

**PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006
FINANCIAL REPORT
WITH SUPPLEMENTARY INFORMATION
AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2010 AND 2009**

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

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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, 2010 and 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Presbyterian Apartments, Inc. as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2011, on our consideration of Presbyterian Apartments, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 audits.

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 of Presbyterian Apartments, Inc.. 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 21, 2011

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2010 AND 2009

ASSETS	2010	2009
Current Assets		
Cash and cash equivalents	\$ 138,791	\$ 71,325
Accounts receivable - tenants	1,843	1,177
Accounts receivable - grants	23,534	-
Accounts receivable - other	5,942	7,757
Contributions receivable	112,000	-
Prepaid expenses	37	3,333
Total current assets	282,147	83,592
Noncurrent Assets		
Restricted Deposits		
Replacement reserve	212,588	181,905
Tenant deposits held in trust	19,411	16,341
Total restricted deposits	231,999	198,246
Fixed Assets		
Land	183,519	183,519
Building and improvements	4,856,603	4,840,736
Furniture and equipment	452,075	420,199
Construction in progress	614,162	-
	6,106,359	5,444,454
Less accumulated depreciation	(4,860,423)	(4,752,507)
Fixed assets - net	1,245,936	691,947
Total assets	\$ 1,760,082	\$ 973,785

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

LIABILITIES AND NET DEFICIT	2010	2009
Current Liabilities		
Accounts payable - operations	\$ 292,859	\$ 86,672
Accounts payable - related party	46,013	6,092
Accrued expenses		
Wages and vacation	19,320	16,760
Other	3,576	-
Current maturities of long-term debt	77,046	74,766
Prepaid revenue	-	350
Total current liabilities	<u>438,814</u>	<u>184,640</u>
Noncurrent Liabilities		
Tenant deposits held in trust	17,593	16,145
Long-term debt - net of current maturities		
Mortgage payable	630,077	707,129
Flexible subsidy loan		
Loan payable	1,671,580	1,671,580
Accrued interest payable	291,918	275,293
Total liabilities	<u>3,049,982</u>	<u>2,854,787</u>
Net assets		
Unrestricted	(1,412,325)	(1,881,002)
Temporarily restricted	122,425	-
Total liabilities and net deficit	<u>\$ 1,760,082</u>	<u>\$ 973,785</u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF ACTIVITIES

DECEMBER 31, 2010 AND 2009

	Unrestricted	Temporarily Restricted	Total 2010	2009
Revenue				
Rent	\$ 1,002,944	\$ -	\$ 1,002,944	\$ 944,443
Financial	739	-	739	799
Grants	481,085	-	481,085	15,000
Contributions	50	122,425	122,475	-
Other	30,482	-	30,482	13,428
Total revenue	1,515,300	122,425	1,637,725	973,670
Expenses				
Administrative	219,645	-	219,645	206,780
Utilities	318,031	-	318,031	261,587
Operating and maintenance	255,651	-	255,651	230,483
Taxes and insurance	106,327	-	106,327	95,245
Interest	39,053	-	39,053	41,410
Depreciation	107,916	-	107,916	123,525
Total expenses	1,046,623	-	1,046,623	959,030
Change in net deficit	468,677	122,425	591,102	14,640
Net Assets (Deficit) - Beginning	(1,881,002)	-	(1,881,002)	(1,895,642)
Net Assets (Deficit) - Ending	\$ (1,412,325)	\$ 122,425	\$ (1,289,900)	\$ (1,881,002)

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

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Cash Flows from Operating Activities		
Cash received from rentals	\$ 1,002,278	\$ 936,694
Interest received	264	326
Other cash received	496,478	41,365
Total receipts	1,499,020	978,385
Administrative	43,747	27,549
Management fees	42,065	61,773
Utilities	301,012	274,720
Salaries and wages	266,496	224,866
Operating and maintenance	85,807	108,483
Property and liability insurance	30,309	28,637
Miscellaneous taxes and insurance	3,262	59,389
Tenant security deposits	1,424	-
Interest on mortgage	22,428	24,641
Total disbursements	796,550	810,058
Net cash provided by operating activities	702,470	168,327
Cash Flows from Investing Activities		
Net deposits to reserve for replacement	(30,208)	(53,411)
Purchase of fixed assets	(530,024)	(12,322)
Net cash used in investing activities	(560,232)	(65,733)
Cash Flows from Financing Activities		
Principal payments on long-term debt	(74,772)	(72,559)
Net increase in cash and cash equivalents	67,466	30,035
Cash and Cash Equivalents:		
Beginning	71,325	41,290
Ending	\$ 138,791	\$ 71,325

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF CASH FLOWS (Cont'd)

YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Reconciliation of Changes in Net Deficit to		
Net Cash Provided by Operating Activities		
Changes in net deficit	\$ 591,102	\$ 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	(475)	(473)
Depreciation	107,916	123,525
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	1,149	(8,099)
Accounts receivable - grants	(23,534)	-
Contributions receivable	(112,000)	-
Prepaid expenses	3,296	1,127
Cash restricted for tenant deposits held in trust	(3,070)	1,082
(Decrease) increase in:		
Accounts payable - operations	74,306	24,013
Accounts payable - related party	39,921	6,092
Accrued expenses	6,136	(9,729)
Accrued interest	16,625	16,769
Prepaid revenue	(350)	350
Tenant deposits held in trust	1,448	(1,278)
	<u>\$ 702,470</u>	<u>\$ 168,327</u>
Net cash provided by operating activities	<u>\$ 702,470</u>	<u>\$ 168,327</u>
 Supplemental schedule of noncash investing activities		
Total purchase of fixed assets	\$ 661,905	\$ -
Less amount in accounts payable	(131,881)	-
	<u>\$ 530,024</u>	<u>\$ -</u>
Cash paid for fixed assets	<u>\$ 530,024</u>	<u>\$ -</u>

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.

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

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

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

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

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

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

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

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

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

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

Income Taxes: The Organization is exempt from Federal income tax under Internal Revenue Code Section 501(c)(3). The Organization adheres to the provisions of Financial Accounting Standards Board Codification 740, Income Taxes. ASC 740 prescribes a comprehensive model for financial statement recognition, measurement, classification and disclosure of uncertain tax positions. The Organization has concluded that it does not have any uncertain tax positions that require recognition or disclosure in the financial statements.

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

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

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

Subsequent Events: Management evaluated events subsequent to December 31, 2010, and through March 21, 2011, the date the financial statements were available to be issued.

Reclassification: Certain items in the 2009 financial statements have been reclassified to conform to the presentation of the 2010 financial statements.

Note 2. Long-Term Debt

		2010		2009
Loans payable - HUD	(A)	\$ 1,671,580	\$	1,671,580
Accrued interest payable - HUD	(A)	291,918		275,293
Mortgage payable - HUD	(B)	707,123		781,895
		2,670,621		2,728,768
Less current portion of mortgage		(77,046)		(74,766)
		\$ 2,593,575	\$	2,654,002

(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.

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

- 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, 2010, 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, 2010:

Year	Amount
2011	\$ 77,046
2012	79,383
2013	81,797
2014	84,285
2015	86,849
Future years	297,763
	<hr/> <hr/> \$ 707,123

The Organization paid interest costs totaling \$22,428 and \$23,730 in 2010 and 2009.

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 2010 and 2009 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 2010 or 2009.

Note 4. Rent Increases

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

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

Note 5. Related Party Transactions

Some members of the Board of Directors of Presbyterian Apartments, Inc., are also officers of Presbyterian Senior Living. Presbyterian Senior Living is the management agent. Management fees are calculated at 6.5% of revenues as specified on the management certification. Total management fees paid to Presbyterian Senior Living were \$68,340 and \$61,773, for the years ended December 31, 2010 and 2009, respectively. Management fees included in accounts payable – related party were \$22,780 and zero as of December 31, 2010 and 2009.

Presbyterian Senior Living also pays expenses on behalf of the Organization and is reimbursed as project funds allow. Total reimbursements due to PSL included in accounts payable – related party were \$23,233 and \$6,092 as of December 31, 2010 and 2009.

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2010 and 2009, are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Replace call bell system	\$ 18,000	\$ -
Replace hot water heating system	100,000	-
Other	<u>4,425</u>	<u>-</u>
	<u>\$ 122,425</u>	<u>\$ -</u>

Note 7. Retirement Plan

The Organization participates in the PHI Defined Contribution Retirement Plan covering substantially all its employees. The Organization's contributions to the Plan are based on the eligible compensation of the employee. During 2010 and 2009, the Organization contributed \$6,464 and \$5,713 to the Plan, respectively.

Note 8. Grant

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

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.

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

	<u>2010</u>	<u>2009</u>
Program services	\$ 925,331	\$ 865,804
Management and general	<u>121,292</u>	<u>93,226</u>
Total expenses	<u>\$ 1,046,623</u>	<u>\$ 959,030</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.

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, 2010 and 2009, totaled \$101,728 and \$59,692, respectively.

**SUPPLEMENTARY INFORMATION
REQUIRED BY HUD**

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF FINANCIAL POSITION DATA

DECEMBER 31, 2010

Account Number	ASSETS		
	Current Assets		
1120	Cash - operations	\$	138,791
1130	Accounts receivable - tenants		1,843
1140	Accounts receivable - grants		23,534
1140	Accounts receivable - other		5,942
1140	Contributions receivable		112,000
1200	Prepaid expenses		37
1100T	Total current assets		<u>282,147</u>
1191	Tenant deposits held in trust		<u>19,411</u>
	Restricted Deposits		
1320	Replacement reserve		<u>212,588</u>
	Fixed Assets		
1410	Land		183,519
1420	Building		4,856,603
1440	Building equipment		134,361
1450	Furniture for project - tenant use		89,472
1460	Furnishings		192,802
1465	Office furniture and equipment		26,154
1470	Maintenance equipment		9,286
1490	Construction in progress		614,162
1400T	Total fixed assets		<u>6,106,359</u>
1495	Less accumulated depreciation		<u>(4,860,423)</u>
1400N	Fixed assets - net		<u>1,245,936</u>
1000T	Total assets	\$	<u><u>1,760,082</u></u>

Account Number	LIABILITIES AND NET DEFICIT		
	Current Liabilities		
2110	Accounts payable - operations	\$	292,859
2110	Accounts payable - related party		46,013
2190	Accrued expenses		22,896
2170	Current maturities of long-term debt		77,046
2122T	Total current liabilities		<u>438,814</u>
2191	Tenant deposits held in trust		<u>17,593</u>
	Long-term debt		
2320	Mortgage payable - net of current portion		630,077
2325	Flexible subsidy loan payable		1,671,580
2330	Accrued interest payable - flexible subsidy		291,918
2300T	Total long-term liabilities		<u>2,593,575</u>
2000T	Total liabilities		<u>3,049,982</u>
	Net assets (deficit)		
3131	Unrestricted		(1,412,325)
3132	Temporarily restricted		<u>122,425</u>
3130	Total net assets (deficit)		<u>(1,289,900)</u>
2033T	Total liabilities and net deficit	\$	<u><u>1,760,082</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF ACTIVITIES DATA

YEAR ENDED DECEMBER 31, 2010

Account Number		
	Revenue	
5120	Rent - gross potential	\$ 922,454
5121	Tenant assistance payments	82,799
5140	Rent - commercial	29,255
5170	Parking spaces	9,483
5100T	Total potential rent revenue	<u>1,043,991</u>
5220	Vacancies - apartments	<u>(41,047)</u>
5152N	Net rental revenue	1,002,944
5410	Revenue from investments - operations	264
5440	Revenue from investments - reserve for replacements	475
5400T	Total financial revenue	<u>739</u>
5910	Laundry and vending revenue	10,326
5970	Gifts	603,560
5990	Miscellaneous revenue	20,156
5900T	Total other revenue	<u>634,042</u>
5000T	Total revenue	1,637,725
	Expenses	
6210	Advertising	4,108
6310	Office salaries	75,195
6311	Office expenses	3,573
6320	Management fee	68,340
6330	Manager salaries	24,562
6340	Legal expenses - project	730
6350	Audit expense	22,175
6360	Telephone and answering services	9,109
6390	Miscellaneous administrative expense	11,853
6263T	Total administrative expenses	<u>219,645</u>

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF ACTIVITIES DATA (Cont'd)

YEAR ENDED DECEMBER 31, 2010

Account Number		
	Expenses (Continued)	
6450	Electricity	221,183
6451	Water	39,484
6452	Gas and steam	40,038
6453	Sewer	17,326
6263T	Total utilities expense	<u>318,031</u>
6510	Payroll	120,868
6515	Supplies	45,121
6520	Contracts	39,447
6521	Rent free unit	3,296
6525	Garbage and trash removal	42,037
6530	Security contract	4,107
6590	Miscellaneous operating and maintenance	775
6550T	Total operating and maintenance expense	<u>255,651</u>
6710	Real estate taxes	3,262
6711	Payroll taxes	20,426
6720	Property and liability insurance	28,556
6722	Workmen's compensation	15,874
6723	Health insurance and other employee benefits	38,209
6700T	Total taxes and insurance	<u>106,327</u>
6820	Interest expense	<u>39,053</u>
6800T	Total financial expenses	<u>39,053</u>
6000T	Total cost of operations before depreciation	<u>938,707</u>
5060T	Profit before depreciation	699,018
6600	Depreciation	107,916
5060N	Operating profit	<u>591,102</u>
3247	Change in unrestricted net assets from operations	468,677
3248	Change in temporarily restricted net assets from operations	122,425
3250	Change in total net assets from operations	<u>\$ 591,102</u>
S1000-010	Total mortgage principal payments required during the year	<u>\$ 74,772</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>
S1000-030	Replacement reserves, or residual receipts and releases which are included as expense items on this Profit and Loss statement	<u>\$ 985</u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF CASH FLOWS DATA

YEAR ENDED DECEMBER 31, 2010

Account Number		
Cash Flows from Operating Activities		
S1200-010	Rental receipts	\$ 1,002,278
S1200-202	Interest receipts	264
S1200-030	Other operating receipts	496,478
S1200-040	Total receipts	1,499,020
S1200-050	Administrative	43,747
S1200-070	Management fees	42,065
S1200-090	Utilities	301,012
S1200-100	Salaries and wages	266,496
S1200-110	Operating and maintenance	85,807
S1200-140	Property and liability insurance	30,309
S1200-150	Miscellaneous taxes and insurance	3,262
S1200-160	Tenant security deposits	1,424
S1200-180	Interest on mortgage	22,428
S1200-230	Total disbursements	796,550
S1200-240	Net cash provided by operating activities	702,470
Cash Flows from Investing Activities		
S1200-250	Net deposits into reserve for replacement	(30,208)
S1200-330	Purchase of fixed assets	(530,024)
S1200-350	Net cash used in investing activities	(560,232)
Cash Flows from Financing Activities		
S1200-360	Principal payments on long-term debt	(74,772)
S1200-470	Net increase in cash and cash equivalents	67,466
Cash and Cash Equivalents:		
S1200-480	Beginning	71,325
S1200T	Ending	\$ 138,791

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF CASH FLOWS DATA (Cont'd)

YEAR ENDED DECEMBER 31, 2010

Account Number		
	Reconciliation of Changes in Net Deficit to	
	Net Cash Provided by Operating Activities	
3250	Changes in net deficit	\$ 591,102
	Adjustments to reconcile changes in net deficit to net cash provided by operating activities	
	Interest earned on replacement reserve account	(475)
6600	Depreciation	107,916
	Changes in assets and liabilities:	
	(Increase) decrease in:	
S1200-490	Accounts receivable	1,149
S1200-500	Accounts receivable - grants	(23,534)
S1200-500	Contributions receivable	(112,000)
S1200-520	Prepaid expenses	3,296
S1200-530	Cash restricted for tenant deposits held in trust	(3,070)
	(Decrease) increase in:	
S1200-540	Accounts payable - operations	74,306
S1200-540	Accounts payable - related party	39,921
S1200-560	Accrued expenses	6,136
S1200-570	Accrued interest	16,625
S1200-580	Tenant deposits held in trust	1,448
S1200-590	Prepaid revenue	(350)
		<hr/>
S1200-610	Net cash provided by operating activities	\$ 702,470
		<hr/> <hr/>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF RESERVE FOR REPLACEMENT

YEAR ENDED DECEMBER 31, 2010

Account Number		
1320P	Balance - January 1, 2010	\$ 181,905
1320DT	Monthly deposits	53,412
1320INT	Interest	475
		<u>235,792</u>
1320WT	Withdrawals - approved by HUD	(23,165)
1320OWT	Other withdrawals - bank service fees	<u>(39)</u>
1320	Balance - December 31, 2010	<u><u>\$ 212,588</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

COMPUTATION OF SURPLUS CASH - ANNUAL

YEAR ENDED DECEMBER 31, 2010

Account Number			
S1300-010	Cash	\$	158,202
	Current obligations		
S1300-075	Accounts payable due within 30 days		338,872
S1300-100	Accrued expenses		19,320
2191	Tenant security deposits		<u>17,593</u>
S1300-140	Total current obligations		<u>375,785</u>
S1300-150	Surplus cash (deficiency)	\$	<u><u>(217,583)</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF CHANGES IN FIXED ASSET ACCOUNTS

YEAR ENDED DECEMBER 31, 2010

Account Number		Beginning Balance	Additions	Deletions	Ending Balance
1410	Land	\$ 183,519	\$ -	\$ -	\$ 183,519
1420	Buildings	4,840,736	15,867	-	4,856,603
1440	Building equipment	120,183	14,178	-	134,361
1450	Furniture for project - tenant use	89,472	-	-	89,472
1460	Furnishings	177,561	15,241	-	192,802
1465	Office furniture and equipment	23,697	2,457	-	26,154
1470	Maintenance equipment	9,286	-	-	9,286
1490	Construction in progress	-	614,162	-	614,162
1400T	Total fixed assets	5,444,454	661,905	-	6,106,359
1495	Accumulated depreciation	4,752,507	107,916	-	4,860,423
1400N	Total net book value				<u>\$ 1,245,936</u>

Schedule of Additions to Buildings

<u>Description</u>	<u>Amount</u>
Heat pumps	\$ 11,744
Countertops	988
Wallpaper	3,135
	<u>15,867</u>
	<u>\$ 15,867</u>

Schedule of Additions to Building Equipment

<u>Description</u>	<u>Amount</u>
Refrigerators	\$ 14,178
	<u>14,178</u>

Schedule of Additions to Furnishings

<u>Description</u>	<u>Amount</u>
Carpeting	\$ 15,241
	<u>15,241</u>

Schedule of Additions to Office Furniture

<u>Description</u>	<u>Amount</u>
Monitor	\$ 735
Cubicles	1,722
	<u>2,457</u>
	<u>\$ 2,457</u>

Schedule of Additions to Construction in Progress

<u>Description</u>	<u>Amount</u>
Construction in Progress	\$ 614,162
	<u>614,162</u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2010

Federal Grantor	Federal C.F.D.A. Number	Federal Expenditures
U.S. Department of Housing and Urban Development		
1 Housing for the Elderly		
Outstanding mortgage balance	14.157	\$ 707,123
2 Operating Assistance for Troubled Multi-Family Housing Projects (Flexible Subsidy Fund)		
Outstanding principal balance	14.164	1,671,580
Accrued interest payable	14.164	<u>291,918</u>
		1,963,498
3 Lower Income Housing Assistance Program		
Section 8 - Moderate Rehabilitation	14.856	<u>82,799</u>
U.S. Department of Energy		
Passed through the Pennsylvania Housing Finance Agency		
4 ARRA - Weatherization Assistance for		
Low-Income Persons	81.042	<u>471,285</u>
Total expenditures of federal awards		<u><u>\$ 3,224,705</u></u>

See Notes to Schedule of Expenditures of Federal Awards.

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. 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, 2010, and have issued our report thereon dated March 21, 2011. 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.

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.

(continued)

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Presbyterian Apartments, Inc. in a separate letter dated March 21, 2011.

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 21, 2011

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

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

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 *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Presbyterian Apartments, Inc.'s major federal programs for the year ended December 31, 2010. Presbyterian Apartments, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Presbyterian Apartments, Inc.'s management. Our responsibility is to express an opinion on Presbyterian Apartments, Inc.'s compliance based on our audit.

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

(continued)

In our opinion, Presbyterian Apartments, Inc. complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

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

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

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

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

McKonly & Asbury, LLP

Camp Hill, Pennsylvania
March 21, 2011

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2010

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Presbyterian Apartments, Inc.
2. No material weaknesses were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Presbyterian Apartments, Inc. were disclosed during the audit.
4. No material weaknesses were identified during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs for Presbyterian Apartments, Inc. expresses an unqualified opinion on all major federal programs.
6. Audit findings, which were required to be reported in accordance with Section 510 (a) of OMB Circular A-133, are reported in this schedule.
7. The programs tested as major programs were:
 - Section 202 Direct Loan (CFDA # 14.157)
 - Operating Assistance for Troubled Multi-Family Housing Projects (CFDA # 14.164)
 - Weatherization Assistance for Low-Income Persons (CFDA # 81.042)
8. The threshold for distinguishing between Type A and Type B programs was \$300,000.
9. Presbyterian Apartments, Inc. did not qualify as a low-risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT

None.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED DECEMBER 31, 2010

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.

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.

Current Status: The project moved the accounting function to the corporate office of the management agent during the year ended December 31, 2010, where there is sufficient accounting personnel and adequate internal controls were implemented over the cash receipts and cash disbursements process.

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

CERTIFICATE OF OFFICERS

YEAR ENDED DECEMBER 31, 2010

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, 2010

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



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