

Massachusetts Housing Investment Corporation

Consolidated Financial Statements

And

Auditors' Report

December 31, 2004 and 2003



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, 2004

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 Statement of Financial Position	15
Consolidating Statement of Activities and Changes in Net Assets	16

Daniel Dennis & Company LLP

Certified Public Accountants

Board of Directors

Massachusetts Housing Investment Corporation

We have audited the accompanying consolidated statement of financial position of Massachusetts Housing Investment Corporation (a non-profit corporation) and subsidiary (the Corporation) as of December 31, 2004 and the related consolidated statements of activities, and cash flows for the year 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 audit. The financial statements of the Corporation as of December 31, 2003 were audited by other auditors, whose report thereon, dated May 27, 2004, expressed an unqualified opinion.

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 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 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, 2004 and the consolidated changes in net assets and its cash flows for the year 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 consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Daniel Dennis & Company LLP

March 10, 2005

Massachusetts Housing Investment Corporation
Consolidated Statements of Financial Position
December 31, 2004 and 2003

	2004	2003
<i>Assets:</i>		
Cash	\$ 5,352,033	\$ 2,017,996
Money market deposits at member corporations-loan fund	225,979	250,000
Project loans	750,000	-
Loans to affiliates	632,753	2,223,028
Due from affiliates	1,295,956	525,808
Investment in operating partnerships	359,258	-
Notes receivable—MHEF Partnerships	9,691,900	10,912,502
Amounts receivable and other assets	1,881,726	392,226
Furniture, equipment and leasehold improvements, net of accumulated depreciation of \$1,098,628 and \$1,012,737 in 2004 and 2003, respectively	<u>128,606</u>	<u>162,851</u>
Total assets	<u>\$ 20,318,211</u>	<u>\$ 16,484,411</u>
<i>Liabilities and net assets:</i>		
Liabilities		
Notes payable to member corporations	\$ 225,979	\$ 250,000
Unearned fees	14,535,106	11,249,212
Accrued interest and other liabilities	<u>1,584,148</u>	<u>1,672,675</u>
Total liabilities	<u>16,345,233</u>	<u>13,171,887</u>
Net assets		
Unrestricted	3,833,430	3,145,411
Temporarily restricted	<u>139,548</u>	<u>167,113</u>
Total net assets	<u>3,972,978</u>	<u>3,312,524</u>
Total liabilities and net assets	<u>\$ 20,318,211</u>	<u>\$ 16,484,411</u>

See accompanying notes to financial statements.

Massachusetts Housing Investment Corporation
Consolidated Statements of Activities
December 31, 2004 and 2003

	<i>Year Ended December 31, 2004</i>			<i>For the six-</i>
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>	<i>months ended December 31 2003</i>
<i>Revenue and Support:</i>				
Interest on bank deposits	\$ 71,062	\$ -	\$ 71,062	\$ 14,253
Interest on loans to affiliates	46,117	-	46,117	25,718
Management advisory fees	280,140	-	280,140	139,500
Portfolio servicing fees	589,255	-	589,255	350,035
Financing commitment fees	371,960	-	371,960	182,722
Origination fees	339,745	-	339,745	165,165
Available earnings fee	-	-	-	189,119
NMTC Program revenue	822,440	-	822,440	-
Fees related to MHEF limited partnerships	3,494,786	-	3,494,786	2,284,317
Other equity program fees	56,193	-	56,193	23,046
Net assets released from restrictions	27,565	(27,565)	-	-
	<u>6,099,263</u>	<u>(27,565)</u>	<u>6,071,698</u>	<u>3,373,875</u>
Total revenue and support				
<i>Expenditures:</i>				
Salaries and employee benefits	3,836,772	-	3,836,772	1,958,177
Occupancy, equipment and furniture	366,117	-	366,117	182,820
Professional services	526,623	-	526,623	535,409
Depreciation	85,891	-	85,891	45,140
Other expenditures	595,841	-	595,841	277,871
	<u>5,411,244</u>	<u>-</u>	<u>5,411,244</u>	<u>2,999,417</u>
Total expenditures				
Increase (decrease) net assets	688,019	(27,565)	660,454	374,458
Net assets at beginning of year	3,145,411	167,113	3,312,524	2,938,066
	<u>3,833,430</u>	<u>139,548</u>	<u>\$3,972,978</u>	<u>\$ 3,312,524</u>
Net assets at end of year				

See accompanying notes to financial statements.

Massachusetts Housing Investment Corporation
Consolidated Statements of Cash Flows
December 31, 2004 and 2003

	<i>Year Ended</i> <i>December 31</i> <i>2004</i>	<i>Six-months</i> <i>months ended</i> <i>December 31</i> <i>2003</i>
<i>Operating activities:</i>		
Increase in net assets	\$ 660,454	\$ 374,458
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	85,891	45,140
(Increase)/decrease in amounts receivable and other assets	(2,259,648)	798,019
Note accretion and notes receivable exchanged for unearned fees	(6,102,480)	456,840
Increase/(decrease) in unearned fees	3,285,894	(2,111,157)
(Decrease)/increase in accrued interest and other liabilities	(88,527)	174,110
Payments received on notes receivable—MHEF Partnerships	<u>7,323,082</u>	<u>2,087,035</u>
Net cash provided by operating activities	<u>2,904,666</u>	<u>1,824,445</u>
<i>Investing activities:</i>		
Funds advanced under project loans	(750,000)	-
Payments received on loans to affiliates	9,395,505	1,721,609
Funds advanced under loans to affiliates	(7,805,230)	(2,894,352)
Investments in operating limited partnerships	(359,258)	-
Purchases of furniture, equipment and leasehold improvements	<u>(51,646)</u>	<u>(5,233)</u>
Net cash provided by (used for) investing activities	<u>429,371</u>	<u>(1,177,976)</u>
Net increase in cash	3,334,037	646,469
Cash at beginning of year	<u>2,017,996</u>	<u>1,371,527</u>
Cash at end of year	<u>\$ 5,352,033</u>	<u>\$ 2,017,996</u>
<i>Supplemental information</i>		
Unearned fees recorded in exchange for notes receivable	<u>\$ 5,683,600</u>	<u>\$ 600,000</u>

See accompanying notes to financial statements.

Massachusetts Housing Investment Corporation

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

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 ten 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, 2004, MHIC had been awarded \$25,000,000 (via its loan program affiliate, MHIC, LLC) and \$90,000,000 of new markets tax credit allocations. Subsequent to December 31, 2004, MHIC received an allocation of \$54,000,000 in new markets tax credits. MHIC intends to syndicate additional investment companies to utilize these allocations.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2004 and 2003

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, 2004 and December 31, 2003 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 subsidiary, MHEF. 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, 2004 and 2003

1. *Background and Accounting Policies - 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 is a for-profit corporation and therefore is subject to federal and state income taxes.

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.

Change in Fiscal Year-End

During 2003, MHIC changed its fiscal year-end from June 30 to December 31. As a result, the 2003 statement of operations and statement of cash flows present a six-month stub-period due to this transition.

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, 2004 and 2003

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.

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.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2004 and 2003

2. *Loan Program - continued*

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

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

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

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

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

Under the terms of the Advisory Agreement, MHIC earned available earnings fee of \$189,119 for the six months ended December 31, 2003. No fee was earned during 2004.

During the year ended December 31, 2004 and the six months ended December 31, 2003, MHIC earned total fees for services to the LLC of \$1,241,355 and \$793,398, respectively. Amounts payable to MHIC and December 31, 2004 and 2003 were \$346,999 and \$205,943, respectively.

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

As of December 31, 2004 and December 31, 2003, MHIC's investment in MHEF amounted to \$2,877,943 and \$2,875,184, respectively. MHEF, as general partner of the aforementioned Partnerships, has a .01% 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, 2004 and December 31, 2003, the Partnerships have combined total assets of \$235 million and \$224 million, respectively, and combined cumulative deficits of approximately \$130 million and \$122 million, respectively.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2004 and 2003

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 agreement(s), 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 investments made by the Investment Company. The maximum amount of the fee under the agreements is \$500,000, of which \$279,075 was recognized, which is included in NMTC Program revenue in the accompanying statements of operations for the year ended December 31, 2004.

Acquisition Services

These include legal and professional services required to close loans or investments in qualifying businesses. The maximum amount of the fee under the agreements is \$500,000, all of which were incurred as of December 31, 2004. These costs have been capitalized and are included in NMTC Program revenue in the accompanying statement of operations for the year ended December 31, 2004.

Management Services

These include asset management services to monitor business and compliance aspects of MHIC-CDEs' loans and investments. MHIC will also monitor MHIC-CDEs' compliance with reporting and other requirements of the IRC. MHIC-CDEs' maximum obligation under the agreement is \$500,000 over eight years, of which \$43,386 has been incurred and is included in NMTC Program revenue in the accompanying statement of operations for the year ended December 31, 2004.

	<i>2004</i>
	<i>Fee Amount</i>
Organizational services	\$ 279,073
Acquisition services	500,000
Management services	<u>43,367</u>
Total	<u>\$ 822,440</u>

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2004 and 2003

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, 2004, the outstanding project loan balance was \$750,000.

6. Loans to Affiliates

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

Loan activity was as follows:

	<i>Year ended</i> <i>December 31,</i> <i>2004</i>	<i>Six-months</i> <i>ended December</i> <i>31, 2003</i>
Beginning balance	\$ 2,223,028	\$ 1,050,285
Loan disbursements	7,805,230	2,894,352
Loan repayments	<u>(9,395,505)</u>	<u>(1,721,609)</u>
Ending balance	<u>\$ 632,753</u>	<u>\$ 2,223,028</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 range from 3% to 4%) and are unsecured.

7. Investments in Operating Partnerships

MHIC is the initial investor in three operating partnerships. MHIC 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. MHIC accounts for these investments using the equity method of accounting. Under the equity method, the investment is carried at cost and adjusted for the corporation's 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.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2004 and 2003

7. Investments in Operating Partnerships - continued

The following is a detail breakdown of these investments in operating partnerships:

Partnership	<i>Equity Investment</i>	<i>Amount Funded</i>	<i>Outstanding Commitment</i>
St. Jean Baptiste	\$ 2,592,581	\$ 259,258	\$ 2,333,323
YWCA Fina House	2,401,476	100,000	2,301,476
Capital Square	<u>6,283,131</u>	<u>-</u>	<u>6,283,131</u>
Total	<u>\$ 11,277,188</u>	<u>\$ 359,258</u>	<u>\$ 10,917,930</u>

8. Notes Payable to Member Corporations

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, 2004 and 2003, 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, 2004 and 2003, outstanding borrowings under these agreements totaled \$225,979 and \$250,000, 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, 2004 and December 31, 2003, notes receivable included accrued interest of \$ 238,880 and \$143,160, 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, 2004 and 2003, unearned fees were \$14,535,106 and \$11,249,212, respectively.

Massachusetts Housing Investment Corporation
Notes to Consolidated Financial Statements - *continued*
December 31, 2004 and 2003

10. Cash and Cash Equivalents

At December 31, 2004, 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. The Company 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, 2004:

2005	\$ 345,651
2006	340,800
2007	340,800
2008	88,530
Thereafter	<u>1,110</u>
Total	<u>\$ 1,116,891</u>

MHIC incurred lease expenses associated with office space and equipment of \$344,144 and \$171,515 for the year ended December 31, 2004 and for the six-months ended December 31, 2003, 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 2004. MHIC contributed and charged to expense \$231,462 and \$211,578 for the year ended December 31, 2004 and for the six-months ended December 31, 2003, 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, 2004 and 2003

13. Grant Awards

In 1999, MHIC applied for and received designation as a Community Development Finance Institution (CDFI). MHIC also applied for and received a grant award of \$1,000,000 from the CDFI Fund. The purpose of the grant is to add to MHIC's capacity to pursue its mission and grow. The proceeds from the grant can be used to expand existing programs, develop new ones or support its operations. In April 2001, \$684,761 of that grant was received and recorded as income. In June 2003, MHIC secured matching funds to be eligible for the remaining \$315,239 of the grant, and recorded that amount as grant award income.

As a condition to the funding of the grant, MHIC and the CDFI Fund executed an Assistance Agreement, which established target goals for MHIC to achieve and specific measurement criteria to be used in evaluating progress. The goals are merely guidelines to evaluate progress and achieving specific results are not a condition to retaining the grant award. The grant was revocable if MHIC substantially changed its mission or ceased to be a CDFI prior to June 30, 2004.

In June 2003, MHIC received a \$320,000 grant from the Massachusetts Housing Partnership Fund Board to provide grants in support of technical assistance to local communities confronting Chapter 40 B developments.

14. Guarantees Provided for Borrowing Facilities of Affiliates

As of December 31, 2004, MHIC is the guarantor on several borrowing facilities of its affiliates, which have an overall outstanding balance of \$16,884,204. 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.

Supplemental Schedules

Massachusetts Housing Investment Corporation
Supplemental Consolidating Statement of Financial Position
December 31, 2004

	<i>MHIC</i>	<i>MHEF</i>	<i>Elimination</i>	<i>Consolidated</i>
<i>Assets:</i>				
Cash	\$ 5,237,536	\$ 114,497	\$ -	\$ 5,352,033
Money market deposits at member corporations - loan fund	225,979	-	-	225,979
Project loans	500,000	250,000	-	750,000
Loans to affiliates	632,753	-	-	632,753
Due from affiliates	1,295,956	-	-	1,295,956
Investment in projects	359,258	-	-	359,258
Investment in MHEF	2,877,943	-	(2,877,943)	-
Notes receivable - MHEF Partnerships	9,691,900	-	-	9,691,900
Amounts receivable and other assets	1,819,831	61,895	-	1,881,726
Due from parent	-	2,454,882	(2,454,882)	-
Furniture, equipment and leasehold improvements, net of accumulated depreciation and amortization	<u>128,606</u>	<u>-</u>	<u>-</u>	<u>128,606</u>
Total assets	<u>\$22,769,762</u>	<u>\$2,881,274</u>	<u>\$(5,332,825)</u>	<u>\$20,318,211</u>
<i>Liabilities and net assets:</i>				
<i>Liabilities:</i>				
Notes payable to member corporations	\$ 225,979	\$ -	\$ -	\$ 225,979
Due to subsidiary	2,454,881	-	(2,454,881)	-
Unearned fees	14,535,106	-	-	14,535,106
Accrued interest and other liabilities	<u>1,580,818</u>	<u>3,330</u>	<u>-</u>	<u>1,584,148</u>
Total liabilities	<u>18,796,784</u>	<u>3,330</u>	<u>(2,454,881)</u>	<u>16,345,233</u>
<i>Net assets:</i>				
Unrestricted	3,833,430	2,877,944	(2,877,944)	3,833,430
Temporarily restricted	<u>139,548</u>	<u>-</u>	<u>-</u>	<u>139,548</u>
Total net assets	<u>3,972,978</u>	<u>2,877,944</u>	<u>(2,877,944)</u>	<u>3,972,978</u>
Total liabilities and net assets	<u>\$22,769,762</u>	<u>\$2,881,274</u>	<u>\$(5,332,825)</u>	<u>\$20,318,211</u>

Massachusetts Housing Investment Corporation
Supplemental Consolidating Statement of Activities
December 31, 2004

	<i>MHIC</i>	<i>MHEF</i>	<i>Elimination</i>	<i>Consolidated</i>
<i>Change in unrestricted net assets:</i>				
Revenues				
Interest revenue:				
Interest on bank deposits	\$ 70,468	\$ 594	\$ -	\$ 71,062
Interest on project loans	43,951	2,166	-	46,117
Management and advisory fees	280,140	-	-	280,140
Portfolio and servicing fees	589,255	-	-	589,255
Financing commitment fees	371,960	-	-	371,960
Origination fees	339,745	-	-	339,745
New markets program revenue	822,440	-	-	822,440
Fees related to MHEF limited partnerships	3,494,786	-	-	3,494,786
Other equity program fees	56,193	-	-	56,193
Income from investment in MHEF	<u>2,760</u>	<u>-</u>	<u>(2,760)</u>	<u>-</u>
Total revenues	6,071,698	2,760	(2,760)	6,071,698
Expenditures				
Salaries and employee benefits	3,836,772	-	-	3,836,772
Occupancy, equipment and furniture	366,117	-	-	366,117
Professional services	526,623	-	-	526,623
Depreciation	85,891	-	-	85,891
Other expenditures	<u>595,841</u>	<u>-</u>	<u>-</u>	<u>595,841</u>
Total expenditures	<u>5,411,244</u>	<u>-</u>	<u>-</u>	<u>5,411,244</u>
Increase in unrestricted net assets	660,454	2,760	(2,760)	660,454
Net assets at beginning of year	<u>3,312,524</u>	<u>2,875,184</u>	<u>(2,875,184)</u>	<u>3,312,524</u>
Net assets at end of year	<u><u>\$3,972,978</u></u>	<u><u>\$2,877,944</u></u>	<u><u>\$(2,877,944)</u></u>	<u><u>\$ 3,972,978</u></u>