

**PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006
FINANCIAL REPORT
WITH SUPPLEMENTARY INFORMATION
AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2009 AND 2008**

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

CONTENTS

INDEPENDENT AUDITOR’S REPORT ON THE FINANCIAL STATEMENTS	1 -2
---	------

FINANCIAL STATEMENTS	
Statements of Financial Position	3 -4
Statements of Activities	5
Statements of Cash Flows	6 -7
Notes to Financial Statements	8 -12

SUPPLEMENTARY INFORMATION	
Supplementary Information Required by HUD	14 -22
Schedule of Expenditures of Federal Awards	23
Note to Schedule of Expenditures of Federal Awards	24
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 Governmental Auditing Standards	25-26
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	27-28
Schedule of Findings and Questioned Costs	29-30
Summary Schedule of Prior Year Audit Findings	31
Certification of Officers	32
Managing Agent’s Certification	33

INDEPENDENT AUDITOR'S REPORT

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

HUD Field Office Director
Philadelphia, Pennsylvania

We have audited the accompanying statements of financial position of Presbyterian Apartments, Inc. (a nonprofit Corporation), HUD Project No. 034SH006, as of December 31, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Presbyterian Apartments, Inc. as of December 31, 2008, were audited by other auditors whose report dated March 6, 2009, expressed an unqualified opinion on those financial statements.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2010, on our consideration of Presbyterian Apartments, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 considered in assessing the results of our audit.

Our audit was conducted 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 14 through 22 is presented for the purposes of additional analysis as required by the U.S. Department of Housing and Urban Development and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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.

McKonly & Asbury, LLP

Camp Hill, Pennsylvania
March 30, 2010

THIS PAGE IS INTENTIONALLY LEFT BLANK

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2009 AND 2008

ASSETS	2009	2008
Current Assets		
Cash and cash equivalents	\$ 71,325	\$ 41,290
Accounts receivable - tenants	1,177	835
Accounts receivable - other	7,757	-
Prepaid expenses	3,333	4,460
Total current assets	83,592	46,585
Noncurrent Assets		
Restricted Deposits		
Replacement reserve	181,905	128,021
Tenant deposits held in trust	16,341	17,423
Total restricted deposits	198,246	145,444
Fixed Assets		
Land	183,519	183,519
Building and improvements	4,840,736	4,832,165
Furniture and equipment	420,199	429,360
	5,444,454	5,445,044
Less accumulated depreciation	(4,752,507)	(4,641,586)
Fixed assets - net	691,947	803,458
Total assets	\$ 973,785	\$ 995,487

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

LIABILITIES AND NET DEFICIT	2009	2008
Current Liabilities		
Current maturities of long-term debt	\$ 74,766	\$ 72,559
Accounts payable - operations	86,672	62,659
Accounts payable - related party	6,092	-
Accrued expenses		
Wages and vacation	16,760	26,489
Prepaid revenue	350	-
Total current liabilities	184,640	161,707
Noncurrent Liabilities		
Tenant deposits held in trust	16,145	17,423
Long-term debt - net of current maturities		
Mortgage payable	707,129	781,895
Flexible subsidy loan		
Loan payable	1,671,580	1,672,491
Accrued interest payable	275,293	257,613
Total liabilities	2,854,787	2,891,129
Unrestricted Net Deficit	(1,881,002)	(1,895,642)
Total liabilities and net deficit	\$ 973,785	\$ 995,487

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF ACTIVITIES

DECEMBER 31, 2009 AND 2008

	2009	2008
Revenue		
Rent	\$ 944,443	\$ 896,053
Financial	799	1,965
Other	41,561	27,091
Total revenue	986,803	925,109
Expenses		
Administrative	206,780	202,725
Utilities	274,720	279,904
Operating and maintenance	230,483	246,989
Taxes and insurance	95,245	77,784
Interest	41,410	43,271
Depreciation	123,525	120,708
Total expenses	972,163	971,381
Change in net deficit	14,640	(46,272)
Net Deficit - Beginning	(1,895,642)	(1,849,370)
Net Deficit - Ending	\$ (1,881,002)	\$ (1,895,642)

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

THIS PAGE IS INTENTIONALLY LEFT BLANK

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Cash Flows from Operating Activities		
Cash received from rentals	\$ 936,694	\$ 896,668
Interest received	326	362
Other cash received	41,365	27,091
Total receipts	978,385	924,121
Administrative	27,549	51,529
Management fees	61,773	61,512
Utilities	274,720	260,471
Salaries and wages	224,866	211,659
Operating and maintenance	108,483	130,253
Property and liability insurance	28,637	27,174
Miscellaneous taxes and insurance	59,389	49,332
Interest on mortgage	24,641	26,783
Total disbursements	810,058	818,713
Net cash provided by operating activities	168,327	105,408
 Cash Flows from Investing Activities		
Net withdrawals (deposits) to reserve for replacement	(53,411)	40,798
Purchase of fixed assets	(12,322)	(105,077)
Net cash used in investing activities	(65,733)	(64,279)
 Cash Flows from Financing Activities		
Principal payments on long-term debt	(72,559)	(70,417)
Net increase (decrease) in cash and cash equivalents	30,035	(29,288)
 Cash and Cash Equivalents:		
Beginning	41,290	70,578
Ending	\$ 71,325	\$ 41,290

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF CASH FLOWS (Cont'd)

YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Reconciliation of Changes in Net Deficit to		
Net Cash Provided by Operating Activities		
Changes in net deficit	\$ 14,640	\$ (46,272)
Adjustments to reconcile changes in net deficit to net cash provided by operating activities		
Loss on disposal of assets	308	-
Interest earned on replacement reserve account	(473)	(1,603)
Depreciation	123,525	120,708
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(8,099)	615
Prepaid expenses	1,127	(1,872)
Cash restricted for tenant deposits held in trust	1,082	990
(Decrease) increase in:		
Accounts payable - operations	24,013	12,356
Accounts payable - related party	6,092	-
Accrued expenses	(9,729)	4,988
Accrued interest	16,769	16,488
Prepaid revenue	350	-
Tenant deposits held in trust	(1,278)	(990)
	\$ 168,327	\$ 105,408
Net cash provided by operating activities	\$ 168,327	\$ 105,408

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

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Organization and Significant Accounting Policies

Nature of Organization: Presbyterian Apartments, Inc., is a nonprofit organization located in Harrisburg, Pennsylvania. The Project contains 165 apartments, of which 29 receive subsidies under Section 8 Housing Assistance payments 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, doing business as Presbyterian Senior Living, is the parent organization of Presbyterian Apartments Inc., and has approval rights for Board of Director appointments.

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

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.

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

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

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.

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

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

Subsequent Events: Management evaluated subsequent events through March 30, 2010, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2009, but prior to March 30, 2010, that provided additional evidence about conditions that existed at December 31, 2009, have been recognized in the financial statements for the year ended December 31, 2009. Events or transactions that provided evidence about conditions that did not exist at December 31, 2009, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended December 31, 2009.

Reclassification: Certain items in the 2008 financial statements have been reclassified to conform to the presentation of the 2009 financial statements.

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

Note 2. Long-Term Debt

		2009	2008
Loans payable - HUD	(A)	\$ 1,671,580	\$ 1,672,491
Accrued interest payable - HUD	(A)	275,293	257,613
Mortgage payable - HUD	(B)	781,895	854,454
		<u>2,728,768</u>	<u>2,784,558</u>
Less current portion of mortgage		(74,766)	(72,559)
		<u>\$ 2,654,002</u>	<u>\$ 2,711,999</u>

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

- The entire principal balance is due upon the sale of the project building or upon full payment of the HUD mortgage.
- Other principal payments can be made only from surplus cash with the written permission of the District Housing Commissioner of HUD.
- Simple interest at the rate of 1% per annum is payable at the time of principal payments. Interest has accrued since the note's inception.

(B) This mortgage payable as of December 31, 2009, 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.

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

Following are minimum principal payments of the mortgage payable for each of the next five years and in the aggregate as of December 31, 2009:

<u>Year</u>	<u>Amount</u>
2010	\$ 74,766
2011	77,040
2012	79,383
2013	81,797
2014	84,285
Future years	<u>384,624</u>
	<u>\$ 781,895</u>

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 2009 and 2008 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 2009 or 2008.

Note 4. Rent Increases

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

Note 5. Related Party Transactions

Some members of the Board of Directors of Presbyterian Apartments, Inc., are also officers of Presbyterian Senior Living. Presbyterian Senior Living is the management agent. Total fees to Presbyterian Senior Living were \$65,268 and \$61,512, for the years ended December 31, 2009 and 2008, respectively.

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

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 \$250,000 of Federal Deposit Insurance Corporation (FDIC) insurance. From time to time, the Organization's deposits may exceed the FDIC insured amount.

Note 7. Unrestricted Net Deficit

None of the Project's net deficit is subject to donor-imposed restrictions. Accordingly, the entire net deficit is accounted for as unrestricted net deficit under ASC 958.

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 2009 and 2008, the Organization contributed \$5,713 and \$4,306 to the Plan, respectively.

Note 9. Functional Allocation of Expenses

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

	<u>2009</u>	<u>2008</u>
Program services	\$ 878,937	\$ 882,183
Management and general	<u>93,226</u>	<u>89,198</u>
Total expenses	<u>\$ 972,163</u>	<u>\$ 971,381</u>

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.

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

Note 11. Contingencies

The Project is currently in a dispute with the City of Harrisburg regarding a significant increase in trash collection fees during the year ended December 31, 2008. The Project has ceased payment of the trash fees, but has accrued the trash portion of the bills received from the City of Harrisburg. Total accrued trash collection expense included in accounts payable at December 31, 2009 and 2008 totaled \$59,692 and \$17,655, respectively.

**SUPPLEMENTARY INFORMATION
REQUIRED BY HUD**

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF FINANCIAL POSITION DATA

DECEMBER 31, 2009

Account Number	ASSETS		
	Current Assets		
1120	Cash - operations	\$	71,325
1130	Accounts receivable - tenants		1,177
1140	Accounts receivable - other		7,757
1200	Prepaid expenses		3,333
1100T	Total current assets		<u>83,592</u>
1191	Tenant deposits held in trust		<u>16,341</u>
	Restricted Deposits		
1320	Replacement reserve		<u>181,905</u>
	Fixed Assets		
1410	Land		183,519
1420	Building		4,840,736
1440	Building equipment		120,183
1450	Furniture for project - tenant use		89,472
1460	Furnishings		177,561
1465	Office furniture and equipment		23,697
1470	Maintenance equipment		9,286
1440T	Total fixed assets		<u>5,444,454</u>
1495	Less accumulated depreciation		<u>(4,752,507)</u>
1400N	Fixed assets - net		<u>691,947</u>
1000T	Total assets	\$	<u><u>973,785</u></u>

Account Number	LIABILITIES AND NET DEFICIT	
	Current Liabilities	
2110	Accounts payable - operations	\$ 86,672
2100	Accounts payable - related party	6,092
2190	Accrued expenses	16,760
2210	Prepaid revenue	350
2170	Current maturities of long-term debt	74,766
2122T	Total current liabilities	<u>184,640</u>
2191	Tenant deposits held in trust	<u>16,145</u>
	Long-term debt	
2320	Mortgage payable - net of current portion	707,129
2325	Flexible subsidy loan payable	1,671,580
2330	Accrued interest payable - flexible subsidy	275,293
2330T	Total long-term liabilities	<u>2,654,002</u>
2000T	Total liabilities	<u>2,854,787</u>
3130	Unrestricted Net Deficit	<u>(1,881,002)</u>
2033T	Total liabilities and net deficit	<u><u>\$ 973,785</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF ACTIVITIES DATA

YEAR ENDED DECEMBER 31, 2009

Account Number		
	Revenue	
5120	Rent - gross potential	\$ 866,708
5121	Tenant assistance payments	78,414
5140	Rent - commercial	28,756
5170	Parking spaces	9,640
5100T	Total potential rent revenue	<u>983,518</u>
5220	Vacancies - apartments	(39,075)
5152N	Net rental revenue	<u>944,443</u>
5410	Revenue from investments - operations	326
5440	Revenue from investments - reserve for replacements	473
5400T	Total financial revenue	<u>799</u>
5910	Laundry and vending revenue	7,727
5920	Tenant charges	1,384
5990	Miscellaneous revenue	32,450
5900T	Total other revenue	<u>41,561</u>
5000T	Total revenue	986,803
	Expenses	
6210	Advertising	3,442
6250	Other renting expenses	811
6310	Office salaries	65,452
6311	Office expenses	7,038
6320	Management fee	61,773
6330	Manager salaries	27,685
6340	Legal expenses - project	800
6350	Audit expense	9,500
6360	Telephone and answering services	9,904
6390	Miscellaneous administrative expense	20,375
6263T	Total administrative expenses	<u>206,780</u>

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF ACTIVITIES DATA (Cont'd)

YEAR ENDED DECEMBER 31, 2009

Account Number		
	Expenses (Continued)	
6450	Electricity	163,739
6451	Water	39,735
6452	Gas and steam	53,632
6453	Sewer	17,614
6263T	Total utilities expense	<u>274,720</u>
6510	Payroll	122,000
6515	Supplies	19,717
6520	Contracts	38,119
6521	Rent free unit	2,376
6525	Garbage and trash removal	42,037
6530	Security contract	6,234
6550T	Total operating expense	<u>230,483</u>
6710	Real estate taxes	2,349
6711	Payroll taxes	19,440
6720	Property and liability insurance	29,764
6722	Workmen's compensation	14,107
6723	Health insurance and other employee benefits	29,585
6700T	Total taxes and insurance	<u>95,245</u>
6820	Interest on mortgage payable	24,641
6830	Interest on notes - long-term	16,769
6800T	Total financial expenses	<u>41,410</u>
6000T	Total cost of operations before depreciation	<u>848,638</u>
5060T	Changes in net assets before depreciation	138,165
6600	Depreciation	123,525
3250	Changes in net deficit	<u>14,640</u>
S1100-050	Net Deficit - Beginning	(1,895,642)
3130	Net Deficit - Ending	<u>\$ (1,881,002)</u>
S1000-010	Total mortgage principal payments required during the year	<u>\$ 72,599</u>
S1000-020	Total of 12 monthly deposits during the year into the replacement reserve account, as required by the regulatory agreement	<u>\$ 53,411</u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF CASH FLOWS DATA

YEAR ENDED DECEMBER 31, 2009

Account Number		
<hr/>		
	Cash Flows from Operating Activities	
S1200-010	Rental receipts	\$ 936,694
S1200-202	Interest receipts	326
S1200-030	Other operating receipts	41,365
S1200-040	Total receipts	<hr/> 978,385
S1200-050	Administrative	27,549
S1200-070	Management fees	61,773
S1200-090	Utilities	274,720
S1200-100	Salaries and wages	224,866
S1200-110	Operating and maintenance	108,483
S1200-140	Property and liability insurance	28,637
S1200-150	Miscellaneous taxes and insurance	59,389
S1200-180	Interest on mortgage	24,641
S1200-230	Total disbursements	<hr/> 810,058
S1200-240	Net cash provided by operating activities	168,327
	Cash Flows from Investing Activities	
S1200-250	Net deposits into reserve for replacement	(53,411)
S1200-330	Purchase of fixed assets	(12,322)
S1200-350	Net cash used in investing activities	(65,733)
	Cash Flows from Financing Activities	
S1200-360	Principal payments on long-term debt	(72,559)
S1200-470	Net increase in cash and cash equivalents	30,035
	Cash and Cash Equivalents:	
S1200-480	Beginning	41,290
S1200T	Ending	<hr/> <hr/> \$ 71,325

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF CASH FLOWS DATA (Cont'd)

YEAR ENDED DECEMBER 31, 2009

Account Number		
	Reconciliation of Changes in Net Deficit to	
	Net Cash Provided by Operating Activities	
3250	Changes in net deficit	\$ 14,640
	Adjustments to reconcile changes in net deficit to net cash provided by operating activities	
	Loss on disposal of assets	308
	Interest earned on replacement reserve account	(473)
6600	Depreciation	123,525
	Changes in assets and liabilities:	
	(Increase) decrease in:	
S1200-490	Accounts receivable	(8,099)
S1200-520	Prepaid expenses	1,127
S1200-530	Cash restricted for tenant deposits held in trust	1,082
	(Decrease) increase in:	
S1200-540	Accounts payable - operations	24,013
S1200-540	Accounts payable - related party	6,092
S1200-560	Accrued expenses	(9,729)
S1200-570	Accrued interest	16,769
S1200-580	Tenant deposits held in trust	(1,278)
S1200-590	Prepaid revenue	350
		<hr/>
S1200-610	Net cash provided by operating activities	<u>\$ 168,327</u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF RESERVE FOR REPLACEMENT

YEAR ENDED DECEMBER 31, 2009

Account Number		
1320P	Balance - January 1, 2009	\$ 128,021
1320DT	Monthly deposits	53,411
1320INT	Interest	473
		<u>181,905</u>
1320WT	Withdrawals - approved by HUD	<u>-</u>
1320	Balance - December 31, 2009	<u><u>\$ 181,905</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

COMPUTATION OF SURPLUS CASH - ANNUAL

YEAR ENDED DECEMBER 31, 2009

Account Number			
S1300-010	Cash	\$	87,666
	Current obligations		
S1300-075	Accounts payable due within 30 days		92,764
S1300-100	Accrued expenses		16,760
2191	Tenant security deposits		16,145
			<hr/>
S1300-140	Total current obligations		125,669
			<hr/>
S1300-150	Surplus cash (deficiency)	\$	(38,003)
			<hr/> <hr/>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF CHANGES IN FIXED ASSET ACCOUNTS

YEAR ENDED DECEMBER 31, 2009

Account Number		Beginning Balance	Additions	Deletions	Ending Balance
1410	Land	\$ 183,519	\$ -	\$ -	\$ 183,519
1420	Buildings	4,832,165	12,322	3,751	4,840,736
1440	Building equipment	120,183	-	-	120,183
1450	Furniture for project - tenant use	89,472	-	-	89,472
1460	Furnishings	186,722	-	9,161	177,561
1465	Office furniture and equipment	23,697	-	-	23,697
1470	Maintenance equipment	9,286	-	-	9,286
1400T	Total fixed assets	5,445,044	12,322	12,912	5,444,454
1495	Accumulated depreciation	4,641,586	123,525	12,604	4,752,507
1400N	Total net book value				<u><u>\$ 691,947</u></u>

Schedule of Additions to Buildings

<u>Description</u>	<u>Amount</u>
Carpet	\$ 10,484
Flooring	958
Dumpster	880
	<u><u>\$ 12,322</u></u>

Schedule of Deletions from Furnishings

<u>Description</u>	<u>Amount</u>
Carpet	<u><u>\$ 9,161</u></u>

Schedule of Deletions from Buildings

<u>Description</u>	<u>Amount</u>
Flooring	<u><u>\$ 3,751</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2009

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, 2009	14.157	\$ 781,895
2 Operating Assistance for Troubled Multi-Family Housing Projects (Flexible Subsidy Fund)		
Outstanding principal balance - December 31, 2009	14.164	1,671,580
Accrued interest payable - December 31, 2009	14.164	<u>275,293</u>
		<u>1,946,873</u>
3 Lower Income Housing Assistance Program		
Section 8 - Moderate Rehabilitation	14.856	<u>78,414</u>
Total expenditures of federal awards		<u><u>\$ 2,807,182</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. General

The accompanying schedule of expenditures of federal awards reflects the activity of all federal awards programs of Presbyterian Apartments, Inc.

Note 2. 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

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

HUD Field Office Director
Philadelphia, Pennsylvania

We have audited the financial statements of Presbyterian Apartments, Inc., HUD Project No. 034SH006 as of and for the year ended December 31, 2009, and have issued our report thereon dated March 30, 2010. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Presbyterian Apartments, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

(continued)

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. This deficiency is described as item 2009-1.

A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies that we consider to be significant deficiencies in internal control.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Presbyterian Apartments, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Presbyterian Apartments, Inc. in a separate letter dated March 30, 2010.

Presbyterian Apartments, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Presbyterian Apartments, Inc.'s response and, accordingly, we express no opinion on it.

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

McKonly & Asbury, LLP

Camp Hill, Pennsylvania
March 30, 2010

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

HUD Field Office Director
Philadelphia, Pennsylvania

Compliance

We have audited the compliance of Presbyterian Apartments, Inc., HUD Project No. 034SH006 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, 2009. Presbyterian Apartments, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Presbyterian Apartments, Inc.'s management. Our responsibility is to express an opinion on Presbyterian Apartments, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Presbyterian Apartments, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Presbyterian Apartments, Inc.'s compliance with those requirements.

(continued)

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, 2009.

Internal Control Over Compliance

The management of Presbyterian Apartments, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Presbyterian Apartments, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program 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 A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Presbyterian Apartments, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

McKonly & Asbury, LLP

Camp Hill, Pennsylvania
March 30, 2010

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2009

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Presbyterian Apartments, Inc.
2. A material weakness disclosed during the audit of the financial statements is reported in the 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*.
3. No instances of noncompliance material to the financial statements of Presbyterian Apartments, Inc. were disclosed during the audit.
4. No material weaknesses were identified during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs for Presbyterian Apartments, Inc. expresses an unqualified opinion on all major federal programs.
6. Audit findings, which were required to be reported in accordance with Section 510 (a) of OMB Circular A-133, are reported in this schedule.
7. The programs tested as major programs were:
 - Section 202 Direct Loan (CFDA # 14.157)
 - Operating Assistance for Troubled Multi-Family Housing Projects (CFDA # 14.164)
8. The threshold for distinguishing between Type A and Type B programs was \$300,000.
9. Presbyterian Apartments, Inc. qualified as a low-risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT

Finding 2009-1

Condition: For the year ended December 31, 2009, there is a lack of oversight and segregation of duties at the project. The property manager is responsible for the depositing, recording, and reconciling of cash receipts, as well as the recording and payment of cash disbursements. There is no review or approval over the cash receipts or cash disbursements process, including bank reconciliations and journal entries.

Criteria: The project is required to have internal controls over financial reporting sufficient to prevent, or detect and correct, material misstatements of the financial statements on a timely basis in accordance with generally accepted accounting principles.

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2009

Cause: The project's accounting function is currently performed primarily by the property manager.

Effect: There is the potential for misappropriation of assets to occur due to the lack of oversight over the cash receipts and cash disbursements process. There is also the potential for a material misstatement of the financial statements if there is no verification of the accuracy of transactions that are recorded.

Recommendation: The project should implement adequate internal controls over the cash receipts and cash disbursements process to ensure proper recording and disposition of receipts and disbursements and to minimize the risk of loss due to fraud. The project should also implement procedures to ensure that all bank reconciliations and journal entries are reviewed and approved by management.

Response: The project is currently moving the accounting function to the corporate office of the management agent where there will be sufficient accounting personnel to implement adequate internal controls over the cash receipts and cash disbursements process.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED DECEMBER 31, 2009

There were no audit findings for the year ended December 31, 2008.

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

CERTIFICATE OF OFFICERS

YEAR ENDED DECEMBER 31, 2009

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

Corporate Officers

Date

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

MANAGING AGENT'S CERTIFICATION

YEAR ENDED DECEMBER 31, 2009

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

Presbyterian Senior Living

Date

BEST PLACES **PA**
to work in
2003|2004|2005|2006|2007



MEMBERS
AMERICAN AND PENNSYLVANIA
INSTITUTES OF CERTIFIED PUBLIC
ACCOUNTANTS

www.macpas.com