Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Financial Statements
(With Supplementary Information)
and Independent Auditor's Report

December 31, 2017

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Index

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Index

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

December 31, 2017

<u>Mortgagor's Certification</u>

I hereby certify that I have examined the accompanying financial statements and supplementary data of Samuel Kelsey Redevelopment Limited Partnership and, to the best of my knowledge and belief, the same are complete and accurate.

Samuel Kelsey Redevelopment Limited Partnership

By: Samuel Kelsey GP LLC, its General Partner

By: WDP Manager Corp., its Manager

By: Susan Malatesta, Authorized Signatory

Partnership Employer Identification
Number: 27-4939653

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

December 31, 2017

Managing Agent's Certification

I hereby certify that I have examined the accompanying financial statements and supplementary data of Samuel Kelsey Redevelopment Limited Partnership and, to the best of my knowledge and belief, the same are complete and accurate.

Winn Managed Properties, LLC

John Kuppens, Executive Vice President
Winn Managed Properties, LLC

As Managing Agent for
Samuel Kelsey Redevelopment Limited Partnership

Managing Agent Taxpayer
Identification Number:
04-3333910

Independent Auditor's Report

To the Partners
Samuel Kelsey Redevelopment Limited Partnership

Report on the Financial Statements

We have audited the accompanying financial statements of Samuel Kelsey Redevelopment Limited Partnership, which comprise the balance sheet as of December 31, 2017, and the related statements of operations, partners' equity (deficit) and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Samuel Kelsey Redevelopment Limited Partnership as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 24 to 39 is presented for purposes of additional analysis and is not a required part of the financial statements.

The accompanying supplementary information on pages 24 to 39 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information on pages 24 to 39 is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2018, on our consideration of Samuel Kelsey Redevelopment Limited Partner's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Samuel Kelsey Redevelopment Limited Partnership's on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Samuel Kelsey Redevelopment Limited Partner's internal control over financial reporting and compliance.

CohnReznick LLP

Bethesda, Maryland
February 19, 2018

Taxpayer Identification Number:
22-1478099

Lead Auditor: Ken Slater, Jr., CPA

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Balance Sheet
December 31, 2017

Assets

Current assets	
Cash - operations	$ 841,802
Tenant accounts receivable	649
Allowance for doubtful accounts	(43)
Prepaid expenses	157,769
Total current assets	1,000,177
Deposits held in trust - funded	
Tenant deposits	41,216
Restricted deposits and funded reserves	
Escrow deposits	149,570
Other reserves	2,463,702
Total restricted deposits and funded reserves	2,613,272
Rental property	
Land	1,850,000
Buildings	25,516,395
Building equipment	116,379
Furniture and fixtures	825,053
Office furniture and equipment	12,543
Maintenance equipment	2,617
	28,322,987
Less accumulated depreciation	(8,221,647)
Total rental property	20,101,340
Other assets	
Miscellaneous other assets	346,565
Total other assets	346,565
Total assets	$ 24,102,570

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Balance Sheet
December 31, 2017

Liabilities and Partners' Equity (Deficit)

Current liabilities		
Accounts payable - operations	$	220,551
Accrued wages payable		12,827
Accrued management fee payable		500
Mortgage payable - first mortgage (short-term)		285,000
Miscellaneous current liabilities		2,851
Prepaid revenue		6,037
Total current liabilities		527,766
Deposits liability		
Tenant deposits held in trust (contra)		39,483
Long-term liabilities		
Mortgage payable - first mortgage, net of current maturities		21,301,005
Other loans and notes payable - surplus cash		89
Miscellaneous long-term liabilities		17,110
Total long-term liabilities		21,318,204
Total liabilities		21,885,453
Contingency		-
Partners' equity (deficit)		2,217,117
Total liabilities and partners' equity (deficit)	$	24,102,570

See Notes to Financial Statements.

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Statement of Operations
Year Ended December 31, 2017

Rental revenue	
Rent revenue - gross potential	$ 379,064
Tenant assistance payments	3,394,570
Rent revenue - stores and commercial	469,578
Garage and parking spaces	12,000
Special claims revenue	12,186
Total rental revenue	4,267,398
Vacancies	
Apartments	(80,210)
Total vacancies	(80,210)
Net rental revenue	4,187,188
Financial revenue	
Financial revenue - project operations	51
Revenue from investments - miscellaneous	7,333
Total financial revenue	7,384
Other revenue	
Laundry and vending	4,294
Tenant charges	2,084
Miscellaneous revenue	4,090
Total other revenue	10,468
Total revenue	4,205,040

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Statement of Operations
Year Ended December 31, 2017

Administrative expenses	
Advertising and marketing	1,835
Other renting expenses	67,204
Office salaries	58,866
Office expenses	31,817
Management fee	106,751
Manager or superintendent salaries	71,943
Legal expense - project	2,752
Auditing expense	12,750
Bookkeeping fees/accounting services	28,982
Bad debts	1,183
Miscellaneous administrative expenses	8,210
Total administrative expenses	392,293
Utilities expense	
Electricity	160,351
Water	122,131
Gas	28,864
Total utilities expense	311,346
Operating and maintenance expenses	
Payroll	107,514
Supplies	28,799
Contracts	154,010
Garbage and trash removal	28,295
Security payroll/contract	145,031
Heating/cooling repairs and maintenance	12,364
Miscellaneous operating and maintenance expenses	2,129
Total operating and maintenance expenses	478,142

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Statement of Operations
Year Ended December 31, 2017

Taxes and insurance	
Real estate taxes	250,439
Payroll taxes	23,077
Property and liability insurance	55,828
Workmen's compensation	1,498
Health insurance and other employee benefits	34,993
Miscellaneous taxes, licenses, permits and insurance	9,871
Total taxes and insurance	375,706
Financial expenses	
Interest on first mortgage payable	946,802
Miscellaneous financial expenses	380,544
Total financial expenses	1,327,346
Total cost of operations before depreciation and amortization	2,884,833
Income (loss) before depreciation and amortization	1,320,207
Depreciation and amortization	
Depreciation expense	1,476,405
Amortization expense	5,600
Total depreciation and amortization	1,482,005
Operating income (loss)	(161,798)
Corporate or mortgagor entity revenue and expenses	
Other expenses	262,645
Net entity expenses	262,645
Total expenses	4,629,483
Net income (loss)	$ (424,443)

See Notes to Financial Statements.

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Statement of Partners' Equity (Deficit)
Year Ended December 31, 2017

	General partner	Investor limited partner	Special limited partner	Total
Partners' equity (deficit) December 31, 2016	$ (1,275,652)	$ 4,369,376	$ -	$ 3,093,724
Distributions	(331,548)	(120,616)	-	(452,164)
Net income (loss)	(42)	(424,401)	-	(424,443)
Partners' equity (deficit) December 31, 2017	$ (1,607,242)	$ 3,824,359	$ -	$ 2,217,117
Partners' percentage of income (losses)	0.01%	99.99%	0.00%	100.00%

See Notes to Financial Statements.

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Statement of Cash Flows
Year Ended December 31, 2017

Cash flows from operating activities	
Rental receipts	$ 4,153,471
Interest receipts	7,384
Other operating receipts	7,617
Total receipts	4,168,472
Administrative expenses paid	(156,993)
Management fees paid	(107,553)
Utilities paid	(296,734)
Salaries and wages paid	(418,234)
Operating and maintenance paid	(203,558)
Real estate taxes paid	(251,472)
Property insurance paid	(49,281)
Miscellaneous taxes and insurance paid	(9,871)
Net tenant security deposits received (paid)	(226)
Other operating expenses paid	(68,007)
Interest paid on first mortgage	(891,070)
Miscellaneous financial expenses paid	(380,544)
Entity/construction expenses paid (include detail)	
Tax credit monitoring fee	(6,750)
Supplementary management fee	(255,799)
Late fees	(96)
Total disbursements	(3,096,188)
Net cash provided by operating activities	1,072,284

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Statement of Cash Flows
Year Ended December 31, 2017

Cash flows from investing activities	
Net withdrawals from mortgage escrows	606
Net deposits to other reserves	
Net deposits to reserve accounts	(67,130)
Net purchases of fixed assets	(164,376)
Net cash used in investing activities	(230,900)
Cash flows from financing activities	
Mortgage principal payments - first mortgage	(300,833)
Proceeds from mortgages, notes and loans payable	89
Principal payments on notes and loans payable	(1,058)
Distributions to partners	(452,164)
Net cash used in financing activities	(753,966)
Net increase in cash	87,418
Cash, beginning	754,384
Cash, end	$ 841,802

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Statement of Cash Flows
Year Ended December 31, 2017

Reconciliation of net income (loss) to net cash provided by operating activities	
Net income (loss)	$ (424,443)
Adjustments to reconcile net income (loss) to net cash provided by operating activities	
Depreciation	1,476,405
Amortization	5,600
Amortization of debt issuance costs	55,732
Changes in asset and liability accounts	
(Increase) decrease in assets	
Tenant accounts receivable	(596)
Accounts receivable - other	928
Prepaid expenses	3,539
Tenant security deposits funded	(1,930)
Increase (decrease) in liabilities	
Accounts payable	(10,248)
Accrued liabilities	1,310
Tenant security deposits held in trust	1,704
Prepaid revenue	5,693
Other adjustments (include detail)	
Deferred commercial lease revenue	(38,559)
Deferred cable revenue	(2,851)
Total adjustments	1,496,727
Net cash provided by operating activities	$ 1,072,284
Significant noncash investing and financing activities	
Fixed assets included in accounts payable	$ 126,581

See Notes to Financial Statements.

Note 1 - Organization and nature of operations

Samuel Kelsey Redevelopment Limited Partnership (the "Partnership") was formed as a limited partnership under the laws of the District of Columbia, pursuant to a certificate of the limited partnership filed on February 16, 2011, for the purpose of acquiring, rehabilitating and operating a residential housing project. The Project consists of 150 units located in Washington, D.C., and is currently operating under the name Samuel Kelsey Apartments.

The Partnership shall continue until December 31, 2060, unless sooner dissolved in accordance with the provisions of the First Amended and Restated Agreement of Limited Partnership.

Each building of the Project has qualified for low-income housing credits pursuant to Internal Revenue Code Section 42 ("Section 42"), which regulates the use of the Project as to occupant eligibility and unit gross rent, among other requirements. Each building of the Project must meet the provision of these regulations during each of 15 consecutive years in order to remain qualified to receive the credits. In addition, Samuel Kelsey Redevelopment Limited Partnership is expected to execute an Extended Low-Income Housing Agreement, which requires the utilization of the Project pursuant to Section 42 for a minimum of 30 years, even if the Partnership disposes of the Project.

In accordance with the First Amended and Restated Agreement of Limited Partnership, dated November 1, 2011, BF Samuel Kelsey, LLC is the investor limited partner with a 99.99% interest in the Partnership; Samuel Kelsey GP LLC is the general partner with a 0.01% interest in the Partnership; and BFIM Special Limited Partner, Inc. is the special limited partner with no interest in the Partnership. Allocations of cash disbursements, capital transactions and net income and losses are made in accordance with the Amended and Restated Partnership Agreement.

Note 2 - Significant accounting policies

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Accounts receivable and bad debts

Tenant receivables are reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the current status of tenant accounts receivable. It is reasonably possible that management's estimate of the allowance will change. As of December 31, 2017, allowance for doubtful accounts was $43.

Rental property

Rental property is carried at cost. Depreciation is provided for in amounts sufficient to expense the cost of depreciable assets to operations over their estimated service lives by use of the straight-line method for financial reporting purposes. For income tax purposes, accelerated lives and methods are used.

Debt issuance costs

Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the mortgage loan payable to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed using an imputed interest rate on the related loan.

Tax credit fees

Tax credit fees are amortized over the 15-year low-income tax credit compliance period, using the straight-line method. During the year ended December 31, 2017, amortization expense was $5,600. As of December 31, 2017, accumulated amortization was $28,000. Estimated annual amortization of the tax credit fees over each of the ensuing five years through December 31, 2022 is $5,600. As of December 31, 2017, deferred tax credit fees, net of accumulated amortization, amounted to $55,995 and is included in miscellaneous other assets on the balance sheet.

Income taxes

The Partnership has elected to be treated as a pass-through entity for income tax purposes and, as such, is not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to and are reported by its partners on their respective income tax returns. However, the District of Columbia does not recognize pass-through entities and therefore, income earned in the District of Columbia is subject to franchise tax, with an estimated minimum tax liability of $1,000 in 2017. The Partnership's federal tax status as a pass-through entity is based on its legal status as a partnership. Accordingly, the Partnership is not required to take any tax positions in order to qualify as a pass-through entity. The Partnership is required to file and does file tax returns with the Internal Revenue Service and other taxing authorities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Accordingly, these financial statements do not reflect a provision for income taxes, and the Partnership has no other tax positions which must be considered for disclosure. Income tax returns filed by the Partnership are subject to examination by the Internal Revenue Service for a period of three years. While no income tax returns are currently being examined by the Internal Revenue Service, tax years since 2014 remain open.

Rental income

Rental income for residential tenants is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between the Partnership and the tenants of the property are operating leases.

Rental income for the commercial tenants is recorded on the straight-line method as a result of escalations in the Partnership's operating lease for commercial space. The escalation is recorded as deferred rent. Deferred rent is amortized to the extent the total minimum rental payments allocated to the current period on a straight-line basis exceed or are less than the cash payments required. Deferred rent in the amount of $269,470 was recorded as miscellaneous other assets.

Impairment of long-lived assets

The Partnership reviews its rental property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the year ended December 31, 2017.

Advertising

Advertising costs are expensed when incurred. During 2017, advertising expenses of $1,835 were incurred.

Note 3 - Mortgage payable

On December 21, 2011, the Partnership entered into a permanent financing agreement with Citibank, N.A. to provide two loans totaling $24,400,000. The bond mortgage loan was funded with proceeds from the $7,900,000 District of Columbia Housing Finance Agency Multifamily Housing Revenue Bonds, Series 2009A-14 tax-exempt bonds and the $16,500,000 District of Columbia Housing Finance Agency Multifamily Housing Revenue Bonds, Series 2011 tax-exempt bonds. The loan has a term of 30 years and bears compounding interest at a rate not to exceed 5.57% per annum. The note is secured by the First Multifamily Deed of Trust, Assignment of Rents and Security Agreement. If not sooner paid, the entire outstanding balance of principal and accrued interest is due in full on December 1, 2041. During 2017, principal payments of $300,833 were made. During 2017, interest expense of $891,070 was incurred and included in statement of operations. During 2017, credit enhancement fees of $260,319 and servicing fees of $118,507 were incurred and included as miscellaneous financial expenses on the statement of operations. As of December 31, 2017, the outstanding principal balance and accrued interest was $22,534,167 and $0, respectively.

Aggregate annual maturities of the mortgage payable over each of the next five years and thereafter are as follows:

December 31, 2018	$	285,000
2019		325,000
2020		340,000
2021		355,000
2022		380,000
Thereafter		20,849,167
Total	$	22,534,167

The liability of the Partnership under the mortgage note is limited to the underlying value of the real estate collateral plus other amounts deposited with the lender.

Debt issuance costs, net of accumulated amortization, totaled $947,162 as of December 31, 2017 and are related to the first mortgage. Debt issuance costs on the above note are being amortized using an imputed rate of 5.57%.

Note 4 - Restricted deposits and funded reserves

Replacement reserve

In accordance with the Amended and Restated Agreement of Limited Partnership, the Partnership is required to establish a reserve for replacement with an initial deposit of $150,000. Monthly deposits of $5,000, with an annual inflation factor of 3%, to the reserve, commenced January 27, 2013. As of December 31, 2017, the balance of the replacement reserve was $390,438 and is included in other reserves on the balance sheet.

Operating reserve

In accordance with the Amended and Restated Agreement of Limited Partnership, the Partnership is required to establish an operating reserve with an initial deposit of $750,000, of which $375,000 was to be funded from the second installment of capital contributions and the remaining amount is to be funded from the fifth installment of capital contributions. As of December 31, 2017, the balance of the operating reserve was $752,244 and is included in other reserves on the balance sheet.

Debt service reserve

In accordance with the Amended and Restated Agreement of Limited Partnership, the Partnership is required to establish a debt service reserve with an initial deposit of $792,841. As of December 31, 2017, the balance of the debt service reserve was $795,996 and is included in other reserves on the balance sheet.

Transition reserve

In accordance with the Amended and Restated Agreement of Limited Partnership, the Partnership is required to establish a transition reserve with an initial deposit of $500,000, which is to be funded from the fifth installment of capital contributions. As of December 31, 2017, the balance of the transition reserve was $504,109 and is included in other reserves on the balance sheet.

Escrow deposits

In accordance with the Amended and Restated Agreement of Limited Partnership, the Partnership was required to establish a tax and insurance escrow. As of December 31, 2017, the tax and insurance escrow has a balance of $149,570.

Tenant improvement escrow

During 2013, the Partnership established a tenant improvement escrow in the amount of $20,002. As of December 31, 2017, the balance of the tenant improvement escrow was $20,915 and is included in other reserves on the balance sheet.

Note 5 - Related party transactions

Capital contributions

The general partner and special limited partner is obligated to contribute a nominal amount. The investor limited partner, BF Samuel Kelsey, LLC, has a 99.99% ownership interest in operating profits, losses and federal tax credits. Capital contributions totaling $7,381,254, including a downward adjuster of $30,746, are due from the limited partner when certain milestones are achieved as disclosed in the Amended and Restated Agreement of Limited Partnership. During 2016, an additional capital contribution of $1,250,000 was received. As of December 31, 2017, capital contributions of $7,381,254 have been received.

Loans payable

In the prior year, affiliates of the general partner provided loans totaling $1,058 to fund partnership expenses. The loans are noninterest-bearing and payable from available cash flow, as defined. During 2017, principal payments of $1,058 were made on the loan. As of December 31, 2017, the outstanding principal was $0.

During 2017, an affiliate of the general partner provided a loan in the amount of $89 to fund partnership expenses. The loan is noninterest-bearing and payable from available surplus cash. As of December 31, 2017, the outstanding principal was $89.

Supplementary management fee

The Partnership is obligated to pay the general partner an annual supplementary management fee equal to 7% of the cash receipts of the Partnership, for additional management and oversight services performed. The fee is noncumulative and payable from available cash flow. The supplementary management fee and management fee together shall not exceed 12% of the Partnership's cash receipts for any given year. During 2017, $ 255,799 in fees were earned and paid.

Priority distribution

The First Amended and Restated Agreement of Limited Partnership provides for a priority distribution to the investor limited partner of $15,000. The priority distribution increases annually by 3%. The distribution is cumulative and only payable to the extent that cash flow is available. During 2017, a priority distribution of $16,967 was paid. Cumulative distributions payable as of December 31, 2017 was $17,476.

Note 6 - Management fee

The Partnership has entered into an agreement with Winn Managed Properties LLC, an affiliate of the general partner, in connection with the management of the rental operations of the Project. The property management fee is based on 2.87% of residential rents collected including laundry income, tenant services, late fees and damages, and 5.0% of the master lease payment. In addition, the management agent is also entitled to be reimbursed for actual costs incurred for front line management activities performed at the central office (as these activities are defined by HUD). Such fees recorded to the statement of operations for the year ended December 31, 2017 were $106,751 for management fees. As of December 31, 2017, accrued management fees were $500. In addition, the management activities were performed at the central office (as these activities are defined by HUD). During the year ended December 31, 2017, the management agent was reimbursed $21,271, which is included in bookkeeping fees/accounting services on the statement of operations.

Note 7 - P.I.L.O.T. agreements

The Partnership entered into a P.I.L.O.T. agreement with the District of Columbia. The agreement with the District of Columbia provides for payment, in lieu of property taxes, in an amount equal to 5.0% of gross income derived from operation of the building for the most recently completed accounting period. During 2017, $250,439 was recorded to real estate taxes on the statement of operations. As of December 31, 2017, prepaid real estate taxes amounted to $123,298.

Note 8 - Guarantees

In accordance with the Amended and Restated Limited Partnership Agreement, an affiliate of the general partner guarantees the investor limited partner and the special limited partner the payment and performance by an affiliate of the general partner of each one of its obligations under the Development Agreement. The payment of any excess development costs to fund operating deficits, and the payment and performance of an affiliate of the general partner of each one of its obligations under the Commercial Master Lease are also guaranteed. As of December 31, 2017, no amounts have been advanced under these guarantees.

Note 9 - Housing assistance payment contract agreement

HUD has contracted with the Partnership pursuant to Section 8 of the Housing Act of 1937 to make housing assistance payments to the Partnership on behalf of qualified tenants. The agreement, covering all 150 units, expires on September 18, 2031.

Note 10 - Concentration of credit risk

The Partnership maintains its cash balances in various accounts with one bank. At times, these balances may exceed the federal insurance limits; however, the Partnership has not experienced any losses with respect to its bank balances in excess of government-provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances at December 31, 2017.

Note 11 - Commitments and contingencies

The Project's low-income housing credits will be contingent on its ability to maintain compliance with applicable sections of Section 42. Failure to maintain compliance with occupant eligibility, and/or unit gross rent, or to correct noncompliance within a specific time period could result in recapture of previously taken tax credits plus interest. In addition, such potential noncompliance may require an adjustment to the contributed capital by the investor limited partner.

Note 12 - Lease agreements

Commercial space is leased to Winn Residential Limited Partnership, an affiliate of the general partner, under noncancelable master lease. The lease requires annual payments of $360,000 increased by 2% annually, as defined in the lease agreement. The lease expires on December 31, 2031. The terms of the lease require the tenant to pay all insurance, taxes and utilities. For the year ended December 31, 2017, rental income and CAM income earned were $436,028 and $33,550, respectively. At December 31, 2017, deferred rent in the amount of $269,470 is shown as miscellaneous other assets. The minimum future rentals due on noncancelable lease in effect at December 31, 2017 for the next five years are as follows:

December 31, 2018	$	470,903
2019		470,903
2020		470,903
2021		470,903
2022		470,903

Note 13 - Current vulnerability due to certain concentrations

The Partnership's principal asset is a 150-unit apartment project. The Partnership's operations are concentrated in the multifamily real estate market. In addition, the Partnership operates in a heavily regulated environment. The operations of the Partnership are subject to the administrative directives, rules and regulations of federal agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Note 14 - Deferred revenue

In December 2014, the Partnership entered into a Service Agreement (the "Agreement") with a cable service provider (the "Provider"), whereby the Provider will maintain and provide broadband services to the Project. In conjunction with the Agreement, the Provider has installed all facilities necessary to transmit the services to the Project. The Agreement is for a term of 10 years, commencing on December 1, 2014. In consideration for entering into the Agreement, the Partnership earned a fee of $38,019. In connection with the Agreement the Partnership incurred a consulting fee of $9,505, all of which is earned by an affiliate of the Partnership. In the event of an early termination of the Agreement, the Partnership is required to repay a pro rata amount of the initial fee. An affiliate of the Partnership is obligated to pay this amount.

The net fee of $28,514 was recorded as deferred revenue in 2015 and is being amortized to income on a straight-line basis over the term of the Agreement for financial statement purposes. Amortization for 2017 amounted to $2,851.

Note 15 - Mortgagor entity expenses

Mortgagor entity expenses included in the statement of operations do not represent operating expenses of the Project and, accordingly, cannot be paid and are not paid out of project operations. Rather, they are entity expenses, which can only be paid out of surplus cash or mortgagor entity funds. Such expenses have been segregated from project operations in the statement of operations for that reason. The liabilities that result from any accrual, if applicable, are also subject to surplus cash restrictions and is payable only to the extent of surplus cash or mortgagor entity funds. The statement of cash flows reflects those mortgagor entity expenses actually paid during the period. Below is a summary of mortgagor entity expenses which were expensed and paid:

Description	Beginning liability	Expensed amount	Paid amount	Ending liability
Late fees	$ -	$ 96	$ 96	$ -
Tax credit monitoring fee	-	6,750	6,750	-
Supplemental management fee	-	255,799	255,799	-
	$ -	$ 262,645	$ 262,645	$ -

During 2017, mortgagor entity expenses of $89 were paid with loan proceeds from affiliates of the general partner and $262,556 were paid from 2016 surplus cash.

Note 16 - Subsequent events

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the Partnership through February 19, 2018 (the date the financial statements were available to be issued) and concluded that no subsequent events occurred which require disclosure in the note to the financial statements.

Supplementary Information

Supporting Data Required by HUD

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Supplementary Information

Balance Sheet Data
December 31, 2017

Assets

Account No.			
Current assets			
1120	Cash - operations		$ 841,802
1130	Tenant accounts receivable	$ 649	
1131	Allowance for doubtful accounts	(43)	
1130N	Net tenants accounts receivable		606
1200	Prepaid expenses		157,769
1100T	Total current assets		1,000,177
Deposits held in trust - funded			
1191	Tenant deposits		41,216
Restricted deposits and funded reserves			
1310	Escrow deposits	149,570	
1330	Other reserves	2,463,702	
1300T	Total deposits		2,613,272
Rental property			
1410	Land	1,850,000	
1420	Buildings	25,516,395	
1440	Building equipment - portable	116,379	
1460	Furnishings	825,053	
1465	Office furniture and equipment	12,543	
1470	Maintenance equipment	2,617	
1400T	Total fixed assets	28,322,987	
1495	Less accumulated depreciation	(8,221,647)	
1400N	Net fixed assets		20,101,340
Other assets			
1590	Miscellaneous other assets	346,565	
1500T	Total other assets		346,565
1000T	Total assets		$ 24,102,570

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Supplementary Information

Balance Sheet Data
December 31, 2017

Liabilities and Partners' Equity (Deficit)

Account No.			
Current liabilities			
2110	Accounts payable - operations		$ 220,551
2120	Accrued wages payable		12,827
2123	Accrued management fee payable		500
2170	Mortgage payable - first mortgage (short-term)		285,000
2190	Miscellaneous current liabilities		2,851
2210	Prepaid revenue		6,037
2122T	Total current liabilities		527,766
Deposits liability			
2191	Tenant deposits held in trust (contra)		39,483
Long-term liabilities			
2320	Mortgage payable - first mortgage	$ 21,301,005	
2323	Other loans and notes payable - surplus cash	89	
2390	Miscellaneous long-term liabilities	17,110	
2300T	Total long-term liabilities		21,318,204
2000T	Total liabilities		21,885,453
3130	Partners' equity (deficit)		2,217,117
2033T	Total liabilities and partners' equity (deficit)		$ 24,102,570

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Supplementary Information

Statement of Operations Data
Year Ended December 31, 2017

Account No.			
Rental revenue			
5120	Rent revenue - gross potential	$ 379,064	
5121	Tenant assistance payments	3,394,570	
5140	Rent revenue - stores and commercial	469,578	
5170	Garage and parking spaces	12,000	
5193	Special claims revenue	12,186	
5100T	Total rental revenue		$ 4,267,398
Vacancies			
5220	Apartments	(80,210)	
5200T	Total vacancies		(80,210)
5152N	Net rental revenue		4,187,188
Financial revenue			
5410	Financial revenue - project operations	51	
5490	Revenue from investments - miscellaneous	7,333	
5400T	Total financial revenue		7,384
Other revenue			
5910	Laundry and vending	4,294	
5920	Tenant charges	2,084	
5990	Miscellaneous revenue	4,090	
5900T	Total other revenue		10,468
5000T	Total revenue		4,205,040

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Supplementary Information

Statement of Operations Data
Year Ended December 31, 2017

Account No.			
Administrative expenses			
6210	Advertising and marketing	1,835	
6250	Other renting expenses	67,204	
6310	Office salaries	58,866	
6311	Office expenses	31,817	
6320	Management fee	106,751	
6330	Manager or superintendent salaries	71,943	
6340	Legal expense - project	2,752	
6350	Auditing expense	12,750	
6351	Bookkeeping fees/accounting services	28,982	
6370	Bad debts	1,183	
6390	Miscellaneous administrative expenses	8,210	
6263T	Total administrative expenses		392,293
Utilities expense			
6450	Electricity	160,351	
6451	Water	122,131	
6452	Gas	28,864	
6400T	Total utilities expense		311,346
Operating and maintenance expenses			
6510	Payroll	107,514	
6515	Supplies	28,799	
6520	Contracts	154,010	
6525	Garbage and trash removal	28,295	
6530	Security payroll/contract	145,031	
6546	Heating/cooling repairs and maintenance	12,364	
6590	Miscellaneous operating and maintenance expenses	2,129	
6500T	Total operating and maintenance expenses		478,142

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Supplementary Information

Statement of Operations Data
Year Ended December 31, 2017

Account No.			
Taxes and insurance			
6710	Real estate taxes	250,439	
6711	Payroll taxes	23,077	
6720	Property and liability insurance	55,828	
6722	Workmen's compensation	1,498	
6723	Health insurance and other employee benefits	34,993	
6790	Miscellaneous taxes, licenses, permits and insurance	9,871	
6700T	Total taxes and insurance		375,706
Financial expenses			
6820	Interest on first mortgage payable	946,802	
6890	Miscellaneous financial expenses	380,544	
6800T	Total financial expenses		1,327,346
6000T	Total cost of operations before depreciation and amortization		2,884,833
5060T	Income (loss) before depreciation		1,320,207
Depreciation and amortization			
6600	Depreciation expense	1,476,405	
6610	Amortization expense	5,600	
	Total depreciation and amortization		1,482,005
5060N	Operating income (loss)		(161,798)
Corporate or mortgagor entity revenue and expenses			
7190	Other expenses	262,645	
7100T	Net entity expenses		262,645
	Total expenses		4,629,483
3250	Net income (loss)		$ (424,443)

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Supplementary Information

Statement of Operations Data
Year Ended December 31, 2017

Account No.		
S1000-010	Total first mortgage (or bond) principal payments required during the audit year (12 monthly payments). Applies to all direct loans and HUD-held and fully-insured first mortgages.	$ 300,833
S1000-020	Total of 12 monthly deposits in the audit year made to the replacement reserve account, as required by the regulatory agreement, even if payments may be temporarily suspended or reduced.	$ -
S1000-030	Replacement reserve, or residual receipts and releases which are included as expense items on the statement of operations.	$ -
S1000-040	Project improvement reserve releases under the flexible subsidy program which are included as expense items on the statement of operations.	$ -
S3100-120	Mortgage payable note detail (Section 236 only) Interest reduction payments from subsidy.	$ -

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Supplementary Information

Statement of Partners' Equity (Deficit) Data
Year Ended December 31, 2017

Account No.		General partner	Investor Limited partner	Total
S1100-010	Partners' equity (deficit) December 31, 2016	$ (1,275,652)	$ 4,369,376	$ 3,093,724
S1200-420	Distributions	(331,548)	(120,616)	(452,164)
3250	Net income (loss)	(42)	(424,401)	(424,443)
3130	Partners' equity (deficit) December 31, 2017	$ (1,607,242)	$ 3,824,359	$ 2,217,117
	Partners' percentage of income (losses)	0.01%	99.99%	100.00%

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Supplementary Information

Statement of Cash Flows Data
Year Ended December 31, 2017

Account No.			
	Cash flows from operating activities		
S1200-010	Rental receipts		$ 4,153,471
S1200-020	Interest receipts		7,384
S1200-030	Other operating receipts		7,617
S1200-040	Total receipts		4,168,472
S1200-050	Administrative expenses paid		(156,993)
S1200-070	Management fees paid		(107,553)
S1200-090	Utilities paid		(296,734)
S1200-100	Salaries and wages paid		(418,234)
S1200-110	Operating and maintenance paid		(203,558)
S1200-120	Real estate taxes paid		(251,472)
S1200-140	Property insurance paid		(49,281)
S1200-150	Miscellaneous taxes and insurance paid		(9,871)
S1200-160	Net tenant security deposits received (paid)		(226)
S1200-170	Other operating expenses paid		(68,007)
S1200-180	Interest paid on first mortgage		(891,070)
S1200-220	Miscellaneous financial expenses paid		(380,544)
S1200-225	Entity/construction expenses paid (include detail)		
S1200-226	Tax credit monitoring fee	$ (6,750)	
S1200-226	Supplementary management fee	(255,799)	
S1200-226	Late fees	(96)	
			(262,645)
S1200-230	Total disbursements		(3,096,188)
S1200-240	Net cash provided by operating activities		1,072,284

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Supplementary Information

Statement of Cash Flows Data
Year Ended December 31, 2017

Account No.			
	Cash flows from investing activities		
S1200-245	Net withdrawals from mortgage escrows		606
S1200-255	Net deposits to other reserves		
S1200-256	Net deposits to reserve accounts	(67,130)	
			(67,130)
S1200-330	Net purchases of fixed assets		(164,376)
S1200-350	Net cash used in investing activities		(230,900)
	Cash flows from financing activities		
S1200-360	Mortgage principal payments - first mortgage		(300,833)
S1200-365	Proceeds from mortgages, notes and loans payable		89
S1200-370	Principal payments on notes and loans payable		(1,058)
S1200-420	Distributions to partners		(452,164)
S1200-460	Net cash used in financing activities		(753,966)
S1200-470	Net increase in cash		87,418
S1200-480	Cash, beginning		754,384
S1200T	Cash, end		$ 841,802

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Supplementary Information

Statement of Cash Flows Data
Year Ended December 31, 2017

Account No.			
	Reconciliation of net income (loss) to net cash provided by operating activities		
3250	Net income (loss)		$ (424,443)
	Adjustments to reconcile net income (loss) to net cash provided by operating activities		
6600	Depreciation		1,476,405
6610	Amortization		5,600
S1200-486	Amortization of debt issuance costs		55,732
	Changes in asset and liability accounts		
	(Increase) decrease in assets		
S1200-490	Tenant accounts receivable		(596)
S1200-500	Accounts receivable - other		928
S1200-520	Prepaid expenses		3,539
S1200-530	Tenant security deposits funded		(1,930)
	Increase (decrease) in liabilities		
S1200-540	Accounts payable		(10,248)
S1200-560	Accrued liabilities		1,310
S1200-580	Tenant security deposits held in trust		1,704
S1200-590	Prepaid revenue		5,693
S1200-600	Other adjustments (include detail)		
S1200-601	Deferred commercial lease revenue	$ (38,559)	
S1200-601	Deferred cable revenue	(2,851)	
			(41,410)
	Total adjustments		1,496,727
S1200-610	Net cash provided by operating activities		$ 1,072,284
S1200-620	Comments		
	Fixed assets included in accounts payable		$ 126,581

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Supplementary Information

Year Ended December 31, 2017

Computation of Surplus Cash, Distributions and Residual Receipts

Account No.	Part A - Compute Surplus Cash		
S1300-010	Cash (Accounts 1120, 1170 and 1191)		$ 883,018
1135	Accounts receivable - HUD		-
S1300-040	Total cash		883,018
S1300-050	Accrued mortgage interest payable		-
S1300-060	Delinquent mortgage principal payments		-
S1300-070	Delinquent deposits to reserve for replacements		-
S1300-075	Accounts payable (due within 30 days)		220,551
S1300-080	Loans and notes payable (due within 30 days)		-
S1300-090	Deficient tax, insurance or MIP escrow deposits		-
S1300-100	Accrued expenses (not escrowed)		13,327
2210	Prepaid revenue (Account 2210)		6,037
2191	Tenant security deposits liability (Account 2191)		39,483
S1300-110	Other current obligations (describe in detail)		
S1300-120	Deferred revenue	$ 19,961	
			19,961
S1300-140	Less total current obligations		299,359
S1300-150	Surplus cash (deficiency)		$ 583,659
	Part B - Compute Distributions to Owners and Required Deposit to Residual Receipts		
	Limited Dividend Projects		
S1300-160	Annual distribution earned during fiscal period covered by the statements		$ -
S1300-170	Distribution accrued and unpaid as of the end of the prior fiscal period		-
S1300-180	Distributions and entity expenses paid during fiscal period covered by the statements		-
S1300-190	Amount remaining as distribution earned but unpaid		-
S1300-200	Amount available for distribution during next fiscal period		$ 583,659
S1300-210	Deposit due residual receipts reserve		$ -

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Supplementary Information

Year Ended December 31, 2017

Changes in Fixed Asset Accounts

	Assets			
	Balance 12/31/16	Additions	Deletions	Balance 12/31/17
Land	$ 1,850,000	$ -	$ -	$ 1,850,000
Buildings	25,264,933	251,462	-	25,516,395
Building equipment - portable	81,789	34,590	-	116,379
Furnishings	824,711	342	-	825,053
Office furniture and equipment	7,980	4,563	-	12,543
Maintenance equipment	2,617	-	-	2,617
	$ 28,032,030	$ 290,957	$ -	$ 28,322,987
Accumulated depreciation	$ 6,745,242	$ 1,476,405	$ -	$ 8,221,647
Total net book value				$ 20,101,340

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Supplementary Information

Year Ended December 31, 2017

Fixed Asset Detail

Additions to Buildings Account

Item and quantity		Amount
Motor	$	7,387
Boiler system		159,903
Renovations		39,263
Fire alarm		4,983
Electrical		2,292
Power washer		1,208
Telephone entry system		19,925
Roofing		6,849
Pump		2,291
Doors		7,361
	$	251,462

Additions to Building Equipment - Portable Account

Item and quantity		Amount
Carpet and flooring	$	34,590

Additions to Furnishings Account

Item and quantity		Amount
Computers	$	342

Additions to Office Furniture and Equipment Account

Item and quantity		Amount
Stoves and refigerators	$	4,563

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Supplementary Information

Year Ended December 31, 2017

Detail of Accounts - Balance Sheet

Other Reserves (Account No. 1330)

Operating reserve	$	752,244
Replacement reserve		390,438
Partnership transaction reserve		504,109
Debt service reserve		795,996
Tenant improvement escrow		20,915
	$	2,463,702

Miscellaneous Other Assets (Account No. 1590)

Other		
Deposits	$	16,500
Deferred commercial lease revenue		269,470
Tax credit fees, net of accumulated amortization		55,995
Permits and fees		4,600
	$	346,565

Miscellaneous Current Liabilities (Account No. 2190)

Deferred revenue - current portion	$	2,851
	$	2,851

Miscellaneous Long-Term Liabilities (Account No. 2390)

Deferred revenue - net of current portion	$	17,110

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Supplementary Information

Year Ended December 31, 2017

Detail of Accounts - Statement of Operations

Revenue from Investments - Miscellaneous (Account No. 5490)

Interest on reserves	$	7,333

Miscellaneous Other Revenue (Account No. 5990)

Cable revenue	$	2,851
Bad debt recovery		1,239
	$	4,090

Miscellaneous Financial Expenses (Account No. 6890)

Bank charges	$	1,718
Bond administrative fees		118,507
Bond credit enhancement fees		260,319
	$	380,544

Other Entity Expenses (Account No. 7190)

Tax credit monitoring fee	$	6,750
Supplementary management fee		255,799
Late fees		96
	$	262,645

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Supplementary Information

Year Ended December 31, 2017

Other Information

Schedule of notes payable:

Account No.	Creditor	Lien placed on project assets? (Yes/No)	Amount due
S3100-140	Church Corner Holdings, LLC	No	$ 89
S3100-190			$ 89

Related party transactions detail:

Account No.	Entity name	Amount paid
S3100-210	Winn Managed Properties, LLC - management fees	$ 107,553
S3100-210	Winn Managed Properties, LLC - bookkeeping reimbursement	21,271
S3100-210	Samuel Kelsey GP LLC - supplementary management fee	255,799
		$ 384,623

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Partners
Samuel Kelsey Redevelopment Limited Partnership

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Samuel Kelsey Redevelopment Limited Partnership, which comprise the balance sheet as of December 31, 2017, and the related statements of operations, partners' equity (deficit), and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 19, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Samuel Kelsey Redevelopment Limited Partner's internal control over financial reporting ("internal control") to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Samuel Kelsey Redevelopment Limited Partnership's internal control. Accordingly, we do not express an opinion on the effectiveness of Samuel Kelsey Redevelopment Limited Partnership's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control, that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Samuel Kelsey Redevelopment Limited Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CohnReznick LLP

Bethesda, Maryland
February 19, 2018

Independent Auditor's Report on Compliance for Each Major HUD Program and on Internal Control over Compliance Required by the Consolidated Audit Guide for Audits of HUD Programs

To the Partners
Samuel Kelsey Redevelopment Limited Partnership

Report on Compliance for Each Major HUD Program

We have audited Samuel Kelsey Redevelopment Limited Partnership's compliance requirements described in the Consolidated Audit Guide for Audits of HUD Programs (the "Guide") that could have a direct and material effect on each of Samuel Kelsey Redevelopment Limited Partnership's major U.S. Department of Housing and Urban Development ("HUD") programs for the year ended December 31, 2017. Samuel Kelsey Redevelopment Limited Partnership's major HUD program is as follows:

- Section 8 Rent Subsidy Program

Management's Responsibility for Compliance

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its HUD program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Samuel Kelsey Redevelopment Limited Partnership's major HUD programs based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major HUD program occurred. An audit includes examining, on a test basis, evidence about Samuel Kelsey Redevelopment Limited Partnership's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major HUD program. However, our audit does not provide a legal determination of Samuel Kelsey Redevelopment Limited Partnership's compliance.

Opinion on the Major HUD Program

In our opinion, Samuel Kelsey Redevelopment Limited Partnership complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major HUD program for the year ended December 31, 2017.

Report on Internal Control over Compliance

Management of Samuel Kelsey Redevelopment Limited Partnership is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered Samuel Kelsey Redevelopment Limited Partnership's internal control over compliance with the requirements that could have a direct and material effect on the major HUD program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major HUD program and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Samuel Kelsey Redevelopment Limited Partnership's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a compliance requirement of a HUD program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement of a HUD program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a compliance requirement of a HUD program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

CohnReznick LLP

Bethesda, Maryland
February 19, 2018

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Schedule of Findings, Questioned Costs and Recommendations
December 31, 2017

Our audit disclosed no findings that are required to be reported herein under the HUD Consolidated Audit Guide.

Samuel Kelsey Redevelopment Limited Partnership
HUD Project No.: DC39-H001-008

Schedule of the Status of Prior Audit Findings,
Questioned Costs and Recommendations
December 31, 2017

1. Audit Report, dated February 28, 2017, for the year ended December 31, 2016, issued by CohnReznick LLP.

   There are no open findings from prior audit report.

2. There were no reports issued by HUD OIG or other federal agencies or contract administrators during the period covered by this audit.

3. Management and Occupancy Review ("MOR") on February 24, 2017 authorized by HUD and conducted by the Assisted Housing Services Corporation, Inc. titled Management and occupancy Review.

   Finding 1
   MOR had several findings related to the Partnership's file audit and subsidy administration. The Partnership received a score of Above Average in this MOR report.

   Status
   Management believes it has satisfactorily addressed all of the findings included in the MOR as evidenced by the close out letter from Assisted Housing Services Corporation, Inc. on May 31, 2017.