Massachusetts Housing Investment Corporation

Consolidated Financial Statements
And
Auditors' Report

December 31, 2011 and 2010

Daniel Dennis & Company LLP
Certified Public Accountants

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Massachusetts Housing Investment Corporation

December 31, 2011 and 2010

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Daniel Dennis & Company LLP
Certified Public Accountants

Board of Directors
Massachusetts Housing Investment Corporation

Independent Auditors' Report

We have audited the accompanying consolidated statements of financial position of Massachusetts Housing Investment Corporation (a nonprofit Corporation) and subsidiaries (the Corporation) as of December 31, 2011 and 2010, and the related consolidated statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2012, 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* and should be considered in assessing the results of our audit.

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Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information on pages 22 and 23 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Corporation. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Corporations*, and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Daniel Dennis & Company LLP

April 27, 2012

Massachusetts Housing Investment Corporation
Consolidated Statements of Financial Position
December 31, 2011 and 2010

	2011	*2010*
Assets		
Cash	$ 7,837,150	$ 6,056,253
Investment in marketable securities	3,685,004	4,604,111
Grant income receivable	1,595,586	1,157,338
Program related loans	8,123,958	15,135,104
Loans to affiliates	8,488,242	12,808,242
Due from affiliates	470,692	464,864
Fee receivable—MHEF Partnerships	1,870,338	1,182,523
Amounts receivable and other assets	1,211,277	1,170,491
Furniture, equipment and leasehold improvements, net of accumulated depreciation of $980,190 and $869,838 in 2011 and 2010, respectively	164,786	174,673
Total assets	$ 33,447,033	$ 42,753,599
Liabilities and Net Assets:		
Liabilities		
Notes payable to member corporations	$ 17,541,789	$ 27,578,805
Unearned fees	5,218,301	6,289,859
Environmental remediation obligation	-	150,000
Accrued interest and other liabilities	1,733,120	2,079,955
Total liabilities	24,493,210	36,098,619
Net assets		
Unrestricted	8,953,823	6,654,980
Total net assets	8,953,823	6,654,980
Total liabilities and net assets	$ 33,447,033	$ 42,753,599

See accompanying notes to financial statements.

Massachusetts Housing Investment Corporation
Consolidated Statements of Activities
For The Years December 31, 2011 and 2010

	2011	*2010*		
	Unrestricted	*Unrestricted*	*Temporarily Restricted*	*Total*
Revenue and Support				
Interest on deposits	$ 207,526	$ 351,823	$ -	$ 351,823
Interest on program related loans	419,269	342,547	-	342,547
Unrealized gains on investments	13,208	32,209	-	32,209
Loan program revenue	993,371	124,324	-	124,324
NMTC program revenue	3,465,869	3,767,062	-	3,767,062
LIHTC program revenue	4,137,711	3,496,105	-	3,496,105
Other program revenue	70,881	36,300	-	36,300
Grant income	14,407,482	1,948,608	-	1,948,608
Net assets released from restrictions	-	142,994	(142,994)	-
Total revenue and support	23,715,317	10,241,972	(142,994)	10,098,978
Expenses				
Salaries and employee benefits	4,979,969	5,084,870	-	5,084,870
Occupancy, equipment and furniture	309,122	321,686	-	321,686
Professional services	1,025,547	1,086,137	-	1,086,137
Depreciation	110,352	83,380	-	83,380
Grant expenses	14,309,819	-	-	-
Other expenses	681,665	2,665,643	-	2,665,643
Total expenses	21,416,474	9,241,716	-	9,241,716
Increase (decrease) net assets	2,298,843	1,000,256	(142,994)	857,262
Net assets at beginning of year	6,654,980	5,654,724	142,994	5,797,718
Net assets at end of year	$ 8,953,823	$ 6,654,980	$ -	$ 6,654,980

See accompanying notes to financial statements.

Massachusetts Housing Investment Corporation
Consolidated Statements of Cash Flows
For The Years December 31, 2011 and 2010

	2011	*2010*
Operating activities:		
Increase in net assets	$ 2,298,843	$ 857,262
Adjustments to reconcile increase in net assets to net cash used by operating activities:		
Depreciation and amortization expense	110,352	83,380
Unrealized gains on investments	(13,208)	(32,209)
Increase in amounts receivable and other assets	(484,862)	(1,855,369)
Decrease in unearned fees	(1,071,558)	(1,261,527)
(Decrease)/increase in accrued interest and other liabilities	(496,835)	299,229
(Increase)/decrease in fees receivable—MHEF Partnerships	(687,815)	480,994
Net cash used by operating activities	(345,083)	(1,428,240)
Investing activities:		
Funds advanced under project loans	(6,983,956)	(13,572,364)
Collection of funds from project loans	13,995,102	5,020,239
Collection of funds from loans made to affiliates	4,320,000	2,228,959
Funds advanced under loans to affiliates	-	(800,000)
Redemption of marketable securities	932,315	2,289,744
Purchases of furniture, equipment and leasehold improvements	(100,465)	(76,269)
Net cash provided/(used) by investing activities	12,162,996	(4,909,691)
Financing activities:		
Proceeds from notes payable	-	8,215,440
Repayment of notes payable	(10,037,016)	(698,600)
Net cash (used)/provided by financing activities	(10,037,016)	7,516,840
Net increase in cash	1,780,897	1,178,909
Cash at beginning of year	6,056,253	4,877,344
Cash at end of year	$ 7,837,150	$ 6,056,253
Supplemental information		
Interest paid	$ 564,831	$ 761,700

See accompanying notes to financial statements.

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) and Neighborhood Stabilization Loan Fund LLC (NSLF), hereafter collectively referred to as MHIC. All significant intercompany transactions and balances have been eliminated in consolidation.

MHIC has established four 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 seventeen Partnerships.

1. *Background and Accounting Policies* - *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, 2011 and 2010, MHIC has received seven allocations of new markets tax credits totaling $517,000,000 and $454,000,000, respectively.

Subsequent to December 31, 2012, MHIC received an additional allocation of new markets tax credits totaling $95,000,000.

MHIC has utilized these allocations to syndicate three investment companies that are structured for investment in community development entities (MHIC-CDEs), which in turn provide financing to qualifying businesses.

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 the Neighborhood Stabilization Loan Fund (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.

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, 2011.
>
> 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. There were no temporarily restricted net assets at December 31, 2011.
>
> Unrestricted net assets—Net assets not subject to donor-imposed stipulations.

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

Basis of Presentation – continued

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.

Furniture, Equipment and Leasehold Improvements

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

Revenue Recognition

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

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.

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 5).

Grants income is recognized on a cost reimbursable basis as costs are incurred.

Cash and Cash Equivalents

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

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

Basis of Presentation – 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. MHIC does not maintain an allowance for project loan losses. Realized losses are netted against the project loan balance as necessary.

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, 2011 and 2010, unfunded loan commitments totaled $13,385,461 and 15,449,406, 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, 2011 and 2010 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 non-profit and governmental entities having a similar policy have lent money to the 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.

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

Income Tax Status

In February 1993, MHIC was granted tax-exempt status as a 501(c)(3) corporation under federal tax law. MHEF, Inc. is a for-profit corporation and therefore is subject to federal and state income taxes.

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

MHIC evaluates tax positions taken or expected to be taken in its tax returns to determine whether the tax positions are *more-likely-than-not* of being sustained by the applicable tax authority. Tax positions not deemed to meet the *more-likely-than-not* threshold, along with accrued interest and penalty thereon would be recorded as an expense in the current year financial statements. At December 31, 2011 MHIC believes that it has no uncertain tax positions within any of its open tax years, (2008-2011).

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 by function is as follows:

Description	*2011*	*2010*
Program support	$ 20,042,846	$ 7,445,073
Management and general	1,373,628	1,796,643
Total	$ 21,416,474	$ 9,241,716

Investments and Investment Income

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

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

Investments and Investment Income - continued

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

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

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

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

2. *Loan Program*

The loan program utilizes a structure whereby investors invest in 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.

2. *Loan Program* - *continued*

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, 2011 and 2010, MHIC earned $992,371 and $124,324 in fees for services provided to the LLC. No amounts were payable to MHIC at December 31, 2011 and 2010.

For the years ended December 31, 2011 and 2010, 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, 2011 and 2010, MHIC's investment in MHEF amounted to $2,901,279. MHEF, as general partner 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.

At December 31, 2011 and 2010, the Partnerships have combined total assets of $274 million and $246 million, respectively, and combined cumulative deficits of approximately $348 million and $305 million, respectively.

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

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

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, 2011 and 2010, NSLF has note payables of $9,291,789 and $15,008,805, respectively, and project loan receivables of $8,059,969 and $14,254,337, respectively.

At December 31, 2011 and 2010, NSLF had total assets of $9,961,626 and $15,394,253, and MHIC's investment amounted to $561,198, and $282,201, respectively.

5. *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, 2011 and 2010, MHIC earned total fees for services to the MHIC-CDEs of $3,465,869 and $3,767,062, respectively. Amounts receivable in connection with these fees totaled $372,254 and $472,587 at December 31, 2011 and 2010, respectively.

6. *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 3.25% to 7% and are secured, in a subordinated position, by the underlying real estate.

At December 31, 2011 and 2010, the outstanding project loan balances were as follows:

	2011	*2010*
Beginning balance	$ 15,135,104	$ 6,582,979
Loan disbursements	6,983,956	13,572,364
Loan repayments	(13,995,102)	(5,020,239)
Ending balance	$ 8,123,958	$ 15,135,104

6. *Program Related Loans* - *continued*

Project loans are originated according to MHIC's established loan policy and are secured by the underlying real estate. MHIC's loan portfolio consists of both variable rate and fixed rate loans. The interest rates on variable and fixed rate loans ranged from 3.25% to 7% during the years ended December 31, 2011 and 2010.

Project loans consist of the following:

Loan category	*2011*	*2010*
Construction	$ 6,777,237	$12,399,464
Line of credit	1,155,160	2,373,140
Receivership	191,561	362,500
Total	$ 8,123,958	$15,135,104

At December 31, 2011, contract maturities of the above loans are scheduled to occur in 2012.

The following tables present informative data by class of financing receivable regarding their age and interest accrual status at December 31, 2011 and 2010:

		Past Due				Status of Interest Accruals	
December 31, 2011	Current	30-59 Days	60-89 Days	90 + days	Total Financing Receivables	Total Financing Receivables on Non-Accrual Status	Financing Receivables Past Days +90 still Accruing interest
Construction	$ 6,713,248	$ -	$ -	$ 63,989	$ 6,777,237	$ 63,989	$ -
Line of Credit	1,155,160	-	-	-	1,155,160	-	-
Receivership	191,561	-	-	-	191,561	-	-
Total	$ 8,059,969	$ -	$ -	$ 63,989	$ 8,123,958	$ 63,989	$ -

		Past Due				Status of Interest Accruals	
December 31, 2010	Current	30-59 Days	60-89 Days	90 + days	Total Financing Receivables	Total Financing Receivables on Non-Accrual Status	Financing Receivables Past Days +90 still Accruing interest
Construction	$12,208,444	$ -	$ -	$ 191,020	$12,399,464	$ 191,020	$ -
Line of Credit	2,373,140	-	-	-	2,373,140	-	-
Receivership	362,500	-	-	-	362,500	-	-
Total	$14,944,084	$ -	$ -	$ 191,020	$15,135,104	$ 191,020	$ -

6. *Program Related Loans* - *continued*

Program related loans do not include loans made under the NSP1 and NSP2 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 loan funds of $13,489,950 and $1,645,838 were disbursed and recorded as grant expense in 2011 and 2010, respectively. Program regulations require that the recovery of loan funds, if any, be recorded as program income when received.

7. *Loans to Affiliates*

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

Loan activity for the years ended December 31, 2011 and 2010 was as follows:

	2011	*2010*
Beginning balance	$ 12,808,242	$ 14,237,201
Loan disbursements	-	800,000
Loan repayments	(4,320,000)	(2,228,959)
Ending balance	$ 8,488,242	$ 12,808,242

Loans to affiliates are callable upon demand and the proceeds for a given transaction are typically outstanding for less than one year. Loans to affiliates earn a variable rate of interest (that ranges from 0% to 6.5%) and are unsecured.

8. *Investments in Marketable Securities*

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

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, 2011 and 2010, the securities were valued at $3,685,004 and $4,604,111, respectively, with $3,555,278 and $4,445,887, respectively representing outstanding principal on the underlying mortgages and $129,726 and $158,224, respectively representing unamortized premium. During 2011 and 2010, MHIC recorded an unrealized gain on investment of $13,208 and $32,209 respectively.

8. *Investments in Marketable Securities* - *continued*

All investment assets have been valued using the market approach. There have been no changes in the methodologies used at December 31, 2011 and 2010.

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.

MHIC classifies its investments into Level 1, which relate to securities traded in an active market, Level 2, which relate to securities not traded on an active market but for which observable market inputs are readily available and Level 3 which relate to securities not actively traded and for which no significant observable inputs are readily available. At December 31, 2011 and 2010, all of the MHIC's investments were Level 2 investments.

The following presents a reconciliation of the MHIC's beginning and ending balances of the fair value measurements using observable inputs (Level 2):

Ginnie Mae - Mortgage-Backed Securities	*2011*	*2010*
Balance, Beginning of Year	$ 4,604,111	$ 6,861,646
Unrealized gains relating to instruments still held at the reporting date	13,208	32,209
Purchases, sales, issuances and and settlements (net)	(932,315)	(2,289,744)
Balance, End of Year	$ 3,685,004	$ 4,604,111

9. *Notes Payable*

MHIC received the following financing in connection with being used as a conduit for an affiliate, the LLC, to borrow from the Federal Home Loan Bank of Boston (FHLB).

MHIC borrowed $6,570,000 from the Federal Home Loan Bank of Boston ("FHLB") which represents a pass-through receivable from the LLC. MHIC received two advances from FHLB. The first advance of $4.32 million bears interest at a fixed rate of 3.95% and matured in February 2011.

The second advance of $2.25 million bears interest at a fixed rate of 4.05% and will mature in February 2012. Payment of interest is due on a monthly basis. Principal is due at maturity. At December 31, 2011 and 2010, the total outstanding balance under the notes was $2,250,000 and $6,570,000 and accrued interest was $23,288 and $21,797, respectively.

9. ***Notes Payable*** - *continued*

MHIC has borrowed $6,000,000 from Bank of America at 3% 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.

NLSF has borrowed $1,000,000 from the Hyams Foundation, Inc, a Massachusetts not-for-profit corporation. The loan bears interest at 2% simple and matures April 9, 2014. Payment of interest is due on a monthly basis. Principal is due at maturity.

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

NLSF has borrowed $2,000,000 from the Boston Foundation, Inc, a Massachusetts not-for-profit corporation. The loan bears interest at 2% simple and matures April 9, 2014. Payment of interest is due on a monthly basis. Principal is due at maturity.

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

As of December 31, 2011 and 2010, pursuant to an agreement with the Massachusetts Housing Partnership, NSLF had available an $8,500,000 line of credit, of which $0 and $3,000,000 respectively, was outstanding at those dates.

As of December 31, 2011 and 2010, pursuant to an agreement with the LLC, NSLF had available an $8,500,000 line of credit, of which $4,291,789 and $7,008,805, respectively, was outstanding at those date.

Interest expense of $570,224 and $673,102 was reported in the accompanying consolidated statements of activities for the years ended December 31, 2011 and 2010, respectively.

Scheduled payments of principal are due as follows:

2012	$	2,250,000
2013		-
2014		9,291,789
2015		-
2016		6,000,000
Total	$	17,541,789

10. MHEF Fee Receivable and Unearned Fees

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

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

At December 31, 2011 and 2010, unearned fees were $5,218,301 and $6,289,859, respectively.

11. Cash and Cash Equivalents

At December 31, 2011, cash and cash equivalent balances are held at financial institutions with federal insured limits of up to $250,000 for each financial institution. Balances held at these institutions during the year can exceed this limit. MHIC has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

12. Leases

MHIC leases its facilities and certain furniture and equipment under operating leases that expire over future periods and require various minimum rental payments.

Future minimum payments, by year and in aggregate, under these noncancelable operating leases consist of the following at December 31, 2011:

2012	$ 198,174

MHIC incurred lease expenses associated with office space and equipment of $321,686 and $309,121 for the years ended December 31, 2011 and 2010, respectively. Subsequent to December 31, 2011, MHIC extended its current office lease through September 30, 2017 at an annual rent of $257,748.

13. Temporarily Restricted Net Assets

In 2008 MHIC received two grants totaling $620,000 to support its efforts to provide financing to stabilize neighborhoods with high concentrations of foreclosures. The grants were used to provide operating support to Community Development Corporations and to pay for market studies, environment reviews and consultant costs associated with the initiative. At December 31, 2010, all temporarily restricted net assets were released from restrictions

14. Employee Benefit Plan

As a tax-exempt 501(c)(3) corporation, MHIC established a noncontributory, defined contribution plan under Section 401(a) of the Internal Revenue Code covering all full-time employees. The employer contribution is based upon a percentage of employee salary. In July 1999, MHIC amended the Plan to include a 100% match of employee contributions up to 3% of a given employee's salary.

In addition, MHIC established a rabbi-trust to supplement the retirement plan of its President and CEO, which included an initial contribution of $150,000, and subsequent contributions of $25,000 per quarter thereafter, beginning in calendar year 2007. MHIC contributed and charged to expense $330,700 and $326,714 for the year ended December 31, 2011 and 2010, respectively. These amounts are reflected in salaries and employee benefits in the accompanying consolidated statements of activities.

15. Guarantees Provided for Borrowing Facilities of Affiliates

As of December 31, 2011, 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.

16. Fixed Assets

Property and equipment consists of the following:

	2011	*2010*
Furniture	$ 218,269	$ 218,314
Equipment	436,525	336,015
Leasehold improvements	490,182	490,182
Total fixed assets	1,144,976	1,044,511
Accumulated depreciation	(980,190)	(869,838)
Total	$ 164,786	$ 174,673

17. Environmental Remediation Liability

MHIC is contingently liable for costs relating to site assessment and cleanup of land the organization owns. MHIC has accrued its obligation regarding potential remediation which is presented under the caption Environmental remediation obligation in the accompanying consolidated statements of financial position. At December 31, 2010, the accrued liability for the environmental remediation of $150,000 represents MHIC's best estimate of the present value of the probable and reasonably estimable costs related to known remediation obligations. As of December 31, 2011 management believes that MHIC's responsibility for remediation has been fulfilled.

18. Subsequent Events

MHIC has performed an evaluation of subsequent events through April 27, 2012, which is the date MHIC's financial statements were available to be issued. No material subsequent events have occurred since December 31, 2011 that requires recognition or disclosure in these financial statements.

Supplemental Schedules

Massachusetts Housing Investment Corporation
Supplemental Consolidating Schedule of Financial Position
December 31, 2011

	MHIC	*Subsidiaries*	*Elimination*	*Consolidated*
Assets:				
Cash	$ 5,932,923	$ 1,904,227	$ -	$ 7,837,150
Investment in marketable securities	3,685,004	-	-	3,685,004
Grant income receivable	1,595,586	-	-	1,595,586
Program related loans	63,989	8,059,969	-	8,123,958
Loans to affiliates	8,488,242	-	-	8,488,242
Due from affiliates	470,692	-	-	470,692
Investment in subsidiaries	3,462,468	-	(3,462,468)	-
Fee receivable - MHEF Partnerships	1,870,338	-	-	1,870,338
Amounts receivable and other assets	732,120	498,685	(19,528)	1,211,277
Due from parent	-	2,402,385	(2,402,385)	-
Furniture, equipment and leasehold		-		
improvements, net of accumulated	164,786	-	-	164,786
Total assets	$26,466,148	$ 12,865,266	$(5,884,381)	$33,447,033
Liabilities and Net Assets:				
Liabilities:				
Notes payable to member corporations	$ 8,250,000	$ 9,291,789	$ -	$17,541,789
Due to subsidiary	2,402,385	-	(2,402,385)	-
Unearned fees	5,218,301	-	-	5,218,301
Accrued interest and other liabilities	1,641,639	111,009	(19,528)	1,733,120
Total liabilities	17,512,325	9,402,798	(2,421,913)	24,493,210
Net assets:				
Unrestricted	8,953,823	3,462,468	(3,462,468)	8,953,823
Total liabilities and net assets	$26,466,148	$ 12,865,266	$(5,884,381)	$33,447,033

Massachusetts Housing Investment Corporation
Supplemental Consolidating Schedule of Activities
For the year Ended December 31, 2011

	MHIC	*Subsidiaries*	*Elimination*	*Consolidated*
Revenues				
Interest revenue:				
Interest on deposits	$ 206,321	$ 1,205	$ -	$ 207,526
Interest on program related loans	37,284	381,985	-	419,269
Unrealized gain on investments	13,208	-	-	13,208
Loan program revenue	992,371	1,000	-	993,371
NMTC program revenue	3,465,869	-	-	3,465,869
LIHTC program revenue	4,137,711	-	-	4,137,711
Other program revenue	157,459	-	(86,578)	70,881
Grant income	14,407,482	-	-	14,407,482
Gain from investment in subsidiaries	278,996	-	(278,996)	-
Total revenues	23,696,701	384,190	(365,574)	23,715,317
Expenditures				
Salaries and employee benefits	4,979,969	-	-	4,979,969
Occupancy, equipment and furniture	309,122	-	-	309,122
Professional services	921,592	103,955	-	1,025,547
Depreciation	110,352	-	-	110,352
Grant expenditures	14,309,819	-	-	14,309,819
Other expenditures	767,004	1,248	(86,587)	681,665
Total expenditures	21,397,858	105,203	(86,587)	21,416,474
Increase in net assets	2,298,843	278,987	(278,987)	2,298,843
Net assets at beginning of year	6,654,980	3,183,481	(3,183,481)	6,654,980
Net assets at end of year	$8,953,823	$ 3,462,468	$(3,462,468)	$ 8,953,823

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, 2011

Federal Grantor/ Pass-Through Grantor/ Program Title/Project	Federal CFDA Number	Expenditures
U.S. Department of Housing and Urban Development Programs:		
Direct Program:		
Community Development Block Grants/Entitlement Grants	14.218	$ 6,004,218
Pass-through program:		
Commonwealth of Massachusetts Department of Housing and Community Development		
ARRA Contracts:		
Neighborhood Stabilization Program (Recovery Act Funded)		
Agency pass-through number: CT OSD SCOD324210590110000	14.256	8,394,397
Total Federal Expenditures		$ 14,398,615

Massachusetts Housing Investment Corporation
Note to Schedule of Expenditures of Federal Awards
December 31, 2011

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Massachusetts Housing Investment Corporation (the Corporation) under programs of the Federal government for the year ended December 31, 2011. 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 the Corporation, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Corporation.

2. Significant Accounting Policy

The schedule of expenditures of federal awards includes accounts of the Corporation's federal award programs and has been prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

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

Daniel Dennis & Company LLP
Certified Public Accountants

To the Board of Directors of
Massachusetts Housing Investment Corporation

Independent Auditors' Report On Compliance With Requirements That Could Have A Direct And Material Effect On Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133

Compliance

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 program for the year ended December 31, 2011. The Corporation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit.

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. Our audit does not provide a legal determination of the Corporation's compliance with those requirements.

In our opinion, the Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011.

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Internal Control Over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Corporation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, board of directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Daniel Dennis & Company LLP

April 27, 2012

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

Daniel Dennis & Company LLP
Certified Public Accountants

To the Board of Directors of
Massachusetts Housing Investment Corporation

Report On Internal Control Over Financial Reporting And On Compliance and Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Massachusetts Housing Investment Corporation (a nonprofit Corporation) and subsidiaries (the Corporation) as of and for the year ended December 31, 2011, and have issued our report thereon dated April 27, 2012. We conducted our audit 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

116 Huntington Avenue, Boston, Massachusetts 02116 Telephone (617)262-9898 Fax (617) 437-9937

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of 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 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*

This report is intended solely for the information and use of management, board of directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Daniel Dennis & Company LLP

April 27, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Massachusetts Housing Investment Corporation
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2011

SECTION I – Summary of Auditors' Results

Financial Statements	
Type of auditor's report issued -	Unqualified
Internal control over financial reporting:	
- Material weaknesses identified?	______ yes ✓ no
- Significant deficiencies identified that are not considered to be material weaknesses?	______ yes ✓ none reported
Noncompliance material to financial statements noted?	______ yes ✓ no
Federal Awards	
Internal control over major programs:	
- Material weaknesses identified?	______ yes ✓ no
- Significant deficiencies identified that are not considered to be material weaknesses?	______ yes ✓ none reported
Type of auditor's report issued on compliance for major programs -	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	______ yes ✓ no
Identification of major program:	
CFDA Number	Name of Program or Cluster
14.256	*Neighborhood Stabilization Program (Recovery Act Funded)*
Dollar threshold used to distinguish between type A and type B programs:	$ 431,958
Auditee qualified as low-risk auditee?	______ yes ✓ no

Section II – Financial Statement Findings:

No matters were reported.

Section III – Federal Award Findings and Questioned Costs:

No matters were reported.

No findings were identified in the prior audit.