

PRESBYTERIAN APARTMENTS, INC.

PROJECT NO. 034SH006

FINANCIAL REPORT

DECEMBER 31, 2007

Board of Directors
Presbyterian Apartments, Inc.
Harrisburg, Pennsylvania

This letter is intended to inform the Board of Directors of Presbyterian Apartments, Inc., about significant matters related to the conduct of the annual audit so that it can appropriately discharge its oversight responsibility, and that we comply with our professional responsibilities to the Board of Directors.

The following summarizes various matters which must be communicated to you under auditing standards generally accepted in the United States of America; *Government Auditing Standards*; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations

The Auditor's Responsibility under Auditing Standards Generally Accepted in the United States of America; *Government Auditing Standards*; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations

Our audit of the financial statements of Presbyterian Apartments, Inc., for the year ended December 31, 2007, was conducted 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 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 the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. 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. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe our audit accomplished that objective.

In accordance with *Government Auditing Standards*, we have also performed tests of controls and compliance with laws and regulations that contribute to the evidence supporting our opinion on the financial statements. However, they do not provide a basis for opining on the Organization's internal control structure or compliance with laws and regulations.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us they used all relevant facts available to them at the time to make the best judgments about accounting estimates, and we considered this information in the scope of our audit.

Audit Adjustments

There were several audit adjustments made to the original trial balance presented to us to begin our audit. Of the adjustments that were recorded, none, in our judgment, either individually or in the aggregate, have a significant effect on the Organization's financial reporting process.

Uncorrected Misstatements

We did not accumulate any uncorrected misstatements which were not made to the financial statements.

Accounting Policies and Alternative Treatments

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Organization. The Organization did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period which should be brought to your attention for approval.

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Other Information in Documents Containing Audited Financial Statements

We are not aware of any other documents that contain the audited financial statements. If such documents were to be published, we would have a responsibility to determine that such financial information was not materially inconsistent with the audited statements of the Organization.

Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

Consultations with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Major Issues Discussed with Management Prior to Retention

No major issues were discussed with management prior to our retention to perform the aforementioned audit.

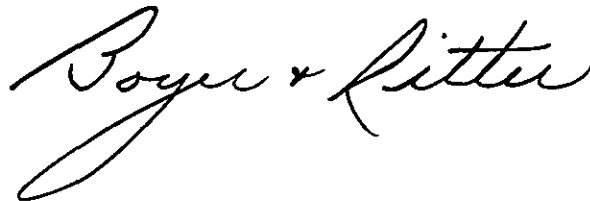
Difficulties Encountered in Performing the Audit

We did not encounter any difficulties in dealing with management relating to the performance of the audit.

Closing

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to Presbyterian Apartments, Inc.

This report is intended solely for the information and use of the Board of Directors and management 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 center-right of the page.

Camp Hill, Pennsylvania
April 2, 2008

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INDEPENDENT AUDITOR'S REPORT

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

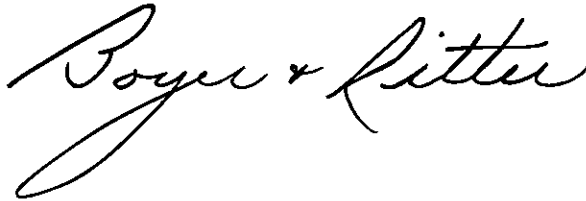
We have audited the accompanying statements of financial position of Presbyterian Apartments, Inc., Project No. 034SH006, as of December 31, 2007 and 2006, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express opinions 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 our audits provide a reasonable basis for our opinions.

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, 2007 and 2006, 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 April 2, 2008, 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 & Ritten". The signature is written in dark ink and is centered on the page.

Camp Hill, Pennsylvania
April 2, 2008

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF FINANCIAL POSITION
December 31, 2007 and 2006

ASSETS	2007	2006
Current Assets		
Cash and cash equivalents	\$ 70,578	\$ 34,739
Accounts receivable - tenants	1,450	1,783
Prepaid expenses	2,588	5,807
	<hr/>	<hr/>
Total current assets	74,616	42,329
	<hr/>	<hr/>
Noncurrent Assets		
Restricted deposits		
Replacement reserve	167,216	195,470
Tenant deposits held in trust	18,413	17,124
Total restricted deposits	185,629	212,594
	<hr/>	<hr/>
Property and Equipment		
Land	183,519	183,519
Building and improvements	4,737,034	4,693,626
Furniture and equipment	419,414	400,151
	<hr/>	<hr/>
	5,339,967	5,277,296
Less accumulated depreciation	(4,520,878)	(4,354,960)
Property and equipment - net	819,089	922,336
	<hr/>	<hr/>
Total assets	\$ 1,079,334	\$ 1,177,259
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See Notes to Financial Statements.

LIABILITIES AND NET DEFICIT	2007	2006
Current Liabilities		
Current maturities of long-term debt	\$ 70,417	\$ 68,338
Accounts payable	50,303	36,944
Accrued expenses		
Wages and vacation	21,501	17,031
Payroll taxes	-	564
Prepaid rent revenue	-	6,438
Total current liabilities	142,221	129,315
Noncurrent Liabilities		
Tenant deposits held in trust	18,413	17,124
Long-term debt - net of current maturities		
Mortgage payable	854,454	924,870
Flexible subsidy loan		
Loan payable	1,672,491	1,672,491
Accrued interest payable	241,125	224,400
Total liabilities	2,928,704	2,968,200
Unrestricted Net Deficit	(1,849,370)	(1,790,941)
Total liabilities and net deficit	\$ 1,079,334	\$ 1,177,259

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF ACTIVITIES
Years Ended December 31, 2007 and 2006

	2007	2006
Revenue		
Rent	\$ 879,458	\$ 868,010
Financial	4,945	4,085
Other	37,076	33,232
Total revenue	<u>921,479</u>	<u>905,327</u>
Expenses		
Administrative	205,915	188,365
Utilities	278,594	278,113
Operating and maintenance	204,983	202,987
Taxes and insurance	78,911	89,837
Interest	45,587	47,604
Depreciation	165,918	184,469
Total expenses	<u>979,908</u>	<u>991,375</u>
Changes in net deficit	(58,429)	(86,048)
Net Deficit - Beginning	<u>(1,790,941)</u>	<u>(1,704,893)</u>
Net Deficit - Ending	<u>\$ (1,849,370)</u>	<u>\$ (1,790,941)</u>

See Notes to Financial Statements.

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2007 and 2006

	2007	2006
Cash Flows From Operating Activities		
Cash received from rentals	\$ 873,353	\$ 877,208
Interest received	440	311
Other cash received	37,076	33,232
Total receipts	<u>910,869</u>	<u>910,751</u>
Administrative	54,954	43,186
Management fees	60,192	56,770
Utilities	278,186	280,959
Salaries and wages	197,958	204,686
Operating and maintenance	81,227	82,232
Property and liability insurance	30,807	53,173
Miscellaneous taxes and insurance	44,595	41,970
Interest on mortgage	28,862	30,879
Total disbursements	<u>776,781</u>	<u>793,855</u>
Net cash provided by operating activities	<u>134,088</u>	<u>116,896</u>
Cash Flows From Investing Activities		
Net change in reserve for replacement	32,759	(34,015)
Purchase of fixed assets	(62,671)	(35,981)
Net cash used in investing activities	<u>(29,912)</u>	<u>(69,996)</u>
Cash Flows From Financing Activities		
Principal payments on long-term debt	<u>(68,337)</u>	<u>(66,322)</u>
Net increase (decrease) in cash and cash equivalents	<u>35,839</u>	<u>(19,422)</u>
Cash and Cash Equivalents:		
Beginning	34,739	54,161
Ending	<u>\$ 70,578</u>	<u>\$ 34,739</u>

(Continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF CASH FLOWS (Continued)
Years Ended December 31, 2007 and 2006

	2007	2006
Reconciliation of Changes in Net Deficit to Net Cash Provided by Operating Activities		
Changes in net deficit	\$ (58,429)	\$ (86,048)
Adjustments to reconcile changes in net deficit to net cash provided by operating activities		
Depreciation	165,918	184,469
Interest earned in replacement reserve account	(4,505)	(3,774)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	333	2,760
Prepaid expenses	3,219	(4,268)
Cash restricted for tenant deposits held in trust	(1,289)	288
(Decrease) increase in:		
Accounts payable	13,359	54
Accrued expenses	3,906	540
Accrued interest	16,725	16,725
Prepaid rent revenue	(6,438)	6,438
Tenant deposits held in trust	1,289	(288)
Net cash provided by operating activities	\$ 134,088	\$ 116,896

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 165 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.

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

		2007	2006
Loans payable - HUD	(A)	\$ 1,672,491	\$ 1,672,491
Accrued interest payable - HUD	(A)	241,125	224,400
Mortgage payable - HUD	(B)	924,871	993,208
		<u>2,838,487</u>	<u>2,890,099</u>
Less current portion of mortgage		(70,417)	(68,338)
		<u>\$ 2,768,070</u>	<u>\$ 2,821,761</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, 2007, 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, 2007:

Year	Amount
2008	\$ 70,417
2009	72,559
2010	74,766
2011	77,040
2012	79,383
Future years	550,706
	<u>\$ 924,871</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 deposit for 2007 and 2006 was \$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 2007 or 2006.

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 \$60,192 and \$56,770 for the years ended December 31, 2007 and 2006, 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

Note 7. Unrestricted Net Deficit

None of the Project's net deficit are subject to donor-imposed restrictions. Accordingly, the entire net deficit is accounted for as unrestricted net 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 2007 and 2006, the Organization contributed \$2,118 and \$4,115 to the Plan, respectively.

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 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

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF FINANCIAL POSITION DATA
December 31, 2007

Account Number	ASSETS		
	Current Assets		
1120	Cash - operations	\$	70,578
1130	Accounts receivable - tenants		1,450
1200	Prepaid expenses		<u>2,588</u>
1100T	Total current assets		<u>74,616</u>
1191	Tenant deposits held in trust		<u>18,413</u>
	Restricted deposits		
1320	Replacement reserve		<u>167,216</u>
	Fixed Assets		
1410	Land		183,519
1420	Buildings		4,737,034
1440	Building equipment		118,816
1450	Furniture for project - tenant use		89,472
1460	Furnishings		178,143
1465	Office furniture and equipment		23,697
1470	Maintenance equipment		<u>9,286</u>
1400T	Total fixed assets		<u>5,339,967</u>
1495	Less accumulated depreciation		<u>(4,520,878)</u>
1400N	Fixed assets - net		<u>819,089</u>
1000T	Total assets	\$	<u><u>1,079,334</u></u>

Account Number	LIABILITIES AND NET DEFICIT	
	Current Liabilities	
2110	Accounts payable - operations	\$ 50,303
	Accrued expenses	
2120	Wages and vacation	21,501
2170	Mortgage payable - current portion	70,417
2122T	Total current liabilities	<u>142,221</u>
2191	Tenant deposits held in trust	<u>18,413</u>
	Long-Term Debt	
2320	Mortgage payable - net of current portion	854,454
2325	Flexible subsidy loan payable	1,672,491
2330	Accrued interest payable - flexible subsidy	241,125
2300T	Total long-term liabilities	<u>2,768,070</u>
2000T	Total liabilities	<u>2,928,704</u>
3131	Unrestricted Net Deficit	<u>(1,849,370)</u>
2033T	Total liabilities and net deficit	<u>\$ 1,079,334</u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF ACTIVITIES DATA
Year Ended December 31, 2007

Account Number		
REVENUE		
5120	Rent - gross potential	\$ 783,738
5121	Tenant assistance payments	66,934
5140	Rent - commercial	42,276
5170	Parking spaces	9,630
5100T	Total potential rent revenue	<u>902,578</u>
5220	Vacancies - apartments	(23,120)
5152N	Net rental revenue	<u>879,458</u>
5410	Revenue from investments - operations	440
5440	Revenue from investments - reserve for replacements	4,505
5400T	Total financial revenue	<u>4,945</u>
5910	Laundry and vending revenue	10,277
5990	Miscellaneous revenue	26,799
5900T	Total other revenue	<u>37,076</u>
5000T	Total revenue	<u>921,479</u>
EXPENSES		
6210	Advertising	3,983
6250	Other renting expenses	2,496
6310	Office salaries	61,729
6311	Office expenses	17,387
6320	Management fee	60,192
6330	Manager salaries	25,329
6340	Legal expenses - project	1,060
6350	Audit expense	11,070
6390	Miscellaneous administrative expense	22,669
6263T	Total administrative expenses	<u>205,915</u>
6450	Electricity	177,357
6451	Water	41,776
6452	Gas and steam	40,615
6453	Sewer	18,846
6400T	Total utilities expense	<u>278,594</u>

(Continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF ACTIVITIES DATA (Continued)
Year Ended December 31, 2007

Account Number		
	EXPENSES (Continued)	
6510	Payroll	114,806
6515	Supplies	35,321
6520	Contracts	42,363
6521	Rent free unit	2,124
6525	Garbage and trash removal	4,476
6530	Security contract	5,893
6500T	Total operating expenses	<u>204,983</u>
6710	Real estate taxes	2,925
6711	Payroll taxes	16,272
6720	Property and liability insurance	34,026
6722	Workmen's compensation	11,633
6723	Health insurance and other employee benefits	14,055
6700T	Total taxes and insurance	<u>78,911</u>
6820	Interest on mortgage payable	28,862
6830	Interest on notes - long-term	16,725
6800T	Total financial expenses	<u>45,587</u>
6000T	Total cost of operations before depreciation	<u>813,990</u>
5060T	Changes in net assets before depreciation	107,489
6600	Depreciation	165,918
3250	Changes in net deficit	<u>(58,429)</u>
S1100-050	Net Deficit - Beginning	<u>(1,790,941)</u>
3130	Net Deficit - Ending	<u>\$ (1,849,370)</u>
S1000-010	Total mortgage principal payments required during the year	<u>\$ 68,337</u>
S1000-020	Total of 12 monthly deposits during the year into the replacement reserve account, as required by the regulatory agreement	<u>\$ 53,412</u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF CASH FLOWS DATA
Year Ended December 31, 2007

Account Number		
Cash Flows From Operating Activities		
S1200-010	Rental receipts	\$ 873,353
S1200-202	Interest receipts	440
S1200-030	Other operating receipts	37,076
S1200-040	Total receipts	<u>910,869</u>
S1200-050	Administrative	54,954
S1200-070	Management fees	60,192
S1200-090	Utilities	278,186
S1200-100	Salaries and wages	197,958
S1200-110	Operating and maintenance	81,227
S1200-140	Property and liability insurance	30,807
S1200-150	Miscellaneous taxes and insurance	44,595
S1200-180	Interest on mortgage	28,862
S1200-230	Total disbursements	<u>776,781</u>
S1200-240	Net cash provided by operating activities	<u>134,088</u>
Cash Flows From Investing Activities		
S1200-250	Net deposits into reserve for replacement	28,254
S1200-330	Purchase of fixed assets	(62,671)
S1200-340	Other investing activities - interest earned on replacement reserve	4,505
S1200-350	Net cash used in investing activities	<u>(29,912)</u>
Cash Flows From Financing Activities		
S1200-360	Principal payments on long-term debt	<u>(68,337)</u>
S1200-470	Net increase in cash and cash equivalents	35,839
Cash and Cash Equivalents:		
S1200-480	Beginning	34,739
S1200T	Ending	<u>\$ 70,578</u>

(Continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF CASH FLOWS DATA (Continued)
Year Ended December 31, 2007

Account Number		
	Reconciliation of Changes in Net Deficit to Net Cash Provided by Operating Activities	
3250	Changes in net deficit	\$ (58,429)
	Adjustments to reconcile changes in net deficit to net cash provided by operating activities	
6600	Depreciation	165,918
	Changes in assets and liabilities:	
	(Increase) decrease in:	
S1200-490	Accounts receivable	333
S1200-520	Prepaid expenses	3,219
S1200-530	Cash restricted for tenant deposits held in trust	(1,289)
	(Decrease) increase in:	
S1200-540	Accounts payable	13,359
S1200-560	Accrued expenses	3,906
S1200-570	Accrued interest	16,725
S1200-580	Tenant deposits held in trust	1,289
S1200-590	Prepaid rent revenue	(6,438)
S1200-600	Other adjustments	(4,505)
S1200-610	Net cash provided by operating activities	\$ 134,088

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF RESERVE FOR REPLACEMENT
Year Ended December 31, 2007

Account Number			
1320P	Balance - January 1, 2007	\$	195,470
1320DT	Monthly deposits		53,412
1320INT	Interest		4,505
			<u>57,917</u>
1320WT	Withdrawals - approved by HUD		<u>86,171</u>
1320	Balance - December 31, 2007	\$	<u><u>167,216</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

COMPUTATION OF SURPLUS CASH - ANNUAL
Year Ended December 31, 2007

Account Number			
S1300-010	Cash	\$	88,991
	Current Obligations		
S1300-075	Accounts payable due within 30 days		50,303
S1300-100	Accrued expenses		21,501
2191	Tenant security deposits		18,413
S1300-140	Total current obligations		<u>90,217</u>
S1300-150	Surplus cash (deficiency)	\$	<u><u>(1,226)</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF CHANGES IN FIXED ASSET ACCOUNTS
Year Ended December 31, 2007

Account Number		Beginning Balance	Additions	Deletions	Ending Balance
1410	Land	\$ 183,519	\$ -	\$ -	\$ 183,519
1420	Buildings	4,693,626	43,408	-	4,737,034
1440	Building equipment	118,816	-	-	118,816
1450	Furniture for project - tenant use	88,123	1,349	-	89,472
1460	Furnishings	161,397	16,746	-	178,143
1465	Office furniture and equipment	22,529	1,168	-	23,697
1470	Maintenance equipment	9,286	-	-	9,286
1400T	Total fixed assets	<u>5,277,296</u>	<u>62,671</u>	-	<u>5,339,967</u>
1495	Accumulated depreciation	<u>4,354,960</u>	<u>165,918</u>	-	<u>4,520,878</u>
1400N	Total net book value				<u>\$ 819,089</u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2007

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, 2007	14.157	\$ 924,871
2 Operating Assistance for Troubled Multi-Family Housing Projects (Flexible Subsidy Fund)		
Outstanding principal balance - December 31, 2007	14.164	1,672,491
Accrued interest payable - December 31, 2007	14.164	<u>241,125</u>
		1,913,616
3 Lower Income Housing Assistance Program Section 8 - Moderate Rehabilitation	14.856	<u>66,934</u>
Total expenditures of federal awards		<u><u>\$ 2,905,421</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

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, 2007, and have issued our report thereon dated April 2, 2008. 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.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of an entity's financial statements which is more than inconsequential will not be prevented or detected by the entity's internal control.

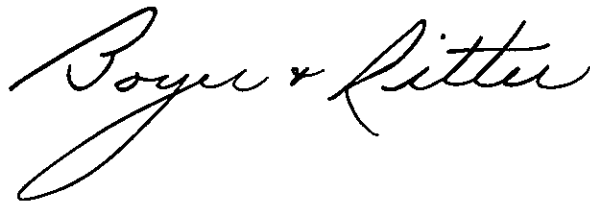
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 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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Camp Hill, Pennsylvania
April 2, 2008

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO THE MAJOR PROGRAM 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 the major federal program for the year ended December 31, 2007. Presbyterian Apartments, Inc.'s, major federal program is 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 the 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 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 the major federal program for the year ended December 31, 2007.

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 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 & Litter". The signature is written in black ink and is positioned centrally on the page.

Camp Hill, Pennsylvania
April 2, 2008

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006
Schedule of Findings and Questioned Costs
Year Ended December 31, 2007

Section I -- Summary of Auditor's Results

<u>Account Number</u>	
	Financial Statements
S3400-020	Type of auditor's report issued: Unqualified
	Internal control over financial reporting:
S3500-030	▪ Material weakness(es) identified: <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
S3500-020	▪ Significant deficiencies identified that are not considered to be material weakness(es)? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> None Reported
S3500-040	Noncompliance material to financial statements noted? <input type="checkbox"/> Yes <input checked="" type="checkbox"/>
	Federal Awards
	Internal control over major program:
S3600-030	▪ Material weakness(es) identified: <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
S3600-020	▪ Significant deficiencies identified that are not considered to be material weakness(es)? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> None Reported
	Type of auditor's report issued on compliance for the major program: Unqualified
	▪ Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006
Schedule of Findings and Questioned Costs
Year Ended December 31, 2007

Identification of the major program:

CFDA Number	Name of Federal Program
14.157	Housing for the Elderly
Dollar threshold used to distinguish between type A and type B programs	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	<u> X </u> Yes <u> </u> No

Section II -- Financial Statement Findings

A. Significant Deficiencies 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. Significant Deficiencies 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, 2007

There were no prior audit findings for the year ended December 31, 2006.

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

**CERTIFICATION OF MORTGAGOR
Year Ended December 31, 2007**

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>	Stephen Proctor
<u>Title of Certifying Official #1</u>	President & CEO
<u>Name of Signatory #2</u>	Jeff Davis
<u>Title of Certifying Official #2</u>	Senior Vice President & CFO
<u>Auditee Telephone Number</u>	717-233-5114
<u>Date of Certification</u>	04/02/2008
<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
<u>Auditee Contact email</u>	keithlep1@aol.com

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

**MANAGEMENT AGENT'S CERTIFICATION
Year Ended December 31, 2007**

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>	PHI
<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

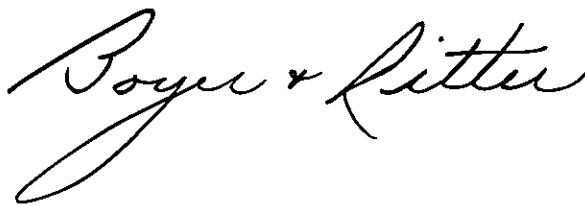
We have performed the procedure described in the second paragraph of this report, which was agreed to by Presbyterian Apartments, Inc., and the U.S. Department of Housing and Urban Development, Real Estate Assessment Center (REAC), solely to assist them in determining whether the electronic submission 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 and the standards applicable to attestation engagements contained in the *Government Auditing Standards* issued by the Comptroller General of the United States. 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, 2007, and have issued our reports thereon dated April 2, 2008. The information in the "Hard Copy Documents" column was included within the scope, or was a by-product of that audit. Furthermore, our opinion on the fair presentation of the supplemental financial data templates dated April 2, 2008, 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 positioned to the right of the date and location text.

Camp Hill, Pennsylvania
April 2, 2008

**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