

PRESBYTERIAN APARTMENTS, INC.

PROJECT NO. 034SH006

FINANCIAL REPORT

DECEMBER 31, 2003

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Presbyterian Apartments, Inc.
Project No. 034SH006
Harrisburg, Pennsylvania

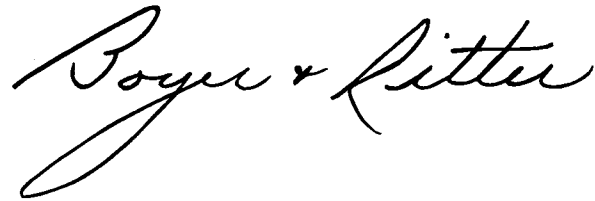
We have audited the accompanying statements of financial position of Presbyterian Apartments, Inc., Project No. 034SH006, as of December 31, 2003 and 2002, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's 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 audits 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, 2003 and 2002, 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 January 14, 2004, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of Presbyterian Apartments, Inc., taken as a whole. The accompanying supplementary information on pages 12 to 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements of Presbyterian Apartments, Inc., Project No. 034SH006. 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 not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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.

A handwritten signature in cursive script that reads "Boyer & Ritten". The signature is written in black ink and is positioned to the right of the main text block.

Carlisle, Pennsylvania
January 14, 2004

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF FINANCIAL POSITION
December 31, 2003 and 2002

ASSETS	2003	2002
Current Assets		
Cash and cash equivalents	\$ 56,266	\$ 97,634
Accounts receivable		
Tenants	7,901	3,014
HUD	1,485	1,749
Prepaid expenses	1,350	21,181
	<hr/>	<hr/>
Total current assets	67,002	123,578
	<hr/>	<hr/>
Noncurrent Assets		
Restricted deposits		
Replacement reserve	180,603	173,983
Tenant deposits held in trust	16,886	17,679
Total restricted deposits	197,489	191,662
	<hr/>	<hr/>
Property and Equipment		
Land	183,519	183,519
Building and improvements	4,697,410	4,741,864
Furniture and equipment	350,465	335,909
	<hr/>	<hr/>
	5,231,394	5,261,292
Less accumulated depreciation	(3,895,679)	(3,842,785)
Property and equipment - net	1,335,715	1,418,507
	<hr/>	<hr/>
Total assets	\$ 1,600,206	\$ 1,733,747
	<hr/>	<hr/>

See Notes to Financial Statements.

LIABILITIES AND NET DEFICIT	2003	2002
Current Liabilities		
Accounts payable	\$ 55,470	\$ 65,440
Accrued expenses		
Wages and vacation	14,391	22,092
Payroll taxes	7,771	5,026
Management fee	1,040	266
Current maturities of long-term debt	62,464	60,620
Total current liabilities	141,136	153,444
Noncurrent Liabilities		
Tenant deposits held in trust	16,886	17,679
Long-term debt - net of current maturities		
Mortgage payable	1,123,893	1,186,356
Flexible subsidy loan		
Loan payable	1,672,491	1,672,491
Accrued interest payable	174,225	157,500
Total liabilities	3,128,631	3,187,470
Unrestricted Net Deficit	(1,528,425)	(1,453,723)
Total liabilities and net deficit	\$ 1,600,206	\$ 1,733,747

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF ACTIVITIES
Years Ended December 31, 2003 and 2002

	2003	2002
Revenue		
Rent	\$ 785,487	\$ 781,615
Financial	1,753	3,007
Other	36,835	33,681
Total revenue	824,075	818,303
Expenses		
Administrative	164,347	166,308
Utilities	241,753	224,793
Operating and maintenance	193,176	175,896
Taxes and insurance	79,014	61,660
Interest	53,305	55,095
Depreciation	167,182	171,891
Total expenses	898,777	855,643
Changes in net deficit	(74,702)	(37,340)
Net Deficit - Beginning	(1,453,723)	(1,416,383)
Net Deficit - Ending	\$ (1,528,425)	\$ (1,453,723)

See Notes to Financial Statements.

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2003 and 2002

	2003	2002
Cash Flows From Operating Activities		
Cash received from rentals	\$ 780,864	\$ 784,354
Interest received	359	479
Other cash received	36,835	33,681
Total receipts	818,058	818,514
Administrative	45,300	48,885
Management fees	48,288	50,523
Utilities	253,723	212,906
Salaries and wages	182,367	159,167
Operating and maintenance	88,759	52,046
Property and liability insurance	10,380	48,673
Miscellaneous taxes and insurance	43,794	35,467
Interest on mortgage	36,580	38,370
Total disbursements	709,191	646,037
Net cash provided by operating activities	108,867	172,477
Cash Flows From Investing Activities		
Net deposits into reserve for replacement	(5,226)	(26,084)
Net withdrawals from residual receipts	-	13,875
Interest earned but retained in residual receipts account	-	59
Purchase of fixed assets	(84,390)	(55,530)
Net cash used in investing activities	(89,616)	(67,680)
Cash Flows From Financing Activities		
Principal payments on long-term debt	(60,619)	(58,830)
Net increase (decrease) in cash and cash equivalents	(41,368)	45,967
Cash and Cash Equivalents:		
Beginning	97,634	51,667
Ending	\$ 56,266	\$ 97,634

(Continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF CASH FLOWS (Continued)
Years Ended December 31, 2003 and 2002

	2003	2002
Reconciliation of Changes in Net Deficit to		
Net Cash Provided by Operating Activities		
Changes in net deficit	\$ (74,702)	\$ (37,340)
Adjustments to reconcile changes in net deficit		
to net cash provided by operating activities		
Depreciation	167,182	171,891
Interest earned in replacement reserve account	(1,394)	(2,469)
Interest earned in residual receipts account	-	(59)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(4,623)	2,739
Prepaid expenses	19,831	(20,057)
Cash restricted for tenant deposits held in trust	793	(192)
(Decrease) increase in:		
Accounts payable	(9,970)	38,530
Accrued expenses	(4,182)	2,517
Accrued interest	16,725	16,725
Tenant deposits held in trust	(793)	192
Net cash provided by operating activities	\$ 108,867	\$ 172,477

See Notes to 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 164 apartments, of which 29 receive subsidies under Section 8 Housing Assistance payments agreements with the U. S. Department of Housing and Urban Development (HUD). The project mortgage was originally financed under HUD Section 202 and renovations have been financed through the HUD Flexible Subsidy Program.

PHI, another nonprofit corporation 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.

Income 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.

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.

Property and Equipment: 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.

Income Taxes: The Organization is exempt from Federal income tax under Internal Revenue Code Section 501(c)(3).

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.

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

Note 2. Long-Term Debt

		2003	2002
Loans payable - HUD	(A)	\$ 1,672,491	\$ 1,672,491
Accrued interest payable - HUD	(A)	174,225	157,500
Mortgage payable - HUD	(B)	1,186,357	1,246,976
		<u>3,033,073</u>	<u>3,076,967</u>
Less current portion of mortgage		(62,464)	(60,620)
		<u>\$ 2,970,609</u>	<u>\$ 3,016,347</u>

(A) These loans were 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.
- 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.
- Failure to keep the housing available.

(B) This mortgage payable as of December 31, 2003, 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, 2003:

Year	Amount
2004	\$ 62,464
2005	64,363
2006	66,321
2007	68,333
2008	70,417
Future years	854,459
	<u>\$ 1,186,357</u>

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

NOTES TO FINANCIAL STATEMENTS

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 deposits were increased during 2003 from \$4,143 to \$4,296.

Residual Receipts Reserve

Funds deposited into the residual receipts reserve are determined annually and must be deposited after the end of each fiscal year. Use of these funds is contingent upon HUD's prior written approval. No payments were due for 2003 or 2002.

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 PHI. PHI is the management agent. Total fees to PHI were \$49,062 and \$48,554 for the years ended December 31, 2003 and 2002, respectively.

Note 6. Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of temporary cash investments. The Organization places its temporary cash investments with various financial institutions, which provide \$100,000 of Federal Deposit Insurance Corporation (FDIC) insurance. At December 31, 2003 and 2002, the Organization had uninsured deposits of \$99,177 and \$115,183, respectively.

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

NOTES TO FINANCIAL STATEMENTS

Note 7. Unrestricted Net Assets (Deficit)

None of the Project's net assets are subject to donor-imposed restrictions. Accordingly, all net assets (deficit) are accounted for as unrestricted net assets (deficit) under SFAS No. 117.

Note 8. Functional Allocation of Expenses

Expenditures incurred in connection with project operations have been summarized on a functional basis in the Statements of Activities.

Note 9. Current Vulnerability due to Certain Concentrations

The Project's sole asset is a 164 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 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.

Note 10. Reclassifications

Certain amounts in the 2002 financial statements have been reclassified to conform to the 2003 presentation. These reclassifications had no effect on the Organization's financial position or changes therein for 2002.

SUPPLEMENTARY INFORMATION

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF FINANCIAL POSITION DATA
December 31, 2003

Account Number	ASSETS	
	Current Assets	
1120	Cash - operations	\$ 56,266
	Accounts receivable	
1130	Tenants	7,901
1135	HUD	1,485
1200	Prepaid expenses	1,350
1100T	Total current assets	67,002
1191	Tenant deposits held in trust	16,886
	Restricted deposits	
1320	Replacement reserve	180,603
	Fixed Assets	
1410	Land	183,519
1420	Buildings	4,697,410
1440	Building equipment	117,078
1450	Furniture for project - tenant use	85,683
1460	Furnishings	118,754
1465	Office furniture and equipment	15,862
1470	Maintenance equipment	13,088
1400T	Total fixed assets	5,231,394
1495	Less accumulated depreciation	(3,895,679)
1400N	Fixed assets - net	1,335,715
1000T	Total assets	\$ 1,600,206

Account Number	LIABILITIES AND NET DEFICIT	
	Current Liabilities	
2110	Accounts payable - operations	\$ 55,470
	Accrued expenses	
2120	Wages and vacation	14,391
2121	Payroll taxes	7,771
2123	Management fee	1,040
2170	Mortgage payable - current portion	62,464
2122T	Total current liabilities	<u>141,136</u>
2191	Tenant deposits held in trust	16,886
	Long-Term Debt	
2320	Mortgage payable - net of current portion	1,123,893
2325	Flexible subsidy loan payable	1,672,491
2330	Accrued interest payable - flexible subsidy	174,225
2300T	Total long-term debt	<u>2,970,609</u>
2000T	Total liabilities	<u>3,128,631</u>
3131	Unrestricted Net Deficit	<u>(1,528,425)</u>
2033T	Total liabilities and net deficit	<u>\$ 1,600,206</u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF ACTIVITIES DATA
Year Ended December 31, 2003

Account Number			
REVENUE			
5120	Rent - gross potential	\$	687,068
5121	Tenant assistance payments		56,203
5140	Rent - commercial		61,278
5170	Parking spaces		12,870
5100T	Total potential rent revenue		<u>817,419</u>
5220	Vacancies - apartments		(27,312)
5240	Vacancies - commercial		(4,620)
			<u>(31,932)</u>
5152N	Net rental revenue		<u>785,487</u>
5410	Revenue from investments - operations		359
5440	Revenue from investments - reserve for replacements		1,394
5400T	Total financial revenue		<u>1,753</u>
5910	Laundry and vending revenue		9,761
5990	Miscellaneous revenue		27,074
5900T	Total other revenue		<u>36,835</u>
5000T	Total revenue		<u>824,075</u>
EXPENSES			
6210	Advertising		4,173
6250	Other renting expenses		252
6310	Office salaries		51,885
6311	Office expenses		11,691
6320	Management fee		49,062
6330	Manager salaries		20,283
6340	Legal expenses - project		3,479
6350	Audit expense		6,845
6370	Bad debts		332
6390	Miscellaneous administrative expense		16,345
6263T	Total administrative expenses		<u>164,347</u>
6450	Electricity		162,020
6451	Water		36,391
6452	Gas and steam		25,871
6453	Sewer		17,471
6400T	Total utilities expense		<u>241,753</u>

(Continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF ACTIVITIES DATA (Continued)
Year Ended December 31, 2003

Account Number		
	EXPENSES (Continued)	
6510	Payroll	102,498
6515	Supplies	29,877
6520	Contracts	50,987
6521	Rent free unit	1,992
6525	Garbage and trash removal	4,444
6530	Security contract	3,378
6500T	Total operating expenses	<u>193,176</u>
6710	Real estate taxes	1,815
6711	Payroll taxes	15,691
6720	Property and liability insurance	30,211
6722	Workmen's compensation	7,963
6723	Health insurance and other employee benefits	23,334
6700T	Total taxes and insurance	<u>79,014</u>
6820	Interest on mortgage payable	36,580
6830	Interest on notes - long-term	16,725
6800T	Total financial expenses	<u>53,305</u>
6000T	Total cost of operations before depreciation	<u>731,595</u>
5060T	Changes in net assets before depreciation	92,480
6600	Depreciation	167,182
3250	Changes in net deficit	<u>(74,702)</u>
S1100-050	Net Deficit - Beginning	<u>(1,453,723)</u>
3130	Net Deficit - Ending	<u>\$ (1,528,425)</u>
S1000-010	Total mortgage principal payments required during the year	<u>\$ 60,619</u>
S1000-020	Total of 12 monthly deposits during the year into the replacement reserve account, as required by the regulatory agreement	<u>\$ 50,326</u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF CASH FLOWS DATA
Year Ended December 31, 2003

Account Number		
	Cash Flows From Operating Activities	
S1200-010	Cash received from rentals	\$ 780,864
S1200-202	Interest received	359
S1200-030	Other cash received	36,835
S1200-040	Total receipts	<u>818,058</u>
S1200-505	Administrative	45,300
S1200-070	Management fees	48,288
S1200-090	Utilities	253,723
S1200-100	Salaries and wages	182,367
S1200-110	Operating and maintenance	88,759
S1200-140	Property and liability insurance	10,380
S1200-150	Miscellaneous taxes and insurance	43,794
S1200-180	Interest on mortgage	36,580
S1200-230	Total disbursements	<u>709,191</u>
S1200-040	Net cash provided by operating activities	<u>108,867</u>
	Cash Flows From Investing Activities	
S1200-250	Net (deposits) withdrawals from reserve for replacement	(5,226)
S1200-330	Purchase of fixed assets	(84,390)
S1200-350	Cash used in investing activities	<u>(89,616)</u>
	Cash Flows From Financing Activities	
S1200-360	Principal payments on long-term debt	<u>(60,619)</u>
S1200-470	Net decrease in cash and cash equivalents	(41,368)
	Cash and Cash Equivalents:	
S1200-480	Beginning	97,634
S1200T	Ending	<u>\$ 56,266</u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF CASH FLOWS DATA (Continued)
Year Ended December 31, 2003

Account Number		
	Reconciliation of Changes in Net Deficit to	
	Net Cash Provided by Operating Activities	
3250	Changes in net deficit	\$ (74,702)
	Adjustments to reconcile changes in net deficit	
	to net cash provided by operating activities	
6600	Depreciation	167,182
	Changes in assets and liabilities:	
	(Increase) decrease in:	
S1200-490	Accounts receivable	(4,623)
S1200-520	Prepaid expenses	19,831
S1200-530	Cash restricted for tenant deposits held in trust	793
	(Decrease) increase in:	
S1200-540	Accounts payable	(9,970)
S1200-560	Accrued expenses	(4,182)
S1200-570	Accrued interest	16,725
S1200-580	Tenant deposits held in trust	(793)
S1200-600	Other adjustments	(1,394)
S1200-040	Net cash provided by operating activities	<u><u>\$ 108,867</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF RESERVE FOR REPLACEMENT
Year Ended December 31, 2003

Account Number		
1320P	Balance - January 1, 2003	\$ 173,983
1320DT	Monthly deposits	50,326
1320ODT	Interest	<u>1,394</u>
		51,720
1320WT	Withdrawals - approved by HUD	<u>45,100</u>
1320	Balance - December 31, 2003	<u><u>\$ 180,603</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

COMPUTATION OF SURPLUS CASH - ANNUAL
Year Ended December 31, 2003

Account Number		
S1300-010	Cash	\$ 73,152
1135	Accounts receivable - HUD	1,485
S1300-040	Total cash	<u>74,637</u>
	Current Obligations	
S1300-075	Accounts payable due within 30 days	55,470
S1300-080	Loans and notes payable due within 30 days	8,100
S1300-100	Accrued expenses	23,202
2191	Tenant security deposits	16,886
S1300-140	Total current obligations	<u>103,658</u>
S1300-150	Surplus cash (deficiency)	<u>\$ (29,021)</u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF CHANGES IN FIXED ASSET ACCOUNTS
Year Ended December 31, 2003

Account Number		Beginning Balance	Additions	Deletions	Ending Balance
1410	Land	\$ 183,519	\$ -	\$ -	\$ 183,519
1420	Buildings	4,741,864	44,134	(88,588)	4,697,410
1440	Building equipment	118,953	1,200	(3,075)	117,078
1450	Furniture for project - tenant use	85,683	-	-	85,683
1460	Furnishings	85,504	36,329	(3,079)	118,754
1465	Office furniture and equipment	17,716	1,217	(3,071)	15,862
1470	Maintenance equipment	21,894	1,510	(10,316)	13,088
1490	Miscellaneous	6,159	-	(6,159)	-
1400T	Total fixed assets	<u>5,261,292</u>	<u>84,390</u>	<u>(114,288)</u>	<u>5,231,394</u>
1495	Accumulated depreciation	<u>3,842,785</u>	<u>167,182</u>	<u>(114,288)</u>	<u>3,895,679</u>
1400N	Total net book value				<u><u>\$ 1,335,715</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2003

Federal Grantor		Federal C.F.D.A. Number	Federal Expenditures
U.S. Department of Housing and Urban Development (S1300-030)			
A/C #	A/C #	A/C #	A/C #
S3300-020	S3300-040	S3300-050	S3300-080
U.S. Department of Housing and Urban Development			
1	Housing for the Elderly	14.157	\$ 1,186,357
2	Operating Assistance for Troubled Multi-Family Housing Projects (Flexible Subsidy Fund)	14.164	1,672,491
3	Lower Income Housing Assistance Program - Section 8 - Moderate Rehabilitation	14.856	<u>56,203</u>
Total federal awards expended (S3300-550)			<u><u>\$ 2,915,051</u></u>

See Note to Schedule of Expenditures of Federal Awards.

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2003

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Presbyterian Apartments, Inc., Project No. 034SH006, and is presented on the accrual basis of accounting. 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*.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Presbyterian Apartments, Inc.
Project No. 034SH006
Harrisburg, Pennsylvania

We have audited the financial statements of Presbyterian Apartments, Inc., Project No. 034SH006 as of and for the year ended December 31, 2003, and have issued our report thereon dated January 14 2004. 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.

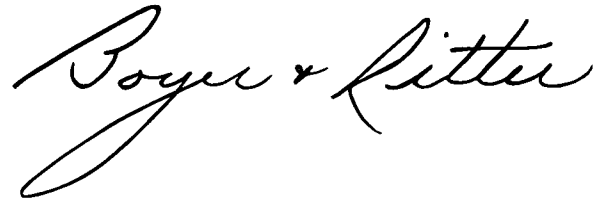
Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Presbyterian Apartments, Inc.'s, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of Presbyterian Apartments, Inc., in a separate letter dated January 14, 2004.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agency and is not intended to be and should not be used by anyone other than these specified parties.

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Carlisle, Pennsylvania
January 14, 2004

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO ITS MAJOR PROGRAMS AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Board of Directors
Presbyterian Apartments, Inc.
Project No. 034SH006
Harrisburg, Pennsylvania

Compliance

We have audited the compliance of Presbyterian Apartments, Inc., with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, that are applicable to its major federal programs for the year ended December 31, 2003. 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 its major federal program is the responsibility of the 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 on Presbyterian Apartments, Inc.'s compliance with those requirements.

In our opinion, Presbyterian Apartments, Inc., complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2003.

Internal Control Over Compliance

The management of Presbyterian Apartments, Inc., is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine our 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agency and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Boyer & Ritten". The signature is written in black ink and is positioned in the lower right quadrant of the page.

Carlisle, Pennsylvania
January 14, 2004

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006
Schedule of Findings and Questioned Costs
Year Ended December 31, 2003

Identification of the major programs:

CFDA Number(s)	Name of Federal Programs
14.157	Housing for the Elderly
14.164	Operating Assistance for Troubled Multi-Family Housing Projects

Dollar threshold used to distinguish between
type A and type B programs \$300,000

Auditee qualified as low-risk auditee? X Yes No

Section II -- Financial Statement Findings

A. Reportable Conditions in Internal Control

There were no findings relating to the financial statement audit required to be reported.

B. Compliance Findings

There were no compliance findings relating to the financial statement audit required to be reported.

Section III -- Federal Award Findings and Questioned Costs

A. Reportable Conditions in Internal Control

There were no findings relating to the Federal awards as required to be reported in accordance with Section .510(a) of OMB Circular A-133.

B. Compliance Findings

There were no compliance findings relating to the Federal awards as required to be reported in accordance with Section .510(a) of OMB Circular A-133.

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
Year Ended December 31, 2003

There were no prior audit findings for the year ended December 31, 2002.

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

**CERTIFICATION OF MORTGAGOR
Year Ended December 31, 2003**

We hereby certify that we have examined the accompanying financial statements and supplemental data of Presbyterian Apartments, Inc., Project No. 034SH006 and, to the best of our knowledge and belief, the same are accurate and complete.

<u>Name of Signatory #1</u>	J. William Royer
<u>Title of Certifying Official</u>	Chair
<u>Name of Signatory #2</u>	Richard Michaelian
<u>Auditee Telephone Number</u>	717-233-5114
<u>Date of Certification</u>	01/14/2004
<u>Auditee Name</u>	Presbyterian Apartments, Inc.
<u>Auditee Street Address</u>	322 North Second Street
<u>Auditee City</u>	Harrisburg
<u>Auditee State</u>	PA
<u>Auditee Zip Code</u>	17101
<u>Auditee Contact Name</u>	Allen Keith LePrevost
<u>Auditee Contact Title</u>	Agent to PHI
<u>Auditee Contact Fax Number</u>	717-234-7603

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

**MANAGEMENT AGENT'S CERTIFICATION
Year Ended December 31, 2003**

We hereby certify that we have examined the accompanying financial statements and supplemental data of Presbyterian Apartments, Inc., Project No. 034SH006 and, to the best of our knowledge and belief, the same are accurate and complete.

<u>Management Agent's Name:</u>	Presbyterian Homes, Inc.
<u>Name of Management Agent's Representative:</u>	Stephen Proctor
<u>Managing Agent Tax Identification Number:</u>	23-1381404
<u>Name of Individual (Property Manager):</u>	Allen Keith LePrevost

**INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING
AGREED-UPON PROCEDURE**

Board of Trustees
Presbyterian Apartments, Inc.
Project No. 034SH006
Harrisburg, Pennsylvania

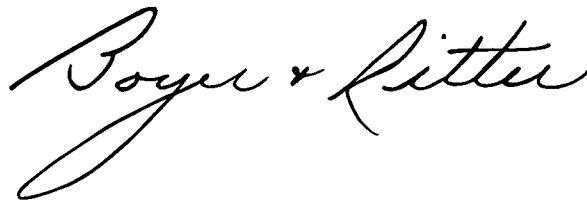
We have performed the procedure described in the second paragraph of this report, which was agreed to by Presbyterian Apartments, Inc., and the U.S. Department of Housing and Urban Development, Real Estate Assessment Center (REAC), solely to assist them in determining whether the electronic submission of certain information agrees with the related hard copy documents. Presbyterian Apartments, Inc., is responsible for accuracy and completeness of the electronic submission. This agreed-upon procedure engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedure is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

We compared the electronic submission of the items listed in the "UFRS Rule Information" column with the corresponding printed documents listed in the "Hard Copy Documents" column. The results of the performance of our agreed-upon procedure indicate agreement or non-agreement of the electronically submitted information and hard copy documents as shown in the attached chart.

We were engaged to perform an audit of the financial statements of Presbyterian Apartments, Inc., as of and for the year ended December 31, 2003, and have issued our reports thereon dated January 14, 2004. The information in the "Hard Copy Documents" column was included within the scope, or was a by-product of that audit. Further, our opinion on the fair presentation of the supplemental financial data templates dated January 14, 2004, was expressed in relation to the basic financial statements of Presbyterian Apartments, Inc., taken as a whole.

A copy of the financial statement package, which includes the auditor's reports, is available in its entirety from Presbyterian Apartments, Inc. We have not performed any additional auditing procedures since the date of the aforementioned audit reports. Furthermore, we take no responsibility for the security of the information transmitted electronically to the U.S. Department of Housing and Urban Development, REAC.

This report is intended solely for the information and use of Presbyterian Apartments, Inc., and the U.S. Department of Housing and Urban Development, REAC, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Boyer & Ritter". The signature is written in black ink and is centered on the page.

Carlisle, Pennsylvania
January 14, 2004

**ATTACHMENT TO INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING
AGREED-UPON PROCEDURE**

UFRS Rule Information	Hard Copy Document (s)	Findings
Balance Sheet, Revenue and Expense and Cash Flow Data (account numbers 1120 to 7100T and the S1200 series)	Supplemental Schedules with Financial Statement Data	Agrees
Surplus cash (S1300 series of accounts)	Computation of Surplus Cash, Distributions and Residual Receipts (Annual)	Agrees
Footnotes (S3100 series of accounts)	Notes to Financial Statements	Agrees
Type of Opinion on the Financial Statements and Auditor Reports (S3400, S3500 and S3600 series of accounts)	Auditor's Reports on the Financial Statements, Compliance and Internal Control	Agrees
Type of Opinion on Supplemental Data (account number S3400-100)	Auditor's Report on Supplemental Data	Agrees
Audit Findings Narrative (S3800 series of accounts)	Schedule of Findings and Questioned Costs	Agrees
General Information (S3300, S3700 and S3800 series of accounts)	Schedule of Findings and Questioned Costs and OMB Data Collection Form	Agrees