

WOOD LANE ELDER HAUS II, INC.

PROJECT NO. 042-HD104

**FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
WITH AUDITORS' REPORTS AND MORTGAGOR'S
AND MANAGEMENT AGENT'S CERTIFICATIONS**

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GILMORE, JASION & MAHLER, LTD

INDEPENDENT AUDITORS' REPORT

Board of Directors
Wood Lane Elder Haus II, Inc.
Bowling Green, Ohio

We have audited the accompanying statements of financial position of HUD Project No. 042-HD104, Wood Lane Elder Haus II, Inc., an Ohio nonprofit corporation, as of December 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Wood Lane Elder Haus II, Inc.'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 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 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 Wood Lane Elder Haus II, Inc. as of December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2010 on our consideration of Wood Lane Elder Haus II, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information on pages 12 to 16 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 auditing 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

February 11, 2010

WOOD LANE ELDER HAUS II, INC.
PROJECT NO. 042-HD-104
STATEMENTS OF FINANCIAL POSITION
December 31, 2009 and 2008

	2009	2008
ASSETS		
Current assets		
Cash	\$ 1,157	\$ 2,214
Housing assistance receivable	852	623
Tenant accounts receivable	142	0
	Total current assets	2,837
Deposits held in trust		
Tenant security deposits held in trust	864	864
Minimum capital investment escrow	1,961	1,961
Restricted deposits and funded reserves		
Reserve for replacements	5,458	4,147
Residual receipts reserve	676	676
Property and equipment		
Land	14,950	14,950
Building and building improvements	359,922	359,922
Office furniture and equipment	22,775	22,775
	Total property and equipment	397,647
Less accumulated depreciation	50,443	37,931
	Net property and equipment	347,204
	Total assets	\$ 370,201
		\$ 358,314
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 4,740	\$ 4,812
Prepaid rents	852	623
Accrued management fees	0	165
	Total current liabilities	5,600
Deposit liabilities		
Tenant deposits held in trust	864	864
	Total liabilities	6,464
Net assets		
Unrestricted	(30,142)	(18,263)
Temporarily restricted	382,000	382,000
	Total net assets	351,858
	Total liabilities and net assets	\$ 370,201
		\$ 358,314

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

WOOD LANE ELDER HAUS II, INC.
PROJECT NO. 042-HD-104
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2009 and 2008

	2009		
	Unrestricted	Temporarily Restricted	Total
Support and revenues			
Tenant assistance	\$ 9,434	\$ 0	\$ 9,434
Rental income, less vacancy loss of \$0 in 2009 and \$138 in 2008, respectively	10,666		10,666
Financial income	2		2
Miscellaneous	0		0
Total support, revenues and release from restrictions	<u>20,102</u>	<u>0</u>	<u>20,102</u>
Expenses			
Management fees	2,211		2,211
Administrative	1,658		1,658
Professional fees	5,712		5,712
Utilities	4,517		4,517
Operating and maintenance	2,699		2,699
Taxes and insurance	2,672		2,672
Depreciation	12,512		12,512
Total expenses	<u>31,981</u>	<u>0</u>	<u>31,981</u>
Change in net assets	(11,879)	0	(11,879)
Net assets at beginning of year	<u>(18,263)</u>	<u>382,000</u>	<u>363,737</u>
Net assets at end of year	<u>\$ (30,142)</u>	<u>\$ 382,000</u>	<u>\$ 351,858</u>

2008		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 7,596	\$ 0	\$ 7,596
10,266		10,266
6		6
329		329
<u>18,197</u>	<u>0</u>	<u>18,197</u>
1,980		1,980
4,146		4,146
4,812		4,812
5,381		5,381
3,649		3,649
2,495		2,495
12,050		12,050
<u>34,513</u>	<u>0</u>	<u>34,513</u>
(16,316)	0	(16,316)
<u>(1,947)</u>	<u>382,000</u>	<u>380,053</u>
<u>\$ (18,263)</u>	<u>\$ 382,000</u>	<u>\$ 363,737</u>

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

WOOD LANE ELDER HAUS II, INC.
PROJECT NO. 042-HD-104
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Rental income	\$ 19,958	\$ 18,635
Other operating receipts	2	540
Tenant security and other deposit receipts	(864)	(864)
Total cash flows from operating activities	<u>19,096</u>	<u>18,311</u>
Administrative	(9,746)	(10,938)
Utilities	(4,517)	(5,381)
Operating and maintenance	(2,771)	(13,253)
Taxes and insurance	(2,672)	(2,495)
Tenant security and other deposits	864	864
Net cash provided by (used in) operating activities	<u>254</u>	<u>(12,892)</u>
Cash flows from investing activities		
Purchases of property and equipment	0	(1,600)
Change in residual receipts reserve	0	(676)
Change in reserve for replacements	(1,311)	(1,312)
Net cash used in investing activities	<u>(1,311)</u>	<u>(3,588)</u>
Net decrease in cash	<u>(1,057)</u>	<u>(16,480)</u>
Cash		
Cash at beginning of year	2,214	18,694
Cash at end of year	<u>\$ 1,157</u>	<u>\$ 2,214</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ (11,879)	\$ (16,316)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	12,512	12,050
(Increase) decrease in operating assets:		
Tenant accounts receivable	(142)	0
Housing assistance receivable	(229)	150
Minimum capital investment escrow	0	205
Increase (decrease) in operating liabilities:		
Accounts payable	(72)	(2,333)
Accounts payable—affiliate	0	(7,271)
Prepaid rents	229	623
Accrued management fees	(165)	0
Net cash provided by (used in) operating activities	<u>\$ 254</u>	<u>\$ (12,892)</u>

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

WOOD LANE ELDER HAUS II, INC.
PROJECT NO. 042-HD104
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

Note 1–Nature of business

Wood Lane Elder Haus II, Inc. (Wood Lane) was organized to provide living facilities for disabled residents. Wood Lane (Project) is a separate legal entity located in Bowling Green, Ohio and is sponsored by Wood Lane Residential Properties (WLRP), which is a nonprofit private corporation. The management agent for Wood Lane is Preferred Properties, Inc., which is a nonprofit private corporation.

The operations of Wood Lane are regulated by the Federal Housing Administration (FHA) of the U.S. Department of Housing and Urban Development (HUD) under Section 811 of the Housing Act, (Regulatory Agreement). Wood Lane is required to comply with the terms of the Regulatory Agreement.

Note 2–Summary of significant accounting and reporting policies

Basis of accounting

The financial statements of Wood Lane have been prepared on the accrual basis of accounting. The accrual basis of accounting provides for the recognition of revenues when earned and the recognition of expenses when incurred.

Financial statement presentation

The accompanying financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Topic, Not for Profit Entities, Presentation of Financial Statements, to be in accordance with accounting principles generally accepted in the United States of America. Wood Lane is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Management is of the opinion that there were no permanently restricted net assets at December 31, 2009 and 2008.

Temporarily restricted net assets

Temporarily restricted net assets consist of a capital advance from HUD in the amount of \$382,000. The capital advance does not bear interest and need not be repaid as long as the housing remains available to disabled persons for at least 40 years. Failure to comply with HUD requirements would result in HUD billing the owner for the entire capital advance outstanding plus interest since the date of the first advance. Management believes the likelihood of required repayment is remote.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

WOOD LANE ELDER HAUS II, INC.
PROJECT NO. 042-HD104
NOTES TO FINANCIAL STATEMENTS – CONTINUED
December 31, 2009

Note 2—Summary of significant accounting and reporting policies – continued

Cash and cash equivalents

All unrestricted investments with original maturities of three months or less are cash equivalents. The Project had no cash equivalents at December 31, 2009 and 2008, respectively.

Accounts receivable

Accounts receivable consists of amounts due from HUD for housing assistance payments. The January 2010 and 2009 housing assistance payments due from HUD are classified as housing assistance receivable in 2009 and 2008, respectively. Tenant accounts receivable consists of amounts due from tenants for rent. Accounts receivable are considered fully collectible at December 31, 2009 and 2008. Accordingly, no allowance for uncollectible accounts is required.

Property and equipment

The cost of the building and equipment will be depreciated over their estimated useful lives (ranging from 7 to 40 years), using the straight-line method. The Project has a capitalization policy for expenditures over \$1,000.

The Project 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 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.

Income taxes

Wood Lane is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Subsequent events

In May 2009, the FASB issued Topic, Subsequent Events which 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. Wood Lane 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. Wood Lane has evaluated subsequent events through February 11, 2010, the date on which the financial statements were issued.

WOOD LANE ELDER HAUS II, INC.
PROJECT NO. 042-HD104
NOTES TO FINANCIAL STATEMENTS – CONTINUED
December 31, 2009

Note 2—Summary of significant accounting and reporting policies – continued

New accounting pronouncements

Management of the Project is required to determine whether a tax position of the Project is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Management of the Project is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months. However, management's conclusions may be subject to review and adjustment at a later date based on factors including, but not limited to, new tax laws, regulations, and administrative interpretations (including relevant court decisions). The Project's federal tax returns for the prior three fiscal years remain subject to examination by the Internal Revenue Service.

Note 3—Transactions with affiliates

The minimum capital investment escrow was set up during the construction phase to fund unexpected costs. HUD requires one-half of one percent of the total HUD-approved capital advance be escrowed at initial closing as a minimum capital investment. WLRP funded this account for Wood Lane in the amount of \$1,961. WLRP also advanced Wood Lane certain amounts for start-up of Wood Lane. As of December 31, 2009 and 2008 the minimum capital investment and the start up funds have been repaid to WLRP but the funds must remain in the minimum capital investment escrow until released from HUD.

Note 4—Commitments

HUD requires Wood Lane to fund the following reserves:

Residual receipts

Wood Lane's funds in excess of funds needed for their intended purpose must be deposited with the mortgagee within 60 days after year-end. Withdrawals from this account can be made only with approval of HUD and for project purposes. Required funding of the residual receipts is \$0 as of December 31, 2009 and 2008.

Replacement reserve

In 2009 and 2008 monthly funding payments of \$109.08 were required. The funds are to be used for the replacement of property, with the approval of HUD. The Capital Advance Program Regulatory Agreement requires that the mortgagor make monthly deposits to the replacement reserve account. The replacement reserve balance was \$5,458 and \$4,147 at December 31, 2009 and 2008, respectively. HUD approved withdrawals amounted to \$0 in 2009 and 2008.

WOOD LANE ELDER HAUS II, INC.
PROJECT NO. 042-HD104
NOTES TO FINANCIAL STATEMENTS – CONTINUED
December 31, 2009

Note 5–Rental revenue

Wood Lane is a 4-unit housing development which receives monthly rentals as approved by HUD. The tenants are charged rental amounts based on a percentage of their income, and HUD subsidizes the remainder. HUD approved rentals per unit were \$450 June 2009 through December 2009 and \$375 January 2008 through May 2009. The rent subsidy contract with HUD expires October 2010.

Note 6–Current vulnerability due to certain concentrations

The Project's operations are concentrated in the multifamily real estate market. In addition, the Project operates in a heavily regulated environment. The operations of the Project are subject to the administrative directives, rules, and regulations of federal, state, and local regulatory 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.



GILMORE, JASION & MAHLER, LTD
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

Board of Directors
Wood Lane Elder Haus II, Inc.
Bowling Green, Ohio

We have audited the financial statements of Wood Lane Elder Haus II, Inc. (a nonprofit organization) as of and for the year ended December 31, 2009, and have issued our report thereon dated February 11, 2010. 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, and the *Consolidated Audit Guide for Audits of HUD Programs*, issued by the U.S. Department of Housing and Urban Development.

Internal control over financial reporting

In planning and performing our audit, we considered Wood Lane Elder Haus II, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Wood Lane Elder Haus II, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Wood Lane Elder Haus II, Inc.'s internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other matters

As part of obtaining reasonable assurance about whether Wood Lane Elder Haus II, Inc.'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 direct and 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*.

This report is intended solely for the information and use of the Board of Trustees, management, the Department of Housing and Urban Development, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Gilmore, Jason & Mahler, LTD

February 11, 2010

HUD SUPPLEMENTARY INFORMATION

WOOD LANE ELDER HAUS II, INC.
PROJECT NO. 042-HD-104
BALANCE SHEET
December 31, 2009

ASSETS

Current assets

1120 Cash—operations	\$	1,157
1130 Tenant accounts receivable		142
1135 Housing assistance receivable		852
Total current assets		2,151

Restricted deposits and funded reserves

1330 Capital minimum investment		1,961
1191 Tenant deposits held in trust		864
1320 Reserve for replacements		5,458
1340 Residual receipts reserve		676
Total deposits		8,959

Property and equipment

1410 Land		14,950
1420 Building and building improvements		359,922
1465 Office equipment		22,775
Total property and equipment		397,647
1495 Less accumulated depreciation		50,443
Net property and equipment		347,204

Total assets **\$ 358,314**

LIABILITIES AND NET ASSETS

Current liabilities

2110 Accounts payable	\$	4,740
2210 Prepaid revenues		852
Total current liabilities		5,592

Long term liabilities

2191 Tenant deposits held in trust		864
Total liabilities		6,456

Net assets

3131 Unrestricted net assets		(30,142)
3132 Temporarily restricted net assets		382,000
Total net assets		351,858
Total liabilities and net assets	\$	358,314

WOOD LANE ELDER HAUS II, INC.
PROJECT NO. 042-HD-104
STATEMENT OF PROFIT AND LOSS
For the Year Ended December 31, 2009

Rent revenue

5120	Rent revenue—gross potential	\$	10,666
5121	Tenant assistance payments		9,434
	Total rent revenue		20,100

Financial revenue

5490	Revenue from investments		2
	Total financial revenue		2
	Total revenue		20,102

Administrative expenses

6203	Conventions and meetings		80
6310	Office salaries		1,272
6311	Office expense		291
6320	Management fees		2,211
6350	Audit expenses		5,400
6351	Bookkeeping fees		312
6390	Miscellaneous administrative expenses		15
	Total administrative expenses		9,581

Utilities expenses

6450	Electricity		2,841
6452	Gas		1,676
	Total utilities expenses		4,517

WOOD LANE ELDER HAUS II, INC.
PROJECT NO. 042-HD-104
STATEMENT OF PROFIT AND LOSS – CONTINUED
For the Year Ended December 31, 2009

Operating and maintenance expenses		
6510 Maintenance		1,077
6515 Supplies		241
6520 Contracts		921
6548 Snow removal		460
	Total operating and maintenance expenses	2,699
Taxes and insurance		
6720 Property and liability insurance		1,878
6790 Miscellaneous taxes, insurance, license and permits		794
	Total taxes and insurance	2,672
	Total cost of operations before depreciation	19,469
Income before depreciation		633
6600 Depreciation		12,512
	Net loss	\$ (11,879)

WOOD LANE ELDER HAUS II, INC.
PROJECT NO. 042-HD-104
OTHER SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2009

Current cash

Cash (accounts 1120 and 1191)		\$ 2,021	
1135 Accounts receivable-HUD		852	
	Total current cash	2,873	

Current obligations

2119 Accounts payable		4,740	
2191 Tenant deposits held in trust		864	
2210 Prepaid revenue		852	
	Total current obligations	6,456	
	Cash deficit	\$ (3,583)	
	Deposit due residual receipts	\$ 0	

Residual receipts

In accordance with the provisions of the Regulatory Agreement, restricted cash is held by the bank as follows:

Beginning balance, January 1, 2009	\$ 676
Additions	0
Interest earned	0
Authorized withdrawals	0
Ending balance, December 31, 2009	\$ 676

Replacement reserve

In accordance with the provisions of the Regulatory Agreement, restricted cash is held at the bank to be used for the replacement of property, with the approval of HUD, as follows:

Beginning balance, January 1, 2009	\$ 4,147
Monthly deposits (\$109.08 x 12)	1,309
Interest earned	2
Authorized withdrawals	0
Ending balance, December 31, 2009	\$ 5,458

WOOD LANE ELDER HAUS II, INC.
PROJECT NO. 042-HD-104
SCHEDULE OF CHANGES IN FIXED ASSETS
For the Year Ended December 31, 2009

		Property and Equipment			
		Balance 12/31/08	Additions	Retirements	Balance 12/31/09
1410	Land	\$ 14,950	\$ 0	\$ 0	\$ 14,950
1420	Building and building improvements	359,922			359,922
1465	Office furniture	22,775			22,775
		\$ 397,647	\$ 0	\$ 0	\$ 397,647

		Accumulated Depreciation				
		Balance 12/31/08	Current Provisions	Retirements	Balance 12/31/09	Net Book Value 12/31/09
	Land	\$ 0	\$ 0	\$ 0	\$ 0	\$ 14,950
1495	Accumulated depreciation	37,931	12,512		50,443	332,254
		\$ 37,931	\$ 12,512	\$ 0	\$ 50,443	\$ 347,204

**WOOD LANE ELDER HAUS II, INC.
PROJECT NO. 042-HD104
MORTGAGOR'S CERTIFICATION**

We hereby certify that we have examined the accompanying financial statements and supplementary information of Wood Lane Elder Haus II, Inc. and, to the best of our knowledge and belief, the same is complete and accurate.

By: *Signature on File*
Greg Bair
Chief Executive Officer

By: *Signature on File*
Tonia Peters
Finance Director

Federal Employer Identification
Number 16-1675124

**WOOD LANE ELDER HAUS II, INC.
PROJECT NO. 042-HD104
MANAGEMENT AGENT'S CERTIFICATION**

We hereby certify that we have examined the accompanying financial statements and supplementary information of Wood Lane Elder Haus II, Inc. and, to the best of our knowledge and belief, the same is complete and accurate.

By: *Signature on File*
Lewis Ellis
Executive Director
Preferred Properties, Inc.

By: *Signature on File*
Beverly Zadiraka
Finance Manager
Preferred Properties, Inc.

Federal Employer Identification
Number 34-1715222

**WOOD LANE ELDER HAUS II, INC.
PROJECT NO. 042-HD104
GENERAL INFORMATION
For the Year Ended December 31, 2009**

Gilmore, Jasion & Mahler, LTD
1715 Indian Wood Circle, Suite 100
Maumee, OH 43537

Engagement Partner: Robert A. Bobek
Telephone Number: (419) 794-2000
Federal Employer I.D. Number: 34-1827159

The audit was performed between January 11, 2010 and January 29, 2010 at Wood Lane Elder Haus II, Inc.'s facility.

Records for the accounting and administration of the Federal Financial Assistance programs, and administration for the mortgagor and the management agent are located at 2001 Collingwood Blvd., Toledo, Ohio 43620, telephone number (419) 244-9609.