



Date: January 22, 2007
To: Mitchell Johnson, City Manager
From: Internal Audit Division
Subject: Great Oaks Limited Partnership

The Internal Audit Division has completed our annual review of the Great Oaks Limited Partnership in conjunction with a Programmatic Review by the Housing & Community Development Department for the 2004-2005 fiscal 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', written over a horizontal line.

Len Lucas
Internal Audit Director

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



Date: December 27, 2006
To: Andy Scott, Director of Housing & Community Development
From: Internal Audit Division
Subject: Great Oaks (St. Leo's) Limited Partnership 2004-2005

The Internal Audit Division has performed our compliance review of the year ended December 31, 2005 of Greenbriar Housing II, LLC, which consists of 44 units for low-income individuals located at the intersection of East Bessemer and Cypress Streets.

This Limited Liability Corporation received a loan in October 1998 for \$830,000 from the City of Greensboro to help in the initial building of the apartment units. This is a ½ of 1% interest bearing loan with final payment due October 31, 2028. These units are called St. Leo's Place at Great Oaks and are managed by Beacon Management Corporation. The current balance including accrued interest per the department of Housing & Community Development is \$840,402.

We accompanied Mr. Doug Booth, Housing Construction Manager of Housing & Community Development, as he inspected approximately 15 percent of the units and some minor repairs were noted. Overall the units inspected appear to be well maintained.

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

FINDING:

As per the City of Greensboro's loan with the Partnership, the External Audit and Management Letter for fiscal year ended December 31, 2005 was due June 30, 2006 but was not received by us until December 17, 2006.

RECOMMENDATION:

The Partnership should comply with the conditions of the loan agreement.

FINDING:

The Partnership's working capital at December 31, 2005 was a negative (\$64,421) and its current ratio was less than one at .193. These ratios indicate that the Partnership would have difficulty in paying off its current liabilities in a reasonable time.

RECOMMENDATION:

The Partnership should advise the City on how it plans to improve their financial status in regard to its current assets and liabilities.

FINDING:

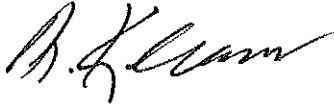
The Partnership's insurance insured by Nationwide states that total replacement cost for the buildings is \$2,457,471 however, the cost of the buildings as per its balance sheet is \$2,640,488 which makes the buildings under insured by \$183,017.

RECOMMENDATION:

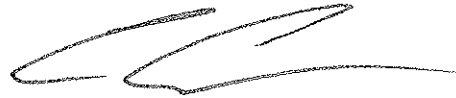
The Partnership should insure the buildings at a replacement cost of actual building cost or above.

We request a written and signed response from the Department of Housing & Community Development and Beacon Management Corporation by January 10, 2007.

We would like to thank Ms. Donna White On-Site Property Manager; Mr. Tony Jones, Regional Manager and the staff of Beacon Management Corporation 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
George Carr, President of Beacon Management Corporation



Date: December 21, 2006
To: George Carr, Beacon Management, Inc
From: Michael Blair, City of Greensboro HCD
RE: *FY06/07 St. Leo's Place/Great Oaks Limited Partnerships*

Project Information:

The 44 unit St. Leo's at Great Oaks Apartment Elderly (55) housing development is located at 800 Sullivan Street, Greensboro, NC. The complex is managed by Beacon Management, George Carr, President.

The October 1998 contract included a loan of \$830,000 in local Housing Partnership dollars and \$2,015,491 in other funding to assist in the construction of the apartments. The units were designed to provide appropriate housing for Elderly and Disabled residents.

Rental requirements are to be no more than 30% of the income of a family at 60% or less of the Area Median Income adjusted for family size.

Program Compliance:

44 TOTAL Units	Tenant Rent	Utilities	Total (Rent + Util.)
5 2-BR Units	\$545	\$70	\$615
3 2-BR Units	\$535	\$70	\$605
31 1-BR Units	\$470	\$43	\$513
5 1-BR Units	\$460	\$43	\$503

At the time of this report \$571/m serves as the 60% Rent (Tenant Rent plus Utilities & Subsidy's) for a 1 bedroom unit. The highest 1 BR rent plus utilities was \$513/m which is within the rent limits. The maximum rent on the 2 BR units is \$686/m which was also not exceeded with rents plus utilities at \$605/m to \$615/m.

HCD staff reviewed five tenant files and found them to be well maintained with the following observations:

- * While the files were complete there were a number of loose sheets in files to be dealt with.
- * The Utility Allowance on the income calculation worksheet for unit 801-A was \$43 and not \$70 as the RCRS suggests. This does not affect affordability compliance.
- * The rent roll had \$460/m for units 803-C, 809-C and 811-B, while the tenant files had contract rent at \$470/m. This is likely a timing issue.
- * The income certification for unit 811-B did not include GHA housing assistance of \$154/m in the calculation. This did not affect affordability compliance.

Incomes of residents are certified annually according to the NCFHA report dated 12.01.2006.

There are no units over the 140% limit and only two are under the Maximum Eligible Income at recertification.

Beacon Management, Inc. has a fair marketing plan that meets the City Affirmative Marketing Requirements. Leases are greater than or equal to 12 months in length and not on a transient basis.

The Tenant Selection Policy is clear and understandable and an up to date waiting list is maintained.

Contractual affordability and income requirements are satisfactory.

Supportive Services Overview:

A wide array of activities and services are offered to the residents of St. Leo's Place. An activity calendar was provided to city staff which included medical and physical activities as well as social events.

Financial Review:

The Internal Audit report dated 12.15.06 included comments on working capital and the current ratio. No payments are due to the city.

Condition:

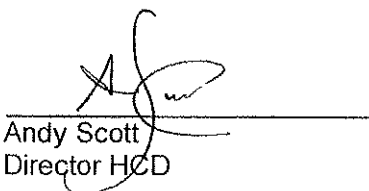
As of the date of this report a physical inspection review was not available. It should be noted however that St. Leo's is a very attractive living environment and has great curb appeal.

Occupancy:

The January 2006 to November 2006 occupancy is reported to be 97% which is excellent compared to both the surrounding area occupancy as well as the city occupancy. There are no concerns about occupancy at St. Leo's.

The October 2006 Carolina Real Data occupancy rate for all of Greensboro was 93% and the vacancy rate was 7%.


Michael Blair
Specialist Grants Compliance


Andy Scott
Director HCD

BEACON MANAGEMENT CORPORATION
408 BATTLEGROUND AVENUE (27401)
P.O. Box 29229
GREENSBORO, NORTH CAROLINA 27429-9229

WWW.BEACON-NC.COM

OFFICE: (336) 545-9000
FAX: (336) 545-9004

January 8, 2007

Mr. Mickey Kerans
Internal Audit Division
City of Greensboro
P. O. Box 3136
Greensboro, NC 27402-3136

Re: St. Leo's Place (Great Oaks LP)
Internal Audit 2004-2005

Dear Mr. Kerans:

Thank you for your letter of December 27, 2006. Following is our response to the findings.

Finding:

As per the City of Greensboro's loan with the Partnership, the External Audit and Management Letter for fiscal year ended December 31, 2005 was due June 30, 2006 but was not received by us until December 17, 2006.

Response:

We are uncertain as to why you did not receive the external audit and the management letter until December 17, 2006. The audit was completed on February 28, 2006. As for the management letter, our records indicate that the City was mailed a copy of the letter from our auditor stating that there was no management letter issued on August 7, 2006. However, we will insure that in the future the City is mailed a copy of the audit upon completion.

Finding:

The Partnership's working capital at December 31, 2005 was a negative (\$64,421) and its current ratio was less than one at .193. These ratios indicate that the Partnership would have difficulty in paying off its current liabilities in a reasonable time.

Response:

We are in disagreement with the finding that the Partnership will have difficulty paying off its current liabilities. Under strict definition of working capital, you are correct that the Partnership reflected a negative \$64,421 working capital balance. However, this completely ignores the fact that, under the caption "Restricted Deposits and Funded Reserves" is \$44,669 in a "Reserve for Painting and Decorating" account. The Partnership is under no legal obligation to maintain this reserve. This

reserve has been set aside by the managing general partner and can be used for any operating expense purpose at his discretion. In addition, a further analysis of working capital reveals that of the \$76,131 reflected as current liabilities, \$34,967 is due for accrued partnership administration fees. Although these are definitely obligations of the Partnership, their repayment is conditioned upon there being adequate surplus cash before they can be paid. We believe, at this time, it is appropriate to reflect this amount as a current liability as it is our intent to pay this amount as soon as cash flow permits. However, in the future years depending on the cash flows of the Partnership, we may reclassify all or a portion of this liability to non current. By view of the items cited herein, we do not believe there to be any shortage in working capital. The property is operating efficiently and has no need to improve its financial status with regard to its current assets and liabilities.

Finding:

The Partnership's insurance insured by Nationwide states that total replacement cost for the buildings is \$2,457,471 however, the cost of the buildings as per its balance sheet is \$2,640,488 which makes the buildings under insured by \$183,017.

Response:

We firmly believe that Great Oaks (St. Leo's Place) is adequately insured at \$2,457,471. The property's casualty insurance benefits are certainly far in excess of Great Oak's outstanding mortgage debt. The "Buildings" account classification on the balance sheet should not be confused with a proper estimation of the property's current replacement cost if a total loss fire were to occur. The reason for this is because the balance sheet "Building" costs includes many capitalized costs such as interest, development fees and other development related charges such as architect fees, market study, environmental reports, construction period taxes, and real estate counsel all of which would not need to be re-expended in the event of a fire or other casualty. Landscaping and site improvements also appear in a building's basis but are not typically fully weighted when determining a maximum fire loss insurance estimate. We strongly recommend that the property's insurance remain as is.

If you have any questions regarding our response, please contact Tony Jones, Regional Asset Manager, at 545-5000 ext. 13.

Cordially,



George E. Carr, III

cc: GEC file
SLP file
Doug Covington
Andy Scott
Len Lucas

City of Greensboro
North Carolina

January 9, 2007

Mr. George E. Carr III
President
Beacon Management Corporation
408 Battleground Avenue
Greensboro, NC 27401

Re: St. Leo's @ Great Oaks Limited Partnership Year-2004 to 2005

Dear Mr. Carr:

We are in receipt of your letter dated January 8, 2007 reference the City's Internal Audit report letter dated December 27, 2006 for the 2004 to 2005 Year. Your timely and concise response to our report is appreciated. We have reviewed your letter and agree with your responses.

Sincerely,

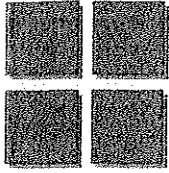


Mickey Kerans
Internal Auditor



Len Lucas
Internal Audit Director

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



HCD

Department of Housing & Community Development

MEMO

Date: January 17, 2007
To: Len Lucas, Internal Audit Director
From: Michael Blair, Specialist Grants Compliance
RE: HCD Review of St. Leo's Audit Report

After review of the Draft December 19, 2006 Internal Audit report of Great Oaks Limited Partnership, for 2004-2005, HCD submits the following comments. The HCD "Reply" is a response to the Internal Audit "Recommendation" and not the specifics of the "Finding" unless otherwise noted:

IA FINDING 1:

As per the City of Greensboro's loan with the Partnership, the External Audit and Management Letter for fiscal year ended December 31, 2005 was due June 30, 2006 but was not received by us until December 17, 2006.

IA RECOMMENDATION 1:

The Partnership should comply with the conditions of the loan agreement.

- HCD reply to Recommendation 1: *Concur.*

IA FINDING 2:

The Partnership's working capital at December 31, 2005 was a negative (\$64,421) and its current ratio was less than one at .193. These ratios indicate that the Partnership would have difficulty in paying off its current liabilities in a reasonable time.

IA RECOMMENDATION 2:

The Partnership should advise the City on how it plans to improve their financial status in regard to its current assets and liabilities.

- HCD reply to Recommendation 2: *Concur.*

IA FINDING 3:

The Partnership's insurance insured by Nationwide states that total replacement cost for the buildings is \$2,457,471 however, the cost of the buildings as per its balance sheet is \$2,640,488 which make the buildings under insured by \$183,017.

IA RECOMMENDATION 3:

The Partnership should insure the buildings at a replacement cost of actual building cost or above.

- **HCD reply to Recommendation 3:** *Concur.*

Summary: HCD concurs with the Internal Audit report.



Date: January 18, 2007
To: Andy Scott, Director of Housing & Community Development
From: Internal Audit Division
Subject: HCD Reply to IA Report- St. Leo's @ Great Oaks 2004-2005

Thank you for your written reply of January 17, 2007. Internal Audit agrees with Housing & Community Development's responses to IA' subject report dated December 27, 2006.

A handwritten signature in black ink, appearing to read 'M. Kerans'.

Mickey Kerans
Internal Auditor

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