

**PRESBYTERIAN APARTMENTS, INC.**

**PROJECT NO. 034SH006**

**FINANCIAL REPORT**

**DECEMBER 31, 2004**

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## INDEPENDENT AUDITOR'S REPORT

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

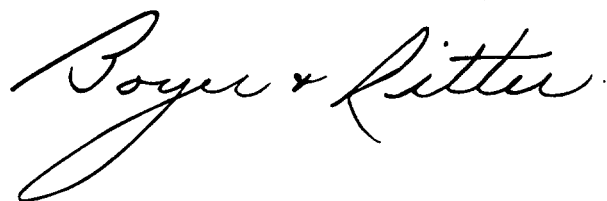
We have audited the accompanying statements of financial position of Presbyterian Apartments, Inc., Project No. 034SH006, as of December 31, 2004 and 2003, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's 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, 2004 and 2003, 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 19, 2005, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be 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 & Ritter". The signature is written in black ink and is positioned to the right of the main text block.

Carlisle, Pennsylvania  
January 19, 2005

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

**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2004 and 2003**

<b>ASSETS</b>	<b>2004</b>	<b>2003</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 51,119	\$ 56,266
Accounts receivable		
Tenants	1,953	7,901
HUD	-	1,485
Prepaid expenses	1,400	1,350
	<hr/>	<hr/>
<b>Total current assets</b>	<b>54,472</b>	<b>67,002</b>
<b>Noncurrent Assets</b>		
Restricted deposits		
Replacement reserve	181,915	180,603
Tenant deposits held in trust	18,447	16,886
	<hr/>	<hr/>
<b>Total restricted deposits</b>	<b>200,362</b>	<b>197,489</b>
<b>Property and Equipment</b>		
Land	183,519	183,519
Building and improvements	4,651,340	4,697,410
Furniture and equipment	365,450	350,465
	<hr/>	<hr/>
	5,200,309	5,231,394
Less accumulated depreciation	(3,989,731)	(3,895,679)
	<hr/>	<hr/>
<b>Property and equipment - net</b>	<b>1,210,578</b>	<b>1,335,715</b>
	<hr/>	<hr/>
<b>Total assets</b>	<b>\$ 1,465,412</b>	<b>\$ 1,600,206</b>

See Notes to Financial Statements.

<b>LIABILITIES AND NET DEFICIT</b>	<b>2004</b>	<b>2003</b>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 64,363	\$ 62,464
Accounts payable	50,494	55,470
Accrued expenses		
Wages and vacation	16,689	14,391
Payroll taxes	675	7,771
Management fee	-	1,040
<b>Total current liabilities</b>	<b>132,221</b>	<b>141,136</b>
<b>Noncurrent Liabilities</b>		
Tenant deposits held in trust	18,447	16,886
Long-term debt - net of current maturities		
Mortgage payable	1,059,530	1,123,893
Flexible subsidy loan		
Loan payable	1,672,491	1,672,491
Accrued interest payable	190,950	174,225
<b>Total liabilities</b>	<b>3,073,639</b>	<b>3,128,631</b>
Unrestricted Net Deficit	<b>(1,608,227)</b>	<b>(1,528,425)</b>
<b>Total liabilities and net deficit</b>	<b>\$ 1,465,412</b>	<b>\$ 1,600,206</b>

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

**STATEMENTS OF ACTIVITIES**  
**Years Ended December 31, 2004 and 2003**

	2004	2003
<b>Revenue</b>		
Rent	\$ 817,758	\$ 785,487
Financial	2,545	1,753
Other	27,478	36,835
<b>Total revenue</b>	<b>847,781</b>	<b>824,075</b>
<b>Expenses</b>		
Administrative	175,319	164,347
Utilities	241,115	241,753
Operating and maintenance	196,973	193,176
Taxes and insurance	86,799	79,014
Interest	51,461	53,305
Depreciation	175,916	167,182
<b>Total expenses</b>	<b>927,583</b>	<b>898,777</b>
<b>Changes in net deficit</b>	<b>(79,802)</b>	<b>(74,702)</b>
Net Deficit - Beginning	(1,528,425)	(1,453,723)
Net Deficit - Ending	<b>\$ (1,608,227)</b>	<b>\$ (1,528,425)</b>

See Notes to Financial Statements.

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

**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2004 and 2003**

	2004	2003
<b>Cash Flows From Operating Activities</b>		
Cash received from rentals	\$ 825,191	\$ 780,864
Interest received	484	359
Other cash received	27,478	36,835
<b>Total receipts</b>	<u>853,153</u>	<u>818,058</u>
Administrative	45,044	45,300
Management fees	54,153	48,288
Utilities	234,503	253,723
Salaries and wages	176,958	182,367
Operating and maintenance	90,187	88,759
Property and liability insurance	36,183	10,380
Miscellaneous taxes and insurance	55,646	43,794
Interest on mortgage	34,736	36,580
<b>Total disbursements</b>	<u>727,410</u>	<u>709,191</u>
<b>Net cash provided by operating activities</b>	<u>125,743</u>	<u>108,867</u>
<b>Cash Flows From Investing Activities</b>		
Net change into reserve for replacement	749	(5,226)
Purchase of fixed assets	(69,175)	(84,390)
<b>Net cash used in investing activities</b>	<u>(68,426)</u>	<u>(89,616)</u>
<b>Cash Flows From Financing Activities</b>		
<b>Principal payments on long-term debt</b>	<u>(62,464)</u>	<u>(60,619)</u>
<b>Net decrease in cash and cash equivalents</b>	(5,147)	(41,368)
<b>Cash and Cash Equivalents:</b>		
Beginning	56,266	97,634
Ending	<u>\$ 51,119</u>	<u>\$ 56,266</u>

(Continued)



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

**STATEMENTS OF CASH FLOWS (Continued)**  
**Years Ended December 31, 2004 and 2003**

	2004	2003
Reconciliation of Changes in Net Deficit to Net Cash Provided by Operating Activities		
Changes in net deficit	\$ (79,802)	\$ (74,702)
Adjustments to reconcile changes in net deficit to net cash provided by operating activities		
Depreciation	175,916	167,182
Interest earned in replacement reserve account	(2,061)	(1,394)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	7,433	(4,623)
Prepaid expenses	(50)	19,831
Cash restricted for tenant deposits held in trust	(1,561)	793
(Decrease) increase in:		
Accounts payable	13,420	(9,970)
Accrued expenses	(5,838)	(4,182)
Accrued interest	16,725	16,725
Tenant deposits held in trust	1,561	(793)
<b>Net cash provided by operating activities</b>	<b>\$ 125,743</b>	<b>\$ 108,867</b>

See Notes to Financial Statements.

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

**NOTES TO FINANCIAL STATEMENTS**

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**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's mortgage was originally financed under HUD Section 202 and renovations have been financed through the HUD Flexible Subsidy Program.

Presbyterian Homes, Inc., (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**

		2004	2003
Loans payable - HUD	(A)	\$ 1,672,491	\$ 1,672,491
Accrued interest payable - HUD	(A)	190,950	174,225
Mortgage payable - HUD	(B)	1,123,893	1,186,357
		<u>2,987,334</u>	<u>3,033,073</u>
Less current portion of mortgage		(64,363)	(62,464)
		<u>\$ 2,922,971</u>	<u>\$ 2,970,609</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, 2004, 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, 2004:

Year	Amount
2005	\$ 64,363
2006	66,321
2007	68,338
2008	70,417
2009	72,559
Future years	781,895
	<u>\$ 1,123,893</u>

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

**NOTES TO FINANCIAL STATEMENTS**

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**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 effective in 2005, from \$4,296 to \$4,451.

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 2004 or 2003.

**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 \$53,113 and \$49,062 for the years ended December 31, 2004 and 2003, 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. From time to time the Organization's deposits exceed the FDIC insured amount.

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

**NOTES TO FINANCIAL STATEMENTS**

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**Note 7. Unrestricted Net Assets (Deficit)**

None of the Project's net assets (deficit) 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. 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 2004 the Organization contributed \$3,675 to the plan. The Organization was not required to make a contribution for 2003.

**Note 9. Functional Allocation of Expenses**

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

**Note 10. 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.

**SUPPLEMENTARY INFORMATION**

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

**STATEMENT OF FINANCIAL POSITION DATA**  
**December 31, 2004**

Account Number	<b>ASSETS</b>		
	Current Assets		
1120	Cash - operations	\$	51,119
1130	Accounts receivable - tenants		1,953
1200	Prepaid expenses		<u>1,400</u>
1100T	<b>Total current assets</b>		<u>54,472</u>
1191	Tenant deposits held in trust		<u>18,447</u>
	Restricted deposits		
1320	Replacement reserve		<u>181,915</u>
	Fixed Assets		
1410	Land		183,519
1420	Buildings		4,651,340
1440	Building equipment		114,494
1450	Furniture for project - tenant use		85,279
1460	Furnishings		133,862
1465	Office furniture and equipment		22,529
1470	Maintenance equipment		9,286
1400T	<b>Total fixed assets</b>		<u>5,200,309</u>
1495	Less accumulated depreciation		<u>(3,989,731)</u>
1400N	<b>Fixed assets - net</b>		<u>1,210,578</u>
1000T	<b>Total assets</b>	<b>\$</b>	<u><u>1,465,412</u></u>

Account Number	<b>LIABILITIES AND NET DEFICIT</b>	
	Current Liabilities	
2110	Accounts payable - operations	\$ 50,494
	Accrued expenses	
2120	Wages and vacation	16,689
2121	Payroll taxes	675
2170	Mortgage payable - current portion	64,363
2122T	<b>Total current liabilities</b>	<u>132,221</u>
2191	Tenant deposits held in trust	<u>18,447</u>
	Long-Term Debt	
2320	Mortgage payable - net of current portion	1,059,530
2325	Flexible subsidy loan payable	1,672,491
2330	Accrued interest payable - flexible subsidy	190,950
2300T	<b>Total long-term debt</b>	<u>2,922,971</u>
2000T	<b>Total liabilities</b>	<u>3,073,639</u>
3131	Unrestricted Net Deficit	<u>(1,608,227)</u>
2033T	<b>Total liabilities and net deficit</b>	<u>\$ 1,465,412</u>



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

**STATEMENT OF ACTIVITIES DATA**  
**Year Ended December 31, 2004**

Account Number			
<b>REVENUE</b>			
5120	Rent - gross potential	\$	702,966
5121	Tenant assistance payments		61,039
5140	Rent - commercial		58,961
5170	Parking spaces		11,790
5100T	<b>Total potential rent revenue</b>		<u>834,756</u>
5220	Vacancies - apartments		(16,998)
5152N	<b>Net rental revenue</b>		<u>817,758</u>
5410	Revenue from investments - operations		484
5440	Revenue from investments - reserve for replacements		2,061
5400T	<b>Total financial revenue</b>		<u>2,545</u>
5910	Laundry and vending revenue		6,087
5990	Miscellaneous revenue		21,391
5900T	<b>Total other revenue</b>		<u>27,478</u>
5000T	<b>Total revenue</b>		<u>847,781</u>
<b>EXPENSES</b>			
6210	Advertising		4,821
6250	Other renting expenses		392
6310	Office salaries		55,312
6311	Office expenses		12,552
6320	Management fee		53,113
6330	Manager salaries		22,063
6340	Legal expenses - project		1,147
6350	Audit expense		5,700
6370	Bad debts		1,813
6390	Miscellaneous administrative expense		18,406
6263T	<b>Total administrative expenses</b>		<u>175,319</u>
6450	Electricity		161,467
6451	Water		35,004
6452	Gas and steam		27,623
6453	Sewer		17,021
6400T	<b>Total utilities expense</b>		<u>241,115</u>

(Continued)

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

**STATEMENT OF ACTIVITIES DATA (Continued)**  
**Year Ended December 31, 2004**

Account Number		
	<b>EXPENSES (Continued)</b>	
6510	Payroll	102,556
6515	Supplies	31,855
6520	Contracts	52,110
6521	Rent free unit	2,052
6525	Garbage and trash removal	4,444
6530	Security contract	3,956
6500T	<b>Total operating expenses</b>	<u>196,973</u>
6710	Real estate taxes	4,384
6711	Payroll taxes	15,725
6720	Property and liability insurance	36,133
6722	Workmen's compensation	14,987
6723	Health insurance and other employee benefits	15,570
6700T	<b>Total taxes and insurance</b>	<u>86,799</u>
6820	Interest on mortgage payable	34,736
6830	Interest on notes - long-term	16,725
6800T	<b>Total financial expenses</b>	<u>51,461</u>
6000T	<b>Total cost of operations before depreciation</b>	<u>751,667</u>
5060T	<b>Changes in net assets before depreciation</b>	96,114
6600	Depreciation	175,916
3250	<b>Changes in net deficit</b>	<u>(79,802)</u>
S1100-050	Net Deficit - Beginning	(1,528,425)
3130	Net Deficit - Ending	<u>\$ (1,608,227)</u>
S1000-010	Total mortgage principal payments required during the year	<u>\$ 62,464</u>
S1000-020	Total of 12 monthly deposits during the year into the replacement reserve account, as required by the regulatory agreement	<u>\$ 51,552</u>

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

**STATEMENT OF CASH FLOWS DATA**  
**Year Ended December 31, 2004**

Account Number		
	Cash Flows From Operating Activities	
S1200-010	Rental receipts	\$ 825,191
S1200-202	Interest receipts	484
S1200-030	Other operating receipts	27,478
S1200-040	<b>Total receipts</b>	<u>853,153</u>
S1200-050	Administrative	45,044
S1200-070	Management fees	54,153
S1200-090	Utilities	234,503
S1200-100	Salaries and wages	176,958
S1200-110	Operating and maintenance	90,187
S1200-140	Property and liability insurance	36,183
S1200-150	Miscellaneous taxes and insurance	55,646
S1200-180	Interest on mortgage	34,736
S1200-230	<b>Total disbursements</b>	<u>727,410</u>
S1200-240	<b>Net cash provided by operating activities</b>	<u>125,743</u>
	Cash Flows From Investing Activities	
S1200-250	Net change from reserve for replacement	749
S1200-330	Purchase of fixed assets	(69,175)
S1200-350	<b>Net cash used in investing activities</b>	<u>(68,426)</u>
	Cash Flows From Financing Activities	
S1200-360	<b>Principal payments on long-term debt</b>	<u>(62,464)</u>
S1200-470	<b>Net decrease in cash and cash equivalents</b>	(5,147)
	Cash and Cash Equivalents:	
S1200-480	Beginning	56,266
S1200T	Ending	<u>\$ 51,119</u>

(Continued)

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

**STATEMENT OF CASH FLOWS DATA (Continued)**  
**Year Ended December 31, 2004**

Account Number		
	Reconciliation of Changes in Net Deficit to Net Cash Provided by Operating Activities	
3250	Changes in net deficit	\$ (79,802)
	Adjustments to reconcile changes in net deficit to net cash provided by operating activities	
6600	Depreciation	175,916
	Changes in assets and liabilities:	
	(Increase) decrease in:	
S1200-490	Accounts receivable	7,433
S1200-520	Prepaid expenses	(50)
S1200-530	Cash restricted for tenant deposits held in trust	(1,561)
	(Decrease) increase in:	
S1200-540	Accounts payable	13,420
S1200-560	Accrued expenses	(5,838)
S1200-570	Accrued interest	16,725
S1200-580	Tenant deposits held in trust	1,561
S1200-600	Other adjustments	(2,061)
S1200-610	<b>Net cash provided by operating activities</b>	<u>\$ 125,743</u>

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

**SCHEDULE OF RESERVE FOR REPLACEMENT**  
**Year Ended December 31, 2004**

Account Number			
1320P	Balance - January 1, 2004	\$	180,603
1320DT	Monthly deposits		51,552
1320INT	Interest		2,061
			<u>53,613</u>
1320WT	Withdrawals - approved by HUD		<u>52,301</u>
1320	Balance - December 31, 2004	\$	<u><u>181,915</u></u>

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

**COMPUTATION OF SURPLUS CASH - ANNUAL**  
**Year Ended December 31, 2004**

Account Number			
S1300-010	Cash	\$	69,566
	Current Obligations		
S1300-075	Accounts payable due within 30 days		50,494
S1300-080	Loans and notes payable due within 30 days		8,100
S1300-100	Accrued expenses		17,364
2191	Tenant security deposits		18,447
S1300-140	<b>Total current obligations</b>		<u>94,405</u>
S1300-150	<b>Surplus cash (deficiency)</b>	\$	<u>(24,839)</u>

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

**SCHEDULE OF CHANGES IN FIXED ASSET ACCOUNTS**  
**Year Ended December 31, 2004**

Account Number		Beginning Balance	Additions	Deletions	Ending Balance
1410	Land	\$ 183,519	\$ -	\$ -	\$ 183,519
1420	Buildings	4,697,410	24,356	(70,426)	4,651,340
1440	Building equipment	117,078	1,180	(3,764)	114,494
1450	Furniture for project - tenant use	85,683	-	(404)	85,279
1460	Furnishings	118,754	15,108	-	133,862
1465	Office furniture and equipment	15,862	10,135	(3,468)	22,529
1470	Maintenance equipment	13,088	-	(3,802)	9,286
1400T	Total fixed assets	<u>5,231,394</u>	<u>50,779</u>	<u>(81,864)</u>	<u>5,200,309</u>
1495	Accumulated depreciation	<u>3,895,679</u>	<u>175,916</u>	<u>(81,864)</u>	<u>3,989,731</u>
1400N	<b>Total net book value</b>				<u><u>\$ 1,210,578</u></u>

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended December 31, 2004**

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 - December 31, 2004	14.157	\$ 1,123,893
2 Operating Assistance for Troubled Multi-Family Housing Projects (Flexible Subsidy Fund)		
Outstanding principal balance - December 31, 2004	14.164	1,672,491
Accrued interest payable - December 31, 2004	14.164	<u>190,950</u>
		1,863,441
3 Lower Income Housing Assistance Program Section 8 - Moderate Rehabilitation	14.856	<u>61,039</u>
<b>Total expenditures of federal awards</b>		<u><u>\$ 3,048,373</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, 2004**

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**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 INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
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, 2004, and have issued our report thereon dated January 19, 2005. 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.

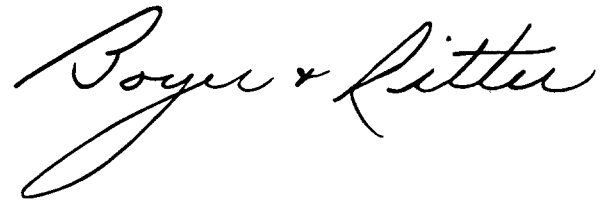
Internal Control Over Financial Reporting

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 internal control over financial reporting and its operation that we consider to be material weaknesses.

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 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management and the federal awarding agencies 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 19, 2005

**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 each of its major federal programs for the year ended December 31, 2004. 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 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 each of its major federal programs for the year ended December 31, 2004.

### 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 agencies 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 dark ink and is positioned to the right of the date and location information.

Carlisle, Pennsylvania  
January 19, 2005

**PRESBYTERIAN APARTMENTS, INC.**  
**PROJECT NO. 034SH006**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2004**

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**Section I -- Summary of Auditor's Results**

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Account Number	
	<b>Financial Statements</b>
S3400-020	Type of auditor's report issued: Unqualified
	Internal control over financial reporting:
S3500-030	▪ Material weakness(es) identified: <span style="float: right;">___ Yes <u>X</u> No</span>
S3500-020	▪ Reportable condition(s) identified that are not considered to be material weakness(es)? <span style="float: right;">___ Yes <u>X</u> None Reported</span>
	Noncompliance material to financial statements noted? <span style="float: right;">___ Yes <u>X</u></span>
	<b>Federal Awards</b>
	Internal control over major programs:
S3600-030	▪ Material weakness(es) identified: <span style="float: right;">___ Yes <u>X</u> No</span>
S3600-020	▪ Reportable condition(s) identified that are not considered to be material weakness(es)? <span style="float: right;">___ Yes <u>X</u> None Reported</span>
	Type of auditor's report issued on compliance for the major programs: Unqualified
	▪ Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133? <span style="float: right;">___ Yes <u>X</u> No</span>

**PRESBYTERIAN APARTMENTS, INC.**  
**PROJECT NO. 034SH006**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2004**

Identification of the major programs:

CFDA Number(s)	Name of Federal Program
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

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**Section II -- Financial Statement Findings**

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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.

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**Section III -- Federal Award Findings and Questioned Costs**

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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, 2004**

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There were no prior audit findings for the year ended December 31, 2003.



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

**CERTIFICATION OF MORTGAGOR  
Year Ended December 31, 2004**

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We hereby certify that we have examined the accompanying financial statements and supplementary 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>	01/19/2005
<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, 2004**

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We hereby certify that we have examined the accompanying financial statements and supplementary 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

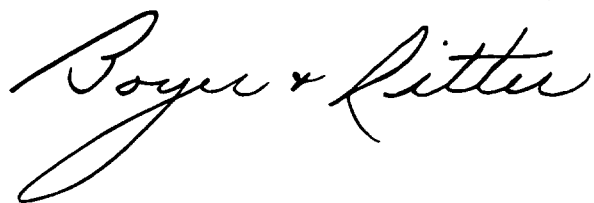
We have performed the procedure described in the second paragraph of this report, which was agreed to by Presbyterian Apartments, Inc., and the U.S. Department of Housing and Urban Development, Real Estate Assessment Center (REAC), solely to assist them in determining whether the electronic submission 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, 2004, and have issued our reports thereon dated January 19, 2005. 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 19, 2005, 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.

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Carlisle, Pennsylvania  
January 19, 2005

**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