

**PRESBYTERIAN APARTMENTS, INC.  
PROJECT NO. 034SH006  
FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION  
AND INDEPENDENT AUDITOR'S REPORT  
DECEMBER 31, 2011 AND 2010**

**PRESBYTERIAN APARTMENTS, INC.**  
**PROJECT NO. 034SH006**

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Presbyterian Apartments, Inc.  
Harrisburg, Pennsylvania

We have audited the accompanying statements of financial position of Presbyterian Apartments, Inc. (a nonprofit Organization), HUD Project No. 034SH006, as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization'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 Presbyterian Apartments, Inc. as of December 31, 2011 and 2010, 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 March 8, 2012, on our consideration of Presbyterian Apartments, 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 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 audits.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on pages 14 through 23 is presented for the purposes of additional analysis as required by the *Consolidated Audit Guide for Audits of HUD Programs* issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information 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. The 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

*McKonly & Asbury, LLP*

Camp Hill, Pennsylvania  
March 8, 2012

**PRESBYTERIAN APARTMENTS, INC.**  
**PROJECT NO. 034SH006**

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2011 AND 2010

ASSETS	2011	2010
<b>Current Assets</b>		
Cash and cash equivalents	\$ 21,929	\$ 138,791
Accounts receivable - tenants	9,270	1,843
Accounts receivable - HUD	15,170	-
Accounts receivable - grants	-	23,534
Accounts receivable - other	5,202	5,942
Contributions receivable	6,000	112,000
Prepaid expenses	12,040	37
Total current assets	69,611	282,147
<b>Noncurrent Assets</b>		
<b>Restricted Deposits</b>		
Replacement reserve	164,807	212,588
Tenant deposits held in trust	18,925	19,411
Total restricted deposits	183,732	231,999
<b>Fixed Assets</b>		
Land	183,519	183,519
Building and improvements	5,474,571	4,856,603
Furniture and equipment	452,075	452,075
Construction in progress	242,636	614,162
	6,352,801	6,106,359
Less accumulated depreciation	(4,997,790)	(4,860,423)
Fixed assets - net	1,355,011	1,245,936
Total assets	\$ 1,608,354	\$ 1,760,082

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

<u>LIABILITIES AND NET DEFICIT</u>	2011	2010
<b>Current Liabilities</b>		
Accounts payable - operations	\$ 154,989	\$ 292,859
Accounts payable - related party	39,341	46,013
Accrued expenses		
Interest	1,622	-
Wages and vacation	22,259	19,320
Other	6,300	3,576
Current maturities of long-term debt	85,891	77,046
Prepaid rent	4,276	-
Total current liabilities	<u>314,678</u>	<u>438,814</u>
<b>Noncurrent Liabilities</b>		
Tenant deposits held in trust	17,216	17,593
Long-term debt - net of current maturities		
Mortgage payable	550,664	630,077
Flexible subsidy loan		
Loan payable	1,671,580	1,671,580
Accrued interest payable	308,770	291,918
Total liabilities	<u>2,862,908</u>	<u>3,049,982</u>
<b>Net assets (deficit)</b>		
Unrestricted	(1,279,725)	(1,412,325)
Temporarily restricted	25,171	122,425
Total liabilities and net deficit	<u>\$ 1,608,354</u>	<u>\$ 1,760,082</u>

**PRESBYTERIAN APARTMENTS, INC.**  
**PROJECT NO. 034SH006**

STATEMENTS OF ACTIVITIES

DECEMBER 31, 2011

WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2010

	Unrestricted	Temporarily Restricted	Total 2011	2010
<b>Revenue</b>				
Rent	\$ 969,051	\$ -	\$ 969,051	\$ 1,002,944
Financial	210	-	210	739
Grants	-	-	-	481,085
Contributions	30	2,370	2,400	122,475
Other	85,659	-	85,659	30,482
Released from restrictions	99,624	(99,624)	-	-
Total revenue	1,154,574	(97,254)	1,057,320	1,637,725
<b>Expenses</b>				
Administrative	244,830	-	244,830	195,083
Utilities	236,149	-	236,149	318,031
Operating and maintenance	264,943	-	264,943	280,213
Taxes and insurance	101,679	-	101,679	106,327
Interest	37,006	-	37,006	39,053
Depreciation	137,367	-	137,367	107,916
Total expenses	1,021,974	-	1,021,974	1,046,623
Change in net assets (deficit)	132,600	(97,254)	35,346	591,102
Net Assets (Deficit) - Beginning	(1,412,325)	122,425	(1,289,900)	(1,881,002)
Net Assets (Deficit) - Ending	\$ (1,279,725)	\$ 25,171	\$ (1,254,554)	\$ (1,289,900)

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

**PRESBYTERIAN APARTMENTS, INC.**  
**PROJECT NO. 034SH006**

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
<b>Cash Flows from Operating Activities</b>		
Cash received from rentals	\$ 950,730	\$ 1,002,278
Interest received	125	264
Other cash received	218,333	496,478
Total receipts	<u>1,169,188</u>	<u>1,499,020</u>
Administrative	42,270	43,747
Management fees	85,513	42,065
Utilities	250,831	301,012
Salaries and wages	313,324	266,496
Operating and maintenance	234,059	85,807
Property and liability insurance	52,887	30,309
Miscellaneous taxes and insurance	2,290	3,262
Tenant security deposits	89	1,424
Interest on mortgage	18,532	22,428
Total disbursements	<u>999,795</u>	<u>796,550</u>
Net cash provided by operating activities	169,393	702,470
<b>Cash Flows from Investing Activities</b>		
Net (deposits to) withdrawals from reserve for replacement	47,866	(30,208)
Purchase of fixed assets	(263,553)	(530,024)
Net cash used in investing activities	<u>(215,687)</u>	<u>(560,232)</u>
<b>Cash Flows from Financing Activities</b>		
Principal payments on long-term debt	(70,568)	(74,772)
Net increase (decrease) in cash and cash equivalents	<u>(116,862)</u>	<u>67,466</u>
<b>Cash and Cash Equivalents:</b>		
Beginning	138,791	71,325
Ending	<u>\$ 21,929</u>	<u>\$ 138,791</u>

(continued)



**PRESBYTERIAN APARTMENTS, INC.**  
**PROJECT NO. 034SH006**

STATEMENTS OF CASH FLOWS (Cont'd)

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
<b>Reconciliation of Changes in Net Deficit to</b>		
Net Cash Provided by Operating Activities		
Changes in net deficit	\$ 35,346	\$ 591,102
Adjustments to reconcile changes in net deficit to net cash provided by operating activities		
Interest earned on replacement reserve account	(85)	(475)
Depreciation	137,367	107,916
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(6,687)	1,149
Accounts receivable - HUD	(15,170)	-
Accounts receivable - grants	23,534	(23,534)
Contributions receivable	106,000	(112,000)
Prepaid expenses	(12,003)	3,296
Cash restricted for tenant deposits held in trust	486	(3,070)
(Decrease) increase in:		
Accounts payable - operations	(120,759)	74,306
Accounts payable - related party	(6,672)	39,921
Accrued expenses	7,285	6,136
Accrued interest	16,852	16,625
Prepaid revenue	4,276	(350)
Tenant deposits held in trust	(377)	1,448
	\$ 169,393	\$ 702,470
	\$ 169,393	\$ 702,470
 <b>Supplemental schedule of noncash investing activities</b>		
Total purchase of fixed assets	\$ 246,442	\$ 661,905
(Increase) decrease in accounts payable	17,111	(131,881)
	\$ 263,553	\$ 530,024
	\$ 263,553	\$ 530,024

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

**PRESBYTERIAN APARTMENTS, INC.**  
**PROJECT NO. 034SH006**

NOTES TO FINANCIAL STATEMENTS

**Note 1. Nature of Organization and Significant Accounting Policies**

Nature of Organization: Presbyterian Apartments, Inc. is a nonprofit organization located in Harrisburg, Pennsylvania. The Project contains 165 apartments, of which 29 receive subsidies under Section 8 Housing Assistance payments agreement with the U. S. Department of Housing and Urban Development (HUD). The Project's mortgage was originally financed under HUD Section 202 and renovations have been financed through the HUD Flexible Subsidy Program.

PHI, doing business as Presbyterian Senior Living (PSL), is the parent organization of Presbyterian Apartments, Inc., and has approval rights for Board of Director appointments.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates based on management's knowledge and experience. Due to their prospective nature, actual results could differ from those estimates.

Revenue Recognition: Rental revenue is recognized on the accrual method. Accordingly, revenue is recognized as earned, and expenses are recognized as incurred. A monthly housing assistance payment is received from the Department of Housing and Urban Development for leases to qualifying low-income tenants.

Grant revenue is recognized to the extent that eligible costs are incurred.

Accounts Receivable: Tenant receivables are carried at original rental amount less an estimate made for doubtful receivables based on management's review of all outstanding amounts on a regular basis. Management determines the allowance for doubtful accounts by regularly evaluating individual tenant receivables and considering a tenant's financial condition, credit history and current economic conditions. Management has not identified any tenant receivables at year-end that, based on the tenant's financial condition, credit history, and current economic conditions, suggest a reserve would be appropriate. Tenant receivables are written off when deemed uncollectible. Recoveries of tenant receivables previously written off are recorded when received.

A tenant receivable is considered to be past due based on how payments are received compared to the tenant's payment history. Interest is not generally charged on trade receivables.

Fixed Assets: Fixed assets are stated at cost. Depreciation is provided on the straight-line method over the useful lives of the various assets; 20 to 40 years for buildings and improvements, and 5 to 10 years for furniture, machinery, and equipment.

Impairment: The Organization reviews its long-lived assets for impairment on an exception basis whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through future cash flows. If it is determined that an impairment loss has occurred based on the expected cash flows, a loss is recognized in the statement of activities.

(continued)

**PRESBYTERIAN APARTMENTS, INC.**  
**PROJECT NO. 034SH006**

NOTES TO FINANCIAL STATEMENTS

Net Asset Classifications: The Organization reports information regarding its financial position and activities according to two classes of net assets: unrestricted net assets and temporarily restricted net assets. Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired. Temporarily restricted net assets contain donor-imposed restrictions that permit the Organization to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the Organization.

Income Taxes: The Organization is exempt from Federal income tax under Internal Revenue Code Section 501(c)(3). The Organization adheres to the provisions of Financial Accounting Standards Board Codification 740, Income Taxes. ASC 740 prescribes a comprehensive model for financial statement recognition, measurement, classification and disclosure of uncertain tax positions. The Organization has concluded that it does not have any uncertain tax positions that require recognition or disclosure in the financial statements. Management believes it is no longer subject to income tax examinations for years prior to 2008.

Cash Equivalents: For purposes of the Statements of Cash Flows, the Organization considers all highly-liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Advertising Costs: The Organization expenses all advertising costs as incurred.

Tenant Security Deposits: Tenant security deposits are held in a bank account in the name of the Project.

Subsequent Events: Management evaluated events subsequent to December 31, 2011, and through March 8, 2012, the date the financial statements were available to be issued.

Reclassification: Certain items in the 2010 financial statements have been reclassified to conform to the presentation of the 2011 financial statements.

**Note 2. Long-Term Debt**

		2011	2010
Loans payable - HUD	(A)	\$ 1,671,580	\$ 1,671,580
Accrued interest payable - HUD	(A)	308,770	291,918
Mortgage payable - HUD	(B)	636,555	707,123
Accrued interest payable - HUD	(B)	1,622	-
		<u>2,618,527</u>	<u>2,670,621</u>
Less current portion of mortgage		(85,891)	(77,046)
		<u>\$ 2,532,636</u>	<u>\$ 2,593,575</u>

(A) These loans are made as part of the HUD flexible subsidy program. The flexible subsidy program provides funds for major repair and replacement expenditures. The terms of these loans are as follows:

- The entire principal balance is due upon the sale of the project building or upon full payment of the HUD mortgage.

(continued)

**PRESBYTERIAN APARTMENTS, INC.**  
**PROJECT NO. 034SH006**

NOTES TO FINANCIAL STATEMENTS

- Other principal payments can be made only from surplus cash with the written permission of the District Housing Commissioner of HUD.
- Simple interest at the rate of 1% per annum is payable at the time of principal payments. Interest has accrued since the note's inception.

(B) This mortgage payable as of December 31, 2011, represents a permanent building loan provided by HUD. The monthly installments of principal and interest are \$8,100. Interest is being charged at 3.0%. The mortgage note is secured by the apartment project.

Following are minimum principal payments of the mortgage payable for each of the next five years and in the aggregate as of December 31, 2011:

<u>Year</u>	<u>Amount</u>
2012	\$ 85,891
2013	81,797
2014	84,285
2015	86,849
2016	89,491
Future years	208,242
	<hr/> <u>\$ 636,555</u>

The Organization incurred interest cost totaling \$37,006 and \$39,053 for the years ended December 31, 2011 and 2010. Interest costs totaling \$18,532 and \$22,428 were paid in 2011 and 2010.

**Note 3. HUD-Restricted Deposits and Funded Reserves**

Replacement Reserve

Under the regulatory agreement, the Project is required to set aside amounts for the replacement of property and other project expenditures approved by HUD. These deposits are held in separate accounts and generally are not available for operating purposes. The required monthly deposit for 2011 and 2010 was \$4,451.

Residual Receipts Reserve

Surplus cash is calculated annually and must be deposited into the residual receipts account within 90 days after the end of each fiscal year. Use of these funds is contingent upon HUD's prior written approval. The Project has not had surplus cash; therefore no residual receipts account has been established. No payments were due for 2011 or 2010.

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**PRESBYTERIAN APARTMENTS, INC.**  
**PROJECT NO. 034SH006**

NOTES TO FINANCIAL STATEMENTS

**Note 4. Rent Increases**

Under the regulatory agreement, the Project may not increase rents charged to tenants without prior HUD approval.

**Note 5. Related Party Transactions**

Some members of the Board of Directors of Presbyterian Apartments, Inc. are also officers of Presbyterian Senior Living. Presbyterian Senior Living is the management agent. Management fees are calculated at 6.5% of revenues as specified on the management certification. Total management fees paid to Presbyterian Senior Living were \$63,458 and \$68,340, for the years ended December 31, 2011 and 2010, respectively. Management fees included in accounts payable – related party were \$725 and \$22,780 as of December 31, 2011 and 2010.

Presbyterian Senior Living also pays expenses on behalf of the Organization and is reimbursed as project funds allow. Total reimbursements due to PSL included in accounts payable – related party were \$38,616 and \$23,233 as of December 31, 2011 and 2010.

**Note 6. Temporarily Restricted Net Assets**

Temporarily restricted net assets at December 31, 2011 and 2010, are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Replace call bell system	\$ 18,000	\$ 18,000
Replace fire alarm system	-	100,000
Other	<u>7,171</u>	<u>4,425</u>
	<u>\$ 25,171</u>	<u>\$ 122,425</u>

**Note 7. Retirement Plan**

The Organization participates in the PHI Defined Contribution Retirement Plan covering substantially all its employees. The Organization's contributions to the Plan are based on the eligible compensation of the employee. During 2011 and 2010, the Organization contributed \$9,449 and \$6,464 to the Plan, respectively.

**Note 8. Grant**

In 2010, the Organization received a grant from the Pennsylvania Housing Finance Agency (PHFA) through its Preservation through Smart Rehab Program for energy efficiency improvements to the Project. Grant revenue from PHFA totaled zero and \$471,285 for the years ended December 31, 2011 and 2010.

(continued)

**PRESBYTERIAN APARTMENTS, INC.**  
**PROJECT NO. 034SH006**

NOTES TO FINANCIAL STATEMENTS

**Note 9. Trash Dispute**

The Project was in a dispute with the City of Harrisburg regarding a significant increase in trash collection fees during the year ended December 31, 2008. The Project had ceased payment of the trash fees, but continued to accrue the trash portion of the bills received from the City of Harrisburg. A resolution was received by the Project during the year ended December 31, 2011, which was significantly less than the amounts accrued in prior years. Total trash expense agreed to by the Project and the City of Harrisburg equaled \$19,669 in 2011, which includes penalties incurred due to nonpayment. Credits of \$72,235 were received related to billings for the years 2008-2010 and was recorded to miscellaneous income to reduce the amounts previously accrued in accounts payable for prior years' expenses.

**Note 10. Functional Allocation of Expenses**

The costs of providing programs and other activities have been summarized on a functional basis below. Accordingly, certain costs have been allocated among programs and management and general.

	<u>2011</u>	<u>2010</u>
Program services	\$ 910,378	\$ 925,331
Management and general	<u>111,596</u>	<u>121,292</u>
Total expenses	<u>\$ 1,021,974</u>	<u>\$ 1,046,623</u>

**Note 11. Current Vulnerability due to Certain Concentrations**

The Project's sole asset is a 165 unit apartment project. 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 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.

**SUPPLEMENTARY INFORMATION  
REQUIRED BY HUD**

**PRESBYTERIAN APARTMENTS, INC.**  
**PROJECT NO. 034SH006**

STATEMENT OF FINANCIAL POSITION DATA

DECEMBER 31, 2011

Account Number	ASSETS		
	Current Assets		
1120	Cash - operations	\$	21,929
1130	Accounts receivable - tenants		9,270
1135	Accounts receivable - HUD		15,170
1140	Accounts receivable - other		5,202
1140	Contributions receivable		6,000
1200	Prepaid expenses		12,040
1100T	Total current assets		<u>69,611</u>
1191	Tenant deposits held in trust		<u>18,925</u>
	Restricted Deposits		
1320	Replacement reserve		<u>164,807</u>
	Fixed Assets		
1410	Land		183,519
1420	Building		5,474,571
1440	Building equipment		134,361
1450	Furniture for project - tenant use		89,472
1460	Furnishings		192,802
1465	Office furniture and equipment		26,154
1470	Maintenance equipment		9,286
1490	Construction in progress		242,636
1400T	Total fixed assets		<u>6,352,801</u>
1495	Less accumulated depreciation		<u>(4,997,790)</u>
1400N	Fixed assets - net		<u>1,355,011</u>
1000T	Total assets	\$	<u><u>1,608,354</u></u>



Account Number	LIABILITIES AND NET DEFICIT		
	Current Liabilities		
2110	Accounts payable - operations	\$	154,989
2110	Accounts payable - related party		39,341
2190	Accrued expenses		30,181
2170	Current maturities of long-term debt		85,891
2210	Prepaid revenue		4,276
2122T	Total current liabilities		<u>314,678</u>
2191	Tenant deposits held in trust		<u>17,216</u>
	Long-term debt		
2320	Mortgage payable - net of current portion		550,664
2325	Flexible subsidy loan payable		1,671,580
2330	Accrued interest payable - flexible subsidy		308,770
2300T	Total long-term liabilities		<u>2,531,014</u>
2000T	Total liabilities		<u>2,862,908</u>
	Net assets (deficit)		
3131	Unrestricted		(1,279,725)
3132	Temporarily restricted		<u>25,171</u>
3130	Total net assets (deficit)		<u>(1,254,554)</u>
2033T	Total liabilities and net deficit	\$	<u><u>1,608,354</u></u>

**PRESBYTERIAN APARTMENTS, INC.**  
**PROJECT NO. 034SH006**

STATEMENT OF ACTIVITIES DATA

YEAR ENDED DECEMBER 31, 2011

Account Number		
	Revenue	
5120	Rent - gross potential	\$ 920,251
5121	Tenant assistance payments	86,251
5140	Rent - commercial	32,876
5170	Parking spaces	9,824
5190	Miscellaneous rent revenue	2,990
5100T	Total potential rent revenue	<u>1,052,192</u>
5220	Vacancies - apartments	(83,116)
5250	Rent concessions	(25)
5152N	Net rental revenue	<u>969,051</u>
5410	Revenue from investments - operations	125
5440	Revenue from investments - reserve for replacements	85
5400T	Total financial revenue	<u>210</u>
5910	Laundry and vending revenue	10,125
5920	Tenant charges	167
5970	Gifts	2,400
5990	Miscellaneous revenue	75,367
5900T	Total other revenue	<u>88,059</u>
5000T	Total revenue	1,057,320
	Expenses	
6204	Management consultants	17,753
6210	Advertising	7,008
6310	Office salaries	74,963
6311	Office expenses	5,257
6320	Management fee	63,458
6330	Manager salaries	29,393
6340	Legal expenses - project	1,258
6350	Audit expense	13,500
6360	Telephone and answering services	9,917
6370	Bad debt expense	6,676
6390	Miscellaneous administrative expense	15,647
6263T	Total administrative expenses	<u>244,830</u>

(continued)

**PRESBYTERIAN APARTMENTS, INC.**  
**PROJECT NO. 034SH006**

STATEMENT OF ACTIVITIES DATA (Cont'd)

YEAR ENDED DECEMBER 31, 2011

Account Number		
	Expenses (Continued)	
6450	Electricity	159,096
6451	Water	31,841
6452	Gas and steam	33,090
6453	Sewer	12,122
6263T	Total utilities expense	236,149
6510	Payroll	136,908
6515	Supplies	68,583
6520	Contracts	28,081
6521	Rent free unit	1,716
6525	Garbage and trash removal	19,669
6530	Security contract	3,583
6590	Miscellaneous operating and maintenance	6,403
6550T	Total operating and maintenance expense	264,943
6710	Real estate taxes	2,290
6711	Payroll taxes	18,118
6720	Property and liability insurance	21,319
6722	Workmen's compensation	6,856
6723	Health insurance and other employee benefits	53,096
6700T	Total taxes and insurance	101,679
6820	Interest expense	37,006
6800T	Total financial expenses	37,006
6000T	Total cost of operations before depreciation	884,607
5060T	Profit before depreciation	172,713
6600	Depreciation	137,367
5060N	Operating profit	35,346
3247	Change in unrestricted net assets from operations	132,600
3248	Change in temporarily restricted net assets from operations	(97,254)
3250	Change in total net assets from operations	\$ 35,346
S1000-010	Total mortgage principal payments required during the year	\$ 70,568
S1000-020	Total of 12 monthly deposits during the year into the replacement reserve account, as required by the regulatory agreement	\$ 53,412
S1000-030	Replacement reserves, or residual receipts and releases which are included as expense items on this Profit and Loss statement	\$ -

**PRESBYTERIAN APARTMENTS, INC.**  
**PROJECT NO. 034SH006**

STATEMENT OF CASH FLOWS DATA

YEAR ENDED DECEMBER 31, 2011

Account Number		
<u>Cash Flows from Operating Activities</u>		
S1200-010	Rental receipts	\$ 950,730
S1200-202	Interest receipts	125
S1200-030	Other operating receipts	218,333
S1200-040	Total receipts	<u>1,169,188</u>
S1200-050	Administrative	42,270
S1200-070	Management fees	85,513
S1200-090	Utilities	250,831
S1200-100	Salaries and wages	313,324
S1200-110	Operating and maintenance	234,059
S1200-140	Property and liability insurance	52,887
S1200-150	Miscellaneous taxes and insurance	2,290
S1200-160	Tenant security deposits	89
S1200-180	Interest on mortgage	18,532
S1200-230	Total disbursements	<u>999,795</u>
S1200-240	Net cash provided by operating activities	169,393
<u>Cash Flows from Investing Activities</u>		
S1200-250	Net withdrawals from reserve for replacement	47,866
S1200-330	Purchase of fixed assets	<u>(263,553)</u>
S1200-350	Net cash used in investing activities	(215,687)
<u>Cash Flows from Financing Activities</u>		
S1200-360	Principal payments on long-term debt	<u>(70,568)</u>
S1200-470	Net decrease in cash and cash equivalents	(116,862)
<u>Cash and Cash Equivalents:</u>		
S1200-480	Beginning	<u>138,791</u>
S1200T	Ending	<u><u>\$ 21,929</u></u>

(continued)

**PRESBYTERIAN APARTMENTS, INC.**  
**PROJECT NO. 034SH006**

STATEMENT OF CASH FLOWS DATA (Cont'd)

YEAR ENDED DECEMBER 31, 2011

Account Number		
	Reconciliation of Changes in Net Deficit to	
	Net Cash Provided by Operating Activities	
3250	Change in net deficit	\$ 35,346
	Adjustments to reconcile change in net deficit to net cash provided by operating activities	
	Interest earned on replacement reserve account	(85)
6600	Depreciation	137,367
	Changes in assets and liabilities:	
	(Increase) decrease in:	
S1200-490	Accounts receivable	(6,687)
S1200-500	Accounts receivable - HUD	(15,170)
S1200-500	Accounts receivable - grants	23,534
S1200-505	Contributions receivable	106,000
S1200-520	Prepaid expenses	(12,003)
S1200-530	Cash restricted for tenant deposits held in trust	486
	(Decrease) increase in:	
S1200-540	Accounts payable - operations	(120,759)
S1200-540	Accounts payable - related party	(6,672)
S1200-560	Accrued expenses	7,285
S1200-570	Accrued interest	16,852
S1200-580	Tenant deposits held in trust	(377)
S1200-590	Prepaid revenue	4,276
		<hr/>
S1200-610	<b>Net cash provided by operating activities</b>	<b>\$ 169,393</b>
		<hr/> <hr/>

**PRESBYTERIAN APARTMENTS, INC.**  
**PROJECT NO. 034SH006**

SCHEDULES OF MISCELLANEOUS PROFIT AND LOSS DATA  
(MISCELLANEOUS CATEGORIES > 10% OF TOTAL)

YEAR ENDED DECEMBER 31, 2011

*Other revenue - Account 5990*

Credit for trash expense from prior years	\$ 72,235
Miscellaneous revenue	<u>3,132</u>
	<u>\$ 75,367</u>

**PRESBYTERIAN APARTMENTS, INC.**  
**PROJECT NO. 034SH006**

SCHEDULE OF RESERVE FOR REPLACEMENT

YEAR ENDED DECEMBER 31, 2011

Account Number		
1320P	Balance - January 1, 2011	\$ 212,588
1320DT	Monthly deposits	53,412
1320INT	Interest	85
		<u>266,085</u>
1320WT	Withdrawals - approved by HUD	(101,227)
1320OWT	Other withdrawals - bank service fees	(51)
		<u>(101,278)</u>
1320	Balance - December 31, 2011	<u><u>\$ 164,807</u></u>

**PRESBYTERIAN APARTMENTS, INC.**  
**PROJECT NO. 034SH006**

COMPUTATION OF SURPLUS CASH - ANNUAL

YEAR ENDED DECEMBER 31, 2011

Account Number		
S1300-010	Cash	\$ 40,854
1135	Accounts receivable - HUD	<u>15,170</u>
S1300-040	<b>Total cash</b>	56,024
	Current obligations	
S1300-050	Accrued mortgage interest payable	1,622
S1300-060	Delinquent mortgage principal payments	6,478
S1300-075	Accounts payable due within 30 days	194,330
S1300-100	Accrued expenses	28,559
2191	Tenant security deposits	17,216
2210	Prepaid rent	<u>4,276</u>
S1300-140	<b>Total current obligations</b>	<u>252,481</u>
S1300-150	<b>Surplus cash (deficiency)</b>	<u><u>\$ (196,457)</u></u>



**PRESBYTERIAN APARTMENTS, INC.**  
**PROJECT NO. 034SH006**

SCHEDULE OF CHANGES IN FIXED ASSET ACCOUNTS

YEAR ENDED DECEMBER 31, 2011

Account Number		Beginning Balance	Additions	Disposals	Ending Balance
1410	Land	\$ 183,519	\$ -	\$ -	\$ 183,519
1420	Buildings	4,856,603	617,968	-	5,474,571
1440	Building equipment	134,361	-	-	134,361
1450	Furniture for project - tenant use	89,472	-	-	89,472
1460	Furnishings	192,802	-	-	192,802
1465	Office furniture and equipment	26,154	-	-	26,154
1470	Maintenance equipment	9,286	-	-	9,286
1490	Construction in progress	614,162	242,636	614,162	242,636
1400T	<b>Total fixed assets</b>	6,106,359	860,604	614,162	6,352,801
1495	Accumulated depreciation	4,860,423	137,367	-	4,997,790
1400N	<b>Total net book value</b>				<u><u>\$ 1,355,011</u></u>

*Schedule of Additions to Buildings*

<u>Description</u>	<u>Amount</u>
Smart rehab construction	<u><u>\$ 617,968</u></u>

*Schedule of Additions to Construction in Progress*

<u>Description</u>	<u>Amount</u>
Construction in progress	<u><u>\$ 242,636</u></u>

*Schedule of Disposals from Construction in Progress*

<u>Description</u>	<u>Amount</u>
Construction in progress placed in service	<u><u>\$ 614,162</u></u>

**PRESBYTERIAN APARTMENTS, INC.**  
**PROJECT NO. 034SH006**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2011

Federal Grantor	Federal C.F.D.A. Number	Federal Expenditures
U.S. Department of Housing and Urban Development		
1     Housing for the Elderly		
Outstanding mortgage balance	14.157	\$    636,555
2     Operating Assistance for Troubled Multi-Family Housing Projects (Flexible Subsidy Fund)		
Outstanding principal balance	14.164	1,671,580
Accrued interest payable	14.164	<u>308,770</u>
		1,980,350
3     Lower Income Housing Assistance Program		
Section 8 - Moderate Rehabilitation	14.856	<u>86,251</u>
<b>Total expenditures of federal awards</b>		<u><u>\$ 2,703,156</u></u>

See Notes to Schedule of Expenditures of Federal Awards.

**PRESBYTERIAN APARTMENTS, INC.**  
**PROJECT NO. 034SH006**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Presbyterian Apartments, Inc., Project No. 034SH006, under programs of the federal government for the year ended December 31, 2011. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Presbyterian Apartments, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Presbyterian Apartments, Inc.

**Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**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**

The Board of Directors  
Presbyterian Apartments, Inc.  
Harrisburg, Pennsylvania

We have audited the financial statements of Presbyterian Apartments, Inc., HUD Project No. 034SH006 as of and for the year ended December 31, 2011, and have issued our report thereon dated March 8, 2012. 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.

*Internal Control Over Financial Reporting*

Management of Presbyterian Apartments, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Presbyterian Apartments, 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 Presbyterian Apartments, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization'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.

(continued)

Our consideration of the 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 in internal control over financial reporting that might be 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 Presbyterian Apartments, 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*.

We noted certain matters that we reported to management of Presbyterian Apartments, Inc. in a separate letter dated March 8, 2012.

This report is intended solely for the information and use of the board of directors, management, others within the organization, and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

*McKonly & Asbury, LLP*

Camp Hill, Pennsylvania  
March 8, 2012

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of Directors  
Presbyterian Apartments, Inc.  
Harrisburg, Pennsylvania

Compliance

We have audited Presbyterian Apartments, Inc.'s, HUD Project No. 034SH006, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Presbyterian Apartments, Inc.'s major federal programs for the year ended December 31, 2011. Presbyterian Apartments, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Presbyterian Apartments, Inc.'s management. Our responsibility is to express an opinion on Presbyterian Apartments, Inc.'s compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Presbyterian Apartments, Inc.'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. Our audit does not provide a legal determination of Presbyterian Apartments, Inc.'s compliance with those requirements.

(continued)

In our opinion, Presbyterian Apartments, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

*Internal Control Over Compliance*

Management of Presbyterian Apartments, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Presbyterian Apartments, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Presbyterian Apartments, Inc.'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 type of compliance requirement of a federal 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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the board of directors, management, others within the organization, and the Department of Housing and Urban Development and is not intended to be, and should not be, used by anyone other than these specified parties.

*McKonly & Asbury, LLP*

Camp Hill, Pennsylvania  
March 8, 2012

**PRESBYTERIAN APARTMENTS, INC.  
PROJECT NO. 034SH006**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED DECEMBER 31, 2011**

**SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of Presbyterian Apartments, Inc.
2. No material weaknesses were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Presbyterian Apartments, Inc. were disclosed during the audit.
4. No material weaknesses were identified during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs for Presbyterian Apartments, Inc. expresses an unqualified opinion on all major federal programs.
6. Audit findings, which were required to be reported in accordance with Section 510 (a) of OMB Circular A-133, are reported in this schedule.
7. The programs tested as major programs were:
  - Section 202 Direct Loan (CFDA # 14.157)
  - Operating Assistance for Troubled Multi-Family Housing Projects (CFDA # 14.164)
8. The threshold for distinguishing between Type A and Type B programs was \$300,000.
9. Presbyterian Apartments, Inc. did not qualify as a low-risk auditee.

**FINDINGS – FINANCIAL STATEMENT AUDIT**

None.

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None.



**PRESBYTERIAN APARTMENTS, INC.**  
**PROJECT NO. 034SH006**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED DECEMBER 31, 2011

None.

**PRESBYTERIAN APARTMENTS, INC.**  
**PROJECT NO. 034SH006**

CERTIFICATE OF OFFICERS

YEAR ENDED DECEMBER 31, 2011

We hereby certify that we have examined the accompanying financial statements and supplementary information of Presbyterian Apartments, Inc. and, to the best of our knowledge and belief, the same is complete and accurate.

Corporate Officers

Date

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**PRESBYTERIAN APARTMENTS, INC.**  
**PROJECT NO. 034SH006**

MANAGING AGENT'S CERTIFICATION

YEAR ENDED DECEMBER 31, 2011

We hereby certify that we have examined the accompanying financial statements and supplementary information of Presbyterian Apartments, Inc. and, to the best of our knowledge and belief, the same is complete and accurate.

\_\_\_\_\_  
Presbyterian Senior Living

\_\_\_\_\_  
Date

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