

TO: All Mortgagors, Management Agents and Certified Public Accountants
FROM: Thomas F. Wolf
DATE: January 1, 2019
SUBJECT: 2018 Audited Financial Statement Requirements

In accordance with Section 14 of the Regulatory Agreement, the Massachusetts Housing Finance Agency (“MassHousing” or “Agency”) requires the owner of each development to submit to MassHousing one complete and signed copy of the Audited Financial Statements within ninety (90) days following the end of the first fiscal year of operation. All Financial Compliance (F.C.) forms must be included in the financial statement report following the first full year of operation. Prior to the first full year of operation, only basic financial statements need to be submitted unless the owner plans to make a distribution from the initial, partial year of operation in which case all forms must be included in the report.

General Submission and WebFacts Requirements:

- Due Date: March 31, 2019 or 90 days from the close of the development’s fiscal year
- PDF version of the signed financial statement should be emailed to financialstatements@masshousing.com
- At the option of the Owner, mailed copies of the financial statement will be accepted and should be addressed to:

Ms. Gina Micchelli, Executive Assistant
Asset Management
MassHousing
One Beacon Street, 7th Floor
Boston, MA 02108

- The WebFacts submission must be completed using www.e-masshousing.com

To insure the integrity of the WebFacts input, we require that the forms be prepared and submitted by the CPA engaged to perform the audit. We would appreciate your assistance in working with the owner to ensure that the quality of this essential information is correct when the financial statement is submitted to MassHousing. Our contact database is updated from the electronic information that is provided annually, and this information is used as the basis for all communication with our auditors and owners. As a result, the current name, address and employee identification of the lead auditor, the ownership entity, and all principles must be included as part of the submission.

Note: The current Web Facts software assumes that each organization is a Partnership. This assumption will change when more suitable software becomes available in the future. However, in the interim, on the general partner information page, if your organization is a LLC, Trust or Corporation, please insert the name of the entity on the line for the general partnership name. When inserting the first name, last name and position of the general partner, please identify the name of the in-charge person and their title.

Audit Report and Auditor Qualifications

The financial statement must be prepared in accordance with the requirements of the Agency which include that the Annual Financial Report be audited by an Independent Certified Public Accountant, be prepared on an accrual basis and in conformity with generally accepted accounting principles applied on a consistent basis. (See Section II of the Resource Guide for a discussion of tax-basis exception).

To meet the requirements, the Owner is responsible for engaging the independent certified public accountant to perform the annual audit. The CPAs must:

- be a qualified independent Certified Public Accountant licensed to practice accounting in the Commonwealth of Massachusetts;
- meet the independence standards of the American Institute of Certified Public Accountants (AICPA);
- have completed a quality control (peer) review, within the most recent time-period as required by the AICPA; and
- have current insurance policies that cover errors and omissions, general and vehicular liability, workers' compensation and professional liability.

Required Schedules and Reports

The Agency requires that owners file certain supplemental documentation as part of the submission. All the Financial Compliance (F.C.) forms should be considered supplementary information. The auditor should determine whether the information is fairly stated in all material respects in relationship to the basic financial statements taken as a whole. A sample Independent Auditor's Report on Supplementary Information may be found in Appendix I.

The required supplementary schedules are as follows:

- A Statement of Funds Flow Available for Equity (Form F.C.-1)
- Statement of Operations & A Reconciliation to Form F.C.-1 (Form F.C.-2A & F.C.-2B)
- Balance Sheet or a Statement of Assets, Liabilities and Partners' Equity (Deficiency) - (Form F.C.-3A, F.C.-3B, & F.C.-3C), as well as a Supplemental Schedule of Long-Term Liabilities (Form F.C.-3D)
- Statement of Cash Flows (Form F.C.-4A, F.C.-4B & F.C.-4C)
- Statement of Funds Available for Distribution (Form F.C.-5)
- Calculation of Surplus Cash, Distributions and Residual Receipts/Excess Equity (Form F.C.-6) as discussed in Section XI for developments with the 1980 Form of the Section 8 Housing Assistance Payment Contract and MassHousing Determined Excess Equity;
- A report from the Certified Public Accountant that he/she has examined certain sections of the development's Regulatory and Management Agreements for compliance with the provisions stated therein.

- A statement (Mortgagor's & General Partner's Certificate) that a duly authorized agent of the owner/general partners has examined and approved the financial statement and all supplementary schedules. In addition, a statement signed by the managing general partners concerning any changes to the current composition of general partners and a Schedule of Developer's Contributions and Guaranteed Annual Payments (Form F.C.-7) as discussed in Section XII.

Additional Reporting Requirements

Developments that receive federal financial assistance are required to use the standards applicable to financial audits contained in Government Auditing Standards. The affected developments are required to adhere to the Yellow Book (December 2011 Revision) and to the Statement on Auditing Standards (SAS) Number 117 (AU-C Section 935): Compliance Audits, and to submit an:

- Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based Upon an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards (See Appendix II).

The U. S. Department of Housing and Urban Development's (HUD) last updated the Consolidated Audit Guide for Audits of HUD Programs (July 2008); and updated Chapters 1 and 2 in January, March, and May 2013. Developments that receive either direct or indirect federal financial assistance fall within the purview (scope) of the HUD Guide, and, will also have to submit an:

- Independent Auditor's Report on Compliance for Each Major HUD Program and Report on Internal Control over Compliance Required by the Consolidated Audit Guide for Audits of HUD Programs (See Appendix III);
- Schedule of Findings, Questioned Costs, and Recommendations;
- Schedule of the Status of Prior Finding, Questioned Costs, and Recommendations (An Auditee Responsibility);
- Management Letter, if applicable, and
- Corrective Action Plan (An Auditee Responsibility).

Changes and Clarification

To provide additional guidance we have developed a Resource Guide and a set of Appendices for your reference. The Resource Guide includes information to assist in the preparation of the Financial Statements and Supplementary Information. The Appendices provide sample Audit Reports.

Significant changes and clarifications to instructions will be discussed in the forward to each of the respective sections of the Resource Guide.

Other Resources

IT and password issues should be addressed to WebFactsSupport@MassHousing.com, and any audit or financial issues should be addressed to Tom Wolf at 617-854-1171.