

Massachusetts Housing Partnership

(A Component Unit of the Commonwealth of Massachusetts)

Financial Statements and Supplementary Information
Years Ended June 30, 2022 and 2021

Massachusetts Housing Partnership
(A Component Unit of the Commonwealth of Massachusetts)

Basic Financial Statements and Required
Supplementary Information

June 30, 2022 and 2021

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Independent Auditor's Report

Board of Directors
Massachusetts Housing Partnership Fund Board
d/b/a Massachusetts Housing Partnership

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of Massachusetts Housing Partnership Fund Board d/b/a Massachusetts Housing Partnership (MHP), a component unit of the Commonwealth of Massachusetts, as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the MHP's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of MHP, as of June 30, 2022 and 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of MHP, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter—Adoption of New Accounting Standard

As discussed in Notes 10 and 13 to the basic financial statements, MHP adopted the provisions of Governmental Accounting Standards Board Statement No. 87, *Leases*. Accordingly, net position was restated as of July 1, 2020. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about MHP's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MHP's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about MHP's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the financial report. The other information comprises the schedule of net position by restriction and schedule of revenues, expenses and changes in net position by program, but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

RSM US LLP

Boston, Massachusetts
November 17, 2022

Massachusetts Housing Partnership

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

June 30, 2022

In conformity with Governmental Accounting Standards Board (GASB) Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* the management of the Massachusetts Housing Partnership Fund Board (MHP) presents this Management's Discussion and Analysis (MD&A) for the readers of our financial statements. This MD&A provides a narrative overview and analysis of the financial activities of MHP for the fiscal years ended June 30, 2022 and June 30, 2021, with selected comparative information for the fiscal year ended June 30, 2020.

BACKGROUND

MHP is a statewide public non-profit organization that works in concert with the Governor and the state Department of Housing and Community Development (DHCD) to help increase the supply of affordable housing in Massachusetts.

MHP was established in 1985 to increase the state's overall rate of housing production and work with cities and towns to demonstrate new and better ways of meeting our need for affordable housing. In 1990, the Legislature enacted a state law that requires banking institutions that acquire Massachusetts banks to make credit available to MHP to finance affordable housing – the only law of its kind in the nation.

MHP focuses its efforts in four principal areas:

Community Assistance - MHP helps communities build affordable housing and has provided technical assistance in over 330 Massachusetts communities.

Rental Financing - MHP provides long-term financing for affordable rental housing and has provided almost \$1.8 billion in loans and commitments for multi-family rental housing.

Homeownership - MHP's first-time homebuyer programs, ONE Mortgage and our new program ONE+ Boston, have helped low- and moderate-income families purchase their first home with over \$4.6 billion in below market private financing.

Policy and Leadership – MHP's Center for Housing Data provides support and leadership in finding solutions to the housing problem statewide.

MISSION AND MARKET ENVIRONMENT

It is management's opinion that MHP's market position and underlying financial performance are sound and demand for MHP's financial products and technical services is likely to remain strong. The COVID-19 pandemic has not had a significant negative impact on our portfolio and collections; all loans are current.

Housing prices in Massachusetts remain among the highest in the United States and the state's per capita housing production rate is among the lowest. MHP seeks to address this supply/demand imbalance by advocating for effective state and federal housing policies, delivering technical assistance to local communities, by providing credit on favorable terms to support development and preservation of multifamily housing, and administering its first-time homebuyer program with low mortgage interest rates and no required mortgage insurance.

MHP has financed more than 29,000 apartments over its lending history and has firmly established itself as a lender of choice for affordable rental properties in Massachusetts and for developments utilizing federal low-income housing tax credits. During FY22, MHP's multi-family lending had \$44.6 million in new financing commitments for 584 rental units.

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MHP has three primary sources of funding for its multifamily lending:

(1) Loans funded by advances from banks pursuant to the Massachusetts Nationwide Interstate Banking and Community Reinvestment Act (Chapter 102 of the Acts of 1990, as amended) and through similar voluntary bank agreements. These non-recourse bank advances are secured by a conditional pledge of the mortgaged assets and a 4% top loss collateral account provided by MHP.

(2) Federal National Mortgage Association (Fannie Mae) loans that are originated and serviced by MHP and sold to investors as mortgage-backed securities, with MHP retaining up to 33% of the credit risk on a *pari passu* basis.

(3) Federal Housing Administration (FHA)-insured loans, which are either Risk Sharing loans originated and serviced by MHP with MHP typically retaining 50% of the credit risk on a *pari passu* basis, or traditional FHA multifamily loans in which MHP has no credit risk.

Of the \$35 million in multifamily loans closed by MHP in FY22, \$21 million was funded by bank advances and \$14 million was originated as FHA Risk Sharing loans.

MHP has a strong pipeline and anticipates growth in its servicing portfolio over the next several years with a mix of bank funded loans and off-balance sheet loans through its Fannie Mae and FHA programs that will generate revenue from new lending activity.

Since 1991, MHP Chapter 102 and voluntary bank lines of credit total \$1.56 billion of which \$330 million is available for new loan advances or refinancing.

MHP has a current credit rating of A+ from Standard and Poor's.

MHP's forward rate lock product allows borrowers using our FHA Risk Sharing Program funded by the Federal Financing Bank (FFB) to lock the interest rate during their construction period up to 36 months prior to permanent loan closing. To hedge interest rate risk under this program, MHP executes a forward-starting interest rate swap at the time when the rate is locked with our borrower. The swaps are cash settled in conjunction with closing on permanent financing. There were no new swaps executed during FY22. During FY22, the last two outstanding swaps were terminated in the notational amount of \$9.7 million and converted to fixed-rate FHA loans. The current value of these swaps is shown on the balance sheets as deferred outflow of resources and represents the aggregate settlement value of the swaps if they were terminated, and cash settled with the swap counterparty on June 30, 2022. The swap values as of June 30, 2022, and 2021 are \$0 (all swaps settled) and (\$1.1 million), respectively

MHP's loan portfolio included 14,465 rental units as of June 30, 2022, a decrease of 3.6% from 15,007 units as of June 30, 2021.

MHP has administered the ONE Mortgage Program since 2014, which provides a single fixed-rate first mortgage loan with a subsidized interest rate for qualified low to moderate income first-time homebuyers. MHP has also administered the SoftSecond Loan Program since 1991. As of June 30, 2022, 41 lenders are committed to offering the ONE Mortgage Program; 19 were SoftSecond lenders and 22 are newly participating lenders.

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Together, SoftSecond and ONE Mortgage have served more than 24,000 low- and moderate-income homebuyers during 30 years of operations. No other mortgage product in Massachusetts serves as many low- and moderate-income homebuyers with as low a delinquency and foreclosure rate. The portfolio continues to outperform the broader market in terms of both delinquencies and foreclosures. As of June 30, 2022, 2.2% or 258 of 11,893 active loans were more than 30 days delinquent and 0.4% or 44 loans were in process of foreclosure. During FY22, there were no claims from loan loss reserves. As of June 30, 2022, there were 332 foreclosures, 102 short sales, and 6 deeds-in-lieu of foreclosure affecting 1.8% of all loans made since the inception of the two programs. MHP has no exposure to credit losses on SoftSecond and ONE Mortgage loans. MHP administers loss claims from participating lenders and payments are made from the state-funded loan loss reserve account.

Launched in June of 2020, MHP's new ONE+Boston mortgage program represents a partnership between MHP, the City of Boston, and several local lenders, including Silicon Valley Bank, Rockland Trust, Webster Bank, Cambridge Trust, Citizens Bank, Eastern, and Santander Bank. ONE+Boston is an enhanced version of the ONE Mortgage program and is designed to maximize the purchasing power of Boston residents who seek to continue living in Boston. The City of Boston has allocated \$8.8 million in Community Preservation Act (CPA) funds to permanently buy-down 30-year fixed interest rates, thereby lowering monthly payments and allowing prospective homebuyers to purchase higher cost homes. It is estimated that the program will serve 200 to 300 new homebuyers in the City of Boston. As of June 30, 2022, 202 homebuyers purchased their homes with ONE+Boston, using almost \$72 million in private financing. MHP is building on this success in fiscal year 2023 with the help of two additional lenders and several new lender prospects for further expansion of the program.

In November 2021, MHP entered into a contract with the Commonwealth of Massachusetts to administer the federal Homeowner Assistance Fund (HAF). The Homeowner Assistance Fund was created by the Federal American Rescue Plan Act (ARPA). The purpose of the HAF program is to prevent mortgage delinquencies, defaults, foreclosures, loss of utilities, and displacement of homeowners experiencing financial hardship due to the COVID-19 pandemic. HAF provides assistance to eligible homeowners with mortgage payments and other housing-related costs. MHP has engaged a third-party vendor to manage the program's on-line administration systems and claims processing.

The HAF contract with MHP is \$127 million. As of June 30, 2022, MHP has received about \$61 million in funding and has disbursed about \$19 million to assist homeowners.

OVERVIEW OF THE FINANCIAL STATEMENTS

Financial statements - MHP presents three basic financial statements: the statement of net position, the statement of revenues, expenses and changes in net position, and the statement of cash flows. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, as promulgated by the Governmental Accounting Standards Board (GASB). In addition, as required by accounting principles generally accepted in the U.S. (GAAP), MHP presents unaudited information such as this management discussion and analysis, which provides an analysis of the audited financial statements.

The statement of net position reports assets, deferred outflows of resources, liabilities, deferred inflows of resources and the difference between them as net position. Net position represents the residual interest in MHP's assets and deferred outflows after liabilities are deducted. Net position is reported as restricted when constraints are imposed by third parties. Board designated net position represents unrestricted funds designated for a specific purpose by a vote of the Board of Directors. With the adoption of GASB 87 for Leases, a new net position category was added for fiscal year 2022, net investment in capital assets, which is the net balance of the right of use assets less the lease liability.

The statement of revenues, expenses and changes in net position shows revenue from direct lending and other sources and operating and program expenses. The difference between revenues and expenses equals the change in net position for the year.

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June 30, 2022

The statements of cash flows are prepared by MHP using the direct method as required by GASB 34. The statements of cash flows focus on the receipt and use of cash by MHP and breaks these cash flows into operating, noncapital financing activities, and investing activities. MHP does not engage in significant capital financing activities.

MHP also provides two supplemental schedules: a schedule of revenues, expenses, and changes in net position by program, which reports the operating performance of MHP programs and a schedule of net position by restriction. These schedules are not required by GAAP but are presented for the purpose of providing additional information about MHP's operations and are unaudited.

A major change from prior year's financial statements is the adoption of GASB 87, *Leases*. Under this pronouncement MHP's office space lease was brought onto the balance sheet as a right of use asset and an operating lease liability at the present value of future lease payments. Rent is no longer expensed, but instead lease interest and amortization are included on the statements of revenue, expenses and changes in net position. The adoption of GASB 87 was applied to the FY22 and FY21 balances. FY20 does not reflect GASB 87. The application of GASB 87 resulted in a cumulative decrease to net position of \$41,217 as of June 30, 2021 (Note 10).

FINANCIAL HIGHLIGHTS

- The net operating surplus is \$7.4 million as of June 30, 2022, an increase of \$4.6 million from June 30, 2021, and an increase of \$3.2 million from June 30, 2020.
- Net position increased to \$78.1 million on June 30, 2022, compared with \$70.7 million on June 30, 2021, and \$67.9 million on June 30, 2020.
- Unrestricted net position increased to \$64.5 million on June 30, 2022, from \$57.3 million on June 30, 2021, and \$44.9 million on June 30, 2020.
- \$35 million in new project loans closed in FY22 compared with \$106 million in FY21, and \$41 million in 2020. During 2022, MHP closed \$14.0 million in loans under our FHA loan program, compared to \$61.0 million in 2021. There were no Fannie Mae loans closed in FY22 and FY21. FHA and Fannie Mae loans are off balance sheet and serviced by MHP.
- Gross income from lending activity was \$10.5 million in FY22, a decrease of \$1.1 million over FY21 compared to a similar amount of \$10.5 million in FY20.
- The provision for loan losses is a credit (income) of \$1.2 million in 2022 compared to an expense of \$740,797 in 2021 and a credit of \$138,071 in 2020. An increase in loan payoffs and refinances resulted in a decrease in the reserve for loan losses and, therefore, a credit to the Statement of Revenues, Expenses, and Changes in Net Position.
- Interest income on bank deposits and investments was \$580,419 in FY22 compared with \$633,827 and \$1,569,176 in FY21 and FY20, respectively.

Massachusetts Housing Partnership

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Management's Discussion and Analysis (Unaudited)

June 30, 2022

STATEMENTS OF NET POSITION

	2022	2021	2020
Assets			
Cash and cash equivalents	\$ 149,047,641	\$ 79,790,195	\$ 89,002,724
Investments	24,751,594	25,342,969	26,187,160
Grants, interest, and other amounts receivable	2,523,054	7,488,650	2,761,720
Project loans, net of allowance of \$12,024,606, \$13,250,780 and \$12,509,983	493,302,201	539,383,142	542,163,831
Right of use assets	5,825,619	6,538,960	-
Other assets	3,432,456	3,486,623	2,625,505
Deferred outflows of resources	<u>14,918,704</u>	<u>15,650,262</u>	<u>21,199,163</u>
Total assets	693,801,269	677,680,801	683,940,103
Liabilities			
Accounts payable, accrued interest and expenses	7,225,924	5,226,458	4,412,792
Unearned revenue and other liabilities	98,455,533	51,296,820	47,386,158
Notes payable	478,205,111	519,633,308	524,799,943
Lease liability	7,706,385	8,180,405	-
Derivative liability	-	1,060,021	18,622,920
Reserves for homeownership loan losses	<u>24,052,597</u>	<u>21,573,825</u>	<u>20,781,053</u>
Total liabilities	615,645,550	606,970,837	616,002,866
Total net position	\$ 78,155,719	\$ 70,709,964	\$ 67,937,237

Assets

Total assets increased \$16.1 million, or 2.4%, from \$677.7 million as of June 30, 2021, to \$693.8 million as of June 30, 2022, compared to an increase in assets in of \$9.9 million from \$683.9 million as of June 30, 2020.

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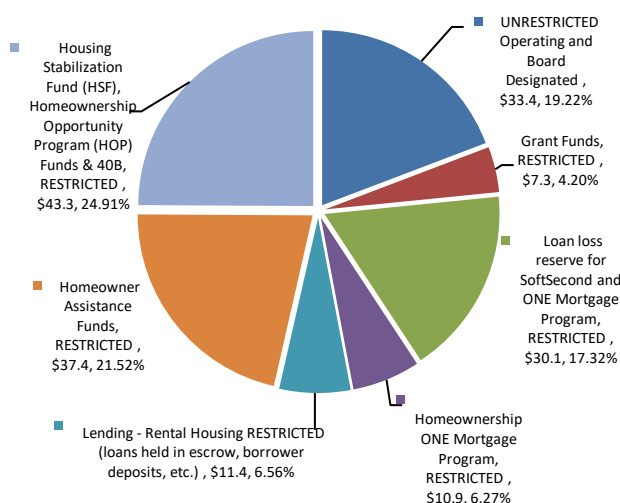
Management's Discussion and Analysis (Unaudited)

June 30, 2022

Cash, Cash Equivalents, and Investments

Cash, cash equivalents, balance sheet loans and investments represent 27.4% of MHP's total assets as of June 30, 2022. MHP's cash and investment balance consists of money market funds, certificates of deposit, agency bonds and various bank deposit and checking accounts. MHP makes balance sheet loans to its multi-family rental housing borrowers to leverage unrestricted cash for a higher return on investment. As of June 30, 2022, MHP held \$16.9 million in balance sheet loans with a weighted average yield of 4.5%.

Cash, Investments, Balance Sheet loans
\$190.7 million as of June 30, 2022



Project Loans

Project loans receivable represent 71% of MHP's total assets as of June 30, 2022. Gross loans receivable (on balance sheet) decreased \$48 million from \$553 million in FY21 to \$505 million in 2022 while MHP's servicing portfolio (which includes off balance sheet FHA and Fannie Mae loans) decreased by \$36 million in 2022 to \$790 million. (Note 5)

	2022	2021	2010
Chapter 102 project loans	\$505,326,806	\$552,633,922	\$554,673,816
Fannie Mae (off balance sheet)	63,537,505	64,156,436	64,657,530
FHA (off balance sheet)	<u>221,099,407</u>	<u>209,349,483</u>	<u>150,202,275</u>
Total portfolio	\$789,963,718	\$826,139,841	\$769,533,621

The FHA and Fannie Mae off balance sheet loans are serviced by MHP and the risk exposure is reflected in the allowance for loan losses. MHP has \$110.5 million of off-balance sheet credit risk exposure on \$221.1 million outstanding on the FHA loans. Under the program, MHP typically assumes 50% of the credit risk on the outstanding balances. MHP's credit risk exposure is \$14.8 million on the Fannie Mae off-balance sheets loan balance of \$63.4 million. As of June 30, 2022, \$2.2 million and \$381,000 are held in loan loss reserves to cover potential losses for FHA and Fannie Mae loans, respectively.

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As of June 30, 2022, and 2021, MHP held \$13.0 million and \$11.6 million, respectively, in loans that resulted from financing loans with MHP's balance sheets. These loan investments are not reflected in the cash and investment pie chart above.

Allowance for Loan Losses

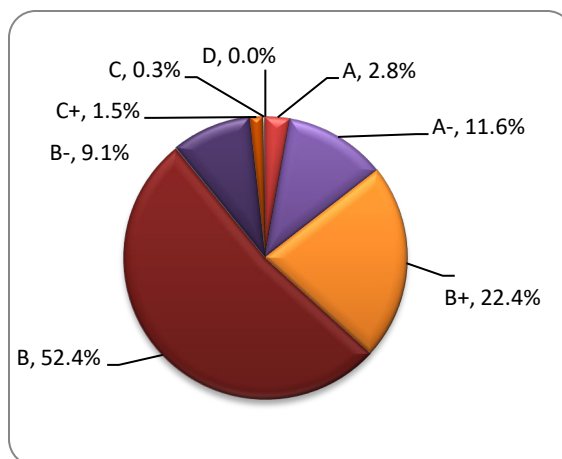
The allowance has two components: a credit risk-rated reserve and a general reserve. As of June 30, 2022 and 2021, the allowance for loan losses is \$12.0 million and \$13.3 million respectively, of which \$11.3 million and \$12.3 million respectively, is a risk-rated reserve based on the credit rating of each loan in the portfolio; the general reserve is \$750,000 and \$1,000,000 as of June 30, 2022, and 2021. Adjustments to the allowance are made monthly based on changes in credit risk ratings, payoffs, and new loans closed

MHP uses a nine-grade letter-based credit rating system, with A representing the highest quality/lowest risk credits and F representing the lowest quality/highest risk credits. A C rated credit is equivalent to the substandard category under bank regulatory policy; as of June 30, 2022 and 2021, there were no D or F rated loans. Of the outstanding balances of the portfolio, 98.2% and 96.4% are rated B- or better in 2022 and 2021, respectively. As of June 30, 2022, there was one restructured loan and no delinquencies or troubled debt restructurings. On June 30, 2021, there were no restructured loan and no delinquencies or troubled debt restructurings. The portfolio is monitored closely, and quarterly portfolio reviews are held with senior management to discuss upgrades/downgrades and loans rated B- or lower. MHP has never incurred a loan loss on its multi-family rental housing loan portfolio. (Note 5)

The following table presents MHP's project loan balances and related allowance by risk rating as of June 30:

Category	Risk Rating	2022		2021		2020	
		Loan Balance	Allowance For Loan Losses	Loan Balance	Allowance for Loan Losses	Loan Balance	Allowance for Loan Losses
Pass	A through B-	\$ 497,073,396	\$ 10,732,216	\$ 534,346,563	\$11,202,740	\$ 539,492,518	\$ 10,699,080
Special Mention	C+	6,956,214	347,811	16,950,637	847,532	14,662,919	733,146
Substandard	C	1,297,196	194,579	1,336,722	200,508	518,379	77,757
Doubtful	D	-	-	-	-	-	-
General reserve		-	750,000	-	1,000,000	-	1,000,000
		<u>\$ 505,326,806</u>	<u>\$ 12,024,606</u>	<u>\$ 552,633,922</u>	<u>\$ 13,250,780</u>	<u>\$ 554,673,816</u>	<u>\$ 12,509,983</u>

Portfolio Credit Risk Ratings as of June 30, 2022



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Grants and other amounts receivable

Other amounts receivable has decreased \$5.0 million from \$5.0 million in FY21 to \$69,500 in FY22. The large decrease is due to receipt of a \$4.5 million receivable for ONE Mortgage Program funding and \$300,000 of accrued income for administration of the subsidized housing emergency rental assistance (SHERA) program in FY21.

Other Assets

Other assets shown include interest receivable, grants receivable, state, and local support receivables from DHCD, fixed assets, and prepaid expenses.

Right of use assets

MHP adopted GASB 87 for leases in FY22, with retroactive adoption for FY21. Under the pronouncement, the right of use asset was recorded on the books at the present value of future lease payments adjusted for deferred rent and tenant allowances. The asset, net, is \$5,825,619 and \$6,538,960 as of June 30, 2022 and 2021, respectively. An offsetting lease liability is shown on the statements of net position in the amount of the present value of future lease payments. The Lease Liability balance as of June 30, 2022 and 2021, is \$7,706,385 and \$8,180,405, respectively (Note 10).

Liabilities

Total liabilities, after the reclassification for adopting GASB 87, increased \$8.7 million or 1.4% in FY22 to \$616 million driven by an increase in deferred revenue on the Homeowner Assistance Fund of \$37.5 million, a decrease in notes payable of \$41 million and an increase of \$8.9 million in deferred revenue on Housing Stabilization Funds. In FY21 total liabilities decreased \$44 million or 6.8% from \$651 million in 2020 to \$607 million in 2021.

Notes Payable

Total notes payable decreased \$42 million from \$520 million as of June 30, 2021, to \$478 million on June 30, 2022, and represent 78% of total liabilities on June 30, 2022. This decrease was primarily due to loan prepayments and refinancing with other lenders. In FY21 notes payable decreased \$5 million to \$520 million as of June 30, 2021, from \$525 million on June 30, 2020. An increase in notes payable represents draws on Chapter 102 bank funded and voluntary lines of credit used to finance new loans and participation arrangements serviced by MHP in FY22 and 2021.

Unearned Revenue and Other Liabilities

Unearned revenue and other liabilities of \$98 million and \$51 million, represents 16% and 8% of total liabilities as of June 30, 2022 and 2021, respectively, an increase of \$47 million in FY22, and a decrease of \$4 million in FY21. The Housing Stabilization Fund (HSF), Homeowner Assistance Fund (HAF) and other restricted funds of \$79 million, are administered by MHP on behalf of the Commonwealth and included in other liabilities. Also included in other liabilities is ONE Mortgage Program and recaptured funds of \$14.0 million and \$12.5 million as of June 30, 2022 and 2021, respectively.

Reserves – Homeownership

As of June 30, 2022 and 2021, a cash reserve of \$24.1 and \$21.6 million, respectively, is held to fund losses in the SoftSecond and ONE Mortgage Programs. Over the program's 31-year history, participating lenders have closed more than \$4 billion in SoftSecond and ONE Mortgage loans; 107 loss claims totaling \$5.8 million have been paid to participating lenders.

Massachusetts Housing Partnership

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)

June 30, 2022

Net Position

Restricted net position increased \$400,000 in FY22, ending the year at \$15.5 million. Restricted net position decreased \$7.9 million in FY21 from \$23.0 million on June 30, 2020, to \$15.1 million on June 30, 2021.

Unrestricted net position increased \$7.3 million in FY22 ending the year at \$64.5 million. Unrestricted net position increased \$12.4 million, from \$44.9 million on June 30, 2020, to \$57.3 million on June 30, 2021. The new net position category of net investment in capital assets was \$(1.9 million) at June 30, 2022, and restated for June 30, 2021, to \$(1.6 million).

Change in Net Position. MHP's total net position increased \$7.5 million in FY22 to \$78.2 million compared with an increase of \$2.8 million in FY21 to \$70.7 million. In FY20 net position increased \$4.3 million to \$67.9 million.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Operating Results

To evaluate operating results, management analyzes operating income and expenses excluding grants and subsidies. The following chart compares MHP's operating performance in fiscal years 2022, 2021 and 2020 on that basis. Surpluses generated from operations provide cash flow to support new lending and housing initiatives not supported by other funding sources.

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Revenues			
Gross revenue from lending	\$ 10,465,541	\$ 11,632,401	\$ 10,472,649
Administrative fees and other income	5,217,160	2,870,862	2,109,864
Interest and investment income	<u>580,419</u>	<u>633,827</u>	<u>1,569,176</u>
Gross operating revenues	16,263,120	15,137,090	14,151,689
Provision for loan losses	<u>1,226,175</u>	<u>(740,797)</u>	<u>138,071</u>
Revenue, net	17,489,295	14,396,293	14,289,760
Expenses			
Salaries, wages, and fringe benefits	8,904,277	8,048,997	7,692,422
Professional fees and contracted services	529,130	476,538	422,904
Community outreach, training, and publications	201,917	299,084	341,847
Occupancy, equipment, and other operating costs	<u>2,390,809</u>	<u>2,116,296</u>	<u>1,515,232</u>
Operating expenses	12,026,133	10,940,915	9,972,405
Net operating surplus before grants and subsidies	<u>\$ 5,463,162</u>	<u>\$ 3,455,378</u>	<u>\$ 4,317,355</u>

Revenue

Gross Income from Direct Lending

Gross income from lending activities increased \$.8 million, or 7%, from \$10.9 million in 2021 to \$11.7 million in FY22, compared to an increase of 3% from \$10.6 million in 2020 to \$10.9 million in FY21. A credit to the provision for loan losses of \$1,226,175 reduced the allowance for loan losses in FY22, compared to a provision of \$740,797 in FY21. The provision represents net credit risk rating upgrades, downgrades, new loans, payoffs, and amortization of the existing portfolio.

Massachusetts Housing Partnership

(A Component Unit of the Commonwealth of Massachusetts)
Management's Discussion and Analysis (Unaudited)
June 30, 2022

Interest and Investment Income

Income from cash and investments was \$580,419 in FY22, a decrease of approximately \$53,400 from FY21. The decrease is primarily due to falling interest rates on certificate of deposits, agency bonds, and money market accounts. In FY21 interest and investment income was approximately \$633,000 and \$1,569,000 in FY20. The weighted average return on cash investments was 62 bps, 69 bps, and 173 bps in 2022, 2021, and 2020, respectively.

Total Grants, Governmental and Other Support

Total grants, governmental and other support increased from \$4.9 million in FY21 to \$33.2 million in FY22. The significant increase is due to HAF program activity resulting in revenue recognition of \$24.7 million. This revenue recognition includes payments on behalf of eligible homeowners for assistance with mortgage delinquencies and foreclosure prevention. The offset to this revenue is included as an expense in mortgage subsidies, reserves, and grants and results in net zero income. In addition, MHP received \$2.4 million in grant funding for MHP's Climate Ready & Transit programs. Included in total grants, governmental and other support is recognition of unearned revenue from the ONE Mortgage Program. There is an offsetting expense when these program funds are disbursed which is reflected in mortgages subsidies, reserves, and grants.

The ONE mortgage first-time homebuyer program provided \$1.8 million in interest subsidies and added \$2.5 million to its loan loss reserve fund in FY22. In FY21 interest subsidies were \$1.6 million and additions to the loan loss reserve fund were \$2.2 million. In FY20 interest subsidies were \$1.7 million and additions to the loan loss reserve fund were \$2.0 million.

Expenses

Salaries and Fringe Benefits

Salaries and fringe benefit costs increased approximately \$855,000 in FY22 totaling approximately \$8.9 million. In FY21, salaries and fringe benefit costs increased approximately \$357,000 totaling approximately \$8.0 million. The increases in 2021 and 2022 reflect an increase in health and other insurance costs, normal merit-based salary increases, and hiring to fill new positions. MHP's employed 57, 51, and 52 people as of June 30, 2022, 2021, and 2020, respectively.

MHP has operated remotely since March 2020 with a limited voluntary return of vaccinated staff to the office beginning in May 2020. A consultant has been retained to provide expertise and guidance in developing a plan for a hybrid workplace. It is anticipated that MHP will operate on a hybrid basis for the foreseeable future.

Occupancy, Equipment and Other Operating Costs

Occupancy and equipment and other operating costs include lease amortization, lease interest operating costs, depreciation, insurance, software, office supplies and travel totaled \$2.4 million in FY22 compared with \$2.1 million in FY21 and \$1.5 million in FY20.

REQUESTS FOR INFORMATION

This report is intended to provide an overview of MHP's financial condition. Questions concerning any of the information in this report or requests for additional information should be addressed to MHP's Chief Financial & Administrative Officer, 160 Federal Street, Boston, MA 02110.

MASSACHUSETTS HOUSING PARTNERSHIP
(A Component Unit of the Commonwealth of Massachusetts)
STATEMENTS OF NET POSITION
June 30, 2022 and 2021

<u>ASSETS</u>	<u>2022</u>	<u>2021</u>
Current assets:		
Cash and cash equivalents	\$ 24,647,407	\$ 14,341,607
Cash and cash equivalents - restricted	124,400,234	65,448,588
Total cash and cash equivalents	<u>149,047,641</u>	<u>79,790,195</u>
Investments - unrestricted	7,671,594	14,762,969
Investments - restricted	17,080,000	10,580,000
Grants and other amounts receivable	69,498	4,974,011
Project loans, net of allowance	40,303,987	43,594,198
Interest receivable on project loans	2,453,556	2,514,639
Total current assets	<u>216,626,276</u>	<u>156,216,012</u>
Non-current assets:		
Project loans, net of allowance	452,998,214	495,788,944
Right to use assets, net of accumulated amortization	5,825,619	6,538,960
Other assets	3,432,456	3,486,623
Total assets	<u>678,882,565</u>	<u>662,030,539</u>
Deferred outflows of resources		
Derivative instruments	-	1,060,021
Deferred settled SWAP	14,918,704	14,590,241
	<u>14,918,704</u>	<u>15,650,262</u>
Total assets and deferred outflows of resources	<u>693,801,269</u>	<u>677,680,801</u>
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable and accrued expenses	5,018,634	3,096,545
Notes payable	35,058,363	36,901,904
Accrued interest	2,207,290	2,129,913
Lease liability	496,808	474,020
Total current liabilities	<u>42,781,095</u>	<u>42,602,382</u>
Non-current liabilities:		
Unearned revenue and other liabilities	98,455,533	51,296,820
Notes payable - less current portion	443,146,748	482,731,404
Reserves for Homeownership loan losses	24,052,597	21,573,825
Lease liability	7,209,577	7,706,385
Derivative liability	-	1,060,021
Total liabilities	<u>615,645,550</u>	<u>606,970,837</u>
<u>NET POSITION</u>		
Net Investment (deficit) in capital assets	(1,880,766)	(1,641,445)
Restricted net position:		
Grant funds	8,586,283	5,086,909
Other restricted funds	6,902,168	9,978,095
Total restricted net position	<u>15,488,451</u>	<u>15,065,004</u>
Total unrestricted net position	<u>64,548,034</u>	<u>57,286,405</u>
Total net position	<u>\$ 78,155,719</u>	<u>\$ 70,709,964</u>

The accompanying notes are an integral part of the financial statements.

MASSACHUSETTS HOUSING PARTNERSHIP
(A Component Unit of the Commonwealth of Massachusetts)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the years ended June 30, 2022 and 2021

	2022	2021
<u>OPERATING REVENUES</u>		
Direct Lending:		
Interest income on project loans	\$ 33,466,263	\$ 33,495,502
Interest expense on project loans	(24,012,208)	(24,526,494)
Loan commitment and application fees	604,625	2,245,099
Other income from lending activities	406,861	418,294
Gross income from direct lending	10,465,541	11,632,401
Provision for loan losses	1,226,175	(740,797)
Net income from direct lending after provision for loan losses	11,691,716	10,891,604
Other revenue and support:		
Governmental support, administrative fee income	4,319,734	1,825,629
Interest on bank deposits and investments	580,419	633,827
Other income	897,426	1,045,233
Other revenues and support	5,797,579	3,504,689
Total operating revenue	17,489,295	14,396,293
Governmental support, ONE Mortgage program funding	4,514,966	4,125,044
Grants and other private support	28,831,895	781,986
Total grants, governmental and other support	33,346,861	4,907,030
Total revenue	50,836,156	19,303,323
<u>OPERATING EXPENSES</u>		
Salaries, wages and fringe benefits	8,904,277	8,048,997
Professional fees and contracted and other services	529,130	476,538
Community outreach, training and publications	201,917	299,084
Occupancy and equipment (lease amortization & Interest)	1,473,496	1,363,029
Other operating costs	917,313	753,267
Total operating expenses	12,026,133	10,940,915
Mortgage subsidies, reserves, and grants	31,364,268	5,589,681
Total expenses	43,390,401	16,530,596
Change in net position	7,445,755	2,772,727
Net position, beginning of year, as restated (Note 13)	70,709,964	67,937,237
Net position, end of year	\$ 78,155,719	\$ 70,709,964

The accompanying notes are an integral part of the financial statements.

MASSACHUSETTS HOUSING PARTNERSHIP
(A Component Unit of the Commonwealth of Massachusetts)
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and borrowers	\$ 47,660,479	\$ 25,368,584
Receipts from the Commonwealth of Massachusetts	7,886,799	6,490,754
Payments made for homeownership mortgage loan subsidies	(3,369,499)	(2,563,265)
Receipts for the Housing Stabilization Fund	57,427,283	38,777,310
Payments for the Housing Stabilization Fund	(48,548,642)	(39,056,171)
Receipts (payments) for the Homeowner Assistance Fund Program	37,475,667	-
Interest received from banks	2,879,445	228,018
Bank grant funds paid to borrowers	(382,707)	(331,213)
Payments to suppliers	(2,424,228)	(2,104,058)
Payments to employees including employee benefits	(8,845,782)	(7,868,140)
Payments to lenders for project loan interest	(23,934,831)	(24,252,061)
Payments made for homeownership loan losses	1	(1,443,636)
Other cash receipts and payments, net	(120,024)	489,996
	65,703,961	(6,263,882)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from bank loans	28,060,596	33,268,500
Principal payments on bank loans	(69,488,797)	(38,435,136)
Payments on lease liability	(474,020)	(415,141)
	(41,902,221)	(5,581,777)
CASH FLOWS FROM INVESTING ACTIVITIES		
Project loans made	(27,883,322)	(37,512,853)
Receipt of principal payments on project loans	75,190,439	39,552,746
Proceeds from the maturity of investments	20,757,685	12,317,062
Purchase of investments	(22,465,336)	(11,067,062)
Purchase of other assets	(143,760)	(656,763)
	45,455,706	2,633,130
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	69,257,446	(9,212,529)
CASH AND CASH EQUIVALENTS, beginning of year	79,790,195	89,002,724
CASH AND CASH EQUIVALENTS, end of year	\$ 149,047,641	\$ 79,790,195
CASH PROVIDED BY OPERATING ACTIVITIES		
Changes in net position	\$ 7,445,755	\$ 2,772,727
Adjustments to reconcile changes in net position to net cash provided (used in) by operating activities:		
Depreciation and amortization	366,749	282,332
Lease Amortization	713,341	713,341
Loan losses, homeownership and loan loss provision on project loans	1,252,598	1,533,569
Changes in operating assets and liabilities and deferred inflows and outflows -		
Grants and other amounts receivable	4,904,513	(4,769,948)
Interest receivable on project loans	61,083	43,018
Other assets	2,130,203	(892,496)
Accounts payable and accrued expenses	1,921,791	539,233
Accrued interest	77,377	274,433
Unearned revenue and other liabilities	46,098,993	(12,308,992)
Deferred outflows of resources - derivative instruments	731,558	5,548,901
	\$ 65,703,961	\$ (6,263,882)
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES-		
Purchase of other assets	\$ 143,760	\$ 656,763
Net purchase of other assets	\$ 143,760	\$ 656,763

The accompanying notes are an integral part of the financial statements.

1. Organization

The Massachusetts Housing Partnership Fund Board, doing business as the Massachusetts Housing Partnership (MHP), is a public instrumentality and body politic and corporate of the Commonwealth of Massachusetts established by Chapter 405 of the Acts of 1985 as amended by Chapter 102 of the Acts of 1990 and Section 47 of Chapter 204 of the acts of 1996. MHP is governed by a seven-member Board of Directors (the Board) appointed by the Governor.

MHP is a component unit of the Commonwealth of Massachusetts (the Commonwealth) and, as such, its financial results are included with the Commonwealth's annual financial report. MHP develops an internal budget which is reviewed by senior management and approved by MHP's Board. The budget is used for the purposes of management accountability and is not considered a legally adopted budget and, therefore, is not presented as required supplemental information to the financial statements.

2. Summary of Significant Accounting Policies

Accounting and reporting standards:

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), as prescribed by GASB Codification Section 2100, which establishes standards for defining and reporting on the financial reporting entity.

The GASB defines the basic financial statements of a business-type activity as the: statement of net position, statement of revenues, expenses and changes in net position and the statement of cash flows. The statement of net position is presented to illustrate both the current and noncurrent balances of each asset and liability. All revenues and expenses are classified as either operating or non-operating activities in the statement of revenues, expenses, and changes in net position. Operating activities are those that support the mission and purpose of MHP. Nonoperating activities represent transactions that are capital, investing, legislative or regulated in nature.

The GASB requires that resources be classified into three categories of net position. Net position represents the residual interest in the MHP's assets plus deferred outflows (as applicable) of resources after liabilities plus deferred inflows (as applicable) of resources are deducted and consist of net investment in capital assets, restricted, and unrestricted.

Net Position

To ensure compliance with limitations and restrictions placed on available resources, the accounts of MHP are maintained on the basis of programs segregated into classes of net position. Resources for various purposes are classified according to their nature and purpose as follows:

Net investment in capital assets - The net investment in capital assets component of net position consists of right-to-use leased asset, net of accumulated amortization, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are included in this component of net position. For fiscal years 2022 and 2021, there were no deferred outflows or inflows of resources.

Massachusetts Housing Partnership

(A Component Unit of the Commonwealth of Massachusetts)
Notes to Financial Statements
Year Ended June 30, 2022

Unrestricted - Accounts for unrestricted operating resources, obligations, and related activity over which the Board and management have discretionary control and which are used to conduct the operations of MHP in accordance with its statutes. Funds designated by a Board vote or policy are identified as board designated. Such designated funds include cash set aside for the Capital Impact Fund and a community assistance fund. The community assistance fund supports communities and nonprofit organizations in the initial stages of affordable housing development by providing staff, third-party consultants, and in-depth technical assistance to city and town officials to facilitate the development of affordable housing.

Restricted - Accounts for resources, obligations and related activities that have been restricted by outside sources. These programs include:

- Bank Financed Rental Financing Programs: relates to all activity under MHP's bank loan agreements and other loan financing activities for the development of affordable housing.
- Homeownership Loan Programs: provides affordable mortgage loans to low- and moderate-income first-time homebuyers.
- Joint program initiatives with the Massachusetts Department of Housing and Community Development (DHCD) including 40B site approval fees and expenditures.
- Restricted portion of Capital Impact Funds
- Homeowner Assistance Fund (HAF), program provides assistance to eligible homeowners to correct mortgage delinquencies and avoid foreclosure.

Basis of Accounting

The financial statements were prepared using the accrual basis of accounting in conformity with U.S. GAAP. Under the accrual basis, revenue is recognized when earned and expenses are recognized when obligations are incurred or when benefits are received.

Cash and Cash Equivalents

MHP classifies highly liquid securities with maturities of three months or less at the time of purchase as cash equivalents.

Investments

Investments are stated at cost, which approximates fair value. Fair value is defined by GASB Statement No 72, *Fair Value Measurement and Application*, as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. MHP categorizes its fair value measurements within the fair value hierarchy defined in accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All MHP's investments in 2022 and 2021 are Level 1 investments.

At June 30, 2022, there were five non-participating certificates of deposit and nine Agency Bonds, carried at amortized cost, which approximates fair value. The terms for the certificates of deposit range from 12 to 36 months, with interest rates between 0.50% and 1.50%. The nine Agency bonds are with the Federal Home Loan Bank or Freddie Mac, with terms between 2 to 5 years and interest rates between 0.88% and 3.00%. At June 30, 2021, there were 10 non-participating certificates of deposit, carried at amortized cost, which approximates fair value. The terms for the certificates of deposit range from 9 to 36 months, with interest rates between 0.50% and 3.00%. The certificates of deposit are fully insured by the Federal Deposit Insurance Corporation (FDIC) and/or the Depositors Insurance Fund.

Custodial Credit Risk

The custodial credit risk is the risk that in the event of a bank failure, MHP's deposits may not be recovered. MHP's cash, cash equivalents and investments are held by reputable financial institutions, whose credit has been reviewed by management.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. MHP manages its exposure to such risk by investing in primarily short-term investments.

Credit Risk

Credit risk is the risk that MHP's investments will be negatively impacted due to default of MHP's investments. Accordingly, MHP's investment policy restricts MHP's investments to low-risk investments.

Project Loans

Project loans are stated at the amount of unpaid principal and are secured primarily by real property. Interest is accrued monthly. MHP's policy for loans that are deemed to be impaired is to discontinue the accrual of interest when, after considering collection efforts and other factors, management believes that the borrower's financial condition is such that collection of interest is doubtful. A loan is considered delinquent when payments have not been made according to contractual terms typically evidenced by nonpayment of a monthly installment by the due date. A loan is classified as nonaccrual and the accrual of interest on such loan is discontinued when the contractual payment of principal or interest has become 90 days past due and management has serious doubts about further collectability of principal or interest. A loan may remain on accrual status if it is in the process of collection and in the judgement of management the interest and principal is collectible, guaranteed, or well secured. All interest accrued but not collected for loans that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method until qualifying for return to accrual.

Cash collections on impaired loans are credited to the loan receivable balance, and no interest income is recognized on those loans until the past due principal balance has been collected. Loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and ultimate collectability of the total contractual principal and interest is no longer in doubt.

Project loans involve credit risks and are made in accordance with loan policies adopted by MHP's Board of Directors. Reserves for expected loan losses are established in accordance with these policies and are reflected in the accompanying financial statements.

MHP's project loans are targeted to serve persons of low and moderate income in Massachusetts. This potential concentration of risk is mitigated in part by diversity of project location, project type, sources of project subsidies (where applicable), and project sponsor.

Right to Use Assets

A lessee is required to recognize an intangible right to use asset at the present value of future lease payments adjusted for deferred rent and tenant allowances. An offsetting lease liability is recognized at the same time on the statements of net position in the amount of the present value of future lease payments.

Derivative Instruments

MHP provides forward rate commitments on permanent financings under the Federal Housing Administration (FHA) Risk Sharing Program. To hedge against rate risk during the construction and lease up period, MHP has entered into several forward-starting, cash-settled interest rate swap agreements that are considered to be hedging derivative instruments under GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The interest rate swaps are effective hedges and therefore are reported at fair value as assets or liabilities and the related unrealized change in fair value is recorded as a deferred inflow or outflow of resources, respectively, on the statement of net position. The fair values were calculated by a third-party advisor. See Note 12 for further details of these derivatives.

Transfers and Servicing of Financial Assets

Loans held for sale, if any, are carried at the lower of cost or estimated fair value as determined on a loan-by-loan basis. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Realized gains and losses are recognized when legal title to the loans has been transferred to the purchaser and payments have been received and are reflected in the statement of revenues, expenses, and changes in net position.

MHP generally retains the right to service loans sold in whole or in part to others. Servicing costs and servicing fee revenues are recorded in the year they are paid. There were no sales of loans or transfers of assets for fiscal years 2021 and 2022.

Revenue Recognition

Revenue is recognized when MHP performs or provides services in accordance with contractual agreements. Interest on project loans is accrued monthly. Loan origination fees are generally recognized as revenue when loans are executed. These fees approximate direct loan origination costs. Grant revenue is recognized when the conditions of the grant have been satisfied. Grants earned but not received are recorded as receivables. State funds received for the ONE Mortgage loan program and HAF program are reported as unearned revenue; income and expense are recognized when the ONE Mortgage loans are funded or HAF assistance is disbursed. The Housing Stabilization Fund (HSF) is recorded as an asset on the statements of net position with an offsetting liability.

Income Taxes

As a public instrumentality of the Commonwealth of Massachusetts, the income of MHP is exempt from federal taxation pursuant to Section 115(1) of the Internal Revenue Code. The income of MHP is also exempt from federal taxation pursuant to Section 501(c)(3) of the Internal Revenue Code.

Income and Expense Allocations

Costs that can be identified with a specific program are allocated directly. Other costs are allocated in proportion to the direct program salary costs incurred by each program. Revenues restricted to the programs are allocated directly.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the related notes to financial statements. Actual results could differ from those estimates.

Recent Accounting Pronouncements

For the year ended June 30, 2022, MHP implemented the following pronouncements issued by the GASB:

GASB Statement No. 87, Leases: In June 2017, GASB issued GASB Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of this standard are effective for reporting periods beginning after June 15, 2021. Early adoption is permitted.

MHP adopted the Statement for the year ended June 30, 2022. The adoption of the Statement is applied retroactively for the years ended June 30, 2022 and 2021. The implementation resulted in MHP as a lessee for a noncancellable lease of a facility. MHP recognizes a lease liability and an intangible right-to-use asset in the financial statement. The application of GASB 87 resulted in a cumulative decrease to Net Position of \$41,217 as of June 30, 2021.

GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance: The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in GASB statements and implementation Guides that first became effective or were scheduled to become effective for periods beginning after June 15, 2018, and later. The adoption of this Statement resulted in the postponement of GASB Statement Nos. 84 through 93 and was effective immediately.

Massachusetts Housing Partnership
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Notes to Financial Statements
Year Ended June 30, 2022

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans-an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*: This Statement (a) clarifies how the absence of a governing board should be considered in determining whether a primary government is financially accountable for purposes of evaluating potential component units and (b) modifies the applicability of certain component unit criteria as they relate to defined contribution pension plans, defined contribution plans, and other employee benefit plans (for example, certain Section 457 plans). This Statement also establishes accounting and financial reporting requirements for Section 457 plans that meet the definition of a pension plan and for benefits provided through those plans and modifies the investment valuation requirements for all Section 457 plans.

The provisions of this Statement have different implementation dates. The portion of the standard that was effective immediately pertains to component unit evaluations wherein a potential component unit does not have a governing board. As MHP does not have any component units that do not have a governing board, that portion of the standard is not applicable and did not impact MHP.

The remaining provisions of this Statement are effective for fiscal years beginning after June 15, 2022, and MHP is currently evaluating the impact to the financial statements.

GASB has issued the following pronouncements that may affect future financial presentation or fiscal practices of MHP upon implementation:

GASB Statement No.	GASB Statement	Adoption Required in Fiscal Year
91	Conduit Debt Obligation	2023*
94	Public-Private and Public-Public Partnerships and Availability Payment Arrangements	2023
96	Subscription-Based Information Technology Arrangements	2023
98	The Annual Comprehensive Financial Report	2023
99	Omnibus 2022	2023
100	Accounting Changes and Error Corrections	2024
101	Compensated Absences	2024

* Adoption year adjusted due to implementation of GASB Statement No. 95

Subsequent Events

In Fiscal Year 2021, MHP entered into a \$5,000,000 Line of Credit with the Salem Five Cents Savings Bank to be used to meet MHP's operations if additional funds were required. The rate is based on the Wall Street Journal prime rate. The line of credit has been extended to August 1, 2024. Currently there were no amounts payable or any advances on the line.

MHP evaluated subsequent events through November 17, 2022, when the financial statements were available to be issued.

Massachusetts Housing Partnership
(A Component Unit of the Commonwealth of Massachusetts)
Notes to Financial Statements
Year Ended June 30, 2022

3. Cash and Cash Equivalents

Cash and cash equivalents balances as of June 30, 2022, totaled \$149,047,641 of which \$40,085,612 was held in federally or state insured bank accounts and \$108,962,029 was uninsured. Cash and cash equivalents balances as of June 30, 2021, totaled \$79,790,195 of which \$7,240,202 was held in federally or state insured bank accounts and \$72,549,993 was uninsured.

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Massachusetts Municipal Depository Trust (MMDT)	\$ 108,378,065	\$ 71,868,874
Money market funds	9,425	107,167
Bank of America certificate of deposit	574,539	573,952
Total	<u>\$ 108,962,029</u>	<u>\$ 72,549,993</u>
Uninsured funds	\$ 108,962,029	\$ 72,549,993
Federally or state insured bank accounts	40,085,612	7,240,202
Total cash and cash equivalents	<u>\$ 149,047,641</u>	<u>\$ 79,790,195</u>

A portion of uninsured funds were held at the MMDT, an investment pool of the Commonwealth and its political subdivisions. MHP participates in the Cash Portfolio, a diversified portfolio of high-quality money market instruments that seek the highest possible level of current income consistent with preservation of capital and liquidity. The funds held within this trust are uninsured and uncollateralized. Other deposits in excess of the Federal Deposit Insurance Corporation (FDIC) limit consist of money market funds with the highest available rating from a national rating agency and a Bank of America certificate of deposit. Funds held at Citizens Bank in excess of FDIC limits are collateralized by an account held at the Bank of New York Mellon. Citizens Bank has represented to MHP that these assets are identified as being pledged to MHP and are monitored monthly.

The cash and cash equivalents balances held by MHP include funds maintained for specific purposes as required by outside funding sources and lenders and funds designated for specific purposes by the Board of Directors. The allowed uses of these funds at June 30, 2022 and 2021, are as follows:

Operating Fund – (\$19,702,108 - 2022) (\$12,365,894 - 2021)

This amount is unrestricted and available for operations and cash collateral pledged for bank lines of credit.

Board Designated Funds – (\$4,945,299 - 2022) (\$1,975,713 - 2021)

Pursuant to designations by the Board of Directors, \$66,166 is held for community assistance initiatives, \$4,879,133 was held for the Capital Impact Fund at June 30, 2022. At June 30, 2021, \$65,954 was set aside for community housing initiatives and \$1,909,759 was held for the Capital Impact Fund.

Included in board designated funds at June 30, 2022 and 2021, is an additional \$1,000,000 for community assistance initiatives held in a certificate of deposit and classified as an investment.

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Other Restricted Funds – (\$124,400,234 - 2022) (\$65,448,588 - 2021)

Pursuant to loan agreements with banks, MHP maintains pledged cash collateral accounts totaling \$1,631,206 and accounts restricted for lending activities totaling \$15,229,751. Restricted cash funds for Homeownership programs include \$63,321,315 for mortgage loan subsidies, loan loss reserves and other uses (see Note 11). An additional \$15,080,000 designated for Soft Second and ONE Mortgage loan losses and recaptures is held in certificates of deposit and agency bonds, which are classified as investments. Other funds are externally restricted for the following programs: \$933,784 for the 40B Site Approval Fee Program, \$2,079,585 in remaining funds from the Homeownership Opportunity Program (HOP), and \$41,204,593 for the Housing Stabilization Fund (HSF) and other state capital programs at June 30, 2022. At June 30, 2022, restricted funds included \$7,826,000 for four loan advances under the Peoples Bank and Rockland Bank line of credit for loans escrowed in advance of closing.

At June 30, 2021, MHP maintains pledged cash collateral accounts totaling \$1,630,601 and accounts restricted for lending activities totaling \$5,784,966. Restricted cash funds for Homeownership programs include \$22,671,353 for mortgage loan subsidies, loan loss reserves and other uses (see Note 11). An additional \$10,580,000 designated for Soft Second and ONE Mortgage loan losses is held in certificates of deposit, classified as investments. Other funds are externally restricted for the following programs: \$962,782 for the 40B Site Approval Fee Program, \$2,072,933 in remaining funds from the HOP, and \$32,325,953 for the HSF and other state capital programs. At June 30, 2021, restricted funds included \$500,000 in advances under the Bank of America line of credit for loans escrowed in advance of closing.

MHP serves as fiscal agent for the HOP and HSF and other state capital programs as directed by DHCD. The SoftSecond/ONE, HOP/HSF/state capital program account balances are offset with liabilities and are reflected in unearned revenue and other liabilities in the statements of net position.

4. Other Amounts Receivable

At June 30, 2022 and 2021, the short-term balance of \$69,498 and \$4,974,011, respectively, related to community housing initiatives and other reimbursements at June 30, 2022 and to \$4,500,000 in Homeownership Program funding, community housing initiatives and other reimbursements at June 30, 2021. Based on historical collectability, management believes that these are amounts are fully collectible, as such no allowance has been established.

5. Project Loans, Net

Project loan balances at June 30 were as follows:

	<u>2022</u>	<u>2021</u>
Project loan balances	\$505,326,806	\$552,633,922
Less allowance for loan losses	(12,024,606)	(13,250,780)
	493,302,200	539,383,142
Less current portion	(40,303,987)	(43,594,198)
	<u>\$452,998,214</u>	<u>\$495,788,944</u>

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Bank Financed	MHP, through its bank loan programs, provides up to 20-year, first mortgage loans with amortizations up to 35 years to support the acquisition, new construction, and rehabilitation of multifamily properties.
Massachusetts Tax-Exempt for Credit Financing (MATCH) Program Loans	Under the MATCH program tax-exempt bonds are issued and the proceeds from those bonds are provided to borrowers. Credit enhancement is provided to facilitate the sale or direct purchase of the bonds.
Home Funders Program Loans	Provides below-market permanent rental financing for properties serving extremely low-income households.
FNMA	Fannie Mae mortgage loans provide flexible options for the acquisition or refinance of multi-family properties for terms of up to 30 years.

These and several other programs are used to finance project loans. Loans closed under the FNMA & FHA risk share programs are recorded off-balance sheets and are not included in balance sheets notes receivable. These loans are not included on the balance sheets since they are under servicing only contracts. MHP's risk exposure on these off-balance sheets loans is included in the allowance for loan losses on the balance sheets. The following schedule summarizes all project loan receivables and the allowance for loan losses for the years ended June 30:

	2022		2021	
	Project loan balances	Allowance for loan losses	Project loan balances	Allowance for loan losses
Bank financed loans	\$ 378,191,090	\$ 6,909,793	\$418,373,468	\$ 7,828,455
MATCH loans	117,261,520	1,385,037	123,233,000	1,521,920
Home funders loans	9,473,436	358,469	10,378,018	427,544
Other loan programs	400,760	-	649,436	-
Project loans, on balance sheet	505,326,806	8,653,299	552,633,922	9,777,919
FNMA	63,537,505	381,089	64,156,436	325,721
FHA Risk Share	221,099,407	2,240,218	209,349,483	2,147,140
Project loans, off balance sheet	284,636,912	2,621,307	273,505,919	2,472,861
General reserve	-	750,000	-	1,000,000
Total	<u>\$ 789,963,718</u>	<u>\$ 12,024,606</u>	<u>\$826,139,841</u>	<u>\$ 13,250,780</u>

The Board of Directors has established an Audit and Risk Management Committee to periodically review MHP's credit risks and risk mitigation and the adequacy of its loan loss reserves.

6. Credit Quality Indicators

MHP uses a nine-grade letter-based credit rating system, with A representing the highest quality/lowest risk credits and F representing the lowest quality/highest risk credits. A C rated credit is equivalent to the substandard category under bank regulatory policy; as of June 30, 2022 and 2021, there were two substandard credits and one substandard credit in the portfolio, respectively. As of June 30, 2022 and 2021, there was one and no restructured loan and no delinquencies. The principal balance of the restructured loan was \$717,866 at June 30, 2022.

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7. Borrower Funds Held in Reserves and Escrows

MHP administers certain funds on behalf of borrowers consisting of cash and money market funds as collateral for project loans receivable and as a source of payment for borrowers' obligations in separate reserve sub-accounts. These funds are located at Bank of America, N.A., Fidelity Investments and Salem Five in separate accounts under the borrowers' tax identification numbers. Escrows for tax, insurance and water and sewer payments are also held. At June 30, 2022 and 2021, these funds totaled \$115,891,700 and \$112,593,142, respectively. These assets and corresponding liabilities are not included in the accompanying statements of net position.

8. Notes Payable

The Massachusetts Nationwide Interstate Banking and Community Reinvestment Act (Chapter 102 of the Acts of 1990, as amended) requires that certain banks and bank holding companies acquiring Massachusetts banking institutions agree to make funds available for call by MHP over a 10-year period. MHP has executed 66 loan agreements with 36 banks totaling \$1,560,006,516. The bank loan agreements are the source of funding for loans by MHP to borrowers through its bank financed loan programs. MHP may call funds within 10 years of the effective date of each loan agreement for a term of up to 20 years. As of June 30, 2022, there is \$330,479,102, under 22 loan agreements, available as sources for future loan funding.

Changes in long-term obligations for the years ended June 30, 2022 and 2021, are as follows:

	<u>2022</u>	<u>2021</u>
Balance at July 1	\$ 519,633,308	\$ 524,799,943
Increases	28,060,596	33,268,500
Decreases	<u>(69,488,793)</u>	<u>(38,435,135)</u>
Balance at June 30	<u>\$ 478,205,111</u>	<u>\$ 519,633,308</u>
Due within one year	<u>\$ 35,058,363</u>	<u>\$ 36,901,904</u>

Aggregate payments of principal and interest on debt outstanding at June 30, 2022, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Due</u>
2023	\$ 35,058,363	\$ 15,568,972	\$ 50,627,335
2024	25,411,769	14,670,341	40,082,110
2025	40,790,637	13,445,906	54,236,543
2026	26,738,355	12,315,252	39,053,607
2027	36,988,602	11,355,691	48,344,293
2028-2032	133,814,598	43,830,542	177,645,140
2033-2037	131,669,667	17,666,416	149,336,083
2038-2042	41,365,040	3,800,927	45,165,967
2043-2047	5,502,726	421,135	5,923,861
2048-2052	<u>865,354</u>	<u>9,082</u>	<u>874,436</u>
Totals	<u>\$ 478,205,111</u>	<u>\$ 133,084,264</u>	<u>\$ 611,289,375</u>

Included in the outstanding principal balance of \$478,205,111 are funds advanced under eight participation arrangements serviced by MHP which total \$9,555,717 at June 30, 2022.

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Also included in the schedule above are 25 loans payable to Home Funders Collaborative LLC (HFC). The interest rate on these loans is 1%, with 10- and 20-year terms. As of June 30, 2022, the outstanding principal is \$9,427,630.

Aggregate payments of principal and interest on debt outstanding at June 30, 2021 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Due</u>
2022	\$ 36,901,904	\$ 17,611,508	\$ 54,513,412
2023	28,742,142	16,778,694	45,520,836
2024	26,508,334	15,840,094	42,348,428
2025	46,264,625	14,449,236	60,713,861
2026	28,546,328	13,140,414	41,686,742
2027-2031	156,291,276	48,594,459	204,885,735
2032-2036	146,835,290	20,915,457	167,750,747
2037-2041	44,837,059	3,584,901	48,421,960
2042-2046	3,260,294	529,067	3,789,361
2047-2051	<u>1,446,056</u>	<u>46,259</u>	<u>1,492,315</u>
Totals	<u>\$ 519,633,308</u>	<u>\$ 151,490,089</u>	<u>\$ 671,123,397</u>

Included in the outstanding principal balance of \$519,633,308 are funds advanced under 11 participation arrangements serviced by MHP which total \$17,835,262 at June 30, 2021.

Also included in the schedule above are 27 loans payable to HFC. The interest rate on these loans is 1%, with 10- and 20-year terms. As of June 30, 2021, the outstanding principal is \$10,319,612.

As of June 30, 2022 and 2021, the outstanding principal balance of non-recourse loans to MHP funded by the banks is \$456,920,516 and \$489,086,736, respectively. Bank loans made to MHP are not cross collateralized.

MHP's MATCH Program represents \$117,261,520 and \$123,233,000 of the outstanding balance at June 30, 2022 and 2021, respectively, and provides low-rate loans funded by tax-exempt bonds.

Per the terms of its bank loan agreements, MHP must deposit an amount equal to 4% of the current outstanding balances into a pledged account at each of the respective funding banks. The loan agreements allow MHP to use the cash in the pledged accounts to participate in the funding bank's advance to MHP. As of June 30, 2022 and 2021, MHP had pledged collateral cash balances of \$1,261,187 and \$1,275,782, respectively, in bank accounts and \$18,076,232 and \$19,808,791, respectively, in loan participations with its funding banks. Participation agreements are revocable at any time and are considered liquid.

9. Employee Benefits

Effective February 1, 1993, MHP established a 403(b) defined contribution retirement plan (the Plan) in accordance with the applicable provisions of the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986, as amended. Employees must contribute at least 6.2% of their annual salary to the Plan. MHP makes fully vested matching contributions of up to 12% of the employees' salaries. The Plan covers all employees of MHP. Accrued 403(b) defined contribution expense during the years ended June 30, 2022 and 2021, was \$794,817 and \$737,620, respectively.

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MHP employees do not receive any pension or retirement benefits other than the 403(b) retirement plan. MHP employees do not pay Social Security taxes and receive no Social Security credit for their employment at MHP.

10. Right to use assets and lease liability

As of June 30, 2022, MHP has a commitment under a 126-month operating lease for office space in Boston, which expires on August 31, 2030. MHP is a lessee for a noncancellable lease of office space. During fiscal year 2022, MHP adopted GASB 87 – *Accounting for Leases*. Under the GASB, MHP must recognize the lease as a right of use asset and an operating lease liability on the balance sheets. The adoption requires the lease liability to be measured at the present value of payments expected to be made during the lease term. The present value was calculated using an estimated incremental borrowing rate of 3.50%. Lease payments will be allocated between interest expense and a reduction to the lease liability. The lease liability was measured at \$8,595,546 at July 1, 2020. As of June 30, 2022 and 2021, the lease liability balance was \$7,706,385 and \$8,180,405, respectively.

The Right of Use Asset is measured as the initial amount of the lease liability, adjusted for certain lease allowances or other items. The lease asset was valued at \$7,252,301, on July 1, 2020. The lease asset is amortized on a straight-line basis, over the remaining useful life of the lease. As of June 30, 2022 and 2021, the lease assets, net of amortization was \$5,825,619 and \$6,538,960, respectively. Amortization expenses for both years ended June 30, 2022 and 2021 were \$713,341. The reduction to lease liability was \$474,020 and \$415,141 for June 30, 2022 and 2021, respectively. Along with lease interest expense of \$278,772 and \$294,784, for 2022 and 2021, respectively.

The minimum annual lease payments for subsequent fiscal years ending on June 30 are as follows, the amounts are allocated between lease interest expense and the reduction of the operating lease liability.

	<u>Lease Interest</u>	<u>Lease Liability</u>	<u>Total</u>
2023	\$ 261,818	\$ 496,809	\$ 758,627
2024	244,052	520,555	764,607
2025	221,274	864,296	1,085,570
2026	188,230	985,282	1,173,512
2027	152,713	1,050,137	1,202,850
Thereafter to 8/1/30	<u>222,167</u>	<u>3,789,306</u>	<u>4,011,473</u>
	<u>\$ 1,290,254</u>	<u>\$ 7,706,385</u>	<u>\$ 8,996,639</u>

11. Loan and Funding Commitments

As of June 30, 2022 and 2021, commitments outstanding for funds not yet advanced totaled \$136,234,498 and \$145,024,937, respectively, for the following programs:

Bank Funded Programs – (\$98,834,498 – 2022) (\$73,762,533 - 2021)

Outstanding loan commitments, for the Bank Funded program, totaled \$98,834,498 and \$73,762,533, for the years ended June 30, 2022 and 2021, respectively. These amounts will be substantially funded by bank loan agreement amounts not yet advanced. A portion of these commitments extend over multiple years.

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Other Loan Programs – (\$37,400,000 - 2022) (\$63,093,000 – 2021)

Outstanding loan commitments at June 30, 2022, totaled \$5,300,000 under the FHA Risk Sharing Program, \$32,100,000 under the FNMA Program. At June 30, 2021, outstanding loan commitments totaled \$19,593,000 under the FHA Risk Sharing Program, \$32,100,000 under the FNMA Program and \$11,400,000 under the MAP Program.

Grant Funds – (\$0 – 2022 and 2021)

MHP has accepted voluntary proposals by eight of its funding banks to provide grant funds in lieu of loan obligations. These grants were approved from 1997-2008 and total \$57,627,940. The grants are restricted to purposes set forth in MHP's authorizing statute and are specifically targeted to address unmet financing needs and to support community-based initiatives to stabilize and improve distressed neighborhoods. Any unused portion of the grants may be repayable to the respective grantor banks after 10 years. The grant funds may only be used to support programs adopted by MHP's Board of Directors after review and comment by the grantor banks. Twenty such programs have been approved. MHP has also received additional grant funding from non- funding bank entities in the amount of \$14,400,948.

During fiscal year 2022, disbursements totaling \$382,707 were made under these programs. Since the programs' inception cumulative costs have totaled \$57,490,842. At June 30, 2022 and 2021, grant monies received and not expended totaled \$8,535,071 and \$5,086,909, respectively. At June 30, 2022 and 2021, the outstanding commitments related to these programs totaled \$0 for both years.

ONE Mortgage Program and ONE+Boston – (\$8,406,130 - 2022) (\$7,657,492 – 2021)

The ONE Mortgage Program is a streamlined product which provides a single fixed-rate first mortgage loan for eligible low- and moderate-income first-time homebuyers. A 0% subsidy loan pays a portion of the interest payment during the first seven years of the loan. Upon sale, some or the entire subsidy loan may be required to be repaid to MHP. MHP also holds a loan loss reserve representing funds set aside for the benefit of each participating lender. The new ONE+Boston mortgage program represents a partnership between MHP, the City of Boston, and several local lenders. ONE+Boston is an enhanced version of the ONE Mortgage and is designed to maximize the purchasing power of Boston residents who are looking to remain in Boston.

At June 30, 2022, participating lenders had reserved subsidies from MHP for 1261 additional homebuyers for whom funds had not yet been advanced. These reservations, if all resulted in successful loan closings, would represent \$8,406,130 in additional subsidy and loan loss reserves. Of those 1,261 homebuyers, participating lenders had reserved \$10,004,484 in ONE+Boston rate reduction funds on the behalf of 697 homebuyers. At June 30, 2021, participating lenders had reserved subsidies from MHP for 696 additional homebuyers for whom funds had not yet been advanced. These reservations, if all resulted in successful loan closings, would represent \$7,657,492 in additional subsidy and loan loss reserves.

Activity in the Homeownership SoftSecond and ONE Mortgage loan loss reserve account for the years ended June 30 was as follows:

	<u>2022</u>	<u>2021</u>
Beginning balance	\$21,573,825	\$20,781,053
Additions to loan loss reserve	2,478,772	792,772
Claims paid	-	-
Ending balance	<u>\$24,052,597</u>	<u>\$21,573,825</u>

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MHP has no exposure to credit losses on SoftSecond and ONE Mortgage loans beyond administering claims from participating lenders for payments from the cash-funded loan loss reserve account

Housing Reserve Assurance Program - (\$517,277 - 2022) (\$511,912 – 2021)

The Housing Reserve Assurance Program (RAP) provides a funding mechanism to help community developers to meet the operating reserve requirements of projects syndicated with low-income housing tax credits. The \$6,000,000 program is funded equally as a joint venture by The Boston Foundation and MHP. Any draws made on operating reserves through the program are considered a recourse obligation of the sponsor.

At June 30, 2022, 13 RAP commitments were awarded with a total program balance of \$2,785,859. At year end, there were two RAP commitments awarded but not yet closed totaling \$517,277. There have been no draws on the program to date. At June 30, 2021, twelve RAP commitments were awarded with a total program balance of \$2,577,947. At year end, there were two RAP commitments awarded but not yet closed totaling \$511,912.

12. Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, MHP uses various methods including market, income, and cost approaches. MHP utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques MHP is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

For the fiscal years ended June 30, 2021 and 2020, the application of valuation techniques applied to similar assets and liabilities has been consistent. All of MHP's cash, cash equivalents, and investment securities are Level 1 investments. The following is a description of the valuation methodologies used for instruments measured at fair value:

Cash and cash equivalents: The carrying amounts reported in the statements of net position for cash and cash equivalents approximate those assets' fair market values because of the highly liquid nature of these instruments.

Investment securities: The carrying amounts reported in the statements of net position for investments are at amortized cost, which approximates fair value.

At June 30, the carrying amounts and approximate fair value of MHP's financial instruments are as follows:

	2022		2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 149,047,641	\$ 149,047,641	\$ 79,790,195	\$ 79,790,195
Investments	24,751,594	24,751,594	25,342,969	25,342,969

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The following tables present the carrying value of cash and investments by type, maturity, and credit quality as of June 30, 2022. MHP's investment policy provides an approved list of investments, guidelines regarding credit quality, and percentage allocation limits regarding the type of investment.

Cash and Investments by Maturity and Credit Quality as of June 30, 2022

<u>Cash and Investment Type</u>	<u>Carrying Amount</u>	<u>< 1 year</u>	<u>1 -5 years</u>	<u>6-10 years</u>	<u>> 10 years</u>
Massachusetts Municipal Depository Trust (MMDT)	\$ 108,378,065	\$ 108,378,065	\$ -	\$ -	\$ -
Money Market funds/ cash	40,669,576	40,669,576	-	-	-
Certificates of deposit/ Bonds	24,751,594	2,286,258	22,465,336	-	-
Total	\$ 173,799,235	\$ 151,333,899	\$ 22,465,336	\$ -	\$ -

<u>Cash and Investment Type</u>	<u>Carrying Amount</u>	<u>Maturity Date</u>	<u>Rating</u>	<u>Agency</u>
Massachusetts Municipal Depository Trust (MMDT)	\$ 108,378,065	N/A	N/A	N/A
Fidelity Institutional Money Market (Prime Portfolio)	95	N/A	AAA-mf	Moody's
Certificate of deposit	1,065,432	11/14/22	N/A	N/A
Certificate of deposit	1,103,149	02/14/23	N/A	N/A
Certificate of deposit	1,008,278	11/23/23	N/A	N/A
Certificate of deposit	3,013,623	05/21/24	N/A	N/A
Certificate of deposit	1,470,933	09/02/24	N/A	N/A
Agency Bond	2,010,409	03/28/24	AAA/AA+	Moody's
Agency Bond	2,009,800	04/19/24	AAA/AA+	Moody's
Agency Bond	2,012,074	03/28/25	AAA/AA+	Moody's
Agency Bond	2,010,548	04/22/25	AAA/AA+	Moody's
Agency Bond	2,011,507	04/22/25	AAA/AA+	Moody's
Agency Bond	2,008,768	04/28/25	AAA/AA+	Moody's
Agency Bond	1,001,288	1/28/27	AAA/AA+	Moody's
Agency Bond	2,013,391	03/29/27	AAA/AA+	Moody's
Agency Bond	2,012,394	04/14/27	AAA/AA+	Moody's
Cash and equivalents	40,669,481	N/A	N/A	N/A
Total	\$ 173,799,235			

The following tables present the carrying and fair value of cash and investments by type, maturity, and credit quality as of June 30, 2021.

Cash and Investments by Maturity and Credit Quality as of June 30, 2021

<u>Cash and Investment Type</u>	<u>Carrying Amount</u>	<u>< 1 year</u>	<u>1 -5 years</u>	<u>6-10 years</u>	<u>> 10 years</u>
Massachusetts Municipal Depository Trust (MMDT)	\$ 71,868,874	\$ 71,868,874	\$ -	\$ -	\$ -
Money Market funds/ Cash	7,921,321	7,921,321	-	-	-
Certificates of deposit/Bond	25,342,969	23,254,082	2,088,887	-	-
Total	\$ 105,133,164	\$ 103,044,277	\$ 2,088,887	\$ -	\$ -

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<u>Cash and Investment Type</u>	<u>Carrying Amount</u>	<u>Maturity Date</u>	<u>Rating</u>	<u>Agency</u>
Massachusetts Municipal Depository Trust (MMDT)	\$ 71,868,874	N/A	N/A	N/A
Fidelity Institutional Money Market (Prime Portfolio)	95	N/A	AAA-mf	Moody's
Certificate of deposit	1,120,626	07/17/21	N/A	N/A
Certificate of deposit	5,613,126	10/11/21	N/A	N/A
Certificate of deposit	4,000,126	10/11/21	N/A	N/A
Certificate of deposit	2,241,039	01/25/22	N/A	N/A
Certificate of deposit	7,295,229	02/08/22	N/A	N/A
Certificate of deposit	1,060,437	02/14/22	N/A	N/A
Certificate of deposit	1,386,576	03/04/22	N/A	N/A
Certificate of deposit	536,923	05/14/22	N/A	N/A
Certificate of deposit	1,088,107	02/14/23	N/A	N/A
Certificate of deposit	1,000,780	11/23/23	N/A	N/A
Cash and equivalents	<u>7,921,226</u>	N/A	N/A	N/A
Total	<u>\$ 105,133,164</u>			

Derivative Instruments

MHP is using forward-starting, cash-settled interest rate swaps (swaps) to hedge against rate risk under MHP's Risk Sharing Program during the construction and lease up period when MHP has provided a rate lock to its borrower. During the fiscal year ended 2022, MHP settled two swaps with total notional amounts of \$9,693,000. During the fiscal year ended 2021, MHP settled six swaps with total notional amounts of \$58,992,500. The combined notional amounts of all outstanding swaps were \$0 and \$9,693,000 for the fiscal years ended June 30, 2022 and 2021, respectively. All swaps are forward-starting, cash-settled swaps, and as such, are required to be terminated prior to the swaps' effective dates, on the mandatory early termination dates. The swaps had an aggregate negative fair value at June 30, 2022 and 2021, of \$0 and \$1,060,021, respectively. The balance is recorded on the statements of net position as deferred outflows of resources under assets and deferred inflows of resources under liabilities. A negative fair value implies that MHP would owe a payment to the interest rate swap provider if the interest rate swap were terminated. If a derivative were determined to be an ineffective hedge, the change in the total fair value would be presented as part of investment income or losses. The interest rate swaps are currently effective hedges and are presented as hedging derivative instruments on the statements of net position. All MHP's interest rate swaps were Level 2 instruments.

Derivative Instrument Risks

Counterparty Risk

Counterparty risk is the risk that MHP's counterparty will not fulfill its settlement obligations.

Delivery Risk

In the event that MHP's borrower does not close a permanent financing with MHP the borrower is obligated to cover MHP's hedge settlement costs. However, MHP may not be able to quickly recover these funds from its borrower, particularly in the event of their bankruptcy or some other form of financial distress.

Basis Risk

Basis risk is the risk that arises when variable rates or prices of a hedging derivative instrument and a hedged item are based on different reference rates. The hedging derivative instrument is based on a LIBOR swap rate, while the hedged item is based on a rate from the Federal Financing Bank (FFB).

Termination Risk

MHP or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. If at the time of termination, a hedging derivative has a negative fair value, MHP would owe a payment to the interest rate swap provider.

13. Restatement

Certain June 30, 2021, balances and amounts previously reported in Note 10 have been restated to conform to the June 30, 2022, presentation for leases under GASB 87. Where applicable, changes to the financial reporting and presentation have been applied to the prior period comparatives. The effect of the reclassification on the June 30, 2021, balances was to record a rights of use lease asset of \$7,252,301, accumulated lease amortization and lease amortization expense of \$713,341, a net operating lease liability of \$8,180,405. Lease interest expense of \$294,784 and to reverse the balances of rent expense \$966,908 in occupancy and \$816,551 tenant allowances and \$783,678 of deferred rent that was included in unearned revenue and accrued expenses. Net position and change in net position was reduced by \$41,217 for fiscal year 2021.

MASSACHUSETTS HOUSING PARTNERSHIP
(A Component Unit of the Commonwealth of Massachusetts)
SCHEDULE OF NET POSITION BY RESTRICTION (Unaudited)
FOR THE PERIOD ENDED June 30, 2022

	Restricted Net Position					Unrestricted Net Position			Net Investment	
	Grant Funds	HSF, HOP, 40B Other Restricted	Homeowner Assistance Fund Homeownership	Lending Rental Housing	Total Restricted Funds	Board Designated *	Unrestricted Operating Funds	Total Unrestricted Funds	In Capital Assets	Total
ASSETS										
Current assets:										
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,945,299	\$ 19,702,108	\$ 24,647,407	\$ -	\$ 24,647,407
Cash and cash equivalents - restricted	5,351,215	44,217,962	63,321,315	11,509,742	124,400,234	-	-	-	-	124,400,234
Total cash and cash equivalents	5,351,215	44,217,962	63,321,315	11,509,742	124,400,234	4,945,299	19,702,108	24,647,407	-	149,047,641
Investments	-	-	-	-	-	1,000,000	6,671,594	7,671,594	-	7,671,594
Investments - restricted	2,000,000	-	15,080,000	-	17,080,000	-	-	-	-	17,080,000
Grants and other amounts receivable	-	-	-	-	-	-	69,498	69,498	-	69,498
Interest receivable on project loans	-	-	-	-	-	-	2,453,556	2,453,556	-	2,453,556
Total current assets	7,351,215	44,217,962	78,401,315	11,509,742	141,480,234	5,945,299	28,896,756	34,842,055	-	176,322,289
Project loans, net of allowance	1,235,068	-	-	476,440,637	477,675,705	-	15,626,496	15,626,496	-	493,302,201
Right of use assets, net of accumulated amortization	-	-	-	-	-	-	-	-	5,825,619	5,825,619
Other assets	-	-	52,328	-	52,328	-	3,380,128	3,380,128	-	3,432,456
	1,235,068	-	52,328	476,440,637	477,728,033	-	19,006,624	19,006,624	5,825,619	502,560,276
Deferred outflows of resources										
Derivative instruments	-	-	-	-	-	-	-	-	-	-
Deferred settled swap	-	-	-	-	-	14,918,704	-	14,918,704	-	14,918,704
	-	-	-	-	-	14,918,704	-	14,918,704	-	14,918,704
Total assets	8,586,283	44,217,962	78,453,643	487,950,379	619,208,267	20,864,003	47,903,380	68,767,383	5,825,619	693,801,269
LIABILITIES										
Current liabilities:										
Accounts payable and accrued expenses	-	-	-	2,838,266	2,838,266	-	2,180,368	2,180,368	-	5,018,634
Accrued interest	-	-	-	-	-	-	2,207,290	2,207,290	-	2,207,290
Total current liabilities	-	-	-	2,838,266	2,838,266	-	4,387,658	4,387,658	-	7,225,924
Notes payable (current and noncurrent)	-	-	-	478,205,111	478,205,111	-	-	-	-	478,205,111
Unearned revenue and other liabilities	-	-	54,508,121	627,155	55,135,276	-	(168,309)	(168,309)	-	54,966,967
HSF and HOP liabilities	-	43,488,566	-	-	43,488,566	-	-	-	-	43,488,566
Reserves for SoftSecond loan losses	-	-	24,052,597	-	24,052,597	-	-	-	-	24,052,597
Operating lease liabilities (current and non-current)	-	-	-	-	-	-	-	-	7,706,385	7,706,385
Derivative liability	-	-	-	-	-	-	-	-	-	-
Total liabilities	-	43,488,566	78,560,718	481,670,532	603,719,816	-	4,219,349	4,219,349	7,706,385	615,645,550
NET POSITION										
Total restricted net position	8,586,283	729,396	(107,075)	6,279,847	15,488,451	-	-	-	-	15,488,451
Total unrestricted net position	-	-	-	-	-	20,864,003	43,684,031	64,548,034	(1,880,766)	62,667,268
Total Net Position	\$ 8,586,283	\$ 729,396	\$ (107,075)	\$ 6,279,847	\$ 15,488,451	\$ 20,864,003	\$ 43,684,031	\$ 64,548,034	\$ (1,880,766)	\$ 78,155,719

MASSACHUSETTS HOUSING PARTNERSHIP
(A Component Unit of the Commonwealth of Massachusetts)

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION BY PROGRAM (Unaudited)
FOR THE YEAR ENDED June 30, 2022

	Restricted					Unrestricted	
	Grant Funds	HSF, HOP, 40B Other Restricted	Homeowner Assistance Fund Homeownership	Lending Rental Housing	Total Restricted Funds	Operating and Board Designated Funds	TOTAL
OPERATING REVENUES:							
Direct Lending:							
Net interest spread income on project loans	\$ -	\$ -	\$ -	\$ 9,454,055	\$ 9,454,055	\$ -	\$ 9,454,055
Loan commitment and application fees	-	-	8,800	595,825	604,625	-	604,625
Other income from lending activities	-	-	-	406,861	406,861	-	406,861
Gross income from direct lending	-	-	8,800	10,456,741	10,465,541	-	10,465,541
Provision for loan losses	-	-	-	1,226,175	1,226,175	-	1,226,175
Net income from direct lending	-	-	8,800	11,682,916	11,691,716	-	11,691,716
Other Revenue and Support:							
Governmental support, administrative fees	-	-	4,069,234	-	4,069,234	250,500	4,319,734
Interest on bank deposits and investments	-	-	239,637	-	239,637	340,782	580,419
Other income	-	-	-	885,993	885,993	11,433	897,426
Other Revenue and Support	-	-	4,308,871	885,993	5,194,864	602,715	5,797,579
Total operating revenue	-	-	4,317,671	12,568,909	16,886,580	602,715	17,489,295
Governmental support	-	-	4,514,966	-	4,514,966	-	4,514,966
Grants and other private support	4,125,458	-	24,706,437	-	28,831,895	-	28,831,895
Total grants, governmental and other support	4,125,458	-	29,221,403	-	33,346,861	-	33,346,861
Total revenue	4,125,458	-	33,539,074	12,568,909	50,233,441	602,715	50,836,156
OPERATING EXPENSES:							
Salaries, wages and fringe benefits	-	15,017	945,790	3,050,796	4,011,603	4,892,674	8,904,277
Professional fees and contracted services	-	-	58,137	90,797	148,934	380,196	529,130
Community outreach, training and publications	-	-	134,606	3,005	137,611	64,306	201,917
Occupancy and equipment	-	-	28,562	-	28,562	1,444,934	1,473,496
Other operating costs, overhead allocation	-	-	1,332,588	2,582,340	3,914,928	(2,997,615)	917,313
Total operating expenses	-	15,017	2,499,683	5,726,938	8,241,638	3,784,495	12,026,133
Mortgage subsidies, reserves and grants	361,192	178,703	30,802,858	-	31,342,753	21,515	31,364,268
Total expenses	361,192	193,720	33,302,541	5,726,938	39,584,391	3,806,010	43,390,401
Change In net assets	3,764,266	(193,720)	236,533	6,841,971	10,649,050	(3,203,295)	7,445,755
NET POSITION, beginning of year, as restated (Note 13)	5,086,909	852,770	143,105	8,982,220	15,065,004	55,644,960	70,709,964
Interfund transfers	(264,892)	70,346	(486,713)	(9,544,344)	(10,225,603)	10,225,603	-
NET POSITION, end of year	\$ 8,586,283	\$ 729,396	\$ (107,075)	\$ 6,279,847	\$ 15,488,451	\$ 62,667,268	\$ 78,155,719