



Cost Certification Preparation Guidelines - Tax Credit Program

Purpose

This Guide sets forth (a) the standards to be followed in the preparation of Cost Certifications and in the conduct of the audits, and (b) the minimum scope of audit and report format acceptable to The Virginia Housing Development Authority. It does not provide detailed audit procedures nor is it intended to supplant the Certified Public Accountants' (CPA) judgment as to the work required. This Guide is applicable to audits of General Contractors' and LIHTC cost certifications as required for developments receiving Low-Income Housing Tax Credits (LIHTCs).

The purpose of the cost certification is to establish the total costs incurred by the contractor and the LIHTC recipient to complete the development so that Virginia Housing may determine the final amount of the annual allocation of LIHTCs for the development.

The cost certification audits must be completed by an independent, third party Certified Public Accountant ("CPA") who is familiar with the requirements of Section 42 of the Internal Revenue Code.

Because of the complexity of the rules governing the LIHTC program, all participants are urged to seek appropriate legal and accounting advice regarding construction-related matters.

I. Requirements

All developments containing LIHTC's, are required to complete General Contractor's and LIHTC Cost Certifications accompanied by the 8609 Application.

The Contractor's and LIHTC Cost Certifications must be prepared by an independent, third-party CPA. The certifications must be prepared in accordance with Generally Accepted Accounting Standards, Generally Accepted Government Audit Standards, and audit standards acceptable to the American Institute of Certified Public Accountants. The certifications must be accompanied by an Independent Auditor's Report, including the unqualified opinion of the CPA.

The Cost Certifications completed by the CPAs must be submitted on the forms provided by Virginia Housing in the 8609 Application. The CPA's cost certification should follow the General Contractor's and the LIHTC Cost Certification Worksheet line items to eliminate delays in the review of the cost certification. Variation to this format may result in the return and required re-submission of the cost certification. The Building by Building Information sheet is to be completed in 8609 Application.

The General Contractor's Cost Certification shall not be prepared by the same CPA preparing the LIHTC Cost Certification. It is acceptable for the same CPA firm to prepare both certifications as long as different accountants are preparing them.

II. Eligible Costs

Eligible costs are those approved costs that have been or will be incurred within 120 days after the date of Substantial Completion. In the event that the project is financed in whole or in part with the proceeds of tax exempt bonds issued pursuant to Section 142 of the IRC, certain restrictions and limitations apply with respect to the costs or the portions thereof which are includable in the total development cost. Such restrictions and limitations shall control in the event of any conflict or inconsistency with any other provisions of this Guide.

Eligible costs may include all costs paid in cash under the terms of the construction contract. The contract price may be amended for approval change orders, and reduced for liquidated damages as required by the contract. In addition, eligible costs may include various Fees, Finance and Carrying Charges, and other cost categories as identified in the most recent approved Development Budget.

Total development costs may include but are not limited to:

- Construction costs;
- Architect fees;
- Professional fees, such as legal and accounting, appraisal and market study, engineering and survey;
- Furniture and equipment;
- Construction period interest and fees;
- Financing expenses, including loan application fees, loan origination fees, and mortgage Insurance premium;
- Tax Credit allocation and monitoring fees;
- Compliance monitoring fee;
- Rent-up expenses;
- Relocation expenses;
- Contingencies, either for construction or soft costs.

III. Eligible Basis

Eligible basis is the cost of new construction, acquisition of existing property and the cost of any improvements to that property (Joint Committee Report on the LIHTC).

Eligible basis may include:

- Building Acquisition;
- Local Impact Fees;
- Construction Costs;
- Soft Costs: architect, legal, permitting, clerk of the works, survey, etc.;
- Refrigerators, stoves, air conditioners;
- Parking lots, roads “closely associated” with the use of the building;
- Grading and landscaping “closely associated” with the use of the building;
- Capitalized interest including amortization of loan costs;
- Developer Fees;
- Amenities (swimming pool/recreational facilities).

Eligible basis does not include:

- Cost of land;
- Loan costs and fees (unless related to construction loans);
- State Housing Compliance Fees;
- Marketing/Advertising;
- Operating Expenses during construction;
- Reserves;
- Parking, roads, grading, and not integral to the building;
- Landscaping not adjacent to the building (trees along property line not eligible);
- Rent-up Costs;
- Organization and syndication costs;
- Developments fees allocable to land acquisition and other in-eligible project costs;
- Construction Contingency (contingency should be reclassified by client to actual category).

The above list is not exhaustive and will be reviewed on a case by case basis in accordance with Section 42 of the IRC.

IV. 8609 Application/Cost Certification Process

No more than 180 days after construction completion of the last building the 8609 Application must be submitted along with supporting documentation, LIHTC and Contractors Cost Certification.

Consistent with Section 42(m)(2) of the Internal Revenue Code and industry best practices, Virginia Housing limits the award of LIHTC and other State controlled resources to the funding gap necessary to make a transaction viable. Even if a specific line item is not being paid with LIHTC equity or Virginia Housing funds, any excessive cost, regardless of the source of financing, increases the gap and affects the public subsidy needed by a transaction. As a result, Virginia Housing reserves the right to require a justification of any development cost line item.

V. General Contractor's Cost Certification Instructions

For each Construction item the CPA must submit a schedule of costs, which includes monies paid to vendor(s), as well as general requirements, builder's overhead and profit, building permit and other fees, bond premium costs and any approved change orders (if applicable). The certification should include cost determinations for construction costs associated with the development including designated punch list items and allowances for seasonal work.

The General Contractor's Cost Certification must follow the General Contractor's Cost Certification Worksheet Form. **The Certification must be signed by the General Contractor/Construction Manager and the signature must be notarized.** The Certification must be submitted with the 8609 Application as a mandatory item.