursuant to an agreement with the Massachusetts Housing Partnership, NSLF had available an \$8,500,000 line of credit, none of which was outstanding at that date.

As of December 31, 2009, pursuant to an agreement with the MHIC LLC, NSLF had available an \$8,500,000 line of credit, of which \$1,793,305 was outstanding at that date.

Interest expense of \$610,633 and \$400,193 was reported in the accompanying statements of activities for the years ended December 31, 2009 and 2008, respectively.

Scheduled payments of principal are due as follows:

2010	\$	-
2011		4,320,000
2012		2,250,000
2013		-
2014		6,793,305
Thereafter		<u>6,698,660</u>
Total	\$	<u>20,061,965</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, 2009 and 2008, unearned fees were \$7,551,386 and \$8,525,257, respectively.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2009 and 2008

11. *Cash and Cash Equivalents*

At December 31, 2009, 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.

Future minimum payments, by year and in aggregate, under these noncancelable operating leases consist of the following at December 31, 2009:

2010	\$	264,231
2011		264,231
2012		<u>198,174</u>
Total	\$	<u>726,636</u>

MHIC incurred lease expenses associated with office space and equipment of \$329,674 and \$335,045 for the years ended December 31, 2009 and 2008, 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 \$319,229 and \$313,451 for the year ended December 31, 2009 and 2008, respectively. These amounts are reflected in salaries and employee benefits in the accompanying consolidated statements of activities and changes in net assets.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2009 and 2008

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, 2009 and 2008 temporarily restricted net assets consist of the following:

<i>Restriction</i>	<i>2009</i>	<i>2008</i>
Purpose restriction:		
neighborhood stabilization	\$ 142,994	\$ 488,013

15. Guarantees Provided for Borrowing Facilities of Affiliates

As of December 31, 2009, MHIC is the guarantor on several borrowing facilities of its affiliates, for which there is no outstanding balance. 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.

16. Fixed Assets

Property and equipment consists of the following:

	<i>2009</i>	<i>2008</i>
Furniture	\$ 217,435	\$ 217,435
Equipment	260,625	260,271
Leasehold improvements	<u>490,182</u>	<u>490,182</u>
Total fixed assets	968,242	967,888
Accumulated depreciation	<u>(786,458)</u>	<u>(672,488)</u>
Total	<u>\$ 181,784</u>	<u>\$ 295,400</u>

17. Subsequent Events

MHIC has performed an evaluation of subsequent events through April 14, 2010, which is the date of the MHIC's financial statements were issued. No material subsequent events have occurred since December 31, 2009 that requires recognition or disclosure in these financial statements.

Supplemental Schedules

Massachusetts Housing Investment Corporation
Supplemental Consolidating Schedule of Financial Position
December 31, 2009

	<i>MHIC</i>	<i>Subsidiaries</i>	<i>Elimination</i>	<i>Consolidated</i>
<i>Assets:</i>				
Cash	\$ 3,866,944	\$ 1,010,400	\$ -	\$ 4,877,344
Investment in marketable securities	6,861,646	-	-	6,861,646
Project loans	291,020	6,291,959	-	6,582,979
Loans to affiliates	14,237,201	-	-	14,237,201
Due from affiliates	252,041	-	-	252,041
Investment in subsidiaries	2,955,689	-	(2,955,689)	-
Fee receivable - MHEF Partnerships	1,663,517	-	-	1,663,517
Amounts receivable and other assets	597,003	105,147	(16,867)	685,283
Due from parent	-	2,402,385	(2,402,385)	-
Furniture, equipment and leasehold improvements, net of accumulated depreciation and amortization	<u>181,784</u>	<u>-</u>	<u>-</u>	<u>181,784</u>
Total assets	<u>\$30,906,845</u>	<u>\$ 9,809,891</u>	<u>\$(5,374,941)</u>	<u>\$35,341,795</u>
<i>Liabilities and net assets:</i>				
<i>Liabilities:</i>				
Notes payable to member corporations	\$13,268,660	\$ 6,793,305	\$ -	\$20,061,965
Due to subsidiary	2,402,385	-	(2,402,385)	-
Unearned fees	7,551,386	-	-	7,551,386
Accrued interest and other liabilities	<u>1,886,696</u>	<u>60,897</u>	<u>(16,867)</u>	<u>1,930,726</u>
Total liabilities	<u>25,109,127</u>	<u>6,854,202</u>	<u>(2,419,252)</u>	<u>29,544,077</u>
<i>Net assets:</i>				
Unrestricted	5,654,724	2,955,689	(2,955,689)	5,654,724
Temporarily restricted	<u>142,994</u>	<u>-</u>	<u>-</u>	<u>142,994</u>
Total net assets	<u>5,797,718</u>	<u>2,955,689</u>	<u>(2,955,689)</u>	<u>5,797,718</u>
Total liabilities and net assets	<u>\$30,906,845</u>	<u>\$ 9,809,891</u>	<u>\$(5,374,941)</u>	<u>\$35,341,795</u>

Massachusetts Housing Investment Corporation
Supplemental Consolidating Schedule of Activities and Changes in Net Assets
December 31, 2009

	<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	\$ 474,711	\$ 9,850	\$ -	\$ 484,561
Interest on project loans	37,145	68,779	-	105,924
Unrealized losses on investments	(12,944)	-	-	(12,944)
NMTC program revenue	3,163,837	-	-	3,163,837
LIHTC program revenue	2,484,380	-	-	2,484,380
Other equity program fees	32,770	-	(16,867)	15,903
Gain from investment in subsidiaries	54,185	-	(54,185)	-
	<u>6,234,084</u>	<u>78,629</u>	<u>(71,052)</u>	<u>6,241,661</u>
Expenditures				
Salaries and employee benefits	3,902,259	-	-	3,902,259
Occupancy, equipment and furniture	356,822	-	-	356,822
Professional services	421,858	-	-	421,858
Depreciation	113,970	-	-	113,970
Other expenditures	1,243,858	24,444	(16,867)	1,251,435
	<u>6,038,767</u>	<u>24,444</u>	<u>(16,867)</u>	<u>6,046,344</u>
Increase in net assets	195,317	54,185	(54,185)	195,317
Net assets at beginning of year	<u>5,602,401</u>	<u>2,901,504</u>	<u>(2,901,504)</u>	<u>5,602,401</u>
Net assets at end of year	<u>\$5,797,718</u>	<u>\$ 2,955,689</u>	<u>\$(2,955,689)</u>	<u>\$ 5,797,718</u>