

Massachusetts Housing Investment Corporation

Consolidated Financial Statements And Auditors' Report

December 31, 2006 and 2005



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Massachusetts Housing Investment Corporation

December 31, 2006

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Certified Public Accountants

Board of Directors Massachusetts Housing Investment Corporation

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, 2006 and 2005, 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, 2006 and 2005, 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 2006 consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2006 consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2006 consolidated financial statements taken as a whole.

Daniel Dennis & Company LLP

February 23, 2007

Massachusetts Housing Investment Corporation
Consolidated Statements of Financial Position
December 31, 2006 and 2005

	2006	2005
<i>Assets:</i>		
Cash	\$ 2,939,653	\$ 1,216,874
Money market deposits at member corporations-loan fund	161,882	210,259
Project loans net of uncollectible accounts of \$250,000 in 2006 and 2005	344,114	5,421,000
Loans to affiliates	2,475,957	5,706,448
Due from affiliates	4,733,045	3,786,901
Notes receivable—MHEF Partnerships	5,569,451	11,030,986
Amounts receivable and other assets	2,225,065	1,436,464
Furniture, equipment and leasehold improvements, net of accumulated depreciation of \$332,275 and \$139,015 in 2006 and 2005, respectively	<u>627,361</u>	<u>196,879</u>
Total assets	<u>\$ 19,076,528</u>	<u>\$ 29,005,811</u>
 <i>Liabilities and net assets:</i>		
<i>Liabilities</i>		
Notes payable to member corporations	\$ 150,000	\$ 5,299,751
Unearned fees	11,516,002	17,157,390
Accrued interest and other liabilities	<u>2,355,858</u>	<u>1,736,559</u>
Total liabilities	<u>14,021,860</u>	<u>24,193,700</u>
 <i>Net assets</i>		
Unrestricted	4,977,140	4,734,583
Temporarily restricted	<u>77,528</u>	<u>77,528</u>
Total net assets	<u>5,054,668</u>	<u>4,812,111</u>
Total liabilities and net assets	<u>\$ 19,076,528</u>	<u>\$ 29,005,811</u>

See accompanying notes to financial statements.

Massachusetts Housing Investment Corporation
Consolidated Statements of Activities
For The Years December 31, 2006 and 2005

	2006			2005		
	Temporarily		Total	Temporarily		Total
	Unrestricted	Restricted		Unrestricted	Restricted	
<i>Revenue and Support:</i>						
Interest on bank deposits	\$ 39,466	\$ -	\$ 39,466	\$ 127,319	\$ -	\$ 127,319
Interest on loans to affiliates	288,537	-	288,537	90,074	-	90,074
Management advisory fees	282,735	-	282,735	279,375	-	279,375
Portfolio servicing fees	702,724	-	702,724	922,840	-	922,840
Origination fees	75,580	-	75,580	345,407	-	345,407
NMTC program revenue	2,185,736	-	2,185,736	2,805,886	-	2,805,886
Fees related to MHEF limited partnerships	2,827,385	-	2,827,385	2,541,423	-	2,541,423
Other equity program fees	68,076	-	68,076	33,602	-	33,602
Net assets released from restrictions	-	-	-	62,020	(62,020)	-
Total revenue and support	<u>6,470,239</u>	<u>-</u>	<u>6,470,239</u>	<u>7,207,946</u>	<u>(62,020)</u>	<u>7,145,926</u>
<i>Expenditures:</i>						
Salaries and employee benefits	4,586,281	-	4,586,281	4,123,324	-	4,123,324
Occupancy, equipment and furniture	318,266	-	318,266	348,513	-	348,513
Professional services	377,418	-	377,418	612,080	-	612,080
Depreciation	193,259	-	193,259	66,235	-	66,235
Other expenditures	752,458	-	752,458	1,156,641	-	1,156,641
Total expenditures	<u>6,227,682</u>	<u>-</u>	<u>6,227,682</u>	<u>6,306,793</u>	<u>-</u>	<u>6,306,793</u>
Increase (decrease) net assets	242,557	-	242,557	901,153	(62,020)	839,133
Net assets at beginning of year	<u>4,734,583</u>	<u>77,528</u>	<u>4,812,111</u>	<u>3,833,430</u>	<u>139,548</u>	<u>3,972,978</u>
Net assets at end of year	<u>\$ 4,977,140</u>	<u>\$ 77,528</u>	<u>\$5,054,668</u>	<u>\$ 4,734,583</u>	<u>\$ 77,528</u>	<u>\$ 4,812,111</u>

See accompanying notes to financial statements.

Massachusetts Housing Investment Corporation
Consolidated Statements of Cash Flows
For The Years December 31, 2006 and 2005

	2006	2005
<i>Operating activities:</i>		
Increase in net assets	\$ 242,557	\$ 839,133
<i>Adjustments to reconcile increase in net assets to net cash provided by operating activities:</i>		
Depreciation and amortization expense	193,259	66,235
Bad debt expense	-	250,000
Interest earned on money market deposits at member corporation:	(1,623)	(10,258)
Increase in amounts receivable and other assets	(1,734,745)	(2,045,683)
Increase/(decrease) in unearned fees	(5,641,388)	2,622,284
Increase in accrued interest and other liabilities	619,299	152,411
(Increase)/decrease on notes receivable—MHEF Partnerships	<u>5,461,535</u>	<u>(1,339,086)</u>
Net cash provided by (used for) operating activities	<u>(861,106)</u>	<u>535,036</u>
<i>Investing activities:</i>		
Funds advanced under project loans	(8,963,556)	(5,171,000)
Payments received under project loans	14,040,442	250,000
Payments received on loans to affiliates	3,600,000	13,332,753
Funds advanced under loans to affiliates	(369,509)	(18,406,448)
Decrease in investments in operating limited partnerships	-	359,258
Purchases of furniture, equipment and leasehold improvements	(623,741)	(134,508)
Withdrawal from money market deposits	<u>50,000</u>	<u>-</u>
Net cash provided by (used for) investing activities	<u>7,733,636</u>	<u>(9,769,945)</u>
<i>Financing activities:</i>		
Proceeds from notes payable	-	5,099,750
Repayment of notes payable	<u>(5,149,751)</u>	<u>-</u>
Net cash provided by (used for) financing activities	<u>(5,149,751)</u>	<u>5,099,750</u>
Net increase/(decrease) in cash	1,722,779	(4,135,159)
Cash at beginning of year	<u>1,216,874</u>	<u>5,352,033</u>
Cash at end of year	<u>\$2,939,653</u>	<u>\$ 1,216,874</u>
<i>Supplemental information</i>		
Interest paid	<u>\$ 372,956</u>	<u>\$ 88,305</u>

See accompanying notes to financial statements.

Massachusetts Housing Investment Corporation

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

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 twelve 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. MHIC is the syndicator and manager of an investment company that is structured for investment in community development entities (MHIC-CDEs), which in turn provide financing to qualifying businesses. As of December 31, 2006, MHIC had received four allocations of new markets tax credits totaling \$259,000,000. 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.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2006 and 2005

1. *Background and Accounting Policies - continued*

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, 2006 and 2005 reflect grant funds that will be awarded to beneficiaries not yet specified for Chapter 40B technical assistance.

Principles of Consolidation

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

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.

Revenue Recognition

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

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2006 and 2005

1. *Background and Accounting Policies - continued*

Revenue Recognition - continued

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 4).

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.

Cash and Cash Equivalents

The Company 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 (none of which are held for trading purposes) approximate the carrying values of such amounts.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2006 and 2005

1. Background and Accounting Policies - continued

Functional Expenses

Expenses are 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>2006</i>	<i>2005</i>
Program support	\$ 5,351,339	\$ 5,314,919
Management and general	<u>876,343</u>	<u>991,874</u>
Total	<u>\$ 6,227,682</u>	<u>\$ 6,306,793</u>

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 (see Note 5).

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.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2006 and 2005

2. *Loan Program - continued*

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 range 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, 2006 and 2005, MHIC earned total fees for services to the LLC of \$985,459 and \$1,202,215, respectively. Amounts payable to MHIC at December 31, 2006 and 2005 were \$231,617 and \$1,202,215, respectively.

For the years ended December 31, 2006 and 2005, MHIC waived the financing commitment fee 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, 2006 and 2005

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

As of December 31, 2006 and 2005, MHIC's investment in MHEF amounted to \$2,885,302 and \$2,688,108, 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, 2006 and 2005, the Partnerships have combined total assets of \$271 million and \$276 million, respectively, and combined cumulative deficits of approximately \$206 million and \$179 million, respectively.

4. *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 \$2,680,000, of which \$1,983,876 and \$1,579,417 was incurred as of December 31, 2006 and 2005, respectively. These fees are included in NMTC program revenue in the accompanying statement of activities and totaled \$404,459 and \$1,300,342 for the years ended December 31, 2006 and 2005, 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 \$6,508,000, of which \$3,515,572 and \$1,888,025 was incurred as of December 31, 2006 and 2005, respectively. These fees are included in NMTC program revenue in the accompanying statement of activities and totaled \$1,627,547 and \$1,388,025 for the years ended December 31, 2006 and 2005, respectively.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2006 and 2005

4. *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 IRC. MHIC-CDEs' maximum obligation under the agreements is \$1,580,000 over eight years, of which \$314,635 and \$160,905 has been incurred as of December 31, 2006 and 2005, respectively. These fees are included in NMTC program revenue in the accompanying statement of activities and totaled \$153,730 and \$117,519 for the years ended December 31, 2006 and 2005, respectively.

5. *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 0% to 6% and are secured, in a subordinated position, by the underlying real estate. At December 31, 2006 and 2005, the outstanding project loan balances were as follows:

	<i>2006</i>	<i>2005</i>
Beginning balance	\$ 5,421,000	\$ 750,000
Loan disbursements	8,963,556	5,171,000
Loan repayments	<u>(14,040,442)</u>	<u>(500,000)</u>
Ending balance	<u>\$ 344,114</u>	<u>\$ 5,421,000</u>

6 *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, 2006 and 2005 was as follows:

	<i>2006</i>	<i>2005</i>
Beginning balance	\$ 5,706,448	\$ 632,753
Loan disbursements	369,509	18,406,448
Loan repayments	<u>(3,600,000)</u>	<u>(13,332,753)</u>
Ending balance	<u>\$ 2,475,957</u>	<u>\$ 5,706,448</u>

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2006 and 2005

6 ***Loans to Affiliates - continued***

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 range from 0% to 6.5%) and are unsecured.

7. ***Investments in Operating Partnerships***

MHEF Holdings, a wholly-owned subsidiary of MHEF, Inc., was the initial investor in three operating partnerships. MHEF Holdings intends to hold these investments until the underlying properties are placed in service and then transfer its interest to one or more of its affiliates. MHEF Holdings accounts for these investments using the equity method of accounting. Under the equity method, the investment is carried at cost and adjusted for its share of income, losses, additional investments, and cash distributions from the operating partnerships. Declines in the value of the investments that are other than temporary are recognized as necessary. The \$16,880,010 in equity investments previously held was transferred to affiliates during 2006.

8. ***Notes Payable***

MHEF Holdings has obtained a warehouse loan facility for \$16,000,000 from Bank of America that was fully repaid in August 2006. The proceeds are used to make investments in or loans to Operating Partnerships. MHEF Holdings pledged its partnership interests in the Operating Partnerships as collateral for the loans.

MHEF Holdings has also obtained a warehouse loan facility for \$5,000,000 from MHIC, LLC that was fully repaid in 2006. The proceeds are were used to make 20% co-payments on funds advanced under the above-mentioned loan from Bank of America as well as to pay debt-service on both facilities. The loan matured in July 2006 and was secured by a second assignment of partnership interests in the Operating Partnerships.

MHEF Holdings pays interest on the outstanding balance of the loans at rates that range from 7.1% to 7.5% for the loan from Bank of America and at a floating rate of Prime for the loan from MHIC, LLC. Interest expense under both facilities totaled \$372,956 and \$88,305 for the years ended December 31, 2006 and 2005, respectively. The carrying value of notes payable approximates their fair market value.

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. All proceeds that are lent to projects earn interest at the prime rate less 1%. For the periods ended December 31, 2006 and 2005, MHIC did not incur or pay any interest expense to member corporations since the interest rate on the note payable was less than 0%.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2006 and 2005

8. *Notes Payable - continued*

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, 2006 and 2005, outstanding borrowings under these agreements totaled \$150,000 and \$200,000, respectively.

9. *MHEF Notes Receivable and Unearned Fees*

Notes receivable represent the present value (using effective interest rates that range from 8% to 9%) of future 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. At December 31, 2006 and 2005, notes receivable included accrued interest of \$47,835 and \$139,387, respectively.

Unearned equity fees reflect MHIC's obligation to provide future services to the Partnerships as consideration for the aforementioned notes 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, 2006 and 2005, unearned fees were \$11,516,002 and \$17,157,390, respectively.

10. *Cash and Cash Equivalents*

At December 31, 2006, cash and cash equivalent balances are held at financial institutions with federal insured limits of up to \$100,000 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.

11. *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, 2006 and 2005

11. *Leases - continued*

Future minimum payments, by year and in aggregate, under these noncancelable operating leases consist of the following at December 31, 2006:

2007	\$	270,224
2008		257,514
2009		264,231
2010		264,231
2011		264,231
Thereafter		<u>198,174</u>
Total	\$	<u><u>1,518,605</u></u>

MHIC incurred lease expenses associated with office space and equipment of \$282,844 and \$323,509 for the years ended December 31, 2006 and 2005, respectively.

12. *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 2006. MHIC contributed and charged to expense \$286,046 and \$266,530 for the year ended December 31, 2006 and 2005, respectively. These amounts are reflected in salaries and employee benefits in the accompanying consolidated statements of activities and changes in net assets.

13. *Grant Awards*

In June 2004, MHIC received a \$320,000 restricted grant from the Massachusetts Housing Partnership Fund Board to provide grants in support of technical assistance to local communities confronting Chapter 40 B developments. As of December 31, 2006 and 2005, temporarily restricted net assets consist of unexpended grant funds of \$77,528.

14. *Guarantees Provided for Borrowing Facilities of Affiliates*

As of December 31, 2006, MHIC is the guarantor on several borrowing facilities of its affiliates, which have an overall outstanding balance of \$33,544,503. 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. The company has not recognized any obligations relative to the guarantees.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2006 and 2005

15. Fixed Assets

Property and equipment consists of the following:

	<i>2006</i>	<i>2005</i>
Furniture	\$ 217,435	\$ 48,023
Equipment	252,019	197,020
Leasehold improvements	<u>490,182</u>	<u>90,851</u>
Total fixed assets	959,636	335,894
Accumulated depreciation	<u>(332,275)</u>	<u>(139,015)</u>
Total	<u>\$ 627,361</u>	<u>\$ 196,879</u>

During 2005 management wrote off fully depreciated assets of \$858,680. These assets were disposed of at no gain or loss to the Corporation.

Supplemental Schedules

Massachusetts Housing Investment Corporation
Supplemental Consolidating Schedule of Financial Position
December 31, 2006

	<i>MHIC</i>	<i>Subsidiaries</i>	<i>Elimination</i>	<i>Consolidated</i>
<i>Assets:</i>				
Cash	\$ 2,506,963	\$ 432,690	\$ -	\$ 2,939,653
Money market deposits at member corporations - loan fund	161,882	-	-	161,882
Project loans	344,114	-	-	344,114
Loans to affiliates	2,475,957	-	-	2,475,957
Due from affiliates	4,733,045	-	-	4,733,045
Investment in MHEF, Inc	2,885,302	-	(2,885,302)	-
Notes receivable - MHEF Partnerships	5,569,451	-	-	5,569,451
Amounts receivable and other assets	2,224,965	100	-	2,225,065
Due from parent	-	2,454,882	(2,454,882)	-
Furniture, equipment and leasehold improvements, net of accumulated depreciation and amortization	<u>627,361</u>	<u>-</u>	<u>-</u>	<u>627,361</u>
Total assets	<u>\$21,529,040</u>	<u>\$ 2,887,672</u>	<u>\$(5,340,184)</u>	<u>\$19,076,528</u>
<i>Liabilities and net assets:</i>				
<i>Liabilities:</i>				
Notes payable to member corporations	\$ 150,000	\$ -	\$ -	\$ 150,000
Due to subsidiary	2,454,881	-	(2,454,881)	-
Unearned fees	11,516,002	-	-	11,516,002
Accrued interest and other liabilities	<u>2,353,489</u>	<u>2,369</u>	<u>-</u>	<u>2,355,858</u>
Total liabilities	<u>16,474,372</u>	<u>2,369</u>	<u>(2,454,881)</u>	<u>14,021,860</u>
<i>Net assets:</i>				
Unrestricted	4,977,140	2,885,303	(2,885,303)	4,977,140
Temporarily restricted	<u>77,528</u>	<u>-</u>	<u>-</u>	<u>77,528</u>
Total net assets	<u>5,054,668</u>	<u>2,885,303</u>	<u>(2,885,303)</u>	<u>5,054,668</u>
Total liabilities and net assets	<u>\$21,529,040</u>	<u>\$ 2,887,672</u>	<u>\$(5,340,184)</u>	<u>\$19,076,528</u>

Massachusetts Housing Investment Corporation
Supplemental Consolidating Schedule of Activities and Changes in Net Assets
December 31, 2006

	<i>MHIC</i>	<i>Subsidiaries</i>	<i>Elimination</i>	<i>Consolidated</i>
<i>Change in unrestricted net assets:</i>				
Revenues				
Interest revenue:				
Interest on bank deposits	\$ 34,288	\$ 5,178	\$ -	\$ 39,466
Interest on project loans	95,231	193,306	-	288,537
Management and advisory fees	282,735	-	-	282,735
Portfolio servicing fees	702,724	-	-	702,724
Origination fees	75,580	-	-	75,580
NMTC program revenue	2,185,736	-	-	2,185,736
Fees related to MHEF limited partnerships	2,827,385	-	-	2,827,385
Other equity program fees	68,076	-	-	68,076
Loss from investment in subsidiaries	<u>197,194</u>	<u>-</u>	<u>(197,194)</u>	<u>-</u>
Total revenues	6,468,949	198,484	(197,194)	6,470,239
Expenditures				
Salaries and employee benefits	4,586,281	-	-	4,586,281
Occupancy, equipment and furniture	318,266	-	-	318,266
Professional services	377,418	-	-	377,418
Depreciation	193,259	-	-	193,259
Other expenditures	<u>751,168</u>	<u>1,290</u>	<u>-</u>	<u>752,458</u>
Total expenditures	<u>6,226,392</u>	<u>1,290</u>	<u>-</u>	<u>6,227,682</u>
Increase in unrestricted net assets	242,557	197,194	(197,194)	242,557
Net assets at beginning of year	<u>4,812,111</u>	<u>2,688,109</u>	<u>(2,688,109)</u>	<u>4,812,111</u>
Net assets at end of year	<u>\$5,054,668</u>	<u>\$ 2,885,303</u>	<u>\$(2,885,303)</u>	<u>\$ 5,054,668</u>