

# Massachusetts Housing Investment Corporation

## Consolidated Financial Statements And Auditors' Report

December 31, 2007 and 2006



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# Massachusetts Housing Investment Corporation

December 31, 2007

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# Daniel Dennis & Company LLP

*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, 2007 and 2006, 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, 2007 and 2006, 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 2007 consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2007 consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2007 consolidated financial statements taken as a whole.

*Daniel Dennis & Company LLP*

April 23, 2008

**Massachusetts Housing Investment Corporation**  
**Consolidated Statements of Financial Position**  
December 31, 2007 and 2006

	2007	2006
<i>Assets:</i>		
Cash	\$ 7,874,029	\$ 2,939,653
Money market deposits at member corporations-loan fund	63,054	161,882
Project loans net of uncollectible accounts of \$5,888 in 2007 and \$250,000 in 2006	246,398	344,114
Loans to affiliates	6,733,915	2,475,957
Due from affiliates	3,326,504	4,733,045
Notes receivable—MHEF Partnerships	3,077,982	5,569,451
Amounts receivable and other assets	879,234	2,225,065
Furniture, equipment and leasehold improvements, net of accumulated depreciation of \$508,108 and \$332,275 in 2007 and 2006, respectively	<u>463,013</u>	<u>627,361</u>
Total assets	<u>\$ 22,664,129</u>	<u>\$ 19,076,528</u>
 <i>Liabilities and net assets:</i>		
<b>Liabilities</b>		
Notes payable to member corporations	\$ 6,050,000	\$ 150,000
Unearned fees	9,781,412	11,516,002
Accrued interest and other liabilities	<u>1,740,214</u>	<u>2,355,858</u>
Total liabilities	<u>17,571,626</u>	<u>14,021,860</u>
 <b>Net assets</b>		
Unrestricted	5,092,503	4,977,140
Temporarily restricted	<u>-</u>	<u>77,528</u>
Total net assets	<u>5,092,503</u>	<u>5,054,668</u>
Total liabilities and net assets	<u>\$ 22,664,129</u>	<u>\$ 19,076,528</u>

*See accompanying notes to financial statements.*

**Massachusetts Housing Investment Corporation**  
 Consolidated Statements of Activities  
 For The Years December 31, 2007 and 2006

	2007		2006	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
<i>Revenue and Support:</i>				
Interest on bank deposits	\$ 100,512	\$ -	\$ 100,512	\$ -
Interest on loans to affiliates	48,893	-	48,893	-
Management advisory fees	271,906	-	271,906	-
Portfolio servicing fees	492,043	-	492,043	-
Origination fees	153,750	-	153,750	-
NMTC program revenue	2,906,915	-	2,906,915	-
Fees related to MHEF limited partnerships	2,858,139	-	2,858,139	-
Other equity program fees	71,130	-	71,130	-
Net assets released from restrictions	77,528	(77,528)	-	-
Total revenue and support	<u>6,980,816</u>	<u>(77,528)</u>	<u>6,903,288</u>	<u>6,470,239</u>
<i>Expenditures:</i>				
Salaries and employee benefits	4,576,175	-	4,576,175	-
Occupancy, equipment and furniture	323,219	-	323,219	-
Professional services	1,079,562	-	1,079,562	-
Depreciation	175,835	-	175,835	-
Other expenditures	710,662	-	710,662	-
Total expenditures	<u>6,865,453</u>	<u>-</u>	<u>6,865,453</u>	<u>6,227,682</u>
Increase (decrease) net assets	115,363	(77,528)	37,835	-
Net assets at beginning of year	4,977,140	77,528	5,054,668	4,734,583
Net assets at end 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>

See accompanying notes to financial statements.

**Massachusetts Housing Investment Corporation**  
Consolidated Statements of Cash Flows  
For The Years December 31, 2007 and 2006

	2007	2006
<i>Operating activities:</i>		
Increase in net assets	\$ 37,835	\$ 242,557
<i>Adjustments to reconcile increase in net assets to net cash provided by/(used for) operating activities:</i>		
Depreciation and amortization expense	175,835	193,259
Bad debt expense	5,888	-
Interest earned on money market deposits at member corporations	(1,172)	(1,623)
Decrease/(increase) in amounts receivable and other assets	2,752,372	(1,734,745)
Decrease in unearned fees	(1,734,590)	(5,641,388)
Increase/(decrease) in accrued interest and other liabilities	(615,644)	619,299
Decrease on notes receivable—MHEF Partnerships	<u>2,491,469</u>	<u>5,461,535</u>
Net cash provided by (used for) operating activities	<u>3,111,993</u>	<u>(861,106)</u>
<i>Investing activities:</i>		
Funds advanced under project loans	(297,761)	(8,963,556)
Payments received under project loans	389,589	14,040,442
Payments received on loans to affiliates	4,597,930	3,600,000
Funds advanced under loans to affiliates	(8,855,888)	(369,509)
Purchases of furniture, equipment and leasehold improvements	(11,487)	(623,741)
Withdrawal from money market deposits	<u>100,000</u>	<u>50,000</u>
Net cash provided by (used for) investing activities	<u>(4,077,617)</u>	<u>7,733,636</u>
<i>Financing activities:</i>		
Proceeds from notes payable	6,000,000	-
Repayment of notes payable	<u>(100,000)</u>	<u>(5,149,751)</u>
Net cash provided by (used for) financing activities	<u>5,900,000</u>	<u>(5,149,751)</u>
Net increase in cash	4,934,376	1,722,779
Cash at beginning of year	<u>2,939,653</u>	<u>1,216,874</u>
Cash at end of year	<u>\$7,874,029</u>	<u>\$ 2,939,653</u>
<i>Supplemental information</i>		
Interest paid	<u>\$ -</u>	<u>\$ 372,956</u>

*See accompanying notes to financial statements.*

**Massachusetts Housing Investment Corporation**  
Notes to Consolidated Financial Statements  
December 31, 2007 and 2006

**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, 2007, 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, 2007 and 2006

**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 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, 2007 and 2006

**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, 2007 and 2006

**1. Background and Accounting Policies - continued**

*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>2007</i>	<i>2006</i>
Program support	\$ 6,022,897	\$ 5,351,339
Management and general	<u>842,556</u>	<u>876,343</u>
Total	<u>\$ 6,865,453</u>	<u>\$ 6,227,682</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, 2007 and 2006

**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 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, 2007 and 2006, MHIC earned total fees for services to the LLC of \$763,949 and \$985,459, respectively. Amounts payable to MHIC at December 31, 2007 and 2006 were \$207,801 and \$231,619, respectively.

For the years ended December 31, 2007 and 2006, 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, 2007 and 2006

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

As of December 31, 2007 and 2006, MHIC's investment in MHEF amounted to \$2,901,274 and \$2,885,301, 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, 2007 and 2006, the Partnerships have combined total assets of \$300 million and \$271 million, respectively, and combined cumulative deficits of approximately \$234 million and \$206 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 \$2,486,272 and \$1,983,876 was incurred as of December 31, 2007 and 2006, respectively. These fees are included in NMTC program revenue in the accompanying statement of activities and totaled \$502,396 and \$404,459 for the years ended December 31, 2007 and 2006, 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 \$4,939,771 and \$3,515,572 was incurred as of December 31, 2007 and 2006, respectively. These fees are included in NMTC program revenue in the accompanying statement of activities and totaled \$1,424,199 and \$1,627,547 for the years ended December 31, 2007 and 2006, respectively.

**Massachusetts Housing Investment Corporation**  
Notes to Consolidated Financial Statements - *continued*  
December 31, 2007 and 2006

**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 *Internal Revenue Code (IRC)*. MHIC-CDEs' maximum obligation under the agreements is \$1,580,000 over eight years, of which \$519,055 and \$314,636 has been incurred as of December 31, 2007 and 2006, respectively. These fees are included in NMTC program revenue in the accompanying statement of activities and totaled \$204,419 and \$153,730 for the years ended December 31, 2007 and 2006, 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 \$775,901 in 2007.

**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 4% to 6% and are secured, in a subordinated position, by the underlying real estate. At December 31, 2007 and 2006, the outstanding project loan balances were as follows:

	2007	2006
Beginning balance	\$ 344,114	\$ 5,671,000
Loan disbursements	297,761	8,963,556
Loan repayments	<u>(389,589)</u>	<u>(14,040,442)</u>
Ending balance	252,286	594,114
accounts	<u>(5,888)</u>	<u>(250,000)</u>
Net balance	<u>\$ 246,398</u>	<u>\$ 344,114</u>

**Massachusetts Housing Investment Corporation**  
Notes to Consolidated Financial Statements - *continued*  
December 31, 2007 and 2006

**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, 2007 and 2006 was as follows:

	2007	2006
Beginning balance	\$ 2,475,957	\$ 5,706,448
Loan disbursements	8,855,888	369,509
Loan repayments	<u>(4,597,930)</u>	<u>(3,600,000)</u>
Ending balance	<u>\$ 6,733,915</u>	<u>\$ 2,475,957</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.

**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 obtained a warehouse loan facility for \$16,000,000 from Bank of America that was fully repaid in August 2006. The proceeds were 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 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 2007 and was secured by a second assignment of partnership interests in the Operating Partnerships.

MHEF Holdings paid 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.

**Massachusetts Housing Investment Corporation**  
Notes to Consolidated Financial Statements - *continued*  
December 31, 2007 and 2006

**8. Notes Payable - continued**

Interest expense under both facilities totaled \$0 and \$372,956 for the years ended December 31, 2007 and 2006, respectively. The carrying value of notes payable approximated 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, 2007 and 2006, 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 and 2006, outstanding borrowings under these agreements totaled \$50,000 and \$150,000, respectively.

The Company has borrowed \$6 million 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. Scheduled payments of principal are due as follows:

2008	\$ 50,000
2009	-
2010	-
2011	-
2012	750,000
Thereafter	<u>5,250,000</u>
Total	<u>\$ 6,050,000</u>

**Massachusetts Housing Investment Corporation**  
Notes to Consolidated Financial Statements - *continued*  
December 31, 2007 and 2006

**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, 2007 and 2006, notes receivable included accrued interest of \$0 and \$47,835, 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, 2007 and 2006, unearned fees were \$9,781,412 and \$11,516,002, respectively.

**10. *Cash and Cash Equivalents***

At December 31, 2007, 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. Future minimum payments, by year and in aggregate, under these noncancelable operating leases consist of the following at December 31, 2007:

2008	\$	297,827
2009		275,265
2010		279,038
2011		270,142
2012		267,176
Thereafter		267,176
Total	\$	1,656,624

MHIC incurred lease expenses associated with office space and equipment of \$290,604 and \$282,844 for the years ended December 31, 2007 and 2006, respectively.



**Massachusetts Housing Investment Corporation**  
Notes to Consolidated Financial Statements - *continued*  
December 31, 2007 and 2006

**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 \$332,292 and \$286,046 for the year ended December 31, 2007 and 2006, 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, temporarily restricted net assets consist of unexpended grant funds of \$77,528.

**14. *Guarantees Provided for Borrowing Facilities of Affiliates***

As of December 31, 2007, MHIC is the guarantor on several borrowing facilities of its affiliates, which have an overall outstanding balance of \$29,929,900. 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.

**15. *Fixed Assets***

Property and equipment consists of the following:

	2007	2006
Furniture	\$ 217,435	\$ 217,435
Equipment	263,504	252,019
Leasehold improvements	<u>490,182</u>	<u>490,182</u>
Total fixed assets	971,121	959,636
Accumulated depreciation	<u>(508,108)</u>	<u>(332,275)</u>
Total	<u>\$ 463,013</u>	<u>\$ 627,361</u>

## Supplemental Schedules

**Massachusetts Housing Investment Corporation**  
**Supplemental Consolidating Schedule of Financial Position**  
December 31, 2007

	<i>MHIC</i>	<i>Subsidiaries</i>	<i>Elimination</i>	<i>Consolidated</i>
<i>Assets:</i>				
Cash	\$ 7,372,870	\$ 501,159	\$ -	\$ 7,874,029
Money market deposits at member corporations - loan fund	63,054	-	-	63,054
Project loans	246,398	-	-	246,398
Loans to affiliates	6,733,915	-	-	6,733,915
Due from affiliates	3,326,504	-	-	3,326,504
Investment in MHEF, Inc	2,901,274	-	(2,901,274)	-
Notes receivable - MHEF Partnerships	3,077,982	-	-	3,077,982
Amounts receivable and other assets	879,134	100	-	879,234
Due from parent	-	2,402,385	(2,402,385)	-
Furniture, equipment and leasehold improvements, net of accumulated depreciation and amortization	<u>463,013</u>	<u>-</u>	<u>-</u>	<u>463,013</u>
<b>Total assets</b>	<b><u>\$25,064,144</u></b>	<b><u>\$ 2,903,644</u></b>	<b><u>\$(5,303,659)</u></b>	<b><u>\$22,664,129</u></b>
<i>Liabilities and net assets:</i>				
<i>Liabilities:</i>				
Notes payable to member corporations	\$ 6,050,000	\$ -	\$ -	\$ 6,050,000
Due to subsidiary	2,402,385	-	(2,402,385)	-
Unearned fees	9,781,412	-	-	9,781,412
Accrued interest and other liabilities	<u>1,737,844</u>	<u>2,370</u>	<u>-</u>	<u>1,740,214</u>
<b>Total liabilities</b>	<b><u>19,971,641</u></b>	<b><u>2,370</u></b>	<b><u>(2,402,385)</u></b>	<b><u>17,571,626</u></b>
<i>Net assets:</i>				
Unrestricted	<u>5,092,503</u>	<u>2,901,274</u>	<u>(2,901,274)</u>	<u>5,092,503</u>
<b>Total liabilities and net assets</b>	<b><u>\$25,064,144</u></b>	<b><u>\$ 2,903,644</u></b>	<b><u>\$(5,303,659)</u></b>	<b><u>\$22,664,129</u></b>

**Massachusetts Housing Investment Corporation**  
 Supplemental Consolidating Schedule of Activities and Changes in Net Assets  
 December 31, 2007

	<i>MHIC</i>	<i>Subsidiaries</i>	<i>Elimination</i>	<i>Consolidated</i>
<i>Change in unrestricted net assets:</i>				
<b>Revenues</b>				
Interest revenue:				
Interest on bank deposits	\$ 84,489	\$ 16,023	\$ -	\$ 100,512
Interest on project loans	48,893	-	-	48,893
Management and advisory fees	271,906	-	-	271,906
Portfolio servicing fees	492,043	-	-	492,043
Origination fees	153,750	-	-	153,750
NMTC program revenue	2,906,915	-	-	2,906,915
Fees related to MHEF limited partnerships	2,858,139	-	-	2,858,139
Other equity program fees	71,130	-	-	71,130
Loss from investment in subsidiaries	15,973	-	(15,973)	-
	<u>6,903,238</u>	<u>16,023</u>	<u>(15,973)</u>	<u>6,903,288</u>
<b>Total revenues</b>				
<b>Expenditures</b>				
Salaries and employee benefits	4,576,175	-	-	4,576,175
Occupancy, equipment and furniture	323,219	-	-	323,219
Professional services	1,079,562	-	-	1,079,562
Depreciation	175,835	-	-	175,835
Other expenditures	710,612	50	-	710,662
	<u>6,865,403</u>	<u>50</u>	<u>-</u>	<u>6,865,453</u>
<b>Total expenditures</b>				
Increase in unrestricted net assets	37,835	15,973	(15,973)	37,835
Net assets at beginning of year	5,054,668	2,885,301	(2,885,301)	5,054,668
Net assets at end of year	<u>\$5,092,503</u>	<u>\$ 2,901,274</u>	<u>\$(2,901,274)</u>	<u>\$ 5,092,503</u>