

STATE PART 3 FINANCIAL CERTIFICATION REQUIREMENTS

The Virginia Department of Historic Resources (DHR) believes strongly that maintaining the integrity of the State Historic Rehabilitation Tax Credit Program is essential to the program's continued success and revitalization of individual properties and historic neighborhoods throughout the Commonwealth. This document provides guidance for property owners, CPAs, and other program users about their responsibilities and DHR's expectations for the way in which projects are conducted and the financial information that is submitted for review.

It is imperative that all information submitted to DHR throughout the application process is accurate, comprehensive, and reliable. The property owner bears and accepts responsibility, as evidenced by their signature, for the accuracy and sufficiency of the information submitted to DHR. So too, it is incumbent on a property owner to draft and execute all legal agreements necessary for completion of the rehabilitation project in a way that is consistent with applicable laws.

In order to certify a project, DHR requires the property owner's attestation that:

- The project has been conducted according to the approved Part 2 application, "Description of Rehabilitation," and that the work is consistent with the Secretary of the Interior's *Standards for Rehabilitation (Standards)*;
- Ownership of the property has been properly structured and is accurately represented; and
- All expenses have been properly incurred and are eligible for the tax credits according to 17 VAC 10-30-110 and relevant sections of the Internal Revenue Code and Treasury Regulations.

Photos submitted with the Part 3 application, "Request for Certification of Completed Work," should fully illustrate the completed project. DHR Tax Credit Staff reviews the photos to determine compliance with the approved scope of work and *Standards*. It is the practice of DHR to conduct a physical inspection of the project to confirm that the completed work meets the *Standards*.

All costs presented as eligible rehabilitation expenses must have been incurred by the property owner in connection with the specific project. Allocation or estimation of costs among properties and projects is not acceptable. Eligible expenses must be consistent with 17 VAC 10-30-110 and Treas. Reg. § 1.48-12(c).

Projects with \$500,000 or more in **total** rehabilitation expenses

Examination of the project costs by an independent CPA is required to establish the eligible rehabilitation expenses upon which the rehabilitation tax credits are based. DHR requires that a CPA conduct an Audit of rehabilitation expenses for projects with total project costs of \$500,000 or more, to provide assurance that the expenses meet the requirements of the Program and are eligible for the tax credit. The CPA's resulting Audit report, which includes a supporting schedule of rehabilitation expenses, schedule of construction costs, and relevant disclosure notes, is submitted with the Part 3 application and is an important component in DHR's review of the completed project. Any unpaid or deferred expenses, and the terms for their repayment, as well as any related parties among owner, developer, and service providers will be disclosed in notes to the audit report. See "Illustrative Audit Report."

Projects with less than \$500,000 in **total** rehabilitation expenses

An Agreed-Upon Procedures (AUP) engagement will be conducted for projects with total rehabilitation expenses less than \$500,000. The CPA's resulting AUP report, which includes a supporting schedule of rehabilitation expenses, schedule of construction costs, and relevant disclosure notes, is submitted with the Part 3 application and is an important component in DHR's review of the completed project. See "Illustrative Report of Independent Accountant on Applying the Virginia Rehabilitation Tax Credit Agreed-Upon Procedures."

Please contact Jessica Ugarte, Tax Credit Program Supervisor with questions:

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