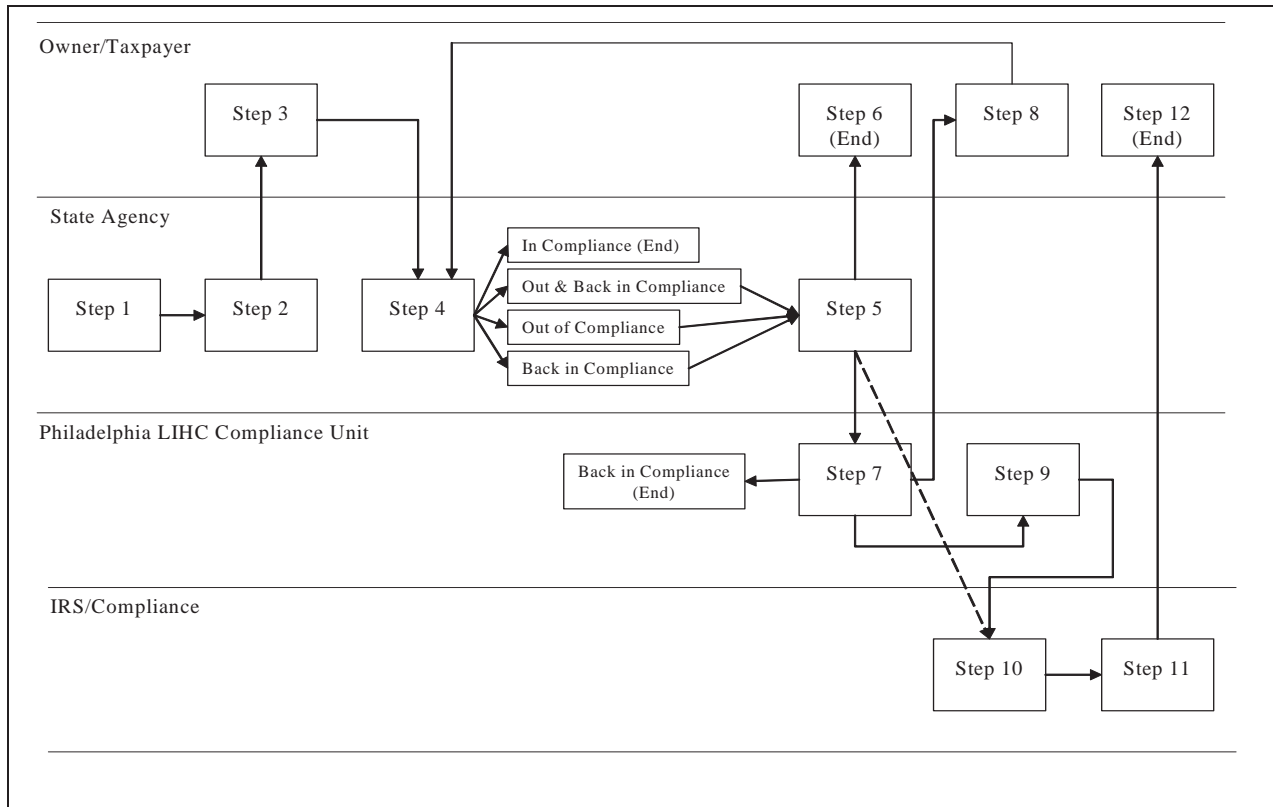


## Exhibit 1-1 Reports of Noncompliance (Form 8823) Process Map & Explanations



The chart above is a process map demonstrating the steps of the Form 8823 process. The map is divided into four horizontal paths representing the groups involved in the process. The steps of the process are placed in the path of the group involved as the steps move from left to right across the map. The top path is for the owner/taxpayer, the second path down is for the state agency, the third path down is for the Philadelphia LIHC Compliance Unit, and the bottom path is for IRS/Compliance.

- Step 1**            The state agency performs a desk audit, conducts a site visit, or reviews the owner’s tenant files.
  
- Step 2**            The state agency prepares and promptly provides the owner with a summary report describing issues of noncompliance. The letter may also identify administrative or technical issues, recommend changes to improve future management of the property, or suggest corrective actions to remedy noted noncompliance issues.
  
- Step 3**            The owner responds to the state agency within a maximum of 90 days, which can be extend up to a total of 6 months with the state agency’s approval. Generally, the state agency specifies a time period appropriate for the type of noncompliance. The owner’s response may provide clarifications and document that corrective actions have been implemented; i.e., how the noncompliance issues have been addressed.

- Step 4** When the owner’s response is received, the state agency determines whether the owner provided:
1. clarification establishing that the owner was always in compliance,
  2. documentation that issue(s) of noncompliance have been remedied within the correction period (out and back in compliance).
  3. no documentation that issue(s) of noncompliance had been remedied within the correction period (out of compliance), or
  4. documentation that issue(s) of noncompliance have been remedied, but the noncompliance was not corrected until after the end of the correction period. \*If corrected within three years after the end of the correction period,\* a Form 8823 \*must be\* submitted to the IRS to report the correction of previously reported noncompliance (back in compliance).
- Step 5** If the state agency determines that the owner was always in compliance, findings are not required to be reported to the IRS. However, the state agency should notify the owner that the issue is considered closed and no Form 8823 will be filed.
- If the state agency determines that either the owner remedied the issue of noncompliance or remains out of compliance, then a Form 8823 must be filed with the Internal Revenue Service at the Philadelphia Service Center (PSC). As noted by the dashed line between steps five and ten, the state agency may send a copy of the Form 8823 directly to IRS Headquarters.
- Step 6** The state agency sends the owner a copy of the Form 8823 concurrent to filing the Form 8823 with the IRS.
- Step 7** Upon receipt of the Form 8823 at the PSC, the “back in compliance” Forms 8823 are processed without contacting the owner. The “out of compliance” Forms 8823 are assigned to technicians to prepare owner notification letters. The letters are specific to the type of noncompliance reported on Form 8823, and explain that noncompliance may result in the loss and recapture of the tax credit.
- Step 8** The owner receives the notification letter. The letter instructs the owner to contact the state agency to resolve the issue (Step Four). If the noncompliance is resolved within three years, a “back in compliance” Form 8823 must be filed with the IRS and a copy sent to the owner concurrently. (Note: some issues of noncompliance cannot be remedied.)
- Step 9** Simultaneous to notifying the owner, the PSC processes the Forms 8823 and transcribes the information into a database.
- Step 10** Forms 8823 are immediately evaluated when received from the state agencies and IRS databases are routinely analyzed to determine whether an audit of the owner’s tax return is needed. The taxpayer’s three latest filed income tax returns and all Forms 8823 filed for the project are evaluated.
- Step 11** If it is determined that an audit is warranted, the case file is sent to the appropriate field office for examination.
- Step 12** The taxpayer is notified that an audit has been scheduled.