

**ANNEX L: INDEPENDENT AUDITOR'S REPORT  
10% PERCENT TEST CERTIFICATION**

(To be submitted on Auditor Firm's letterhead)

Date:

To: PUERTO RICO HOUSING FINANCE AUTHORITY  
P.O. Box 71361  
San Juan, PR 00936-8461

**and**

Owner: \_\_\_\_\_  
Address \_\_\_\_\_  
Owner Tax ID: \_\_\_\_\_

Re: Project: \_\_\_\_\_  
Application Number \_\_\_\_\_

We have audited the accompanying Certification of Costs Incurred ("Exhibit A") of the Owner for (The Project) as of \_\_\_\_, 20\_\_. Exhibit A is the responsibility of the Owner and the Owner's management. Our responsibility is to express an opinion on Exhibit A based on our examination.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether Exhibit A is free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in Exhibit A. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of Exhibit A. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Exhibit A was prepared in conformity with the accounting practices prescribed by the Internal Revenue Service under the accrual method of accounting and by the Puerto Rico Housing Finance Authority (PRHFA), which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, Exhibit A referred to above presents fairly, in all material respects, costs incurred for the Project as of \_\_\_\_, 20\_\_, on the basis of accounting described above.

In addition to auditing Exhibit A, we have, at your request, performed certain agreed-upon procedures, as enumerated below, with respect to the Project. These procedures, which were agreed to by the Owner and PRHFA, were performed to assist you in determining whether the Project met the 10% test in accordance with Internal Revenue Code Section 42(h)(1)(E) and Treasury Regulation Section 1.42-6. These agreed-upon procedures were performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely responsibility of the specified users of the report. Consequently, we make no representations regarding the sufficiency of the procedures below either for the purpose for which this report has been requested or for any other purpose.

We performed the following procedures:

1. We calculated, based on estimates of total development costs provided by the Owner, the Project's total reasonably expected basis, as defined in Treasury Regulation Section 1.42-6, to be \$\_\_\_\_ as of \_\_\_\_\_, 20\_\_.
2. We calculated the reasonably expected basis incurred by the Owner as of \_\_\_\_\_, 20\_\_ to be \$\_\_\_\_\_.
3. We calculated the percentage of the development fee incurred by the Owner as of \_\_\_\_\_, 20\_\_ to be \_\_\_\_\_% of the total development fee.
4. We compared the reasonably expected basis incurred as of \_\_\_\_\_, 20\_\_ to the total reasonably expected basis of the Project and calculated that \_\_\_\_\_% had been incurred as of \_\_\_\_\_, 20\_\_.
5. We determined that Owner uses the accrual method of accounting, and has not included any construction costs in carryover allocation basis that have not been properly accrued.
6. Based on the amount of total reasonably expected basis listed above, for the Owner to meet the 10% test in accordance with Internal Revenue Code Section 42(h)(1)(E) and Treasury Regulation Section 1.42-6, we calculated that the Project needed to incur at least \$\_\_\_\_ of costs prior to December 31, 20\_\_. As of 20\_\_ costs of at least \$\_\_\_\_ had been incurred, which is approximately \_\_\_\_\_% of the total reasonably expected basis of the Project.

We were not engaged to, and did not, perform an audit of the Owner's financial statements or of the Project's total reasonably expected basis. Accordingly, we do not express such an opinion. 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 Owner and the Owner's management and for filing with PRHFA and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

/s/Independent Auditors

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City, State

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Date

**EXHIBIT A TO INDEPENDENT AUDITOR'S REPORT FOR CARRYOVER ALLOCATION  
 ITEMIZED EXPENDITURES AS OF \_\_\_\_\_**

	<b>TOTAL PROJECT COSTS</b>	<b>PROJECT'S EXPECTED BASIS</b>	<b>ELIGIBLE 10% TEST EXPENDITURE</b>	<b>EXPENDITURES AS % OF EXPECTED BASIS</b>
<b>LAND AND BUILDING*</b>				
Land Costs	\$ _____	\$ _____	\$ _____	_____ %
Existing Structures	\$ _____	\$ _____	\$ _____	_____ %
On-site Work	\$ _____	\$ _____	\$ _____	_____ %
Off-site Work	\$ _____	_____	_____	
Impact Fees	\$ _____	\$ _____	\$ _____	_____ %
Other**	\$ _____	\$ _____	\$ _____	_____ %
<b>TOTAL</b>	<b>\$ _____</b>	<b>\$ _____</b>	<b>\$ _____</b>	<b>_____ %</b>
<b>REHABILITATION OR CONSTRUCTION COSTS</b>				
New Building	\$ _____	\$ _____	\$ _____	_____ %
Rehabilitation	\$ _____	\$ _____	\$ _____	_____ %
Accessory Buildings	\$ _____	\$ _____	\$ _____	_____ %
Contractor Overhead	\$ _____	\$ _____	\$ _____	_____ %
Contractor Profit	\$ _____	\$ _____	\$ _____	_____ %
General Requirements	\$ _____	\$ _____	\$ _____	_____ %
Construction Contingency	\$ _____	\$ _____	\$ _____	_____ %
Other	\$ _____	\$ _____	\$ _____	_____ %
<b>TOTAL</b>	<b>\$ _____</b>	<b>\$ _____</b>	<b>\$ _____</b>	<b>_____ %</b>
<b>PROFESSIONAL FEES</b>				
Architect - Design	\$ _____	\$ _____	\$ _____	_____ %
Architect - Supervision	\$ _____	\$ _____	\$ _____	_____ %
Engineer/Surveyor	\$ _____	\$ _____	\$ _____	_____ %
Construction Manager	\$ _____	\$ _____	\$ _____	_____ %
Other	\$ _____	\$ _____	\$ _____	_____ %
<b>TOTAL</b>	<b>\$ _____</b>	<b>\$ _____</b>	<b>\$ _____</b>	<b>_____ %</b>
<b>CONSTRUCTION PERIOD COSTS</b>				
Insurance	\$ _____	\$ _____	\$ _____	_____ %
Title Insurance-Constr. Loan	\$ _____	\$ _____	\$ _____	_____ %
Construction Loan Interest	\$ _____	\$ _____	\$ _____	_____ %
Title & Recording	\$ _____	\$ _____	\$ _____	_____ %
Constr. Loan Origination Fee	\$ _____	\$ _____	\$ _____	_____ %
Legal Fees-Construction Loan	\$ _____	\$ _____	\$ _____	_____ %
Taxes and Fees	\$ _____	\$ _____	\$ _____	_____ %
Other	\$ _____	\$ _____	\$ _____	_____ %
<b>TOTAL</b>	<b>\$ _____</b>	<b>\$ _____</b>	<b>\$ _____</b>	<b>_____ %</b>
<b>PERMANENT FINANCING</b>				
Perm. Loan Origination Fee	\$ _____	_____	_____	
Perm. Loan Title and Recording	\$ _____	_____	_____	
Perm. Loan Title Insurance	\$ _____	_____	_____	
Legal Fees-Perm. Loan	\$ _____	_____	_____	
Credit Enhancement	\$ _____	_____	_____	
<b>TOTAL</b>	<b>\$ _____</b>	_____	_____	

	TOTAL PROJECT COSTS	PROJECT'S EXPECTED BASIS	ELIGIBLE 10% TEST EXPENDITURE	EXPENDITURES AS % OF EXPECTED BASIS
<b>SOFT COSTS</b>				
Market Study	\$ _____			
Environmental Study	\$ _____	\$ _____	\$ _____	_____ %
Appraisal	\$ _____			
Tax Credit Fees	\$ _____			
Cost Certification	\$ _____			
Accounting	\$ _____	\$ _____	\$ _____	_____ %
Other	\$ _____	\$ _____	\$ _____	_____ %
<b>TOTAL</b>	<b>\$ _____</b>	<b>\$ _____</b>	<b>\$ _____</b>	<b>_____ %</b>
<b>SYNDICATION COSTS**</b>				
Organization	\$ _____			
Tax Opinion	\$ _____			
Other	\$ _____			
<b>TOTAL</b>	<b>\$ _____</b>			
<b>DEVELOPER FEES ***</b>				
Developer Overhead	\$ _____	\$ _____	\$ _____	_____ %
Developer Profit	\$ _____	\$ _____	\$ _____	_____ %
Consultant	\$ _____	\$ _____	\$ _____	_____ %
Real Estate Attorney	\$ _____	\$ _____	\$ _____	_____ %
Other	\$ _____	\$ _____	\$ _____	_____ %
<b>TOTAL</b>	<b>\$ _____</b>	<b>\$ _____</b>	<b>\$ _____</b>	<b>_____ %</b>
<b>PROJECT RESERVES</b>				
Rent-Up Reserve	\$ _____			
Operating Reserve	\$ _____			
Escrow Reserves	\$ _____			
Other Reserves	\$ _____			
<b>TOTAL</b>	<b>\$ _____</b>			
<b>TOTAL DEVELOPMENT COSTS****</b>	<b>\$ _____</b>	<b>\$ _____</b>	<b>\$ _____</b>	<b>_____ %</b>
<b>FEES PAID TO RELATED ENTITIES***</b>				
Related Entity	\$ _____	\$ _____	\$ _____	_____ %
Related Entity	\$ _____	\$ _____	\$ _____	_____ %
Related Entity	\$ _____	\$ _____	\$ _____	_____ %
<b>TOTAL</b>	<b>\$ _____</b>	<b>\$ _____</b>	<b>\$ _____</b>	<b>_____ %</b>

\* Legal fees and interest expense related to the land must be broken out and entered in this category.

\*\* All Syndication costs must be separated from other project costs and included on this line.

\*\*\* If any portion of the developer fee is deferred, supporting documentation must be submitted (e.g. promissory note).

\*\*\*\* All fees, including the developer fees, which are paid to the developer or to any entity with an identity of interest with the developer, must be clearly identified in the section, entitled Fees Paid to Related Entities.