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# Audited Financial Statement Resource Guide

Access MassHousing's online Financial Audit Compliance Tracking System, WebFACTS here:  
<https://masshousing.com/en/property-managers/reporting/financial-audits>

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## Table of Contents

- Section I - Reporting on Annual Financial Statements
  
- Section II - Reporting on Compliance with Laws, Regulations, Contracts and Grant Agreements in accordance with Government Auditing Standards
  
- Section III - Reporting on Compliance with Applicable HUD Regulations
  
- Section IV - Compliance with the Regulatory and Management Agreements
  
- Section V - Statement of Funds Flow Available for Equity (Form F.C.-1)
  
- Section VI - Statement of Operations (Form F.C.-2A) and Reconciliation (Form F.C.-2B)
  
- Section VII - Balance Sheet - Assets, Liabilities & Partner's Equity  
(Form F.C.-3A, F.C.-3B & F.C.-3C)
  
- Section VIII - Statement of Cash Flows (Form F.C.-4A, F.C.-4B & F.C.-4C)
  
- Section IX - Statement of Funds Available for Distribution (Form F.C.-5)
  
- Section X - Calculation of Surplus Cash, Distributions and Residual Receipts/Excess Equity  
(Form FC-6)
  
- Section XI - Schedule of Developer's Contributions and Guaranteed Annual Payments (Form FC-7)
  
- Section XII - Mortgagor's & General Partner's Certificate

## Section I – Reporting on Annual Financial Statements

### **Overview:**

The Agency is requiring all developments that receive funding either directly from a federal financial assistance program (i.e. Section 8, Section 236, etc.) or indirectly through loans/grants (i.e. HODAG, UDAG, etc.) and loan guarantees (i.e. HUD Co-insurance, etc.) to use Government Auditing Standards and to apply the Consolidated Audit Guide for Audits of HUD Programs (HUD Audit Guide), as last updated in May 2013. In practice, Government Auditing Standards are sometimes referred to as generally accepted government auditing standards (GAGAS) or the "Yellow Book" (July 2018 Revision).

Government Auditing Standards include standards for financial audits as well as standards for performance audits. Among the matters that Government Auditing Standards addresses are quality controls, continuing education, working papers and audit follow-up. The references to Government Auditing Standards in this document encompass only the standards for financial audits and not the standards for performance audits.

Affected developments will also have to adhere to the requirements of Statement on Auditing Standards (SAS) Number 117 for Compliance Audits (AU-C Section 935) and will have to provide Independent Auditors' Reports on Compliance with Laws and Regulations and on Internal Control. Appendix II and III illustrate auditors' reports on financial statements, on compliance with laws and regulations, and on internal control that satisfy the requirements of the Yellow Book, and the Consolidated Audit Guide for Audits of HUD Programs (HUD Audit Guide).

Because of the above requirements, each auditor will have to develop an understanding of the compliance requirements of the HUD-program that is being audited, and each will have to select for reporting purposes from among the nineteen (19) compliance areas identified in Chapter 3 of the HUD Guide. The final decision as to what compliance requirements will be examined rests with the project's auditor.

Non-profit institutions which own individual properties receiving HUD assistance (under any of the HUD Programs set forth in 24 CFR parts: 207, 213, 221, 232, 236, 242, 277, 880, 881, 883, 884, 885, 886, 889, and 890) are required to complete project-specific audits because each project is deemed to be a separate entity. Originally, these audits were to be conducted in accordance with OMB Circular A-133, and related guidance. This guidance has now been replaced by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, for Federal Awards* ("Uniform Guidance"), effective for 12/31/2015 audits if the nonprofit organization expends \$750,000 or more in federal awards. The provisions of OMB Circular A-133 are now found in Subpart F of the Uniform Guidance.

However, not-for-profit organizations that sponsor developments that have limited partners or shareholders that receive tax benefits (i.e. LIHTC, losses, etc.) are not non-profits subject to Uniform Guidance. These entities should continue to be audited in accordance with the HUD Audit Guide.

All developments that receive funding from state financial assistance programs (i.e. Section 13A, SHARP, RDAL, etc.) may continue to use Generally Accepted Auditing Standards (GAAS). In addition, within that universe, developments that closed prior to 1998 are also permitted to use the income-tax basis of accounting. Nevertheless, when the auditor has noted a significant deficiency in a financial statement audit conducted in accordance with GAAS, the Agency expects an Independent Auditor's Report on Internal Control Related Matters Identified in a Financial Statement Audit to be prepared (See Appendix II). All references to "GAAS" are for auditing standards generally accepted in the United States of America. Examples of The Independent Auditor's Reports on the Financial Statements are included in Appendix I.

## **Section II - Reporting on Compliance with Laws, Regulations, Contracts and Grant Agreements in accordance with Government Auditing Standards**

### **Overview:**

The Agency requires all developments that received funding either directly or indirectly from a federal financial assistance program to use the standards applicable to financial audits contained in Government Auditing Standards and to apply the HUD Audit Guide. Both AICPA and Government Auditing Standards for field work require that the auditor must obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures - SAS No. 109 (AU-C Section 315).

In addition, the second additional Yellow Book reporting standard for financial statement audits requires that when an auditor provides an opinion or a disclaimer on financial statements, auditors should also report on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, or grant agreements that have a material effect on the financial statements. Auditors should report on internal control and compliance, regardless of whether they identify internal control deficiencies or instances of noncompliance. (Yellow Book, 2018, Paragraph 6.39).

Auditors should include either in the same or in separate report(s) a description of the scope of the auditors' testing of internal control over financial reporting and of compliance with provisions of laws, regulations, contracts, or grant agreements. Auditors should also state in the reports whether the tests they performed provided sufficient, appropriate evidence to support opinions on the effectiveness of internal control and on compliance with provisions of laws, regulations, contracts, or grant agreements. (Reference Yellow Book, Yellow Book, 2018, paragraph 6.42).

Government Auditing Standards also require auditors to report deficiencies in internal control. Auditors should adopt the terminology and definitions in SAS No. 115 – Communicating Control Related Matters Identified in an Audit (AU-C Section 265) when reporting on internal control deficiencies and include in their reports material weaknesses and other significant deficiencies to promote consistency in communicating and reporting on internal control deficiencies.

The suggested auditor's reports on internal control and compliance were restructured to make the format consistent with the AICPA's guide for conducting Circular A-133 audits. The provisions of OMB Circular A-133 are now found in Subpart F of the Uniform Guidance, and they were effective for 12/31/2015 audits and thereafter. The 2013 update to HUD Audit Guide 2000.04 requires the following two reports:

- (1) Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards; and
- (2) 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

Appendix II provide two illustrations of the first report. The second report is illustrated in Appendix III. Each reflects the latest requirements in reporting. These requirements include the AICPA's new Clarity Auditing Standards (through SAS# 133), the provisions of the 2018 Revision to Government Auditing Standards, and the January and March 2013 revisions to the Consolidated Audit Guide for Audits of HUD Programs.

### **Section III - Reporting on Compliance with Applicable HUD Regulations**

#### **Overview:**

The U.S. Department of Housing and Urban Development's (HUD) Consolidated Audit Guide for Audits of HUD Programs, as last updated in May of 2013, requires the independent auditor to test and report on the auditee's compliance with applicable HUD regulations. The auditor's report on compliance should include an opinion on the auditee's compliance with the specific requirements that could have a direct and material effect on each of its major HUD-assisted programs.

Major program means an individual assistance program or a group of programs in a category of federal financial assistance for which expenditures exceed \$500,000 during the applicable year. A project, which has an outstanding HUD-insured, guaranteed or direct loan balance exceeding \$500,000 as of the balance sheet date, shall be considered a major program. Consistent with the requirements of Circular A-133 (now referred to as the Uniform Guidance), separate reporting on compliance with non-major HUD programs and compliance with specific requirements applicable to fair housing and nondiscrimination have been eliminated.

Government Auditing Standards require the reporting of all material instances of noncompliance and an identification of total amounts questioned for each program, because of noncompliance. Instances of noncompliance should be assigned a monetary value, if applicable.

As a result of the above, some combination of the following reports and schedules will have to be filed for developments receiving HUD financial assistance:

1. 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;
2. Schedule of Findings, Questioned Costs, and Recommendations;
3. Schedule of the Status of Prior Audit Findings, Questioned Costs, and Recommendations (An Auditee Responsibility);
4. Management Letter, if applicable, and
5. Corrective Action Plan (An Auditee Responsibility).

Discussion and illustrations of item 1 can be found in Appendix III.

Discussion and illustration of items 2 to 5 can be found in paragraphs 2.-4. D, E, F, and G of the revised Chapter 2 of the HUD Audit Guide.

Note: The Agency is requiring that all instances of illegal acts, fraud, violations of provisions of contracts or grant agreements, or abuse that is uncovered during the audit be communicated in writing to the Director, Rental Management and the Chief Legal Counsel of the Agency for review.

#### **Section IV - Compliance with the Regulatory and Management Agreements**

**Overview:**

In connection with the audit of the financial statements, MassHousing is also requesting that the auditor report on whether or not anything came to their attention that would indicate that the partnership was not in compliance with certain terms, covenants, provisions or conditions of the Regulatory Agreement, existing between the Agency and the development (owner), and the Management Agreement, existing between the development and the management company (agent). Any departures from Agency policy should be documented and explained.

Over the past few years, the Regulatory Agreement and the Management Agreement have been updated. In those cases, where the development has a newer form of Regulatory Agreement and Management Agreement the sections to be examined are shown in the second sample report of Appendix IV. For those developments that have the original form of the Regulatory Agreement and have complied with both the original Management and Regulatory Agreements, the first sample report of Appendix IV would suffice [See also AU-C Section 806 - Reporting on Compliance with Aspects of Contractual Agreements or Regulatory Requirements in Connection with Audited Financial Statements]

## Section V - Statement of Funds Flow Available for Equity (Form F.C.-1)

### **Overview:**

The Statement of Funds Flow Available for Equity is utilized by the Asset Management Department of MassHousing to quantify the financial performance of each development and to determine the net available for distribution. It should, however, not be confused with the more traditional concept of the Statement of Operations (Form F.C.-2A). Finally, this statement should not include the partnership's revenues, syndication payments, expenses or debt service unless these items were specifically provided for in the original underwriting.

On April 7, 2015, The Financial Accounting Standards Board (FASB) issued ASU 2015-03 – *Simplifying the Presentation of Debt Issuance Costs*, which changed the presentation of debt issuance costs in financial statements. Under the ASU, an entity presents such debt issuance costs, net of the related accumulated amortization, in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the debt issuance costs is reported as a component of interest expense using the effective interest method. As the amortization of debt issuance cost is a non-cash item, please do not include this amount in the Gross Debt Service on line 66 to 70.

On August 3, 2012, HUD issued Notice H-2012-14: Use of “New Regulation” Section 8 Housing Assistance Payments (HAP) Contract Residual Receipts to Offset Project-Based Section 8 Housing Assistance Payments. The Notice stipulates that “Residual receipts account balances in excess of \$250 per unit must be applied on a monthly basis to offset Section 8 HAP payments up to the full amount of the monthly subsidy request, depending upon the amount of Residual Receipts available for the offset. Monthly offset must continue until the Residual Receipts account reaches the Retained Balance level of \$250 per unit.” (Reference Section V.C) “The \$250 per unit Retained Balance is net of the Residual Receipts necessary to fund a Service Coordinator Program. That is, Residual Receipts funds in excess of the Retained Balance may be used to fund a Service Coordinator Program prior to offsetting Section 8 HAP Payments.” (Reference Section V.B). Any remissions from the Residual Receipts account should be considered as part of Line 1: Base Rental – Occupancy.

Repairs/Decorating Expenses and Capital Expenditures should be shown at their gross amount. Capital Expenditures should include items that are material in amount and have a useful life that exceeds one year, but exclude items that are funded through mortgage increases, flexible subsidy loans, energy loans or owner's contributions to capital.

It was the Agency's intent that the Replacement Reserve account be used to fund capital expenditures (See MassHousing's Replacement Reserve Policy). Since many owners prefer to expense capital items in the current operating period, rather than adding them to fixed assets and depreciating them over time, the Agency added Line 64: R/R Reimbursements which are treated as Maintenance Expenses on the P&L Statement. To avoid double-counting, these amounts must be excluded from the Maintenance Expense Lines (i.e. 33 to 36, 40, 41, and 45) of the F.C.-1. As a result, Line 63 and 64 must be at least equivalent to the amount shown as Replacement Reserve Reimbursements on Line 18.A.

Gross Debt Service (Mortgage) on Line 66 combines the original MassHousing Mortgage, any Mortgage increase, the Consolidated Note, and the Recapitalization Loan. Gross Debt Service for both the Mortgage and Energy Loans must also include the amount of contractual interest reduction subsidies and loan appropriations received under such programs as Section 236 and Section 13A.

Annual interest incurred on the SHARP, O.D.L., RDAL and Local Obligations, as well as the deferred interest piece of the Consolidated Note, should be included as part of Gross Debt Service - Secondary Financing (Line 69). Exclude any payments made on these obligations during the prior year.

Net Available for Equity is defined in three ways: First, the term is defined in its most traditional sense as the amount generated during the current operating cycle. Second, the term is defined in relationship to the maximum amount available for equity distributions, assuming the development has met all the requirements of the Owner's Equity Distribution Policy, and third, the term is defined for a normal accounting period after adjustment for non-operating (extraordinary) transactions. Normalized Net Available for Equity will separately reflect the impact of excess or deficient contributions to the Replacement Reserve (Line 81.A) and Special Escrow (Line 81.B) accounts, Tax Abatements applicable to prior reporting periods (Line 82), Non-Operating Items (Line 83), Incentive Management Fees (Line 84.A), and Other Timing Differences (Line 84.B).

For developments that have commercial space (revenue), but do not maintain separate expense ledgers, applicable expenses should be allocated to revenue on some reasonable basis (i.e. square footage, percentage of total revenue, etc.).

The definition of each line of the F.C.I schedule and instructions for completion are as follows:

1. Base Rental - Occupancy  
The gross potential rent that a project could earn if all apartments/commercial space were occupied. The rental value of those apartments occupied by management or maintenance staff, or used as models for marketing purposes, must be included in this category. Direct rental subsidy payments from Governmental Agencies must be included in this category, including GAFC/SSI-G for ElderCHOICE (assisted living). Rents are calculated at the MassHousing-approved moderate levels for moderate and assisted market goal units and at the attainable market rent for unassisted units. This Line does not include the excess income portion of assisted market goal units. Include remissions from the Residual Receipts account pursuant to Housing Notice H-2012-14. (See Discussion Above)
2. Gross Excess Rental Income  
Gross amount of rental income collected for subsidized units in excess of the Basic Rentals pursuant to Federal or State subsidy programs. This Line includes the excess income portion of assisted market goal rents.
3. Rents - Parking  
The gross potential income derived from parking facilities.
5. Gross Potential Rental Income  
Total of Lines 1, 2 and 3
6. Vacancy - Occupancy  
Dollar value of units unoccupied during the reporting period. This line should not include the value of concessions, staff units, or model units.
7. Vacancy - Parking  
Dollar value of parking spaces not rented during the reporting period.
8. Bad Debts  
The amount of rental income which was determined to be uncollectible.
9. Excess Section 236 Rental Income Escrowed/Retained

The amount of annual excess rental income that may be escrowed or retained in accordance with the Federal Section 236 Subsidy program.

10. Excess Section 13A/236 Rental Income Remitted  
Amount of annual excess rental income required to be remitted in accordance with the State Section 13A and the Federal Section 236 Subsidy programs.
11. Total Deductions  
Add Lines 6, 7, 8, and 9, and 10.
13. Effective Rental Income  
Line 5 minus 11
- 14.A Interest Subsidy  
The amount of contractual interest reduction subsidy earned under the Section 236, Section 13A, or Energy programs by the development and used to reduce the monthly mortgage payment.
- 14.C Other Subsidy  
The amounts earned under a City or Local (i.e. Other) Subsidy programs, which are technically loans, but are likewise used to reduce monthly mortgage payments.
- 15.A Other Income - Interest - Ordinary  
The amount of interest earned from all sources (i.e. cash and cash equivalents, investments, and escrow accounts) whether held by the development, MassHousing, or under joint control. Include the gross amount of interest earned on the Operating, Replacement Reserve, Real Estate Tax, Insurance, Special Escrow and Tenant Security Deposit Accounts. Exclude interest earned on Partnership Funds, on Annuity Contracts, or on Long-Term Investments, that were contractually required to supplement the funds flow of the development as part of the underwriting process. Also, exclude interest earned on Residual Receipt on Excess Equity Escrow Accounts.
- 15.B Other Income - Interest - Annuity  
The amount of interest earned on Annuity Contracts or Long-Term Investments purchases by the Owner to supplement the funds flow of the development as part of the underwriting process. It is equivalent to Line 751 of Form F.C.7.
- 15.C Other Income - Laundry/Vending  
The amount of non-rental income derived from laundry and vending machines. This line can also include revenue from pay phones.
- 15.D Other Income - Commercial Lease Guarantees  
The amount of Commercial Lease Guarantee Income that the Owner contributed to the development, to defray shortfalls in anticipated Gross Potential Commercial Lease Income, which was guaranteed as part of the underwriting process. It is equivalent to Line 752 of Form F.C.-7.
- 15.E Other Income - Other (Specify)  
The amount of any other non-rental income not categorized above. Examples would include tenant charges and amounts retained from Security Deposits to defray the cost of repairs for tenant damages. This category should not include non-operating items as defined on Line 75 of Form F.C.-1. For ElderCHOICE, respite income, community fees, additional services, and second person fees are classified here. For 13A developments, include Excess Income



Reimbursements from MassHousing which exceed the contractual interest reduction subsidy earned and reflected on Line 14.A.

16. Total Other Income  
Total of all items listed under Line 15.
17. Total Effective Income  
The sum of Lines 13, 14.A, 14C, and 16
- 18.A Replacement Reserve Reimbursements  
The sum of all items reimbursed and/or approved for reimbursement from the Replacement Reserve account should be shown in this category. Reimbursements should be matched to the year the underlying expenses were incurred. All 2018 R/R Reimbursement requests should be received by February 28, 2019.
- 18.B Special Escrow Account Reimbursements  
The sum of all items reimbursed and/or approved for reimbursement from the Special and Excess Income Accounts should be shown in this category. Draws to cover deficits during the absorption/lease-up period should be shown here. All 2018 S/E Reimbursements requests should be received by February 28, 2019. For developments that escrow retained Section 236 Excess Income with MassHousing, the amount shown on Line 18.B must be at least equivalent to the amount shown on Line 9, since the retained funds were to be spent during the calendar year.
19. Developer's Contributions  
The amount of Cash that the Developer is contractually required to contribute to the funds flow of the project as part of the underwriting process. It includes direct cash investments, as well as the reduction in the principal balance of Annuity Contracts or Long-Term Investment programs. It should not include syndication proceeds used to pay partnership expenses or partnership debt service. It is equivalent to Line 753 of Form F.C.-7. Moreover, the aggregate amount reflected on this Line can never exceed the amount the owner was contractually required to contribute during the calendar year.
20. Total Funds Received  
The sum of Lines 17, 18.A, 18.B, and 19
21. Management Fee - Contractual  
The fee paid to the Property Management Company for its services, computed in accordance with the MassHousing approved Management Agreement. Allowable regional/central office expenses (per executed contract) and all incentive management fees should not be expended on this line. A Management Fee may be taken on Section 13A Excess Income that is reimbursed to the development and included on Line 15.E, but not on Section 236 Excess Income Retained.
- 22.A Payroll  
This category includes all salaries attributed to the on-site administrative staff, as well as the rental value of apartments provided to these employees in lieu of salary and any MassHousing approved regional management fee. SHARP, Section 8 and Section 236 developments will not be eligible for the regional management fee after January 1, 1998. Activity or recreation staff should not be shown here.
- 22.B Payroll Taxes & Fringe Benefits

This category includes all payroll taxes, workman's compensation insurance, health insurance, and other fringe benefits attributed to the on-site administrative staff.

23. Legal  
Fees paid to attorneys for legal matters pertaining to evictions, lease violations, and unsuccessful tax abatements.
24. Audit  
The fee charged by an accounting firm to prepare the annual audited financial statements, reports, and any interim financial information. This line may also include the cost of preparing the partnerships tax return and K-1's.
25. Marketing  
Advertising and expenses (rental loss) associated with model apartments and on-going marketing of vacant units. This line includes commissions, broker's fees, or personnel dedicated to marketing, as well as concessions and referral incentives. However, if rents are reduced to allow for concessions, the management fee should be based on the reduced rent. For ElderCHOICE properties, charitable donations should be classified here.
26. Telephone  
Fees paid for telephone and other communication services, such as the emergency call system. Security communication costs (walkie-talkie, beepers, etc.) should be shown on Line 45.
27. Office Supplies and Services  
Charges for office equipment, rental, printing, postage and office supplies. Contract temporary service costs may also be included.
- 28.A Accounting and Data Processing Service Fee or Expense  
This line item may reflect a specified per unit per month fee in accordance with an addendum to the management agreement approved by MassHousing, which has not been amended, or the actual expenses for ADP related functions incurred by a project performed as part of a centralized bookkeeping system. For additional information, please see discussion above and MassHousing Policy Relating to Accounting and Data Processing (ADP) Cost that was approved by the Board on February 8, 2011 and became effective on January 1, 2011.
- 28.B Central Office Fee  
Central Office costs not to exceed the amount specified per unit per month in accordance with the MassHousing's approved management contract and/or MassHousing's Central Office Fee Policy. SHARP developments were not eligible for the central office fee after January 1, 1998.
29. Miscellaneous - Specify  
Any other administrative expenses not categorized above. For example: the costs associated with administrative travel, training, subscriptions, trade association memberships, certifications and tax credit monitoring fees, etc. Donations to charitable or political causes are not allowable project expenses.
30. Total Administrative Expenses  
Add Lines 21 through 29.
- 31.A Payroll

This category includes all salaries attributed to on-site maintenance employees such as superintendents, janitors, cleaners, as well as the rental value of apartments provided to these employees in lieu of salary.

31.B Payroll Taxes & Fringe Benefits

This category includes all payroll taxes, workman's compensation insurance, health insurance, and other fringe benefits attributed to the on-site maintenance employees such as superintendents, janitors, cleaners, etc.

32. Janitorial Materials & Services

Janitorial services performed by personnel not on the payroll, janitorial supplies and janitorial equipment rentals. Housekeeping services for ElderCHOICE should be classified under Resident Services (Line 44).

33. Landscaping

All costs associated with the care and upkeep of the grounds (i.e. planting and trimming of shrubs, railroad ties, contracted lawn care, etc.) and related equipment rentals. If the same contractor is used for snow removal, costs should be separated. Landscaping items paid from the R/R Account must be shown on Line 63 and/or Line 64.

34. Decorating (Interior Only)

All costs associated with painting and wallpapering. Decorating items paid from the R/R account must be shown on Line 63 and/or Line 64.

35. Repairs (Interior & Exterior)

Labor and material costs incurred to do ordinary and necessary repairs to the building, plant and equipment. Repair items paid from the R/R account must be shown on Line 63 and/or Line 64.

36. Elevator Maintenance

Costs associated with the maintenance of the elevator. Elevator Maintenance items paid from the R/R Account must be shown on Line 63 and/or Line 64.

37. Garbage & Trash Removal

Garbage and trash removal charges.

38. Snow Removal

Amounts paid to outside contractor to plow roadways, shovel sidewalks, as well as supplies such as ice melt, sand, etc. (See Line 33)

39. Exterminating

Pest control costs.

40. Recreation

Costs associated with maintaining physical recreational facilities/amenities (upkeep of swimming pools, clubhouse, athletic courts, tot lots, van maintenance) and Lifeguard salaries. Recreation items paid from the R/R account must be shown on Line 63 and/or Line 64.

41. Miscellaneous - Specify

Any other maintenance expenses not categorized (i.e. maintenance related travel, training, uniforms, capital needs studies, and engineering reports, etc.). Miscellaneous items paid from the R/R account must be shown on Line 63 and/or Line 64.

43. Total Maintenance Expenses  
Total of items 31 through 41
44. Resident Services  
Costs associated with providing supportive services to the residents; include salary/fringe for the Resident Services Coordinator, service programs (health, meals, and housekeeping), TAP Connections, intervention and counseling, and transportation, as well as Computer Learning Centers.
45. Security  
Costs associated with providing Security Services (labor, camera/videos, intercoms, walkie-talkies, etc.). Emergency call systems should be included in Line 26. Security items paid from the R/R account must be shown on Line 63 and/or Line 64.
46. Electricity  
Charges for the use of electricity. *Late charges incurred on electricity bills are not an eligible project expense. Rather they are the responsibility of the Management Company/Owner.*
47. Gas  
Charges for use of natural gas and propane. Gasoline for truck, machinery, etc. should be included in maintenance miscellaneous. *Late charges incurred on gas bills are not an eligible project expense. Rather they are the responsibility of the Management Company/Owner.*
48. Oil  
Charges for use of home heating oil. *Late charges incurred on oil bills are not an eligible project expense. Rather they are the responsibility of the Management Company/Owner.*
49. Water & Sewer  
Charges for the use of water and sewer. *Late charges incurred on water & sewer bills are not an eligible project expense. Rather they are the responsibility of the Management Company/Owner.*
50. Total Utilities  
The total of Line items 46 through 49.
53. Replacement Reserve Deposits  
The amount paid into the escrow account, plus any supplemental deposits made to this account, during the reporting period. Interest earned on the escrow should not be listed in this category but included on Line 15.A and Line 78.
54. Special Escrow Deposits  
The amount paid into this escrow account, plus any supplemental deposits made to the account, during the reporting period. Do not include in this amount Section 13A or Section 236 Excess Rental Income Deposits, Residual Receipt or Excess Equity Deposits, or amounts received as fire insurance proceeds. Interest on the escrow should not be listed in the category but included on Line 15.A and Line 78.
55. Taxes - Real Estate

The amount paid/accrued for assessed, 121A, or PILOT taxes for the reporting period, less any adjustment for tax rebates (net of related professional fees). Attorney fees incurred that do not result in a tax abatement should be included on Line 23 as legal expenses.

56. Taxes - Other  
Taxes other than payroll or real estate taxes
57. Insurance  
The insurance premium for property, fire, liability, and vehicle insurance. Mortgage Insurance Premiums (MIP) paid by Section 542 Risk Share and Co-Insured developments should be included on Line 66.
58. Interest (Excluding Mortgage Interest and Fees)  
Interest charges paid or accrued on other than short-term and permanent financing. Examples would include interest incurred on Trade Accounts and Tenant Security Deposits. Fees on Letters-of-Credit, required by MassHousing, will be eligible operating costs if supported by project economics. Mortgage interest, co-insurance fees, and servicing fees are to be included in the Gross Debt Service Lines.
59. Total Taxes, Insurance & Interest  
Total of items 55 through 58
61. Total Disbursements Prior to Cap. Expenditures and D/S  
The total of Lines 30, 43, 44, 45, 50, 53, 54 and 59
62. Total Funds Flow Prior to Cap. Expenditures and D/S  
Line 20 minus Line 61
63. Capital Expenditures (exclusive of Mortgage Increases, Flexible Subsidy Funds, etc.)  
Operating funds used for replacement of or additions to property, plant, or equipment that are material in amount and have a useful life that exceeds one year. Property, plant, and equipment additions reimbursed by Replacement Reserve must be included here. Items funded through mortgage increases, flexible subsidy funds, energy loans, or owner's contributions (unless they are shown on Line 19) should not be shown in this category. It is the equivalent of Line 180 of Form F.C.-2B.
64. R/R Reimbursements which are treated as Maintenance Expenses on the P&L Statement  
The amount that is reimbursed from the Replacement Reserve Account that the owner does not wish to show as a Capital Expenditure on Line 63. To avoid double counting, this amount must be excluded from the Maintenance Expense Lines (i.e. 33 to 36, 40, 41, and 45). Lines 63 and 64 must be at least equivalent to the amount shown as Replacement Reserve Reimbursement on Line 18.A.
65. Funds Flow Prior to Debt Service  
Line 62 minus Lines 63, and 64.
66. Gross Debt Service - Mortgage (MassHousing)  
In general, the amount of Gross Debt Service incurred on the original MassHousing Mortgage, any Mortgage increase, and the Recapitalization Loan. For the Consolidated Note, record only the actual payments made. The amount of any deferred interest on the Consolidated Note will be shown on Line 69.

In addition, include in this amount contractual interest reduction subsidies and loan appropriations earned under such programs as Section 236 and Section 13A, as well as the Mortgage Insurance Premium (MIP) paid by Section 542 Risk Share and Co-Insured developments.

As the amortization of any debt issuance cost is a non-cash item, please do not include it in the Gross Debt Service on line 66.

Exclude 2017 payments made on the Recapitalization Loan and the Consolidated Note during 2018 (See 84.B), because of the loan documents.

In several assisted-living transactions, a lease arrangement exists between the Lessor (owner) and the Lessee (operator). For purposes of completing the F.C.-1, line 66 should only reflect the actual mortgage payment being made by the Lessor to MassHousing.

67. Gross Debt Service - Arrearage & Flexible Subsidy Notes

The amount of principal paid, and the amount of interest incurred on Arrearage and Flexible Subsidy Notes. Exclude 2017 payments made on the Arrearage and Flexible Subsidy Notes during 2018 (See 84.B), because of the loan documents.

As the amortization of any debt issuance cost is a non-cash item, please do not include it in the Gross Debt Service on line 67.

68. Gross Debt Service - Energy Loans

The amount of Gross Debt Service incurred on Energy Loans. Include in this amount interest reduction subsidies earned under these programs.

As the amortization of any debt issuance cost is a non-cash item, please do not include it in the Gross Debt Service on line 68.

69. Gross Debt Service - Secondary Financing

The amount of interest incurred on MassHousing-approved Secondary Financing, SHARP, O.D.L., RDAL, and Local Obligations, as well as on the deferred interest part of the Consolidated Note (See Line 437).

As the amortization of any debt issuance cost is a non-cash item, please do not include it in the Gross Debt Service on line 69.

Exclude any 2017 payments made on the Consolidated, SHARP, O.D.L., or RDAL Notes during 2018 (See 84.B), whether because of the restructuring agreement or as a percentage of Line 80.

70. Gross Debt Service - Other Notes Payable

The amount of principal paid, and the amount of interest incurred on short-term or permanent financing not referenced above but related to the operation of the development and approved by the Management Policy Review Committee of the Agency as an expense of the development. Do not include partnership obligations paid from Syndication Proceeds.

As the amortization of any debt issuance cost is a non-cash item, please do not include it in the Gross Debt Service on line 70.

71. Total Gross Debt Service

The sum of Lines 66 through 70 of Form F.C.-1

73. Funds Flow Prior to Non-Operating Items  
Line 65 minus Line 71
75. Non-Operating Items [Gain or (Loss)]  
Non-Operating Items are gains or (losses) recognized on the disposal of fixed assets and investments, the resolution of insurance claims and condemnation proceedings, and the discharge or forgiveness of indebtedness.
76. Net Available for Equity - Current Operating Cycle Basis  
Line 73 minus Line 7.
77. Add: Interest Expense Recorded but not Paid on D/S  
The interest expense which is shown as an expense per the income statement, but which is not paid by the development but incurred, and allowed to accrue, on the debt (i.e. Local Obligations, SHARP, RDAL, O.D.L., Arrearage, Flexible Subsidy and Secondary Financing Notes). Also, include the accrued deferred interest part of the Consolidated Note. Do not include current period interest accrued on the Mortgage Obligation that is shown on Line 265 of the Form F.C.-3B. The amount on this Line cannot be greater than the sum of Lines 67, 69, and 70.
78. Subtract: Interest Income Earned on R/R and Special Escrow Accounts  
The interest which is shown as income per the operating statement but must be allowed to accumulate on the Replacement Reserve and Special escrow accounts. This amount must be less than or equal to the amount shown on Line 15.A as Interest Income-Ordinary. This amount should not include interest entered on the Excess Equity or the Residual Receipts Accounts.
80. Net Available for Equity - Distribution Basis  
The total of Lines 76 through 78. This figure establishes the amount available for distribution if provisions of the Owner's Equity Distribution Policy have been followed.
- 81.A Add/Subtract: Excess (Deficient) Contributions to the R/R Escrow  
The amount of supplemental (excess) deposits made to the Replacement Reserve Escrow account during the reporting period, and reflected previously on Line 53 above, should be added. Insufficient deposits made to the Replacement Reserve Escrow account during the reporting period should be subtracted. This deficiency, in most cases, will be equivalent to Line 525 of Form F.C.-5.
- 81.B Add/Subtract: Excess (Deficient) Contributions to Special Escrow  
The amount of supplemental (excess) deposits made to the Special Escrow account during the reporting period, and reflected previously on Line 54 above, should be added. Insufficient deposits made to the Special Escrow account during the reporting period should be subtracted. This deficiency, in most cases, will be equivalent to Line 530 of Form F.C.-5.
82. Subtract: Tax Abatements Applicable to Prior Reporting Periods  
The amount of tax abatements received during the reporting period (net of related professional fees) and reflected previously on Line 55 above. Include in this amount only tax abatements applicable to prior reporting periods.
83. Non-Operating Items [Loss or (Gain)]  
The amount of non-operating gain or loss recognized during the reporting period and reflected previously on Line 75. Gains should be treated as reductions; losses should be treated as additions.

84.A Management Fee - Incentive (Agency)

The fee paid to the property management company for its superior performance. Originally, it was computed in accordance with the MassHousing Incentive Management Fee Policy, which is no longer in effect, and paid from Surplus Cash (Line 572). Today, it includes any incentive fee provided through a MassHousing approved Management Agreement.

84.B Other Timing Differences

The amount of any other timing differences for the reporting period not reflected above that would impact the calculation of Net Available for Equity on Line 85. Include 2017 payments that were made on the Recapitalization Loans, and on the Consolidated, SHARP, O.D.L., RDAL, Flexible Subsidy and Arrearage Notes during 2018.

85. Net Available for Equity - Normalized Basis

The total of Lines 80 through 84. This figure establishes the Net Available for Equity that would have been generated for a normal accounting period, adjusted for non-operating (extraordinary) transactions.



## Section VI - Statement of Operations (Form F.C.-2A) and Reconciliation (Form F.C.-2B)

### **Overview:**

The Statement of Operations indicates how a development has performed over a single operating cycle. Therefore, it is one of the basic financial statements that must be submitted annually by each development and certified by an independent accountant.

The Statement of Operations (Form F.C.-2A), developed by the Agency, is to a large degree like the Statement of Funds Flow Available for Equity (Form F.C.-1) that was discussed previously. While the statement condenses some financial information into a more manageable format for analysis purposes, it also permits a more traditional interpretation of the profitability (or lack thereof) of each development.

There are two F.C.-2 schedules. The first (Form F.C.-2A) Statement of Operations is concerned with showing the derivation of the annual profit and loss, while the second (Form F.C.-2B) Reconciliation to the FC-1 is concerned with reconciling the same profit or loss number to the Net Available for Equity - Current Operating Cycle Basis figure as computed on Line 76 on Form F.C.-1.

Residual Receipts Remitted or Reimbursed continue to be an adjustment to income for those developments with the 1980 Form of the Housing Assistance Payment Contract. Consequently, Residual Receipts Remitted (except for those remissions from the Residual Receipts account pursuant to Housing Notice H-2012-14) continues to be a positive reconciling item while Residual Receipts Reimbursed is a negative reconciling item. The Agency's Board amended the Equity Policy to affect a computation and escrow of Excess Equity. Consequently, Excess Equity has become a component of Lines 108, 157, and 159.

On April 7, 2015, The Financial Accounting Standards Board (FASB) issued ASU 2015-03 – *Simplifying the Presentation of Debt Issuance Costs*, which changed the presentation of debt issuance costs in financial statements. Under the ASU, an entity presents such debt issuance costs, net of the related accumulated amortization, in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the debt issuance costs is reported as a component of interest expense using the effective interest method.

To accommodate ASU 2015-3, MassHousing has added to the FC-2A the following account:

- Line 116A: Interest (Amortization of Debt Issuance Costs)

The interest expense associated with the amortization of the debt issuance costs, a non-cash item, using the effective interest method for the current year.

Developments impacted by FASB #130 (ASC 220), ASU 2011-05, ASU 2013-02 and ASU 2017-14, Reporting Comprehensive Income should modify the Form F.C.-2A: Statement of Operations as necessary.

The definition of each line item is as follows:

**Part A: Statement of Operations**

100. Gross Potential Rental Income  
Gross Potential Rental Income is the sum of the Base Rentals from Occupancy, Gross Excess Rental Income and Parking Rentals. Gross Potential Rental Incomes includes remissions from the Residual Receipts account pursuant to Housing Notice H-2012-14. (See Discussion Above) It is the equivalent of Line 5 of Form F.C.-1.
103. Less: Vacancies, Bad Debts & Sections 13A/236 Excess Rental Income Remitted  
The sum of all deductions from Gross Potential Rental Income that adjust to Effective Rental Income. It includes deductions for Vacancies, Bad Debts and Sections 13A and 236 Excess Rental Income Remitted. It is the equivalent of Lines 6, 7, 8, and 10 of F.C.-1.
105. Effective Rental Income  
Effective Rental Income is the product of subtracting Occupancy and Parking Vacancies, Bad Debts and Section 13A and 236 Excess Rental Income Remitted from Gross Potential Rental Income. It is the equivalent of Line 13 of Form F.C.-1 plus Line 168 of Form F.C.-2B.
106. Interest Subsidy  
The amount of contractual Interest Reduction Subsidy earned by the development under the Energy, Section 236 and Section 13A programs and used to reduce the monthly mortgage payments. It is the equivalent of Line 14.A of Form F.C.-1.
107. Other Income - Total  
Non-rental income from all sources: laundry, vending machines, other tenant charges, commercial lease income guarantees, and interest earned on investments, annuities and escrow accounts held either by the development, MassHousing, or under joint control. For Section 13A developments, include Excess Income reimbursements from MassHousing which exceed the contractual interest reduction subsidy earned and reflected in Line 14.A of Form F.C.-1. It is the equivalent of Line 16 of Form F.C.-1.
108. Residual Receipts/Excess Equity (Remitted) or Reimbursed  
The amount of Section 8 Housing Assistance Payments or Agency determined Excess Equity that is either required to be escrowed with the MassHousing or reimbursed from the MassHousing escrow during the current operating cycle. Do not include remissions from the Residual Receipts account pursuant to Housing Notice H-2012-14 which are included in Line 100 above.
110. Total Income  
The total of Lines 105 through 108 of Form F.C.-2A. It is the equivalent of Line 17 of Form F.C.-1 less Lines 156, 160, and 161 of Form F.C.- 2B plus Lines 168 and 169 of Form F.C.-2B.
111. Administration  
The sum of the Management Fee, Payroll and Benefits, Legal, Audit, Marketing, Telephone, Office Supplies & Services, ADP and Central Office Fees, and Miscellaneous expenses associated with the development's administration. It is the equivalent of Line 30 of Form F.C.-1.
112. Maintenance, Resident Services, Security and R/R Items  
The sum of the Payroll and Benefits, Janitorial, Landscaping, Decorating, Repairs, Elevator Maintenance, Garbage & Trash Removal, Snow Removal, Exterminating, Recreation, Resident

Services, Security and Miscellaneous expenses associated with the development's maintenance, security and resident services. This Line also includes Maintenance expenses paid from the Replacement Reserve Account that were shown on Line 64 of the Form F.C.-1. It is the equivalent of Lines 43, 44, 45, and 64 of Form F.C.-1.

113. Utilities

Utilities expense is the sum of the charges for the use of Electricity, Gas, Oil, Water and Sewer. It is the equivalent of Line 50 of Form F.C.-1.

114. Taxes (Real Estate and Other)

The sum of the amounts paid/accrued for assessed, 121A, or PILOT taxes (less any adjustments for tax rebates), as well as, any other non-payroll or real estate taxes incurred for the reporting period. It is the equivalent of Lines 55 and 56 of Form F.C.-1.

115. Insurance

The insurance premium for property, fire and casualty insurance. It is the equivalent of Line 57 of Form F.C.-1.

116. Interest (Financing & Other)

Interest expense is the sum of the charges for the use of money incurred by the development on both short-term and permanent financing, trade accounts and security deposits. The sum of Lines 58 and 71 of Form F.C.-1 must be the equivalent of Lines 116 and 170 of Form F.C.-2A and F.C.-2B respectively. This line also includes Mortgage Insurance Premiums (MIP) paid by Section 542 Risk Share and Co-Insured developments, as well as certain Letters-of-Credit fees required by MassHousing.

Please do not include the amortization of debt issuance costs in this line but rather in line 116.A.

116A: Interest (Amortization of Debt Issuance Costs)

The interest expense associated with the amortization of the debt issuance costs, a non-cash item, using the effective interest method for the current year.

120. Subtotal

The total of Lines 111 through 116.A of Form F.C.-2A.

125. Operating Income

Operating Income is the product of subtracting total Operating Expenses from Total Effective Income. It is the equivalent of subtracting Line 120 from 110 of Form F.C.-2A.

130. Depreciation & Amortization

The portion of the cost or other basis of a tangible asset (i.e. Building & Equipment) or an intangible asset (i.e. Organizational Costs) charged against Operations for the accounting period. Do not include the amortization of debt issuance costs reflected as Interest on line 116.A.

135. Net Income or (Loss) for the Development before Non-Operating Items

Net Income or (Loss) for the Development before Non-Operating Items is the product of subtracting Depreciation and Amortization from Operating Income. It is the equivalent of subtracting Line 130 from Line 125 of Form F.C.-2A.

140. Non-Operating Items [Gain or (Losses)]

Non-Operating Items are gains or (losses) recognized on the disposal of fixed assets and investments, the resolution of insurance claims and condemnation proceedings, and the discharge or forgiveness of indebtedness. It is the equivalent of Line 75 of Form F.C.-1.

145. Net Income or (Loss) for the Development

Net Income or (Loss) for the Development is the product of subtracting Non-Operating Items from Net Income or (Loss) for the Development before Non-Operating Items. It is the equivalent of subtracting Line 140 from 135 of Form F.C.-2A.

Add: Revenues of the Partnership not Applicable to the Development

The portion of the revenues of the partnership not applicable to the development. Example would include Interest Earned on Partnership Funds, Interest Earned on "Cliff" Type Investments (Form F.C.-7, Line 754), Gains or (Losses) on Partnership Investments, Unrelated Business Income, etc. The revenues should be classified by source as follows:

146.A "Cliff: Type Investments

The theoretical amount of interest accrued on zero coupon bonds during the fiscal year that the developer was contractually required to purchase, as part of the underwriting of the project, to fund shortfalls needed to preserve the financial feasibility of the project after the SHARP Subsidy expires in the 15th year. It is the equivalent of Line 754 of the Form F.C.-7.

146.B Other Partnership Investments

The amount of interest earned on partnership funds and gains or (losses) on partnership investments.

146.C Other Revenues

The amount of unrelated business income or revenues from other sources not specifically referenced above.

146.D Subtotal

The total of Lines 146.A, 146.B, and 146.C of Form F.C.-2A.

Subtract: Expenses of the Partnership not Applicable to the Development

The portion of the expenses of the partnership not applicable to the development. Examples would include Commissions, Letter-of-Credit fees, Interest on non-MassHousing approved loans, legal fees for re-syndication, income tax or property title counsel, partnership related litigation, incentive management fees, investor service fees, or any other non-project expenses paid in lieu of partnership distributions. Expenses paid in lieu of partnership distributions must be included on both Lines 586 and 595 of the Form F.C.-5. The expenses should be classified by type and source of funding as follows:

147.A Paid in Lieu of Distributions

Expenses of the partnership paid in lieu of partnership distributions. These expenses must be included in both Lines 586 and 595 of the Form F.C.-5.

In several assisted-living transactions, a lease arrangement exists between the Lessor (owner) and the Lessee (operator). For purposes of completing the F.C.-2A, the difference between the lease payment being made by the operator and the actual mortgage payment made to MassHousing will be considered an Amount Paid In lieu of Distributions and reflected as part of Line 147.A.

- 147.B Paid from Syndication Proceeds  
Expenses of the partnership paid from syndication proceeds.
- 147.C Accrued but not Paid  
The portion of the expenses of the partnership that were not paid from distributions or syndication proceeds but were permitted to accrue.
- 147.D Management Fee - Incentive  
The fee paid to the property management company for its superior performance. Originally, it was computed in accordance with MassHousing's Incentive Management Fee Policy, which is no longer in effect, and paid from Surplus Cash (Line #572). Today, it includes any incentive fee provided through a MassHousing approved Management Agreement fee. It is the equivalent of Line 84.A of the Form F.C.-1.
- 147.E Other Expenses  
All other expenses of the partnership that are paid from partnership sources not specifically referenced above.
- 147.F Subtotal  
The total of Lines 147.A, 147.B, 147.C, 147.D, and 147.E of Form F.C.-2A
148. Net Income or (Loss)  
Net Income or (Loss) for the Partnership is the product of adding Line 146.D to and subtracting Line 147.F from Line 145 of Form F.C.-2A.

**Part B: Reconciliation to Form F.C.-1**

150. Net Income or (Loss) for the Development  
This is equivalent to the Net Income or (Loss) calculated on Line 145 of Form F.C.-2A.
155. Add: Depreciation & Amortization  
The portion of the cost or other basis of a tangible asset (i.e. Building & Equipment) or an intangible asset (i.e. Organizational Costs) charged against operations for the accounting period. It is the equivalent of Line 130 of Form F.C.-2A.
- 155.A Add: Amortization of Debt Issuance Costs  
  
The annual charge for the amortization of the debt issuance costs as reported by the partnership on Line 116.A of the Form F.C.-2A.
156. Add: Residual Receipts/Excess Equity Remitted  
The amount of Section 8 Housing Assistance Payments or Agency determined Excess Equity required to be escrowed with MassHousing during the current operating cycle.
161. Add: Other Subsidy  
The amounts earned under a City or Local (i.e. Other) Subsidy Program, which are technically loans, but are likewise used to reduce the monthly mortgage payment. It is equivalent to Line 14.C of Form F.C.-1.

162. Add: Developer's Contributions  
The amount of cash that the Developer is contractually required to contribute to the funds flow of the project as part of the underwriting process. It includes direct cash investments, as well as the reduction in the principal balance of Annuity Contracts or Long-Term Investment programs. This Line should not include syndication proceeds used to pay partnership expenses or partnership debt service. It is equivalent to Line 19 of Form F.C.-1 and Line 753 of Form F.C.-7.
164. Add: Replacement Reserve Reimbursements  
The sum of all items reimbursed and/or approved for reimbursement from the Replacement Reserve should be shown in this category. It is the equivalent of Line 18.A of Form F.C.-1.
165. Add: Special Escrow Account Reimbursements  
The sum of all items reimbursed and/or approved for reimbursement from the Special and Section 236 Excess Income Accounts should be shown in this category. It is the equivalent of Line 18.B of Form F.C.-1.
166. Subtotal  
The total of Lines 155 through 165 of Form F.C.-2B
168. Less: Excess Section 236 Rental Income Escrowed/Retained  
The annual amount of Excess Rental Income escrowed with MassHousing in accordance with the Federal Section 236 Subsidy Programs. It is the equivalent of Line 9 of Form F.C.-1.
169. Less: Residual Receipts/Excess Equity Reimbursed  
The amount of Section 8 Housing Assistance Payments or Agency determined Excess Equity reimbursed from the MassHousing escrow during the current operating cycle.
170. Less: Debt Service (Principal)  
The portion of debt service incurred by the development on both short-term and permanent financing which represents the annual amortization of principal. The sum of Lines 58 and 71 of Form F.C.-1 must be the equivalent of Line 116 and 170 of Form F.C.-2A and F.C.-2B, respectively.
175. Less: Replacement Reserve Deposits  
The amount paid into the escrow account, plus any supplemental deposits made to the account during the reporting period. Interest earned on the escrow should not be listed in this category. It is the equivalent of Line 53 of Form F.C.-1.
176. Less: Special Escrow Deposits  
The amount paid into this escrow account, plus any supplemental deposits made to the account during the reporting period. Do not include in this account Section 13A or Section 236 Excess Rental Income deposits or amounts received as fire insurance proceeds. Interest earned on the escrow should not be listed in this category. It is the equivalent of Line 54 of Form F.C.-1.
180. Less: Capital Expenditures (Exclusive of Flexible Subsidy, Mortgage Increases, Etc.)  
Operating funds used for replacement of or additions to property, plant, or equipment that are material in amount and have a useful life that exceeds one year. Property, plant, and equipment additions reimbursed by Replacement Reserve must be included here. Items funded through mortgage increases, flexible subsidy, and energy loans, or owner's contributions (unless they are

- shown on Line 162) should not be shown in this category. It is the equivalent of Line 63 of Form F.C.-1.
186. Subtotal  
The total of Lines 168 through 180 of Form F.C.-2B
190. Other Reporting Differences  
The amount of any reporting differences for the current period in either the revenue or expense area not reflected above that would impact the calculation of Net Available for Equity on Line 76 of Form F.C.-1.
195. Net Available for Equity - Current Operating Cycle Basis  
Net Available for Equity - Current Operating Cycle Basis is the sum of Lines 150, 166, 186 and 190 of Form F.C.-2B. It is the equivalent of Line 76 of Form F.C.-1.

## Section VII - Balance Sheet - Assets, Liabilities & Partner's Equity (Form F.C.-3A, F.C.-3B & F.C.-3C)

### **Overview:**

The Balance Sheet, in contrast to the Statement of Operations, indicates how a development has performed over an extended period. Obviously, protracted operating losses will have a detrimental effect on liquidity and impact on a development's ability to service its debt.

Because of the lack of consistency in Balance Sheet terminology, the Agency defined the relative classifications of assets and liabilities as either current or noncurrent.

On April 7, 2015, The Financial Accounting Standards Board (FASB) issued ASU 2015-03 – *Simplifying the Presentation of Debt Issuance Costs*, which changed the presentation of debt issuance costs in financial statements. Under the ASU, an entity presents such debt issuance costs, net of related accumulated amortization, in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the debt issuance costs is reported as a component of interest expense using the effective interest method. As a result, the definitions of Line 244: Gross Organizational and Financing Cost and Line 244.A: Accumulated Amortization, exclude these debt issuance costs as an asset being amortized. These debt issuance costs, net of the related accumulated amortization, will be a direct deduction from the related debt liability.

Unreimbursed R/R and Special Escrow Withdrawals was added as a memorandum item on Line 250.A. to capture amounts which have been approved for reimbursement from the Replacement Reserve and Special Escrow Accounts for which no funds have been transferred. For calculating Residual Receipt, Excess Equity, and Recap payments, the account includes excess deposits to the Replacement Reserve and Special Escrows as reflected on Lines 81.A and 81.B of the F.C.-1. Since it was HUD's and MassHousing's intent that the Replacement Reserve Account be used to fund major capital expenditures, the Agency reserves the right to review the sources of funding for capital items and to increase Replacement Reserve withdrawals for those items deemed to have been paid inappropriately from operations. These amounts may also be included in 250.A.

Form F.C.-4D, Supplemental Schedule of Long-Term Liabilities was added as a requirement to more fully analyze the long-term obligations of the partnership. Each of these obligations must be fully described in the footnotes to the financial statement. Included in this documentation should be the origin of the obligation, its terms (i.e. Years, Interest Rate), the source of funds for repayment (i.e. Operations, Syndication Proceeds, etc.), and the amount of accrued interest.

To avoid confusion in completing the Form F.C.-4D, two things should be kept in mind: One, the Principal Balance of the original Mortgage Note, any Mortgage Increase Note, the Consolidated Note, and the Recapitalization Loan is never reflected on this form. Second, the Schedule F.C.-4D reflects only the Noncurrent Principal, Accrued Interest and Total Balance of each class of obligation.

Schedule F.C.-3 is divided into four parts.

Part A is concerned with the Asset side of the Balance Sheet.

Part B is concerned with the Liabilities and Partners' Equity.

Part C is concerned with the Statement of Changes in Partners' Equity (Deficiency).

Part D is concerned with analyzing the Long-Term Obligations of the Partnership.

Developments impacted by FASB #130 (ASC 220), ASU 2011-05, ASU 2013-02 and ASU 2017-14, Reporting Comprehensive Income should modify the Form F.C.-3C: Statement of Partner's Equity (Deficiency) as necessary. The definition of each line item is as follows:



## Part A: Assets

### Cash and Cash Equivalents

Cash and any asset which may be converted into cash immediately without upsetting day-to-day operations (short-term investments are excluded). Examples would be cash on hand, cash deposited in banks, and cash in transit, demand certificates of deposit, trade acceptances and money market accounts. Cash may be assumed to be available for any ordinary use within the enterprise; hence, it does not include amounts that are escrowed or restricted for a specific purpose. Therefore, amounts escrowed as part of the Recapitalization Program should not be included in this Line item. For purposes of conformity with FASB No. 95 (ASC 230), the Statement of Cash Flows, all highly liquid debt instruments with a maturity of three months or less are considered cash and cash equivalents.

201. Partnership Accounts

This account would include partnership funds derived from syndication proceeds and from Distributions approved by the Agency but not paid to the partners.

202. Development (Project) Accounts

This account would include funds derived from the normal operation of the development.

203. Subtotal

The sum of Lines 201 and 202 of Form F.C.-3A.

### Cash Reserved or Escrowed

Cash which is set aside (escrowed) or reserved for the fulfillment of a special or specific purpose.

205. Tenant Security Deposits

Cash received from tenants at the inception of the lease to cover any potential repairs or unpaid rents at the expiration of the same.

206. Insurance and Real Estate Tax Escrows

Cash that is required by the Agency to be set aside specifically to cover the cost of insurance and real estate taxes.

209. Special and Other Escrow

Cash that is specifically set aside by the development to fund escrows for special and other purposes, not defined previously, but approved by the Agency. Examples would include cash set aside (escrowed) for mortgage payment or as part of a refinancing program.

210. Subtotal

The sum of Lines 205 through 209 of Form F.C.-3A.

### Accounts Receivable

An account showing amounts due from tenants, government agencies and others, usually maturing in less than one year. It excludes amounts due from general partners and affiliates.

215. Tenant (less doubtful accounts)

The amount due from tenants, less any allowance for bad debts (doubtful accounts).

216. HUD  
The amount due from the U. S. Department of Housing and Urban Development under rental subsidy programs (i.e. Section 8, etc.)
218. Other  
This account would include amounts due from the federal and state governments under interest reduction subsidy programs (i.e. Section 236 and Section 13A); rental subsidy programs (i.e. M.R.V.P., etc.), as well as from any other accounts receivable source not specifically referenced above.
220. Subtotal  
The sum of Lines 215, 216 and 218 of Form F.C.-3A.
222. Residual Receipts/Excess Equity Receivable  
Include in this Line item the Residual Receipt or Excess Equity that the development is requesting either HUD or MassHousing to reimburse.
223. Short-Term Investments  
The temporary investment of working capital which management intends to or could convert into cash within one year or the operating cycle. These investments must be highly marketable and their sale not disruptive of normal operations or policy. For purposes of conformity with FASB No. 95 (ASC 230), the Statement of Cash Flows, all highly liquid debt instruments with a maturity greater than three months are considered short-term investments.
225. Due from General Partners and/or Affiliates  
The amount due from the general partners, or affiliates of the general partners (i.e. Management Company), and advanced by the development under notes, receivables or on open account.
227. Prepaid Expenses  
The amount representing the portion of current outlays for benefits carried into the succeeding accounting period or periods. Example would include prepaid taxes, interest and insurance.
228. All Other Current Assets  
The amount of any current assets not specifically referenced above.
230. Total Current Assets  
The sum of Lines 203, 210, 220, 222, 223, 225, 227 and 228 of Form F.C.-3A.
231. Land  
The investment in real estate (including land improvements) but not including buildings or other limited-life structures. This investment is not subject to depreciation.
232. Building & Equipment  
The investment in the physical structure of the development, as well as the investment in the fixed asset units, usually moveable, accessory or supplemental to such larger items as buildings and structures. Both investments are subject to depreciation.

234. Subtotal  
The sum of Lines 231 and 232 of Form F.C.-3A.
235. Accumulated Depreciation  
The fixed asset valuation account which acts as an offset to the depreciation provision. It is an accumulation of all depreciation charges booked against the fixed asset account; adjusted for all retirements.
236. Net  
The product of Line 234 minus 235 of Form F.C.-3A.
240. Capital Contributions Receivable  
The remaining amount that both the general and limited partners are required to contribute to the partnership.
241. Reserves for Replacement Escrow  
Cash that is required by the Agency to be escrowed specifically to cover the cost of replacement of capital items approved by the Rental Management Department.
242. Excess Rental Income Escrow Account  
The portion of rental income received from "over-income" tenants which, under the federal Section 236 program, may be deposited in an escrow account at MassHousing to be used for project operations approved by HUD. If approved by MassHousing, this account should also include Excess Rental Income remitted to MassHousing under the State Section 13A Program.
243. Long-Term Investments  
The permanent investment of working capital which management does not intend to convert into cash within one year or the operating cycle. These investments may not be highly marketable, and their sale may be disruptive of normal operations or policy. This account should be used to reflect amounts invested in Annuity Contracts and Long-Term Investment Programs as part of the underwriting of the project. This account may not include or be used to escrow Residual Receipts or Surplus Cash payments that are due to HUD or MassHousing.
- Long-Term Investments, which are generally held until maturity, are stated at cost, adjusted for amortization of premiums, and accretion of discounts on purchase. Gains or losses on security transactions are computed under the specific identification method.
- 243.A Market Value  
Reflects the value of the Long-Term Investments because of changing market conditions.
244. Gross Organizational and Financing Costs  
The sum of all organizational and financing costs incurred at the inception or refinancing of the development. As debt issuance costs are no longer to be considered as an asset, they should be removed from this account. Debt issuance costs, net of related accumulated amortization, should be considered in the balance sheet as a direct deduction from the related debt liability.
- 244.A Accumulated Amortization  
The intangible valuation account which acts as an offset to the amortization provision. It is an accumulation of all amortization charges booked against the Organizational and Financing Costs Account. As debt issuance costs are no longer considered an asset, the related accumulated amortization should be removed from this account (see instructions at Line 244).

245. Net  
The sum of all organizational and financing costs that remain to be amortized. It is the product of Line 244 minus 244.A of the F.C.-3A.
246. Deferred Syndication Costs  
The syndication costs that were incurred because of the offering of limited partnership interest. These costs will neither be depreciated nor amortized. For tax-basis development, the deferred costs should be shown as an asset, while for accrual-basis (GAAP) developments, the costs are shown as an offset to contributed capital.
248. Deposits and Other  
The sum of all funds given as security for items acquired for temporary use and the amount of any non-current assets not specifically referenced above.
250. Total Assets  
The sum of Lines 230, 236, 240, 241, 242, 243, 245, 246 and 248 of Form F.C.-3A.
- 250A. Unreimbursed R/R and Special Escrow Withdrawals Included in Above  
The amounts which have been approved for reimbursement from the Replacement Reserve and Special Escrow Accounts for which no funds have been transferred. For Residual Receipt, Excess Equity, and Recapitalized developments, this account includes excess contributions to the Replacement Reserve and Special Escrows, as reflected on Lines 81.A and 81.B of the F.C.-1, and amounts deemed by the Agency to have been paid inappropriately from operations. It is equivalent to Line 509 of the Form F.C.-5.

**Part B: Liabilities and Partners' Equity (Deficiency)**

251. Current Portion of Mortgage Payable  
The portion of the original Mortgage, any Mortgage increase, the Consolidated Note, and the Recapitalization Loan, to be retired during the ensuing twelve month.
252. Notes and Advances - due within one year  
The portion of the Notes and Advances expected to be retired during the ensuing twelve month. (See Definition on Page 30 below)

Definition: Accounts Payable

A liability to a creditor, generally on open account, often limited to unpaid amounts for the purchase of goods or services. This account would include amounts due on trade accounts, to contractors for construction in progress, and to any other parties not specifically referenced above. Accounts payable should be distinguished from accruals and other current liabilities not arising out of everyday transactions.

255. Trade - due within 30 days  
The liability on open account for the purchase of commodities or services used in the regular course of business and due within 30 days.

257. Other  
The liability on open account to contractors for construction in progress and to any other parties not specifically referenced above.
260. Subtotal  
The sum of Lines 255 through 257 of Form F.C.-3B.
262. Residual Receipts/Excess Equity Payable  
Include in this Line item the Residual Receipts or Excess Equity that must be remitted to the Agency per Line 700 of the Form F.C.-6.

Definition: Accrued Expenses

The liability covering an expense, incurred on or before a given date, payable at some future date. Example includes accrued interest, real estate taxes, wages, etc.

265. Interest  
The amount of interest expense incurred on mortgage and other debt obligation, on or before the end of the year, but not payable until the following year. Exclude deferred interest (See Line 347).
266. Real Estate Tax & Insurance  
The amount of real estate tax and insurance expense incurred by the development on or before the end of the year, but not payable until the following years.
267. Other  
The amounts of other expenses incurred on or before the end of the year but not payable until the following year and not specifically referenced above. (Example: Wages, Water & Sewer, etc.)
270. Subtotal  
The sum of Lines 265 through 267 of Form F.C.-3B.
272. Tenant Security Deposits  
The liability of the development to the tenants for cash received from the tenants at the inception of the lease to cover any potential repairs or unpaid rents at the expiration of the same.
274. Prepaid Rent  
A deferred revenue account representing the value of rental payments received in advance from tenants.
278. All Other Current Liabilities  
The amount of all other current liabilities not specifically referenced above.
280. Total Current Liabilities  
The sum of Lines 251, 252, 260, 262, 270, 272, 274 and 278 of Form F.C.-3B.
281. Mortgage Payable, net of current portion  
The portion of the original Mortgage, any Mortgage increase, the Consolidated Note, and the Recapitalization Loan, not coming due within the next year. The balance should be reduced by any related net deferred issuance costs.

Definition: Notes and Advances, net of current portion

The liabilities to banks, trade and other creditors bearing interest and evidenced generally by a promissory obligation. The balance should be reduced by any related net deferred issuance costs.

It excludes amounts due to general partners and affiliates.

Furthermore, the amount of any accrued interest from prior periods which has not been paid should be excluded from the account balance.

282. Energy Notes

The noncurrent amount owed on promissory notes (exclusive of accrued interest) to MassHousing or Citizens Conservation Corporation for the implementation of energy improvements. It is equivalent to Line 401 of Form F.C.-3D. The balance should be reduced by any related net debt issuance costs.

283. Arrearage & Flexible Subsidy Notes

The noncurrent amount owed on arrearage or flexible subsidy notes (exclusive of accrued interest) to the Agency or H.U.D., respectively, which arose generally as the result of a workout. It is equivalent to the sum of Line 402 and 403 of Form F.C.-3D. The balance should be reduced by any related net debt issuance costs.

284. Other Notes & Advances

The noncurrent amount owed on promissory notes and advances (exclusive of accrued interest) to any other parties not specifically referenced on Lines 401 through 403 of the Form F.C.-3D. It is equivalent to the sum of Lines 404 through 412 of Form F.C.-3D. The balance should be reduced by any related net debt issuance costs.

285. Subtotal

The sum of Line 282, 283, and 284, of Form F.C.-3B. It is the equivalent of Line 415 of Form F.C.-3D.

286. Accrued Interest on All Long-Term Liabilities

The amount of interest expense, which has not been paid but added to the noncurrent account balances, on all the Long-Term Liabilities of the partnership (i.e. mortgages, notes and advances, development fees, due to general partners and affiliates). It is the equivalent of Line 450 of Form F.C.-3D.

287. Due to General Partners and/or Affiliates

The noncurrent balance advanced (exclusive of accrued interest) by the general partner, or affiliates of the general partner (i.e. Management Company), whether or not interest bearing or on a secured basis, to supplement operating funds. It is equivalent to Line 420 of Form F.C.-3D.

288. Development Fees Payable

The noncurrent balance (exclusive of accrued interest) of the fees due to the general partners because of syndication of the partnership and development of the project. It is the equivalent of Line 421 of Form F.C.-3D.

289. All Other Long-Term Liabilities

The noncurrent balance (exclusive of accrued interest) of all other long-term liabilities not specifically referenced above. It is equivalent to Line 422 of Form F.C.-3D.

290. Total Long-Term Liabilities  
The sum of Lines 281, 285, 286, 287, 288 and 289 of Form F.C.-3B.
291. Total Liabilities  
The sum of Lines 280 and 290 of Form F.C.-3B.
292. Total Partners' Equity (Deficiency)  
The Total Partners' Equity (Deficiency) is the result of subtracting Total Liabilities from Total Assets. It is the equivalent of subtracting Line 291 of Form F.C.-3B from Line 250 of Form F.C.-3A.
294. Total Liabilities and Partners' Equity (Deficiency)  
The sum of Lines 291 and 292 of Form F.C.-3B.

**Part C: Statement of Change in Partners' Equity (Deficiency)**

295. Balance, Beginning of Year  
The accumulated partnership equity (deficiency) generated from the inception of the project through the beginning of the current operating cycle. It is the equivalent of Line 300 of Form F.C.-3C filed with the prior year's Annual Financial Report.
- 295A. Add/(Subtract) Prior Period Adjustments and Non-Cash Transactions  
Positive or Negative adjustments to the Beginning Balance because of Prior Period activity, the transfer of Partnership Interests, or Non-Cash Transactions.
296. Add: Capital Contributions  
The capital contributed to the development, by both general and limited partners, during the current operating cycle. Syndication costs are expenses, incurred because of the offering of limited partnership interests, which will neither be depreciated nor amortized. For tax-basis developments, the deferred costs should be shown as an asset, while for accrual-basis (GAAP) developments, the costs are shown as an offset to capital contributions. For Tax Basis developments, Line 296 must be equivalent to Line 337 of the F.C.-4B.
297. Add: Income or (Loss)  
The Income or (Loss) generated during the current operating cycle. It is the equivalent of Line 148 on Form F.C.-2A.
298. Deduct: Distributions  
The amount of distributions, representing a return of Stated Equity, paid by the development during the current operating cycle.
299. Deduct: Distributions - Refinancing & Other  
The amount of distributions paid by the development during the current cycle because of a Refinancing or Syndication.
300. Balance, End of Year  
The sum of Lines 295 through 299. It is equivalent to Line 292 of Form F.C.-3B.

## **Part D: Supplemental Schedule of Long-Term Liabilities**

### Notes & Advances - Principal Balance

401. Energy Notes - Principal Balance

The noncurrent principal balance owed on promissory notes to MassHousing or Citizens Conservation Corporation for the implementation of energy improvement. The balance should be reduced by any related net debt issuance costs.

402. Arrearage Notes - Principal Balance

The noncurrent principal balance owed on promissory notes to the Agency, which arose generally as the result of a workout. The balance should be reduced by any related net debt issuance costs.

403. Flexible Subsidy Notes - Principal Balance

The noncurrent principal balance owed on promissory notes to H.U.D., which arose generally as the result of a workout. The balance should be reduced by any related net debt issuance costs.

404. SHARP Notes - Principal Balance

The noncurrent principal balance owed on promissory notes to the State under the State Housing Assistance for Rental Production (SHARP) program and on promissory notes to the Agency under the Operating Deficit Loan (O.D.L.) program. The balance should be reduced by any related net debt issuance costs.

405. Secondary Financing Notes - Principal Balance

The noncurrent principal balance owed on promissory notes to parties' other than MassHousing, which arose generally from the re-syndication of the development. The balance should be reduced by any related net debt issuance costs.

406. Residual Proceeds Notes - Principal Balance

The noncurrent principal balance owed on promissory notes to parties' other than MassHousing, that will be discharged from the proceeds of the sale or refinancing of the development. The balance should be reduced by any related net debt issuance costs.

407. Bank Loans (Notes) - Principal Balance

The noncurrent principal balance owed on promissory notes to banks or other financial institutions, exclusive of the Agency. The balance should be reduced by any related net debt issuance costs.

408. Capitalized Lease Obligation Notes - Principal Balance

The noncurrent principal balance owed on promissory notes, which arose as the result of a capitalized lease transaction. The balance should be reduced by any related net debt issuance costs.

409. HODAG - Principal Balance

The noncurrent principal balance owed on promissory notes to H.U.D. under the Housing Development Action Grant (HODAG) program. The balance should be reduced by any related net debt issuance costs.



410. UDAG - Principal Balance  
The noncurrent principal balance owed on promissory notes to H.U.D. under the Urban Development Action Grant (UDAG) program. The balance should be reduced by any related net debt issuance costs.
411. RDAL - Principal Balance  
The noncurrent principal balance owed on promissory notes to D.H.C.D. under the Rental Development Action Loan (RDAL) program. The balance should be reduced by any related net debt issuance costs.
412. Other - Principal Balance  
The noncurrent principal balance owed on promissory notes and advances (i.e. City or Town Subsidy programs) other than those specifically referenced above. The balance should be reduced by any related net debt issuance costs.
415. Subtotal - Principal Balance of Notes & Advances  
The sum of Lines 401 through 414 of Form F.C.-3D.
420. Due to General Partners and/or Affiliates - Principal Balance  
The noncurrent principal balance of amounts advanced by the general partner, or affiliates of the general partner (i.e. Management Company), to supplement operating funds.
421. Development Fees Payable - Principal Balance  
The noncurrent principal balance of the fees due to the general partners because of the syndication of the partnership and development of the project.
422. All Other Long-Term Liabilities - Principal Balance  
The noncurrent principal balance of all other long-term liabilities not specifically referenced above.
425. Total - Principal Balance  
The sum of Lines 415 through 422 of the Form F.C.-3D. It is equivalent to the sum of Lines 285, 287, 288 and 289 of the Form F.C.-3B.

Notes & Advances - Accrued Interest

426. Energy Notes - Accrued Interest  
The amount of interest expense that has not been paid on the Energy Notes but has been allowed to accrue.
427. Arrearage Notes - Accrued Interest  
The amount of interest expense that has not been paid on the Arrearage Notes but has been allowed to accrue.
428. Flexible Subsidy Notes - Accrued Interest  
The amount of interest expense that has not been paid on the Flexible Subsidy Notes but has been allowed to accrue.
429. SHARP Notes - Accrued Interest  
The amount of interest expense that has not been paid on the SHARP and Operating Deficit Loan (O.D.L.) Notes but has been allowed to accrue.

430. Secondary Financing Notes - Accrued Interest  
The amount of interest expense that has not been paid on the Secondary Financing Notes but has been allowed to accrue.
431. Residual Proceeds Notes - Accrued Interest  
The amount of interest expense that has not been paid on the Residual Proceeds Notes but has been allowed to accrue.
432. Bank Loans (Notes) - Accrued Interest  
The amount of interest expense that has not been paid on promissory notes to banks or other financial institutions but has been allowed to accrue.
433. Capitalized Lease Obligation Notes - Accrued Interest  
The amount of interest expense that has not been paid on the Capitalized Lease Obligation Notes but has been allowed to accrue.
434. HODAG - Accrued Interest  
The amount of interest expense that has not been paid on the HODAG Notes but has been allowed to accrue.
435. UDAG - Accrued Interest  
The amount of interest expense that has not been paid on the UDAG Notes but has been allowed to accrue.
436. RDAL - Accrued Interest  
The amount of interest expenses that has not been paid on the RDAL Notes but has been allowed to accrue.
437. Other - Accrued Interest  
The amount of interest expense that has not been paid on promissory notes and advances (i.e. City or Town Subsidy program), other than those specifically referenced above, but has been allowed to accrue. Also include in this category, deferred interest owed to the MassHousing under a Restructuring Agreement of the original Mortgage Note, Mortgage Increase Note, Consolidated Note, and Recapitalization Loan.
440. Subtotal - Accrued Interest on Notes & Advances  
The sum of Lines 426 through 439 of Form F.C.-3D.
445. Due to General Partners and/or Affiliates - Accrued Interest  
The amount of interest expense that has not been paid on amounts advanced by the general partners and/or affiliates but has been allowed to accrue.
446. Development Fees Payable - Accrued Interest  
The amount of interest expense that has not been paid on the fees due to the general partners, because of the syndication of the partnership and development of the project but has been allowed to accrue.
447. All Other Long-Term Liabilities - Accrued Interest  
The amount of interest expense that has not been paid on all other long-term liabilities, not specifically referenced above, but has been allowed to accrue.

450. Total - Accrued Interest  
The sum of Lines 440 through 447 of Form F.C.-3D. It is equivalent to the amount shown on Line 286 of Form F.C.-3B.

Notes and Advances - Noncurrent Balance

451. Energy Loans - Noncurrent Balance  
The noncurrent balance owed on promissory notes to the MassHousing or Citizens Conservation Corporation for the implementation of energy improvements. It is equivalent to the sum of Line 401 and 426 of Form F.C.-3D.
452. Arrearage Notes - Noncurrent Balance  
The noncurrent balance owed on promissory notes to the Agency, which arose generally as the result of a workout. It is equivalent to the sum of Line 402 and 427 of Form F.C.-3D.
453. Flexible Subsidy Notes - Noncurrent Balance  
The noncurrent balance owed on promissory notes to H.U.D., which arose generally as the result of a workout. It is equivalent to the sum of Line 402 and 428 of Form F.C.-3D.
454. SHARP Notes - Noncurrent Balance  
The noncurrent balance owed on promissory notes to the State under the State Housing Assistance for Rental Production (SHARP) program and on promissory notes to the Agency under the Operating Deficit Loan (O.D.L.) program. It is equivalent to the sum of Line 404 and 429 of Form F.C.-3D.
455. Secondary Financing Notes - Noncurrent Balance  
The noncurrent balance owed on promissory notes to parties' other than the MassHousing, which arose generally from the re-syndication of the development. It is the equivalent to the sum of Line 405 and 430 of Form F.C.-3D.
456. Residual Proceeds Notes - Noncurrent Balance  
The noncurrent balance owed on promissory notes to parties' other than the MassHousing that will be discharged from the proceeds of the sale or refinancing of the development. It is equivalent to the sum of Lines 406 and 431 of Form F.C.-3D.
457. Bank Loans (Notes) - Noncurrent Balances  
The noncurrent balance owed on promissory notes to banks or other financial institutions. It is equivalent to the sum of Line 407 and 432 of Form F.C.-3D.
458. Capitalized Lease Obligation Notes - Noncurrent Balance  
The noncurrent balance owed on promissory notes, which arose as the result of a capitalized lease transaction. It is equivalent to the sum of Lines 408 and 433 of Form F.C.-3D.
459. HODAG - Noncurrent Balance  
The noncurrent balance owed on promissory notes to H.U.D. under the Housing Development Action Grant (HODAG) program. It is the equivalent of the sum of Lines 409 and 434 of Form F.C.-3D.
460. UDAG - Noncurrent Balance

The noncurrent balance owed on promissory notes to H.U.D. under the Urban Development Action Grant (UDAG) program. It is the equivalent of the sum of Lines 410 and 435 of Form F.C.-3D.

461. RDAL - Noncurrent Balance

The noncurrent balance owed on promissory notes and advances to D.H.C.D. under the Rental Development Action Loan (RDAL) program. It is the equivalent of the sum of Lines 411 and 436 of Form F.C.-3D.

462. Other - Noncurrent Balance

The noncurrent balance owed on promissory notes and advances (i.e. City and Town Subsidy programs) other than those specifically referenced above. Included in this category should be deferred interest owed to MassHousing under a Restructuring Agreement on the original Mortgage Note, Mortgage Increase Note, Consolidated Note, and Recapitalization Loan. It is equivalent to the sum of Lines 412 and 437 of Form F.C.-3D.

465. Subtotal - Noncurrent Balance of Notes & Advances

The sum of Lines 451 through 464 of Form F.C.-3D.

470. Due to General Partners and/or Affiliates - Noncurrent Balance

The noncurrent balance of amounts advanced by the general partner, or affiliates of the general partner (i.e. Management Company), to supplement operating funds. It is equivalent to the sum of Lines 420 and 445 of Form F.C.-3D.

471. Development Fees Payable - Noncurrent Balance

The noncurrent balances of the fees due to the general partners because of the syndication of the partnership and development of the project. It is equivalent to the sum of Line 421 and 446 of Form F.C.-3D.

472. All Other Long-Term Liabilities - Noncurrent Balance

The noncurrent balance of all other long-term liabilities not specifically referenced above. It is equivalent to the sum of Line 422 and 447 of Form F.C.-3D.

475. Total - Noncurrent Balance

The sum of Lines 465 through 472 of Form F.C.-3D. It is equivalent to the sum of Lines 285, 286, 287, 288 and 289 of the Form F.C.-3B.

## Section VIII - Statement of Cash Flows (Form F.C.-4A, F.C.-4B & F.C.-4C)

### **Overview:**

When the Financial Accounting Standards Board (FASB) released Statement of Financial Accounting Standards (FASB) No. 95 or ASC 230, Statement of Cash Flows they stipulated that whenever a business enterprise provides a set of financial statements that reports both financial position and results of operations it shall also provide a statement of cash flows for each period for which the results of operations are provided. Otherwise, such statements are not presented in accordance with generally accepted accounting principles.

Although the FASB encourages enterprises to report cash flows from operating activities directly by showing major classes of operating cash receipts and payments (the direct method), the Agency has chosen to employ the indirect or reconciliation method since the FASB requires that "if the direct method is used, a reconciliation of net income and net cash flow from operating activities is required to be provided in a separate schedule". Regardless of which method is chosen, every Income Statement account must be evaluated invariably in relation to the associated Balance Sheet accounts. Nevertheless, by standardizing the Balance Sheet and Statement of Operations, the Statement of Cash Flows becomes predictable, definable and manageable.

Form F.C.-4 is broken into three parts. Part A is concerned only with Net Cash Provided (Used) in Operating Activities. Part B is concerned with Net Cash Provided (Used) in both Investing and Financing Activities, as well as the overall effect on Cash and Cash Equivalents. Part C provides for Supplemental Disclosure of Cash Flow Information.

On April 7, 2015, The Financial Accounting Standards Board (FASB) issued ASU 2015-03 – *Simplifying the Presentation of Debt Issuance Costs*, which changed the presentation of debt issuance costs in financial statements. Under the ASU, an entity presents such debt issuance costs, net of the related accumulated amortization, in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the debt issuance costs (a non-cash item) is reported as a component of interest expense using the effective interest method.

To accommodate ASU 2015-3, MassHousing has added to the FC-3A the following account:

- Line 302A: Amortization of Debt Issuance Costs

The annual charge for the amortization of the debt issuance costs as reported by the partnership on Line 116.A of the Form FC-3A.

Only those increases or decreases that are relevant need to be identified and entered on the forms.

The definition of each line is as follows:

## **Part A: Operating Activities**

301. Net Income  
The annual net income of the partnership as reported on Line 148 of Form F.C.-2A.
302. Depreciation & Amortization  
The annual charge for depreciation and amortization as reported by the partnership on Line 130 of Form F.C.-2A
- 302A. Amortization of Debt Issuance Costs  
  
The annual charge for the amortization of the debt issuance costs as reported by the partnership on Line 116.A of the Form FC-3A.
303. Non-Operating Items [(Gains) or Losses]  
The annual (loss) as reported on the disposal of land, building and equipment, short-term investments or settlement of insurance and condemnation claims. The amount is equivalent to that reported on Line 140 of Form F.C.-2A. Losses must be treated as additions.
304. Decrease in Accounts Receivable  
The decrease from one year to the next in the Accounts Receivable balance as defined on Line 220 of Form F.C.-3A.
- 304A. Decrease in Residual Receipts/Excess Equity Receivable  
The decrease from one year to the next is the Residual Receipts/Excess Equity Receivable balance as defined on Line 222 of the Form F.C.-3A.
305. Decrease in Prepaid Expenses  
The decrease from one year to the next in the Prepaid Expense balance as defined on Line 227 of Form F.C.-3A.
306. Decrease in All Other Current Assets  
The decrease from one year to the next in the All Other Current Asset balance as defined on Line 228 of Form F.C.-3A.
307. Decrease in Deposits & Other  
The decrease from one year to the next in the Deposits & Other balance as defined on Line 248 of Form F.C.-3A.
308. Decrease in Tenant Security Deposit Escrow  
The decrease from one year to the next in the Tenant Security Deposit Escrow balance as defined on Line 205 of Form F.C.-3A.
309. Decrease in Insurance and Real Estate Tax Escrow  
The decrease from one year to the next in the Insurance and Real Estate Tax Escrow balance as defined on Line 206 of Form F.C.-3A.
310. Increase in Accounts Payable  
The increase from one year to the next in the Accounts Payable balance as defined on Line 260 of Form F.C.-3B.

- 310A. Increase in Residual Receipts/Excess Equity Payable  
The increase from one year to the next in the Residual Receipts/Excess Equity Payable balance as defined on Line 262 of the Form F.C.-3B.
311. Increase in Accrued Expenses  
The increase from one year to the next in the Accrued Expense balance as defined on Line 270 of Form F.C.-3B.
312. Increase in Tenant Security Deposit Liability  
The increase from one year to the next in the Tenant Security Deposit Liability balance as defined on Line 272 of Form F.C.-3B.
313. Increase in Prepaid Rent  
The increase from one year to the next in the Prepaid Rent balance as defined on Line 274 of Form F.C.-3B.
314. Increase in All-Other Current Liabilities  
The increase from one year to the next in the All-Other Current Liability balance as defined on Line 278 of Form F.C.-3B.
315. Increase in Accrued Interest on Long-Term Liabilities  
The increase from one year to the next in the Accrued Interest on Long-Term Liabilities balance as defined on Line 286 of Form F.C.-3B.
320. Cash Provided in Operating Activities  
The sum of Line 301 through 315 of Form F.C.-4A
341. Net (Loss)  
The annual net (loss) of the partnership as reported on Line 148 of Form F.C.-2A.
343. Non-Operating Items [(Gains) or Losses]  
The annual gain as reported on the disposal of land, building and equipment, short-term investments or settlement of insurance and condemnation claims. The amount is equivalent to that reported on Line 140 of Form F.C.-2A. Gains must be treated as reductions.
344. Increase in Accounts Receivable  
The increase from one year to the next in the Accounts Receivable balance as defined on Line 220 of Form F.C.-3A.
- 344A. Increase in Residual Receipts/Excess Equity Receivable  
The increase from one year to the next in the Residual Receipts/Excess Equity Receivable balance as defined on Line 222 of Form F.C.-3A.
345. Increase in Prepaid Expenses  
The increase from one year to the next in the Prepaid Expense balance as defined on Line 227 of Form F.C.-3A.
346. Increase in All Other Current Assets  
The increase from one year to the next in the All Other Current Asset balance as defined on Line 228 of Form F.C.-3A.

347. Increase in Deposits & Other  
The increase from one year to the next in the Deposits & Other balance as defined on Line 248 of Form F.C.-3A.
348. Increase in Tenant Security Deposit Escrow  
The increase from one year to the next in the Tenant Security Deposit Escrow balance as defined on Line 205 of Form F.C.-3A.
349. Increase in Insurance and Real Estate Tax Escrow  
The increase from one year to the next in the Insurance and Real Estate Tax Escrow balance as defined on Line 206 of Form F.C.-3A.
350. Decrease in Accounts Payable  
The decrease from one year to the next in the Accounts Payable balance as defined on Line 260 of Form F.C.-3B.
- 350A. Increase in Residual Receipts/Excess Equity Payable  
The increase for one year to the next in the Residual Receipts/Excess Equity Payable balance as defined on Line 262 of the Form F.C.-3B.
351. Decrease in Accrued Expenses  
The decrease from one year to the next in the Accrued Expense balance as defined on Line 270 of Form F.C.-3B.
352. Decrease in Tenant Security Deposit Liability  
The decrease from one year to the next in the Tenant Security Deposit Liability balance as defined on Line 272 of Form F.C.-3B.
353. Decrease in Prepaid Rent  
The decrease from one year to the next in the Prepaid Rent balance as defined on Line 274 of Form F.C.-3B.
354. Decrease in All Other Current Liabilities  
The decrease from one year to the next in the All Other Current Liability balance as defined on Line 278 of Form F.C.-3B.
355. Decrease in Accrued Interest on Long-Term Liabilities  
The decrease from one year to the next in the Accrued Interest on Long-Term Liabilities balance as defined on Line 286 of Form F.C.-3B.
360. Cash Used in Operating Activities  
the sum of Line 341 through 355 of Form F.C.-4B.
381. Net Cash Provided (Used) in Operating Activities  
Net cash is the result of subtracting Line 360 from Line 320 of Form F.C.-4A.



## **Part B: Investing Activities**

321. Disposal of Land, Building & Equipment  
The cash received during the current accounting period from the disposal of Land, Building and Equipment by the partnership.
322. Disposal of Short-Term Investments  
The cash received during the current accounting period from the disposal of Short-Term Investments.
323. Decrease in Due from General Partners and/or Affiliates  
The decrease from one year to the next in the Due from General Partners and/or Affiliates balance as defined on Line 225 of Form F.C.-3A.
324. Decrease in Reserve for Replacement  
The decrease from one year to the next in the Reserve for Replacement balance as defined on Line 241 of Form F.C.-3A.
325. Decrease in Excess Rent Account  
The decrease from one year to the next in the Excess Rent Account balance as defined on Line 242 of Form F.C.-3A.
326. Decrease in Special and Other Escrows  
The decrease from one year to the next in the Special and Other Escrow balance as defined on Line 209 of Form F.C.-3A.
328. Disposal of Long-Term Investments  
The cash received during the current accounting period from the disposal of Long-Term Investments.
330. Cash Provided in Investing Activities  
The sum of Lines 321 through 328 of Form F.C.-4B.
361. Acquisition of Land, Building & Equipment  
The cash expended during the current accounting period for the acquisition of Land, Building and Equipment by the partnership.
362. Acquisition of Short-Term Investments  
The cash expended during the current accounting period for the acquisition of Short-Term Investments.
363. Increase in Due from General Partners and/or Affiliates  
The increase from one year to the next in the Due from General Partners and/or Affiliates balance as defined on Line 225 of Form F.C.-3A.
364. Increase in Reserve for Replacement  
The increase from one year to the next in the Reserve for Replacement balance as defined on Line 241 of Form F.C.-3A.

365. Increase in Excess Rent Account  
The increase from one year to the next in the Excess Rent Account balance as defined on Line 242 of Form F.C.-3A.
366. Increase in Special and Other Escrows  
The increase from one year to the next in the Special and Other Escrow balance as defined on Line 209 of Form F.C.-3A.
367. Additional Financing and Organization Costs  
The amount of additional Financing and Organizational Costs incurred during the current operating period.
368. Acquisition of Long-Term Investments  
The cash expended during the current accounting period for the acquisition of Long-Term Investments.
370. Cash Used in Investing Activities  
The sum of Lines 361 through 368 of Form F.C.-4B
382. Net Cash Provided (Used) in Investing Activities  
Net Cash is the result of subtracting Line 370 from 330 of Form F.C.-4B.

**Part C: Financing Activities**

331. Increase in Current Portion of Mortgage Payable  
The increase from one year to the next in the Current Portion of the Mortgage Payable balance as defined on Line 251 of Form F.C.-3B.
332. Increase in Long-Term Portion of Mortgage Payable  
The increase from one year to the next in the Long-Term Portion of the Mortgage Payable balance as defined on Line 281 of Form F.C.-3B.
333. Increase in Notes & Advances (Due Within a Year)  
The increase from one year to the next in the Current Portion of the Notes & Advances (due within a year) balance as defined on Line 252 of Form F.C.-3B.
334. Increase in Long-Term Portion of Notes & Advances  
The increase from one year to the next in the Long-Term Portion of Notes & Advances balance as defined on Line 285 of Form F.C.-3B.
335. Increase in Due to General Partners and/or Affiliates  
The increase from one year to the next in the Due to General Partners and/or Affiliates balance as defined on Line 287 of Form F.C.-3B.
336. Increase in All Other Long-Term Liabilities  
The increase from one year to the next in the All Other Long-Term Liabilities balance as defined on Line 289 of Form F.C.-3B.

337. Capital Contributions  
The Capital Contributions paid into the partnership by the partners during the current accounting period. The amount is equivalent to the Contributed Capital as defined on Line 296 of Form F.C.-3C in the case of a direct cash investment. Capital Contributions should be shown net of any Syndication Costs incurred because of the offering of the limited partnership interests.
339. Increase in Development Fees Payable  
The increase from one year to the next in the Development Fees Payable balance as defined on Line 288 of Form F.C.-3B.
340. Cash Provided in Financing Activities  
The sum of Line 331 through 339 of Form F.C.-4B
371. Decrease in Current Portion of Mortgage Payable  
The decrease from one year to the next in the Current Portion of the Mortgage Payable balance as defined on Line 251 of Form F.C.-3B.
372. Decrease in Long-Term Portion of Mortgage Payable  
The decrease from one year to the next in the Long-Term Portion of the Mortgage Payable balance as defined on Line 281 of Form F.C.-3B. The unamortized net debt issuance costs should be excluded in this calculation; only include the decrease between years in the outstanding principal balance of the notes.
373. Decrease in Notes & Advances (Due Within 1 Year)  
The decrease from one year to the next in the Current Portion of the Notes and Advances (due within 1 year) balance as defined on Line 252 of Form F.C.-3B.
374. Decrease in Long-Term Portion of Notes & Advances  
The decrease from one year to the next in the Long-Term Portion of Notes & Advances balance as defined on Line 285 of Form F.C.-3B. The unamortized net debt issuance costs should be excluded in this calculation; only include the decrease between years in the outstanding principal balance of the notes.
375. Decrease in Due to General Partners & Affiliates  
The decrease from one year to the next in the Due to General Partners & Affiliates balances as defined on Line 287 of Form F.C.-3B.
376. Decrease in All Other Long-Term Liabilities  
The decrease from one year to the next in the All Other Long-Term Liabilities balance as defined on Line 289 of Form F.C.-3B.
378. Distributions  
The Distributions paid by the partnership to the partners, during the current accounting period, which represents a return on capital per the Regulatory Agreement and Distributions paid by the Partnership as part of the Refinancing or Syndication of the development. The amount is equivalent to the sum of the Distributions paid as defined on Line 298 and 299 of Form F.C.-3B.

379. Decrease in Development Fees Payable  
The decrease from one year to the next in the Development Fees Payable balance as defined on Line 288 of the Form F.C.-3B.
380. Cash Used in Financing Activities  
The sum of Line 371 through 379 of Form F.C.-4B
383. Net Cash Provided (Used) in Financing Activities  
Net Cash in the result of subtracting Line 380 from 340 of Form F.C.-4B
384. Net Increase (Decrease) in Cash & Cash Equivalents  
The sum of Line 381, 382 and 383 of Form F.C.-4B. The sum is equivalent to the increase (decrease) from one year to the next in the Cash and Cash Equivalent balance as defined on Line 202 of Form F.C.-3A.
385. Cash & Cash Equivalents at Beginning of Year  
The Cash and Cash Equivalents balance as defined on Line 202 of Form F.C.-3A of the prior year's financial statement.
390. Cash & Cash Equivalents at End of Year  
The Cash and Cash Equivalents balance as defined on Line 202 of Form F.C.-3A of the current year's financial statement. This amount should also be equivalent to the sum of lines 384 and 385.

**Part D: Supplemental Disclosure of Cash Flow Information**

391. Interest (Net of the Amount Capitalized)  
The amount of cash paid during the current accounting period, net of the amount capitalized, for interest. Generally, the amount is equivalent to Line 116 of Form F.C.-2A plus or minus the decrease or increase in Accrued Interest on Line 265 of Form F.C.-3B from one year to the next.
394. Increase in Capital Contributions Receivable  
The increase from one year to the next in the Capital Contributions Receivable balance as defined on Line 240 of the Form F.C.-3A.
395. Decrease in Capital Contributions Receivable  
The decrease from one year to the next in the Capital Contributions Receivable balance as defined on Line 240 of the Form F.C.-3A.
396. Increase in Deferred Syndication Costs  
The increase from one year to the next in the Deferred Syndication Costs as defined on Line 246 of the Form F.C.-3A.
397. Decrease in Deferred Syndication Costs  
The decrease from one year to the next in the Deferred Syndication Costs as defined on Line 246 of the Form F.C.-3A.

## Section IX - Statement of Funds Available for Distribution (Form F.C.-5)

### **Overview:**

According to the Agency's Regulatory Agreement, as interpreted by the Procedures for Implementing MassHousing's Equity Policy, any development that desires to make a distribution must satisfy two conditions. First, it must have earned either in this year or past years sufficient Net Available for Equity, as defined on Line 80 of Form F.C.-1, to support a distribution. Second, the development must be current on all its obligations and have "available" funds.

Form F.C.-5 is provided to assist Borrower's in determining the funds currently available for distribution and the maximum allowable amount. The Form is divided into three parts. Part I is concerned with the Calculation of Funds Available for Distribution, while Part II is concerned with the Calculation of Maximum Possible Distribution if Funds Available. Part II should be viewed as representing a contingent liability of the partnership that may or may not be distributed at some future point in time if funds are available at that time. Part III is concerned with Statistics.

Parts I, II and III are required to be completed by all developments annually, regardless of whether a distribution is contemplated. A review of Form F.C.-5 will indicate that during the current year there have been no changes to the form or definitions.

Distributions Paid During the Current Year and Accumulated Partnership Distributions include all partnership expenses or fees paid in lieu of distributions. As a result, Line 586 of the F.C.-5 is at least equivalent to Line 147.A of the F.C.-2A and Line 298 of the F.C.-3C. SHARP developments were not subject to the three-year carry back/carry forward rules and, thus, are deemed to have earned their Maximum Permissible Distribution regardless of the amount shown as Net Available for Distribution on Line 80 of Form F.C.-1. Finally, developments requesting a Partnership Distribution must provide a letter to the Agency certifying the five (5) items outlined in the MHFA Owner's Equity Distribution Policy (See Sample Letter for Annual and Quarterly Distributions in Appendix V).

In addition, Owners may be asked to document compliance with Sections 7(a) and 8(b) of their Regulatory Agreement. To comply, a letter, based upon an Agreed-Upon Procedure Engagement, could be submitted by the auditor to the owner and included in the documentation submitted to MassHousing with the distribution request. An example of an Independent Accountant's Report on Applying Agreed-Upon Procedures that could satisfy these Regulatory Agreement provisions may be found in Appendix V.

On November 9, 1999, the MassHousing Board voted to amend the Agency's Equity Policy. The changes dealt with three areas:

1. The Percentage of Allowable Equity to be Distributed;
2. Reestablishing an Owner's Equity Base; and
3. Disposition of Equity in Excess of the Allowable Distribution.

The calculation of the amount of Equity in Excess of the Allowable Distribution ("Excess Equity") will be done in accordance with the methodology used for HUD Residual Receipts (See Section XI) and the Form F.C.-6.

The definition of each line is as follows:

**Part I: Calculation of Funds Available for Distribution**

Sources of Available Funds:

500. Cash and Cash Equivalents

Cash and any asset which may be converted into cash immediately without upsetting day-to-day operations (short-term investments are excluded). Examples would be cash on hand, cash deposited in banks, and cash in transit, demand certificates of deposit, trade acceptances and money market accounts. Cash may be assumed to be available for any ordinary use within the enterprise; hence, it does not include amounts that are escrowed or restricted for a specific purpose. Therefore, amounts escrowed as part of the Recapitalization Program should not be included in this Line item. For purposes of conformity with FASB No. 95 (ASC 230), the Statement of Cash Flows, all highly liquid debt instruments with a maturity of three month or less are considered cash and cash equivalents. It is the equivalent of Line 202 of Form F.C.- 3A.

505. Short-Term Investments

The amount of temporary investment of working capital which management intends to or could convert into cash within one year or the operating cycle. These investments must be highly marketable and their sale not disruptive of normal operations or policy. For purposes of conformity with FASB No. 95 (ASC 230), the Statement of Cash Flows, all highly liquid debt instruments with a maturity greater than three months are considered short-term investments. It is the equivalent of Line 223 of Form F.C.- 3A.

507. Accounts Receivable & Residual Receipts/Excess Equity Receivable

The amount due from tenants, government agencies and others (usually maturing in less than one year) less any allowance for bad debts (doubtful accounts). It excludes amounts due from general partners and affiliates. It is the equivalent of Line 220 of Form F.C.-3A. Also include the amount to be reimbursed from the Residual Receipts/Excess Equity Escrow Account and reflected on Line 222 of Form F.C.-3A.

508. Prepaid Expenses

The amount representing the portion of current outlays for benefits carried into the succeeding accounting period or periods. Examples would include prepaid taxes, interest and insurance. It is the equivalent of Line 227 of Form F.C.-3A.

509. Unreimbursed Replacement Reserve and Special Escrow Account Withdrawals

The amounts which have been approved for reimbursement from the Replacement Reserve and Special Escrow accounts for which no funds have been transferred. For Residual Receipt, Excess Equity, and Recapitalized developments, this account includes excess contributions to the Replacement Reserve and Special Escrows as reflected on Lines 81.A and 81.B of the F.C.-1, and amounts deemed by the Agency to have been paid inappropriately from operations. It is the equivalent of Line 250.A of the Form F.C.-3A.

510. Total Sources

The sum of Lines 500 through 509 of Form F.C.- 5

Uses of Available Funds:

515. Accrued Interest Expense  
The amount of interest expense incurred on mortgage and other debt obligations, on or before the end of the year, but not payable until the following year. It is the equivalent of Line 265 of Form F.C.- 3B.
520. Delinquent Mortgage Payments & Interest  
The portions of Line 281 and 286 of Form F.C.- 3B which represents mortgage principal and interest payments that is in arrears.
525. Delinquent Deposits to Replacement Reserves (R/R)  
The portion of Line 241 of Form F.C.- 3A which represents Replacement Reserve payments that are in arrears. In most cases it will be equivalent to Line 81.A of Form F.C.-1.
528. Delinquent Deposits to Insurance & R.E. Tax Escrows  
The portion of Line 206 of Form F.C.-3A which represents payments to the Insurance and Real Estate Tax Escrows that are in arrears.
530. Delinquent Deposits to Special & Other Escrows  
The portion of Line 209 of Form F.C.- 3A that represents payments to the Special & Other Escrows that is in arrears. In most cases it will be equivalent to Line 81.B of Form F.C.-1.
535. Accounts Payable & Residual Receipts/Excess Equity Payable  
The amount reflected on Line 260 of Form F.C.-3B, less any obligation of the owner that the owner is willing to subordinate. Also include the amount to be remitted to the Residual Receipts/Excess Equity Escrow Account and reflected on Line 262 of Form F.C.-3B. In no case can the value of this Line be less than Line 255 and 262 of the Form F.C.-3B, or greater than Line 260 and 262 of the Form F.C.-3B.
540. Accrued Expenses (not escrowed)  
Accrued expenses, exclusive of any amounts for which a specific escrow exists or for which any delinquent escrow amounts are reflected in Lines 525, 528 and 530 of Form F.C.- 5. (For example: Wages, Water & Sewer, etc.) It must be at least the equivalent of Line 267 of the Form F.C.-3B.
545. Notes & Advances-Operating Expenses (Due within 30 days)  
The portion of Line 252 of Form F.C.- 3B, representing Notes and Advances incurred to defray operating expenses that are due within the next 30 days.
550. Unfunded Security Deposits  
The liability for any Tenant Security Deposits that has not been escrowed. It represents the difference between Line 272 of Form F.C.- 3B and Line 205 of Form F.C.- 3A.
555. Prepaid Rent  
A deferred revenue account representing the value of rental payment received in advance from tenants. It is the equivalent of Line 274 of Form F.C.- 3B.

560. Due to General Partners and/or Affiliates (exclusive of development fees)  
The portion of Line 287 of Form F.C.-3B which represents the amount advanced by the general partner, or affiliates of the general partner (i.e. management company), to supplement operating funds and which have received Management Policy Review Committee approval. Development fees and amounts due on the sale or refinancing of the development should be excluded from this amount. The value of the Line must be less than or equal to the value of Line 287 of the F.C.-3B.
565. Total Uses  
The sum of Lines 515 through 560 of Form F.C.-5.
570. Funds Available for Distribution  
Line 510 minus Line 565.
572. Maximum Allowable Distribution  
The amount of Line 590 of Form F.C.-5 that could be paid out in the next year. The maximum amount must always be the lesser of either Line 570 or 590 of Form F.C.-5.

**Part II: Calculation of Maximum Possible Distribution if Funds Available**

575. Maximum Distribution for Current Year  
The lesser of either 6% (or the relevant percentage agreed upon by the Agency, but no more than 10%) of the Stated Equity, as outlined in the Cost Certification Letter (i.e. Maximum Permissible Distribution for Current Year), or the Net Available for Distribution as reflected on Line 80 of Form F.C.- 1. This amount may never be less than zero. Finally, SHARP developments are not subject to the three years carry back/carry forward rules and thus are deemed to have earned their Maximum Permissible Distribution regardless of the amount shown as Net Available for Distribution on Line 80 of Form F.C.-1.
580. Excess Net Available for Distribution from Current Year Applied to Three Preceding Years  
The difference, between Line 80 of Form F.C.- 1 and the Maximum Permissible Distribution for the Current Year as defined on Line 575 of Form F.C.- 5, which can be used to make up for any distribution shortfall in the three-preceding years.

For SHARP developments, the amount shown on this Line will always be zero.

582. Excess Net Available for Distribution from Three Preceding Years Applied to Current Year  
The difference between Line 80 of Form F.C.-1 and the Maximum Permissible Distribution for the Current Year as defined in Line 575 of Form F.C.-5, which could be used to make-up for any distribution shortfall in the three-succeeding years.

For SHARP developments, the amount shown on this Line will always be zero.

585. Distributions Earned for Prior Years but not Paid as of Beginning of Year  
The sum of all distributions earned by the development up until the beginning of the current year, exclusive of amounts calculated on Line 580 or 582 of Form F.C.- 5, which have been retained rather than distributed. It is the equivalent of Line 590 of Form F.C.- 5 for the prior year.
586. Less: Distributions Paid During Current Year



The distribution, which representing a return on Stated Equity, that has been paid by the development during the current operating cycle. It must be at least the equivalent of Line 298 of Form F.C-3C and Line 147.A of Form F.C.-2A, and it represents actual partnership distributions and partnership expenses, or fees paid in lieu of distribution that were incurred in the current or prior years. *In several assisted-living transactions, a lease arrangement exists between the Lessor (owner) and the Lessee (operator). For purposes of completing the F.C.-5, the difference between the lease payment being made by the operator and the actual mortgage payment made to MassHousing will be considered an Amount Paid In lieu of Distributions and reflected as part of Line 586 on the F.C.5.*

587. Balance at Year's End  
Line 585 of Form F.C-5 minus Line 586 of Form F.C.-5.

590. Maximum Possible Distribution if Funds Available  
The sum of Lines 575, 580, 582, and 587 of Form F.C.-5. It represents the upper limit of the funds that can be distributed if the funds are available.

### **Part III: Statistics**

595. Accumulated Partnership Distributions  
The total accumulated amount of distributions, which have been paid by the development from the inception of the project through the current operating cycle. It is the equivalent of the sum for all distributions from Line 586 of Form F.C.-5 since the project commenced.

600. Stated Equity as reflected in the Regulatory Agreement  
  
The amount of Stated Equity as reflected in the Regulatory Agreement. This amount should agree with the Cost Certification Certificate (plus any amendments), and it is used to calculate the maximum permissible distribution. Stated Equity is a MassHousing number and should not be confused with the capital raised from the investors.

## **Section X - Calculation of Surplus Cash, Distributions and Residual Receipts/Excess Equity (Form FC-6)**

### **Overview:**

For developments with the 1980 Form of the Section 8 Housing Assistance Payment Contract, Section 2.6(c) (1) of the HAP Contract provides that:

Project funds must be used for the benefit of the project, to make mortgage payments, to pay operating expenses, to make required deposits to the Replacement Reserve in accordance with paragraph (d) of this section and to provide distributions to the Owners as provided in paragraph (c). To the extent the HFA determines that project funds are more than needed for these purposes, the surplus funds must be deposited with the HFA, Mortgagee or after HFA-approved depository in an interest-bearing account. Withdrawals from this account will be made only with the approval of the HFA and for project purposes, including the reduction of housing assistance payments. Upon termination of the Contract, any excess funds must be returned to HUD.

As Contract Administrator for HUD, MassHousing establish and implement a system that would cause Residual Receipts to be deposited with the Agency, for those developments affected by this requirement (See List on Page 54). All current year remittances must be submitted to the Agency no later than 90 days after the close of the fiscal year and in conjunction with the submission of the Annual Audits.

Form F.C.-6 is provided to assist developments in determining the funds currently required to be deposited in the Residual Receipts Escrow. It essentially mirrors the HUD Policy and analyzes all sources/uses of available cash and all permissible distributions in the determination of the required deposits.

On November 9, 1999, the MassHousing Board voted to amend the Agency's Equity Policy. As a result, if amounts remain the is the Distribution Account, after allowable distributions have been made in accordance with the terms governing the distribution of equity, such amounts (herein "Excess Equity") shall be deposited in an interest-bearing account maintained by the Agency, which shall be known as the "Excess Equity Account." This policy shall be applicable solely to developments that receive commitments from the Agency for financing in or after December 1999 (See List on Pages 55 to 58). These developments will have to perform a computation of Surplus Cash, Distribution and Excess Equity comparable to Section 8 developments. Therefore, Form F.C.-6 has been updated to accommodate Agency determined Excess Equity.

MAP developments should be providing both Part A and Part B of the HUD Surplus Cash Form 93486.

### **Flexible Subsidy Loan Repayment Initiative**

MassHousing, in its capacity as Contract Administrator for HUD, has implemented procedures to determine annually if any surplus cash payments are due on HUD's Flexible Subsidy Notes.

Under the Flexible Subsidy Program, HUD funded Flexible Subsidy Loans to developments with significant capital and operational needs that could not be met from current operations. The Notes that documented these Loans require the annual application of the Residual Receipts Methodology by the

Borrower to determine if any payments are required against the principal and accrued interest of these Loans. The Notes also stipulated that the Borrower would be precluded from taking any distributions as long as these Notes were outstanding.

To assist the auditor, MassHousing has identified the for-profit developments that have active Flexible Subsidy Notes on page 59. For these developments, auditors will be able to perform the Surplus Cash calculation by using the Form FC-6 in WebFacts.

The Surplus Cash amount shown on Line #696 of the Form FC-6 is the payment that is required against the Note. Since these amounts will be applied against the principal and interest, they will not be considered as an adjustment to Income on Line 108 of the FC-2A, as has been the case with Residual Receipt/Excess Equity payments.

Borrowers may mitigate these annual payments by spending Surplus Cash on capital improvements or by increasing Replacement Reserve funding to meet anticipated capital needs if such actions are appropriate given the needs of the site.

The line definitions are as follows:

Sources of Available Cash:

601. Cash and Cash Equivalent

Cash and any asset which may be converted into cash immediately without upsetting day-to-day operations (short-term investments are excluded). Examples would be cash on hand, cash deposited in banks, and cash in transit, demand certificates of deposit, trade acceptances and money market accounts. Cash may be assumed to be available for any ordinary use within the enterprise; hence, it does not include amounts that are escrowed or restricted for a specific purpose. For purposes of conformity with FASB No. 95 (ASC 230), the Statement of Cash Flows, all highly liquid debt instruments with a maturity of three months or less are considered cash and cash equivalents. It is the equivalent of Line 500 of the Form F.C.-5.

605. Short-Term Investments

The amount of temporary investments of working capital which management intends to or could convert into cash within one year or the operating cycle. These investments must be highly marketable and their sale not disruptive of normal operations or policy. For purposes of conformity with FASB No. 95 (ASC 230), the Statement of Cash Flows, all highly liquid debt instruments with a maturity greater than three months are considered short-term investments. It is the equivalent of Line 505 of the Form F.C.-5.

610. Accounts Receivable - HUD

The amount due on tenant subsidy vouchers only if the amounts were earned during the period covered by the financial statements. It is one component of Line 216 of Form F.C.-3A.

615. Tenants Security Deposits Escrowed

Cash received from tenants at the inception of the lease to cover any potential repairs at the end of the lease. It is the equivalent of Line 205 of Form F.C.-3A.

620. Unreimbursed Replacement Reserve and Special Escrow Account Withdrawals

The amounts which have been approved for reimbursement from the Replacement Reserve and Special Escrow accounts for which no funds have been transferred. For Residual Receipt, Excess Equity, and Recapitalization developments, this account includes excess contributions to the

Replacement Reserve and Special Escrows, as reflected on Lines 81.A and 81.B of the F.C.-1, and amounts deemed by the Agency to have been paid inappropriately from operations. It is the equivalent of Line 509 of the Form F.C.-5.

625. Other (Describe)  
Any other source of available cash that has not been defined above. Include in this item Due from General Partners and/or Affiliates Line 225 of Form F.C.-3A.
630. Total Sources  
The sum of Lines 600 through 625 of Form F.C.-6

#### Uses of Available Cash

635. Accrued Mortgage Interest Payable  
The amount of interest expense incurred on mortgage and other debt obligations, on or before the end of year, but not payable until the following year. It is the equivalent of Line 265 of Form F.C.-3B or Line 515 of the Form F.C.-5.
640. Delinquent Mortgage Principal and interest  
The portion of Line 281 and 286 of Form F.C.-3B which represents mortgage principal and interest payments that is in arrears. It is the equivalent of Line 520 of the Form F.C.-5.
645. Delinquent Deposits to Replacement Reserve  
The portion of Line 241 of Form F.C.-3A which represents Replacement Reserve payments that are in arrears. It is the equivalent of Line 525 of the Form F.C.-5.
650. Delinquent Deposits to Insurance and R.E. Tax Escrows  
The portion of Line 206 of Form F.C.-3A, which represents payments to the Insurance and Real Estate Tax Escrows, that is in arrears. It is the equivalent of Line 528 of the Form F.C.-5.
655. Delinquent Deposits to Special and Other Escrows  
The portion of Line 209 of Form F.C.-3A, which represents payments to the Special and Other Escrows, that is in arrears. It is the equivalent of Line 530 of the Form F.C.-5.
656. Deficient Deposits to Insurance and Real Estate Tax Escrows  
The estimated annual shortfall in the funding of Insurance and Real Estate Tax Escrows due to inflation. Provide documentation as appropriate.
660. Accounts Payable (due within 30 days)  
The portion of the Accounts Payable due within 30 days. It is equivalent to Line 255 of the Form F.C.-3B.
665. Accrued Expenses (not Escrowed)  
Accrued expenses, exclusive of amounts for which a specific escrow exists or for which any delinquent escrow amounts are reflected in Lines 645, 650, and 655 of Form F.C.-6 (For example: Wages, Water & Sewer, etc.). It is the equivalent of Line 540 of the Form F.C.-5.
670. Loans and Notes Payable-Operating Expenses (due within 30 days)

The portion of Line 252 of Form F.C.-3B, representing loans and notes payable incurred to defray operating expenses, which are due within the next 30 days. It is the equivalent of Line 545 of Form F.C.-5.

675. Tenant Security Deposit Liability

The liability of the development to the tenants for cash received from the tenants at the inception of the lease to cover any potential repairs or unpaid rents at the expiration of the same. It is the equivalent of Line 272 of Form F.C.-3B.

680. Prepaid Rent

A deferred revenue account representing the value of rental payments received in advance from tenants. It is the equivalent of Line 274 of Form F.C.-3B.

685. Due to General Partners and/or Affiliates (exclusive of development fees)

The portion of Line 287 of Form F.C.-3B which represents the amount advance by the general partner, or affiliates of the general partner (i.e. management company), to supplement operating funds, and which have received Management Policy Review Committee approval. Development fees and amounts due on the sale or refinancing of the development should be excluded from this amount. It is the equivalent of Line 560 of the Form F.C.-5.

690. Other (Describe)

Any other use of available cash that has not been defined above. This Line may not be used to offset Residual Receipts/Excess Equity Deposits that the owner does not feel he is required to make.

695. Total Uses

The sum of Lines 635 through 690 of Form F.C.-6

696. Surplus Cash

Line 630 minus Line 695 of Form F.C.-6

697. Maximum Possible Distribution Earned

The maximum amount of distributions earned by the development in theory is computed by multiplying 6% (or the relevant percentage agreed upon by the Agency) of the Stated Equity, as outlined in the Cost Certification Letter, times the number of years from the completion date for Cost Certification purposes.

698. Accumulated Partnership Distributions

The accumulated amount of distributions and partnership expenses or fees in lieu of distributions paid by the development from the inception of the project through the current operating cycle. It is the equivalent of Line 595 of Form F.C.-5.

699. Distributions Earned but Unpaid

The amount of distributions that the development in theory has earned but has not yet paid. It is the equivalent of Line 697 minus 698 of Form F.C.-6.

700. Required Deposit to Residual Receipts/Excess Equity Escrows

The amount of surplus cash that must be escrowed with MassHousing as Residual Receipts or Excess Equity. It is the equivalent of Line 696 minus 699 of Form F.C.-6. This amount is reflected on Line 262 of the Form F.C.-3B.

## **Section XI - Schedule of Developer's Contributions and Guaranteed Annual Payments (Form FC-7)**

### **Overview:**

As part of the underwriting process, developers would sometimes contractually commit additional contributions to the funds flow of a development so that the financial feasibility of a project could be enhanced. These contributions allowed for a larger mortgage and syndication raise, while maintaining a debt service coverage ratio of 110 percent. Developer's contributions may take any of the following forms:

- (1) HODAG/ARP's
- (2) Direct Cash Investments
- (3) "Cliff" Type Investments
- (4) Commercial Lease Income Guarantees

Since in all four types of developer's contributions and guaranteed annual payments the owner is obligated to contribute a defined sum to the funds flow of the project, Form F.C.-7 has been designed to monitor contractually required versus actual contributions/payments. The form is divided into two parts. Part I measures the difference between contractually required and actual contributions. Part II summarizes the actual contributions and their respective treatment on the Statement of Funds Flow Available for Equity (F.C.-1) and the Statement of Operations & Reconciliation to Form F.C.-1 (F.C.-2A & F.C.-2B). Nevertheless, the aggregate amount shown as the Developer's Contribution on Line 19 of the Form F.C.-1 may not exceed the amount the owner was contractually required to contribute during the calendar year.

The Agency will enforce the contractual requirements agreed to as part of the underwriting of the projects to preserve their financial feasibility. For a more detailed understanding of how this form is to be completed, please refer to the Massachusetts Housing Finance Agency Policy on Developer's Contributions and Guaranteed Annual Payments.

This form must be completed by all developments with Commercial Lease Guarantees, as well as to any other projects for which this form may be applicable.

The definition of each Line item is as follows:

### **Part I: Contractual Requirement vs. Actual**

701. HODAG/ARP's - Principal - Contractual Requirement  
The amount of the principal balance of Annuity Contracts or Long-Term Investment programs that the developer is contractually required to contribute to the funds flow of the project during the fiscal year.
702. HODAG/ARP's - Interest - Contractual Requirement  
The amount of interest generated on Annuity Contracts or Long-Term Investment programs that the developer is contractually required to contribute to the funds flow of the project during the fiscal year.
703. HODAG/ARP's - Total - Contractual Requirement  
The sum of Lines 701 and 702

705. Direct Cash Investments - Contractual Requirement  
The amount of cash that the developer is contractually required to contribute to the funds flow of the project during the fiscal year (See Line 745 for example).
707. "Cliff" Type Investments - Contractual Requirement  
The theoretical amount of interest accrued on zero coupon bonds during the fiscal year, which the developer was contractually required to purchase, to fund shortfalls needed to preserve the financial feasibility of the project after the SHARP subsidy expires in the 15th year.
709. Commercial Lease Income Guarantees - Contractual Requirement  
The amount of commercial lease income that the developer contractually agreed to guarantee, to absorb shortfalls in anticipated Gross Potential Commercial Lease Income during the fiscal year.
710. Total - Contractual Requirement  
The sum of Lines 703, 705, 707 and 709
741. HODAG/ARP's - Principal - Actual  
The actual amount of the principal balance of Annuity Contracts or Long-Term Investment programs that the developer contributed to the funds flow of the project during the fiscal year.
742. HODAG/ARP's - Interest - Actual  
The actual amount of interest generated on Annuity Contracts or Long-Term Investment programs that the developer contributed to the funds flow of the project during the fiscal year.
743. HODAG/ARP's - Total - Actual  
The sum of Lines 741 and 742
745. Direct Cash Investments - Actual  
The actual amount of cash that the developer contributed to the funds flow of the project, as well as imputed cash contributions (when the owner defers the receipt of a portion of the development fee earned until the time of sale or refinancing of the development) and reductions in the Developer's Contribution Letter-of-Credit and the Operating Letter-of-Credit.
747. "Cliff" Type Investments - Actual  
The actual amount of interest accrued on zero coupon bonds during the fiscal year, which the developer purchased, to fund shortfalls needed to preserve the financial feasibility of the project after the SHARP subsidy expires in the 15th year.
749. Commercial Lease Income Guarantees - Actual  
The actual amount of commercial lease income that the developer contributed during the fiscal year, to the funds flow of the project, to absorb any shortfalls in anticipated Gross Potential Commercial Lease Income.
750. Total - Actual  
The sum of Lines 743, 745, 747 and 749
781. HODAG/ARP's - Principal - Variance  
This is the equivalent of Line 741 less Line 701.

782. HODAG/ARP's - Interest - Variance  
This is the equivalent of Line 742 less Line 702.

783. HODAG/ARP's - Total - Variance  
The sum of Lines 781 and 782

785. Direct Cash Investments - Variance  
This is the equivalent of Line 745 less Line 705.

787. "Cliff" Type Investments - Variance  
This is the equivalent of Line 747 less Line 707.

789. Commercial Lease Income Guarantees - Variance  
This is the equivalent of Line 749 less Line 709.

790. Total - Variance  
The sum of Lines 783, 785, 787 and 789

## **Part II: Summary**

751. F.C.-1, Line 15B - Other Income - Interest - Annuity  
This is the equivalent of Line 742.

752. F.C.-1, Line 15D - Other Income - Commercial Lease Guarantee  
This is the equivalent of Line 749.

753. F.C.-1, Line 19 - Developer's Contributions and F.C.-2B, Line 146 - Developer's Contributions  
This is the sum of Lines 741 and 745.

754. F.C.-2A, Line 146.A - Revenues of the Partnership - "Cliff" Type Investments  
This is the equivalent of Line 747.

755. Total - Summary  
The sum of Lines 751 through 754. It is also the equivalent to Line 750.



## **Section XII - Mortgagor's & General Partner's Certificate**

### **Overview:**

The Agency requires the managing general partner in a partnership to certify that he/she has examined the accompanying Financial Statements and Supplemental data, and that to the best of his/her knowledge and belief, the information is complete and accurate. In addition, the Agency is requiring the managing general partner to certify that he/she has made the contributions and guaranteed annual payments contractually required as part of the underwriting of the developments (See Appendix VI).

Since the general partners of a partnership have the legal capacity to act in behalf of the partnership and create binding obligations, the Agency requires that any change in general partners be approved by the MassHousing Board. Consequently, we are also requesting that any change in general partners to be identified by and certified to by the managing general partner (See Appendix VI).

The name, address and employee identification number of the partnership and each general partner must be included with the electronic submission.