

Massachusetts Housing Finance Agency
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Memorandum

*to all Mortgagors, Management Agents,
& Certified Public Accounts*

2021 Audited Financial Statement Requirements

For More Resources Regarding the Submission of Audited Financial Statements, please follow this link:

<https://masshousing.com/en/property-managers/reporting/financial-audits>

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.

New for 2021:

Properties with Affordable Housing Trust Funds (AHTF) requiring Annual Cash Flow Sharing Payments are required to submit a *Borrower’s Annual Cash Flow Sharing Payment Certification* along with the *Annual Cash Flow Sharing Payment Calculation*, if applicable. The calculation should show the final AHTF funds due to MassHousing, as well as the waterfall calculation and the pro rata sharing with the other lenders. Please submit certification and calculation to AHTFCertifications@masshousing.com

General Submission and WebFacts Requirements:

- **Due Date:** March 31, 2022 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 Please do NOT mail hard copies of the financial statements to the Agency.
- The WebFacts submission must be completed using www.e-masshousing.com

To ensure 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 an 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 (July 2018 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.

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU) 2016-02, Leases (Topic 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or

operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less are accounted for similar to how they were prior to the change. The standard was set to be effective on January 1, 2020 however, the effective date was deferred to private companies, private not-for-profit organizations, and public not-for-profit organizations that have not yet issued (or made available) their financial statements reflecting the adoption of the guidance. It is intended to provide near-term relief for certain entities for whom the leases adoption is imminent. Under the ASU, private companies and private not-for-profit organizations may apply the new leases standard for fiscal years beginning after December 15, 2021, and to interim periods within fiscal years beginning after December 15, 2022. Public not-for-profit organizations that have not yet issued (or made available to issue) financial statements reflecting the adoption of the lease guidance may apply the standard for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

Other Resources

IT and password issues should be addressed to WebFactsSupport@MassHousing.com, and any audit or financial issues should be addressed to Piia DiMeco at 617-854-1187.