Massachusetts Housing Investment Corporation

Consolidated Financial Statements
And
Independent Auditors' Report

December 31, 2015 and 2014

Massachusetts Housing Investment Corporation

December 31, 2015 and 2014

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Daniel Dennis & Company LLP

Certified Public Accountants

Independent Auditors' Report

To The Board of Directors
Massachusetts Housing Investment Corporation

We have audited the accompanying consolidated financial statements of Massachusetts Housing Investment Corporation (a nonprofit corporation) and subsidiaries (the Corporation), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Massachusetts Investment Housing Corporation as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

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 23 through 24 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.

Daniel Dennis & Company LLP

March 9, 2016

Massachusetts Housing Investment Corporation
Consolidated Statements of Financial Position
December 31, 2015 and 2014

	2015	*2014*
Assets:		
Cash	$ 19,041,318	$ 16,067,827
Investment in marketable securities	564,064	1,151,785
Investment in capital stock	43,500	13,300
Program related loans	2,009,744	2,880,829
Loans to affiliates	-	201,120
Program related investments	801,253	941,565
Fee receivable - LIHTC Partnerships	3,402,468	1,533,569
Fee receivable - NMTC CDEs'	185,574	377,090
Amounts receivable and other assets	726,580	732,814
Furniture, equipment and leasehold improvements, net of accumulated depreciation of $1,217,080 and $1,190,552 in 2015 and 2014, respectively	42,103	43,252
Capitalized costs, net of accumulated amortization	38,179	-
Total assets	$ 26,854,783	$ 23,943,151
Liabilities and Net Assets:		
Liabilities:		
Notes payable	$ 1,750,000	$ 1,000,000
Unearned fees	2,231,166	2,609,019
Deferred grant revenue	452,464	452,464
Accrued expenses and other liabilities	3,529,644	2,135,777
Total liabilities	7,963,274	6,197,260
Net assets:		
Unrestricted:		
Undesignated	18,391,509	16,981,383
Designated	500,000	500,000
Temporarily restricted	-	264,508
Total net assets	18,891,509	17,745,891
Total liabilities and net assets	$ 26,854,783	$ 23,943,151

See accompanying notes to consolidated financial statements.

Massachusetts Housing Investment Corporation
Consolidated Statements of Activities
For The Years December 31, 2015 and 2014

	2015			*2014*		
	Unrestricted	*Temporarily Restricted*	*Total*	*Unrestricted*	*Temporarily Restricted*	*Total*
Revenue and Support						
Interest on deposits	$ 49,240	$ -	$ 49,240	$ 69,870	$ -	$ 69,870
Interest on program related loans	153,360	-	153,360	161,553	-	161,553
Unrealized loss on investments	(198,044)	-	(198,044)	(18,581)	-	(18,581)
Loan program revenue	875,363	-	875,363	625,613	-	625,613
NMTC program revenue	3,587,709	-	3,587,709	3,481,730	-	3,481,730
LIHTC program revenue	5,044,926	-	5,044,926	6,256,078	-	6,256,078
Other program revenue	535,373	-	535,373	208,720	-	208,720
Grant income	-	-	-	1,388,238	250,702	1,638,940
Net assets released from restrictions	264,508	(264,508)	-	200,194	(200,194)	-
Total revenue and support	10,312,435	(264,508)	10,047,927	12,373,415	50,508	12,423,923
Expenses						
Salaries and employee benefits	6,304,224	-	6,304,224	6,176,131	-	6,176,131
Occupancy, equipment and furniture	301,229	-	301,229	278,975	-	278,975
Professional services	925,392	-	925,392	1,143,557	-	1,143,557
Depreciation and amortization	29,255	-	29,255	33,348	-	33,348
Grant expenses	322,775	-	322,775	819,869	-	819,869
Other expenses	1,019,434	-	1,019,434	791,651	-	791,651
Total expenses	8,902,309	-	8,902,309	9,243,531	-	9,243,531
Change in net assets	1,410,126	(264,508)	1,145,618	3,129,884	50,508	3,180,392
Net assets at beginning of year	17,481,383	264,508	17,745,891	14,351,499	214,000	14,565,499
Net assets at end of year	$ 18,891,509	$ -	$ 18,891,509	$ 17,481,383	$ 264,508	$ 17,745,891

See accompanying notes to consolidated financial statements.

Massachusetts Housing Investment Corporation
Consolidated Statements of Cash Flows
For The Years December 31, 2015 and 2014

	2015	*2014*
Operating activities:		
Change in net assets	$ 1,145,618	$ 3,180,392
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	29,255	33,348
Unrealized loss on investments	198,044	18,581
Decrease in amounts receivable and other assets	6,234	964,541
Decrease in unearned fees	(377,853)	(856,268)
Increase in deferred grant revenue	-	452,464
Increase/(decrease) in accrued expenses and other liabilities	1,393,867	(274,603)
(Increase)/decrease in fees receivable—LIHTC Partnerships	(1,868,899)	40,963
Decrease in fees receivable—NMTC CDEs'	191,516	60,772
Funds advanced under project loans	(12,711,897)	(1,473,478)
Collection of funds from project loans	13,582,982	2,423,985
Net cash provided by operating activities	1,588,867	4,570,697
Investing activities:		
Collection of funds from loans made to affiliates	201,120	8,537,122
Redemption of marketable securities	532,351	149,887
Purchases of other investments	(32,562)	(13,300)
Sale of other investments	-	1,478,668
Purchase of fixed assets and capitalized costs	(66,285)	(8,864)
Net cash provided by investing activities	634,624	10,143,513
Financing activities:		
Repayment of notes payable	-	(7,500,000)
Proceeds from notes payable	750,000	-
Repayment of loans from affiliates	-	(1,486,179)
Net cash provided by/(used in) financing activities	750,000	(8,986,179)
Net increase in cash	2,973,491	5,728,031
Cash at beginning of year	16,067,827	10,339,796
Cash at end of year	$ 19,041,318	$ 16,067,827
Supplemental information		
Interest paid	$ -	$ 117,493

See accompanying notes to consolidated 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), Healthy Neighborhoods Equity Fund I Limited Partnership (HNEF), MHIC HNEF Investor LLC (HNEF Investor), MHIC HNEF Manager LLC (HNEF Manager) and Neighborhood Stabilization Loan Fund LLC (NSLF), hereafter collectively referred to as MHIC. All significant intercompany transactions and balances have been eliminated in consolidation.

Program Activities

MHIC has established five main financing programs to carry out its mission:

Loan Program

The loan program focuses on providing debt financing to developers of affordable housing. From its inception in 1990 through December 2000, MHIC utilized a loan pool structure to extend this financing. The loan-pool was funded with the proceeds from below market rate loans (member loans) made to MHIC from participating member corporations. In January 2001, MHIC converted the loan pool to a limited liability company structure. As a result, the member loans were converted to equity interests in a new entity, MHIC, LLC (the LLC). In addition, the various project loans, deposit accounts and reserves owned by MHIC were transferred to the LLC in exchange for extinguishing the member loans. MHIC is the manager of the LLC (see Note 2, Loan Program).

Low Income Housing Tax Credit (LIHTC) Program

The LIHTC program utilizes the federal low-income housing tax credit to provide equity financing to developers of affordable housing. The initial role of the program was to assist member corporations in underwriting low-income housing tax credit investments. The program, through MHIC's wholly-owned subsidiary MHEF, is now a full-service syndicator of limited partnerships or limited liability companies (the Partnerships) structured for investment in low-income housing projects (Operating Partnerships) in Massachusetts. MHEF was formed in June 1993 and is currently the general partner/managing member of eighteen Partnerships.

1. Background and Accounting Policies - continued

Program Activities - continued

New Markets Tax Credit (NMTC) Program

The NMTC program utilizes the federal new markets tax credit to provide debt and equity financing to businesses that serve or operate in low-income communities. As of December 31, 2015 and 2014, MHIC has received ten allocations of new markets tax credits totaling $737,000,000.

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 thirty single investor funds in which the sole investor creates an investment fund to invest in MHIC-CDEs, which in turn provide financing to qualifying businesses.

Neighborhood Stabilization Program (NSP)

The 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.

HomeCorps Community Restoration Grant Program (HCRG)

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

Cash and Cash Equivalents

MHIC considers highly liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2015 and 2014, MHIC did not hold any cash equivalents.

1. *Background and Accounting Policies - continued*

Basis of Presentation

Net assets and revenues, gains and losses are classified based on the existence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

> Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained in perpetuity by MHIC. There were no permanently restricted net assets at December 31, 2015 and 2014.
>
> Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of MHIC and/or the passage of time. See Note 18 for more information.
>
> Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Revenue Recognition

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

LIHTC program revenue reflects fees for services that include organization, syndication, underwriting, long-term asset management and Partnership administration. The fees for syndicating and organizing the Partnerships are recognized when syndication is complete. Fees for underwriting investments are recognized at the time the underlying properties are acquired (see Note 7).

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

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

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

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, 2015 and 2014, unfunded loan commitments totaled $3,467,007 and $5,373,213, 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, 2015 and 2014, there were no reserves for unfunded loan commitments.

Below Market Loans

MHIC's mission is to pool the resources of Massachusetts' lenders and investors to improve and expand the financing of affordable housing and community development throughout the state. Other not-for-profit and governmental entities having a similar policy have lent money to MHIC at advantageous terms. MHIC has not discounted these below market interest rate loans as they were made at arm's length and to further those entities' policies.

1. *Background and Accounting Policies - continued*

Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements are stated at cost, 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.

Income Tax Status

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

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

MHIC and its subsidiaries evaluate tax positions taken or expected to be taken in their tax returns to determine whether the tax positions are *more-likely-than-not* of being sustained by the applicable tax authority. Tax positions not deemed to meet the *more-likely-than-not* threshold, along with accrued interest and penalty thereon would be recorded as an expense in the current year consolidated financial statements. At December 31, 2015 MHIC and its subsidiaries believe that they have no uncertain tax positions within any of their open tax years, (2012-2014).

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 consolidated statements of activities discloses expenses by natural classification. The functional classification is as follows:

Description	*2015*	*2014*
Program support	$ 8,183,101	$ 8,492,336
Management and general	719,208	751,195
Total	$ 8,902,309	$ 9,243,531

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

Investments and Investment Income

Program Related Investments

During 2013, MHIC acquired a 31.51% interest in Gerrish Investors LLC (GILLC) for $894,536. MHIC along with various other unrelated entities entered into GILLC to serve as the investor member. During 2014, MHIC sold its interest in GILLC to HNEF for $894,536. The purpose of GILLC is to invest and develop two low income housing projects. Because HNEF does not have the ability to exercise significant influence over GILLC as an investor member and due to the lack of information that can be used to approximate the fair value, HNEF accounts for its investment using the equity method. Under the equity method, the investment is carried at cost and adjusted for HNEF's share of income, losses, additional investments and cash distributions from GILLC. HNEF ceases recognition of losses for financial statement purposes once the cost of the investment is reduced to zero. At December 31, 2015 and 2014, HNEF's investment in GILLC totaled $751,863 and $894,536, respectively. Management annually performs an assessment of any possible impairment. As of December 31, 2015 and 2014 management has determined that no such impairment exists.

MHIC acquired a .01% interest in various New Markets program CDEs and/or subsidiaries amounting to $49,390 and $47,029 at December 31, 2015 and 2014, respectively. MHIC through its wholly owned subsidiaries entered into these limited liability companies to serve as the investor member. Because MHIC does not have the ability to exercise significant influence over the investments as the investor member and due to the lack of information that can be used to approximate the fair value, MHIC accounts for its investments at cost. Management annually performs an assessment of any possible impairment. As of December 31, 2015 and 2014 management has determined that no such impairment exists.

Investments in Capital Stock

During 2015 and 2014, MHIC purchased $30,200 and $13,300 of capital stock in the Federal Home Loan Bank of Boston (FHLBB), respectively. 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, 2015 and 2014, MHIC's investment in the FHLBB totaled $43,500 and $13,300, respectively. Management annually performs an assessment of any possible impairment. As of December 31, 2015 and 2014 management has determined that no such impairment exists.

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 unrestricted net assets unless a donor or law temporarily or permanently restrict their use.

Fair Value Measurements

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

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

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

Level 2 — Inputs to the valuation methodology include:

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

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

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

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

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.

During the years ended December 31, 2015 and 2014, MHIC earned $875,363 and $625,613, respectively, in fees for services provided to the LLC. Amounts receivable in connection with these fees totaled $68,184 and zero at December 31, 2015 and 2014, respectively, and are included in amounts receivable and other assets on the accompanying consolidated statements of financial position.

For the years ended December 31, 2015 and 2014, 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)

MHEF, as general partner/managing member of the aforementioned Partnerships, has a de minimis interest in their respective profits, losses and distributions. MHEF accounts for its investment in the Partnerships using the equity method. Under the equity method, the investments are carried at cost and adjusted for MHEF's share of income or loss from the Partnerships, additional investments and cash distributions.

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

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.

As of December 31, 2015 and 2014, MHEF had total assets of $2,901,846 and 2,902,439, and MHIC's investment in MHEF amounted to $2,900,675 and $2,901,269, 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 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, 2015 and 2014, NSLF had total assets of $2,112,872 and $3,344,194, and MHIC's investment amounted to $1,052,375, and $1,001,493, respectively.

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

HNEF is organized as a Massachusetts limited partnership with two limited partners, MHIC HNEF Investor LLC (HNEF Investor) and MHIC HNEF Manager LLC (HNEF Manager). HNEF Investor and HNEF Manager are single-member Massachusetts limited liability companies, in which MHIC is the sole member. At December 31, 2015 and 2014 HNEF Investor and HNEF Manager own 99.99% and .01%, respectively, in HNEF. The purpose of HNEF is to invest in or make loans to entities that intend to engage in the construction or rehabilitation of mixed-income, mixed-use commercial and residential developments.

At December 31, 2015 and 2014, HNEF had total assets of $895,663 and $1,000,052, and MHIC's investment amounted to $591,507 and $868,892, respectively.

6. New Markets Tax Credit Program Revenue (NMTC)

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

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

During the years ended December 31, 2015 and 2014, MHIC earned total fees for services to the MHIC-CDEs of $3,587,709 and $3,481,730, respectively. Amounts receivable in connection with these fees totaled $185,574 and $377,090 at December 31, 2015 and 2014, respectively.

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

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

During the years ended December 31, 2015 and 2014, MHIC earned total fees for services to the LIHTC Partnerships of $5,044,926 and $6,256,078, respectively. Amounts receivable in connection with these fees totaled $3,402,468 and $1,533,569 at December 31, 2015 and 2014, respectively.

8. *Program Related Loans*

Program related loans are loans made to low-income housing and community development projects and are offered in conjunction with financing provided by affiliates of MHIC. MHIC typically provides the predevelopment or high loan-to-value component of the financing for a given transaction. Project loans earn interest at either fixed or variable rates that range from 4.25% to 7.00% and are secured, in a subordinated position, by the underlying real estate.

At December 31, 2015 and 2014 the outstanding project loan balances were as follows:

	2015	*2014*
Beginning balance	$ 2,965,267	$ 3,915,774
Loan disbursements	12,711,897	1,473,478
Loan assigned	422,540	-
Loan repayments	(13,582,982)	(2,423,985)
Program related loans outstanding	2,516,722	2,965,267
Allowance for loan losses	(506,978)	(84,438)
Ending balance	$ 2,009,744	$ 2,880,829

8. *Program Related Loans - continued*

Project loans consist of the following:

Loan category	*2015*	*2014*
Construction	$ 283,039	$ 2,701,246
Line of credit	-	153,744
Acquisition	575,487	-
Amortizing	1,171,467	-
Mini perm	422,540	-
Predevelopment	64,189	110,277
Program related loans outstanding	2,516,722	2,965,267
Allowance for loan losses	(506,978)	(84,438)
Ending balance	$ 2,009,744	$ 2,880,829

At December 31, 2015, contract maturities of the above loans are as follows:

2016	$ 93,619
2017	189,420
2018	64,189
2019	575,487
2020	-
Thereafter	1,594,007
Total	$ 2,516,722

The following tables present informative data by class of financing receivable regarding their age and interest accrual status at December 31, 2015 and 2014:

		Past Due				Status of Interest Accruals	
December 31, 2015	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	$ 283,039	$ -	$ -	$ -	$ 283,039	$ -	$ -
Acquisition	575,487	-	-	-	575,487	-	-
Amortizing	1,171,467	-	-	-	1,171,467	-	-
Mini perm	422,540	-	-	-	422,540	-	-
Predevelopment	-	-	-	64,189	64,189	64,189	-
Total	$ 2,452,533	$ -	$ -	$ 64,189	$ 2,516,722	$ 64,189	$ -

8. *Program Related Loans – continued*

		Past Due				Status of Interest Accruals	
December 31, 2014	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	$ 2,701,246	$ -	$ -	$ -	$ 2,701,246	$ -	$ -
Line of credit	153,744	-	-	-	153,744	-	-
Predevelopment	-	-	-	110,277	110,277	110,277	-
Total	$ 2,854,990	$ -	$ -	$ 110,277	$ 2,965,267	$ 110,277	$ -

Program related loans do not include loans made under the NSP1, NSP2 and HCRG programs. Such loans made for the acquisition and rehabilitation of foreclosed properties require deeded affordability restrictions and provide for the forgiveness of outstanding loan balances based on compliance with those restrictions. NSP and HCRG loan funds of $295,335 and $662,313 were disbursed and recorded as grant expense in 2015 and 2014, respectively. Program regulations require that the recovery of loan funds, if any, be recorded as program income when received. As of December 31, 2015 and 2014, program income of $331,791 and zero, respectively, was earned and recorded as other program revenue on the consolidated statements of activities.

9. *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, 2015 and 2014 was as follows:

	2015	*2014*
Beginning balance	$ 201,120	$ 8,738,242
Loan repayments	(201,120)	(8,537,122)
Ending balance	$ -	$ 201,120

Loans to affiliates are callable upon demand and the proceeds for a given transaction are typically outstanding for less than one year. Loans to affiliates earn a variable rate of interest (that range from 1% to 3%) and are unsecured.

10. Investments in Marketable Securities

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

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

At December 31, 2015 and 2014, the securities were valued at $564,064 and $1,151,785, respectively, with $545,610 and $1,115,328, respectively, representing outstanding principal on the underlying mortgages and $18,454 and $36,457, respectively, representing unamortized premium. During 2015 and 2014, MHIC recorded unrealized losses on investment of $55,370 and $18,581, respectively.

All investment assets have been valued using the market approach. There have been no changes in the methodologies used at December 31, 2015 and 2014.

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

11. Notes Payable

NLSF has borrowed $1,000,000 from the Department of Housing and Community Development under the Affordable Housing Trust Fund Statute. The loan bears no interest and, the entire amount was payable in full on April 9, 2015. During 2015, this loan was assigned to MHIC and the maturity date was extended to December 31, 2030. At December 31, 2015 and 2014 the outstanding balance was $1,000,000.

Federal Home Loan Bank of Boston Loan
MHIC has borrowed $750,000 from the Federal Home Loan Bank of Boston. The loan bears interest at .69% and matures on February 16, 2016.

During 2015 and 2014, pursuant to an agreement with the Massachusetts Housing Partnership, NSLF had available an $8,500,000 line of credit. At December 31, 2015 and 2014, there were no amounts outstanding.

During 2015 and 2014, pursuant to an agreement with the LLC, NSLF had available an $8,500,000 line of credit. At December 31, 2015 and 2014, there were no amounts outstanding.

Interest expense of $117,493 was reported in the accompanying consolidated statements of activities for the year ended December 31, 2014.

11. Notes Payable – continued

Scheduled payments of principal are due as follows:

2016	$	750,000
2017		-
2018		-
2019		-
2020		-
Thererafter		1,000,000
Total	$	1,750,000

12. Unearned Fees

Unearned equity fees reflect MHIC's obligation to provide future services to the Partnerships as consideration for the 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, 2015 and 2014, unearned fees were $2,231,166 and $2,609,019, respectively.

13. Cash

At December 31, 2015 and 2014, cash balances are held at financial institutions with federal insured limits of up to $250,000 for each financial institution. Balances held at these institutions during the year can exceed this limit. MHIC has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on its cash.

14. Leases

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

Future minimum payments, by year and in aggregate, under these noncancelable operating leases consist of the following at December 31, 2015:

2016	$	257,770
2017		193,328
Total	$	451,098

14. Leases - continued

MHIC incurred lease expenses associated with office space and equipment of $301,229 and $278,975 for the years ended December 31, 2015 and 2014, respectively. MHIC's current office lease expires on September 30, 2017.

15. Employee Benefit Plan

As a tax-exempt 501(c)(3) corporation, MHIC established a noncontributory, defined contribution plan under Section 401(a) of the Internal Revenue Code covering all full-time employees. The employer contribution is based upon a percentage of employee salary. In July 1999, MHIC amended the Plan to include a 100% match of employee contributions up to 3% of a given employee's salary. MHIC contributed and charged to expense $394,126 and $396,473 for the years ended December 31, 2015 and 2014, respectively. These amounts are reflected in salaries and employee benefits in the accompanying consolidated statements of activities.

In addition, during 2015 and 2014, MHIC established a rabbi-trust to supplement the retirement plan of its President and CEO, which includes annual contributions of $100,000 through 2017.

16. Guarantees Provided for Borrowing Facilities of Affiliates

As of December 31, 2015 and 2014, MHIC is the guarantor on several borrowing facilities of its affiliates, for which there is no outstanding balance. These credit facilities are primarily secured by pledges of first mortgage loans, unconditional investor notes, or partnership interests. In the event that the borrowings of the affiliates cannot be repaid as scheduled and the above mentioned primary collateral is not sufficient to cover the outstanding balance, MHIC would assure the obligation. MHIC has not recognized any obligations relative to the guarantees.

17. Fixed Assets

Property and equipment consists of the following:

	2015	*2014*
Furniture	$ 252,634	$ 230,558
Equipment	516,367	513,064
Leasehold improvements	490,182	490,182
Total fixed assets	1,259,183	1,233,804
Accumulated depreciation	(1,217,080)	(1,190,552)
Total	$ 42,103	$ 43,252

18. Temporarily Restricted Net Assets

As of December 31, 2014, MHIC held temporarily restricted contributions to support their HCRG program. The use restrictions of these contributions were not fully satisfied as of year-end and therefore the unused portion has been classified as temporarily restricted net assets. Temporarily restricted net assets at December 31, 2014 was $264,508. There were no temporarily restricted net assets at December 31, 2015.

19. 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 unrestricted net assets on the consolidated statements of financial position. As of December 31, 2015 and 2014, none of the designated amount has been spent.

20. Subsequent Events

MHIC has performed an evaluation of subsequent events through March 9, 2016, which is the date MHIC's consolidated financial statements were available to be issued. No material subsequent events have occurred since December 31, 2015 that requires recognition or disclosure in these consolidated financial statements.

Supplemental Schedules

Massachusetts Housing Investment Corporation

Supplemental Consolidating Schedule of Financial Position

December 31, 2015

	MHIC	Subsidiaries	Elimination	Consolidated
Assets:				
Cash	$ 16,632,803	$ 2,408,515	$ -	$ 19,041,318
Investment in marketable securities	564,064	-	-	564,064
Investment in capital stock	43,500	-	-	43,500
Program related loans	1,744,068	265,676	-	2,009,744
Due from affiliates	364,303	2,402,385	(2,766,688)	-
Investment in subsidiaries	4,544,557	-	(4,544,557)	-
Program related investments	49,390	751,863	-	801,253
Fee receivable - LIHTC Partnerships	3,402,468	-	-	3,402,468
Fee receivable - NMTC CDEs'	185,574	-	-	185,574
Amounts receivable and other assets	682,817	43,763	-	726,580
Furniture, equipment and leasehold improvements, net of accumulated depreciation	42,103	-	-	42,103
Capitalized costs, net of accumulated amortization	-	38,179	-	38,179
Total assets	$ 28,255,647	$ 5,910,381	$ (7,311,245)	$ 26,854,783
Liabilities and Net Assets:				
Liabilities:				
Notes payable	$ 750,000	$ 1,000,000	$ -	$ 1,750,000
Due to affiliates	2,402,385	364,303	(2,766,688)	-
Unearned fees	2,231,166	-	-	2,231,166
Deferred grant revenue	452,464	-	-	452,464
Accrued expenses and other liabilities	3,528,123	1,521	-	3,529,644
Total liabilities	9,364,138	1,365,824	(2,766,688)	7,963,274
Net assets:				
Unrestricted:				
Undesignated	18,391,509	4,544,557	(4,544,557)	18,391,509
Designated	500,000	-	-	500,000
Total net assets	18,891,509	4,544,557	(4,544,557)	18,891,509
Total liabilities and net assets	$ 28,255,647	$ 5,910,381	$ (7,311,245)	$ 26,854,783

Massachusetts Housing Investment Corporation
Supplemental Consolidating Schedule of Activities
For the Year Ended December 31, 2015

	MHIC	*Subsidiaries*	*Elimination*	*Consolidated*
Revenue and support				
Interest on deposits	$ 49,117	$ 123	$ -	$ 49,240
Interest on program related loans	85,049	68,311	-	153,360
Unrealized loss on investments	(55,370)	(142,674)	-	(198,044)
Loan program revenue	875,363	-	-	875,363
NMTC program revenue	3,587,709	-	-	3,587,709
LIHTC program revenue	5,044,926	-	-	5,044,926
Other program revenue	546,789	-	(11,416)	535,373
Loss from investment in subsidiaries	(227,097)	-	227,097	-
Total revenue and support	9,906,486	(74,240)	215,681	10,047,927
Expenses				
Salaries and employee benefits	6,304,224	-	-	6,304,224
Occupancy, equipment and furniture	301,229	-	-	301,229
Professional services	789,007	147,801	(11,416)	925,392
Depreciation and amortization	26,528	2,727	-	29,255
Grant expenses	322,775	-	-	322,775
Other expenses	1,017,105	2,329	-	1,019,434
Total expenses	8,760,868	152,857	(11,416)	8,902,309
Change in net assets	1,145,618	(227,097)	227,097	1,145,618
Net assets at beginning of year	17,745,891	4,771,654	(4,771,654)	17,745,891
Net assets at end of year	$ 18,891,509	$ 4,544,557	$ (4,544,557)	$ 18,891,509