

**INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT'S REPORT on  
CARRYOVER ALLOCATION BASIS  
PURSUANT TO IRS SECTION 42 (h)(1)(E)(ii)  
and  
AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA)  
EXCHANGE PROGRAM 30% TEST  
PURSUANT TO INTERIM FINAL RULE, 31 CFR PART 32 (if applicable)**

DATE: \_\_\_\_\_

TO OWNER: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

AND TO: Washington State Housing Finance Commission  
Low-Income Housing Tax Credit Program  
1000 Second Avenue  
Suite 2700  
Seattle WA 98104-1046

RE: Independent Certified Public Accountant's Report on Carryover Allocation Basis  
10% Test and ARRA Exchange Program 30% Test (if applicable)

Owner's Name: \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Federal Taxpayer  
ID Number: \_\_\_\_\_

Project Name: \_\_\_\_\_

TC or OID #: \_\_\_\_\_

We have performed the procedures enumerated below, which were agreed to by the authorized representative of the Owner and the Washington State Housing Finance Commission ("Commission"), solely to assist the Owner in complying with the requirements of the Commission and the Internal Revenue Code regarding the Carryover Allocation Basis of the Project as reported in the attached Exhibits. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public

Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of this Report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this Report has been requested or for any other purpose.

We represent that we are independent of and not controlled by or affiliated with the Owner.

The Owner has prepared the attached Exhibits in accordance with the Internal Revenue Code as amended and as interpreted or explained by temporary or final treasury regulations, IRS rulings or pronouncements, the Commission's "Instructions for Owner's Certification and Independent Certified Public Accountant's Report on Carryover Allocation Basis" dated June 2010, the Commission's *Policies* from the year in which the Project executed its Reservation and Carryover Allocation Contract (RAC), and \_\_\_\_\_ [list additional materials, if any] (collectively, the "Basis of Presentation"). To the extent not otherwise defined in this Report, capitalized terms have the meanings given to them in the Basis of Presentation.

1. Per Exhibit "A" (attached hereto and incorporated by reference) the Owner's representation is that the Project's ownership entity follows the \_\_\_\_\_ [enter "cash or "accrual"] method of accounting.
2. We compared the applicable terms and amounts reflected in Exhibit "C" (attached hereto and incorporated by reference) to the Project's acquisition contract(s), development services contract(s), and/or construction contract(s) and found them to be in agreement.
3. We selected and inspected actual costs included in Exhibit "C" for the Project by selecting and inspecting \_\_\_\_\_ (indicate sample size and selection method) vendor invoices or other supporting documentation for the items selected, and determined that such costs are properly includible in the Owner's adjusted basis in land or depreciable real property in accordance with the Basis of Presentation and the method of accounting listed in step 1 above.
4. We verified the mathematical accuracy of total Carryover Allocation Basis in the Project, as of the later of (a) the date which is twelve (12) months from the date of the Carryover Allocation (see Section 2.2 of the Project's Credit Reservation and Carryover Allocation Contract), or (b) the close of the calendar year of the Carryover Allocation, as itemized in Exhibit "C" noting the Carryover Allocation Basis totaled \$ \_\_\_\_\_.
5. Per Exhibit "A," the Owner has represented that its total reasonably expected basis in the Project as of the close of the second calendar year following the calendar year of the Carryover Allocation is \$ \_\_\_\_\_.
6. We divided total Carryover Allocation Basis of \$ \_\_\_\_\_ by the total expected basis in the Project as shown in number 5 above of \$ \_\_\_\_\_ and multiplied the resultant quotient by 100 noting the resultant percentage to be \_\_\_\_\_%.

7. **ARRA EXCHANGE PROJECTS ONLY:** Please check below if this report is intended to serve as the Project's Independent Certified Public Accountant Report on the ARRA Exchange Program's 30% Test. The percentage reported in Item 6 above is greater than 30%.

The project has incurred more than thirty percent (30%) of the reasonably expected total adjusted basis in land and depreciable property of the Project by December 31, 2010 as required by Interim Final Rule, 31 CFR Part 32.

These agreed-upon procedures do not constitute an examination, the objective of which is the expression of an opinion on the Exhibits referred to above. Accordingly, we do not express an opinion on the Exhibits referred to above. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This Report is intended solely for the information and use of the authorized representatives of the Owner and the Commission, and should not be used by those who did not agree to the procedures. However, this Report is a matter of public record and its distribution is not limited.

Firm Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

**EXHIBIT "A"**

**Example of Owner's Letter of Representation to Accountant**

[Type on Owner's Letterhead]

Project Name: \_\_\_\_\_

TC or OID #: \_\_\_\_\_

[Date of Accountant's Report]

Accounting Firm Name

Firm Address

Firm City, State, Zip

In conjunction with the engagement to perform certain agreed-upon procedures as contained in your Report on Carryover Allocation Basis and ARRA Exchange 30% Test (if applicable) dated \_\_\_\_\_ (the "Report") to be filed with the Washington State Housing Finance Commission, which engagement was conducted in accordance with the Statements on Standards for Attestation Engagements, issued by the American Institute of Certified Public Accountants, we do hereby make the following representations to you:

1. Exhibit "C" attached to the report was prepared in accordance with the Basis of Presentation as defined in the Report.
2. The information included in Exhibit "B" (plus any attachment to Exhibit "B") is a true, correct and complete representation of the relationships between the individuals or entities for the Project listed therein.
3. The reasonably expected basis in the Project as of the close of the second calendar year following the calendar year of the Carryover Allocation is \$ \_\_\_\_\_.
4. The sufficiency of the procedures undertaken is solely the responsibility of \_\_\_\_\_ [enter Owner's name] and the Washington State Housing Finance Commission who are the authorized users of the Report.
5. The \_\_\_\_\_ [enter Owner's name] uses the \_\_\_\_\_ [enter "cost" or "accrual"] method of accounting and all amounts have been recorded in accordance with that methodology.
6.  (Check if applicable) This Project contains ARRA Exchange funds and therefore must incur more than thirty percent (30%) of the reasonably expected total adjusted basis in land and depreciable property of the Project as required by Interim Final Rule, 31 CFR Part 32 by December 31, 2010.

Signature: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_



**EXHIBIT "C"**  
**Project Costs Incurred**

Itemized Cost	Incurred Cost	Itemized Cost	Incurred Cost
<b>Land and Building Acquisition</b>		<b>Architectural, Engineering, and Other Fees</b>	
Land	\$ _____	Architectural Fees	\$ _____
Existing Structures	\$ _____	Real Estate Attorney	\$ _____
Demolition	\$ _____	Environmental Report	\$ _____
Environmental Abatement	\$ _____	Building Permits	\$ _____
Other: _____	\$ _____	Bid Costs	\$ _____
Other: _____	\$ _____	Utility Hook Up Fees	\$ _____
<b>Subtotal</b>	\$ _____	Other Fees: _____	\$ _____
		Other Fees: _____	\$ _____
		<b>Subtotal</b>	\$ _____
<b>Site Work</b>		<b>Interim Costs</b>	
Site Work	\$ _____	Construction Insurance	\$ _____
Off Site Improvement	\$ _____	Interest	\$ _____
Other: _____	\$ _____	Construction Loan Fees	\$ _____
Other: _____	\$ _____	Property Taxes	\$ _____
<b>Subtotal</b>	\$ _____	Other: _____	\$ _____
		Other: _____	\$ _____
		<b>Subtotal</b>	\$ _____
<b>Rehab &amp; New Construction</b>		<b>Permanent Financing Fees</b>	
New Building	\$ _____	Permanent Loan Origination Fee	\$ _____
Rehabilitation	\$ _____	Other: _____	\$ _____
Equipment & Furnishings	\$ _____	Other: _____	\$ _____
Accessory Building	\$ _____	<b>Subtotal</b>	\$ _____
Environmental Abatement	\$ _____		
Washington State Sales Tax	\$ _____	<b>Soft Costs</b>	
Other: _____	\$ _____	Property Appraisal	\$ _____
Other: _____	\$ _____	Market Study	\$ _____
Other: _____	\$ _____	Tax Credit Fees**	\$ _____
<b>Subtotal</b>	\$ _____	Relocation Expenses	\$ _____
		Rent-Up	\$ _____
		Other: _____	\$ _____
		Other: _____	\$ _____
		<b>Subtotals</b>	\$ _____
<b>Contractor Overhead &amp; Profit</b>		<b>Developer/Consultant Fees</b>	
Contractor Overhead	\$ _____	Developer Fees	\$ _____
Contractor Profit	\$ _____	Consultant Fees	\$ _____
<b>Subtotal</b>	\$ _____	<b>Subtotal</b>	\$ _____

**TOTAL:** \$ \_\_\_\_\_

\* Tax Credit fees cannot be counted towards the 10% test.

**OWNER'S CERTIFICATION ON CARRYOVER ALLOCATION BASIS PURSUANT  
TO IRS SECTION 42(h)(1)(E)(ii) and ARRA EXCHANGE PROGRAM 30% TEST (if  
applicable)**

Project Name: \_\_\_\_\_

TC or OID #: \_\_\_\_\_

RE: Independent Certified Public Accountant's Reports on Carryover Allocation Basis and  
ARRA Exchange Program 30% Test (if applicable) dated \_\_\_\_\_  
(the "Report")

The undersigned Owner certifies, under penalty of perjury, as follows:

1. It is the owner, for federal income tax purposes, of the above identified Project.
2. Its method of accounting is on the \_\_\_\_\_(cash or accrual) method.
3. The costs included in Exhibit "C" of the Report have been treated as paid or accrued under the method of accounting used by the Owner.
4. All costs included in Exhibit "C" of the Report were incurred in connection with land or depreciable real property that is reasonably expected to be part of the Project.
5. All costs included in Exhibit "C" of the Report have been treated in accordance with the requirements and Program Limits defined in the Commission's *Policies* from the year in which the Project executed its Reservation and Carryover Allocation Contract (RAC)..
6. If Exhibit "C" of the Report includes as incurred any portion of the Developer Fee or any Consultant Fees, the Owner has attached to this certification a copy of the Developer contract, each Consultant contract and an itemized statement apportioning the amount of the Developer Fee and/or Consultant Fees earned in relation to the services provided. (All capitalized terms in this paragraph shall have those meanings as defined in the Commission's *Policies*.)
7. The Owner's Carryover Allocation Basis in the Project, computed as of \_\_\_\_\_  
\_\_\_\_\_, 20\_\_\_\_, as included in Exhibit "C" of the Report, is:  
  
\$ \_\_\_\_\_
8. The Owner represents that its total reasonably expected basis in the Project as of the close of the second calendar year following the calendar year of the Carryover Allocation is:  
  
\$ \_\_\_\_\_
9. Item 7 above divided by item 8 above, expressed as a percentage:  
  
\_\_\_\_\_ %

10. It has incurred, as of the date of this 10% Report, more than 10% of the reasonably expected basis in the Project in accordance with Section 42(h)(1)(E) and IRS Regulation §1.42-6 as interpreted or explained by temporary or final Treasury Regulations and Internal Revenue Service Rulings or pronouncements.
11.  (Check if applicable) It has incurred, as of the date of this Report, more than thirty percent (30%) of the reasonably expected total adjusted basis in land and depreciable property of the Project as required by Interim Final Rule, 31 CFR Part 32 for Projects using ARRA Exchange funds.

If requested, the undersigned agrees to provide to the Commission supporting documentation, including copies of checks or other records of payment or copies of contracts to pay or other agreements, of the costs listed as incurred on the attached Exhibit "C".

Owner's Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Note: To the extent not otherwise defined in the Report, capitalized terms have the meanings given to them in the Commission's *Policies* from the year in which the Project executed its Reservation and Carryover Allocation Contract (RAC)..

**INSTRUCTIONS FOR OWNER'S CERTIFICATION  
AND INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT'S REPORT  
ON CARRYOVER ALLOCATION BASIS PURSUANT TO IRS SECTION 42(h)(1)(E)(ii)  
and  
ARRA EXCHANGE PROGRAM 30% TEST  
PURSUANT TO INTERIM FINAL RULE, 31 CFR PART32 (if applicable)**

(June 2010)

Prior to issuing a Carryover Allocation for low-income housing tax credits, pursuant to IRS Section 42(h)(1)(E)(ii), the Commission must verify that, as of the later, (a) of the date which is six (6) months from the date of the Carryover Allocation (see Section 2.2 of the Project's Credit Reservation and Carryover Allocation Contract) or (b) the close of the calendar year in which the Carryover Allocation is made, the Owner identified in the Carryover Allocation owns land or depreciable property that is expected to be part of the Project and has incurred more than 10% of the reasonably expected basis in the Project (consisting of land and depreciable basis). The Commission makes this verification by obtaining a certification from the Owner and a report from an attorney or Independent Certified Public Accountant (the "10% Report") that the attorney or accountant has examined the eligible costs incurred with respect to the Project and that it is the attorney's or accountant's belief that the taxpayer has incurred more than 10% of its reasonably expected basis in the Project as of the later, (a) of the date which is twelve (12) months from the date of the Carryover Allocation (see Section 2.2 of the Project's Credit Reservation and Carryover Allocation Contract) or (b) the close of the calendar year in which the Carryover Allocation is made. See IRS Regulation §1.42-6 Buildings qualifying for carryover allocations.

**FOR ARRA EXCHANGE PROJECTS ONLY:**

As agreed to in the Owner's Exchange Program Grant Agreement, the Owner must demonstrate to the satisfaction of the Commission by December 31, 2010 that it has incurred more than thirty percent (30%) of the reasonably expected total adjusted basis in land and depreciable property of the Project as required by Interim Final Rule, 31 CFR Part 32 (the "Rule"). Specifically, the Recipient must certify to the Commission that it has fulfilled this requirement and must also submit a CPA's certification that satisfies the requirements of Rule. The CPA's certification should itemize all of the costs that have been incurred to satisfy the thirty percent (30%) requirement. If the Recipient is itemizing any portion of the developer fee or consultant fees for purposes of satisfying the thirty percent (30%) requirement, the certification must contain a detailed breakdown of the services performed by the developer and each consultant and the amount of the fees apportioned to each service. The Recipient must also submit a copy of all developer and consultant contracts as well as an itemized statement apportioning the fees earned to each service provided. The Commission may require the Recipient to submit additional documentation of the costs reflected in the certifications and the Commission may limit or exclude certain costs if it cannot determine that they are reasonable and appropriate.

The following information has been derived from the IRS Reg. §1.42-6, but is not meant to be an exhaustive summary of the IRS Regulation. Note that references to the "taxpayer" relate to the exact entity that has or will receive a Carryover Allocation, otherwise referred to as the "Owner".

An Owner's basis in a Project for purposes of the Carryover Allocation (the "Carryover Allocation Basis") and the ARRA Exchange Program's 30% Test is its adjusted basis in land or depreciable property that is expected to be part of the Project, whether or not these amounts are includible in eligible basis under Section 42(d). For example, if the Project is to include property that is not residential rental property, such as commercial space, the basis attributable to the commercial space, although not includible in eligible basis, is includible in Carryover Allocation Basis. The adjusted basis of land and depreciable property is determined under IRS Sections 1012 and 1016, and generally includes the direct and indirect costs of acquiring, constructing, and rehabilitating the property. Costs otherwise includible in Carryover Allocation Basis are not excluded by reason of having been incurred prior to the calendar year in which the Carryover Allocation is made.

### **Limitations:**

For purposes of determining Carryover Allocation Basis, the following limitations apply:

- (i) **Property not part of Project.** Carryover Allocation Basis does not include any portion of the adjusted basis of land or depreciable property that is not reasonably expected to be part of the Project for which the Carryover Allocation is made. For example, if an Owner intends to later sell off a portion of the parcel that contains the Project, the acquisition and other costs allocable to that portion cannot be included in basis for meeting the 10% requirement.
- (ii) **High cost areas.** Any increase in eligible basis that may result under Section 42(d)(5)(C) from the Project's location in a qualified census tract, a difficult development area, or if the Project is otherwise deemed eligible under program policy, is not taken into account in determining Carryover Allocation Basis or reasonably expected basis (i.e., exclude the 130% factor from both numerator and denominator). See IRS Reg. §1.42-6(b)(4), Example 1 for further discussion.
- (iii) **Amounts not treated as paid or incurred.** An amount is not includible in Carryover Allocation Basis unless it is treated as paid or incurred under the method of accounting used by the taxpayer. For example, an accrual method taxpayer cannot include construction costs in Carryover Allocation Basis unless they have been properly accrued.
- (iv) **Fees.** A fee is includible in Carryover Allocation Basis only to the extent the fee is treated as paid or incurred under the method of accounting used by the taxpayer and
  - (A) the fee is reasonable;
  - (B) the taxpayer is legally obligated to pay the fee;
  - (C) the fee is capitalized as part of the taxpayer's basis in land or depreciable property that is expected to be part of the Project; and
  - (D) the fee is not paid (or to be paid) by the taxpayer to itself.

## **Special Rules:**

**Treatment of partnerships and other flow-through entities.** With respect to taxpayers who own projects through partnerships or other flow-through entities, Carryover Allocation Basis is determined at the entity level using the rules described above.

**Specific Commission Instructions** (for further discussion of the items below, see the Commission's *Policies* from the year in which the Project executed its Reservation and Carryover Allocation Contract (RAC)):

- (1) It is the Commission's position that intermediary costs associated with the syndication of tax credits are neither includible in Carryover Allocation Basis nor in eligible basis under Section 42(d) because such costs are not includible in adjusted basis of land or depreciable property. These excluded expenses include syndication and partnership organization costs and fees, filing fees, attorney fees, broker commissions, accounting fees and the like. Also excluded are syndication bridge loan fees and syndication bridge loan interest.
- (2) No Credit will be reserved or allocated to a Project to fund or capitalize any type of reserves, including operating reserves, replacement reserves, capital reserves, etc. Amounts set aside for reserves may not be included in Carryover Allocation Basis.
- (3) The Commission is concerned that in the past, some developers may have inappropriately front-loaded the accrual of expenses solely to meet the 10% carryover test, regardless of whether or not services had actually been performed. In addition, the Commission is concerned about possible inconsistent treatment of accruals of fees in the 10% Report as compared with the final Independent Certified Public Accountant's Report on Eligible and Qualified Basis and Sources and Uses of Funds (the "Final CPA Report"). For example, to the extent that a portion of the Developer Fee is related to activities associated with land acquisition occurring in the year the Carryover Allocation is made, that portion of the Developer Fee is properly includible as incurred in the 10% Report, but should be excluded from eligible basis in the final CPA Report.
- (4) The *Policies* require that if any portion of the Developer Fee or any Consultant Fees are included as incurred for purposes of meeting the 10% carryover test, a copy of a written executed contract describing the services to be performed must be attached to or submitted with the 10% Report. A footnote or schedule should also be attached to or submitted with the 10% Report identifying (a) the portion of the fee allocable to land acquisition, (b) the portion allocable to other activities and a description of what those other activities are, (c) the term of the contract, and (d) the methodology for allocating the fee over the term of the contract (e.g., pro rata on a monthly basis, or \$X to Activity A, \$Y to Activity B, etc.). The following definitions are excerpted from the *Policies*:

**Consultant** means any person or entity other than an architect, engineer, appraiser, or syndicator that the Applicant/Owner, the Developer, a General Partner, or a party to a

Joint Venture have hired to advise the Applicant/Owner on participation in the Tax Credit Program and/or development of the Project.

**Consultant Fees** means the total amount of money and fair market value of other property paid to and/or entitled to be received by the Consultant, other than fees for the following services: architectural, engineering, property appraisal, market study, and syndication.

**Developer** means the person or entity with the responsibility of ensuring the effective construction or rehabilitation of the Project, which may also be the Applicant and/or the Owner of the Project. The Developer also includes any other person or organization Affiliated With, Controlled By, in Control Of, or a Related Party to, the Developer.

**Developer Fee** means the total amount of money and fair market value of other property paid to and/or entitled to be received by the Developer, but excludes payments made to general contractors for their profit and overhead when an Identity of Interest exists between you, the Developer, or the general contractor. This includes:

- (i) any money or other property any person or organization with an Identity of Interest with the Developer is entitled to receive for the acquisition, development, operation, and management of the Project;
  - (ii) Any money or other property paid to and/or entitled to be received by any person or organization that is Affiliated With, Controlled By, in Control Of, or a Related Party to the Developer; and
  - (iii) The amounts paid to and/or entitled to be received by all Consultants for performing duties on behalf of the Developer.
- (5) If all or a portion of a fee is treated as incurred on the 10% Report, and the Owner intends on including such portion in the eligible basis of the Project, the 10% Report should include a footnote identifying (a) the expected term of performance of the activity (beginning and end dates), (b) the methodology for allocating the fee over the term of the contract, and (c) a description of the services performed as of the date of the 10% Report. If construction of the Project has not started, and fees normally associated with construction are included as incurred (e.g., contractor overhead or profit, architectural fees), include a footnote giving the basis for treating such expenses as incurred.
- (6) Any other special or unusual treatment in the accruing of an expense should be explained in a footnote to the 10% Report.

If the person preparing the 10% Report does not have a copy of the *Policies*, the Commission will provide a copy upon request.

Note: To the extent not otherwise defined in the Report, capitalized terms have the meanings given to them in the Commission's *Policies* from the year in which the Project executed its Reservation and Carryover Allocation Contract (RAC).