

W.P.R. PARTNERSHIP, LTD. D/B/A WILLARD APARTMENTS  
(an Ohio limited partnership)

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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GILMORE, JASION & MAHLER, LTD

Independent Auditors Report

To the Partners  
W.P.R. Partnership, Ltd.  
d/b/a Willard Apartments  
Toledo, OH

We have audited the accompanying Balance Sheets of W.P.R. Partnership, Ltd., D/B/A Willard Apartments (an Ohio limited partnership) as of December 31, 2009 and 2008 and the related Statements of Operations, Changes in Partners' Equity and Cash Flows, for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of W.P.R. Partnership, Ltd., D/B/A Willard Apartments at December 31, 2009 and 2008 and the results of its operations, changes in partners' equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information in the schedules of project operating expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Gilmore, Jason & Mahler, LTD*

January 25, 2010

**W.P.R. PARTNERSHIP, LTD.  
D/B/A WILLARD APARTMENTS  
(AN OHIO LIMITED PARTNERSHIP)**

**BALANCE SHEETS**

December 31, 2009 and 2008

	<b>2009</b>	<b>2008</b>
<b><u>ASSETS</u></b>		
<u>INVESTMENT IN REAL ESTATE:</u>		
Property, at cost:		
Land	\$ 27,000	\$ 27,000
Buildings and improvements	1,277,280	1,277,280
Furniture, fixtures and appliances	6,317	6,317
	1,310,597	1,310,597
Less: Accumulated depreciation	(285,722)	(253,790)
NET INVESTMENT IN REAL ESTATE	1,024,875	1,056,807
Cash - unrestricted	385	4,741
Cash reserves	26,663	27,412
Tenant Deposits - Held in Trust	4,850	4,802
Accounts receivable	3,796	5,776
	\$ 1,060,569	\$ 1,099,538
	\$ 1,060,569	\$ 1,099,538
<b><u>LIABILITIES AND PARTNERS' EQUITY</u></b>		
<b><u>LIABILITIES</u></b>		
Accounts payable	\$ 85,856	\$ 85,745
Accrued real estate taxes	3,179	1,816
Security deposits	4,850	4,802
Deferred and accrued interest	198,750	178,101
Notes payable	505,055	508,217
	797,690	778,681
TOTAL LIABILITIES	797,690	778,681
 PARTNERS' EQUITY	 262,879	 320,857
TOTAL LIABILITIES AND PARTNERS' EQUITY	\$ 1,060,569	\$ 1,099,538
	\$ 1,060,569	\$ 1,099,538

The accompanying notes are an integral part of these financial statements.

**W.P.R. PARTNERSHIP, LTD.  
D/B/A WILLARD APARTMENTS  
(AN OHIO LIMITED PARTNERSHIP)**

**STATEMENTS OF OPERATIONS**

YEARS ENDED DECEMBER 31, 2009 and 2008

	<b>2009</b>	<b>2008</b>
<b><u>REVENUES</u></b>		
Rental income	\$ 65,082	\$ 53,098
Other income	2,091	1,704
<b>TOTAL REVENUES</b>	<b>67,173</b>	<b>54,802</b>
<b><u>OPERATING EXPENSES</u></b>		
Depreciation and amortization	31,932	30,996
Interest expense	31,819	32,109
Administrative and personnel	6,702	12,892
Maintenance	12,326	16,562
Management fees	3,240	3,240
Real estate taxes	6,117	1,816
Audit and tax return	6,725	7,000
Insurance	5,000	3,562
Utilities	16,129	16,076
Bad Debt	5,161	5,233
<b>TOTAL OPERATING EXPENSES</b>	<b>125,151</b>	<b>129,486</b>
<b><u>NET LOSS</u></b>	<b>\$ (57,978)</b>	<b>\$ (74,684)</b>

The accompanying notes are an integral part of these financial statements.

**W.P.R. PARTNERSHIP, LTD.  
D/B/A WILLARD APARTMENTS  
(AN OHIO LIMITED PARTNERSHIP)**

**STATEMENTS OF CHANGES IN PARTNERS' EQUITY**

YEARS ENDED DECEMBER 31, 2009 and 2008

	General Partners	Limited Partner	Total
<u>BALANCE</u>			
December 31, 2007 - as previously reported	\$ 2,514	\$ 372,111	\$ 374,625
Correction of an error - Note 7	21	20,895	20,916
December 31, 2007 - as restated	2,535	393,006	395,541
Net Loss	(75)	(74,609)	(74,684)
December 31, 2008	2,460	318,397	320,857
Net Loss	(58)	(57,920)	(57,978)
<u>BALANCE</u>			
December 31, 2009	\$ 2,402	\$ 260,477	\$ 262,879

The accompanying notes are an integral part of these financial statements.

**W.P.R. PARTNERSHIP, LTD.  
D/B/A WILLARD APARTMENTS  
(AN OHIO LIMITED PARTNERSHIP)**

**STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b><u>CASH FLOW FROM OPERATING ACTIVITIES:</u></b>		
Net loss	\$ (57,978)	\$ (74,684)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	31,932	30,996
Change in:		
Tenant deposit - held in trust	(48)	(2,411)
Accounts receivable	1,980	(3,870)
Accounts payable	111	22,249
Accrued real estate taxes	1,363	(1,285)
Security deposits	48	2,411
Deferred and accrued interest	20,649	20,627
Net cash used in operating activities	<u>(1,943)</u>	<u>(5,967)</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
Decrease in Cash reserves	<u>749</u>	<u>6,896</u>
Net cash provided by investing activities	749	6,896
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES:</u></b>		
Payments on notes payable	<u>(3,162)</u>	<u>(2,839)</u>
Net cash used in financing activities	<u>(3,162)</u>	<u>(2,839)</u>
NET DECREASE IN CASH	(4,356)	(1,910)
CASH BEGINNING	<u>4,741</u>	<u>6,651</u>
CASH ENDING	<u>\$ 385</u>	<u>\$ 4,741</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for interest	<u>\$ 11,170</u>	<u>\$ 11,482</u>

The accompanying notes are an integral part of these financial statements.

**W.P.R. PARTNERSHIP, LTD.  
D/B/A WILLARD APARTMENTS  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009 and 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION**

**ORGANIZATION**

W.P.R. Partnership, Ltd., D/B/A Willard Apartments, an Ohio limited partnership, was organized under the Ohio Revised Uniform Limited Partnership Act and commenced the rehabilitation of a fifteen-unit apartment complex in 2000.

The Partnership is organized exclusively to provide housing facilities for persons of low and moderate income, or for persons whose income does not exceed certain limits.

The Property is included in the Low-Income Housing Tax Credit ("LIHTC") program and is governed by Section 42 of the internal Revenue Code ("IRC"), as amended. In order to maintain the tax benefits associated with the ownership of the Property, LIHTC Program provisions must be followed in the management and operations of the Property during the Compliance Period, as defined in the IRC.

The general partners are Willard Development Corporation (.052%) and W.R. & Associates (.024%) and Resort Rentals (.024%). The limited partner is Key Community Development Corporation (99.9%).

The partnership will terminate on December 31, 2038 or sooner, in accordance with terms in the partnership Agreement.

**BASIS OF ACCOUNTING**

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles.

The Partnership keeps its books using the accrual method of accounting. Revenues are recorded as earned and expenses are recorded as incurred.

**CONCENTRATION OF CREDIT RISK**

The Partnership maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Partnership has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

**W.P.R. PARTNERSHIP, LTD.**  
**D/B/A WILLARD APARTMENTS**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**December 31, 2009 and 2008**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION –  
(Continued)

CAPITALIZATION AND DEPRECIATION

Land, buildings, improvements, site development and fixtures are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation.

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. The estimated service life of the assets for depreciation purposes may be different than their actual economic useful lives.

	<u>Estimated Life</u>
Land	-
Building and improvements	40
Furniture and fixtures	5-10

The Partnership reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including the low income housing tax credits and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. Management believes there were no impairment losses in 2009 or 2008.

**W.P.R. PARTNERSHIP, LTD.  
D/B/A WILLARD APARTMENTS  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
December 31, 2009 and 2008**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION –  
(Continued)

INCOME TAXES

Income or loss of the Partnership is allocated one-tenth of one percent (.10%) to the general partners and ninety-nine and nine-tenths percent (99.90%) to the limited partner. No provision has been made for income taxes in the accompanying financial statements, since such taxes, if any, are the liability of the partners on their respective tax returns.

The Financial Accounting Standards Board issued new guidance on accounting for uncertainty in income taxes. The Partnership adopted new guidance for the year ended December 31, 2009. Management evaluated the Partnership's tax positions and concluded that the Partnership had taken no uncertain tax positions that require adjustment to the financial statement to comply with the provisions of this guidance. With few exceptions, the Partnership is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2006.

STATEMENTS OF CASH FLOWS

For purposes of the Statement of Cash Flows, the Partnership considers all highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents.

ACCOUNTS RECEIVABLE – RECOGNITION OF BAD DEBTS

Bad debts are provided on the allowance method based on management's evaluation of the collectability of outstanding accounts receivable balances at the end of the year, which evaluation is based on historic losses and current economic conditions. The allowance for doubtful accounts at December 31, 2009 and 2008 was \$3,795 and \$5,233 respectively.

RENTAL INCOME AND PREPAID RENTS

Rental income is recognized for apartment rentals as it accrues. Advance receipts of rental income are deferred or classified as liabilities until earned. The Partnership does not accrue interest on past due tenant receivable balances.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles, 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 statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**W.P.R. PARTNERSHIP, LTD.**  
**D/B/A WILLARD APARTMENTS**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**December 31, 2009 and 2008**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION –  
(Continued)

SUBSEQUENT EVENTS

In May 2009, the FASB issued a topic related to subsequent events. This topic establishes general standards of accounting and disclosure of events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. The Partnership adopted this topic for the year ended December 31, 2009 and its adoption did not result in any significant or material changes to our reporting of subsequent events.

The Partnership has evaluated subsequent events through January 25, 2010, the date on which the financial statements were issued.

**W.P.R. PARTNERSHIP, LTD.  
D/B/A WILLARD APARTMENTS  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
December 31, 2009 and 2008**

**NOTE 2 – LONG-TERM LIABILITIES**

At December 31, the Partnership's long-term notes payable consist of the following:

	<b>2009</b>	<b>2008</b>
Note payable to Key Bank, bears interest at 9.5% and is payable in monthly installments of \$1,194 beginning on June 1, 2001 and continuing through June 1, 2016, at which date all remaining unpaid principal and interest is due. Secured by a first mortgage on rental property. Interest accrued through December 31, 2009 and 2008 is \$904 and \$929, respectively.	\$ 114,165	\$ 117,327
Note payable to Preferred Properties, Inc., bears interest at 7.5%. The entire principal balance plus the deferred interest of \$184,631 and \$165,336 at December 31, 2009 and 2008, respectively, is due and payable in September 2034. Repayment of the mortgage loans is based on the availability of sufficient cash flow produced by the Partnership and only after all conditional priority obligations are paid.	310,805	310,805
Deferred developer fee payable to Willard Apartments, Inc. A portion of the deferred developer fee amounting to \$31,000 bears interest at 6.45% and is payable only from available cash flow and only after all conditional priority obligations have been paid. The developer fee payable will be paid before any payment on the mortgages due Preferred Properties, Inc. Deferred interest amounts to \$13,216 and \$11,836 at December 31, 2009 and 2008, respectively.	80,085	80,085
	<b>\$ 505,055</b>	<b>\$ 508,217</b>

Maturities are as follows:

Year Ended December 31	Amount
2010	\$ 3,753
2011	4,125
2012	4,534
2013	4,985
2014	5,479
Thereafter	482,179
	<b>\$ 505,055</b>

**W.P.R. PARTNERSHIP, LTD.  
D/B/A WILLARD APARTMENTS  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
December 31, 2009 and 2008**

**NOTE 3 – RELATED PARTIES**

A general partner, Willard Development Corporation, and Preferred Properties Inc. have common ownership or management. Preferred Properties, Inc. holds \$390,900 of debt of the partnership and is the managing agent. The partnership incurred \$3,240 of management fees in 2009 and 2008 respectively, of which \$7,830 and \$4,590 remains unpaid at December 31, 2009 and 2008, respectively.

A general partner, W.R. & Associates, and the project's developer, Willard Apartments, Inc., have common ownership. As discussed more fully at Note 2, the partnership owes a deferred developer fee to Willard Apartments, Inc., in the amount of \$80,085.

An affiliate of the general partner has advanced funds to the partnership. These advances amount to \$83,655 and \$85,685 at December 31, 2009 and 2008, respectively.

**NOTE 4 – RESERVES**

According to the Partnership Agreement, the Partnership is required to fund certain reserves from development financing proceeds and maintain reserves to the extent of available cash.

The Partnership is required to fund a replacement reserve yearly with a payment of \$200 per unit per year increased by 3%, compounded annually. The required deposit to the replacement reserve for the years ended December 31, 2009 and 2008 is approximately \$3,800 and \$3,689, respectively. During 2009 and 2008, deposits amounting to \$3,758 and \$0 were made to this reserve account, respectively.

The Partnership is required to fund an operating reserve as defined in the Partnership Agreement of \$15,000. This reserve has been funded.

Following are the balance of the reserves at December 31:

	<u>Beginning Balance</u> <u>January 1, 2009</u>	<u>Additions</u> <u>and Interest</u>	<u>Withdrawals</u> <u>and Transfers</u>	<u>Ending Balance</u> <u>December 31, 2009</u>
Replacement Reserve	\$ 10,147	\$ 3,758	\$ 4,507	\$ 9,398
Operating Reserve	\$ 17,265	\$ 0	\$ 0	\$ 17,265
	<u>Beginning Balance</u> <u>January 1, 2008</u>	<u>Additions</u> <u>and Interest</u>	<u>Withdrawals</u> <u>and Transfers</u>	<u>Ending Balance</u> <u>December 31, 2008</u>
Replacement Reserve	\$ 17,043	\$ 3,763	\$ 10,659	\$ 10,147
Operating Reserve	\$ 17,265	\$ 0	\$ 0	\$ 17,265

**W.P.R. PARTNERSHIP, LTD.**  
**D/B/A WILLARD APARTMENTS**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**December 31, 2009 and 2008**

**NOTE 5 – PROPERTY PURCHASE OPTION**

The Partnership has or will grant Preferred Properties, Inc., an option to purchase the Partnership's property at the end of the low income housing tax compliance period at a price which would facilitate the purchase while protecting the Partnership's tax benefits from the project. Such option is based on the project General Partner or sponsor maintaining the low income occupancy of the project and is in a form satisfactory to legal and accounting counsel.

**NOTE 6 – MANAGEMENT PLANS**

The Partnership had a net loss before depreciation and amortization of \$26,046 and \$43,688 for the years ended December 31, 2009 and 2008, and had negative operating cash flows due to higher than expected costs and lower than expected rental income. Management will explore other opportunities to reduce costs and vacancies. Management believes that the Partnership will have sufficient cash flow to meet its obligations during the next year.

**NOTE 7 – CORRECTION OF ERROR**

The 2007 financial statements have been restated to correct a prior period error relating to the cash and operations reserve accounts. This error had resulted from accounts in the Partnership's name which were under the control of the previous management company not being transferred to the current management company. The effect of this correction on periods prior to 2008 was to increase partners' equity at December 31, 2007 by approximately \$21,000. The effect of this change on 2008 was to increase cash by approximately \$4,000 and operating reserve by approximately \$17,000, and to increase partners' equity by approximately \$21,000 compared to amounts previously reported.

**NOTE 8 – CONTINGENCIES**

In the normal course of operations, the Partnership may be subject to various tax issues. While the outcome of any such matters cannot presently be determined, management believes that their ultimate resolution will not have a material adverse effect on the accompanying financial statements.

**SUPPLEMENTARY INFORMATION**

**W.P.R. PARTNERSHIP, LTD.  
D/B/A WILLARD APARTMENTS  
(AN OHIO LIMITED PARTNERSHIP)**

**SCHEDULES OF OPERATING EXPENSES**

YEARS ENDED DECEMBER 31, 2009 and 2008

<u>OPERATING EXPENSES</u>	<u>2009</u>	<u>2008</u>
Administrative and personnel		
Office supply	\$ 801	\$ 660
Professional fees	1,988	2,022
Miscellaneous	0	37
Advertising/marketing	3,913	10,173
Total administrative and personnel	<u>6,702</u>	<u>12,892</u>
Utilities		
Water/sewer	2,637	3,503
Gas	8,292	6,700
Heating & Cooling	451	710
Electric	4,749	5,163
Total utilities	<u>16,129</u>	<u>16,076</u>
Maintenance		
Maintenance	2,520	3,565
Supplies	3,363	6,808
Contracts	2,909	2,094
Snow Removal	1,604	2,086
Trash Removal	1,930	2,009
Total maintenance	<u>12,326</u>	<u>16,562</u>
Depreciation and amortization	31,932	30,996
Interest expense	31,819	32,109
Bad Debt	5,161	5,233
Management fee	3,240	3,240
Real estate tax	6,117	1,816
Audit and tax return	6,725	7,000
Insurance	5,000	3,562
Total operating expenses	<u>\$ 125,151</u>	<u>\$ 129,486</u>