

# **Massachusetts Housing Investment Corporation**

Consolidated Financial Statements  
And  
Auditors' Report

December 31, 2014 and 2013

# Massachusetts Housing Investment Corporation

December 31, 2014 and 2013

## Table of Contents

Independent Auditors' Report.....	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position.....	3
Consolidated Statements of Activities.....	4
Consolidated Statements of Cash Flows.....	5
Notes to Consolidated Financial Statements.....	6
Other Financial Information	
Supplemental Consolidating Schedule of Financial Position.....	23
Supplemental Consolidating Schedule of Activities.....	24
Schedule of Expenditures of Federal Awards and Related Notes.....	26
Report on Compliance and Internal Control in Accordance with Government Auditing Standards.....	29
Report on Compliance and Internal Control in Accordance with OMB A-133.....	32
Schedule of Findings and Questioned Costs.....	35



## **Daniel Dennis & Company LLP**

*Certified Public Accountants*

### *Independent Auditors' Report*

To The Board of Directors

**Massachusetts Housing Investment Corporation**

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Massachusetts Housing Investment Corporation (a nonprofit corporation) and subsidiaries (the Corporation), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

#### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Massachusetts Investment Housing Corporation as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information presented on pages 23 through 24 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards presented on pages 26 through 27, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is also not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2015 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

*Daniel Dennis & Company LLP*

May 11, 2015

**Massachusetts Housing Investment Corporation**  
Consolidated Statements of Financial Position  
December 31, 2014 and 2013

	2014	2013
<i>Assets:</i>		
Cash	\$ 16,067,827	\$ 10,339,796
Investment in marketable securities	1,151,785	1,320,253
Investment in capital stock	13,300	-
Grant income receivable	-	526,936
Program related loans	2,880,829	3,848,699
Loans to affiliates	201,120	8,738,242
Due from affiliates	-	237,978
Program related investments	941,565	2,420,233
Fee receivable - LIHTC Partnerships	1,533,569	1,574,532
Fee receivable - NMTC CDEs'	377,090	437,862
Amounts receivable and other assets	732,814	915,078
Furniture, equipment and leasehold improvements, net of accumulated depreciation of \$1,190,552 and \$1,157,204 in 2014 and 2013, respectively	<u>43,252</u>	<u>67,736</u>
Total assets	<u>\$ 23,943,151</u>	<u>\$ 30,427,345</u>
 <i>Liabilities and Net Assets:</i>		
<i>Liabilities:</i>		
Notes payable	\$ 1,000,000	\$ 8,500,000
Loans from affiliates	-	1,486,179
Unearned fees	2,609,019	3,465,287
Deferred grant revenue	452,464	-
Accrued expenses and other liabilities	<u>2,135,777</u>	<u>2,410,380</u>
Total liabilities	<u>6,197,260</u>	<u>15,861,846</u>
 <i>Net assets:</i>		
<i>Unrestricted:</i>		
Undesignated	16,981,383	14,351,499
Designated	500,000	-
Temporarily restricted	<u>264,508</u>	<u>214,000</u>
Total net assets	<u>17,745,891</u>	<u>14,565,499</u>
Total liabilities and net assets	<u>\$ 23,943,151</u>	<u>\$ 30,427,345</u>

*See accompanying notes to consolidated financial statements.*

**Massachusetts Housing Investment Corporation**  
Consolidated Statements of Activities  
For The Years December 31, 2014 and 2013

	<u>2014</u>			<u>2013</u>		
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>
<i>Revenue and Support</i>						
Interest on deposits	\$ 69,870	\$ -	\$ 69,870	\$ 114,516	\$ -	\$ 114,516
Interest on program related loans	161,553	-	161,553	197,350	-	197,350
Realized loss on investments	-	-	-	(68,694)	-	(68,694)
Unrealized (loss)/gain on investments	(18,581)	-	(18,581)	26,518	-	26,518
Loan program revenue	625,613	-	625,613	1,070,972	-	1,070,972
NMTC program revenue	3,481,730	-	3,481,730	4,082,863	-	4,082,863
LIHTC program revenue	6,256,078	-	6,256,078	5,096,801	-	5,096,801
Other program revenue	208,720	-	208,720	221,189	-	221,189
Grant income	1,388,238	250,702	1,638,940	5,000,051	214,000	5,214,051
Net assets released from restrictions	200,194	(200,194)	-	-	-	-
	<u>12,373,415</u>	<u>50,508</u>	<u>12,423,923</u>	<u>15,741,566</u>	<u>214,000</u>	<u>15,955,566</u>
<i>Expenses</i>						
Salaries and employee benefits	6,176,131	-	6,176,131	5,899,547	-	5,899,547
Occupancy, equipment and furniture	278,975	-	278,975	280,006	-	280,006
Professional services	1,143,557	-	1,143,557	1,242,191	-	1,242,191
Depreciation	33,348	-	33,348	70,169	-	70,169
Grant expenses	819,869	-	819,869	4,247,343	-	4,247,343
Other expenses	791,651	-	791,651	835,752	-	835,752
	<u>9,243,531</u>	<u>-</u>	<u>9,243,531</u>	<u>12,575,008</u>	<u>-</u>	<u>12,575,008</u>
Change in net assets	3,129,884	50,508	3,180,392	3,166,558	214,000	3,380,558
Net assets at beginning of year	14,351,499	214,000	14,565,499	11,184,941	-	11,184,941
Net assets at end of year	<u>\$ 17,481,383</u>	<u>\$ 264,508</u>	<u>\$ 17,745,891</u>	<u>\$ 14,351,499</u>	<u>\$ 214,000</u>	<u>\$ 14,565,499</u>

*See accompanying notes to consolidated financial statements.*

**Massachusetts Housing Investment Corporation**  
Consolidated Statements of Cash Flows  
For The Years December 31, 2014 and 2013

	2014	2013
<i>Operating activities:</i>		
Change in net assets	\$ 3,180,392	\$ 3,380,558
<i>Adjustments to reconcile increase in net assets to net cash provided by operating activities:</i>		
Depreciation expense	33,348	70,169
Realized loss on investments	-	68,694
Unrealized loss/(gain) on investments	18,581	(26,518)
Decrease in amounts receivable and other assets	964,541	920,128
Decrease in unearned fees	(856,268)	(717,138)
Increase in deferred grant revenue	452,464	-
Decrease in accrued expenses and other liabilities	(274,603)	(261,123)
Decrease in fees receivable—LIHTC Partnerships	40,963	1,675,950
Decrease/(increase) in fees receivable—NMTC CDEs'	60,772	(210,197)
Funds advanced under project loans	(1,473,478)	(1,361,968)
Collection of funds from project loans	<u>2,423,985</u>	<u>5,381,862</u>
Net cash provided by operating activities	<u>4,570,697</u>	<u>8,920,417</u>
<i>Investing activities:</i>		
Funds advanced under loans made to affiliates	-	(2,750,000)
Collection of funds from loans made to affiliates	8,537,122	-
Redemption of marketable securities	149,887	1,170,624
Purchases of other investments	(13,300)	(2,420,233)
Sale of other investments	1,478,668	-
Purchases of furniture, equipment and leasehold improvements	<u>(8,864)</u>	<u>(56,169)</u>
Net cash provided by/(used in) investing activities	<u>10,143,513</u>	<u>(4,055,778)</u>
<i>Financing activities:</i>		
Repayment of notes payable	(7,500,000)	(5,041,789)
Proceeds of loans from affiliates	-	1,486,179
Repayment of loans from affiliates	<u>(1,486,179)</u>	<u>-</u>
Net cash used in financing activities	<u>(8,986,179)</u>	<u>(3,555,610)</u>
Net increase in cash	5,728,031	1,309,029
Cash at beginning of year	<u>10,339,796</u>	<u>9,030,767</u>
Cash at end of year	<u>\$ 16,067,827</u>	<u>\$ 10,339,796</u>
<i>Supplemental information</i>		
Interest paid	<u>\$ 117,493</u>	<u>\$ 156,452</u>

*See accompanying notes to consolidated financial statements.*

# Massachusetts Housing Investment Corporation

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

## 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.

### *Principles of Consolidation*

The consolidated financial statements include the accounts of MHIC and its wholly-owned subsidiaries, Massachusetts Housing Equity Fund, Inc. (MHEF), Healthy Neighborhoods Equity Fund I Limited Partnership (HNEF), MHIC HNEF Investor LLC (HNEF Investor), MHIC HNEF Manager LLC (HNEF Manager) and Neighborhood Stabilization Loan Fund LLC (NSLF), hereafter collectively referred to as MHIC. All significant intercompany transactions and balances have been eliminated in consolidation.

### *Program Activities*

MHIC has established five 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 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/managing member of seventeen Partnerships.



**Massachusetts Housing Investment Corporation**  
Notes to Consolidated Financial Statements - *continued*  
December 31, 2014 and 2013

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

*Program Activities - continued*

*New Markets Tax Credit (NMTC) Program*

The NMTC program utilizes the federal new markets tax credit to provide debt and equity financing to businesses that serve or operate in low-income communities. As of December 31, 2014 and 2013, MHIC has received nine allocations of new markets tax credits totaling \$737,000,000 and \$677,000,000, respectively.

MHIC has utilized these allocations to syndicate thirteen investment companies that are structured for investment in community development entities (MHIC-CDEs), which in turn provide financing to qualifying businesses. MHIC has also utilized these allocations for twenty-four single investor funds in which the sole investor creates an investment fund to invest in MHIC-CDEs, which in turn provide financing to qualifying businesses.

*Neighborhood Stabilization Program (NSP)*

The neighborhood stabilization program utilizes federal grant funds to enhance the feasibility of acquiring and rehabilitating foreclosed residential properties in targeted neighborhoods in Massachusetts. The foreclosed properties are typically acquired and rehabilitated with a combination of financing from NSLF (see Note 4) and federal subsidy in the form of subordinate loans or non-interest bearing loans from MHIC.

MHIC is a sub-recipient of \$10,000,000 of NSP1 grant funds from the City of Boston. In addition, MHIC is the lead member of a consortium that received an award of \$21,822,940 of NSP2 grant funds in February 2011. Each grant is governed by a specific contract that stipulates the various federal program requirements, among other things.

*HomeCorps Community Restoration Grant Program (HCRG)*

The HCRG program utilizes state grant funds to enhance the feasibility of acquiring and rehabilitation of foreclosed residential properties in targeted neighborhoods in Massachusetts. The foreclosed properties are typically acquired and rehabilitated with a combination of financing from NSLF (see Note 4) and state subsidy in the form of subordinate loans or non-interest bearing loans from MHIC.

*Cash and Cash Equivalents*

MHIC considers highly liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2014 and 2013, MHIC did not hold any cash equivalents.

**Massachusetts Housing Investment Corporation**  
Notes to Consolidated Financial Statements - *continued*  
December 31, 2014 and 2013

**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. There were no permanently restricted net assets at December 31, 2014 and 2013.

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. See Note 19 for more information.

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.

*Revenue Recognition*

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

LIHTC 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 (see Note 7).

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.

NMTC program fee revenue reflects fees earned on a contractual basis for services provided to the MHIC-CDEs (see Note 6).

Grant income is recognized on a cost reimbursable basis as costs are incurred. Funds which are received in advance of the costs being incurred are recorded as deferred revenue in the accompanying consolidated financial statements.

**Massachusetts Housing Investment Corporation**  
Notes to Consolidated Financial Statements - *continued*  
December 31, 2014 and 2013

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

*Project Loans and Allowance for Possible Project Loan Losses*

Loans are stated at the amount of unpaid principal. Interest on project loans is recognized as income by applying the interest rates in effect to the principal amount outstanding. Accrual of interest income on project loans receivable is suspended when a loan is contractually delinquent for ninety days. The accrual is resumed when the loan becomes contractually current. An allowance for project loan losses is maintained based upon the evaluation of the risks associated with the outstanding loan assets. Any losses or recoveries subsequently realized are charged or credited to the allowance.

*Off Balance Sheet Credit Exposure*

As a financial services provider MHIC routinely extends credit in the form of loan commitments. The funded portion of these commitments is reflected on the accompanying balance sheet as project loans. The unfunded portions of these commitments, which represent contractual obligations that may require the use of cash in the future, are considered off-balance sheet liabilities. They involve, to varying degrees, elements of credit and interest rate risk that are not recognized in the accompanying statements of financial position.

Unfunded loan commitments represent the maximum possible credit risk should the borrowers fully draw down their loans. They are subject to the provisions of the underlying loan agreements and are cancellable only if the borrower is in default or in violation of any loan covenants. As of December 31, 2014 and 2013, unfunded loan commitments totaled \$5,373,213 and \$5,260,459, respectively. These commitments have been established pursuant to MHIC's loan policy.

Since MHIC's loan portfolio is heavily concentrated with loans for affordable housing that contain limited market risk, an allowance for loan losses for unfunded commitments is only established for specific borrowers on a case by case basis. At December 31, 2014 and 2013 there were no reserves for unfunded loan commitments.

*Below Market Loans*

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. Other not-for-profit and governmental entities having a similar policy have lent money to MHIC at advantageous terms. MHIC has not discounted these below market interest rate loans as they were made at arm's length and to further those entities' policies.

**Massachusetts Housing Investment Corporation**  
Notes to Consolidated Financial Statements - *continued*  
December 31, 2014 and 2013

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

*Furniture, Equipment and Leasehold Improvements*

Furniture, equipment and leasehold improvements are stated at cost, less accumulated depreciation and amortization. Depreciation is computed by the straight-line method using rates based on estimated useful lives that range from 3 to 5 years. Assets with a cost of greater than \$1,000 and a useful life of greater than one year are capitalized.

*Income Tax Status*

In February 1993, MHIC was granted tax-exempt status as a 501(c)(3) corporation under federal and state tax law. MHEF, Inc. is a for-profit corporation and therefore is subject to federal and state income taxes. HNEF is a limited partnership and any taxable income or loss passes through to, and is reportable by, the partners individually. NSLF, HNEF Investor and HNEF Manager are disregarded entities for tax purposes.

MHIC's for-profit corporate subsidiary accounts for income taxes, whereby deferred taxes are recognized using the liability method. This method calculates deferred tax assets and liabilities based on tax rates that are expected to apply when temporary differences reverse.

MHIC and its subsidiaries evaluate tax positions taken or expected to be taken in their tax returns to determine whether the tax positions are *more-likely-than-not* of being sustained by the applicable tax authority. Tax positions not deemed to meet the *more-likely-than-not* threshold, along with accrued interest and penalty thereon would be recorded as an expense in the current year consolidated financial statements. At December 31, 2014 MHIC and its subsidiaries believe that they have no uncertain tax positions within any of their open tax years, (2011-2013).

*Use of Estimates*

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

*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 statement of activities discloses expenses by natural classification. The classification function is as follows:

<i>Description</i>	<i>2014</i>	<i>2013</i>
Program support	\$ 8,492,336	\$ 11,798,501
Management and general	<u>751,195</u>	<u>776,507</u>
Total	<u>\$ 9,243,531</u>	<u>\$ 12,575,008</u>

**Massachusetts Housing Investment Corporation**  
Notes to Consolidated Financial Statements - *continued*  
December 31, 2014 and 2013

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

*Investments and investment income*

*Program related investments*

During 2013, MHIC acquired a 31.51% interest in Gerrish Investors LLC (GILLC) for \$894,536. MHIC along with various other unrelated entities entered into GILLC to serve as the investor member. During 2014 MHIC sold its interest in GILLC to HNEF for \$894,536. The purpose of GILLC is to invest and develop two low income housing projects. Because HNEF does not have the ability to exercise significant influence over GILLC as an investor member and due to the lack of information that can be used to approximate the fair value, HNEF accounts for its investment at cost. Management annually performs an assessment of any possible impairment. As of December 31, 2014 and 2013 management has determined that no such impairment exists.

MHIC acquired a .01% interest in various New Markets program CDEs and/or subsidiaries amounting to \$47,029 and \$39,518 at December 31, 2014 and 2013, respectively. MHIC through its wholly owned subsidiaries entered into these limited liability companies to serve as the investor member. Because MHIC does not have the ability to exercise significant influence over the investments as the investor member and due to the lack of information that can be used to approximate the fair value, MHIC accounts for its investment at cost. Management annually performs an assessment of any possible impairment. As of December 31, 2014 and 2013 management has determined that no such impairment exists.

During 2013, MHEF acquired a 99.99% limited partner interest in Grace Preservation Associates Limited Partnership (GPALP) for \$1,486,179. During 2014 MHEF sold its interest in GPALP for \$1,486,179 to an unrelated third party. Because MHEF does not have the ability to exercise significant influence over GPALP as the limited partner and due to the lack of information that can be used to approximate the fair value, MHEF accounts for its investment at cost. Management annually performs an assessment of any possible impairment. As of December 31, 2013 management has determined that no such impairment exists.

*Investments in capital stock*

During 2014, MHIC purchased \$13,300 of capital stock in the Federal Home Loan Bank of Boston (FHLBB). The investment in FHLBB is valued at cost due to the lack of information that can be used to approximate the fair value. Management annually receives audited financial statements and performs an assessment of any possible impairment. As of December 31, 2014 management has determined that no such impairment exists.

**Massachusetts Housing Investment Corporation**  
Notes to Consolidated Financial Statements - *continued*  
December 31, 2014 and 2013

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

*Investments and investment income - continued*

*Investments in marketable securities*

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

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

*Fair Value Measurements*

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

The three levels of the fair value hierarchy are described as follows:

Level 1      Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2      Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3      Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

**Massachusetts Housing Investment Corporation**  
Notes to Consolidated Financial Statements - *continued*  
December 31, 2014 and 2013

**2. *Loan Program***

The loan program utilizes a structure whereby investors invest in the 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.

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.

During the years ended December 31, 2014 and 2013, MHIC earned \$625,613 and \$1,070,972 in fees for services provided to the LLC. Amounts receivable in connection with these fees totaled zero and \$237,978 at December 31, 2014 and 2013, respectively.

For the years ended December 31, 2014 and 2013, MHIC waived certain fees due under the terms of the Agreement in order to improve the return to the LLC's members.

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

As of December 31, 2014 and 2013, MHIC's investment in MHEF amounted to \$2,901,269. MHEF, as general partner/managing member of the aforementioned Partnerships, has a de minimis interest in their respective profits, losses and distributions. MHEF accounts for its investment in the Partnerships using the equity method. Under the equity method, the investments are carried at cost and adjusted for MHEF's share of income or loss from the Partnerships, additional investments and cash distributions.

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

**Massachusetts Housing Investment Corporation**  
Notes to Consolidated Financial Statements - *continued*  
December 31, 2014 and 2013

**4. *Neighborhood Stabilization Loan Fund LLC (NSLF)***

NSLF is organized as a single-member Massachusetts limited liability company, with MHIC as the sole member and program administrator. The purpose of NSLF is to provide loans to local organizations whose goal is the purchase and rehabilitation of foreclosed residential properties in neighborhoods in Massachusetts with a concentration of foreclosed properties. NSLF has secured debt as its primary source of capital, which is used to provide financing for the acquisition and rehabilitation of foreclosed properties. As of December 31, 2014 and 2013, NSLF has note payables of \$1,000,000 and \$4,000,000, respectively, and project loan receivables of \$2,837,627 and \$3,788,422, respectively.

At December 31, 2014 and 2013, NSLF had total assets of \$3,344,194 and \$4,942,775, and MHIC's investment amounted to \$1,001,493, and \$914,479, respectively.

**5. *Healthy Neighborhoods Equity Fund I Limited Partnership (HNEF)***

HNEF is organized as a Massachusetts limited partnership with two limited partners, MHIC HNEF Investor LLC (HNEF Investor) and MHIC HNEF Manager LLC (HNEF Manager). HNEF Investor and HNEF Manager are single-member Massachusetts limited liability companies, which MHIC is the sole member. At December 31, 2014 HNEF Investor and HNEF Manager own 99.99% and .01%, respectively, in HNEF. The purpose of HNEF is to invest in or make loans to entities that intend to engage in the construction or rehabilitation of mixed-income, mixed-use commercial and residential developments.

At December 31, 2014, HNEF had total assets of \$1,000,052 and MHIC's investment amounted to \$868,892.

**6. *New Markets Tax Credit Program Revenue (NMTC)***

MHIC has entered into agreements with the various MHIC-CDEs to provide various professional, administrative and management services. The fees for these services were determined by MHIC. These services include all administrative and management support in connection with the formation of the MHIC-CDEs, legal and professional services required to close loans to or investments in qualifying businesses, and asset management services to monitor business and compliance aspects of MHIC-CDEs' loans and investments.

During the years ended December 31, 2014 and 2013, MHIC earned total fees for services to the MHIC-CDEs of \$3,481,730 and \$4,082,863, respectively. Amounts receivable in connection with these fees totaled \$377,090 and \$437,862 at December 31, 2014 and 2013, respectively.



**Massachusetts Housing Investment Corporation**  
Notes to Consolidated Financial Statements - *continued*  
December 31, 2014 and 2013

**7. *Low Income Housing Tax Credit Program Revenue (LIHTC)***

MHIC has entered into agreements with the various LIHTC Partnerships to provide investment and management services to the partnerships. The fees for these services were determined by MHIC. These services include underwriting and administrative support in connection with syndicating investments, legal and professional services required to close loans to or investments in qualifying businesses and long term asset management services to monitor business and compliance aspects of the portfolio of investments.

During the years ended December 31, 2014 and 2013, MHIC earned total fees for services to the LIHTC Partnerships of \$6,256,078 and \$5,096,801, respectively. Amounts receivable in connection with these fees totaled \$1,533,569 and \$1,574,532 at December 31, 2014 and 2013, respectively.

**8. *Program Related Loans***

Program related 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 4.25% to 7.00% and are secured, in a subordinated position, by the underlying real estate.

At December 31, 2014 and 2013 the outstanding project loan balances were as follows:

	<i>2014</i>	<i>2013</i>
Beginning balance	\$ 3,848,699	\$ 7,868,593
Loan disbursements	1,473,478	1,361,968
Loan repayments	<u>(2,423,985)</u>	<u>(5,381,862)</u>
Program related loans outstanding	2,898,192	3,848,699
Allowance for loan losses	<u>(17,363)</u>	<u>-</u>
Ending balance	<u>\$ 2,880,829</u>	<u>\$ 3,848,699</u>

Project loans consist of the following:

<i>Loan category</i>	<i>2014</i>	<i>2013</i>
Construction	\$ 2,744,448	\$ 3,057,044
Line of credit	<u>153,744</u>	<u>791,655</u>
Program related loans outstanding	2,898,192	3,848,699
Allowance for loan losses	<u>(17,363)</u>	<u>-</u>
Ending balance	<u>\$ 2,880,829</u>	<u>\$ 3,848,699</u>

**Massachusetts Housing Investment Corporation**  
Notes to Consolidated Financial Statements - *continued*  
December 31, 2014 and 2013

**8. Program Related Loans - continued**

At December 31, 2014, contract maturities of the above loans are as follows:

2015	\$ 2,008,071
2016	846,919
2017	-
2018	43,202
Total	<u>\$ 2,898,192</u>

The following tables present informative data by class of financing receivable regarding their age and interest accrual status at December 31, 2014 and 2013:

		Past Due				Total Financing Receivables	Status of Interest Accruals	
		30-59 Days	60-89 Days	90 + days	Total Financing Receivables on Non- Accrual Status		Financing Receivables Past Days +90 still Accruing interest	
<b>December 31, 2014</b>	Current							
Construction	\$ 2,701,246	\$ -	\$ -	\$ 43,202	\$ 2,744,448	\$ 43,202	\$ -	
Line of Credit	153,744	-	-	-	153,744	-	-	
Total	<u>\$ 2,854,990</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 43,202</u>	<u>\$ 2,898,192</u>	<u>\$ 43,202</u>	<u>\$ -</u>	

		Past Due				Total Financing Receivables	Status of Interest Accruals	
		30-59 Days	60-89 Days	90 + days	Total Financing Receivables on Non- Accrual Status		Financing Receivables Past Days +90 still Accruing interest	
<b>December 31, 2013</b>	Current							
Construction	\$ 2,996,767	\$ -	\$ -	\$ 60,277	\$ 3,057,044	\$ 60,277	\$ -	
Line of Credit	791,655	-	-	-	791,655	-	-	
Total	<u>\$ 3,788,422</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,277</u>	<u>\$ 3,848,699</u>	<u>\$ 60,277</u>	<u>\$ -</u>	

Program related loans do not include loans made under the NSP1, NSP2 and HCRG programs. Such loans made for the acquisition and rehabilitation of foreclosed properties require deeded affordability restrictions and provide for the forgiveness of outstanding loan balances based on compliance with those restrictions. NSP and HCRG loan funds of \$662,313 and \$3,759,744 were disbursed and recorded as grant expense in 2014 and 2013, respectively. Program regulations require that the recovery of loan funds, if any, be recorded as program income when received. As of December 31, 2014 and 2013, program income of zero and \$1,488,270, respectively, was earned and recorded as grant income on the Consolidated Statements of Activities.

**9. Loans to Affiliates**

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

**Massachusetts Housing Investment Corporation**  
Notes to Consolidated Financial Statements - *continued*  
December 31, 2014 and 2013

**9. *Loans to Affiliates - continued***

Loan activity for the years ended December 31, 2014 and 2013 was as follows:

	<i>2014</i>	<i>2013</i>
Beginning balance	\$ 8,738,242	\$ 5,988,242
Loan disbursements	-	2,750,000
Loan repayments	<u>(8,537,122)</u>	<u>-</u>
Ending balance	<u>\$ 201,120</u>	<u>\$ 8,738,242</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 1% to 3%) and are unsecured.

**10. *Investments in Marketable Securities***

Investments in marketable securities consist of Ginnie Mae pass-through securities.

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

At December 31, 2014 and 2013, the securities were valued at \$1,151,785 and \$1,320,253, respectively, with \$1,115,328 and \$1,278,728, respectively, representing outstanding principal on the underlying mortgages and \$36,457 and \$41,525, respectively, representing unamortized premium. During 2014 MHIC recorded unrealized loss on investment of \$18,581. During 2013 MHIC recorded realized losses and unrealized gains on investment of \$68,694 and \$26,518, respectively.

All investment assets have been valued using the market approach. There have been no changes in the methodologies used at December 31, 2014 and 2013.

*Investments in Marketable Securities*

The Ginnie Mae’s securities are backed by U.S. Government securities and estimated based on quoted market prices for securities of similar maturity in markets that are not active. (Level 2)

**Massachusetts Housing Investment Corporation**  
Notes to Consolidated Financial Statements - *continued*  
December 31, 2014 and 2013

**11. Notes Payable**

MHIC has borrowed \$6,000,000 from Bank of America which also represents a pass-through receivable due from the LLC in connection with an accelerated plan of redemption for \$8,000,000 of Bank of America's investment in the LLC. The proceeds have been used by the 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. At December 31, 2014 and 2013, the outstanding principal due was zero and \$4,500,000, respectively.

NLSF has borrowed \$1,000,000 from the Department of Housing and Community Development under the Affordable Housing Trust Fund Statute. The loan bears no interest and, the entire amount was payable in full on April 9, 2015. At December 31, 2014 and 2013 the outstanding balance was \$1,000,000.

During 2014 and 2013, pursuant to an agreement with the Massachusetts Housing Partnership, NSLF had available an \$8,500,000 line of credit. At December 31, 2014 and 2013, there were no amounts outstanding.

As of December 31, 2014 and 2013, pursuant to an agreement with the LLC, NSLF had available an \$8,500,000 line of credit, of which zero and \$3,000,000, respectively, was outstanding at those dates.

Interest expense of \$117,493 and \$291,113 was reported in the accompanying consolidated statements of activities for the years ended December 31, 2014 and 2013, respectively.

Scheduled payments of principal are due as follows:

2015	\$ 1,000,000
------	--------------

**12. MHEF Fee Receivable and Unearned Fees**

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

Unearned equity fees reflect MHIC's obligation to provide future services to the Partnerships as consideration for the aforementioned fees receivable. These services include underwriting investments, long-term asset management and Partnership administration. This obligation is reduced as services are provided, according to the revenue recognition methodology associated with the particular service (see Note 1).

At December 31, 2014 and 2013, unearned fees were \$2,609,019 and \$3,465,287, respectively.

**Massachusetts Housing Investment Corporation**  
Notes to Consolidated Financial Statements - *continued*  
December 31, 2014 and 2013

**13. Cash**

At December 31, 2014, cash balances are held at financial institutions with federal insured limits of up to \$250,000 for each financial institution. Balances held at these institutions during the year can exceed this limit. MHIC has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on its cash.

**14. 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, 2014:

2015	\$	257,770
2016		257,770
2017		<u>193,328</u>
Total	\$	<u>708,868</u>

MHIC incurred lease expenses associated with office space and equipment of \$278,975 and \$280,006 for the years ended December 31, 2014 and 2013, respectively. MHIC's current office lease expires on September 30, 2017.

**15. 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. MHIC contributed and charged to expense \$396,473 and \$382,082 for the years ended December 31, 2014 and 2013, respectively. These amounts are reflected in salaries and employee benefits in the accompanying consolidated statements of activities.

In addition, during 2014 MHIC established a rabbi-trust to supplement the retirement plan of its President and CEO, which includes annual contributions of \$100,000 through 2017.

**Massachusetts Housing Investment Corporation**  
Notes to Consolidated Financial Statements - *continued*  
December 31, 2014 and 2013

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

As of December 31, 2014, MHIC is the guarantor on several borrowing facilities of its affiliates, for which there is no outstanding balance. These credit facilities are primarily secured by pledges of first mortgage loans, unconditional investor notes, or partnership interests. In the event that the borrowings of the affiliates cannot be repaid as scheduled and the above mentioned primary collateral is not sufficient to cover the outstanding balance, MHIC would assure the obligation. MHIC has not recognized any obligations relative to the guarantees.

**17. *Fixed Assets***

Property and equipment consists of the following:

	<i>2014</i>	<i>2013</i>
Furniture	\$ 230,558	\$ 221,694
Equipment	513,064	513,064
Leasehold improvements	<u>490,182</u>	<u>490,182</u>
Total fixed assets	1,233,804	1,224,940
Accumulated depreciation	<u>(1,190,552)</u>	<u>(1,157,204)</u>
Total	<u>\$ 43,252</u>	<u>\$ 67,736</u>

**18. *Loans from Affiliates***

During 2013, MHEF borrowed \$1,486,179 from the LLC in order to finance their investment in GPALP. The loan bears interest at 4% per annum and matured on March 31, 2014. All outstanding principal and accrued interest was paid during 2014. The outstanding balance at December 31, 2013 was \$1,486,179.

**19. *Temporarily Restricted Net Assets.***

As of December 31, 2014 and 2013 MHIC held temporarily restricted contributions to support their HCRG program. The use restrictions of these contributions were not fully satisfied as of year-end and therefore the unused portion has been classified as temporarily restricted net assets. Temporarily restricted net assets at December 31, 2014 and 2013 were \$264,508 and \$214,000, respectively.

**20. *Designated Net Assets***

In December 2014 the Board of Directors designated \$500,000 to provide grants, investments, and/or preferential financing to support and revitalize the South End/Roxbury neighborhoods of Boston, Massachusetts. The designated amount is included under Unrestricted Net Assets on the Consolidated Statement of Financial Condition. As of December 31, 2014, none of the designated amount has been spent.

**Massachusetts Housing Investment Corporation**  
Notes to Consolidated Financial Statements - *continued*  
December 31, 2014 and 2013

**21. *Subsequent Events***

MHIC has performed an evaluation of subsequent events through May 11, 2015, which is the date MHIC's consolidated financial statements were available to be issued. No material subsequent events have occurred since December 31, 2014 that requires recognition or disclosure in these consolidated financial statements.

## **Supplemental Schedules**



**Massachusetts Housing Investment Corporation**  
Supplemental Consolidating Schedule of Financial Position  
December 31, 2014

	<i>MHIC</i>	<i>Subsidiaries</i>	<i>Elimination</i>	<i>Consolidated</i>
<i>Assets:</i>				
Cash	\$ 15,141,865	\$ 925,962	\$ -	\$ 16,067,827
Investment in marketable securities	1,151,785	-	-	1,151,785
Investment in capital stock	13,300	-	-	13,300
Program related loans	43,202	2,837,627	-	2,880,829
Loans to affiliates	201,120	-	-	201,120
Due from affiliates	1,473,861	2,402,385	(3,876,246)	-
Investment in subsidiaries	4,771,654	-	(4,771,654)	-
Program related investments	47,029	894,536	-	941,565
Fee receivable - LIHTC Partnerships	1,533,569	-	-	1,533,569
Fee receivable - NMTC CDEs'	377,090	-	-	377,090
Amounts receivable and other assets	546,639	186,175	-	732,814
Furniture, equipment and leasehold improvements, net of accumulated depreciation	<u>43,252</u>	<u>-</u>	<u>-</u>	<u>43,252</u>
<b>Total assets</b>	<b><u>\$ 25,344,366</u></b>	<b><u>\$ 7,246,685</u></b>	<b><u>\$ (8,647,900)</u></b>	<b><u>\$ 23,943,151</u></b>
 <i>Liabilities and Net Assets:</i>				
<i>Liabilities:</i>				
Notes payable	\$ -	\$ 1,000,000	\$ -	\$ 1,000,000
Due to affiliates	2,402,385	1,473,861	(3,876,246)	-
Unearned fees	2,609,019	-	-	2,609,019
Deferred grant revenue	452,464	-	-	452,464
Accrued expenses and other liabilities	<u>2,134,607</u>	<u>1,170</u>	<u>-</u>	<u>2,135,777</u>
<b>Total liabilities</b>	<b><u>7,598,475</u></b>	<b><u>2,475,031</u></b>	<b><u>(3,876,246)</u></b>	<b><u>6,197,260</u></b>
 <i>Net assets:</i>				
<i>Unrestricted:</i>				
Undesignated	16,981,383	4,771,654	(4,771,654)	16,981,383
Designated	500,000	-	-	500,000
Temporarily restricted	<u>264,508</u>	<u>-</u>	<u>-</u>	<u>264,508</u>
<b>Total net assets</b>	<b><u>17,745,891</u></b>	<b><u>4,771,654</u></b>	<b><u>(4,771,654)</u></b>	<b><u>17,745,891</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 25,344,366</u></b>	<b><u>\$ 7,246,685</u></b>	<b><u>\$ (8,647,900)</u></b>	<b><u>\$ 23,943,151</u></b>

**Massachusetts Housing Investment Corporation**  
**Supplemental Consolidating Schedule of Activities**  
For the year Ended December 31, 2014

	<i>MHIC</i>	<i>Subsidiaries</i>	<i>Elimination</i>	<i>Consolidated</i>
<b>Revenue and support</b>				
Interest on deposits	\$ 69,385	\$ 485	\$ -	\$ 69,870
Interest on program related loans	15,824	145,729	-	161,553
Unrealized loss on investments	(18,581)	-	-	(18,581)
Loan program revenue	625,613	-	-	625,613
NMTC program revenue	3,481,730	-	-	3,481,730
LIHTC program revenue	6,256,078	-	-	6,256,078
Other program revenue	223,125	10,000	(24,405)	208,720
Grant income	1,638,940	-	-	1,638,940
Loss from investment in subsidiaries	<u>(44,094)</u>	<u>-</u>	<u>44,094</u>	<u>-</u>
Total revenue and support	<u>12,248,020</u>	<u>156,214</u>	<u>19,689</u>	<u>12,423,923</u>
<b>Expenses</b>				
Salaries and employee benefits	6,176,131	-	-	6,176,131
Occupancy, equipment and furniture	278,975	-	-	278,975
Professional services	985,017	182,945	(24,405)	1,143,557
Depreciation	33,348	-	-	33,348
Grant expenses	819,869	-	-	819,869
Other expenses	<u>774,288</u>	<u>17,363</u>	<u>-</u>	<u>791,651</u>
Total expenses	<u>9,067,628</u>	<u>200,308</u>	<u>(24,405)</u>	<u>9,243,531</u>
Change in net assets	<u>3,180,392</u>	<u>(44,094)</u>	<u>44,094</u>	<u>3,180,392</u>
Net assets at beginning of year	14,565,499	3,815,748	(3,815,748)	14,565,499
Capital contribution	<u>-</u>	<u>1,000,000</u>	<u>(1,000,000)</u>	<u>-</u>
Net assets at end of year	<u>\$ 17,745,891</u>	<u>\$ 4,771,654</u>	<u>\$ (4,771,654)</u>	<u>\$ 17,745,891</u>

**SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS  
AND  
RELATED NOTES**

**Massachusetts Housing Investment Corporation**  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2014

<b>Federal Grantor/ Pass-Through Grantor/ Program Title/Project</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b><i>U.S. Department of Housing and Urban Development Program:</i></b>		
<i>Direct Program:</i>		
<i>ARRA Contracts:</i>		
Neighborhood Stabilization Program (Recovery Act Funded)	14.256	\$ 365,287
<b><i>U.S. Department of the Treasury Program:</i></b>		
<i>Direct Program:</i>		
Community Development Financial Institutions Program	21.020	<u>894,536</u>
Total Expenditures of Federal Awards		<u>\$ 1,259,823</u>

**Massachusetts Housing Investment Corporation**  
Notes to Schedule of Expenditures of Federal Awards  
December 31, 2014

**1. *Basis of Presentation***

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Massachusetts Housing Investment Corporation (MHIC) under programs of the Federal government for the year ended December 31, 2014. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of MHIC, it is not intended to and does not present the financial position, changes in net assets or cash flows of MHIC.

**2. *Significant Accounting Policy***

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**REPORT ON COMPLIANCE AND  
INTERNAL CONTROLS IN ACCORDANCE  
WITH  
GOVERNMENT AUDITING STANDARDS**



## **Daniel Dennis & Company LLP**

*Certified Public Accountants*

*Independent Auditors' Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With Government Auditing Standards*

To the Board of Directors

### **Massachusetts Housing Investment Corporation**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Massachusetts Housing Investment Corporation (a nonprofit corporation) and subsidiaries (the Corporation), which comprise the consolidated statement of financial position as of December 31 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 11, 2015.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Corporation's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corporation's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Daniel Dennis & Company LLP*

*May 11, 2015*



**REPORT ON COMPLIANCE AND INTERNAL  
CONTROL IN ACCORDANCE WITH  
OMB CIRCULAR A-133**



## **Daniel Dennis & Company LLP**

*Certified Public Accountants*

### *Independent Auditors' Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133*

To the Board of Directors  
**Massachusetts Housing Investment Corporation**

#### **Report on Compliance for Each Major Federal Program**

We have audited Massachusetts Housing Investment Corporation's (the Corporation) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Corporation's major federal programs for the year ended December 31, 2014. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal programs. However, our audit does not provide a legal determination of the Corporation's compliance.

## ***Opinion on the Major Federal Program***

In our opinion, Massachusetts Housing Investment Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended December 31, 2014.

## **Report on Internal Control Over Compliance**

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal programs and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Daniel Dennis & Company LLP*

May 11, 2015

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Massachusetts Housing Investment Corporation**  
 Schedule of Findings and Questioned Costs  
 For the Year Ended December 31, 2014

**SECTION I – Summary of Auditors’ Results**

*Financial Statements*

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified? \_\_\_\_\_ yes  X  no

Significant deficiencies identified that are not considered to be material weaknesses? \_\_\_\_\_ yes  X  none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes  X  no

*Federal Awards*

Internal control over major programs:

Material weaknesses identified? \_\_\_\_\_ yes  X  no

Significant deficiencies identified that are not considered to be material weaknesses? \_\_\_\_\_ yes  X  none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? \_\_\_\_\_ yes  X  no

Identification of major programs:

<i>CFDA Number</i>	<i>Name of Program or Cluster</i>
14.256	<i>Neighborhood Stabilization Program (Recovery Act Funded)</i>
21.020	<i>Community Development Financial Institutions Program</i>

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee?  X  yes \_\_\_\_\_ no

**Massachusetts Housing Investment Corporation**  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2014

**Section II – Financial Statement Findings:**

No matters were reported.

**Section III – Federal Award Findings and Questioned Costs:**

No matters were reported.

**Section IV – Status of Prior Year Audit Findings**

No findings were identified in the prior audit.