



**Date:** January 26, 2007

**To:** Mitchell Johnson, City Manager

**From:** Internal Audit Division

**Subject:** Southwoods Limited Partnership

The Internal Audit Division has completed our annual review of the Southwoods 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', is 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:** January 5, 2007  
**To:** Andy Scott, Director of Housing & Community Development  
**From:** Internal Audit Division  
**Subject:** Southwoods Limited Partnership 2004-2005

The Internal Audit Division has performed our compliance review of the year ended December 31, 2005 of Southwoods Limited Partnership. This partnership received a loan provided by the City of Greensboro in November, 1996 in the amount of \$550,000 to help in the financing of 59 studio apartments located at Columbus and Kirkman Streets for low-income individuals. This loan is non-interest bearing and the current balance is \$540,950 as of December 11, 2006. These units are called Southwoods Apartments and are managed by Affordable Housing Management, Incorporated (AHMI).

The repayment on this loan to the City is based upon a percentage of cash flow after deducting all operating expenses actually incurred; payment of debt service and funding of the reserve accounts. The calculated payment for year ended December 31, 2005 was \$-0-. The replacement reserves have been satisfactorily reconciled and the charges to the account appear to have been approved in advanced and repairs are reasonable.

We accompanied Mr. Jim Teele, 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 giving to the Regional Manager 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 following findings:

**FINDING:**

The external audit and management letter for Southwoods Limited Partnership per the loan agreement was due to the City with 90 days of the fiscal year end or by March 31, 2006. These reports were not received by the City until May 4, 2006.

**RECOMMENDATION:**

The Partnership should be sure to submit documents required by the loan agreement by the date stated.

**FINDING:**

The working capital at December 31, 2005 was a negative (\$24,548) and the current ratio was less than one at .325.

**RECOMMENDATION:**

Since these ratios indicate the Partnership's possible ability to pay off current liabilities in a timely manner, we would appreciate Management advising the City how they plan to improve working capital and the current ratio.

We request a written signed response from AHMI and the Department of Housing & Community Development by January 19, 2007.

We would like to thank Ms. Donna Dungee, Community Manager of Southwoods Apartments; Ms. Millie Mullins, Regional Manager and the staff of Affordable Housing Management, Incorporated 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  
Mr. David Levy, President of Affordable Housing Management, Incorporated



Department of Housing & Community Development

**Date:** December 29, 2006  
**To:** David Levy, Affordable Housing Management, Inc.  
**From:** Michael Blair, City of Greensboro HCD  
**RE:** *FY06/07 Southwoods Programmatic Evaluation*

**Project Information:**

The 59 unit Southwoods studio apartment development is located at 2307 Columbus Street and managed by Affordable Housing Management, Inc. (AHMI). The November 1996 acquisition and construction contract included a \$550,000 HOME Investment Partnership loan as well as North Carolina Housing Finance Agency funding and Low Income Housing Tax Credits.

- The studio units would be made available for those with incomes at or less than 50% of the local median income which is currently \$19,750 for a one-person household and \$22,550 for a two-person household.

**HOME Program and Contractual Compliance:**

***Rental Affordability:***

At the time of this report HUD has established \$493/m as the Low HOME rent for efficiency (studio) units. This figure includes tenant rent plus utilities & subsidies. Total housing costs for all units at this complex are \$345/m (\$306/m rent plus \$39/m in utilities) which falls below the Low HOME limit.

***Income Eligibility:***

Nine (9) units and tenant files were inspected by city staff. The files were easy to review and well organized. Incomes of residents are certified annually according to the current NCFHA RCRS and the onsite file review. Relatively few tenants (7) have exceeded the maximum eligible income, \$19,750 for a one-person household, on a subsequent annual recertification and of those none have exceeded 140% of the maximum eligible income.

Section 8 tenants are accepted and occupy 5 units.

Southwoods has a fair marketing plan that meets the City Affirmative Marketing Requirements. The Tenant Selection Policy is clear and understandable. A current waiting list is maintained.

The leases do not contain any of the HOME prohibited provisions and leases are greater than or equal to 12 months in length and not on a transient basis.

**Financial Review:**

The Internal Audit report dated 12.18.2006 included comments on negative working capital and a low current ratio. No payments are due to the city.

**Condition:**

HCD staff inspected a sampling of the units on 12.13.2006 and noted needed property repairs. The overall condition was found to be good and the site itself is an attractive living environment.

The exterior decks and stairs have been sealed in the last year which is an improvement from last year's inspection however many nails are still being pushed out of planks because of warping.

HCD requests that AHM report any repairs made regarding the above issues to Internal Audit.


**Occupancy:**

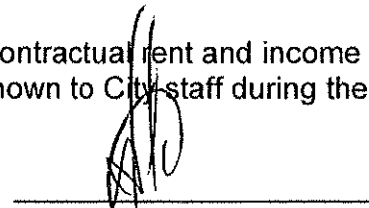
From January 2006 through December 2006 Southwoods has a reported occupancy rate of 93%, or a vacancy rate of 7%, which is along the lines of current market conditions.

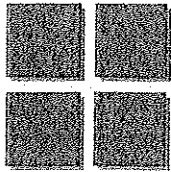
The October 2006 Carolina Real Data occupancy rate for all of Greensboro was 93% and the vacancy rate was 7%.

**Conclusion:**

Southwoods meets HOME Program and City Contractual rent and income requirements. HCD appreciates the courtesy shown to City staff during the site visit.

  
\_\_\_\_\_  
Michael Blair  
Specialist Grants Compliance


  
\_\_\_\_\_  
Andy Scott  
Director HCD



# 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 Southwoods Audit Report

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After review of the Draft December 18, 2006 Internal Audit report of Southwoods 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:

The external audit and management letter for Southwoods Limited Partnership per the loan agreement was due to the City with 90 days of the fiscal year end or by March 31, 2006. These reports were not received by the City until May 4, 2006.

### IA RECOMMENDATION 1:

The Partnership should be sure to submit documents required by the loan agreement by the date stated.

- HCD reply to Recommendation 1: *Concur.*

### IA FINDING 2:

The working capital at December 31, 2005 was a negative (\$24,548) and the current ratio was less than one at .325.

### IA RECOMMENDATION 2:

Since these ratios indicate the Partnership's possible ability to pay off current liabilities in a timely manner, we would appreciate Management advising the City how they plan to improve working capital and the current ratio.

- HCD reply to Recommendation 2: *Concur.*

**Summary:** HCD concurs with the Internal Audit report.



# City of Greensboro

**Date:** January 18, 2007  
**To:** Andy Scott, Director of Housing & Community Development  
**From:** Internal Audit Division  
**Subject:** HCD Reply to IA Report- Southwoods 2004-2005

Thank you for your written reply of January 17, 2007. Internal Audit agrees with Housing & Community Development's responses to IA's subject report dated January 5, 2007.



Mickey Kerans  
Internal Auditor



Len Lucas  
Internal Audit Director

Cc: Ben Brown, Assistant City Manager for Economic Development

K - 1/22/07



**AFFORDABLE HOUSING  
MANAGEMENT, INC**

Writer's Extension: 123

Writer's E-mail: [dosborne@ahmi.org](mailto:dosborne@ahmi.org)

January 19, 2007

Mr. Mickey Kerans  
City of Greensboro  
Internal Audit Department  
P.O. Box 3136  
Greensboro, N.C. 27402-3136

Re: Southwoods Apartments

Dear Mr. Kerans,

In response to your letter of January 5<sup>th</sup>, 2007 I offer the following information:

Finding:

- a) Working Capital for 2005 was a negative [24,548] and the current ratio was less than one (.325); This property experienced higher than normal vacancies and concessions during 2005. These increased from 12,482 in 2004 to 24,920 for 2005. Along with the increase in vacancy comes an increase in expenses to prepare the unit for the next resident (cleaning/painting, etc.). Please note that the working capital was a negative of (\$14,434) and the ratio was .6031 (see attached).

During the 2006 year this property has substantially reduced vacancies/concessions from \$24,920 in 2005 to approximately \$15,703 as of 11/30/06. Assuming this occupancy level is maintained we believe the current ratio issue will be resolved in a couple of years.

If you have any further questions, please don't hesitate to contact me.

Sincerely,

Debora Osborne  
Finance Director



SOUTHWOODS LIMITED PARTNERSHIP LLLP  
Balance Sheets  
December 31, 2005 and 2004

<u>Assets</u>	<u>2005</u>	<u>2004</u>
<b>Rental property:</b>		
Land	\$ 171,107	171,107
Building	1,541,673	1,541,673
Land improvements	76,399	76,399
Building equipment	6,747	897
Furniture and fixtures	<u>96,009</u>	<u>95,115</u>
	1,891,935	1,885,191
Less accumulated depreciation	<u>(434,666)</u>	<u>(388,661)</u>
	<u>1,457,269</u>	<u>1,496,530</u>
<b>Other assets:</b>		
Cash	1,496 ✓	628
Accounts receivable - tenants	3,764 ✓	5,291
Accounts receivable - other	21,936 } 6,562 ✓	165
Prepaid expenses	6,562 ✓	5,817
Security deposits held in trust	10,052 ✓	8,412
Mortgage escrow deposits	62 ✓	3,308
Replacement reserve	83,125	69,155
Operating reserve	75,137	75,109
Deferred financing fees, net of accumulated amortization of \$23,891 and \$23,672	3,389	3,608
Deferred tax credit monitoring fees, net of accumulated amortization of \$12,046 and \$10,571	<u>10,079</u>	<u>11,554</u>
	<u>193,666</u>	<u>183,047</u>
	\$ <u>1,650,935</u>	<u>1,679,577</u>

21,936 }  
 93,621 }

Total Current Assets 21,936

(continued)

SOUTHWOODS LIMITED PARTNERSHIP LLLP  
Balance Sheets  
December 31, 2005 and 2004

(continued)

<u>Liabilities and Partners' Equity</u>	<u>2005</u>	<u>2004</u>
Current liabilities:		
Accounts payable - trade	\$ 14,102 ✓	5,472
Accrued management fees payable	556 ✓	317
1 <sup>st</sup> mortgage note payable, current portion	10,974 ✓	10,974
2 <sup>nd</sup> mortgage note payable, current portion		2,389
Prepaid rents	1,004 ✓	459
Tenant security deposits	<u>9,734 ✓</u>	<u>8,358</u>
Total current liabilities	<u>36,370</u>	<u>27,969</u>
Long-term liabilities:		
1 <sup>st</sup> mortgage note payable, net of current maturities	521,057	553,823
2 <sup>nd</sup> mortgage note payable, net of current maturities	<u>540,950</u>	<u>540,950</u>
Total long-term liabilities	<u>1,062,007</u>	<u>1,094,773</u>
Partners' equity	<u>552,558</u>	<u>556,835</u>
Total liabilities and partners' equity	\$ <u>1,650,935</u>	<u>1,679,577</u>

See accompanying notes to financial statements.

City of Greensboro  
North Carolina

January 23, 2007

Ms. Debora Osborne  
Affordable Housing Management, Inc.  
330 S. Greene St.  
Suite B-11  
Greensboro, NC 27401

Re: Southwoods Apartments-2004 to 2005

Dear Debora:

We are in receipt of your letter dated January 19, 2007 reference the City's Internal Audit report letter dated January 5, 2007 for the 2004 to 2005 Year. We have reviewed your letter and agree with your calculation of the working capital, current ratio and corrective measures to improve Southwoods financial position by reducing vacancies.

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