



Date: August 23, 2006
To: Mitchell Johnson, City Manager
From: Internal Audit Division
Subject: Richardson Hospital Limited Partnership

The Internal Audit Division has reviewed the Richardson Hospital 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'.

Len Lucas
Internal Audit Director

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



Date: August 7, 2006
To: Andy Scott, Director of Housing & Community Development
From: Internal Audit Division
Subject: Richardson Hospital Limited Partnership 2004-2005

The Internal Audit Division has performed our compliance review of the year ended December 31, 2005 of Richardson Hospital Limited Partnership. This property received a loan provided by the City of Greensboro in support of Affordable Housing in Greensboro and is managed by Beacon Management Corporation.

RICHARDSON HOSPITAL APARTMENTS are comprised of 32 units located at 603 South Benbow Road. The City provided a loan to help in the acquisition and rehabilitation in the amount of \$150,000 on March 14, 2002. This loan bears interest at one-half (1/2%) percent per annum and is to be repaid to the City based upon a percentage of cash flow which starts on the first day of May 2025, and continuing on each May 1 thereafter. This loan is due in full May 1, 2044. No payments are due at this time.

We accompanied Mr. Doug Booth, Housing Construction Manager of Housing & Community Development, as he inspected approximately 15 percent of the units and some repairs were noted for the property. These issues have been forwarded to the Property Director 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 regard to the Partnership's Financials for calendar year ended December 31, 2005, please see the following findings:

1. The Partnership's equity decreased (\$112,230) from 2004.
2. The current ratio is less than one (1) at .147 which means the Partnership's current assets would not be sufficient to pay current liabilities.
3. Working capital was a negative (\$126,461).
4. A Management Letter was not provided to us.
5. Per the Partnership's income statement, the apartments had a vacancy of 13% for 2005 and 2004. At the time of our inspection the Apartments had no vacancy.

RECOMMENDATION:

The Partnership will need to advise the City concerning way to improve its financial position. As requested the Partnership should provide the City a Management Letter or letter from their CPA stating that there was no Management Letter issued.

We request a written signed response from Beacon Management Corporation and the Department of Housing & Community Development by August 21, 2006.

We would like to thank Ms. Ann Costner, On-Site Manager; Mr. Bob Duncan, Vice President-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.

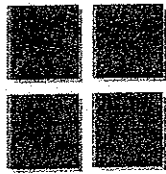


Mickey Kerans
Internal Auditor



Len Lucas
Internal Audit Director

Cc: Ben Brown, Assistant City Manager for Economic Development
George Carr, President of Beacon Management Corporation



HCD

Department of Housing & Community Development

Date: August 7, 2006
To: George Carr, Beacon Management, L. Richardson Hospital Ltd. Part.
From: Michael Blair, City of Greensboro HCD
RE: FY06/07 L. Richardson Hospital Apartments Programmatic Review

Project Information:

L. Richardson Hospital Apartments features 32 units located at 603 Benbow Road and is managed by Beacon Management Corporation.

The apartments were an acquisition and rehabilitation of a seriously deteriorated building which has become a very appealing and livable complex for elderly and disabled residents. The property was rehabilitated with a combination of private, City and North Carolina Housing Finance Agency dollars (NCHFA). City funding consisted of \$150,000 of federal Section 108 funds and the NCHFA contributed \$280,026 in Low Income Housing Tax Credit dollars. Additional financing was provided by Carolina Bank, the Federal Home Loan Bank of Atlanta and Community Affordable Housing Equity Corp. (CAHEC).

The 32 units would be made affordable to individuals whose gross income is less than or equal to 60% of the area median income. Gross Rent would not exceed 30% of a qualified resident's income.

Contractual and Funding Source Compliance:

There are five basic goals of a programmatic review:

1. Ensure continuing affordability.
2. Determine that units are occupied by qualified families.
3. Enforce property standards.
4. Assess the effectiveness of affirmative marketing plans.
5. Ensure lease terms are allowable under the agreement.

With 1-BR units at \$479 (\$419/m rent and \$60/m utility allowance), and 2-BR units at \$573 (\$498/m rent and \$75/m utility allowance), the units rented fall below the 50% affordability of \$635 (Rent plus Utility) for a 2-BR unit.

Both the on-site file review by HCD and the NCHFA RCRS indicate that annual recertification requirement of tenant incomes has been met. No tenants are reported to have exceeded the maximum income.

Seven (7) tenant files were examined by HCD staff on July 19th, 2006 and were found to be well maintained. All files contained current eligible income verifications and backup documents along with executed leases and inspection forms.

Section 8 tenants are accepted and occupy fourteen (14) units.

Beacon Management has a fair marketing plan that meets the City Affirmative Marketing Requirements. There are various additional trainings used including SAMHA workshops, Quadel, etcetera. The Tenant Selection Policy is clear and understandable.

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

Contractual affordability and income requirements are satisfactory.

Financial Review:

The Internal Audit (IA) report mentions decreasing partnership equity and negative working capital. Internal Audit has requested a plan to address these issues and HCD concurs.

Internal Audit has not received (Nor has HCD) a Management Letter, or letter saying that there were no management concerns, for L. Richardson Hospital. This should be made available as soon as possible.


There are no other external audit or IA issues which are of concern to this review and no payments are currently due to the City.

Condition:


From the HCD inspection report dated 07.19.06, *"The size and age of this facility make property management difficult at very best. The staff was most helpful and in fact the grounds were found to be in very nice shape. The exterior of this large building is in a fair state of general repair given the economics of rent structure vs. ongoing building maintenance costs. The interior common areas and the apartment units inspected were found to be nearly spotless and well maintained with only a handful of minor issues."* Only minor maintenance repairs were found. Generally the property is in good condition and the interior common areas are very well maintained. Please review the inspection report for details and forward any repairs to the City of Greensboro Internal Audit department.

Occupancy:

From January 2006 to July 2006 L. Richardson Hospital maintained a 95% occupancy rate (5% vacancy). This is an above average rate since the area vacancy for the Greensboro MSA was 9.1% in October of 2005 according to Carolinas Real Data and NE Greensboro had 10.5% vacancy rate at that time. This is also a 5% increase in occupancy from the previous HCD report.



Michael Blair
Specialist Grants Compliance



Andy Scott
Director HCD

BEACON MANAGEMENT CORPORATION
408 BATTLEGROUND AVENUE
GREENSBORO, NORTH CAROLINA 27401

WWW.BEACON-NC.COM

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

August 9, 2006

Andrew S. Scott
Director HCD
City of Greensboro
P. O. Box 3136
Greensboro, NC 27402-3136

Re: Richardson Hospital Limited Partnership
Internal Audit Report from Mickey Kerans and Len Lucas dated 08/04/2006 and
Programmatic Review by Michael Blair and Andy Scott dated 08/04/2006

Dear Mr. Scott:

We received by mail this morning the above mentioned internal audit report and programmatic review on the subject property. Regretfully, Bob Duncan, Beacon's Regional Supervisor, away on a two week vacation and he will not be returning until August 21st. Inasmuch as you have requested a response on that date, I will endeavor to offer our comments without having the benefit of chatting with Bob.

With respect to your internal audit report, my comments to your findings are as follows:

INTERNAL AUDIT REPORT

1. Partnership equity decreased \$112,230 from 2004.

Response: If you examine the profit and loss statement for 2005, you will note that the depreciation (a non-cash item) amounted to \$96,467. Because depreciation is included in the property's annual operating expenses, a (\$112,230) operating loss was incurred. This loss was slightly lower than the operating loss for the prior year of 2004. Partnership accounting requires that depreciation generated losses transfer through to the balance sheet which inevitably reduces the equity calculation. This is an important reason as to why investors choose to contribute capital to subsidized properties, i.e., tax

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GREENSBORO, NORTH CAROLINA 27429-9229

savings can occur without experiencing cash losses. This condition is normal and most common in the affordable housing industry and does not usually change until a property is fully depreciated.

2. The current ratio is only at .147 to 1 which suggests that the Partnership's current assets would not be sufficient to pay current liabilities.

Response: Although the current ratio is only .147%, this computation includes a development fee payable of \$105,322 and a loan advance from a related party of \$20,000. If these two items are removed from the calculation, you would have a .95 ratio. Because both the development fee and the loan are expected to be repaid from syndication proceeds and are not generally reimbursed with operating income, it is inappropriate to include them in an analysis of the property's operating financial viability.

3. Working capital was a negative (\$126,461).

Response: Again, although the working capital was found to be negative by \$126,461, \$125,332 of that amount was due to the development fees and loan advance which was discussed above and is intended to be repaid by capital contributions and not operating cash flows. As per the footnotes in the financial statement for 2005, we anticipate shortly receiving an additional capital contribution and using these to apply against the partnership's outstanding liabilities and making a mortgage reduction payment. With reduced principal and interest, we would hopefully achieve additional improvement in the partnership's operating performance.

4. A management letter was not provided.

Response: We have discussed this matter with the property's CPA, O. Douglas Covington, and it is our understanding that a management letter was not issued due to insufficient need or cause. We were completely unaware that management letters are required. Because we received a similar request for Richardson Village, Mr. Covington did prepare and send us the letter which now has been emailed to Mickey Kerans. Another copy of that correspondence is attached herewith.

5. Per the partnership's income statement, the vacancy rate was 13% for 2005 and 2004.

Andrew S. Scott
August 9, 2006
Page Three

Response: Intensive marketing efforts following the soft market conditions which prevailed throughout 2004 and 2005 have been undertaken at Richardson Hospital. This has resulted in the property now being 100% occupied. Overall financial improvement will likely occur as rent levels are increased. We feel fortunate that we have been able to do this well given the fact that a large deeply subsidized HOPE VI elderly community has appeared in the same neighborhood since Richardson Hospital opened. Competition will remain difficult at Richardson Hospital since it is now competing with the new Willow Oaks Senior Community which carries very deep ACC and Section 8 subsidies. Please remember that the Richardson properties are located in one of the lowest income areas in Greensboro and marketing is especially difficult without ACC and/or Section 8 subsidies.

If we can be of further help in discussing or addressing your concerns, please do not hesitate to call.

Cordially,



George E. Carr III

cc: GEC file
RV file
Ann Costner
Bob Duncan
Tony Jones
Len Lucas
Mickey Kerans
Michael Blair

City of Greensboro
North Carolina

August 11, 2006

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

Re: Richardson Hospital Limited Partnership Year-2004 to 2005

Dear Mr. Carr:

We are in receipt of your letter dated August 9, 2006 reference the City's Internal Audit report letter dated August 7, 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 and corrective measures. We received the Management Letter on August 8, 2006.

Sincerely,

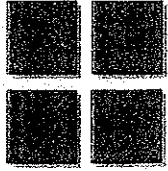


Mickey Kerans
Internal Auditor



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: August 17, 2006
To: Len Lucas, Internal Audit Director
From: Michael Blair, Specialist Grants Compliance
RE: FY06/07 HCD Review of L. Richardson Hospital Audit Report

After review of the July 31, 2006 Internal Audit report of the L. Richardson Hospital Limited Partnership, for FY2004-2005, HCD submits the following:

IA FINDING 1:

In regard to the Partnership's Financials for calendar year ended December 31, 2005, please see the following findings:

1. The Partnership's equity decreased (\$112,230) from 2004.
2. The current ratio is less than one (1) at .147.
3. Working capital was a negative (\$126,461).
4. A Management Letter was not provided to us.
5. Per the Partnership's income statement, the apartments had a vacancy of 13% for 2005 and 2004. At the time of our inspection the Apartments had no vacancy.

IA RECOMMENDATION 1:

The Partnership will need to advise the City concerning way to improve its financial position. As requested the Partnership should provide the City a Management Letter or letter from their CPA stating that there was no Management Letter issued.

- **HCD reply to Recommendation 1:** *Concur with points 1 through 4. On point 5 the vacancy rate appears to have improved and is reported to be 5% over the last six months per the rent rolls.*

On the above recommendation HCD concurs with the Internal Audit report.



Date: August 21, 2006
To: Andy Scott, Director of Housing & Community Development
From: Internal Audit Division
Subject: HCD Reply to IA Report-Richardson Hospital Apartments- 2004-2005

Thank you for your reply of August 17, 2006. Internal Audit agrees with Housing & Community Development's response to Internal Audit's subject report dated August 7, 2006. Please note we received the Borrower's Management Letter on August 8, 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 'L. Lucas'.

Len Lucas
Internal Audit Director

Cc: Ben Brown, Assistant City Manager for Economic Development



O. Douglas Covington, C.P.A., P.A.

1031 Summit Avenue, Suite 2E-1

Greensboro, NC 27405

Phone: 336-272-5618

Fax: 336-272-7655

PENNYDOUG@MSN.COM

August 7, 2006

L. Richardson Hospital Limited Partnership
408 Battleground Avenue
Greensboro, NC 27401

To the General Partners:

Please be informed that I have not issued a management letter for the year ended December 31, 2005, as I had no findings to address in a management letter.

Sincerely,

O. Douglas Covington, CPA