

**Massachusetts Housing Investment Corporation
And
Wholly Owned Subsidiaries**

Consolidated Financial Statements
And
Independent Auditors' Report
December 31, 2019 and 2018

**Massachusetts Housing Investment Corporation
And
Wholly Owned Subsidiaries**

December 31, 2019 and 2018

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DANIEL DENNIS & Co
Certified Public Accountants

Independent Auditors' Report

To The Board of Directors of
Massachusetts Housing Investment Corporation

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Massachusetts Housing Investment Corporation (a nonprofit corporation) and its wholly owned subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 audit 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 auditors' 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 entity'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 entity'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 qualified audit opinion.

Basis for Qualified Opinion

The consolidated financial statements present the financial position and results of operations of Massachusetts Housing Investment Corporation and its wholly owned subsidiaries only. Massachusetts Housing Investment Corporation and its wholly owned subsidiaries are required to consolidate several affiliated legally-separate for-profit entities and as a result of not consolidating those entities the consolidated financial statements are not presented in accordance with accounting principles generally accepted in the United States of America. See Note 23 for more information.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Massachusetts Housing Investment Corporation and its wholly owned subsidiaries as of December 31, 2019 and 2018, 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.

Emphasis of Matter – Adoption of Accounting Pronouncements

As discussed in Note 1 to the financial statements, Massachusetts Housing Investment Corporation and its wholly owned subsidiaries have adopted Accounting Standards Update (ASU) 2016-18, Statement of Cash Flows (Topic 230) – *Restricted Cash*, ASU 2014-09 – Revenue from Contracts with Customers (Topic 606), and ASU 2018-08 Not-For-Profit Entities (Topic 958) – *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

Other Matters

Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information presented on pages 31 through 33 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, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is 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 June 25, 2020, on our consideration of Massachusetts Housing Investment Corporation and its wholly owned subsidiaries' 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 solely 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 the effectiveness of Massachusetts Housing Investment Corporation and its wholly owned subsidiaries' 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 Massachusetts Housing Investment Corporation and its wholly owned subsidiaries' internal control over financial reporting and compliance.

Daniel Dennis & Company LLP

June 25, 2020

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Consolidated Statements of Financial Position
December 31, 2019 and 2018

Assets

	<i>2019</i>	<i>2018</i>
<i>Current Assets</i>		
Cash and cash equivalents	\$ 13,239,341	\$ 12,589,485
Fee receivable - LIHTC Partnerships	2,458,691	1,909,458
Fee receivable - NMTC CDEs'	648,532	551,111
Current portion of program related loans	13,995,584	8,182,910
Program loan interest receivable	361,628	134,453
Accounts receivable	568,718	307,029
Due from affiliates	<u>550,285</u>	<u>1,142,439</u>
Total current assets	<u>31,822,779</u>	<u>24,816,885</u>
<i>Other Assets</i>		
Investment in marketable securities	148,562	216,063
Investment in capital stock	266,500	118,100
Program related loans	13,402,078	7,374,648
Restricted cash	2,737,149	589,878
Program related investments	5,244,264	5,807,113
Other assets	357,314	342,438
Furniture, equipment and leasehold improvements, net of accumulated depreciation of \$329,098 and \$229,547 in 2019 and 2018, respectively	<u>177,880</u>	<u>274,134</u>
Total other assets	<u>22,333,747</u>	<u>14,722,374</u>
Total assets	<u>\$ 54,156,526</u>	<u>\$ 39,539,259</u>

See accompanying notes to consolidated financial statements.

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Consolidated Statements of Financial Position - *continued*
December 31, 2019 and 2018

Liabilities and Net Assets

	<i>2019</i>	<i>2018</i>
<i>Current Liabilities</i>		
Current portion of notes payable	\$ 139,276	\$ 5,067,175
Due to affiliates	-	240
Deferred grant revenue	2,737,149	589,878
Accrued expenses and other liabilities	<u>1,973,533</u>	<u>2,292,471</u>
Total current liabilities	<u>4,849,958</u>	<u>7,949,764</u>
 <i>Long-Term Liabilities</i>		
Unearned fees	1,724,068	1,906,128
Notes payable	<u>25,887,821</u>	<u>8,106,542</u>
Total long-term liabilities	<u>27,611,889</u>	<u>10,012,670</u>
Total liabilities	<u>32,461,847</u>	<u>17,962,434</u>
 <i>Net Assets</i>		
Without donor restrictions:		
Undesignated	19,394,679	19,866,703
Designated	500,000	500,000
With donor restrictions	<u>1,800,000</u>	<u>1,210,122</u>
Total net assets	<u>21,694,679</u>	<u>21,576,825</u>
Total liabilities and net assets	<u>\$ 54,156,526</u>	<u>\$ 39,539,259</u>

See accompanying notes to consolidated financial statements.

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Consolidated Statements of Activities
For the Years Ended December 31, 2019 and 2018

	<i>2019</i>			<i>2018</i>		
	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
<i>Operating Revenue and Support</i>						
Interest on deposits	\$ 129,216	\$ -	\$ 129,216	\$ 87,402	\$ -	\$ 87,402
Interest on program related loans	1,116,606	-	1,116,606	596,192	-	596,192
Unrealized gain/(loss) on investments	1,653	-	1,653	(4,238)	-	(4,238)
Loan program revenue	1,115,067	-	1,115,067	668,863	-	668,863
NMTC program revenue	3,083,928	-	3,083,928	4,038,399	-	4,038,399
LIHTC program revenue	3,721,303	-	3,721,303	4,532,289	-	4,532,289
Other program revenue	807,391	-	807,391	606,503	-	606,503
Grant revenue	20,000	-	20,000	-	-	-
Net assets released from restrictions	-	-	-	50,000	(50,000)	-
Total operating revenue and support	<u>9,995,164</u>	<u>-</u>	<u>9,995,164</u>	<u>10,575,410</u>	<u>(50,000)</u>	<u>10,525,410</u>
<i>Operating Expenses</i>						
Salaries and employee benefits	6,523,812	-	6,523,812	6,760,062	-	6,760,062
Occupancy, equipment and furniture	556,861	-	556,861	524,836	-	524,836
Professional services	1,217,938	-	1,217,938	1,248,851	-	1,248,851
Depreciation	99,550	-	99,550	104,210	-	104,210
Grant expenses	7,700	-	7,700	590	-	590
Interest expense	513,603	-	513,603	280,487	-	280,487
Other office expenses and support	888,573	-	888,573	781,208	-	781,208
Total operating expenses	<u>9,808,037</u>	<u>-</u>	<u>9,808,037</u>	<u>9,700,244</u>	<u>-</u>	<u>9,700,244</u>
Change in net assets from operations	187,127	-	187,127	875,166	(50,000)	825,166
<i>Non - Operating Revenue/(Expenses)</i>						
Federal grant revenue	455,351	589,878	1,045,229	-	973,896	973,896
Federal grant expenses	(557,285)	-	(557,285)	(31,016)	-	(31,016)
Loss from investment in subsidiaries	(557,217)	-	(557,217)	(403,442)	-	(403,442)
Total change in net assets	(472,024)	589,878	117,854	440,708	923,896	1,364,604
Net assets at beginning of year	<u>20,366,703</u>	<u>1,210,122</u>	<u>21,576,825</u>	<u>19,925,995</u>	<u>286,226</u>	<u>20,212,221</u>
Net assets at end of year	<u>\$ 19,894,679</u>	<u>\$ 1,800,000</u>	<u>\$ 21,694,679</u>	<u>\$ 20,366,703</u>	<u>\$ 1,210,122</u>	<u>\$ 21,576,825</u>

See accompanying notes to consolidated financial statements.

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Consolidated Statements of Functional Expenses
For the Years Ended December 31, 2019 and 2018

<i>Program Services</i>					
2019	<i>Loan and Other Programs</i>	<i>NMTC</i>	<i>LIHTC</i>	<i>Management and General</i>	<i>2019 Total</i>
Salaries and employee benefits	\$ 1,962,573	\$ 1,685,290	\$ 2,034,167	\$ 841,782	\$ 6,523,812
Occupancy, equipment and furniture	167,522	143,853	173,633	71,853	556,861
Professional services	396,703	340,655	411,175	69,405	1,217,938
Depreciation	29,948	25,717	31,040	12,845	99,550
Grant expenses	7,700	-	-	-	7,700
Interest expense	513,603	-	-	-	513,603
Other office expenses and support	268,638	230,683	278,437	110,815	888,573
	<u>\$ 3,346,687</u>	<u>\$ 2,426,198</u>	<u>\$ 2,928,452</u>	<u>\$ 1,106,700</u>	<u>\$ 9,808,037</u>

<i>Program Services</i>					
2018	<i>Loan and Other Programs</i>	<i>NMTC</i>	<i>LIHTC</i>	<i>Management and General</i>	<i>2018 Total</i>
Salaries and employee benefits	\$ 1,355,959	\$ 2,135,504	\$ 2,396,333	\$ 872,266	\$ 6,760,062
Occupancy, equipment and furniture	105,274	165,796	186,046	67,720	524,836
Professional services	266,951	420,422	471,772	89,706	1,248,851
Depreciation	20,903	32,920	36,941	13,446	104,210
Grant expenses	590	-	-	-	590
Interest expense	280,487	-	-	-	280,487
Other office expenses and support	131,563	256,046	287,319	106,280	781,208
	<u>\$ 2,161,727</u>	<u>\$ 3,010,688</u>	<u>\$ 3,378,411</u>	<u>\$ 1,149,418</u>	<u>\$ 9,700,244</u>

See accompanying notes to consolidated financial statements.

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

	2019	2018
<i>Operating activities:</i>		
Change in net assets	\$ 117,854	\$ 1,364,604
<i>Adjustments to reconcile changes in net assets to net cash provided by operating activities:</i>		
Depreciation	99,550	104,210
Unrealized (gain)/loss on investments	(1,653)	4,238
Loss from investment in subsidiaries	557,217	403,442
Bad debt expense	742,042	-
<i>Change in operating assets and liabilities:</i>		
Due from affiliates	592,394	(457,874)
Accounts receivable and other assets	(276,565)	291,036
Unearned fees	(182,060)	(308,733)
Deferred grant revenue	2,147,271	(973,896)
Accrued expense and other liabilities	(318,938)	141,775
Fees receivable—LIHTC Partnerships	(549,233)	62,878
Fees receivable—NMTC CDEs'	(97,421)	(404,539)
Program loan interest receivable	<u>(227,175)</u>	<u>(106,275)</u>
Net cash provided by operating activities	<u>2,603,283</u>	<u>120,866</u>
<i>Investing activities:</i>		
Funds advanced under program related loans	(19,519,799)	(11,040,154)
Collection of funds from program related loans	6,937,653	175,543
Redemption of marketable securities	67,501	88,576
Distributions from program related investments	5,632	-
Purchase of other investments	(148,400)	(96,100)
Purchase of furniture and equipment	<u>(3,296)</u>	<u>(29,972)</u>
Net cash used in investing activities	<u>(12,660,709)</u>	<u>(10,902,107)</u>
<i>Financing activities:</i>		
Repayment of notes payable	(5,225,699)	(1,232,663)
Proceeds from notes payable	<u>18,080,252</u>	<u>8,626,500</u>
Net cash provided by financing activities	<u>12,854,553</u>	<u>7,393,837</u>
Net change in cash, cash equivalents and restricted cash	2,797,127	(3,387,404)
Cash, cash equivalents and restricted cash, beginning of year	<u>13,179,363</u>	<u>16,566,767</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 15,976,490</u>	<u>\$ 13,179,363</u>
<i>Reconciliation of cash, cash equivalents and restricted cash</i>		
Cash and cash equivalents	\$ 13,239,341	\$ 12,589,485
Restricted cash	<u>2,737,149</u>	<u>589,878</u>
Total cash and restricted cash	<u>\$ 15,976,490</u>	<u>\$ 13,179,363</u>
<i>Supplemental information</i>		
Interest paid	<u>\$ 538,211</u>	<u>\$ 249,918</u>

See accompanying notes to consolidated financial statements.

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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 New England.

Principles of Consolidation

The consolidated financial statements include the accounts of MHIC and its wholly-owned subsidiaries. At December 31, 2019 and 2018, wholly owned subsidiaries include Massachusetts Housing Equity Fund, Inc. (MHEF), Neighborhood Stabilization Loan Fund LLC (NSLF), MHIC HNEF Investor LLC (HNEF Investor), MHIC HNEF Manager LLC (HNEF Manager), MHIC HNEF Class B Investor LLC (HNEF Class B), MHIC CMF Affordable Housing Fund I LLC (CMF), and MHIC Neighborhood Commerce Fund I LLC (NCF). 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).

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.

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Notes to Consolidated Financial Statements - *continued*
December 31, 2019 and 2018

1. *Background and Accounting Policies – continued*

Program Activities - continued

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 LIHTC 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 thirty-five LIHTC Partnerships.

New Markets Tax Credit (NMTC) Program

The NMTC program utilizes the federal new markets tax credit to provide debt and equity financing to businesses that serve or operate in low-income communities. As of December 31, 2019, MHIC has received twelve allocations of tax credits totaling \$907,000,000.

MHIC has utilized these allocations to syndicate 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 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. In aggregate, MHIC has made cumulative investments totaling \$869,825,000, of which \$305,627,772 is outstanding as of December 31, 2019.

Neighborhood Stabilization Program (NSP)

The NSP 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.

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Notes to Consolidated Financial Statements - *continued*
December 31, 2019 and 2018

1. *Background and Accounting Policies – continued*

Basis of Accounting and Presentation

MHIC's consolidated financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Under GAAP, MHIC is required to report information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of MHIC. The Board of Directors has discretionary control over all of these assets and may elect to designate such resources for specific purposes.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of MHIC or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Contributions of cash and other assets are reported as increases to net assets with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the consolidated statements of activities as net assets released from restrictions. Contributions with donor restrictions received where related restrictions are met in the same reporting period are classified as contributions without donor restrictions. Board and external source designated funds are recorded as such in net assets without donor restrictions.

Cash and Cash Equivalents

MHIC considers highly liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2019 and 2018, MHIC held cash equivalents of \$5,413,615 and \$9,000,000, respectively.

Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements are stated at cost or fair market value if donated, less accumulated depreciation. 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.

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Notes to Consolidated Financial Statements - *continued*
December 31, 2019 and 2018

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 consolidated statements of financial position 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 consolidated 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, 2019 and 2018, unfunded loan commitments totaled \$14,069,447 and \$15,751,065, 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, 2019 and 2018, there were no reserves for unfunded loan commitments.

Below Market Loans

MHIC's mission is to pool the resources of lenders and investors to improve and expand the financing of affordable housing and community development throughout New England. 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.

Reclassification

Certain 2018 amounts have been reclassified to conform to the 2019 financial statement presentation.

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Notes to Consolidated Financial Statements - *continued*
December 31, 2019 and 2018

1. *Background and Accounting Policies – continued*

Revenue Recognition

Loan program revenue reflects fees earned on a contractual basis for services provided to the LLC (see Note 2). MHIC recognizes revenue from the loan program as the services are provided.

LIHTC program revenue reflects fees earned on a contractual basis for services that include organization, syndication, underwriting, long-term asset management and partnership administration. The fees for syndicating and organizing the LIHTC Partnerships are recognized when syndication is complete. Fees for underwriting investments are recognized at the time the underlying properties are acquired (see Note 9).

The fees for asset management and partnership administration are recognized over the life of the LIHTC Partnerships (estimated to be approximately 15 years). Certain refundable fees are deferred until the potential obligation lapses (see Note 9).

NMTC program revenue reflects fees earned on a contractual basis for services provided to the MHIC-CDEs (see Note 8). MHIC recognizes revenue from the NMTC program as the services are provided.

Other program revenue includes fees earned on a contractual basis for asset management and administration of HNEF LP (see Note 5). MHIC recognizes revenue from HNEF LP as the services are provided.

In general, grant income is derived from cost-reimbursable federal, state and local government contracts, which are conditioned upon certain performance requirements and/or the incurrence of qualifying expenditures. Amounts received are recognized as revenue when MHIC has incurred expenditures in compliance with specific grant or contract provisions. Amounts received prior to costs being incurred are recorded as deferred revenue in the accompanying consolidated financial statements.

Functional Expenses

Expenses are charged directly to programs or management and general based on specific identification. Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and employee benefits, occupancy, equipment and furniture, depreciation, and other office expenses and support, which are allocated on the basis of time and effort. The consolidated statements of functional expenses disclose expenses by functional and natural classification.

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Notes to Consolidated Financial Statements - *continued*
December 31, 2019 and 2018

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 and state tax law. MHEF is a for-profit corporation and therefore is subject to federal and state income taxes. MHEF 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. NSLF, HNEF Investor, HNEF Manager, HNEF Class B, CMF and NCF are disregarded entities for tax purposes.

MHIC and its wholly owned 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, 2019, MHIC and its wholly owned subsidiaries believe that they have no uncertain tax positions within any of their open tax years, (2016-2018).

Adoption of New Accounting Pronouncements

During 2019, MHIC adopted the provisions of the Financial Accounting Standard Board's (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and all related amendments. ASU 2014-09 supersedes most existing revenue recognition guidance. ASU 2014-09 provides a principles-based framework for recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration MHIC expects in exchange for the goods or services provided. It also requires enhanced disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

Analysis of the various provisions of this standard resulted in no significant changes in the way MHIC recognizes revenue from contracts with customers, and therefore no changes to the previously issued audited consolidated financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

During 2019, MHIC adopted the provisions of FASB's ASU 2018-08 Not-For-Profit Entities (Topic 958) – *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 requires transactions to be determined as an exchange or contribution and as conditional or unconditional when a contribution has taken place. MHIC has applied the ASU on a modified prospective basis and has concluded that the adoption of the new standard did not require an adjustment to the opening net asset balances.

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Notes to Consolidated Financial Statements - *continued*
December 31, 2019 and 2018

1. *Background and Accounting Policies – continued*

Adoption of New Accounting Pronouncements – continued

During 2019, MHIC adopted the provisions of FASB’s ASU 2016-18, Statement of Cash Flows (Topic 230) – *Restricted Cash*. The ASU requires that a statement of cash flows explain the change during the period in total cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. MHIC has applied the ASU retrospectively to all prior periods presented. The adoption of the ASU did not impact the consolidated statement of financial position at December 31, 2018 or the consolidated statement of activities for the year then ended. The adoption of the ASU did not materially change the statement of cash flows for the year ended December 31, 2018, except for increasing cash and restricted cash at the beginning and ending of the year by \$1,563,774 and \$589,878, respectively.

Use of Estimates

Financial statements prepared in accordance with GAAP 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.

Investments and Investment Income

Program Related Investments

MHIC accounts for its program related investments using the equity method of accounting. Under the equity method, the investments are carried at cost and adjusted for MHIC’s share of income, losses, additional investments and cash distributions from the program related investments. As a limited partner in program related investments, with no further funding obligations, MHIC ceases recognition of losses for financial statement purposes once the cost of an investment is reduced to zero. Changes in the value of the investments, which are other than temporary, are recognized as necessary.

Investments in Capital Stock

As of December 31, 2019 and 2018, MHIC owned 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. At December 31, 2019 and 2018, MHIC’s investment in the FHLBB totaled \$266,500 and \$118,100, respectively. Management annually performs an assessment of any possible impairment. As of December 31, 2019 and 2018, management has determined that no such impairment exists.

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Notes to Consolidated Financial Statements - *continued*
December 31, 2019 and 2018

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 below for discussion of fair value measurements.

Dividends, interest and gains and losses on investments are reported as increases or decreases in net assets without donor restrictions 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 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
and Wholly Owned Subsidiaries**
Notes to Consolidated Financial Statements - *continued*
December 31, 2019 and 2018

1. *Background and Accounting Policies – continued*

Measure of Operations

In its consolidated statements of activities, MHIC includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities and excludes gains and losses from its program related investments, federal grant revenue and federal grant expenditures.

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 earned 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. These fees are earned on a monthly basis as the services are provided and payment is anticipated within thirty days of billing based on available cash flow.

During the years ended December 31, 2019 and 2018, MHIC earned \$1,115,067 and \$668,863, respectively, in fees for services provided to the LLC. Amounts receivable in connection with these fees totaled \$142,433 and \$160,771 at December 31, 2019 and 2018, respectively.

For the years ended December 31, 2019 and 2018, MHIC waived certain fees due under the terms of the Advisory Agreement in order to improve the return to the LLC's members.

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Notes to Consolidated Financial Statements - *continued*
December 31, 2019 and 2018

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

MHEF, as general partner/managing member of the LIHTC Partnerships, has a de minimis interest in their respective profits, losses and distributions. MHEF accounts for its investment in the LIHTC 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 LIHTC Partnerships, additional investments and cash distributions.

The LIHTC 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 LIHTC 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, 2019 and 2018, MHEF had total assets of \$491,629, and MHIC's investment in MHEF amounted to \$491,629.

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.

At December 31, 2019 and 2018, NSLF had total assets of \$263,692 and \$265,058, and MHIC's investment amounted to \$263,692, and \$264,412, respectively.

5. *Healthy Neighborhoods Equity Fund (HNEF)*

Healthy Neighborhoods Equity Fund I Limited Partnership (HNEF LP) is organized as a Massachusetts limited partnership for the purpose of investing in or making loans to entities that intend to engage in the construction or rehabilitation of mixed-income, mixed-use commercial and residential developments.

HNEF Manager, HNEF Investor and HNEF Class B (the HNEF LLCs') are organized as single-member Massachusetts limited liability companies, with MHIC as the sole member and administrator. The purpose of the HNEF LLCs' is to acquire partnership interests in and provide management services to HNEF LP. The HNEF LLCs' account for their investment in HNEF LP using the equity method. Under the equity method, the investments are carried at cost and adjusted for the HNEF LLCs' share of income or loss, additional investments made and cash distributions received.

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Notes to Consolidated Financial Statements - *continued*
December 31, 2019 and 2018

5. *Healthy Neighborhoods Equity Fund (HNEF) - continued*

At December 31, 2019 and 2018, the HNEF LLCs' had total assets of \$5,210,610 and \$5,767,827, and MHIC's investment amounted to \$5,210,610 and \$5,767,827, respectively.

MHIC as the sole member of the HNEF LLCs', has entered into an agreement with HNEF LP to provide investment and management services.

Under the terms of this agreement, MHIC provides asset management services to assist in the organization, administration, and management of HNEF LPs' affairs. These fees are earned monthly at a rate of 2% of the weighted average of aggregate entity investments made by HNEF LP, and are payable quarterly, subject to available cash flow. During the years ended December 31, 2019 and 2018, MHIC earned \$386,367 and \$359,907, respectively, in fees for services provided to HNEF LP.

Additionally, MHIC pays certain third party operating expenses on behalf of HNEF LP, which are reimbursable to MHIC when paid.

At December 31, 2019 and 2018, amounts receivable in connection with these contractual fees totaled \$407,852 and \$981,668, respectively.

6. *MHIC CMF Affordable Housing Fund I LLC (CMF)*

During 2017, MHIC received \$1,800,000 in grant funds from the Community Development Financial Institutions Fund (CDFI) to capitalize CMF, a single member Massachusetts limited liability company, with MHIC as the sole member and program administrator. The purpose of CMF is to provide loans to affordable rental housing developments within Massachusetts, particularly those located in areas of high housing need and/or those with at least twenty percent of units reserved for households earning no more than fifty percent of area median income.

At December 31, 2019 and 2018, CMF had total assets of \$14,387,586 and \$6,823,322, and MHIC's investment amounted to \$1,916,120 and \$1,800,798, respectively.

7. *MHIC Neighborhood Commerce Fund I LLC (NCF)*

During 2019, MHIC received \$612,000 in grant funds from the Community Development Financial Institutions Fund (CDFI) to capitalize NCF, a single member Massachusetts limited liability company, with MHIC as the sole member and program administrator. The purpose of NCF is to provide working capital loans or fit-out loans to small businesses that are tenants in MHIC financed properties.

At December 31, 2019, NCF had total assets of \$2,759,486, and MHIC's investment amounted to \$778,072.

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Notes to Consolidated Financial Statements - *continued*
December 31, 2019 and 2018

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

MHIC has entered into agreements with the various MHIC-CDEs to provide 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. These fees are earned on a monthly basis as the services are provided and payment is anticipated within thirty days of billing based on available cash flow.

During the years ended December 31, 2019 and 2018, MHIC earned total fees for services to the MHIC-CDEs of \$3,083,928 and \$4,038,399, respectively. Amounts receivable in connection with these contractual fees totaled \$648,532 and \$551,111 at December 31, 2019 and 2018, respectively.

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

MHIC has entered into agreements with various LIHTC Partnerships to provide investment and management services. 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. These fees are earned on a monthly basis as the services are provided and payment is anticipated within thirty days of billing based on available cash flow.

During the years ended December 31, 2019 and 2018, MHIC earned total fees for services to the LIHTC Partnerships of \$3,721,303 and \$4,532,289, respectively. Amounts receivable in connection with these contractual fees totaled \$2,458,691 and \$1,909,458 at December 31, 2019 and 2018, respectively.

Unearned equity fees reflect MHIC's obligation to provide future services to the LIHTC Partnerships as consideration for the fees received in advance. This obligation is reduced as services are provided, according to the revenue recognition methodology as described above.

The following table provides information about significant changes in the unearned fees for the years ended December 31, 2019 and 2018:

	<i>2019</i>	<i>2018</i>
Unearned fees, beginning balance	\$ 1,906,128	\$ 2,214,861
Investor servicing fees recognized	(376,887)	(430,936)
Collection of advanced fees	<u>194,827</u>	<u>122,203</u>
Unearned fees, ending balance	<u>\$ 1,724,068</u>	<u>\$ 1,906,128</u>

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Notes to Consolidated Financial Statements - *continued*
December 31, 2019 and 2018

10. 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. Program related loans earn interest at either fixed or variable rates that range from 2.00% to 6.00% and are secured, in a subordinated position, by the underlying real estate.

At December 31, 2019 and 2018, the activity in the program related loans were as follows:

	<i>2019</i>	<i>2018</i>
Beginning balance	\$ 15,662,170	\$ 4,797,559
Loan disbursements	19,519,799	11,040,154
Loan repayments	<u>(6,937,653)</u>	<u>(175,543)</u>
Program related loans outstanding	28,244,316	15,662,170
Allowance for loan losses	<u>(846,654)</u>	<u>(104,612)</u>
Ending balance	<u><u>\$ 27,397,662</u></u>	<u><u>\$ 15,557,558</u></u>

At December 31, 2019 and 2018, project loans consist of the following:

<i>Loan category</i>	<i>2019</i>	<i>2018</i>
Construction	\$ 4,347,977	\$ 5,247,897
Acquisition	11,090,069	3,712,910
Amortizing	7,523,313	3,996,040
Bridge	131,918	-
Line of credit	16,978	-
Mini perm	3,412,986	2,162,910
Predevelopment	<u>1,721,075</u>	<u>542,413</u>
Program related loans outstanding	28,244,316	15,662,170
Allowance for loan losses	<u>(846,654)</u>	<u>(104,612)</u>
Ending balance	<u><u>\$ 27,397,662</u></u>	<u><u>\$ 15,557,558</u></u>

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Notes to Consolidated Financial Statements - *continued*
December 31, 2019 and 2018

10. Program Related Loans – continued

At December 31, 2019, contract maturities of the above loans are as follows:

2020	\$ 13,995,584
2021	3,124,010
2022	-
2023	-
2024	-
Thereafter	<u>11,124,722</u>
Total	<u><u>\$ 28,244,316</u></u>

The amount of loans on which MHIC has ceased accruing interest totaled \$1,293,000 and zero at December 31, 2019 and 2018, respectively. The amount of interest not recorded on nonaccrual loans was approximately \$30,994 and zero for the years ended December 31, 2019 and 2018, respectively.

The following tables present informative data by class of financing receivable regarding their age and interest accrual status at December 31, 2019 and 2018:

December 31, 2019	Past Due				Total Financing Receivables	Status of Interest Accruals	
	Current	30-59 Days	60-89 Days	90 + Days		Non-Accrual Status	Financing Receivables on Past 90 + Days still Accruing Interest
Construction	\$ 4,347,977	\$ -	\$ -	\$ -	\$ 4,347,977	\$ -	\$ -
Acquisition	11,090,069	-	-	-	11,090,069	-	-
Amortizing	6,230,313	-	-	1,293,000	7,523,313	1,293,000	-
Mini perm	3,412,986	-	-	-	3,412,986	-	-
Line of credit	16,978	-	-	-	16,978	-	-
Bridge	131,918	-	-	-	131,918	-	-
Predevelopment	1,721,075	-	-	-	1,721,075	-	-
Total	<u><u>\$26,951,316</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,293,000</u></u>	<u><u>\$ 28,244,316</u></u>	<u><u>\$ 1,293,000</u></u>	<u><u>\$ -</u></u>

December 31, 2018	Past Due				Total Financing Receivables	Status of Interest Accruals	
	Current	30-59 Days	60-89 Days	90 + Days		Non-Accrual Status	Financing Receivables on Past 90 + Days still Accruing Interest
Construction	\$ 5,247,897	\$ -	\$ -	\$ -	\$ 5,247,897	\$ -	\$ -
Acquisition	3,712,910	-	-	-	3,712,910	-	-
Amortizing	3,996,040	-	-	-	3,996,040	-	-
Mini perm	2,162,910	-	-	-	2,162,910	-	-
Predevelopment	542,413	-	-	-	542,413	-	-
Total	<u><u>\$15,662,170</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 15,662,170</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Notes to Consolidated Financial Statements - *continued*
December 31, 2019 and 2018

10. *Program Related Loans – continued*

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. During 2019 and 2018, no NSP and HCRG loan funds were disbursed and recorded as grant expense.

Program regulations require that the recovery of loan funds, if any, be recorded as program income when received. As of December 31, 2019 and 2018, no program income was earned and recorded in the consolidated statements of activities.

11. *Program Related Investments*

MHIC acquired a .01% interest in various New Markets program CDEs and/or subsidiaries amounting to \$33,654 and \$39,286 at December 31, 2019 and 2018, respectively. MHIC through its wholly owned subsidiaries entered into these limited liability companies to serve as the investor member and accounts for these investments under the equity method.

The HNEF LLCs have provided equity financing to HNEF LP for approximately 31% of its partnership interests. At December 31, 2019 and 2018, this investment is accounted for on the equity method and totaled \$5,210,610 and \$5,767,827, respectively. At December 31, 2019 and 2018, HNEF LP had total assets of \$17,321,169 and \$18,465,226, total liabilities of \$1,616,334 and \$981,668, and total partners' capital of \$15,704,835 and \$17,483,558, respectively. For the years ended December 31, 2019 and 2018, HNEF LP had total revenue of \$307,703 and \$214,586, total expenses of \$1,625,926 and \$1,502,435, and a net loss of \$1,318,223 and \$1,287,849, respectively.

12. *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, 2019 and 2018, the securities were valued at \$148,562 and \$216,063, respectively. During 2019, MHIC recorded unrealized gains of \$1,653 and during 2018, MHIC recorded an unrealized loss of \$4,238.

All investment assets have been valued using the market approach. There have been no changes in the methodologies used at December 31, 2019 and 2018.

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 and are considered level 2 investments.

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Notes to Consolidated Financial Statements - *continued*
December 31, 2019 and 2018

13. Notes Payable

MHIC 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 is payable in full on December 31, 2030. At December 31, 2019 and 2018, the outstanding balance was \$1,000,000.

MHIC has borrowed \$1,000,000 from the Boston Foundation. The loan bears interest at 1.5% and matures on December 15, 2025. At December 31, 2019 and 2018, the outstanding balance was \$1,000,000.

MHIC has borrowed \$3,600,000 from the Northern Trust Company. The loan bears interest at 1.5% and matures on December 14, 2025. At December 31, 2019 and 2018, the outstanding balance was \$3,600,000.

MHIC has borrowed \$2,672,778 from the Federal Home Loan Bank under the Jobs for New England program (JNE) for the purpose of making commercial loans to two specific projects. In addition, MHIC borrowed \$3,562,844 under the Affordable Housing Program (AHP) for the purpose of making permanent loans to two specific projects. The loans bear interest at rates ranging from 0% to 1% and have maturity dates that range from April 2025 to February 2039. At December 31, 2019 and 2018, the outstanding balance of notes payable to the Federal Home Loan Bank was \$6,235,622 and \$2,573,717, respectively.

During 2019, MHIC borrowed \$5,000,000 from the Kresge Foundation for the purpose of making commercial loans to specific projects. The loan bears interest at 1% and matures November 27, 2028. At December 31, 2019, the outstanding balance was \$2,563,900.

During 2019, MHIC borrowed \$1,000,000 from the Boston Medical Center for the purpose of making commercial loans to specific projects. The loan bears no interest and matures December 18, 2026. At December 31, 2019, the outstanding balance was \$1,000,000.

During 2017, CMF entered into a revolving loan agreement with the LLC, bearing interest at the rate of one percentage point above the prime rate, adjusted daily. The total amount available under the revolving loan was \$5,400,000, with all outstanding principal and interest payable no later than April 2027. During 2018, the revolving loan agreement was amended to increase the total amount available to \$15,500,000, and modify the interest rate to 4.75% per annum through April 4, 2027. CMF has pledged to the LLC a security interest in and lien on all assets as collateral for the revolving loan. At December 31, 2019 and 2018, the outstanding balance was \$10,627,575 and zero, respectively.

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Notes to Consolidated Financial Statements - *continued*
December 31, 2019 and 2018

13. Notes Payable – continued

During 2018, CMF borrowed \$5,000,000 from the LLC for the purpose of making a construction loan to a specific project. The loan bore interest at 5.73% and matured on May 1, 2019. At December 31, 2018, the outstanding balance was \$5,000,000. The loan was repaid in full in 2019.

Scheduled payments of principal for the next five years and thereafter is as follows:

2020	\$ 139,276
2021	139,796
2022	140,321
2023	140,849
2024	141,341
Thereafter	<u>25,325,514</u>
Total	<u>\$ 26,027,097</u>

14. Cash and Credit Risk

At December 31, 2019 and 2018, 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.

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 has multiple components that are based upon a percentage of employee salary. These components include 4% profit sharing, a 100% match of employee contributions up to 3% of a given employee's salary and a safe harbor match of up to an additional 1% of a given employee's salary. MHIC contributed and charged to expense \$329,808 and \$314,843 for the years ended December 31, 2019 and 2018, respectively. These amounts are reflected in salaries and employee benefits in the accompanying consolidated statements of activities.

16. Leases

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

MHIC incurred lease expenses associated with office space and equipment of \$556,861 and \$524,836, for the years ended December 31, 2019 and 2018, respectively. MHIC's current office lease expires on December 31, 2025 with one five year option to extend.

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Notes to Consolidated Financial Statements - *continued*
December 31, 2019 and 2018

16. Leases – continued

Future minimum payments under these noncancelable operating leases consist of the following at December 31, 2019:

<i>Year</i>	<i>Amount</i>
2020	\$ 469,446
2021	479,629
2022	489,812
2023	499,995
2024	554,984
Thereafter	<u>565,167</u>
Total	<u>\$ 3,059,033</u>

17. Designated Net Assets

During 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 net assets without donor restrictions on the consolidated statements of financial position. As of December 31, 2019 and 2018, none of the designated amount has been spent.

18. Guarantees Provided for Borrowing Facilities of Affiliates

As of December 31, 2019 and 2018, 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.

19. Fixed Assets

Property and equipment consists of the following:

	<i>2019</i>	<i>2018</i>
Furniture	\$ 248,803	\$ 248,803
Equipment	182,910	182,730
Leasehold improvements	<u>75,265</u>	<u>72,148</u>
Total fixed assets	506,978	503,681
Accumulated depreciation	<u>(329,098)</u>	<u>(229,547)</u>
Total	<u>\$ 177,880</u>	<u>\$ 274,134</u>

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Notes to Consolidated Financial Statements - *continued*
December 31, 2019 and 2018

20. *Restricted Cash*

At December 31, 2019 and 2018, restricted cash consists of the following:

CDFI grant funds, which are required to be deployed under the CMF revolving loan fund (see Note 6).

CDFI grant funds, which are required to be used as top-loss capital reserves for loans disbursed by NCF (see Note 7).

Federal Realty Investment Trust (FRIT) subsidy grant funds, which are subject to a deposit control agreement and required to be deployed to approved developers under a Memorandum of Agreement with the City of Somerville.

At December 31, 2019 and 2018, these amounts totaled \$2,737,149 and \$589,878, respectively.

21. *Net Assets with Donor Restrictions*

Net assets with donor restrictions for the years ended December 31, 2019 and 2018 were as follows:

	<i>2019</i>	<i>2018</i>
<i>Specific Purpose and Passage of Time</i>		
CDFI Capital Magnets Grant restricted for use in a revolving loan fund	<u>\$ 1,800,000</u>	<u>\$ 1,210,122</u>
Total net assets with donor restrictions	<u>\$ 1,800,000</u>	<u>\$ 1,210,122</u>

Net assets released from net assets with donor restrictions for the years ended December 31, 2019 and 2018 were as follows:

	<i>2019</i>	<i>2018</i>
<i>Satisfaction of Purpose Restrictions</i>		
U.S. Bancorp Community Development Corporation grant for the development of a specific project	<u>\$ -</u>	<u>\$ 50,000</u>
Total net assets released from restrictions	<u>\$ -</u>	<u>\$ 50,000</u>

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Notes to Consolidated Financial Statements - *continued*
December 31, 2019 and 2018

22. *Liquidity and Availability*

The following represents MHIC's financial assets at December 31, 2019 and 2018:

	<i>2019</i>	<i>2018</i>
<i>Financial assets at year end:</i>		
Cash and cash equivalents	\$ 13,239,341	\$ 12,589,485
Fee receivable - LIHTC Partnerships	2,458,691	1,909,458
Fee receivable - NMTC CDEs'	648,532	551,111
Current portion of program related loans	13,995,584	8,182,910
Program loan interest receivable	361,628	134,453
Accounts receivable	568,718	307,029
Due from affiliates	<u>550,285</u>	<u>1,142,439</u>
Total financial assets	<u>31,822,779</u>	<u>24,816,885</u>
 <i>Less amounts not available to be used within one year:</i>		
Board designated net assets	(500,000)	(500,000)
Net assets with donor restrictions	<u>(1,800,000)</u>	<u>(1,210,122)</u>
	<u>(2,300,000)</u>	<u>(1,710,122)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 29,522,779</u>	<u>\$ 23,106,763</u>

As part of its liquidity management, MHIC has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, MHIC invests cash in excess of daily requirements in overnight funding deposits and money market accounts. The Board of Directors occasionally designates a portion of any operating surplus to provide for additional cash needs as described more fully in Note 17. Additionally, any proceeds received from the program related loans may be used to repay current obligations on notes payable, make new program related loans or be appropriated to support other aspects of MHIC's general operations.

23. *Affiliated Entities*

Under GAAP, a not-for-profit corporation such as MHIC, that owns the general partner or managing member of a limited partnership or limited liability company, respectively, is presumed to have control of those organizations unless certain circumstances exist that overcome that presumption of control. Accordingly, MHIC is deemed to have control over HNEF LP, the LLC and sixteen LIHTC Partnerships, which have not been consolidated into these financial statements, even though consolidation is required under GAAP.

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Notes to Consolidated Financial Statements - *continued*
December 31, 2019 and 2018

23. *Affiliated Entities - continued*

The following unaudited information summarizes the financial position and activities of these entities as of and for the years ended December 31, 2019 and 2018:

	<i>2019</i>	<i>2018</i>
Total assets	<u>\$ 347,349,657</u>	<u>\$ 333,432,736</u>
Total liabilities	\$ 15,763,653	\$ 13,592,521
Equity	<u>331,586,004</u>	<u>319,840,215</u>
Total liabilities and equity	<u>\$ 347,349,657</u>	<u>\$ 333,432,736</u>
Total operating revenue	\$ 2,202,370	\$ 1,918,934
Total operating expenses	(2,908,985)	(2,736,026)
Total non-operating revenue/(expenses)	<u>(41,884,102)</u>	<u>(26,876,273)</u>
Net loss	<u>\$ (42,590,717)</u>	<u>\$ (27,693,365)</u>

24. *Subsequent Events*

On March 11, 2020, the World Health Organization has characterized the outbreak of a novel strain of coronavirus (COVID-19) as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. The COVID-19 outbreak might negatively impact construction costs and timelines, as well as lease-up and cash flows for projects financed by MHIC, which in turn could affect the valuation of those assets and the liquidity associated with the collection of those accounts. The extent of the impact of COVID-19 on MHIC's operational and financial performance will depend on specific developments, including the duration and spread of the outbreak, impact on its customers, employees, and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact MHIC's financial condition or results of operations is unknown.

MHIC has performed an evaluation of subsequent events through June 25, 2020, which is the date MHIC's consolidated financial statements were available to be issued.

Supplemental Schedules

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Supplemental Consolidating Schedule of Financial Position
December 31, 2019

<i>Assets</i>	<i>MHIC</i>	<i>MHEF</i>	<i>NSLF</i>	<i>HNEF LLCs'</i>	<i>CMF</i>	<i>NCF</i>	<i>Eliminations</i>	<i>Consolidated</i>
<i>Current Assets</i>								
Cash and cash equivalents	\$ 12,418,381	\$ 491,629	\$ 263,692	\$ -	\$ 26,819	\$ 38,820	\$ -	\$ 13,239,341
Fee receivable - LIHTC Partnerships	2,458,691	-	-	-	-	-	-	2,458,691
Fee receivable - NMTC CDEs'	648,532	-	-	-	-	-	-	648,532
Current portion of program related loans	3,126,260	-	-	-	10,686,869	182,455	-	13,995,584
Program loan interest receivable	211,564	-	-	-	142,973	7,091	-	361,628
Accounts receivable	570,088	-	-	-	-	-	(1,370)	568,718
Due from affiliates	4,329,102	-	-	-	-	-	(3,778,817)	550,285
	<u>23,762,618</u>	<u>491,629</u>	<u>263,692</u>	<u>-</u>	<u>10,856,661</u>	<u>228,366</u>	<u>(3,780,187)</u>	<u>31,822,779</u>
<i>Other Assets</i>								
Investment in marketable securities	148,562	-	-	-	-	-	-	148,562
Investment in capital stock	266,500	-	-	-	-	-	-	266,500
Program related loans	7,340,033	-	-	-	3,530,925	2,531,120	-	13,402,078
Restricted cash	2,737,149	-	-	-	-	-	-	2,737,149
Investment in subsidiaries	8,660,123	-	-	-	-	-	(8,660,123)	-
Program related investments	33,654	-	-	5,210,610	-	-	-	5,244,264
Other assets	357,314	-	-	-	-	-	-	357,314
Furniture, equipment and leasehold improvements, net of accumulated depreciation	177,880	-	-	-	-	-	-	177,880
	<u>19,721,215</u>	<u>-</u>	<u>-</u>	<u>5,210,610</u>	<u>3,530,925</u>	<u>2,531,120</u>	<u>(8,660,123)</u>	<u>22,333,747</u>
Total other assets	<u>19,721,215</u>	<u>-</u>	<u>-</u>	<u>5,210,610</u>	<u>3,530,925</u>	<u>2,531,120</u>	<u>(8,660,123)</u>	<u>22,333,747</u>
Total assets	<u>\$ 43,483,833</u>	<u>\$ 491,629</u>	<u>\$ 263,692</u>	<u>\$ 5,210,610</u>	<u>\$ 14,387,586</u>	<u>\$ 2,759,486</u>	<u>\$ (12,440,310)</u>	<u>\$ 54,156,526</u>

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Supplemental Consolidating Schedule of Financial Position - *continued*
December 31, 2019

Liabilities and Net Assets

	<i>MHIC</i>	<i>MHEF</i>	<i>NSLF</i>	<i>HNEF LLCs'</i>	<i>CMF</i>	<i>NCF</i>	<i>Eliminations</i>	<i>Consolidated</i>
<i>Current Liabilities</i>								
Current portion of notes payable	\$ 139,276	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 139,276
Due to affiliates	-	-	-	-	1,801,420	1,978,767	(3,780,187)	-
Deferred grant revenue	2,737,149	-	-	-	-	-	-	2,737,149
Accrued expenses and other liabilities	1,928,415	-	-	-	42,471	2,647	-	1,973,533
Total current liabilities	<u>4,804,840</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,843,891</u>	<u>1,981,414</u>	<u>(3,780,187)</u>	<u>4,849,958</u>
<i>Long-Term Liabilities</i>								
Unearned fees	1,724,068	-	-	-	-	-	-	1,724,068
Notes payable	15,260,246	-	-	-	10,627,575	-	-	25,887,821
Total long-term liabilities	<u>16,984,314</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,627,575</u>	<u>-</u>	<u>-</u>	<u>27,611,889</u>
Total liabilities	<u>21,789,154</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,471,466</u>	<u>1,981,414</u>	<u>(3,780,187)</u>	<u>32,461,847</u>
<i>Net Assets</i>								
Without donor restrictions								
Undesignated	19,394,679	491,629	263,692	5,210,610	1,916,120	778,072	(8,660,123)	19,394,679
Designated	500,000	-	-	-	-	-	-	500,000
With donor restrictions	1,800,000	-	-	-	-	-	-	1,800,000
Total net assets	<u>21,694,679</u>	<u>491,629</u>	<u>263,692</u>	<u>5,210,610</u>	<u>1,916,120</u>	<u>778,072</u>	<u>(8,660,123)</u>	<u>21,694,679</u>
Total liabilities and net assets	<u>\$ 43,483,833</u>	<u>\$ 491,629</u>	<u>\$ 263,692</u>	<u>\$ 5,210,610</u>	<u>\$ 14,387,586</u>	<u>\$ 2,759,486</u>	<u>\$ (12,440,310)</u>	<u>\$ 54,156,526</u>

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Supplemental Consolidating Schedule of Activities
For the Year Ended December 31, 2019

	<i>MHIC</i>	<i>MHEF</i>	<i>NSLF</i>	<i>HNEF LLCs'</i>	<i>CMF</i>	<i>NCF</i>	<i>Eliminations</i>	<i>Consolidated</i>
<i>Operating Revenue and Support</i>								
Interest on deposits	\$ 128,672	\$ -	\$ -	\$ -	\$ 454	\$ 90	\$ -	\$ 129,216
Interest on program related loans	402,996	-	-	-	679,155	34,455	-	1,116,606
Unrealized gain on investments	1,653	-	-	-	-	-	-	1,653
Loan program revenue	1,115,067	-	-	-	-	-	-	1,115,067
NMTC program revenue	3,083,928	-	-	-	-	-	-	3,083,928
LIHTC program revenue	3,721,303	-	-	-	-	-	-	3,721,303
Other program revenue	850,891	-	-	-	-	-	(43,500)	807,391
Grant revenue	20,000	-	-	-	-	-	-	20,000
Total operating revenue and support	9,324,510	-	-	-	679,609	34,545	(43,500)	9,995,164
<i>Operating Expenses</i>								
Salaries and employee benefits	6,523,812	-	-	-	-	-	-	6,523,812
Occupancy, equipment and furniture	556,861	-	-	-	-	-	-	556,861
Professional services	1,217,938	-	-	-	-	-	-	1,217,938
Depreciation	99,550	-	-	-	-	-	-	99,550
Grant expense	7,700	-	-	-	-	-	-	7,700
Interest expense	98,662	-	-	-	414,941	-	-	513,603
Other office expenses and support	858,819	-	720	-	47,412	25,122	(43,500)	888,573
Total operating expenses	9,363,342	-	720	-	462,353	25,122	(43,500)	9,808,037
Change in net assets from operations	(38,832)	-	(720)	-	217,256	9,423	-	187,127
<i>Non - Operating Revenue/(Expenses)</i>								
Federal grant revenue	1,045,229	-	-	-	-	-	-	1,045,229
Federal grant expenses	-	-	-	-	(101,934)	(455,351)	-	(557,285)
Loss from investment in subsidiaries	(888,543)	-	-	(557,217)	-	-	888,543	(557,217)
Total change in net assets	\$ 117,854	\$ -	\$ (720)	\$ (557,217)	\$ 115,322	\$ (445,928)	\$ 888,543	\$ 117,854
Net assets at beginning of year	\$ 21,576,825	\$ 491,629	\$ 264,412	\$ 5,767,827	\$ 1,800,798	\$ -	\$ (8,324,666)	\$ 21,576,825
Capital contributions	-	-	-	-	-	1,224,000	(1,224,000)	-
Change in net assets	117,854	-	(720)	(557,217)	115,322	(445,928)	888,543	117,854
Net assets at end of year	\$ 21,694,679	\$ 491,629	\$ 263,692	\$ 5,210,610	\$ 1,916,120	\$ 778,072	\$ (8,660,123)	\$ 21,694,679

**Schedule of Expenditures of
Federal Awards**

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Schedule of Expenditures of Federal Awards
December 31, 2019

<i>Federal Grantor (Pass-Through Grantor) Program or Cluster Title</i>	<i>Federal CFDA Number</i>	<i>Pass-Through Entity Identifying Number</i>	<i>Federal Expenditures</i>	<i>Expenditures to Subrecipients</i>
<i>U.S. Department of Treasury</i>				
<i>Direct Program:</i>				
Capital Magnet Fund	21.011	N/A	\$ 1,800,000	\$ -
Community Development Financial Institutions Program	21.020	N/A	<u>455,351</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 2,255,351</u>	<u>\$ -</u>

See accompanying notes to schedule of federal awards.

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Notes to Schedule of Expenditures of Federal Awards
December 31, 2019

1. *Basis of Presentation*

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Massachusetts Housing Investment Corporation and its wholly owned subsidiaries (MHIC) under programs of the Federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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. *Summary of Significant Accounting Policies*

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

MHIC has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

3. *Capital Magnet Fund*

MHIC has been awarded \$1,800,000 by the Community Development Financial Institutions Fund to capitalize an Affordable Housing Fund and deploy loans under the Capital Magnet Fund program. The revolving loan fund has ongoing compliance requirements through the end of the Investment Period in January 2022. In accordance with award requirements, the Schedule includes outstanding loans and committed lines of credit as of December 31, 2019 and grant funds advanced but not deployed or committed as of December 31, 2019. At December 31, 2019, outstanding loans and committed lines of credit totaled \$1,714,738.

**Report on Internal Control and
Compliance in Accordance with
*Government Auditing Standards***



DANIEL DENNIS & Co
Certified Public Accountants

Independent Auditors' 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

The Board of Directors of
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 financial statements of Massachusetts Housing Investment Corporation (a nonprofit Organization) and its wholly owned subsidiaries' (MHIC), which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 25, 2020, which was qualified because the consolidated financial statements do not include affiliated legally-separate for-profit entities which MHIC has sponsored in furtherance of its affordable housing charitable mission.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered MHIC'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 MHIC's internal control. Accordingly, we do not express an opinion on the effectiveness of MHIC'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 entity's 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 the 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 MHIC'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 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 MHIC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MHIC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Daniel Dennis & Company LLP". The signature is written in black ink and is positioned above the date.

June 25, 2020

**Report on Compliance and
Internal Control Required by
the Uniform Guidance**



DANIEL DENNIS & Co
Certified Public Accountants

*Independent Auditors' Report on Compliance For Each Major Program and on Internal Control
Over Compliance Required by the Uniform Guidance*

The Board of Directors of
Massachusetts Housing Investment Corporation

Report on Compliance for the Major Federal Program

We have audited Massachusetts Housing Investment Corporation and its wholly owned subsidiaries' (MHIC) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on MHIC's major federal program for the year ended December 31, 2019. MHIC's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for MHIC's major federal program 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 MHIC'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 program. However, our audit does not provide a legal determination of MHIC's compliance.

Opinion on the Major Federal Program

In our opinion, MHIC 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 program for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of MHIC 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 MHIC's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 MHIC'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 a 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Daniel Dennis & Company LLP

June 25, 2020

**Schedule of Findings and
Questioned Costs**

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2019

SECTION I - Summary of Auditor's Results

Financial Statements

Type of auditors' report issued: Qualified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ 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 200.516(a) of the Uniform Guidance? _____ yes X no

Identification of major programs:

<i>CFDA Number</i>	<i>Name of Program or Cluster</i>
21.011	<i>Capital Magnet Fund</i>

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? _____ yes X no

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Schedule of Findings and Questioned Costs - *continued*
For the Year Ended December 31, 2019

SECTION II – Financial Statement Findings

- A. Deficiencies in Internal Control over Financial Reporting
None
- B. Material Fraud and Noncompliance with Provisions of Laws and Regulations
None
- C. Material Noncompliance with Provisions of Contracts and Grant Agreements
None
- D. Material Abuse
None

SECTION III – Federal Award Findings and Questioned Costs

No matters were reported.

**Massachusetts Housing Investment Corporation
and Wholly Owned Subsidiaries**
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2019

There were no unresolved audit findings from prior years' audits of Massachusetts Housing Investment Corporation.