

**CLARE TOWERS, INC.**

(HUD Project No. 075-11057-REF)

Milwaukee, Wisconsin

June 30, 2009 and 2008

**FINANCIAL STATEMENTS**

Including Independent Auditors' Report

The following name is the independent auditor  
contact regarding the above project:

Krista K. Pankop, CPA, Partner  
Baker Tilly Virchow Krause, LLP  
115 S. 84th Street, Suite 400  
Milwaukee, Wisconsin 53214  
414.777.5500  
EIN: 39-0859910

# CLARE TOWERS, INC.

## TABLE OF CONTENTS

---

<b>Independent Auditors' Report</b>	1
<b>Financial Statements</b>	
Statements of Financial Position	2
Statements of Activities	3 - 4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 11



Baker Tilly Virchow Krause, LLP  
115 S 84th St, Ste 400  
Milwaukee, WI 53214-1475  
tel 414 777 5500  
fax 414 777 5555  
bakertilly.com

## INDEPENDENT AUDITORS' REPORT

S3400-020

Board of Directors  
Clare Towers, Inc.  
Milwaukee, Wisconsin

We have audited the accompanying statement of financial position of Clare Towers, Inc. as of June 30, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Clare Towers, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Clare Towers, Inc. as of June 30, 2008 were audited by other auditors whose report dated September 12, 2008 expressed an unqualified opinion.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Clare Towers, Inc. as of June 30, 2009 and the changes in its net assets and its cash flows for the year 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 September 8, 2009 on our consideration of the Project'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 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.

*Baker Tilly Virchow Krause, LLP*

Milwaukee, Wisconsin  
September 8, 2009

## CLARE TOWERS, INC.

### STATEMENTS OF FINANCIAL POSITION June 30, 2009 and 2008

<b>ASSETS</b>		2009	2008
<b>CURRENT ASSETS</b>			
1120	Cash and cash equivalents - operations	\$ 53,591	\$ 66,487
1130	Accounts receivable - tenant	1,833	357
1135	Accounts receivable - HUD	13,412	16,912
1100T	Total Current Assets	68,836	83,756
<b>DEPOSITS HELD IN TRUST</b>			
1191	Tenant security deposits	35,002	34,045
<b>RESTRICTED FUNDS</b>			
1310	Escrow deposits	48,438	29,803
1320	Reserve for replacements	1,433,604	1,910,867
1300T	Total Restricted Funds	1,482,042	1,940,670
<b>PROPERTY AND EQUIPMENT</b>			
1410	Land and land improvements	660,859	589,885
1420	Buildings and improvements	5,791,966	5,544,903
1440	Building equipment (portable)	117,512	109,417
1460	Furnishings	195,730	184,020
1470	Maintenance equipment	18,481	19,165
1480	Motor vehicles	30,911	-
1400T	Total Property and Equipment	6,815,459	6,447,390
1495	Less: Accumulated depreciation	(3,792,702)	(3,783,396)
1400N	Net Property and Equipment	3,022,757	2,663,994
<b>OTHER ASSETS</b>			
1520	Intangible assets	301,076	310,316
1000T	<b>TOTAL ASSETS</b>	\$ 4,909,713	\$ 5,032,781
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>			
<b>CURRENT LIABILITIES</b>			
2110	Accounts payable - operations	\$ 115,637	\$ 45,131
2116	Accounts payable - section 8 and other	5,100	930
2131	Accrued interest payable	34,047	34,372
2170	Current maturities of first mortgage payable	68,849	64,850
2190	Other accrued expenses	28,826	15,283
2122T	Total Current Liabilities	252,459	160,566
<b>DEPOSITS HELD IN TRUST</b>			
2191	Tenant security deposits	35,002	34,000
<b>LONG-TERM LIABILITIES</b>			
2320	Mortgage payable - first mortgage	6,740,511	6,809,360
2000T	Total Liabilities	7,027,972	7,003,926
<b>NET ASSETS (DEFICIT)</b>			
3131	Net Assets (Deficit) - Unrestricted	(2,118,259)	(1,983,145)
3132	Net Assets - Temporarily Restricted	-	12,000
	Total Net Assets (Deficit)	(2,118,259)	(1,971,145)
<b>TOTAL LIABILITIES AND NET ASSETS (DEFICIT)</b>		<b>\$ 4,909,713</b>	<b>\$ 5,032,781</b>

See accompanying notes to financial statements.

# CLARE TOWERS, INC.

## STATEMENTS OF ACTIVITIES Years Ended June 30, 2009 and 2008

<b>CHANGE IN UNRESTRICTED NET ASSETS</b>		<u>2009</u>	<u>2008</u>
<b>UNRESTRICTED REVENUE</b>			
Rental Revenue			
5120	Rent revenue - gross potential	\$ 354,275	\$ 343,542
5121	Tenant assistance payments	1,038,709	1,022,094
5193	Special claims revenue	<u>15,578</u>	<u>8,261</u>
5100T	Total Rent Revenue	<u>1,408,562</u>	<u>1,373,897</u>
5220	Vacancies	<u>(47,288)</u>	<u>(52,008)</u>
5152N	Net Rental Revenue	<u>1,361,274</u>	<u>1,321,889</u>
5300	Service coordinator revenue	<u>107,726</u>	<u>102,945</u>
Financial Revenue			
5410	Financial revenue - project operations	-	1
5440	Revenue from investments - replacement reserve	<u>18,510</u>	<u>70,791</u>
5400T	Total Financial Revenue	<u>18,510</u>	<u>70,792</u>
Other Revenue			
5910	Laundry and vending revenue	12,221	12,252
5920	Tenant charges	1,294	2,734
5970	Contributions and gifts	80,530	31,846
5990	Miscellaneous revenue	<u>12,000</u>	<u>254</u>
5900T	Total Other Revenue	<u>106,045</u>	<u>47,086</u>
5000T	Total Revenue	<u>\$ 1,593,555</u>	<u>\$ 1,542,712</u>

See accompanying notes to financial statements.

# CLARE TOWERS, INC.

## STATEMENTS OF ACTIVITIES (continued) Years Ended June 30, 2009 and 2008

	2009	2008
<b>EXPENSES</b>		
Administrative Expenses		
6203 Conventions and meetings	\$ 3,817	\$ 2,517
6210 Advertising and marketing	1,507	3,627
6310 Office salaries	44,310	27,159
6311 Office expenses	21,673	22,552
6320 Management fee	68,362	64,631
6330 Manager salaries	41,871	52,772
6331 Administrative rent free unit	12,732	19,404
6340 Legal expense - project	2,990	3,152
6350 Audit expense	18,900	31,326
6351 Bookkeeping fees/accounting services	54,172	58,540
6370 Bad debts	2,199	3,101
6390 Miscellaneous administrative expenses	<u>14,837</u>	<u>13,648</u>
6263T Total Administrative Expenses	<u>287,370</u>	<u>302,429</u>
Utilities Expenses		
6450 Electricity	52,544	49,180
6451 Water	14,289	14,987
6452 Gas	32,283	28,600
6453 Sewer	<u>19,760</u>	<u>20,973</u>
6400T Total Utilities Expense	<u>118,876</u>	<u>113,740</u>
Operating and Maintenance Expenses		
6510 Payroll	121,674	107,508
6515 Supplies	56,690	36,459
6520 Contracts	105,172	63,352
6525 Garbage and trash removal	19,836	16,823
6530 Security payroll/contract	11,001	14,956
6548 Snow removal	1,979	7,899
6570 Maintenance equipment operation and repairs	1,645	2,578
6590 Miscellaneous operating and maintenance expenses	<u>79,301</u>	<u>230</u>
6500T Total Operating and Maintenance Expenses	<u>397,298</u>	<u>249,805</u>
Taxes and Insurance		
6711 Payroll taxes (project share)	20,665	18,768
6720 Property and liability insurance	51,800	53,766
6722 Worker's compensation	5,384	5,339
6723 Health insurance and other employee benefits	54,605	33,232
6790 Miscellaneous taxes, licenses, permits and insurance	<u>2,012</u>	<u>2,852</u>
6700T Total Taxes and Insurance	<u>134,466</u>	<u>113,957</u>
Financial Expenses		
6820 Interest expense	410,364	414,150
6850 Mortgage insurance premium / service charge	30,658	30,850
6890 Miscellaneous financial expenses	<u>9,240</u>	<u>9,240</u>
6800T Total Financial Expenses	<u>450,262</u>	<u>454,240</u>
6900 Service coordinator expenses	<u>107,726</u>	<u>104,785</u>
Total Expenses Before Depreciation	<u>1,495,998</u>	<u>1,338,956</u>
Change in net assets before depreciation	<u>97,557</u>	<u>203,756</u>
6600 Depreciation	<u>232,671</u>	<u>198,665</u>
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	<u>(135,114)</u>	<u>5,091</u>
<b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b>		
3248 Grants	-	12,000
3248 Net assets released from restrictions	<u>(12,000)</u>	<u>-</u>
<b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b>	<u>(12,000)</u>	<u>12,000</u>
<b>CHANGE IN NET ASSETS</b>	<u>(147,114)</u>	<u>17,091</u>
NET ASSETS (DEFICIT) - Beginning of Year	<u>(1,971,145)</u>	<u>(1,988,236)</u>
<b>NET ASSETS (DEFICIT) - END OF YEAR</b>	<u>\$ (2,118,259)</u>	<u>\$ (1,971,145)</u>

See accompanying notes to financial statements.

# CLARE TOWERS, INC.

## STATEMENTS OF CASH FLOWS Years Ended June 30, 2009 and 2008

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
S1200-010 Rental receipts	\$ 1,404,999	\$ 1,340,290
S1200-020 Interest received	18,510	70,792
S1200-030 Other operating receipts	119,947	147,297
S1200-050 General and administrative expenses	(219,008)	(237,798)
S1200-070 Management fee	(68,362)	(64,631)
S1200-090 Utilities	(118,876)	(113,740)
S1200-110 Operating and maintenance expenses	(286,273)	(313,607)
S1200-140 Property insurance	(51,800)	(53,766)
S1200-150 Miscellaneous taxes and insurance	(82,666)	(60,191)
S1200-170 Other operating expenses	(107,726)	(104,785)
S1200-180 Interest paid	(410,689)	(414,454)
S1200-210 Mortgage insurance premium	(30,658)	(30,850)
S1200-240 Net Cash Flows From Operating Activities	167,398	164,557
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
S1200-330 Purchase of property and equipment	(573,115)	(278,874)
S1200-250 Net deposits to the reserve for replacements account and other restricted fund activity, net	476,306	176,273
S1200-260 Net proceeds from the residual receipts account	-	2
S1200-245 Net proceeds from (deposits to) the mortgage escrow account	(18,635)	2,980
S1200-350 Net Cash Flows From Investing Activities	(115,444)	(99,619)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
S1200-360 Cash used to retire debt	(64,850)	(61,082)
S1200-460 Net Cash Flows From Financing Activities	(64,850)	(61,082)
S1200-470 <b>Net Change in Cash and Cash Equivalents</b>	(12,896)	3,856
S1200-480 CASH AND CASH EQUIVALENTS - Beginning of Year	66,487	62,631
<b>S1200T CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 53,591</b>	<b>\$ 66,487</b>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
3250 Change in Net Assets	\$ (147,114)	\$ 17,091
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Noncash items included in change in net assets		
6600 Depreciation	232,671	198,665
6610 Amortization	9,240	9,240
S1200-600 Donated property and equipment	(41,125)	(25,386)
S1200-600 Loss on disposal of property and equipment	74,056	-
Changes in noncash components in change of net assets		
S1200-490 Accounts receivable - tenant	(1,476)	373
S1200-500 Other receivables	3,500	13,257
S1200-520 Prepaid expenses and other current assets	-	208
S1200-540 Accounts payable	23,426	(13,281)
S1200-560 Accrued expenses and other current liabilities	13,543	(37,343)
S1200-570 Accrued interest payable	(325)	(304)
S1200-580 Tenant security deposits	1,002	2,037
S1200-610 <b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 167,398</b>	<b>\$ 164,557</b>
S1200-620	There is not a HUD account available to reflect the noncash activities related to purchases of property and equipment included in accounts payable of \$51,250, so this amount was netted with the change in accounts payable.	

See accompanying notes to financial statements.

# CLARE TOWERS, INC.

## NOTES TO FINANCIAL STATEMENTS June 30, 2009 and 2008

---

### **NOTE 1 - Summary of Significant Accounting Policies**

---

#### *Nature of Operations S3100-010*

Clare Towers, Inc. (the "Project") is a Wisconsin not-for-profit corporation exempt from Federal income tax under section 501(c)(3) of the Internal Revenue Code. The Project is regulated by the U.S. Department of Housing and Urban Development ("HUD").

The Project is sponsored by The School Sisters of St. Francis of St. Joseph's Covenant, Milwaukee, Wisconsin, Inc. ("SSSF"), a not-for-profit corporation. The accompanying financial statements are those of the Project only and do not represent the financial statements of SSSF.

The Project consists of five different affordable housing projects: Towers, Woods, Heights, Meadows, and Court/Lakes all located in the Milwaukee area with each location ranging between 8 and 32 units.

The Project is a service corporation organized for the purpose of providing needful individuals with housing facilities and services designed to meet their special needs and to promote their health, security, happiness and usefulness.

Pursuant to Section 8 of Title II of the United States Housing Act of 1937, as amended, rents are subsidized by governmental payments through a housing assistance contract between HUD and the Project. Payments received under this contract are a significant portion of the Project's rental revenue. Housing assistance payments received totaled \$1,054,287 and \$1,030,355 for the years ended June 30, 2009 and 2008, respectively. The Project may not increase rent charged to tenants without HUD approval.

#### *Cash and Cash Equivalents S3100-040*

The Project defines cash and cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of three months or less.

#### *Tenants' Accounts Receivable S3100-040*

Tenants' accounts receivable have been adjusted for all known uncollectible accounts. The allowance for doubtful accounts is based on historical collection experience and a review of the current status of accounts receivable. No allowance for doubtful accounts is considered necessary as of June 30, 2009 and 2008. If amounts become uncollectible, they are charged to operations in the period in which that determination is made.

#### *Advertising S3100-040*

Advertising costs are charged to operations when incurred.

# CLARE TOWERS, INC.

## NOTES TO FINANCIAL STATEMENTS June 30, 2009 and 2008

---

### **NOTE 1 - Summary of Significant Accounting Policies (continued)**

---

#### *Property and Equipment S3100-040*

Property and equipment are being depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	40
Building equipment (portable)	5 to 10
Furnishings	5 to 10
Maintenance equipment	5 to 10
Motor vehicles	5

Property and equipment are stated at cost. Major expenditures for property and equipment are capitalized. Maintenance, repairs, and minor improvements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income or expense, respectively.

Donated property and equipment is recorded as increases in unrestricted net assets at their estimated fair market value as of the date received.

#### *Impairment of Long-Lived Assets S3100-040*

The Project reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

#### *Intangible Assets S3100-040*

The Project incurred loan origination fees of \$323,406 relating to the mortgage note payable. The loan origination fees are being amortized over the term of the loan on a straight line basis. Accumulated amortization for the years ended June 30, 2009 and 2008 was \$22,330 and \$13,090, respectively.

# CLARE TOWERS, INC.

## NOTES TO FINANCIAL STATEMENTS June 30, 2009 and 2008

---

### **NOTE 1 - Summary of Significant Accounting Policies (continued)**

---

#### *Net Assets S3100-040*

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Project are classified and reported as follows:

**Unrestricted Net Assets** - Net assets that are not subject to donor-imposed stipulations.

**Temporarily Restricted Net Assets** - Net assets subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Project pursuant to those stipulations.

**Permanently Restricted Net Assets** - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Project.

#### *Tax-Exempt Status S3100-040*

The Project has received notification that it qualifies as a tax-exempt organization under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding provisions of State law and, accordingly, is not subject to federal or state income taxes.

#### *Reclassification S3100-040*

For comparability, certain 2008 amounts have been reclassified to conform with classifications adopted in 2009. The reclassifications have no effect on reported amounts of net assets or change in net assets.

#### *Estimates S3100-040*

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.

#### *Subsequent Events S3100-040*

The Project has evaluated subsequent events through September 8, 2009 which is the date that the financial statements were approved and issued.

---

### **NOTE 2 - Fair Value of Financial Instruments S3100-240**

---

Effective July 1, 2008, the Project adopted FASB Statement No. 157, Fair Value Measurements ("SFAS No. 157"), which provides a framework for measuring, reporting and disclosing fair value under generally accepted accounting principles. SFAS No. 157 applies to all assets and liabilities that are measured, reported and/or disclosed on a fair value basis. There was no effect to net assets as of July 1, 2008 due to adopting SFAS No. 157.

**CLARE TOWERS, INC.**

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

**NOTE 3 - Tenant Security Deposits S3100-240**

The tenant security deposits are maintained in an interest bearing savings account separate from the operating account of the Project. Withdrawals are restricted to reimbursements of tenants' security deposits including any accrued interest.

**NOTE 4 - Restricted Funds S3100-240**

Monthly escrow deposits are made for the reserve for replacements and are maintained in an interest bearing account separate from the operating account of the Project. Disbursements are restricted to replacement of structural elements or equipment and may be made only upon approval by HUD. Upon satisfaction of the mortgage note payable, the balance in this escrow reverts to the benefit of the Project.

HUD requires the Project to remit all cash remaining, if any, after the establishment of all required escrows and reserves and the payment of all expenses and allowable disbursements to a residual receipts fund on an annual basis. Deposits are made within 90 days after year-end and would be maintained in an interest bearing savings account separate from the operating account of the Project. Withdrawals may be made with the permission of HUD. Upon satisfaction of the mortgage note payable, the balance in this fund reverts to the benefit of HUD.

The Project makes monthly payments to an escrow account for the payment of property insurance required by the mortgage payable.

**NOTE 5 - Property and Equipment**

The change in the major categories of property and equipment for the year ended June 30, 2009 is summarized as follows:

		Cost			
		Balance	Additions	Reductions	Balance
		6/30/2008(P)	(AT)	(DT)	6/30/2009
					(T)
1410	Land and land improvements	\$ 589,885	\$ 128,380	\$ 57,406	\$ 660,859
1420	Buildings and improvements	5,544,903	452,065	205,002	5,791,966
1440	Building equipment (portable)	109,417	25,945	17,850	117,512
1465	Furnishings	184,020	28,189	16,479	195,730
1470	Maintenance equipment	19,165	-	684	18,481
1480	Motor vehicles	-	30,911	-	30,911
<b>Totals</b>		<b>\$ 6,447,390</b>	<b>\$ 665,490</b>	<b>\$ 297,421</b>	<b>\$ 6,815,459</b>

**CLARE TOWERS, INC.**

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 and 2008

**NOTE 5 - Property and Equipment (continued)**

	<u>Accumulated Depreciation</u>			<u>Balance 6/30/2009 (1495)</u>
	<u>Balance 6/30/2008 (1495P)</u>	<u>Additions (6600)</u>	<u>Reductions (1400ADT)</u>	
Accumulated depreciation	<u>\$ 3,783,396</u>	<u>\$ 232,671</u>	<u>\$ 223,365</u>	<u>\$ 3,792,702</u>
Net Property and Equipment (1400N)				<u>\$ 3,022,757</u>

**NOTE 6 - Mortgage Payable S3100-050**

Mortgage payable consists of the following at June 30:

	<u>2009</u>	<u>2008</u>
Mortgage note payable to Capstone with monthly payments of \$39,628, including interest at 6%, due March 2042, secured by a mortgage on the rental properties and insured by HUD under Section 223(f) of the National Housing Act.	\$ 6,809,360	\$ 6,874,210
Less: Current Portion	<u>(68,849)</u>	<u>(64,850)</u>
Long-Term Portion	<u>\$ 6,740,511</u>	<u>\$ 6,809,360</u>

Principal requirements on long-term debt for years ending after June 30 are as follows:

2010	S3100-060	\$ 68,849
2011	S3100-070	73,096
2012	S3100-080	77,604
2013	S3100-090	82,391
2014	S3100-100	87,472
	Thereafter S3100-110	<u>6,419,948</u>
	Total	<u>\$ 6,809,360</u>

**NOTE 7 - Management Fees S3100-230**

Property management fees are incurred pursuant to a management agreement based on 5.08% of residential income collected.

## CLARE TOWERS, INC.

### NOTES TO FINANCIAL STATEMENTS June 30, 2009 and 2008

---

#### **NOTE 8 - Related Party Transactions S3100-210, S3100-220**

---

St. Clare Management, Inc, an affiliate of the Project, manages the Project's rental property. Property management fees were incurred as discussed in Note 7. St. Clare Management, Inc. also bills the Project for salaries, benefits, janitorial, maintenance, and other occupancy expenses paid on the Project's behalf. For the years ended June 30, 2009 and 2008, \$521,859 and \$491,549, respectively, were charged to operations for these services. Payables to St. Clare Management, Inc. were \$51,417 and \$45,728 at June 30, 2009 and 2008, respectively.

---

#### **NOTE 9 - Commitments and Contingencies S3100-240**

---

##### *Operating Environment*

The Project's principal activity and sources of revenues consists of managing residential apartment buildings concentrated in the multifamily real estate market. 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 additional administrative burden, to comply with a change.

##### *Financial Awards from Grantors*

Financial awards from federal, state and local governments in the form of grants are subject to special audit. Such audits could result in claims against the Project for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time.

##### *Litigation*

The Project is party to various legal actions that are incidental to its activities. The outcome of legal actions cannot be predicted with certainty. Management of the Project believes that the outcome of any of these proceedings will not have a material adverse effect on its financial position or activities.

##### *Concentration*

The Project maintains a cash balance in one institution which exceeds the federally insured limit of \$250,000. The Project has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.