

ST. CLARE MANAGEMENT, INC.

Milwaukee, Wisconsin

June 30, 2009 and 2008

FINANCIAL STATEMENTS

Including Accountants' Review Report

ST. CLARE MANAGEMENT, INC.

TABLE OF CONTENTS

Accountants' Review Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5 - 9



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ACCOUNTANTS' REVIEW REPORT

Board of Directors
St. Clare Management, Inc.
Milwaukee, Wisconsin

We have reviewed the accompanying statement of financial position of St. Clare Management, Inc. as of June 30, 2009 and the related statements of activities and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of St. Clare Management, Inc.

A review consists principally of inquiries of Organization personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The 2008 financial statements of St. Clare Management, Inc. were reviewed by other accountants, whose report dated August 29, 2008, stated that they were not aware of any material modifications that should be made to those statements in order for them to be in conformity with generally accepted accounting principles.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
September 8, 2009

ST. CLARE MANAGEMENT, INC.

STATEMENTS OF FINANCIAL POSITION June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 17,340	\$ 58,117
Accounts receivable	107,172	65,798
Inventory	<u>3,138</u>	<u>-</u>
Total Current Assets	<u>127,650</u>	<u>123,915</u>
PROPERTY AND EQUIPMENT		
Furnishings	9,980	9,622
Office equipment	32,125	32,125
Maintenance equipment	<u>29,771</u>	<u>29,771</u>
Total Property and Equipment	71,876	71,518
Less: Accumulated depreciation	<u>(65,237)</u>	<u>(59,506)</u>
Net Property and Equipment	<u>6,639</u>	<u>12,012</u>
TOTAL ASSETS	<u>\$ 134,289</u>	<u>\$ 135,927</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 737	\$ 291
Other current liabilities	<u>28,851</u>	<u>17,974</u>
Total Current Liabilities	29,588	18,265
LONG-TERM LIABILITIES		
Pension liability	<u>68,751</u>	<u>49,553</u>
Total Liabilities	98,339	67,818
NET ASSETS		
Net Assets - Unrestricted	<u>35,950</u>	<u>68,109</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 134,289</u>	<u>\$ 135,927</u>

See accompanying notes to financial statements and accountants' review report.

ST. CLARE MANAGEMENT, INC.

STATEMENTS OF ACTIVITIES
Years Ended June 30, 2009 and 2008

	<u>Unrestricted 2009</u>	<u>Unrestricted 2008</u>
REVENUES		
Project income	\$ 85,215	\$ 80,709
Other	<u>10,898</u>	<u>5,295</u>
Total Revenue	<u>96,113</u>	<u>86,004</u>
EXPENSES		
Wages and benefits	76,601	15,713
Administrative	23,751	20,721
Operating and maintenance	7,900	-
Taxes and insurance	14,290	13,235
Depreciation	<u>5,730</u>	<u>8,786</u>
Total Expenses	<u>128,272</u>	<u>58,455</u>
 CHANGE IN NET ASSETS	 (32,159)	 27,549
 NET ASSETS - Beginning of Year	 <u>68,109</u>	 <u>40,560</u>
 NET ASSETS - END OF YEAR	 <u>\$ 35,950</u>	 <u>\$ 68,109</u>

See accompanying notes to financial statements and accountants' review report.

ST. CLARE MANAGEMENT, INC.

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

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (32,159)	\$ 27,549
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	5,730	8,786
Donated inventory	(3,138)	-
Changes in assets and liabilities		
Accounts receivable	(41,374)	15,312
Accounts payable	446	(6,532)
Other current liabilities	10,877	4,786
Pension liability	<u>19,198</u>	<u>(18,281)</u>
Net Cash Flows From Operating Activities	<u>(40,420)</u>	<u>31,620</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(357)</u>	<u>(6,627)</u>
Net Change in Cash and Cash Equivalents	(40,777)	24,993
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>58,117</u>	<u>33,124</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 17,340</u>	<u>\$ 58,117</u>

See accompanying notes to financial statements and accountants' review report.

ST. CLARE MANAGEMENT, INC.

NOTES TO FINANCIAL STATEMENTS June 30, 2009 and 2008

NOTE 1 - Summary of Significant Accounting Policies

Nature of Operations

St. Clare Management, Inc. (the "Organization") operates several apartment buildings located in Milwaukee and Racine, Wisconsin. A total of 164 units are operated under two separate projects, Telos, Inc. and Clare Towers, Inc. ("Projects"), which are subsidized and regulated by United States Department of Housing and Urban Development ("HUD").

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

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable have been adjusted for all known uncollectible accounts. The Organization's estimate 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.

Inventory

Inventory, which consists of donated supplies, are stated at the lower of cost or market.

Advertising

Advertising costs are charged to operations when incurred.

Property and Equipment

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

	<u>Years</u>
Furnishings	5 to 10
Office equipment	5 to 10
Maintenance equipment	5 to 10

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.

ST. CLARE MANAGEMENT, INC.

NOTES TO FINANCIAL STATEMENTS June 30, 2009 and 2008

NOTE 1 - Summary of Significant Accounting Policies (continued)

Impairment of Long-Lived Assets

The Organization 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.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization are classified and reported as unrestricted net assets which are net assets that are not subject to donor-imposed stipulations.

Tax-Exempt Status

The Organization 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.

Advertising

Advertising costs are charged to operations when incurred.

Reclassification

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

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

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

ST. CLARE MANAGEMENT, INC.

NOTES TO FINANCIAL STATEMENTS June 30, 2009 and 2008

NOTE 2 - Related Party Transactions

The Organization contracts with the Projects to provide management services. A portion of the Organization's project income consists of management fees from the Projects. The management fees are determined based on a percentage of the Projects' net rental collections (including HUD subsidies). The total amount charged to the Projects for these services for the years ending June 30, 2009 and 2008, were \$80,305 and \$76,606, respectively. In addition, the Projects reimbursed the Organization for operating expenses incurred by the Organization on behalf of the Projects. At June 30, 2009 and 2008, \$103,034 and \$65,798 were receivable from the Projects, respectively.

The Organization leases its office facilities from SSSF under annual leases which require monthly payments of \$2,020. Total rent expense under all operating leases amounted to \$24,500 and \$24,368 for the years ending June 30, 2009 and 2008, respectively.

The Organization entered into a note receivable ("Note") with Telos, Inc., of which the balance at June 30, 2009 and 2008, was \$1,937 and \$0, respectively, and is included in accounts receivable on the statements of financial position. The Note, which has been approved by HUD, bears no interest and is receivable in monthly installments of \$324 with a final payment due December 5, 2009 of \$317.

NOTE 3 - Retirement Plans

Retirement plans consist of a Tax Sheltered Annuity ("TSA") plan and a Defined Benefit Pension plan sponsored by Ascension Health and SSSF. The Defined Benefit Pension plan was frozen effective January 1, 2004 and a new Defined Contribution plan was implemented. The TSA plan is a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The TSA plan allows eligible employees to defer pre-tax compensation (as defined in the plan), subject to certain limitations. For the new plan, after certain limitations and eligibility requirements are met, employees receive an employer matching contribution based on their voluntary TSA contributions. In addition, the Organization contributes 2% to 3% of earnings as calculated on December 31 of each year, regardless of whether the employee makes any voluntary contributions, subject to certain limitations.

Retirement plan expense, for both plans, for the years ending June 30, 2009 and 2008 were \$41,808 and \$17,747, respectively.

The Defined Benefit Pension plan is a multiemployer non-contributory defined benefit pension plan qualified under Section 401(a) of the Internal Revenue Code sponsored by the SSSF. The Defined Benefit Pension plan includes two benefits upon meeting eligibility requirements, a basic pension benefit and an employer match benefit. The basic pension benefit is determined by formula, based on the participant's length of services and compensation level. The match benefit is based on contributions to the TSA plan.

The SSSF adopted the second provision of the Financial Accounting Standards Board (the "FASB") No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (FASB No. 158), which requires the measurement date used to determine pension and other postretirement benefit measurements for the plan to be the fiscal year end. As a result, the Organization has also adopted FASB No. 158. The Organization used a June 30 measurement date after the adoption of FASB No. 158. Prior to the adoption of the second provision of FASB No. 158, the Organization used a March 31 measurement date.

ST. CLARE MANAGEMENT, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

NOTE 3 - Retirement Plans (continued)

The following information is for the total pension plan, which includes the Organization and the various entities under SSSF. The Organization has recorded a liability for their portion of the total pension plan. The liability as of June 30, 2009 and 2008 was \$68,751 and \$49,553, respectively, and is included in long-term liabilities on the statements of financial position.

	2009	2008
Change in benefit obligation		
Projected Benefit Obligation at beginning of year	\$ 8,139,141	\$ 8,790,541
Effect of eliminating early measurement date	(110,693)	-
Interest cost	544,108	536,015
Actuarial loss	14,983	278,987
Benefits paid	(410,514)	(542,565)
Assumption changes	237,421	(923,837)
Projected Benefit Obligation at end of year	\$ 8,414,446	\$ 8,139,141
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 6,179,184	\$ 5,923,327
Effect of eliminating early measurement date	(82,081)	-
Employer contributions	220,584	147,089
Actual return on plan assets	(374,140)	651,333
Benefits paid	(410,514)	(542,565)
Fair value of plan assets at end of year	5,533,033	6,179,184
Contributions made after measurement date	-	38,463
Funded status of the plan	\$ (2,881,413)	\$ (1,921,494)

Amounts recognized in the statements of financial position consist of:

	2009	2008
Pension liability	\$ 2,881,413	\$ 1,921,494

Components of the pension expense consist of the following at June 30:

	2009
Interest cost	\$ 544,108
Expected return on plan assets	(504,705)
Amortization of net loss	15,700
Unrecognized net actuarial loss	1,131,249
Eliminating early measurement date - actuarial loss	3,925
Operating portion of pension expense	\$ 1,190,277

The accumulated benefit obligation for this defined benefit pension plan was \$8,414,446 and \$8,139,141 at June 30, 2009 and 2008, respectively.

The actuarial assumptions used to develop the net periodic pension cost were as follows:

	2009
Weighted average discount rate	6.55%
Expected long-term rate of return on assets	8.50%

SSSF plans to contribute \$100,000 to this pension plan during the fiscal year ending June 30, 2010.

ST. CLARE MANAGEMENT, INC.

NOTES TO FINANCIAL STATEMENTS June 30, 2009 and 2008

NOTE 3 - Retirement Plans (continued)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2010	\$	300,000
2011		400,000
2012		400,000
2013		400,000
2014		500,000
2015-2019		<u>3,100,000</u>
Total	\$	<u>5,100,000</u>

NOTE 4 - Significant Concentrations

Operating Environment

The Organization's principal activity and sources of revenue consists of managing residential apartment buildings concentrated in the multifamily real estate market. The related Projects operate in a heavily regulated environment. The operations of the Projects 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.