

From: Denny Hoskins [REDACTED]
Sent: Thursday, September 9, 2021 1:00 PM
To: Gornto, Aimee 6-4144; Wilbourne, Kim 6-9083
Cc: TaxCreditQuestions
Subject: RE: [External] 2022 QAP Comments

First of all, congratulations on passing a State LIHTC and thank you for the opportunity to comment on the 2022 Draft QAP. As a Missouri State Senator and Certified Public Accountant for Tidwell Group <https://tidwellgroup.com/>, a leading CPA firm specializing in the affordable housing industry, I'd like to share some of my concerns in addition to concerns from the affordable housing clients we represent regarding the requirement for individuals and/or entities proposed as managing members or general partners to have a financial statement audit as noted below in the 2022 Draft QAP.

H. Required Capacity

The Authority will assess the financial capacity of the individuals and/or entities proposed as managing members or general partners based on ~~their financial statements~~ a written statement of the outstanding funds the developer has with the Authority and Audited Financial statement (to include a complete REO and global debt schedules). The Authority will accept only financial statements audited, ~~reviewed, or compiled~~ by an independent CPA on or after December 31, ~~2020~~²⁰¹⁹. Statements prepared on the income tax basis or cash basis must disclose that basis in the report.

The Authority may disqualify a Development Team due to insufficient overall capacity to undertake additional commitments including but not limited to commencing construction timely, meeting the 10% expenditure test without an extension, placing in service without an extension or exchange, having no projects with recaptured LIHTCs, and meeting other statutory completion deadlines.

In my opinion, requiring a full financial statement audit places a cumbersome, expensive, unnecessary burden on the managing members/general partners. Although the draft says "statements prepared on the income tax basis or cash basis must disclose that basis on the report", the vast majority of financial statement audits are performed on the basis of the client using GAAP (Generally Accepted Accounting Principles). If a financial statement audit is performed on a basis other than GAAP (cash, modified cash, tax, etc.), it must be disclosed in the audit report and leads to numerous exceptions noted in the report. However, most managing members/general partners do not use full GAAP in preparing their financial statements and maintaining their financial records.

A full financial statement audit also requires the auditor to test and audit several things not relevant to the objectives of the South Carolina Housing Finance Development Authority such as evaluation of internal controls, IT updates, testing of their accounting software, review of BOD minutes, testing of segregation of duties, etc..

The cost of a GAAP financial statement audit is also very expensive and would drive up the cost of submitting applications in South Carolina. I am not aware of any other states requiring a financial statement audit in the numerous states Tidwell Group has clients, so many managing members/general partners may choose not to submit applications in South Carolina and focus on developing affordable housing in other states. Missouri does not require audited financial statements to be submitted with an application. From a cost perspective, requiring a financial statement audit also would disproportionately adversely affect smaller and newer managing members/general partners, which are many of the WBE/MBE entities.

Timing of a financial statement audit is also a concern, as most CPA firms are scheduled out through April 15, 2022. Managing members/general partners will have to pay a premium to have a financial statement audit completed in time for the SC Authority Application deadline, or not submit an application due to not being able to find a CPA firm to audit them in time to meet the application deadline.

Because of these concerns, I would recommend you maintain the language from the 2021 QAP and allow the managing member/general partner to submit audited, reviewed or compiled financial statements to the Authority as part of their application.

If you have any questions or would like information on how other states determine "Required Capacity" without requiring a financial statement audit, I would be glad to discuss these with you anytime.

Thanks,

Senator Denny Hoskins, CPA
Consulting Manager



Birmingham, AL



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