

# CONTRACTOR’S AND MORTGAGOR’S COST CERTIFICATION GUIDE POLICY

## Contents

Purpose of the Cost Certifications.....	2
Cost Certification Requirements.....	2
Cost Certification Submission Documents and Due Dates.....	2
Contractor’s Cost Certification .....	2
Mortgagor’s Cost Certification.....	3
Identity of Interest (IOI) Relationships .....	3
Subcontractors\Suppliers with an IOI Relationship .....	4
Opinion of Certified Public Accountant.....	5
Contractor’s Final Costs Certification Instructions.....	7
General Requirements (Itemized Breakdown) .....	14
Builder’s Overhead.....	15
Builder’s Profit .....	16
Subcontractors Acting as General Contractors .....	16
General Contractor Entity Performing Subcontract Work.....	17
Approved Change Orders.....	17
Identity of Interest Relationships.....	17
Contractor Unallowable Costs.....	17
Incomplete On-Site.....	17
Construction Review Process .....	18
Labor Relations Review Process .....	19
Mortgagor’s Final Costs Certification Instructions .....	19
Cost Savings .....	27
Identity of Interest Relationships.....	28
Mortgagor Unallowable Costs .....	28
Pre-Final Closing Audit.....	28
Rental Receipts .....	30
Residual Receipts of the Pre-final Closing Audit.....	31
Residual Receipt Eligibility .....	31
Residual Receipts Requests .....	31
Contact List .....	32
Development Timeline.....	32
Agreed-Upon Procedures Example.....	35
Forms .....	36

## Purpose of the Cost Certifications

This policy provides guidance to owners, mortgagors, contractors, and independent certified public accountants in establishing the total costs incurred by the contractor and mortgagor to build or rehabilitate a development. From the total certified costs, allowable mortgage costs are determined by the Michigan State Housing Development Authority (“the Authority”). This policy covers the process to determine **Allowable Mortgage Costs**. The Authority determines the amount of the mortgage loan and mortgagor’s equity in the development by reviewing the total development costs *through the Mortgage Cut-off date*, which are certified by an independent auditor.

In contrast, the **Tax Credits Cost Certification** determines the total tax credit eligible costs through the *Substantial Construction Completion date*, as certified by an independent auditor. From this audit certification, the Authority determines the amount of tax credits the development is eligible to receive. Refer to the Tax Credit Cost Certification Guide Policy for guidance about the Low-Income Housing Tax Credit (LIHTC) eligible costs and certification process.

## Cost Certification Requirements

All mortgagors and general contractors must cost certify prior to final mortgage loan closing as to the actual cost of the development. **All** costs to finance and construct or rehabilitate the development, regardless of whether the costs are eligible mortgage loan costs must be included in the cost certification. Certification of the costs of each development is required of all mortgagors and all general contractors. Cost certifications are required for all the Authority loans.

All parties required to provide cost certifications must maintain adequate records to verify costs. The Authority may request access to all books and records, contracts, invoices, receiving memoranda, particulars of material, labor and facilities identified as part of the development’s construction costs, and other records appropriate to such accounts.

### Cost Certification Submission Documents and Due Dates

The Authority’s Finance Division will issue an Establishment of Initial Closing or Mortgage Cut-off Date (PSD 12:001) form to the mortgagor after initial closing and disbursement, which identifies critical dates for the certification process. On the PSD 12:001 form, the Authority’s Finance Division will identify the Mortgagor’s Cost Certification due date, along with the established Construction Cut-off and Mortgage Cut-off dates, as extended.

### Contractor’s Cost Certification

The contractor(s) must work with the **auditor** to certify within 90 days after the *Construction Cut-off date*, as extended. The completed Contractor’s Final Costs Certification documents must be submitted by the **auditor** and include:

1. Contractor's Final Costs Certification (PSD 12:004) in Excel format.
2. Contractor's Final Costs Certification (PSD 12:004) signed and approved in pdf format.
3. Copies of all approved change orders or a summary of all the approved change orders reviewed.
4. Agreed-Upon Procedures letter.

Finalized Contractor's cost certification documents **must be e-mailed** to:

- Deborah Monroy, Auditor at [MonroyD@michigan.gov](mailto:MonroyD@michigan.gov),
- The Authority's assigned Construction Specialist, and
- The Authority's assigned Equal Employment Opportunity (EEO) representative.

### *Mortgagor's Cost Certification*

The mortgagor must work with the **auditor** to certify within 90 days after the *Mortgage Cut-off date*, as extended. The completed Mortgagor's Final Costs Certification documents must be submitted by the **auditor** and include:

1. Mortgagor's Final Costs Certification (PSD 12:003) in Excel format.
2. Mortgagor's Final Costs Certification (PSD 12:003) signed and approved in pdf format.
3. Agreed-Upon Procedures letter.

Finalized Mortgagor's cost certification documents **must be e-mailed** to Deborah Monroy, Auditor at [MonroyD@michigan.gov](mailto:MonroyD@michigan.gov).

Mortgagors are further obligated to complete final closing within 60 days of the date the Authority informs the mortgagor of its approval of the cost certifications and the Authority's determination of the final amount of the mortgage loan.

Failure to meet either of the due dates will subject the mortgagor to a liquidated damage charge of .002% of the mortgage amount per day for each day of delay. At the request of the mortgagor and for good cause, the Executive Director may grant extensions to these deadlines.

The Authority's Finance Division reserves the right to determine, upon receipt, whether the certified statement of cost is satisfactory to the Authority.

## **Identity of Interest (IOI) Relationships**

IOI relationships are construed to exist when:

1. An officer, director, or stockholder of one of the following partners is also an officer, director, or stockholder in any of the other following partner agencies:
  - Mortgagor
  - Sponsor

- General contractor
  - Subcontractor
  - Material supplier
  - Equipment lessor
2. Any of the partner agencies listed in (1) has any of the following conditions:
    - a. A financial interest in one of the other partner agencies.
    - b. Advances any funds to one of the other partner agencies.
    - c. Supplies and pays, on behalf of the mortgagor (except the mortgagor), the cost of any architectural services or engineering services other than those of a surveyor, general superintendent, or engineer employed by a general contractor in connection with its obligations under the construction contract.
    - d. Takes stock or any interest in one of the other partner agencies as consideration of payment.
    - e. There exists or comes into being any side deals, agreements, contracts, or undertakings entered into or contemplated, thereby altering, amending, or canceling any of the required closing documents, except as approved by the Authority's Executive Director.
    - f. A family relationship exists, which would give one of the other partner agencies, control or influence over the price of the contract or the price paid to a subcontractor, material supplier, or equipment lessor. For purposes of this part, "family relationship" means any person who is related to the party in question by blood, marriage, or operation of law.

### **Subcontractors\Suppliers with an IOI Relationship**

The terms subcontractors and suppliers include all individuals or entities performing work on a development, furnishing materials for the construction of a development or leasing equipment used in construction of a development other than the general contractor. If a subcontractor or supplier has an IOI relationship with the general contractor or mortgagor as defined above, apply the following rules:

1. *Reasonableness of IOI costs* – The Authority allows subcontractors, suppliers, and equipment lessors who have an IOI relationship to participate in Authority-financed developments, provided that the prices paid to such subcontractors, suppliers, and equipment lessors are competitive, do not exceed prices obtainable from non-related firms for similar goods and services and are not so high as to be out-of-line with reasonable and necessary costs for goods and services furnished. Such arrangements, including details of the work or materials to be furnished with prices to be charged, must be disclosed as part of the contractor's cost certification.
2. *Cost certifications* – All entities with an identity of interest, either direct or indirect, with the mortgagor or general contractor must disclose as part of the contractor's cost certification their costs prior to final closing.

Submit identity of interest suppliers' cost certification data as a schedule aggregating each suppliers' invoice prices after deducting any rebates, refunds, kickbacks, trade

discounts, except normal discounts for prompt payment of invoices, or price adjustments, but including any delivery and handling costs. List the following information for each IOI supplier:

- Materials furnished,
- Supplier costs, and,
- Supplier selling price.

Submit IOI equipment lessor's cost certification data in a schedule listing the following information for each IOI lessor:

- Equipment leased,
- Lessor name,
- Model number of equipment,
- Number of hours leased,
- Hourly rate of the leased equipment,
- Total invoice amount.

## **Opinion of Certified Public Accountant**

Each form, Mortgagor's Final Costs Certification and Contractor's Final Costs Certification, must be accompanied by the unqualified opinion of an independent Certified Public Accountant. When there is an IOI relationship between two or more of the parties of who cost certification is required, certification of the parties having such IOI relationships must be by the same Certified Public Accountant unless the Authority waives this requirement.

The independent Certified Public Accountant is required to examine the applicable books and records to the extent necessary to satisfy the accounting firm's requirements that the amounts claimed as costs are within the scope of the allowable cost descriptions and are ordinary and necessary expenses appropriate to the development. If the accountant has any questions concerning the appropriateness of any item, or the amount, or shall desire any assistance in the interpretation of technical matters relating to construction, which are not covered in this policy, representatives of the Authority will aid with interpretation.

Inclusion in the opinion of any language, indicating that the independent certifying accountant has any reservations as to the amount or propriety of the actual costs as set forth in the Mortgagor's Final Costs Certification (PSD 12:003) or Contractor's Final Costs Certification (PSD 12:004) will make the opinion and the form unacceptable to the Authority unless cleared in advance with the Authority's Chief Financial Officer.

The following language is suggested to the certifying independent accountant containing the minimum representations acceptable to the Authority:

### **Purpose Statement**

"We have audited the costs included in the accompanying (Mortgagor's/Contractor's) Final Costs Certification (PSD 12:003/PSD 12:004) of (name of Mortgagor/Contractor)

related to (name and MSHDA number of the development) [for the construction period ended (date)].”

### **Management’s Responsibility**

“Management is responsible for the preparation and fair presentation of the (Mortgagor’s/Contractor’s) Final Costs Certification in accordance with the accounting practices generally accepted in the United States of America, and in conformity with the format qualified allocation plan rules set by the Michigan State Housing Development Authority (MSHDA), and the latest version of the Contractor’s and Mortgagor’s Cost Certification Guide Policy. Management is also responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial information that is free from material misstatement, whether due to fraud or error.”

### **Auditor’s Responsibility**

“Our responsibility is to express an opinion on the (Mortgagor’s/Contractor’s) Final Costs Certification based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the (Mortgagor’s/Contractor’s) Final Costs Certification is free of material misstatement.”

“An audit involves performing procedures to obtain audit evidence about the amounts and disclosures of construction or rehabilitation costs in the (Mortgagor’s/Contractor’s) Final Costs Certification. The procedures selected depend on the auditors’ judgement, including the assessment of the risks of material misstatements of the (Mortgagor’s/Contractor’s) Final Costs Certification, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair representation of the (Mortgagor’s/Contractor’s) Final Costs Certification in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the entity’s internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by the (Mortgagor/Contractor), as well as evaluating the overall presentation of the (Mortgagor’s/Contractor’s) Final Costs Certification.”

“We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.”

### **Opinion on Final Costs Certification**

“In our opinion, the accompanying (Mortgagor’s/Contractor’s) Final Costs Certification of (name and MSHDA number of the development), present(s) fairly, in all material respects, the financial information contained therein in accordance with generally accepted accounting principles in the United States of America, giving effect to the instructions contained in the latest version of the MSHDA Contractor’s and Mortgagor’s Cost Certification Guide Policy for recognition of such costs.”

## Other Matters – Supplemental Information

“The accompanying supplemental information (list page numbers) is presented in accordance with the instructions contained in the latest version of the MSHDA Contractor’s and Mortgagor’s Cost Certification Guide Policy and is presented for the purposes of additional analysis and is a required part of the (Mortgagor’s/Contractor’s) Final Costs Certification. Such information is the responsibility of Management and was derived from and relates directly to the underlying accounting and other records used to prepare the (Mortgagor’s/Contractor’s) Final Costs Certification. The information has been subjected to the auditing procedures applied in the audit of the (Mortgagor’s/Contractor’s) Final Costs Certification, and in our opinion the information is fairly stated in all material respects in relation to the (Mortgagor’s/Contractor’s) Final Costs Certification.”

## Use and Certification

“This report is intended solely for the information and use of the Mortgagor [Mortgagor’s Name], Contractor [Contractor’s Name] and the Michigan State Housing Development Authority and should not be used for any other purposes.”

“We certify that we have no financial interest in the (Mortgagor/Contractor) other than the practice of our profession.”

## Contractor’s Final Costs Certification Instructions

This section provides a description of the costs to record on each of the line items on the Contractor’s Final Costs Certification form (PSD 12:004). The contractor may include in his costs, all amounts:

1. For ordinary and necessary expenses directly related to the construction contract,
2. Paid to subcontractors, all labor and materials required for purposes of performing the contract, insurance premiums of all types ordinarily and necessarily incidental or related to the construction, such as:
  - Light,
  - Power,
  - Telephone,
  - Water,
  - Other utilities furnished to the construction job, and,
  - Other ordinary expenditures of the contractor incidental to the performances of his contract.

Allowable costs must be recorded under the related trade line item, organized as follows:

- Include the amounts paid or owed to all subcontractors, laborers, and for construction material(s) of on-site physical improvements included under the general contract. Contractor’s may include delivery and handling costs, but **must deduct**

any rebates, refunds, kickbacks, trade discounts or price adjustments, except for cash discounts of up to 2% for early payment (30 days or less) of vendors' invoices.

- Labor can be aggregated in one total for each line item.
- Other miscellaneous disbursements under \$200 may be aggregated in one amount under each trade line item.
- Provide support for each trade item with a schedule listing each payee and amount attributed to the total trade line item.
- If any estimated costs are included on the form, they must be identified as estimates.
- Do **not** include the amounts paid or owed to any subcontractors, laborers, and for construction material(s) of off-site physical improvements setup under a supplemental contract.
- Do **not** include any amount due the contractor under an incentive agreement. Refer to the Mortgagor Unallowable Costs section for further details.

The American Institute of Architects (AIA)/Construction Specifications Institute (CSI) number in parenthesis after each line-item cost category.

## Structures

- 1 **Architectural Environmental Mitigation (020000)** – Labor and materials related to:
  - Asbestos abatement.
  - Lead-based paint mitigation.
  - Sound mitigation.
  - Radon barriers.
  - Water treatments.
- 2 **Building Concrete (030000)** – Labor and materials related to:
  - All concrete, including trenching for footings and cement work within structures.
  - Reinforcing steel and mesh.
  - Gravel or another fill and vapor barrier under slabs.
  - Perimeter insulation, area wells and foundation vents.
  - Concrete piers and form work.
  - Basement foundation wall waterproofing and drain tiles at footings.
  - Gyp-crete, lightweight concrete.
- 3 **Masonry (040000)** – Labor and materials related to:
  - All brick and block work.
  - Lintels, metal, and/or precast.
  - Ties and reinforcing.
  - Cleaning.
- 4 **Metals (050000)** – Labor and materials related to:
  - All structural steel, except lintels.
  - Metal railings and handrails (structures only).



- 5 **Rough Carpentry (061000)** – Labor and materials related to:
  - All building framing.
  - Walls, floors, and roof sheathing.
  - All stairs.
  - Exterior wood trim, soffit, eaves, and rake.
  - Base and rowlock flashing and sill sealer.
  - Labor only for setting windows.
  - Labor only for setting exterior doors.
  - Nails and other rough hardware.
  
- 6 **Finish Carpentry (062000)** – Labor and materials related to:
  - Install interior wood trim, millwork and base.
  - Wood closet shelving.
  - Sills and trim at windows.
  - Labor only for setting interior doors and finish hardware.
  - Labor only for installing medicine cabinets and specialty items.
  - All miscellaneous finish works.
  
- 7 **Insulation (072000)** – Labor and materials related to insulation for ceiling, wall, floor, sound, and vapor barriers.
  
- 8 **Roofing (073000)** – Labor and materials related to:
  - Asphalt shingles and felt.
  - Built-up roofing.
  - Membrane and single ply roofing.
  - Flashings, ridge vents and accessories.
  - Gutters and downspouts.
  
- 9 **Siding (074000)** – Labor and materials related to:
  - Vinyl, aluminum, wood, etc.
  - Fascia, soffit, and accessories.
  - Panel siding and accessories.
  - Decorative siding trim.
  - EIFS exterior finish and trim.
  
- 10 **Caulking and Exterior Sealants (079000)** – Labor and materials related to all exterior caulking and sealants.
  
- 11 **Doors / Hardware (081000)** – Labor and materials related to:
  - Materials only for interior and exterior doors and hardware.
  - Materials only for glass sidelights and borrowed lights.
  - Materials only for sliding glass doors.
  - Garage doors.
  - Metal or wood bi-fold closet doors.

- 12 **Windows (085000)** – Materials only related to:
- Windows and screens.
  - Storm sash.
  - Window walls.
- 13 **Glazing (088000)** – Labor and materials related to:
- Store front style doors, windows, and hardware.
  - Disability assisted entryways.
- 14 **Gypsum Board (092000)** – Labor and materials related to:
- Metal stud framing.
  - All gypsum board walls and ceilings, including taping and sanding.
  - Soundboard at common walls.
  - Resilient clips, channels and accessories.
  - Special interior wall types.
- 15 **Tiling (093000)** – Labor and materials related to:
- Quarry tile and other non-resilient flooring.
  - All ceramic tile work and base.
- 16 **Acoustical Ceilings (095000)** – Labor and materials related to ceiling tiles and grid work.
- 17 **Resilient Flooring (096500)** – Labor and materials related to:
- All types of resilient flooring, including metal edging and accessories.
  - All types of vinyl base.
- 18 **Carpeting (096800)** – Labor and materials related to carpeting base and accessories.
- 19 **Painting (099000)** – Labor and materials related to:
- Painting exterior walls and trim.
  - Painting interior walls, ceilings, trim, doors, and any other surfaces of a structure.
  - Interior caulking.
- 20 **Specialties (100000)** – *Materials only* related to:
- Medicine cabinets, apartment numbers, mailboxes, and other miscellaneous items not normally included by trades as other line items.
  - Shower doors, rods, mirrors, and bathroom accessories.
  - Metal closet shelving.
- 21 **Special Equipment (110000)** – *Materials only* related to trash compactor systems and any other equipment, not included as other line items.
- 22 **Appliances (113000)** – Labor and materials related to ranges, refrigerators, range hoods, fans, washers, dryers, dishwashers, and microwave ovens.

- 23 **Window Treatments (122000)** – Labor and materials related to blinds, draperies, and rods.
- 24 **Casework (123000)** – Labor and materials related to kitchen cabinets, Formica tops including hardware and bath vanities.
- 25 **Special Construction (130000)** – Labor and materials related to any special construction, including demolition.
- 26 **Elevators (142000)** – Labor and materials related to a complete system with all items normally supplied and installed by elevator companies.
- 27 **Fire Protection (210000)** – Labor and materials related to:
- Complete fire protection systems.
  - Fire pumps or other special equipment.
  - Associated permits and testing.
- 28 **Plumbing / Domestic Hot Water (220000)** – Labor and materials related to:
- Complete plumbing system installation within structure, including gas piping, disposers, laundry tubs, and pipe insulation.
  - Domestic water heating systems.
  - Associated permits and testing.
  - Water softeners.
- 29 **HVAC (230000)** – Labor and materials related to:
- Complete heating system installation.
  - Individual room air conditioning units.
  - Central air conditioning units, including pads for compressors.
  - Building ventilation and air handling systems.
  - Associate permits and testing.
- 30 **Electrical (260000)** – Labor and materials related to:
- Complete electrical service, including wiring, fixtures, bath fans, furnace, air conditioning, and disposer hook-ups.
  - Electric heater.
  - Associated permits and testing.
- 31 **Low Voltage Electrical (262000)** – Labor and materials related to:
- Fire alarm and emergency call systems.
  - Television and cable systems.
  - Intercom and door release systems.
  - Telephone and other low-voltage specialty systems.
  - Intrusion alarm systems.
  - Associated permits and testing.

- 32 **Electronic Safety and Security (280000)** – Labor and materials related to:
- Video surveillance.
  - Access controls.

33 **Total Structures** – Automatically sums the Structures line items.

### Site Work

34 **Site Environmental Mitigation (020000)** – Costs related to:

- Underground storage tanks (UST) removal and closure.
- Soil remediation.
- Phase I and II Environmental Site Assessment (ESA).
- Wetlands mitigation (underground debris).
- Cost breakdown for debris removal.
- Description of anticipated work.

35 **Earth Work (310000)** – Costs related to:

- Site preparation, e.g., clearing and grubbing, topsoil stripping and piling.
- Tree boxed and planked, tree wells.
- Rough site grading with normal amount of cut and fill and finish grading.
- Sidewalk and street cutting.
- Basement excavation and backfill.
- All general excavation.

36 **Roads / Walks (321000)** – Costs related to:

- Asphalt or concrete paving for streets and parking areas.
- Curbs and gutters.
- Walkways, steps, handrails, and railings.
- Surfacing for playgrounds and other special areas.
- All exterior patios.

37 **Site Improvements (323000)** – Costs related to:

- Equipment for playgrounds and other specialty areas.
- Fences, walls, retaining walls, and railings.
- Street and development signs.
- Trash removal areas.
- Swimming and wading pools.
- Water fountains and other objects of art.

38 **Site Irrigation (328000)** – Costs related to:

- Complete irrigation and well systems.
- Associated permits and testing.

39 **Landscaping (329000)** – Costs related to trees, shrubs, seeding, sodding, and plantings.

- 40 **Site Utilities (330000)** – Costs related to:
- Gas, water, sanitary, and storm sewers.
  - Exterior electrical service and transformers.
  - Site lighting.
  - Exterior service for telephone, television systems, etc.
  - Associated permits and testing.
- 41 **Total Site Work** – Automatically sums the Site Work line items.

### **Miscellaneous Structures and Site Work**

- 42 **Community Building** – Lump-sum labor and materials for community buildings, pools, and pool enclosures.
- 43 **Accessory Building** – Lump-sum labor and material for detached utility buildings, garages, and carports.
- 44 **Off-Site Improvements** – Costs of access roads, sidewalks and curbs, sewers, and utility lines that (unlike on-site improvements) are off the land being developed, or the lots being sold, but which add value to the entire development.
- 45 **Site Security** – Costs of:
- Temporary security fencing.
  - Temporary intrusion alarm systems.
  - Security guard service.
- 46 **Total Miscellaneous Structures and Site Work** – Automatically sums the Miscellaneous Structures and Site Work line items.
- 47 **Total Structures and Site Work** – Automatically sums the Total Structures, Total Site Work, and Total Miscellaneous Structures and Site Work line items.

### **Construction Overhead**

- 48 **General Requirements** – Amount auto-fills from the Itemized Breakdown of General Requirements section total. Refer to the General Requirements sub-section below for more detailed information.
- 49 **Builder's Overhead** – Costs related to the portion of general overhead expenses necessary to conduct business directly concerning the specific development under construction. Refer to the Builder's Overhead sub-section below for more detailed information.
- 50 **Builder's Profit** – Costs related to the general contractor's (Builder's) profit amount for the specific development under competitive conditions. Refer to the Builder's Profit sub-section below for more detailed information.

- 51 **Bond Premium** – Costs related to establishing the bond funding to assure the contractor’s completion of the development.
- 52 **Soil Borings / Tap Fees** – If not included in the construction contract, record the costs of tap fees and other charges for water and sewer, and charges for soil borings in the amounts actually paid. A schedule listing the payees, amounts, nature of the expenditures, and dates paid must accompany the Mortgagor’s Final Costs Certification form.
- 53 **Cost Certification Expense** – Cost of the contractor’s cost certification for the development. If Contractor’s Cost Certification expense is included in the general requirements by the construction contract, then the contractor’s cost certification expense remains part of the general requirements.
- 54 **Total Construction Overhead** – Automatically sums the Construction Overhead line items.
- 55 **Total Construction Costs** – Automatically sums the Total Structures and Site Work line item and the Total Construction Overhead line item.

### **General Requirements (Itemized Breakdown)**

Enter the individual general requirements expenses on the line items identified. General requirements are allowed in the amount of actual costs incurred, not to exceed the amount provided in the Construction Cost Trade Payment Breakdown attached to the Construction Contract, as adjusted by approved change orders.

Allowable general requirement costs are itemized in the following core categories:

- Supervision – Construction manager / consultant fee.
- Field Engineering – Provide grades and lines for locating building, walkways, and streets on the site. Photographs of site progress.
- Field Office Expense – Office supplies, equipment, clerical help (including workmen’s compensation insurance, unemployment compensation, and FICA taxes for employees performing general requirements).
- Temporary Facilities – Temporary sheds and toilets.
- Temporary Utilities – Temporary heat, water, lights, and power for construction.
- Cleaning and Rubbish Removal.
- Medical Facilities – First aid stations.
- Temporary Protection and Fencing – Signs and fencing limiting access to the site.
- Builder’s Risk Insurance – Cost of insurance covering the loss of materials and equipment during construction.
- Michigan Business Taxes that are allocable to the project.

These items must be certified as general requirements and not included in other line items. Other items may also be approved for general requirements provided they are directly attributable to the development in question, but they must not include any items described in the Builder’s Overhead section below. If the general contractor is approved to perform subcontract work as described in the Identity of Interest Relationship section,

all costs normally incurred by subcontractors in performing such work, including clean-up, payroll taxes, etc., are includable in the line items for such subcontract.

**Do not include** any general overhead of the contractor, such as the salary of any person employed on a permanent basis and whose activities are in general confined to work performed in the main office or any established branch office of the contractor. The time spent on the actual construction of a development by a superintendent or foreman, who is generally retained by the firm and who is assigned to specific jobs for the purpose of coordinating the work *may be charged* to the cost of construction for that portion of such total employment as is actually applicable to the construction of the development in question.

Salaries of officers or executives of the contracting firm are *allowable* if the following terms are met:

- a. The “executive” must have performed, during the period for which his salary is allowed, responsibilities that would normally be performed by a non-executive employee.
- b. The time spent by the executive must be supported by time sheets, diary, or other acceptable means of keeping track of time and cannot be based on an allocation of his time.
- c. The officer’s salary must be in line with the situation outlined above.

### **Builder’s Overhead**

Builder’s overhead includes such items as:

- Office rent,
- Fuel,
- Lights,
- Telephone,
- Office supplies,
- Fire and liability insurance for the office,
- Legal expenses,
- Salaries of office employees such as bookkeeper, stenographer, clerks, and estimator,
- Social security taxes,
- Public liability insurance,
- Workman’s compensation insurance, unemployment compensation, and FICA taxes for office personnel.

These items **must not be included** in general requirements or elsewhere on the Contractor’s Final Costs Certification form. Builder’s overhead is allowed **and cannot exceed** the amount provided in the Construction Cost Trade Payment Breakdown attached to the Construction Contract, as adjusted by approved change orders.

If more than 50% of the actual cost of construction is subcontracted with any one subcontractor, or more than 75% with 3 or fewer subcontractors, the builder’s overhead will not be an eligible cost. For the purpose of this paragraph, any two or more subcontractors having an identity of interest with each other shall be considered as one

subcontractor. This exception is not applicable when factory produced components or modules are involved.

*Applicability of the 50 Percent Rule* – To determine whether the 50 percent or more rule is applicable, make the following computation:

- Divide the amount of the largest arms-length subcontract (using the upset price when an identity of interest subcontractor is involved) by the initial contract price in the construction contract.
- If the result is 50 percent or greater, the 50 percent rule will be invoked.

*Applicability of the 75 Percent Rule* – To determine whether the 75 percent or more rule is applicable, make the following computation:

- Divide the sum of the three largest subcontractors (using the upset price where identity of interest subcontractors are involved) by the initial contract price in the construction contract.
- If the result is 75 percent or greater, the 75 percent rule will be invoked.

### **Builder's Profit**

Builder's profit is allowed **and cannot exceed** the amount provided in the Construction Cost Trade Payment Breakdown attached to the Construction Contract, as adjusted by approved change orders.

### **Subcontractors Acting as General Contractors**

General contractor's profit and overhead are only allowed to be paid from mortgage loan proceeds to the extent that the amounts are included in the construction contract and are within the Authority's allowable range. If a subcontractor acts in the role of a general contractor (e.g., does not perform all the actual contract awarded itself and subcontracts more than 25% of the contract for any particular line item of work to another firm), the subcontractor to the general contractor will be deemed to be a general contractor. A higher percentage may be allowed, in the Authority's sole discretion, if such percentage is justified by circumstances. No subcontractor acting as a general contractor will be allowed any builder's profit or builder's overhead on that portion of the work that has been subcontracted to third parties, except to the extent of a corresponding reduction in profit and overhead otherwise includable in the cost certification for the general contractor. A subcontractor acting in the role of a general contractor may, however, receive a 2% mark up on all materials purchased.

The general contractor must advise the Authority when a subcontractor is acting in the role of a general contractor and must not include any profit or overhead paid to any such subcontractor for work not actually performed by such subcontractor in the contractor's cost certification, unless such payment is offset by a corresponding reduction in the amounts otherwise included in the contractor's cost certification as profit and overhead for the prime contractor. The prime contractor must also include a schedule of the subcontractor's costs in its contractor's cost certification.

The foregoing limitation does not apply to line items on the trade payment breakdown that involve total labor costs of less than \$25,000.



### General Contractor Entity Performing Subcontract Work

General contractors may do their own subcontracting work and receive additional builder's overhead if approved by the Authority's Director of Rental Development prior to commencement of the work. The builder's overhead applicable to such work will be allowed in addition to the normal builder's overhead on the general contract and all general requirements. Any additional overhead to be allowed on such work must be approved by the Authority's Chief Construction Manager. Additional builder's profit will not be allowed and should not be included in certified costs. Charges for equipment rental by contractors performing subcontract work should follow the procedures detailed in the paragraph above relating to "Reasonableness of IOI costs" from IOI subcontractors.

### Approved Change Orders

Approved change order costs may be included on the construction line items appropriate for the additional approved construction cost. If the general contractor was not involved in the change order, the approved change order costs should be included on the appropriate line item of the Mortgagor's Final Costs Certification form with separation and the appropriate supporting detail. Copies of all construction change orders, or a summary sheet must be attached to the Contractor's Final Cost Certification.

### Identity of Interest Relationships

Record the name and describe the IOI relationship of each party involved in the construction and financing of the cost certified development where an identity of interest relationship exists. Refer to the IOI Relationship section above for the definitions of an IOI relationship.

### Contractor Unallowable Costs

Allowances for each line-item costs are within the construction contract (Development Cost Analysis attached to the Authority's Mortgage Loan Commitment) and may only be adjusted by an approved change order. Equipment, maintenance, and repair costs will be the responsibility of the lessor or subcontractors and will **not** be included as additional costs. No leasing charges will be allowed to subcontractors for the use of small equipment items that are routinely required in the performance of a trade such as hammers, electric drills and saws, shovels, wheelbarrows, etc., however the cost of expendable items such as saw blades and drill bits is allowed.

### Incomplete On-Site

The Building Loan agreement provides that any **reductions** in estimated costs resulting from the settlement of escrows required for incomplete work or cost adjustments estimated for purposes of cost certification, will be paid to, or retained by the Authority for:

- Reduction of the principal amount of the mortgage loan,

- Deposit in the Replacement Reserve, or
- Other purposes as approved by the Authority.

Such reductions of cost may also arise from refunds, rebates, or discounts from suppliers, or any receipts from the settlement of claims against bonding companies. No such payments will be treated as prepayment of scheduled amortization payments.

## Construction Review Process

As part of the construction process, Authority Construction Specialists will analyze costs and conduct periodic reviews during the construction period to verify the following:

- Construction costs are reasonable in relation to market rates for supplies and services included in construction draws and do not exceed the costs for each line item in the trade payment breakdown.
- All soft costs and management costs are included in the total construction costs and any exceptions are noted (e.g., furniture, site equipment, vehicle).
- Work billed to the construction of the project matches actual work performed on the project.
- The progress of work is proceeding on schedule.
- Markups for general requirements, builder's overhead, and additional profits on project change orders don't exceed the maximum percentages permitted.

A failure to meet the above criteria may result in the disallowance of costs from the construction draw.

Additionally, construction reviews the Contractor's Final Cost Certification in conjunction with the following items to prepare for final closing:

- Trade Payment Breakdown (TPB) amounts.
- Detail Payment Breakdown (DP) line-item allocation of amounts.
  - Noting any offsite (outside of property lines) charges and non-construction charges.
  - Noting any Mortgage funding sources identified on the change orders.
  - Noting any incomplete work at 150% of the estimated cost of the work.
- Contractor's Last Sworn Statement amounts and names.
- General (Prime) Contractor performing subcontracting work met all identity of interest relationship reporting and approval requirements and,
- Making sure the latent defects guarantees and final closing documents are in place.

## Labor Relations Review Process

As part of the contractor's cost certification review, the Authority staff verify the following:

- All contractors and supplier listed in the cost certification have submitted complete Equal Employment Opportunity (EEO) information packets to the Authority.
- Work hours reported are attributed to approved contractors and suppliers of the project.
- Contractors involved with the project have Minority Business Enterprise (MBE) and Women Business Enterprise (WBE) certifications when required by the State of Michigan and are not suspended or debarred from working on Authority projects.
- EEO requirements are met, otherwise escrows are established to resolve compliance of EEO requirements.

Authority staff will publish a summary of each prime contractor's EEO requirement achievements and deficiencies.

## Mortgagor's Final Costs Certification Instructions

This section provides a description of the costs to record on each of the allowable line items on the Mortgagor's Final Costs Certification form (PSD 12:003). The Authority reserves the right to disallow part of any item of expense from the allowable mortgage costs when the expected amount is clearly so high as to be out of line with reasonable and necessary costs for the services performed or the item supplied. In such cases, the amount allowed will be the Authority's estimate of the "reasonable and necessary" amount. Allowable costs must be recorded under the related trade line item, organized as follows:

- Mortgagors must deduct any rebates, refunds, kickbacks, trade discounts or price adjustments that have been received or plan to receive from expenditures, *except for* cash discounts of up to 2% for early payment (30 days or less) of vendors' invoices.
- Supplemental Information – On designated line items, such as Equipment and Furnishings, provide the vendor, date paid, purpose and amount of each item paid that was included in the coordinating line item of the Mortgagor's Final Costs Certification.

### ACQUISITION

- 1 **Land Purchase** – The lesser of (1) the actual cost of land acquired for the development or (2) its appraised value as approved by the Authority.
- 2 **Existing Building** – Existing buildings purchased on the development site.
- 3 **Other** – Enter a description of the costs and any acquisition costs approved in the mortgage commitment, including all mortgage modifications that do not fit into the other Acquisition line items.

4 **Subtotal-Acquisition** – Automatically totals Acquisition line items.

#### **CONSTRUCTION / REHABILITATION**

5 **On-site Improvements** – Improvements to the land not directly related to the new residential building construction. This includes the costs of demolition of an existing building to prepare the site for new construction.

6 **Off-Site Improvements** – Improvements beyond the property limits required to prepare the site for the development, such as utility connections to the site property line. A schedule listing the payees, amounts, nature of the expenditures, and dates paid must accompany the Mortgagor's Final Costs Certification form.

7 **Landscaping and Irrigation** – Improving and blending the site grounds with natural elements, such as contours, plants, shrubs, and walkways. Also, installing watering systems used to maintain lawns and custom landscapes.

8 **Structures** – Rehabilitation and / or construction of new residential building(s) on the development site.

9 **Community Building and/or Maintenance Facility** – Construction of community and service buildings, such as club houses, laundry, computer rooms, maintenance garages, pools, pool enclosures, and other auxiliary buildings or rooms on the development site, including garages and car ports that are free to residents. Refer to the Community Building and Accessory Building *line items (42 and 43)* on the *Contractor's* Final Costs Certification form.

10 **Construction not in Tax Credit Basis** – Commercial space built on the development site. If residents are charged additional fees to use facilities, such as garages, car ports, pools, and laundry, then the construction costs are not eligible in tax basis and must be included on this line item.

11 **General Requirements** – Enter the General Requirements (*line item 48*) amount certified on the *Contractor's* Final Costs Certification.

12 **Builder's Overhead** – Enter the Builder's Overhead (*line item 49*) amount certified on the *Contractor's* Final Costs Certification.

13 **Builder's Profit** – Enter the Builder's Profit (*line item 50*) amount certified on the *Contractor's* Final Costs Certification.

14 **Soil Borings / Tap Fees** – If not included in the construction contract, record the costs of tap (connection) fees and other charges for water and sewer, and charges for soil borings in the amounts actually paid. A schedule listing the payees, amounts, nature of expenditures, and dates paid must accompany the Mortgagor's Final Costs Certification form. Refer to Tap Fees (*line item 53*) amount certified on the *Contractor's* Final Costs Certification.

- 15 **Bond Premium** – Costs related to establishing the bond funding to finance the development. Refer to the Bond Premium (*line item 52*) amount certified on the *Contractor's* Final Costs Certification.
- 16 **Contractor Cost Certification** – Cost of the contractor cost certification for the development. Refer to the Cost Certification Expense (*line item 54*) amount certified on the *Contractor's* Final Costs Certification. If the contractor's cost certification expense is included in the General Requirements by the construction contract, then the contractor's cost certification remains part of the general requirements amount and does **not** need to be broken out on this line item.
- 17 **Other** – Record a description of the costs and any construction / rehabilitation approved items in the mortgage commitment, including all mortgage modifications and change orders that do **not** fit into the other Construction / Rehabilitation line items.
- 18 **Subtotal-Construction / Rehabilitation** – Automatically sums the Construction/ Rehabilitation line items.

#### **PROFESSIONAL FEES**

If there is an IOI relationship for any professional fees, enter the lesser amount:

- Actual paid for the services or
  - Included for such services in the Total Development Cost printout attached to the Authority's Mortgage Loan Commitment report.
- 19 **Design Architect** – Actual fees for the Design Architect's services.
- 20 **Supervisory Architect** – Actual fees for the Supervisory Architect's services.
- 21 **Landscape Architect Fees** - Actual fees for landscape design services.
- 22 **Legal Fees** – Fees incurred for initial and final closings and as provided for in the mortgage loan commitment. In addition, include only customary expenditures expected to be incurred in connection with initial closing, construction, construction lender, and final closings, including attorney's fees incurred in obtaining tax abatement and proper zoning. Do not include expenses connected with land acquisition already included in the Title & Recording expenses or recognized Land costs connected with the syndication of limited partnership interests. A schedule listing the payees, amounts, nature of expenditures, and dates paid must accompany the Mortgagor's Final Costs Certification form.
- 23 **Interior Design Architect Fees** – Actual fees for Interior Design services.
- 24 **Engineering / Survey** – Fees for the Engineer's and Surveyor's services on the development site.

- 25 **Other** – Record a description of the costs and any professional fees approved in the mortgage commitment including all mortgage modifications that do **not** fit into line items 20 through 23.
- 26 **Subtotal-Professional Fees** – Automatically sums the Professional Fees line items.

#### **INTERIM CONSTRUCTION COSTS**

- 27 **Property and Casualty Insurance (During Construction)\*** – Premiums actually paid and/or owing for property and casualty, liability, and other insurance required under the Authority’s Insurance Guidelines for the period from initial mortgage loan closing or early start closing, if approved in advance by the Authority, through the Mortgage Cut-off date. A schedule supporting the computation of insurance premiums during construction (including the payees, amounts, dates paid, period covered, and type of coverage) and how they are prorated must accompany the Mortgagor’s Final Costs Certification form.
- 28 **Construction Period Interest** – Interest charged by the construction lender (the Authority or a third party) for construction financing during the construction period on the mortgage loan through the Construction Cut-off date. Mortgagor’s CPA should request a confirmation from the construction lender regarding the interest paid. Interest between the Construction Cut-off date and the Mortgage Cut-off date is recorded on the Rent-up Allowance (*line item 49*).
- 29 **Title & Recording (During Construction)** – Updating the title and recording the construction of new site structures with the local government during the period through the Mortgage Cut-off date for mortgage loan equity purposes. *This line item may include wiring fees for draws and lien searches on individuals and the LDHA.* A schedule listing the payees, amounts, nature of expenditures, and dates paid must accompany the Mortgagor’s Final Costs Certification form.
- 30 **Construction Taxes\*** – Taxes allocable to the development on a due date basis for the period from initial mortgage loan closing through the Mortgage Cut-off date. The due date is the date on which the taxes are first due and not the last day on which the taxes may be paid without penalty. The calculation of the allowable amount of taxes will assume that the taxes are paid in advance, i.e., the due date is the first day of the period over which the taxes are to be allocated. A schedule supporting the computation of taxes during construction (including the payees, amounts, assessment dates, dates due and dates paid) must accompany the Mortgagor’s Final Costs Certification form. Payments in Lieu of Taxes shall be allocated in the same manner as Taxes for determining allowable costs.
- 31 **Permits and Fees** – Construction permits, and fees related to the construction process.

- 32 **Other** – Record a description of the costs and any interim construction costs approved in the mortgage commitment including all mortgage modifications that do **not** fit into the other defined Interim Construction Costs line items.
- 33 **Subtotal-Interim Construction Costs** – Automatically sums the Interim Construction Costs line items.

#### **PERMANENT FINANCING**

- 34 **Loan Commitment Fee to MSHDA** – Costs of applying and underwriting the mortgage with the Authority. This fee includes bond premium, credit reports, loan origination fee, and loan credit enhancement (the cost the Authority pays to insure our bond holders).
- 35 **Other** – Record a description of the costs and any permanent financing costs approved in the mortgage loan commitment including all mortgage modifications that does **not** fit under the Loan Commitment Fee to MSHDA line item.
- 36 **Subtotal-Permanent Financing** – Automatically sums the Permanent Financing line items.

#### **OTHER COSTS IN-BASIS**

- 37 **Application Fees** – Cost of applying for tax credits and the mortgage loan through the Authority.
- 38 **Market Study** – Cost of the market and feasibility studies of the specific development site.
- 39 **Environmental Studies** – Costs of determining the environmental concerns surrounding a development site.
- 40 **Cost Certification** – Cost of the Tax Credit and Mortgagor’s cost certifications.
- 41 **Equipment and Furnishings\*** – Equipment, furniture and fixtures required to begin operations of the development purchased from funds other than rental income. A schedule listing of such items, payees from whom the items were purchased, an item description, and date paid must accompany the Mortgagor’s Final Costs Certification form.
- 42 **Temporary Tenant Relocation** – Costs of relocating tenants during the rehabilitation of an occupied building. *This line item is not to cover operating expenses for unit turnovers or permanent tenant relocation expenses unless these costs are expressed prior to initial closing.*
- 43 **Appraisal and C.N.A.** – Cost of appraisals and Capital Needs Assessments performed on the site.
- 44 **Other** – Record a description amount of the Other Costs In-Basis, including all mortgage modifications that do **not** fit into the Other Costs In-Basis line items.

Include any fees paid for letters of credit or other guarantees required by the Authority to guarantee operations of the development. Letter of credit fees or other operational guaranty fees that are paid prior to the Mortgage Cut-off date must be prorated to the Mortgage Cut-off date. Only the amount attributable to the period ending on the Mortgage Cut-off date may be included in this line item, with the remainder and any future such fees to be paid from the funds of the mortgagor. Fees paid for the contractor's assurance of completion, such as letter of credit fees and bond premiums, should be included on the proper line item of the Contractor's Final Costs Certification form.

- 45 **Subtotal-Other Costs In-Basis** – Automatically sums the Other Costs In-Basis line items.

**OTHER COSTS NOT IN BASIS (NIB)**

- 46 **Start-up and Organization** – Costs of organizing the LDHA.
- 47 **Tax Credit Fees** – Reservation and application of tax credits related to the development.
- 48 **Compliance Monitoring Fees** – Costs related to the compliance requirements of the development for tax credit compliance review tasks.
- 49 **Marketing Expense\*** – Marketing the development to achieve the required rent-up percentage. A schedule listing of such items, payees from whom the items were purchased, an item description, and date paid must accompany the Mortgagor's Final Costs Certification form.
- 50 **Syndication Legal Fees** – Legal costs of syndicating interests in the mortgagor, such as private placement memorandums, syndicator legal fees, and any state or federal filing requirements.
- 51 **Rent-up Allowance\*** – Costs incurred between the Construction Cut-off and Mortgage Cut-off dates for mortgage interest. In unusual cases, additional months of taxes, and insurance may be expensed to this account. Do **not** include the portion of any insurance premium or tax bill paid prior to the Mortgage Cut-off date for coverage after the Mortgage Cut-off date plus any amount that would have been required to be paid to the Authority for the funding of the Tax and Insurance Escrow had the final closing occurred on the Mortgage Cut-off date. Such amounts are to be paid from the available residual receipts or other funds of the mortgagor.
- 52 **One Month's Gross Rent Potential (Deposit to Dev. Operating Acct.)** – Amount approved in the Mortgage Loan Commitment report, including any mortgage modifications for the One Month's Gross Rent Potential for the development. This amount is deposited into the development operating account at initial closing.



- 53 **Other** – Record a description and any Other Costs NIB approved in the mortgage commitment or change orders that do **not** fit into the Other Costs Not In-Basis line items.
- 54 **Subtotal-Other Costs NIB** – Automatically sums the Other Costs Not In-Basis line items.

#### **DEVELOPER**

- 55 **Developer Overhead and Fee** – Record the developer fee / sponsor's profit allowed for in the Development Cost printout attached to the Authority's Mortgage Loan Commitment report. The Authority may adjust this amount, if necessary.

#### **PROJECT RESERVES**

- 56 **Operating Assurance Reserve** – Amount approved in the Mortgage Loan Commitment report, including any mortgage modifications for the Operating Assurance Reserve for the development.
- 57 **Replacement Reserve** – Amount approved in the Mortgage Loan Commitment report, including any mortgage modifications for the Replacement Reserve for the development.
- 58 **Operating Deficit Reserve** – Amount approved in the Mortgage Loan Commitment report, including any mortgage modifications for the Operating Deficit Reserve for the development.
- 59 **Tax and Insurance Escrow** – Amount approved in the Mortgage Loan Commitment report, including any mortgage modifications for the Tax and Insurance Escrows for the development.
- 60 **Other** – Record a description and the amount approved in the Mortgage Loan Commitment, including any mortgage modifications for other reserves / escrows setup that do **not** fit into the other Project Reserves line items. Include reserves such as the Remarketing Reserve, Rent Lag Reserve, and Supportive Services Reserves as needed.
- 61 **Other** – Record a description and the amount in the Mortgage Loan Commitment, including any mortgage modifications for other reserves / escrows setup that do **not** fit into other Project Reserves line items.
- 62 **Other** – Record a description and the amount in the Mortgage Loan Commitment, including any mortgage modifications for other reserves / escrows setup that do **not** fit into other Project Reserves line items.
- 63 **Subtotal-Project Reserves** – Automatically sums the other Project Reserves line items.

**64 TOTAL** – Automatically sums all subtotal line items in addition to the Developer Overhead and Fee line item.

**TOTAL DEVELOPMENT SOURCES**

**65 MSHDA Permanent Mortgage Loan** – Leave this line item blank, of an Authority loan. Authority staff will complete this entry.

**66 Conventional / Other Mortgage** – Amount of any conventional loans or other mortgages on the development.

**67 Equity Contribution from Tax Credit Syndication** – Amount of the tax credit syndicator’s equity contribution.

**68 MSHDA NSP Funds** – Amount of the MSHDA NSP funds applied to the development financing.

**69 MSHDA HOME Funds** – Amount of the MSHDA HOME funds applied to the development financing.

**70 MSHDA Preservation Funds** – Amount of the MSHDA Preservation funds applied to the development financing.

**71 Other MSHDA** – Record the description and amount of other MSHDA funds applied to financing that are **not** identified in the other Total Development Sources line items. *E.g., Interest income earned on Construction Sources held in escrow at MSHDA (Income from Operation, Equity, etc.) through the Mortgage Cut-off month. Subsequent interest earned on construction sources after the Mortgage Cut-off date is allocated to the Operating Reserve Cash escrow.*

**72 Local HOME** – Record the description and amount of local HOME funds applied to the development financing.

**73 Income from Operations** – Amount of operating income contributed as a project source during the construction period to cover construction loan interest, taxes, and insurance, if applicable. This amount is identified in the Authority’s Mortgage Loan Commitment report and amended as necessary via mortgage modification(s).

**74 Other Equity** – Record the description and amount of funds from equity sources not identified in the other Total Development Sources line items.

**75 Other** – Record the description and amount of funds from equity sources not identified in the other Total Development Sources line items.

**76 Other** – Record the description and amount of funds from equity sources not identified in the other Total Development Sources line items.

- 77 **Other** – Record the description and amount of funds from equity sources not identified in the other Total Development Sources line items.
- 78 **Deferred Developer Fee** – Amount of deferred developer fee applied as funds for the development.
- 79 **Total Funding Sources** – Automatically sums the Total Development Sources line items.

#### **MORTGAGOR’S EQUITY FOR LD PURPOSES**

- 80 **Equity Contribution from Tax Credit Syndication** – Amount of the tax credit syndicator’s equity contribution.
- 81 **Transferred Reserves** – Amount of project reserves transferred from the paid off loan into the new development loan accounts.
- 82 **Other Sources** – Record the description and amount of equity committed by the Mortgagor from sources not identified on the other Mortgagor’s Equity for LD Purposes line items. Include such sources as Brownfield clean-up expenses committed and approved for the development, Federal (and State) Historic Tax Credits, and General Partner Capital Contributions on other sources line items in this section.
- 83 **Other Sources** – Record the description and amount of equity committed by the Mortgagor from sources not identified on the other Mortgagor’s Equity for LD Purposes line items.
- 84 **Other Sources** – Record the description and amount of equity committed by the Mortgagor from sources not identified on the other Mortgagor’s Equity for LD Purposes line items.
- 85 **Total Equity** – Automatically sums the Mortgagor’s Equity for LD Purposes line items.

**Note:** Line-items with an asterisk (\*) require additional details to be provided within the supporting schedules accompanying the Mortgagor's Cost Certification submission.

**Construction Contingency** – Provides the anticipated cost of approved change orders for construction incidents that occur during the construction of the development that weren’t part of the original construction plans. Therefore, projected expenses from construction contingency will be allocated to hard construction costs based on approved change orders.

#### **Cost Savings**

Although the mortgagor should prepare the Mortgagor’s Final Costs Certification form in accordance with the instructions contained herein, all costs incurred will not necessarily be allowed in computing the final amount of the mortgage equity. The Authority policy is

that overruns in any line items which have been calculated in accordance with the instructions provided for completion of the Mortgagor's Final Costs Certification form in this manual will be allowed, but only to the extent of underruns in other line items. If the amount of the Mortgage Loan Commitment exceeds the total costs includable in the mortgage loan, the excess will be first made available for the payment of approved change orders. Any funds remaining after the payment of change orders may be used to fund one or more of the following items:

- Deferred Developer Fee,
- Replacement Reserve,
- A reduction in the mortgage loan amount.

The Authority's Finance Division will perform this reconciliation of the costs certified and the use of cost savings as part of its review of the cost certifications submitted.

### **Identity of Interest Relationships**

Record the name and describe the IOI Relationship of each party involved in the construction and financing of the cost certified development where an identity of interest relationship exists. Refer to the IOI Relationship section above for the definitions of IOI relationship.

### **Mortgagor Unallowable Costs**

The following costs are typically **not** allowed to be expensed as part of the mortgage equity determination. Prior written approval from an authorized officer of the Authority with a detailed explanation of why the expense will be allowed for the designated development must be received to include an Unallowable Cost. These costs include expenses related to:

- Any costs for holding land purchased prior to the Authority's Mortgage Loan Commitment approval, such as insurance costs, taxes, and property upkeep.
- Management fees.
- Incentive payments are not allowable for payments due to early completion of construction. Incentive payments are payable to the extent residual receipts exist.
- Costs not clearly defined prior to the initial closing date in the underwritten proforma budget or clearly defined in the Mortgagor's cost certification guide policy definitions.

### **Pre-Final Closing Audit**

This section is applicable to all Authority-financed developments (cost certified, and non-cost certified). The Authority's audit staff will conduct a pre-final mortgage closing audit of each development prior to the final mortgage closing. The audit will cover the development's rental operations for the period from the inception of rental activity to the ***Mortgage Cut-off date month-end*** (the last day of the month in which the Mortgage Cut-off date occurs). The audit also covers any period from the ***Mortgage Cut-off date month-end*** through the most recent month-end when the pre-final closing audit occurs.

The audit determines whether the development's receipts and disbursements have been administered in accordance with the procedures set forth herein. In addition, the audit will determine the amount of residual receipts that are available to fund and/or pay the items listed below.

The pre-final mortgage closing audit will include operating statement(s) that will report only the rental activity of the development. The statement(s) will be prepared on the accrual basis, except for depreciation. The amount of residual receipts reported in the pre-final mortgage closing audit will include rental receipts earned through the *Mortgage Cut-off date month-end* minus items 1 – 4 in the Rental Receipts subsection below. The allocation of the remaining amount of residual receipt items 5 – 12 in the Rental Receipts subsection will be determined at final closing by the developer / sponsors.

Any remaining balance after paying for items 1 – 12 in the Rental Receipts subsection shall be placed in an operating reserve cash fund (see general conditions to the Authority's Mortgage Loan Commitment report).

The audit will report a deficit in residual receipts when the amount of rental receipts earned through the *Mortgage Cut-off date month-end* are insufficient to fund items 1 - 4 in the Rental Receipts subsection. This deficit along with the funding and/or paying of items 5 – 12 in the Rental Receipts subsection will be the responsibility of the mortgagors / sponsors. These amounts will **not** be considered to be repayable advances or loans.

The audit will disallow expenditures that should have been paid from sources other than operating funds. Examples of disallowed expenditures noted in audits performed to date include:

- Bank charges for letters of credit.
- Attorney, consultant, and accountant fees relating to syndication of the development or applicable to a period prior to first occupancy.
- Expenses related to the partnership's office.
- Expenses related to the management of the development, and which are provided for in the management fee.

Rental receipts earned after the *Mortgage Cut-off date month-end*, but prior to the final mortgage loan closing can be used only to pay normal operating expenses, including debt service and funding of reserves and escrows. The Authority will bill the development for interest and principal (to the extent due and owing) and funding of reserves and escrows beginning on the day after the Mortgage Cut-off date.

To the extent that rental receipts subsequent to the *Mortgage Cut-off date month-end* are insufficient for payment of normal operating expenses, the deficit will be funded in accordance with the provisions of the Regulatory Agreement entered into between the mortgagor / sponsors and the Authority.

## Rental Receipts

The disposition and use of rental receipts prior to the final mortgage closing depend upon whether the receipts were earned in the period prior to the *Mortgage Cut-off date month-end* or after such date. Rental receipts may **not** be included in the calculation of mortgagor's equity.

Rental receipts earned through *Mortgage Cut-off date month-end* may be utilized for the following purposes to the extent **not** provided for in the Mortgage Loan Commitment:

1. **Operating costs with respect to units**, which have been turned over to the mortgagors / sponsors by the contractor, which are not the responsibility of the contractor, such as utility, maintenance, fuel, and administration costs related to the operation of the development. Any unpaid operating costs as of the *Mortgage Cut-off date month-end* must be accrued and deducted from rental receipts, or otherwise provided for by the mortgagor / sponsors before such rental receipts may be used for other items below.
2. **Marketing expenses**, such as advertising, signs, salaries of sales personnel, administrative costs related to marketing the development, and marketing fees to marketing agents *to the extent provided* in the Management Agreement and Addendums to Management Agreement *and approved* by the Authority. Marketing expenses paid or accrued subsequent to the *Mortgage Cut-off date month-end* will be deducted from residual receipts earned through the *Mortgage Cut-off date month-end*, until the development obtains an *initial* occupancy rate of 95%.
3. **Equipment and Furnishings expenses**, such as office and maintenance equipment, capital expenditures or other major equipment and supply items essential to the operations of the development as approved by the Authority. Any amounts paid or accrued for the preceding items subsequent to the *Mortgage Cut-off date month-end* will be deducted from residual receipts earned through the *Mortgage Cut-off date month-end*, until the development acquires all essential operating equipment and obtains an **initial** occupancy rate of 95%.
4. **Early completion incentive payments** or early occupancy incentive which may be due to the contractor as provided for in the Construction Contract. **Note:** These incentives may **not** be included in the total development costs for purposes of determining the amount of the mortgage loan.
5. **Marketing and capital expense overruns** which the mortgagor / sponsors are obliged to pay.
6. **Tax and insurance escrows** funding required as of the Mortgage Cut-off date.
7. **One month's gross rent potential** funding required in the development operating account.
8. **Allowable construction interest, insurance, and tax overruns** incurred prior to the Mortgage Cut-off date.

9. **Operating deficits** incurred after the *Mortgage Cut-off date month-end*, but prior to the final closing.
10. **Capital improvements** to the development as approved by the Authority.
11. **Cost certified construction costs overruns**, which the mortgagor / sponsors are obliged to pay.
12. **Deferred Developer Fee** prior to the Mortgage Cut-off date, to the extent excess receipts are **not** needed for other eligible purposes. After the Mortgage Cut-off date, the Mortgagor may only draw the deferred developer fee from a Limited Dividend payment.

### **Residual Receipts of the Pre-final Closing Audit**

Pre-final closing audit exceptions **must** be paid to the development in order to finalize the pre-final closing audit and create the proper audit trail. Therefore, the residual receipts will **not** be netted against pre-final closing audit exceptions.

#### *Residual Receipt Eligibility*

Developments become eligible to utilize residual receipts to pay items of the Rental Receipts subsection when:

- Authority audit staff complete the pre-final closing audit,
- The pre-final closing audit identifies the amount of residual receipts surplus generated through the Mortgage Cut-off date month end, and
- The mortgage loan final closing process has been completed.

Developments remain eligible to request and utilize residual receipts identified by the pre-final closing audit **as of the final closing date** through the end of the calendar year in which the final closing occurs.

#### *Residual Receipts Requests*

Submit requests to the Asset Management Audit Unit for approval to draw or apply residual receipts to items 5-12 in the Rental Receipts subsection above.

The Asset Management Audit Unit will review the following items to determine the allowable utilization of residual receipts:

- The finalized pre-final closing audit of rental receipts and the calculated excess receipts.
- Verification the mortgage loan final closing for this development has occurred (include the signed final closing statement, if available).
- Verification that the residual receipts were **not** netted against the pre-final audit exceptions.
- Sufficient funds are available in the development's operating account to pay the residual receipts request, as indicated by the Monthly Income and Expense (MIE) report.

## Contact List

If you have questions about the Cost Certification procedures, you may contact one of the following Authority staff:

- Contractor's Cost Certification – The Authority's assigned Construction Specialist and/or assigned Equal Employment Opportunity (EEO) Representative.
- Mortgagor's Cost Certification – Deborah Monroy, Auditor at 517-335-1783 or [MonroyD@michigan.gov](mailto:MonroyD@michigan.gov).
- Pre-final Closing Audits – Teena Briggs (Manager of Audit, Single Family, and Multi-family Mortgage Servicing unit) at (517) 335-2013 or [BriggsT1@michigan.gov](mailto:BriggsT1@michigan.gov).
- Final Closing Residual Receipts – Lisa Espinoza (Auditor) at (517)335-9873 or [EspinozaL@michigan.gov](mailto:EspinozaL@michigan.gov).

## Development Timeline

The tax credit and mortgage loan process follow a strict timeline to meet all the reporting requirements for each process. Timely completion and documentation of each step can greatly affect the resulting calculations of eligible costs included in both eligible mortgage costs and the tax credit eligible basis. The following timeline includes all the possible steps in both the tax credit and mortgage loan process:

*Application* – An application for Tax Credit and/or loan funds is submitted.

*Initial Determination* – The Authority reviews the Site, Marketing, and Construction parameters for basic reasonableness.

*Feasibility* – The Authority reviews the underwriting numbers and Loan Committee decides the reasonableness of the application with discussions and modifications as necessary.

*Commitment* – The development parameters are set, and initial legal documents are defined for approval by the Authority's board.

*Initial Closing* – The mortgagor and the Authority sign legal documents to begin the deal allowing for initial disbursement and construction to begin.

*Initial Disbursement* – First draw to fund construction; Starts the clock to calculate the Construction Cut-off and Mortgage Cut-off dates.



*Construction Period* – Time to build or rehabilitate the development as established in the construction contract.

*Construction Cut-off Date* – The projected construction completion date calculated by the following equation: Initial disbursement plus construction period.

*Construction Extension Period* – The period identified on an approved change order that adjusts the construction period by an additional number of days or months.

*Substantial Construction Completion* – Construction Management unit staff prepare the Establishment of Substantial Construction Completion Date form (PSD 12:002A) to approve the substantial completion of construction or rehabilitation of a development. Minor items that are incomplete and that do not interfere with occupancy of the development will not preclude a development from being certified as complete based on Construction Management's inspection of the development. The contractor's cost certification will always be prepared after this date of acceptance by the mortgagor and all construction costs are incurred, except for incomplete items which are escrowed; consequently, the Mortgage Cut-off date is not a factor in the Contractor's Final Costs Certification.

*The Tax Credit cost certification considers eligible costs occurring through this date. The Tax Credit cost certification is due 90 days from the Substantial Construction Completion date or February 1<sup>st</sup>, if the Placed in Service (PIS) date occurred in the previous calendar year, whichever date is sooner. The owner must submit the Tax Credit cost certifications applicable to itself and the contractor (and subcontractors) prior to the issuance of the IRS form 8609.*

*Occupancy Permit Date* – The date development rental units are approved for occupancy.

*Rent-up Allowance (Absorption Period)* – The time allowed in the Mortgage Loan Commitment report to lease the development units up to 95% occupancy. This does not mean that 95% occupancy takes this long or occurs by the end of this period.

*Mortgage Cut-off Extension Period* – The period identified on a change order form that is requested and approved to adjust the construction period or rent-up allowance period by an additional number of days or months. Construction period extensions do not automatically result in an extension to the Mortgage Cut-off date. The Authority may, for good cause, not allow a construction period extension to carry over into a Mortgage Cut-off extension period. For example, funds are not available from residual receipts or other sources to cover the extension period costs.

*Mortgage Cut-off Date* – The date is calculated by the following formula: Construction Cut-off date plus Rent-up Allowance (Absorption period). The Authority's Finance Department uses the Establishment of Initial Closing or Mortgage Cut-off Date form (PSD 12:001) to track critical development dates through the mortgage underwriting process and to notify the mortgagor of the established Mortgage Cut-off date. The Mortgage Cut-off date identifies:

- The date to which construction interest, insurance, and taxes can be paid from mortgage loan proceeds.
- When to calculate mortgagor's equity, taxes and insurance escrows, and the beginning of mortgage payments.
- The month end date of the period for cost certification and the Authority's staff audit for residual receipts.

The Mortgage Cut-off date is used for computing interest, insurance, and taxes even if it precedes the Substantial Construction Completion (acceptance) date of the development by the mortgagor.

*The Mortgage Loan Equity cost certification considers eligible costs occurring through this date. The Mortgagor's cost certification is due 90 days from the established Mortgage Cut-off date, which is identified on the PSD 12:001 form.*

*Pre-final Closing Audit* – The Authority's review of operations to determine if receipts and disbursement were administered in accordance with the Authority's procedures and allowable use of funds. The audit covers the period from inception of rental activity through the *Mortgage Cut-off date month-end* and from such date and the most recent month-end.

*Final Closing* – The conversion of the construction loan to the permanent loan and settlement of outstanding legal and funding requirements by the mortgagor and the Authority.

## Agreed-Upon Procedures Example

The following is an example of the Agreed-Upon Procedures letter that must be included with the pdf of the signed Cost Certification templates:

To the Partners of:  
(Project Name)  
(City, State)

We have performed the procedure described in the second paragraph of this report, which was agreed to by (*Partnership Name*) and the Michigan State Housing Development Authority (MSHDA), solely to assist them in determining whether the electronic submission of MSHDA's Excel (*Contractor's / Mortgagor's*) Final Costs Certification template financial information agrees with the related information contained in the pdf of the (*Contractor's / Mortgagor's*) Final Costs Certification template submitted to MSHDA. (*Partnership Name*) is responsible for the accuracy and completeness of the electronic submission. The agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA) and auditing standards generally accepted in the United States of America. The sufficiency of the procedure is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this signed report has been requested or for any other purpose.

We compared the items listed in the electronic submission with the corresponding items listed in the pdf of the Cost Certification submitted to MSHDA. The results of the performance of our agreed-upon procedures indicate agreement of the electronically submitted information in MSHDA's Excel (*Contractor's / Mortgagor's*) Final Costs Certification template and related report submitted to MSHDA. **(If there are items on the electronic submission that do not agree with the Final Costs Certification template, they are to be specified and explained.)**

We were engaged to perform an audit of the construction and lease-up costs of (*Partnership Name*) as of and for the year ended December 31, 20XX, and have issued our reports thereon dated (*report date*). Our opinion on the fair representation of the supplemental financial data templates dated (*date*), was expressed in relation to the cost of development construction taken as a whole.

We have not performed any additional auditing procedures, since the date of the aforementioned (*Contractor's / Mortgagor's*) Final Costs Certification template submission. Further, we take no responsibility for the security of the information transmitted electronically to MSHDA.

This report is intended solely for the information and use of (*Partnership Name*), (*Contractor Name*) and the Michigan State Housing Development Authority and is not intended to be and should not be used by anyone other than these specific parties.

## Forms

PSD 12:001 – Establishment of Initial Closing or Mortgage Cut-off Date

PSD 12:003 – Mortgagor's Final Costs Certification

PSD 12:004 – Contractor's Final Costs Certification