

# SAMPLE FORM FOR 10 PERCENT CARRYOVER ALLOCATION TEST

## CERTIFIED PUBLIC ACCOUNTANT'S LETTERHEAD

Date

\_\_\_\_\_ Associates, L.P. (the "Partnership")  
Partnership Address  
City, State Zip Code  
Taxpayer Identification Number of the Building Owner

Subject: (Project Name; KHC No. \_\_\_\_\_)  
(Including the address of the building(s))

At the request of the above-named entity, we have performed certain procedures as stated below with respect to the documents supplied to us by the General Partner. These procedures, which were specified by the General Partner, were performed to assure that appropriate items and amounts were included in the computation of the 10 percent carryover rule in accordance with Internal Revenue Code (IRC) Section 42(h)(1)(E) or (F) and Internal Revenue Service Final Regulation Section 1.42-6. In addition, these procedures were performed for Kentucky Housing Corporation (KHC) so KHC may determine that the requirements for a carryover allocation have been met as of **November \_\_, 20\_\_, or within twelve months after receiving the allocation.**

The following procedures were performed:

- We examined the \_\_\_\_\_ (i.e., developer, architect, etc.) agreements, with emphasis on the amount for inclusion as a liability as of **November \_\_, 20\_\_, or within twelve months of receiving the allocation.**
- We examined documents and invoices relating to costs incurred as of **November \_\_, 20\_\_, or within twelve months of receiving the allocation,** for purposes of inclusion in the computation of the 10 percent carryover rule in accordance with IRC Section 42 (h)(1)(E) or (F) and Internal Revenue Service Final Regulation Section 1.42-6.
- We examined the reservation of 2010 Housing Credit issued by KHC.
- We examined copies of the title report, lease agreement, etc., as applicable.
- We examined the development agreement between \_\_\_\_\_ and \_\_\_\_\_ Associates, L.P.
- We examined the settlement statement showing the purchase of the land or land and existing building by \_\_\_\_\_ Associates, L.P., on \_\_\_\_\_ for \$\_\_\_\_\_.
- We examined invoices supporting costs incurred with respect to \_\_\_\_\_ through **November \_\_, 20\_\_, or within twelve months of receiving the allocation.**
- We examined the agreement for architectural and engineering services from \_\_\_\_\_ and a statement detailing the work completed as of **November \_\_, 20\_\_, or within twelve months of receiving the allocation.**

IRC Section 461 outlines the rules to be used when determining if a liability has been incurred for income tax purposes. The determination of when a liability has been incurred is provided by the "all events" test. IRC Section 461(h)(4) states, "The all events test is met with respect to any item if all events have occurred which determine the fact of the liability and the amount of such liability can be determined with reasonable accuracy." IRC 461(h)(2) adds the requirement that economic performance with respect to the item must occur. A contract is a common form of evidence that there is an obligation to make payment. Often the contract states the amount to be paid and the services to be performed. Thus, a fee agreement, which states a fixed amount to be paid for specific services performed, should meet the conditions of the events test for accrual of a liability. Economic performance must be established based on actual services rendered pursuant to the agreement.

The Development Agreement ("Agreement") stipulates that the Partnership (\_\_\_\_\_) promises to pay the Developer (\_\_\_\_\_) a fee for certain services to be rendered with respect to the development of \_\_\_\_\_. This Agreement acknowledges that not less than \$\_\_\_\_\_ of the total Development Fee was earned prior to **November \_\_, 20\_\_, or within twelve months of receiving the allocation**, for services rendered to that point. Section \_\_\_\_\_ of the Agreement outlines the various obligations of the developer, and we have received representations from the General Partner as to which of these services had been performed as of **November \_\_, 20\_\_, or within twelve months of receiving the allocation**. The amount of \$\_\_\_\_\_, shown above, represents \_\_\_\_\_ percent of the total expected fee. Based on our review of the documents received, the benchmarks achieved as of **November \_\_, 20\_\_, or within twelve months of receiving the allocation**, and the balance of services to be performed under the Agreement, we believe it is reasonable to conclude \$\_\_\_\_\_ of the Development Fee had been earned as of **November \_\_, 20\_\_, or within twelve months of receiving the allocation**. In addition, as there is an agreement, which stipulates that not less than this amount was earned as of **November \_\_, 20\_\_, or within twelve months of receiving the allocation**, we believe that it is reasonable, although not free from challenge by the IRS, to accrue this amount as of **November \_\_, 20\_\_, or within twelve months of receiving the allocation**, for purposes of determining costs incurred as of **November \_\_, 20\_\_, or within twelve months of receiving the allocation**, as shown below.

The Agreement to provide certain architectural and engineering services, dated \_\_\_\_\_ stipulates that the Partnership (\_\_\_\_\_) promises to pay \_\_\_\_\_ (architect) a fee of \$\_\_\_\_\_ for the services to be rendered with respect to the design, development and construction of \_\_\_\_\_. A statement from the architect describes the work completed by **November \_\_, 20\_\_, or within twelve months of receiving the allocation**. The \$\_\_\_\_\_ amount shown below represents \_\_\_ percent of the total expected fee. Based on our review of the documents received, the benchmarks achieved as of **November \_\_, 20\_\_, or within twelve months of receiving the allocation**, whichever is later, and the balance of services to be performed under the Agreement, we believe it is reasonable to conclude that \$\_\_\_\_\_ of the fee had been earned as of **November \_\_, 20\_\_, or within twelve months of receiving the allocation**. In addition, as there is an agreement which stipulates that not less than this amount was earned as of **November \_\_, 20\_\_, or within twelve months of receiving the allocation**, we believe that it is reasonable, although not free from challenge by the IRS, to accrue this amount as of **November \_\_, 20\_\_, or within twelve months of receiving the allocation**, for purposes of determining costs incurred as of **November \_\_, 20\_\_, or within twelve months of receiving the allocation**, as shown below.

Based on the above discussion, with our reservations noted concerning the development and architect fees, it is our opinion that at least \$ \_\_\_\_\_ of costs have been incurred by the Partnership as of **November \_\_, 20\_\_**, or **within twelve months of receiving the allocation**, as follows:

Land Acquisition	\$ _____
(Including land lease costs)	
Architect/Engineering Fees	(Sample listing - not intended to be all inclusive)
Current Real Estate Taxes	_____
Delinquent Real Estate Taxes	_____
Other Engineering Fees	_____
Financing/Settlement Fees	_____
Environmental Fees	_____
Professional Fees:	
Land Acquisition Related	_____
Project Construction Related	_____
Syndication Related	_____
Permits	_____
Surveys	_____
Market Study	_____
Development Fee:	
Land Acquisition Services	_____
Qualified Project	_____
Development Activities	_____
Syndication Activities	_____
Construction Costs	
Overhead Expenditures	
and Soft Costs - Land Related	_____
Impact Fees	_____
Other Costs (attach detail)	_____
TOTAL	\$ _____

For purposes of determining the taxpayers' reasonably expected basis, Internal Revenue Service Final Regulation Section 1.42-6 defines such basis as the anticipated adjusted basis of land and depreciable real property, whether or not such amounts are included in eligible basis. The total basis of the project upon completion was expected as of **November \_\_, 20\_\_**, or **within twelve months of receiving the allocation**, to be as follows:

Total Development Costs	\$ _____
<b>Less:</b> Working Capital/Rent-up Reserves	(Sample listing – not intended to be all inclusive)
Finance Fees	_____
Organizational Costs	_____
TOTAL - Reasonably Expected Basis	_____
Percent of Total Incurred Costs to Reasonably Expected Basis	_____ %

Reasonably expected basis has been calculated for the KHC Certification of Costs incurred as of **November \_\_, 20\_\_, or within twelve months of receiving the allocation**, for the Corporation Carryover Allocation document. We do not express any opinion here as to the amounts included in the reasonable expected basis. Based on the above amount shown, to meet the 10 percent test in accordance with Internal Revenue Code Section 42(h)(1)(E) or (F) and Internal Revenue Service Final Regulation Section 1.42-6, the project needed to incur more than \$\_\_\_\_\_ of costs prior to **November \_\_, 20\_\_, or within twelve months of receiving the allocation**. Based on the computations above, costs of at least \$\_\_\_\_\_ had been incurred by \_\_\_\_\_ (name of entity) as of **November \_\_, 20\_\_, or within twelve months of receiving the allocation**, which is approximately \_\_\_ percent of the reasonably expected basis.

This report is intended solely for the use of the parties listed above and should not be relied on by any other party.

\_\_\_\_\_  
Certified Public Accountant's signature