



Date: December 28, 2007
To: Mitchell Johnson, City Manager
From: Internal Audit Division
Subject:: R.S. King Apartments Limited Partnership

The Internal Audit Division has completed our annual review of R.S. King Apartments Limited Partnership in conjunction with a Programmatic Review by the Housing & Community Development Department for the 2005-2006 grant year. Attached you will find our review report; the programmatic report; the agency response; the departmental response and our replies to their responses. We feel that sufficient corrective actions have been implemented to our recommendations as we move forward. If you have any questions or need additional information, please let us know. Thanks.

A handwritten signature in black ink, appearing to read 'Len Lucas'.

Len Lucas
Internal Audit Director

Cc: Ben Brown, Assistant City Manager for Economic Development
Andy Scott, Director of Housing & Community Development



City of Greensboro

October 2, 2007

Date: Andy Scott, Director of Housing & Community Development
To: Internal Audit Division
From: R. S. King Apartments Limited Partnership 2005-2006

Subject:

The Internal Audit Division has performed our compliance review of the year ended December 31, 2006 of R. S. King Apartment Limited Partnerships. This property received a loan provided by the City of Greensboro in the amount of \$758,169, which is non-interest bearing to help in the rehabilitation of 24 apartments located at 1004 through 1028 John Dimrey Drive. These apartments are designed as transitional housing for homeless individuals or families to achieve independent living within 24 months or within a longer period, determined by HUD, as necessary to facilitate the transition. There was also a purchase money note from the Redevelopment Commission of Greensboro in the amount of \$24,000. These apartments are being managed by Wynnefield Properties, Inc.

The City's loan is due to be repaid on an annual basis beginning on July 1, 1997 and continuing each July 1st thereafter. The payment is based on 50% of gross receipts after deducting all normal and reasonable operating and capital expenses actually incurred by R. S. King Apartments. There are no payments due on the mortgage as of December 31, 2006. The balance on the City loan is due in full on December 1, 2025 along with the Purchase Money Note.

We accompanied Mr. Jim Teele, Housing Rehabilitation Specialist of the Department of Housing & Community Development, as he inspected approximately 15 percent of the units and some repairs were noted for the property. These issues were given to the Property Director after the inspection to address before they escalate into costly problems.

We examined selected financial transactions maintained by the entity for compliance with the loan agreements. Based on our review, it appears that the funds have been spent according to the terms of the loan agreements except for the findings described below:

FINDING:

In regards to the Partnership's audited financials for fiscal year ended December 31, 2006, we need to point out the following findings:

- a. The working capital at 2006 improved but remained in the negative at (\$33,284) versus (\$59,149) for 2005.
- b. The current ratio for 2006 decreased to .141 to 1 from .427 to 1 in 2005.
- c. The net income excluding depreciation and amortization while still in the negative improved in 2006 to (\$9,949) from (\$70,314) in 2005
- d. The average monthly rent rates increased to \$306 for 2006 from \$222 for 2005 but the rates are still less than the budgeted rates of \$345 per month.
- e. The Management fees for 2006 were 13% of the total gross income which was down from 18% for 2005. However, per the loan agreement, Management Fees are limited to 10% of the gross income.
- f. We were not provided a Management Letter from the external auditors.

RECOMMENDATION:

The Partnership should notify the City on its plans to improve their financial position and provide the City with a Management Letter for the year ended December 31, 2006.

FINDING:

As per note C of the audited financial statement for December 31, 2006, cumulative shortage in the Replacement Reserve account was (\$6,502) which was up from (\$6,350) from 2005.

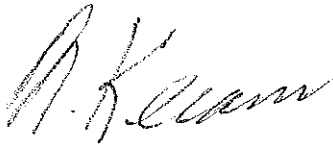
RECOMMENDATION:

The Partnership should provide how they plan to decrease the shortage in the Replacement Reserve account.

We request a written signed response from Wynnefield Management, Inc. which should be received by October 16, 2007 with a copy to the Department of Housing & Community Development (HCD) and the Internal Audit Division.

We also request a written signed response from HCD on this review which should be received on or before October 16, 2007.

We would like to thank Ms. Shaw'Taya Carter, Property Manager; Mr. Donald Friend, Regional Maintenance Manager; and Ms. Joanie Duley, Corporate Management of Wynnefield Properties, Inc. for their courtesy and cooperation shown to us during this visit. If there are any questions or comments concerning the details of this visit, we can be reached at 373-2821.

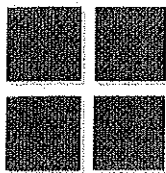


Mickey Kerans
Internal Auditor



Len Lucas
Internal Audit Director

Cc: Ben Brown, Assistant City Manager for Economic Development
I. Norwood Stone, President of Wynnefield Properties, Incorporated



HCD

Department of Housing & Community Development

Date: October 1, 2007
To: Norwood Stone, Wynnefield Properties
From: Michael Blair, City of Greensboro HCD
RE: *FY07/08 RS King Apartments Programmatic Evaluation*

On September 11, 2007 HCD and Internal Audit (IA) staff conducted an on-site monitoring visit of the RS King Apartments. The property is located at 1004-1028 John Dimrey Dr., Greensboro, NC. Wynnefield Properties Inc. manages the property and in this capacity is responsible to the City of Greensboro Department of Housing and Community Development for HOME Program and contractual compliance.

The purpose of the monitoring visit is to determine whether the property is meeting applicable HOME Program and contractual requirements. In this monitoring review attention was paid to HOME compliance along with financial management systems, a review of tenant files, and occupancy.

The period under review, along with current conditions, was from July 1, 2006 to June 30, 2007. In addition to examining various program materials, a physical inspection, and financial files, in the course of the review HCD and IA staff met with Ms. Shaw' Taya Carter, Onsite Property Manager, Mr. Donald Friend, Regional maintenance Manager and Ms. Joanie Duley, Corporate Manager of Wynnefield Properties.

The property was rehabilitated in 1995 with \$378,694 in Federal HOME dollars and \$363,750 in Community Development Block Grant funds. LIHTC funds provided by the NCHFA were also utilized. This resulted in 23 two-bedroom transitional housing units (and one administrative unit) to provide appropriate housing with supportive services for homeless persons, with a purpose of facilitating the movement of residents to independent living within 24 months, or within a longer period determined by HUD as necessary.

According to the December 1995 agreement 100% of the units would be affordable (Monthly Housing Expense – Rent plus Utilities) to tenants at 40% of the AMI (\$18,040) which is \$451/month. This has been corrected from the previous review where \$508 was erroneously used as the monthly maximum housing cost.

Rents for all eligible units in the complex fall below this figure according to file documentation and rent rolls; they are \$345/month with a \$97.30/month utility expectation (see table below). Total housing cost is then \$442.30/month. This meets the contractual requirements of rents being affordable to those at 40% of the AMI (\$451/month Rent plus Utilities).

Recent updating of the utility allowance dated February 15, 2007 is \$97.30 per HCD Housing Planner, Cyndi Blue.

	Rent	Updated Utility	Total Rent + UA
RS King	\$345	\$97.30	\$442.30

One tenant income appears to have exceeded 60% of adjusted median income but did not exceed 80% of AMI. Resident incomes are certified annually according to the HCD file review. The tenant files reviewed were in average condition and contained most required back-up documentation.

The reported occupancy has been an average 90% from January 1, 2007 through September 11, 2007. This was calculated with the vacancy report provide by management. This is the same as the April 2007 area occupancy rate of around 90%. While it is near or around the area average 90% is not a recommended occupancy rate.

Section 8 housing vouchers are accepted however none are reported to be supported by these vouchers.

Wynnefield Properties has a fair marketing plan that meets the City Affirmative Marketing Requirements. The Tenant Selection Policy is understandable.

HCD staff inspected four (4) units on September 11, 2007 and reported certain minor deficiencies that need attention in two (2) of those units. The exterior is in overall average condition with no reported maintenance and repair conditions. Please refer to the inspection report for details.

As a result of this review HCD staff is making one (1) finding and two (2) concerns. A *finding* is defined by HCD as a project element that does not comply with a local, federal, or contractual, rule or regulation whereas a *concern* is either a potential finding or management weakness that should be improved to avoid future problems.

Finding 1 – Fees

The draft Internal Audit review dated September 12, 2007 of R.S. King Apartments financials for the period ending December 31, 2006 reported the Partnership fee was 13% of gross income. Per the agreement §2.1 the maximum management fee is 10%.

Requested Action

For management to keep fees contractually compliant at 10%. This does not comply with the agreement and must be resolved. HCD requests an explanation for this non-compliance issue within 30 days of the date of this review.

Concern 1 – Supportive Services

The agreement §1.6 (C) describes supportive services as *including* but not limited to:

- case management
- assistance in obtaining permanent housing
- medical and psychological counseling and supervision
- "live" [sic] skills training
- nutritional training
- assistance in obtaining other federal, state and local assistance available to residents of transitional housing
- other services such as child care and employment assistance

While a certain level of supportive services is understood to be occurring items 1-6 in the list above are required per §1.6 (C).

Requested Action

Provide a detailed description of all supportive services to HCD within 30 days of the date of this review.

Concern 2 – Certifications/Inspections

- 1028-F: Income certification form was signed but not completed.
- 1028-F: Management inspection form was not signed by either the tenant or management.
- 1028-A: Income certification form was not signed by management.
- 1004-A: Management inspection form was not signed by either the tenant or management.

Requested Action

Income certification forms and move-in move-out inspection forms should be signed by both the tenant and management as well as filled out as needed.

HCD staff requests that management review the Internal Audit report and reply to it as requested. The draft Internal Audit report is dated September 12, 2007.


The concerns in this review, in our view, do not reflect negatively on property management staff and their work ensuring continued affordability compliance. The intent of the finding is to ensure contractual compliance. The intent of the first concern is to ensure supportive services are being provided per the agreement. The intent of the second concern is to make management aware incomplete file materials.

It is HCD staff opinion that the RS King Apartments are contractually compliant concerning affordability requirements.

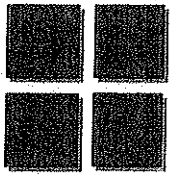
HCD staff appreciates the assistance provided during the monitoring visit by Wynnefield Properties staff.



Michael Blair
Specialist Grants Compliance



Andy Scott
Director HCD



HCD

Department of Housing & Community Development

MEMO

Date: October 22, 2007
To: Len Lucas, Internal Audit Director
From: Michael Blair, Specialist Grants Compliance
RE: HCD Review of the RS King Audit Report

After review of the September 12, 2007 Internal Audit report of the R. S. King Apartment Limited Partnerships, for 2005-2006, HCD submits the following:

IA Finding 1:

In regards to the Partnership's audited financials for fiscal year ended December 31, 2006, we need to point out the following findings:

- a. The working capital at 2006 improved but remained in the negative at (\$33,284) versus (\$59,149) for 2005.
- b. The current ratio for 2006 decreased to .141 to 1 from .427 to 1 in 2005.
- c. The net income excluding depreciation and amortization while still in the negative improved in 2006 to (\$9,949) from (\$70,314) in 2005
- d. The average monthly rent rates increased to \$306 for 2006 from \$222 for 2005 but the rates are still less than the budgeted rates of \$345 per month.
- e. The Management fees for 2006 were 13% of the total gross income which was down from 18% for 2005. However, per the loan agreement, Management Fees are limited to 10% of the gross income.
- f. We were not provided a Management Letter from the external auditors.

IA Recommendation 1:

The Partnership should notify the City on its plans to improve their financial position.

- **HCD reply to Finding/Recommendation 1:** Concur. HCD adds emphasis on finding "e." This direct conflict with the loan agreement needs to be resolved and has been included as a finding in the HCD report.

IA Finding 2:

As per note C of the audited financial statement for December 31, 2006, cumulative shortage in the Replacement Reserve account was (\$6,502) which was up from (\$6,350) from 2005.

IA Recommendation 2:

The Partnership should provide how they plan to decrease the shortage in the Replacement Reserve account.

- **HCD reply to Finding/Recommendation 2: Concur.**

Summary: HCD generally concurs with the Internal Audit report.



City of Greensboro

Date: October 25, 2007
To: Andy Scott, Director of Housing & Community Development
From: Internal Audit Division
Subject: HCD Reply to IA Report-R. S. King 2005-2006

Thank you for your response of October 22, 2007 regarding Internal Audit's report for R. S. King covering period 2005-2006. Internal Audit agrees with Housing & Community Development's response to IA's subject report dated September 12, 2007.

Mickey Kerans
Internal Auditor

Len Lucas
Internal Audit Director

Cc: Ben Brown, Assistant City Manager for Economic Development

Wynnefield Properties, Inc.

Real Estate Development
910-454-6134
Fax: 910-454-6190

R-11/28/07
P.O. Box 395
5614 Riverdale Road
Jamestown, NC 27282

November 7, 2007

Mickey Kerans
Internal Auditor
City of Greensboro
P. O. Box 3136
Greensboro, N. C. 27402

Re: R. S. King Apartments Limited Partnership Audit

Dear Mickey:

In reference to your letter dated October 2, 2007 I am responding to your findings.

We are enclosing a copy of Costello Hill & Company's letter confirming no management letter was issued.

We are implementing the following procedures in a good faith effort to improve the financial position of R. S. King Apartments:

- 1) A new Manager was hired May of 2007.
- 2) Distributed flyers in the surrounding community advertising R. S. King Apartments.
- 3) Site Manager is to contact housing assistance agencies in Greensboro on a regular basis
- 4) We are working with PVC, Inc. to reduce the property tax liability.
- 5) We have reduced property insurance premiums by \$ 2,194.00 for the 2007-2008 coverage period.

We will resume funding of the Reserve for Replacements when the property generates sufficient cash. During the first nine months of 2007 collections averaged 85%. The property needs to collect 90% of gross potential rents to breakeven. We anticipate a rent increase for 2008 and are trying to increase occupancy and collections.

The occupancy rate was 96% at the end of October 2007.

We are enclosing a copy of our response to HCD.

If you have any questions please call.

Sincerely,

A handwritten signature in cursive script that reads "Bill Cashatt". The signature is written in dark ink and is positioned above the printed name.

Bill Cashatt

COSTELLO HILL
& COMPANY, L.L.P.



CERTIFIED PUBLIC
ACCOUNTANTS
GREENSBORO,
NORTH CAROLINA

LESTER F. HILL, CPA
JERRY L. WILLIAMS, CPA
W. GREGORY ASHLEY, CPA
SUSAN S. MOYE, CPA

November 7, 2007

Ms. Joanie Duley
Raymond S. King Apartments Limited Partnership
P. O. Box 395
Jamestown, NC 27282

Dear Ms. Duley:

We did not issue a management letter as part of our audit of Raymond S. King Apartments Limited Partnership for the year ended December 31, 2006.

Costello Hill + Company LLP

Certified Public Accountants

P.O. Box 2610 • GREENSBORO, NC 27402 • 1112 MAGNOLIA STREET • GREENSBORO, NC 27401

TELE: (336) 274-3281 • FAX: (336) 370-0272

EMAIL: LHILL@COSTELLOHILL.COM • JWILLIAMS@COSTELLOHILL.COM • GASHLEY@COSTELLOHILL.COM • SMOYE@COSTELLOHILL.COM

City of Greensboro
North Carolina

November 29, 2007

Mr. Bill Cashatt
Controller
Wynnefield Properties
5614 Riverdale Road
Jamestown, NC 27282

Re: R. S. King Apartments-2005-2006

Dear Bill:

Thank you for your response dated November 7, 2007 in reference to the R. S. King Apartments review for 2005-2006 per our letter of October 2, 2007. Please note that we did not receive your written response until November 28, 2007. We are in agreement with your explanation of the findings and your procedures to improve R. S. King's financial position, vacancy rate and Replacement Reserve funding. We are in receipt of Costello, Hill & Company, LLC's Management letter for 2006.

You did not respond to Finding e. "The Management Fees for 2006 were 13% of the total gross income which was down from 18% for 2005. However, per the loan agreement, Management Fees are limited to 10% of the gross income." Please advise.

If you should have any questions, please let us know at telephone number 373-2821.

Sincerely,



Mickey Kerans
Internal Auditor



Len Lucas
Internal Audit Director

Cc: Ben Brown, Assistant City Manager for Economic Development
Andy Scott, Director of Housing & Community Development

City of Greensboro
North Carolina

December 12, 2007

Mr. Bill Cashatt
Controller
Wynnefield Properties
5614 Riverdale Road
Jamestown, NC 27282

Re: R. S. King Apartments-2005-2006

Dear Bill:

We are in receipt of your response dated December 3, 2007 in reference to the R. S. King Apartments review for 2005-2006 per our letter of November 29, 2007. Our point in our letter was that you didn't respond to Finding "e". We agree with your enclosure that included the Management Agreement dated August 24, 2004 between Wynnefield Properties, Incorporated and Raymond S. King Apartments Limited Partnership. In that agreement it stated that Management Fees were the greater of \$920 per month or 10%. The Management Fee for 2006 and 2005 was \$11,040; for 2004 was \$6,845; for 2003 it was \$7,594 and for 2002 it was \$7,569.

We were quoting the Loan Agreement dated December 1, 1995 paragraph 2.1 Terms and Repayment. In that paragraph, it states that in calculating the annual principal payment due the City the deduction of Management Fees are limited to 10% of Gross Receipts. As per the enclosed spreadsheet we recalculated the annual principal payment using the 10% maximum Management Fee and it didn't make any difference except for the year 2004. The principal payment due for 2004 changed from zero to Wynnefield owing the City \$230.35. Please remit this payment to us as soon as possible.

If you should have any questions, please let us know at telephone number 373-2821.

Sincerely,



Mickey Kerans
Internal Auditor



Len Lucas
Internal Audit Director

Cc: Ben Brown, Assistant City Manager for Economic Development
Andy Scott, Director of Housing & Community Development

Wynnefield Properties, Inc.

Real Estate Development
910-454-6134
Fax: 910-454-6190

R-12/5/07
P.O. Box 395
5614 Riverdale Road
Jamestown, NC 27282

December 3, 2007

Mickey Kerans
Internal Auditor
City of Greensboro
P. O. Box 3136
Greensboro, N. C. 27402

Re: R. S. King Apartments Limited Partnership Audit

Dear Mickey:

I am enclosing a copy of the Management Agreement dated August 24, 2004.
According to the agreement the management fees is \$ 920.00 per month or 10%
whichever is greater.

If you have any questions please call.

Sincerely,



Bill Cashatt

MANAGEMENT AGREEMENT
Raymond S. King Apartments Limited Partnership

This Agreement, made this 24th day of August, 2004 between Raymond S. King Apartments Limited Partnership, (the "Owner") and Wynnefield Properties, Incorporated (the "Agent") under the terms and conditions set forth herein.

I. General.

A. Appointment and Acceptance. The Owner appoints the Agent as exclusive Agent for the management of the property described in Section 1 b. of this Agreement, and the Agent accepts the appointment, subject to the terms and conditions set forth in this Agreement.

B. Project Description. The property to be managed by the Agent under this Agreement (the "Project") is a housing development consisting of the land, buildings, and other improvements. The Project is described as follows:

R.S King Apartments
Greensboro, Guilford County
North Carolina
23 Units - Family

C. Definitions. As used in this Agreement:

1. "NCHFA" means the North Carolina Housing Finance Agency.
2. "Principal Parties" means the Owner and the Agent.

D. NCHFA Requirements. In performing its duties under this Management Agreement, the Agent will comply with all relevant NCHFA requirements including preparation of forms and reports quarterly and annually.

E. Basic Information. As soon as possible, the Owner will furnish the Agent with a complete set of "as built" plans and specifications and copies of all guarantees and warranties relevant to construction, fixtures, and equipment. With the aid of this information and inspection by competent personnel, the Agent will become thoroughly familiar with the character, location, construction, layout, plan and operation of the Project.

F. Compliance with Governmental Orders. The Agent will take such action as may be necessary to comply promptly with any and all governmental orders or other requirements affecting the Project, whether imposed by federal, state, county or municipal authority, subject, however, to the limitation stated in paragraph IV-1 of this Exhibit with respect to repairs. Nevertheless, the Agent shall take no action so long as the Owner is contesting, or has affirmed its intention to contest, any such order or requirement. The Agent will notify the Owner in writing of all notices of such orders or other requirements, within seventy-two (72) hours from the time of their receipt.

G. Nondiscrimination. In the performance of its obligations under this Agreement, the Agent will comply with the provisions of any Federal, State or local law prohibiting discrimination in housing on the grounds of race, color, religion, sex, familial status, national origin, or mental handicap (applicant must have capacity to execute a legal contract) including Title VI of the Civil Rights Act of 1964 (Public Law 88-352, 78 Stat. 241), Title VIII of the Civil Rights Act of 1968, Executive Order 12246, and the Equal Credit Opportunity Act of 1974.

H. Bids, Discounts, Rebates, etc. With prior approval of the Owner, the Agent will obtain contracts, materials, supplies, utilities, and services on the most advantageous terms to the Project, and is authorized to solicit bids, either formal or informal, for those items, which can be obtained from more than one source. The Agent will secure and credit to the Owner all discounts, rebates, or commissions obtainable with respect to purchases, service contracts, and all other transactions on the Owner's behalf.

II. Management Plan.

A. Description. Attached is a copy of the Management Plan for the Project, which provides a comprehensive and detailed description of the Policies and Procedures to be followed in the management of the project.

B. Relationship with Management Plan. The Agent shall conduct his management activities in accordance with the Policies and Procedures set forth in the Management Plan. In addition, the Agent will also carry out the tasks and responsibilities set forth in paragraph IV of this Agreement.

III. Budget.

A. Preparation. The Agent shall prepare an original project budget for approval. For each subsequent fiscal year, the Agent shall prepare a new budget.

IV. Agent's Obligations.

A. Management Input During and After Processing. The Agent will advise and assist the Owner with respect to management planning and input during loan processing. The Agent's specific tasks will be:

1. Participation in any conference with NCHFA officials involving project management.
2. Preparation and submission of quarterly and annual reports throughout the period from initial occupancy after loan closing until such time as no longer required. If management is authorized to sign the reports for the Owner, a copy of the signed report, as submitted, will be provided to the Owner.
3. Participation in the on-site inspection of the Project, prior to initial occupancy.
4. Continuing review of the Management Plan, for the purpose of keeping the Owner advised of necessary or desirable changes.

B. Liaison with Architect and General Contractor. At the direction of the Owner during the planning and construction phases, the Agent maintained direct liaison with the architect and general contractor, in order to:

1. Coordinate management concerns with the design and construction of the Project.
2. To facilitate completion of any corrective work, and
3. To facilitate the Agent's responsibilities for arranging utilities and services pursuant to paragraph IV-J of this agreement. The Agent will keep the Owner advised of all significant matters of this nature.

C. Marketing. The Agent will market the rental units according to the Management Plan, observe all requirements of the Affirmative Fair Housing Marketing Plan, and maintain records of the marketing activity for compliance review.

D. Rental. The Agent will continue to offer for rent and will rent the dwelling units in the Project. The following provisions will apply:

1. The Agent will follow the tenant selection policy described in the Management Plan.

2. The Agent will show the premises to prospective tenants.

3. The Agent will take and process applications for rentals. If an application is rejected, the Agent will inform the applicant in writing of the reason for rejection. The rejected application, with the reason for rejection noted thereon, will be kept on file until a compliance review has been conducted. If the rejection is because of information obtained from a Credit Bureau, the source of the report must be revealed to the applicant according to the Fair Credit Reporting Act. A current list of prospective tenants will be maintained.

4. The Agent will prepare all dwelling leases and required addenda and will execute the same in its name, identified thereon as Agent for the Owner. The terms of all leases will comply with the relevant provisions of North Carolina regulations. Dwelling leases will be in a form approved by the Owner.

5. The Owner will furnish the Agent with rent and income report forms, showing rents as appropriate for dwelling units, other charges for facilities and services, income data relevant to determinations of tenant eligibility and tenant rents. In no event will the rents and other charges be exceeded.

6. The Agent will counsel all prospective tenants regarding eligibility and will prepare and verify eligibility certifications and recertifications in accordance with NCHFA requirements.

E. Reports. The Agent will furnish information (including occupancy reports) as may be requested by the Owner, NCHFA and the private lending institution from time to time with respect to the project's financial, physical, or operational condition. The Agent will assist the Owner in completing all additional forms and data affecting the operation and maintenance of the project.

F. Collection of Rents, Security Deposits, and Other Receipts. The Agent will collect when due all rents, charges, and other amount receivable on the Owner's account in connection with the management and operation of the Project. Such receipts will be deposited immediately in the project's General Operating Account with Centura, Greensboro, North Carolina, whose deposits are insured by an agency of the Federal Government. The Agent will collect, deposit, and disburse security deposits, if required, in compliance with any State or local laws governing tenant security deposits. Security deposits will be deposited by the Agent in a separate interest bearing account, at a federally insured institution. The account will be carried in the project's name and designated of record as "Raymond S. King Apartments Ltd. Partnership Security Deposit Account."

G. Accounting System. The Agent must develop a systematic method to record the business transactions of the project that appropriately reflects the complexity of project operations. The accounts in paragraph V of this agreement, as a minimum, will be established.

H. Enforcement of Leases. The Agent seeks to obtain full compliance by each tenant with the terms of the lease. Voluntary compliance will be emphasized. The Agent, using the services of local social service agencies when available, will counsel tenants and make referrals to community agencies in cases of financial hardship or other circumstances deemed appropriate by the Agent. Involuntary termination of tenancies should be avoided to the maximum extent consistent with sound management of the Project. Nevertheless, and subject to the relevant procedures prescribed in the Management Plan, the Agent may initiate action to terminate any tenancy when, in the Agent's judgment, there is material noncompliance with the lease or other good cause. Attorney's fees and other necessary costs incurred in connection with such actions will be paid out of the General Operating Account as Project expenses.

I. Maintenance and Repair. The Agent will maintain and repair the project in accordance with the Management Plan and local codes, and keep it in a condition acceptable to the Owner at all times. This will include, but is not limited to cleaning, painting, decorating, plumbing, carpentry, grounds care, energy conservation measures and practices; and such other maintenance and repair work as may be necessary, subject to any limitations imposed by the Owner in addition to those contained herein.

Incident thereto, the following provisions will apply:

1. Special attention will be given to preventive maintenance, and to the greatest extent feasible, the services of regular maintenance employees will be used.

2. Subject to the Owner's prior written approval, the Agent will contract with qualified independent contractors for the maintenance and repair of air-conditioning systems and for extraordinary repairs beyond the capability of regular maintenance employees.

3. The Agent will systematically receive and promptly investigate all service requests from tenants, take such action as may be justified, and keep records of the same. Emergency requests will be received and serviced on a twenty-four-- (24) hour basis. Serious complaints will be reported to the Owner after investigation.

4. The Agent is authorized to purchase all materials, equipment, tool, appliances, supplies and services necessary for proper maintenance and repair.

5. The Agent will advise the Owner of any cost-effective energy conservation measures adaptable to the Project. The Agent will encourage their use and will assist the Owner during any installation of these measures.

J. Utilities and Services. Subject to the Owner's prior written approval, and according to the Management Plan, the Agent will make arrangements for water, electricity, gas, fuel oil, sewage and trash removal, vermin extermination, decorating, and telephone service.

K. Insurance. The Owner will inform the Agent of insurance to be carried with respect to the Project and its operations, and the Agent will arrange for such insurance to be placed and kept in effect at all times. The Agent will

pay premiums out of the General Operating Account, and premiums will be treated as operating expenses. All insurance will be placed with companies, on conditions, in amounts, and with beneficial interests appearing thereon as shall be acceptable to the Owner provided that the same will include public liability coverage, with the Agent designated as one of the insured, in amounts acceptable to the Agent as well as the Owner. The Agent will investigate and furnish the Owner with full reports on all accidents, claims, and potential claims for damage relating to the Project, and will cooperate with the Owner's insurers in connection therewith.

L. Taxes, Fees and Assessments. The Agent shall pay all taxes, assessments and government fees promptly when due and payable. The Agent shall also evaluate local property taxes to insure they bare a fair relationship to the project value and appeal such taxes when appropriate.

M. Employees. The Management Plan prescribes the number, qualifications, and duties of the personnel to be regularly employed in the direct management of the Project, including a Site Manager, maintenance, bookkeeping, clerical and other managerial employees. All such personnel will be employees of the Agent and not the Owner, and will be hired, paid, supervised, and discharged by the Agent. Site employee salaries will be paid by the Agent directly from the Owner's General Operating Account. This account will also reimburse the Agent for Workers Compensation, Social Security taxes, and other taxes normally paid by the employer dealing with wages. Agent employees who work off-site or in the Agent's office will be paid directly by the Agent out of the Management Fee paid by the Project.

V. Project Accounts.

A. General Operating Account. This account records all project income and disbursements. Excess project cash held in this account may be combined with other project funds described below in temporary (immediate call) interest bearing accounts when separate bookkeeping records are maintained for individual project accounts. This will usually be a checking account, which must be maintained in a financial institution insured by the Federal Government.

1. Deposits. All income and revenue from the housing project shall, upon receipt, immediately be deposited in the General Operating Account. This will include rent receipts or any other project income. The borrower and Agent may also, at their discretion at any time, deposit therein other funds which are also to be used for purposes authorized by this section including transfer from the Reserve Account. All funds in the General Operating Account will be used only as authorized in this section and until so used, will be held by the Agent, in trust, as security for the project obligations.

2. Disbursements. Not later than the 15th of each month, out of the General Operating Account, the Agent shall pay or fund the actual, reasonable and necessary monthly project expenses. Current expenses may include the initial purchase and installation of furnishings and equipment with any funds deposited in the General Operating Account, which are not proceeds of the loan or income or revenue from the Project. Other authorized disbursements are approved installments of debt service, real estate tax and insurance, reserve, and at the end of the fiscal operating year, any balance remaining in the General Operating Accounting, except as authorized above, may be retained or transferred to the Reserve Account.

B. Reserve Account. Funds recorded in this account should be held in a separate interest bearing account or accounts at a Federally insured financial institution. Required reserve installments shall be transferred to the Reserve Account at the monthly rate stipulated by the borrower's loan agreement or resolution. Monthly transfers will continue until the account reaches the total amount specified in the loan agreement or resolution. Monthly transfers shall be resumed the next month following disbursement from the Reserve Account until it is restored to the specified total minimum sum. Funds in the Reserve Account shall be used only for authorized purposes. Reserve Account funds not immediately needed for authorized purposes may be invested in saving certificates insured by a Federal Institution, or invested in readily marketable obligations of the United States Treasury Department, the earnings on which shall accrue to the Reserve Account. Interest earnings may be used to meet the monthly installments to the Reserve Account. Any amount in the reserve account, which exceeds the total sum, specified in the loan agreement or resolution may be transferred to the General Operating Account for the authorized purposes, only when it is agreed between the Owner and the Agent to be in excess of the requirement. However, the Owner may direct the excess sum to be retained in the Reserve Account, when determined necessary to protect the lender's security interest. With prior consent of the Owner, funds in the Reserve Account may be used by the Agent for the following purposes:

1. To meet payment due on the loan obligations in the event the amount available from operations or Owner is not sufficient for the purpose.
2. To pay costs of repairs or replacements to the housing, furnishings or equipment caused by catastrophe or long-range depreciation which are not current expenses. Withdrawal for approved purposes should be approved in advance during the annual budget approval process.
3. To make improvements to the housing project without creating new living units.
4. For any other purposes as allowed by the Loan Agreement with the private lending institution.

C. Tenant Security Deposit Account. Upon receipt, all tenant security deposit funds collected shall be deposited in a separate interest bearing account at a Federally insured financial institution, and shall be handled according to any State or local laws governing tenant security deposits. All tenant security deposit funds collected shall be recorded in a bookkeeping account that is separate from the Project bookkeeping accounts. Funds in the Tenant Security Deposit Account shall only be used for authorized purposes as intended and represented by the Project Management Plan. They shall be held by the Agent in trust for the respective tenants until so used. Any amount in the Tenant Security Deposit Account, which is retained by the Agent as a result of lease violations, shall be transferred to the General Operating Account and treated as income of the housing. In no case will interest earned on security deposits accrue to the Agent or the Owner. Any interest earned but not returned to the tenants will accrue to the Project's General Operating Account for disposition as outlined in the Management Plan.

VI. Agent's Compensation, Tenure and Identification.

A. Agent's Compensation. The Agent will be compensated for its services including overall management under this Agreement by monthly fees, to be paid from the General Operating Account and treated as a project operation and

maintenance expense. Such fees will be payable on the first day of each month for the preceding month. Each monthly fee will be in an amount computed as follows:

\$920 per month or 10% of whichever is greater

The cost incurred by the Agent for performing the specified services listed in this agreement shall be allocated to the Owner and Agent as outlined in the Agreement, Management Plan, and approved Project budget.

B. Term of Agreement. Wynnefield Properties, Inc., shall serve as the Managing Agent for a period of one year, during which period Wynnefield Properties, Inc., may be removed only For Cause which shall be defined as: 1) material breach of the requirements of any loan documents to which the Partnership is subject; 2) material failure to comply with tax credit requirements; 3) malfeasance; or 4) there is no longer a chief executive officer or controlling shareholder of Wynnefield Properties, Inc., Inc. 5) Operating deficits experienced by the Partnership Property which result in the General Partners having to make loans to the Partnership 6) the removal of the managing member under the Operating Agreement and 7) breaches of the manager's duties under the Management Agreement

C. Agent's Indemnification. Notwithstanding any provision of this Agreement or any obligation of Agent hereunder, it is understood and agreed: (a) that Owner has assumed and will maintain its responsibility and obligation throughout the term of this Agreement for the finances and the financial stability of the project; and (b) that Agent shall have no obligation, responsibility or liability to fund authorized project costs, expenses, or accounts other than those funds generated by the project itself or provided to the project or to Agent by Owner. In accordance with the foregoing, Owner agrees that Agent shall have the right at all times to secure payment of its compensation, as provided for under Paragraph VI A. of this Agreement, from the Operating and Maintenance Account, immediately when such compensation is due and without regard to other project obligations or expenses provided the Agent has satisfactorily discharged all duties and responsibilities under this Agreement. Moreover, Owner hereby indemnifies Agent and agrees to hold it harmless with respect to project costs, expenses, accounts, liabilities and obligations during the term of this Agreement and further agrees to guarantee to Agent the payment of its compensation under Paragraph VI A. of this Agreement during the term of this Agreement to the extent that the project's Operating and Maintenance Account is insufficiently funded for this purpose. Failure of Owner at any time to abide by and to fulfill the foregoing shall be a breach of this Agreement entitling Agent to obtain from Owner, upon demand, full payment of all compensation owed to Agent through the date of such breach and entitling Agent, at its option, to terminate this Agreement forthwith.

VII. Interpretative Provisions.

A. This Agreement constitutes the entire agreement between the Owner and the Agent with respect to the management and operation of the Project. No change will be valid unless made by supplemental written agreement.

B. This Agreement has been executed in several counterparts, each of which shall constitute a complete original Agreement, which may be introduced in evidence or used for any other purpose without production of any of the other counterparts.

C. This Agreement will work to the benefit of and constitute a binding obligation upon the Principal Parties and their respective successors and assigns. To the extent that this Agreement confers rights upon the Consenting

Parties, it will be deemed to work to their benefit, but without liability to either, in the same manner and work with the same effect as though the Consenting Parties were primary parties to the Agreement.

IN WITNESS WHEREOF, the Principal Parties (by their duly authorized officers) have executed this Agreement on the date first above written.

WYNNEFIELD PROPERTIES, INCORPORATED

By: 

Date: 8/24/04

OWNER: Raymond S. King Apartments Limited Partnership

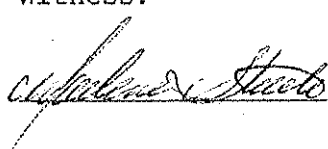
By: Shelter Resource Corporation
General Partner

By: 

David N. Shafer
President

Witness:

Date: August 24, 200


Attachments: Management Plan

RAYMOND S. KING APARTMENTS
CALCULATION OF CITY LOAN PAYMENTS

PAYMENT
BEGINS: 1/1/97 & each year thereafter Dates Due: 12/1/2025

CALCULATION
BASED ON: Previous C/Y 2006 2005 2004 2003

CALCULATION:		2006	2005	2004	2003
Add:	Gross Rental Income	84,465.00	61,202.00	35,796.00	74,582.00
	Receipts from Tenant Forfeitures of Tenant Security Deposits	1,875.00	3,266.00	713.00	2,819.00
	Interest earned on Security Deposit accounts	273.00	52.00	179.00	356.00
	Interest earned on Operating reserve accounts		0.00	165.00	488.00
Total Income		86,613.00	64,520.00	36,853.00	78,245.00
Less:	Project Expenses (#1 less # 2)	(123,031.00)	(131,687.00)	(110,395.00)	(113,232.00)
Net		(36,418.00)	(67,167.00)	(73,542.00)	(34,987.00)
LESS:	Expenses not actually incurred:				
	Depreciation	25,889.00	25,973.00	26,240.00	3,025.00
	Amortization	550.00	550.00	550.00	550.00
	Expenses not included in contract's definition of expenses:				
	Accounts Receivable (Increase)	(3,439.00)	305.00	5,676.00	(5,427.00)
	Prepaid expense (Increase)	(57.00)	348.00	1,137.00	506.00
	Accounts Payable (Decrease)	5,648.00	(10,018.00)	7,781.00	8,176.00
	Accrued Property taxes				0.00
	Accrued Interest	2,882.00			
	Other Accrued Expenses (Decrease)	5,000.00	5,000.00	5,000.00	5,000.00
	Add back actual Mgmt Fee charged	11,040.00	11,040.00	6,845.00	7,594.00
	Deduct Mgmt Fee Ltd to 10% of Gross receipts	(8,661.30)	(6,452.00)	(3,685.30)	(7,824.50)
PLUS:	Expenses/Increases allowed but not taken:				
	Deposits to Replacement reserves	(4,648.00)	(407.00)	(1,692.00)	(4,122.00)
	Rent Escrow				0.00
	Transf. from replacement reserves	255.00	10,611.00	23,140.00	2,290.00
	Tax & Insurance escrow	(5,600.00)	1,040.00	3,339.00	905.00
	Tenant prepayments	(474.00)	561.00	(328.00)	(5.00)
	Increase in Building				(1,099.00)
	Prior Year reporting fees paid				
DEBT PRINCIPAL:	Mortgage				
	Purchase of Partnership Interest				
	Affiliates (General Part. Loan Pmts.)				
	Purchase of rental prop.				
	Redemption of Gen. Ptr. Interest				
Revenue over Expenses as adjusted		(8,033.30)	(28,616.00)	460.70	(25,418.50)
Percentage of Repayment (above) * 50%		(4,016.65)	(14,308.00)	230.35	(12,709.25)
If above less than 0 put 0		0.00	0.00	230.35	0.00
Replace Reserve Accounts as of 2006	Balance @ Dec. 31st	4,785.00	392.00	10,595.00	32,043.00
Current City Debt Principal	Balance @ 12/31/2006	758,169.00	758,169.80		

Wynnefield Properties, Inc.

Real Estate Management
336-454-6134
Fax: 336-454-6226

P.O. Box 395
5614 Riverdale Road
Jamestown, NC 27282

December 13, 2007

Mickey Kerans
Internal Auditor
City of Greensboro
P. O. Box 3136
Greensboro, N. C. 27402

Re: R. S. King Apartments Limited Partnership Audit

Dear Mickey:

I am enclosing a check for \$ 230.35 for payment on the City of Greensboro Loan for 2004 based on your calculation. Just for your information we did not begin managing R.S. King Apartments until September 2004.

If you have any questions please call.

Sincerely,



Bill Cashatt

Raymond S. King Apartments
General Fund Checking
P.O. Box 566
Jamestown, NC 27282
336-454-6134

Carolina Bank
Greensboro, NC

2064

66-7401
531

12/18/2007

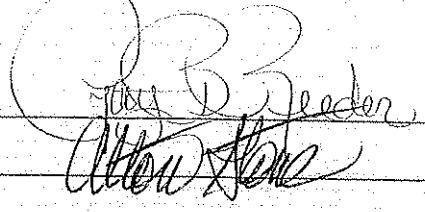
Pay to the
Order of

CITY OF GREENSBORO

\$230.35

Two Hundred Thirty and 35/100 *****DOLLARS

CITY OF GREENSBORO
P.O. BOX 1170
GREENSBORO, NC 27402-1170



John B. Jeador

2004 City Loan Calculation

⑈002064⑈ ⑆053174019⑆ 2018926⑈

Raymond S. King Apartments General Fund Checking
CITY OF GREENSBORO
2323 · Loan Payable City of Green

12/18/2007

2064

230.35

Operating Fund

2004 City Loan Calculation

230.35

City of Greensboro
North Carolina

December 20, 2007

Mr. Bill Cashatt
Controller
Wynnefield Properties
5614 Riverdale Road
Jamestown, NC 27282

Re: R. S. King Apartments-2005-2006

Dear Bill:

We are in receipt of your response dated December 13, 2007 in reference to the R. S. King Apartments review for 2005-2006 per our letter of December 12, 2007. Thank you for Wynnefield's check number 2064 dated December 18, 2007 in the amount of \$230.35. This check represents the cash flow mortgage payment due the City for calendar year 2004.

Sincerely,



Mickey Kerans
Internal Auditor



Len Lucas
Internal Audit Director

Cc: Ben Brown, Assistant City Manager for Economic Development
Andy Scott, Director of Housing & Community Development