



Date: November 30, 2007
To: Mitchell Johnson, City Manager
From: Internal Audit Division
Subject: Kingsgate Housing, LLC

The Internal Audit Division has completed our annual review of Kingsgate Housing, LLC 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', with a horizontal line extending from the end of the signature.

Len Lucas
Internal Audit Director

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



City of Greensboro

Date: October 15, 2007
To: Andy Scott, Director of Housing & Community Development
From: Internal Audit Division
Subject: Kingsgate Housing, LLC/Allen Nussbaum Apartments 2005-2006

The Internal Audit Division has performed our compliance review of the year ended December 31, 2006 of Kingsgate Housing, LLC. This property received a loan provided by the City of Greensboro in the amount of \$451,000 on December 19, 1998. This loan bears interest at a rate of 2% and is due in full May 1, 2030. The loan was provided to help in the rehabilitation of 36 apartments and one office located on and near 537 through 605 West Terrell Street. These units are called Kingsgate South Apartments and are managed by Wynnefield Properties, Incorporated.

The City's loan is to be repaid in monthly installments of \$1,225.23 beginning June 1, 2001 until May 1, 2018 at which time any remaining principal and accrued interest will become due in full. The current mortgage balance at May 31, 2007 including deferred interest per Housing & Community Development is \$438,288.

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 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:

- a. Working capital at fiscal year ended December 31, 2006 decreased by (\$25,456) to (\$73,677) from 2005.
- b. The current ratio at the end of 2006 improved to .090 to 1 from .081 to 1 in 2005, however the ratio is still very low as far as measuring Kingsgate's ability to pay off its current liabilities in a reasonable time.
- c. Average monthly rents decreased to \$331 for 2006 from \$348 for 2005 and the average is still less than the potential range of \$430 - \$515.
- d. We were not provided with a Management Letter for fiscal year ended December 31, 2006 from the external auditors.
- e. The net income excluding depreciation and amortization decreased for 2006 to (\$26,300) from (\$16,992) in 2005.

RECOMMENDATION:

Management should notify the City on its plans to improve this financial position and supply the City with a Management Letter.

FINDING:

We were not provided documentation and approval for the withdrawals from the Replacement Reserve account for 2006 in the amount of \$1,773; also we did not received documents and approval for the withdrawal from the Operating Reserve account for 2006 in the approximate amount of \$15,000.

RECOMMENDATION:

Management should provide documentations and approvals to the City on withdrawals from the Replacement and Operating Reserve Accounts for 2006.

FINDING:

As per note C Reserve for Replacements of the audited financial statement for year end December 31, 2006, the cumulative shortage in the account at year end was (\$23,029) versus (\$12,247) for 2005.

RECOMMENDATION:

Management should advise the City on how it plans to improve Kingsgate's Reserve for Replacement account to the level it should be.

We request a written signed response from Wynnefield Management, Inc. which should be received by October 29, 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 29, 2007.

We would like to thank Ms. Shaw'Taya Carter, Property Manager; Mr. Donald Friend, Regional Maintenance Manager; Ms. Joanie Duley, Corporate Management; and the staff of Wynnefield Properties 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.

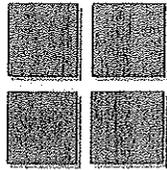


Mickey Kerans
Internal Auditor



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 12, 2007
To: Norwood Stone, Wynnefield Properties
From: Michael Blair, City of Greensboro HCD
RE: FY07/08 Kingsgate South Apartments Review

On September 11, 2007 HCD and Internal Audit (IA) staff conducted an on-site monitoring visit of the Kingsgate South Apartments. The property is located at 537-605 West Terrell St., 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 October 1998 contract included a loan of \$400,000 in Federal HOME dollars and \$51,000 in Greensboro Housing Partnership funds to assist in the acquisition and rehabilitation of substantially deteriorated apartments. The units are also to provide supportive services for residents.

21 units are to be made affordable to persons whose gross incomes do not exceed 60% of the area Median Income which is adjusted by family size. 15 units are at 50% of area Median Income.

At the time of this report HUD had established \$635.00 as the Low HOME Rent (Tenant Rent plus Utilities & Subsidy's) for a 2 bedroom unit. Rent for units in the complex fall below \$635/month with the 60% median units at \$515/month (\$116/month utilities) and the 14 units at \$430/month (\$116/month utilities).

36 TOTAL 2BR	Tenant Rent	Utilities	Total (Rent + Util.)
21 Units	\$515	\$116	\$631
15 Units	\$430	\$116	\$546

There were no tenant incomes that appear to have exceeded 60% of adjusted median income. Resident incomes are certified annually according to the HCD file review. The tenant files reviewed were in poor condition and but contained most required back-up documentation.

The reported occupancy has been an average 94% from January 1, 2007 through September 11, 2007. This was calculated with the rent roll provide by management. This is above the April 2007 area occupancy rate of around 90% and a tremendous improvement. It is 20% higher that the reported occupancy for 2006.

Section-8 vouchers are accepted at the property and thirteen (13) are utilized.

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

HCD staff inspected six (6) units on September 11, 2007 and reported certain minor deficiencies that need attention in five (5) of those units. The exterior is in overall good 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 *four* (4) 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-Income Certification Documentation

The tenant file for unit 605-E did not contain income verification documents per HOME "Income Determinations" §92.203(a)(1)(i), only a calculation tab that had no documentation of current job.

Requested Action

Please include any back up documentation to verify tenant's employment. Also, please have required tenant certification filled out properly and signed by both management and tenant.

Concern 1- Tenant Selection Policy and Program/Property rules

From the inspection of the property's office there was no tenant selection policy or property/program rules on display.

Requested Action

Please display tenant selection policy and property/program rule within 30 days from the date of this letter for tenants to see. If there is a cross-cutting NCHFA rule that prohibits this please provide supporting documentation.

Concern 2 – Inspections/Income Verification

Several tenant files were difficult to monitor and/or were missing certain items.

- 605-A: Management Inspection form was not signed by tenant. Tenant file was missing proof of child support and income calculation was not easily understood with new hourly rate.
- 603-A: Management inspection form was not in the file.
- 601-A: Income verification documents were disorganized and hard to determine tenant's new income with disability.

Requested Action

Management Inspection form should be in the file and should be signed by both the tenant and management. Income verification documents need to be organized and documented properly to reflect tenant's current income.

Concern 3 – File organization

The maintenance of the files could be improved for better monitoring.

Requested Action

Files should be organized in a manner that makes required documents easily identified.

Concern 4 - RCRS Report

The RCRS report had four inconsistencies.

- Unit 539-A had both tenant rent payment and housing assistance payment as \$430.
- Unit 539-D had tenant rent payments as \$430 and housing assistance payment as \$97.
- Unit 539-E had tenant rent payment of \$515 and housing assistance payment as \$415.
- Unit 601-F had both tenant rent payment and housing assistance payment as \$430.

Requested Action

Please make adjustments to reflect consistent tenant rent payment and housing assistance payment information on the RCRS. If there is a NCHFA, RCRS reporting, regulation that justifies this inconsistency please provide documentation.

HCD staff requests that management review the Internal Audit report and reply to it as requested. The draft Internal Audit report is dated September 14, 2007.

The finding and 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 HOME Program compliance. The intent of the first concern is to ensure that the leasing office has important property information displayed. The intent of the concerns two and three are to make management aware incomplete file materials. The intent of concern four is to make management aware of possible inconsistencies, typographical errors only, on the RCRS.

It is HCD staff opinion that the Kingsgate Apartments are contractually, and HOME Program, compliant. The property has also improved dramatically in term of occupancy which is excellent in the current market.

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


Michael Blair
Specialist Grants Compliance


Andy Scott
Director HCD

Kerans, Mickey

From: Blue, Cynthia
Sent: Monday, October 29, 2007 3:16 PM
To: Kerans, Mickey
Cc: Blair, Michael; Lucas, Len
Subject: RE: Kingsgate

The Kingsgate loan agreement only states that they have to document reserve expenditures annually. They do not send me requests for withdrawal approval. The compliance issue here appears to be their lack of specific expenditure documentation in the audit.

Cynthia Blue

Housing Planner & Development Specialist
City of Greensboro - Dept. of Housing and CD
PO Box 3136, Greensboro, NC 27402
Street address: 300 West Washington Street, Suite 315
Phone: (336) 433-7376 Fax: (336) 373-2153
Email: cynthia.blue@greensboro-nc.gov

From: Kerans, Mickey
Sent: Monday, October 29, 2007 2:16 PM
To: Blue, Cynthia
Cc: Blair, Michael; Lucas, Len
Subject: Kingsgate

Cyndi:

Does Wynnefield Management seek your approval to withdraw funds from the Replacement & Operating Reserves? Per para 1.12 of the City Loan agreement it states "Documentation of all expenditures from each account shall be included in annual audits of said accounts." All they do in the audit is reconcile the Replacement Reserve account only between the prior year and the present year. Nothing for the Operating Reserve. When I asked for documentation from Wynnefield they stated the following:

Replacement Reserve: \$1,773 withdrawn but they state "Any withdrawals from Replacement less than \$2,000 during any three month period does not need approval by the NCHFA."

Operating Reserve: \$15,000 withdrawn and Wynnefield provided documentation that Paul Hall from WNC approved the withdrawal via Joanie Duley of Wynnefield.

Is the above sufficient for the City's loan?

Mickey Kerans, Internal Auditor
City of Greensboro
P. O. Box 3136
Greensboro, NC 27401
Ph: 336-373-2821
Fx: 336-373-2138

	chk #	Payee	Am't	For Audit
	1000	Costello Mill	3,397.59	?
	1001	M&T, Inc.	11,252.41	?
	1002	SP LINDA & ERIC	350.00	?
			15,000.00	

see attached MET

332525

FEB 21 12 55 PM '84

ARTICLES OF AMENDMENT TO THE CHARTER OF

METRO MANAGEMENT, INC.

STATE
SECRET
NO

The undersigned corporation hereby executes these Articles of Amendment for the purpose of amending its charter:

1. The name of the corporation is METRO MANAGEMENT, INC.

2. The following amendment to the charter of the corporation was adopted by its sole shareholder on the 8th day of February, 1984, in the manner prescribed by law:

That the name of the corporation be changed from Metro Management, Inc. to MGT, Inc. and Article 1 of the charter be amended to read as follows:

*J. N. Stone
Wynnet Field*

"1. The name of the corporation is MGT, INC."

3. The number of shares of the corporation outstanding at the time of such adoption was 1,000; and the number of shares entitled to vote thereon was 1,000.

4. There is no separate class of shares outstanding which is entitled to vote as a class on such amendment.

5. The number of shares voted for such amendment was 1,000; and the number of shares voted against such amendment was 0.

6. The amendment does not call for any exchange, reclassification or cancellation of issued shares since the amendment merely changes the name of the corporation.

7. There is no change in the stated capital of the corporation since the amendment merely changes the name of the corporation.

8. The amendment does not give rise to dissenter's rights to payment since the amendment merely changes the name of the corporation.

IN WITNESS WHEREOF, these articles are signed by the President and Secretary of the corporation, this 8th day of February, 1984.

METRO MANAGEMENT, INC.

BY *J. N. Stone*
President

BY *J. N. Stone*
Secretary

NORTH CAROLINA

GUILFORD COUNTY

I, William B. Dunn Jr, a Notary Public, hereby certify that on this 15 day of February, 1984, personally appeared before me J. Stone and James Hedgecock each of whom being by me first duly sworn, declared that he signed the foregoing document in the capacity indicated, that he was authorized so to sign, and that the statements therein contained are true.

William B. Dunn Jr
Notary Public

My Commission Expires:

5-18-84

ARTICLE VII

The address of the initial registered office of the corporation is Post Office Box 566, 5614 Riverdale Road, Jamestown, Guilford County, North Carolina 27282, and the name of the initial registered agent at such address is Norwood Stone.

ARTICLE VIII

The number of directors of the corporation may be fixed by the By-Laws. Because the corporation has but one shareholder, the number of directors shall be one (1) or more. The number of directors constituting the initial Board of Directors shall be one (1) and the name and address of the person who is to serve as director until the first meeting of shareholders or until his successor(s) is (are) elected and qualified is Norwood Stone, Post Office Box 566, 5614 Riverdale Road, Jamestown, North Carolina 27282.

ARTICLE IX

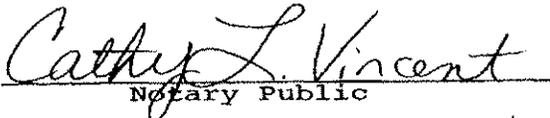
The name and address of the incorporator is:

G. Garner Prillaman, Jr.
1400 Wachovia Building
Post Office Drawer U
Greensboro, North Carolina 27402

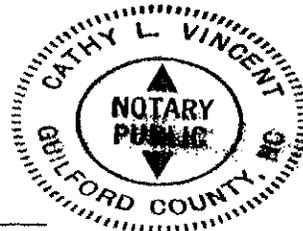
IN TESTIMONY WHEREOF, the incorporator has hereunto set his hand and seal, this 7th day of November, 1983.


G. Garner Prillaman, Jr.

Sworn to and subscribed
before me this the 7th
day of November, 1983.


Notary Public

My Commission Expires: 11-16-86



327005

FILED

Nov 10 1 56 PM '83

THAD EURE
SECRETARY OF STATE
NORTH CAROLINA

ARTICLES OF INCORPORATION
OF
METRO MANAGEMENT, INC.

undersigned natural person, being of the age of
eighteen years or more, do make and acknowledge these Articles
of Incorporation for the purpose of forming a business corporation
under and by virtue of the laws of the State of North Carolina
as contained in Chapter 55 of the General Statutes of North Carolina,
entitled "Business Corporation Act" and the several amendments
thereto, and to that end do hereby set forth:

ARTICLE I

The name of the corporation is Metro Management, Inc.

ARTICLE II

The period of duration of the corporation shall be perpetual.

ARTICLE III

The purpose for which the corporation is organized is to
engage in any lawful act or activity for which corporations may be
organized under Chapter 55 of the General Statutes of North Carolina.

ARTICLE IV

The aggregate number of shares of stock which the corporation
shall have authority to issue is 100,000 shares, all of which shall
be common stock having a par value of \$1.00 per share.

ARTICLE V

The shareholders of the corporation shall have no preemptive
rights to acquire additional or treasury shares of the corporation.

ARTICLE VI

The minimum amount of consideration for its shares to be
received by the corporation before it shall commence business is
One Hundred Dollars (\$100.00).

Kerans, Mickey

From: Joanie Duley [joanie.duley@wynnfieldproperties.com]
Sent: Monday, October 29, 2007 10:50 AM
To: Kerans, Mickey; Blair, Michael
Cc: bill.cashatt@wynnfieldproperties.com; 'Donald Friend'; 'Donald Friend'
Subject: Kingsgate-Response to City of G'Boro Audit.pdf - Adobe Acrobat Professional
Importance: High

Mickey and Michael,

Attached above you will find the response to the Kingsgate Audit. Please note the there is e-mail correspondence behind the first letter from our CFO, Bill Cashatt, and the second letter is the response to the HCD Letter from Donald Friend, Regional Property Supervisor.

We have also placed the original in the mail for your records.

Respectfully Submitted,

Joanie G. Duley
336-454-6134, xt. 24

10/29/2007

Wynnefield Properties, Inc.

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

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

October 29, 2007

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

Re: Kingsgate Housing, LLC Audit

Dear Mickey:

In reference to your letter dated October 15, 2007 I am responding to your findings.

We are implementing the following procedures in a good faith effort to improve the financial position of Kingsgate Housing:

- 1) A new Manager was hired May of 2007.
- 2) Distributed flyers in the surrounding community advertising Kingsgate Housing.
- 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 \$ 3,987.00 for the 2007-2008 coverage period.

During the nine months ended September 30, 2007 the rent collections improved from 65% of gross potential in 2006 to 85% in 2007.

Any withdrawals from Reserve for Replacements less than \$ 2,000.00 during any three month period does not need approval by the N.C.H.F.A. The total withdrawals for 2006 totaled \$ 1,773.00.

The Operating Reserve withdrawal was approved by Paula Hall. Paula is a Senior Asset Manager with WNC & Associates, Inc. I have attached her approval.

We will resume funding of the Reserve for Replacements when the property generates

sufficient cash.

We are enclosing a copy of our response to HCD.

If you have any questions please call.

Sincerely,

A handwritten signature in cursive script, appearing to read "Bill Cashatt".

Bill Cashatt

Joanie Duley

From: Paula Hall [phall@wncinc.com]
Sent: Wednesday, September 13, 2006 3:03 PM
To: Joanie Duley
Subject: RE: Kingsgate

OK- so we don not have any capital needs only operational needs. With the new occupancy improvements, we should be able to get back on track with the O & M and the reserves. In the mean time, lets take \$15,000 from the operating reserves.

Paula Hall HCCP, CPO

Senior Asset Manager
Real Estate Managed Assets
A Division of WNC & Associates, Inc.

WNC & Associates, Inc.
4182 Wildway Road
Appomattox VA 24522
Ph: 434 352 4095
Fax: 434 352 4096
Email: phall@wncinc.com

From: Joanie Duley [mailto:joanie.duley@wynnefieldproperties.com]
Sent: Thursday, September 07, 2006 5:31 PM
To: Paula Hall
Subject: RE: Kingsgate

Paula,

Thank you for your fast response. I have Donald on the phone-he has verified with the Maintenance Man that we have 9 units completely ready, and 2 will be ready by the mid-end of next week.

Joanie

From: Paula Hall [mailto:phall@wncinc.com]
Sent: Thursday, September 07, 2006 4:35 PM
To: Joanie Duley
Subject: RE: Kingsgate

Joanie, Do we have 11 units ready at Kingsgate? I see a few floor covering items that can be pulled from the replacement reserves. Do we have any other expenses that can be replaced from the Replacement reserves? It looks like we need about \$20K to bring the payables within 30. Let me know and I'll send an approval for the amounts needed.

Paula Hall HCCP, CPO

Senior Asset Manager

Real Estate Managed Assets
A Division of WNC & Associates, Inc.

WNC & Associates, Inc.
4182 Wildway Road
Appomattox VA 24522
Ph: 434 352 4095
Fax: 434 352 4096
Email: phall@wncinc.com

From: Joanie Duley [mailto:joanie.duley@wynnefieldproperties.com]
Sent: Thursday, September 07, 2006 1:26 PM
To: Paula Hall
Subject:

Paula,

I need some assistance. We have our new Manager in place at Kingsgate, and she is stating that we have good traffic, and we have 11 Applications in process. However, we are in need of funds. I have attached the Balance Sheet and the current AP aging for your review. We have many Management bills out there, and bottom line, we are requesting to transfer a cash balance from the MMA that has a balance of 39,887.80-to the General Fund in order to pay some bills.

I am also going in on all the PHI, Meadow Park, Parkview in February in order to attempt to get the taxes reduced. I am asking the Tax Department to work with me on 4-5 installments for Kingsgate on the current year taxes-so if we can get the bills caught up and current-we can pay the taxes in 5 month increments from the General Fund.
With the increased Occupancy, I am anticipating meeting these requirements.

Insurance is being satisfied on Monthly Installments-so we are good there.

Thank you in advance, and let me know what your thoughts are on this.

Joanie

Joanie Duley

From: Susan Westbrook [sewestbrook@nchfa.com]
Sent: Tuesday, October 23, 2007 2:46 PM
To: 'Joanie Duley'
Subject: RE: Kingsgate South-TC#1449

The answer to your question is found in the Loan Agreement. Any withdrawals exceeding \$2,000 in aggregate during any 3 month period must have prior written approval from NCHFA. (That is any rolling 3 month period, not just per quarter.) For routine items, such as carpet or appliance replacement, we will allow you to send in the request quarterly or annually, rather than obtaining permission up front, unless the request is extremely large, such as replacing carpet in a percentage of the units.

For smaller withdrawals that do not require our approval, we would appreciate notification of the withdrawals, but this is not required.

Susan M Westbrook
Team Leader of Asset Management and Compliance
NC Housing Finance Agency
PO Box 28066
Raleigh, NC 27611-8066
Phone: 919-877-5647
Fax: 919-877-5701
sewestbrook@nchfa.com

From: Joanie Duley [mailto:joanie.duley@wynnefieldproperties.com]
Sent: Tuesday, October 23, 2007 2:04 PM
To: Susan Westbrook
Subject: Kingsgate South-TC#1449
Importance: High

Susan,

Could you please clear up an issue that we have regarding Kingsgate South # 1449-Reserve for Replacement. We have researched the Management Agreement and the Operating Agreement, however, the issue remains that do we have to have prior approval for any withdrawals?

Secondly-do we adhere to the 2,000.00/per quarter without prior approval? Is that a correct statement? In 2006- we replaced two carpets in different quarters for a total of the entire year for 1,773.00-expensed out of the Reserve for Replacement Account.

I thank you in advance for your assistance.

Joanie G. Duley
Accounting
Wynnefield Properties
336-454-6134, xt. 24

Wynnefield Properties, Inc.

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

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

October 26, 2007

TO: City of Greensboro
HCD
Michael Blair

RE: HCD-Kingsgate Housing FY07/08 Review

In response to your findings regarding the tenant files at Kingsgate South Apartments, the following responses are:

Finding #1-Income Certification Documentation-

- a. Site Manger, Shaw Taya Carter has contacted the tenant, and is in the process of obtaining employment wage verification.

Concern # 1-Tenant Selection Criteria and Policies-

These are located in the Site Manager's office where residents and possible tenants are interviewed and discussions are held in confidence, so the Criteria and Policies are posted, however we have posted them in the Community Room per the FY07/08 Review Request.

Concern # 2-Inspections/Income Verification-

In reference to the three bullet-point items concerning the Move-In Inspection sheets, and tenant Income Verification-corrective actions have been taken for signatures on Move-In Inspection sheets and organization of tenant income verification.

Should you require any further assistance, please feel free to contact me.

Sincerely,



Donald Friend,

Regional Property Manager
336-215-2197
Donald.friend@wynnefieldproperties.com



City of Greensboro
North Carolina

October 31, 2007

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

Re: Kingsgate Apartments-2005-2006

Dear Bill:

Thank you for your attachment via e-mail dated October 29, 2007 in reference to the Kingsgate Apartments review for 2005-2006. We appreciate your prompt response.

We are in agreement with your explanation for the findings "a, b, c & e" and your detailed procedures to improve Kingsgate's financial position. However, we did not receive the Management Letter as requested per finding "d". Please send Management Letter.

Regarding the finding in reference to providing documentation of expenditures from the Replacement and Operating Reserves, we still have not received the correct documentation (vendor invoices, cancelled checks, etc.) from the Replacement Reserve in the amount of \$1,773 and the Operating Reserve of \$15,000. As per the loan agreement, paragraph 1.12 states "Documentation of "all" expenditures from each account shall be included in annual audits of said accounts." Please send documentation.

For the Finding in reference to note "C" of the audit, you did not explain how Wynnefield plans to get the Reserve balances to where they should be as required in the loan agreement. Please describe.

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

R-11/5/07

Wynnefield Properties, Inc.

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

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

November 1, 2007

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

Re: Kingsgate Housing, LLC Audit

Dear Mickey:

I am enclosing copies of the invoices and cancelled checks to support the cash disbursements from the Reserve for Replacements and Operating Reserve accounts.

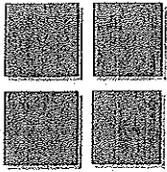
As I stated in my October 29, 2007 letter, we will resume funding of the Reserve for Replacements when the property generates sufficient cash. During 2007 the property has averaged 85% collections. Kingsgate must collect 91% of its gross potential rents to operate on a breakeven basis. We anticipate a rent increase for 2008 and are trying to increase occupancy and collections

If you have any questions please call.

Sincerely,



Bill Cashatt



HCD

Department of Housing & Community Development

MEMO

Date: November 6, 2007
To: Len Lucas, Internal Audit Director
From: Michael Blair, Specialist Grants Compliance
RE: 2007 HCD Review of Kingsgate Audit Report

After review of the draft October 15, 2007 Internal Audit report of the Kingsgate Housing, LLC, 2005-2006, HCD submits the following:

IA FINDING 1:

- a. Working capital at fiscal year ended December 31, 2006 decreased by (\$25,456) to (\$73,677) from 2005.
- b. The current ratio at the end of 2006 improved to .090 to 1 from .081 to 1 in 2005, however the ratio is still very low as far as measuring Kingsgate's ability to pay off its current liabilities in a reasonable time.
- c. Average monthly rents decreased to \$331 for 2006 from \$348 for 2005 and the average is still less than the potential range of \$430 - \$515.
- d. We were not provided with a Management Letter for fiscal year ended December 31, 2006 from the external auditors.
- e. The net income excluding depreciation and amortization decreased for 2006 to (\$26,300) from (\$16,992) in 2005.

IA RECOMMENDATION 1:

Management should notify the City on its plans to improve this financial position and supply the City with a Management Letter.

- HCD reply to Findings/Recommendation 1: Concur.

IA FINDING 2:

We were not provided documentation and approval for the withdrawals from the Replacement Reserve account for 2006 in the amount of \$1,773; also we did not received documents and approval for the withdrawal from the Operating Reserve account for 2006 in the approximate amount of \$15,000.

IA RECOMMENDATION 2:

Management should provide documentations and approvals to the City on withdrawals from the Replacement and Operating Reserve Accounts for 2006.

- HCD reply to Finding/Recommendation 2: Concur.

IA FINDING 3:

As per note C Reserve for Replacements of the audited financial statement for year end December 31, 2006, the cumulative shortage in the account at year end was (\$23,029) versus (\$12,247) for 2005.

IA RECOMMENDATION 3:

Management should advise the City on how it plans to improve Kingsgate's Reserve for Replacement account to the level it should be.

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

Summary: HCD concurs with the Internal Audit report.



City of Greensboro

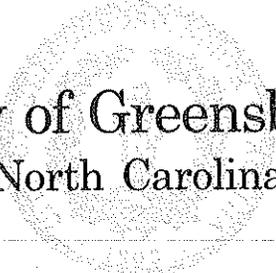
Date: November 8, 2007
To: Andy Scott, Director of Housing & Community Development
From: Internal Audit Division
Subject: HCD Reply to IA Report-Kingsgate Housing, LLC 2005-2006

Thank you for your reply of November 6, 2007. Internal Audit agrees with Housing & Community Development's response to IA's subject report dated October 15, 2007.

Mickey Kerans
Internal Auditor

Len Lucas
Internal Audit Director

Cc: Ben Brown, Assistant City Manager for Economic Development



City of Greensboro
North Carolina

November 13, 2007

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

Re: Kingsgate Apartments-2005-2006

Dear Bill:

We are in receipt of your letter dated November 1, 2007 which was replying to our letter dated October 31, 2007. Below is a summary of documents we requested versus documents you supplied:

1. Requested Management Letter for fiscal year ended December 31, 2006. Result: We did not receive.
2. Requested documentation of the Replacement Reserve and Operating Reserve withdrawals in the amount of \$1,773 and \$15,000 respectively. Results: We received documentation.
3. Requested explanation of how Wynnefield plans to fund the Reserves to the amount the reserves should be as per the Loan Agreement. Result: We received an explanation that Wynnefield plans to increase the collection of rents to increase cash flow which we agree with.

Please send the Management Letter as soon as possible in order for us to finalize this review.

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

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 26, 2007

Ms. Joanie Duley
Kingsgate Housing, LLC
P. O. Box 395
Jamestown, NC 27282

Dear Ms. Duley:

We did not issue a management letter as part of our audit for Kingsgate Housing, LLC 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

Wynnefield Properties, Inc.

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

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

November 27, 2007

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

Re: Kingsgate Housing, LLC Audit

Dear Mickey:

Sorry for the delay. Greg Ashley has been out of the office and we received his letter yesterday. Attached is a copy of his letter confirming that Costello Hill & Company, L.L. P. did not issue a Management Letter.

If you have any questions please call.

Sincerely,



Bill Cashatt

City of Greensboro
North Carolina

November 28, 2007

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

Re: Kingsgate Apartments-2005-2006

Dear Bill:

We are in receipt of you letter dated November 27, 2007 which was replying to our letter dated November 13, 2007 that was requesting the Management Letter for year ended December 31, 2006. This is acknowledging we have received subject Letter and that all documentation is now complete for Kingsgate 2005-2006.

Thank you for your help in finalizing this review.

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