

**PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006
FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2012 AND 2011**

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Presbyterian Apartments, Inc. (a nonprofit organization), HUD Project No. 034SH006, which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report Issued in Accordance with *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated February 25, 2013, 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, 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. Also, in accordance with *Government Auditing Standards* and the *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (A-133)*, issued by the Office of Management and Budget, we have also issued a report dated February 25, 2013, on Presbyterian Apartments, Inc.'s internal control over compliance and an opinion on its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters that could have a direct and material effect on a major HUD-assisted program. Those reports are an integral part of a *Government Auditing Standards* and *A-133* audit in considering Presbyterian Apartments, Inc.'s internal control over financial reporting and compliance.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information shown on pages 16 to 27 is presented for purposes of additional analysis as required by the *Consolidated Audit Guide for Audits of HUD Programs* issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *A-133*, and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

McKonly & Asbury, LLP

Camp Hill, Pennsylvania
February 25, 2013

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2012 AND 2011

ASSETS	2012	2011
Current Assets		
Cash and cash equivalents	\$ 99,349	\$ 21,929
Accounts receivable - tenants (net of allowance for doubtful accounts of \$17,882 and zero)	10,363	9,270
Accounts receivable - HUD	-	15,170
Accounts receivable - security deposits	468	-
Accounts receivable - other	1,235	5,202
Contributions receivable	-	6,000
Prepaid expenses	8,330	12,040
Total current assets	119,745	69,611
Noncurrent Assets		
Restricted Deposits		
Replacement reserve	218,423	164,807
Tenant deposits held in trust	18,584	18,925
Total restricted deposits	237,007	183,732
Fixed Assets		
Land	183,519	183,519
Building and improvements	5,852,407	5,474,571
Furniture and equipment	452,075	452,075
Construction in progress	-	242,636
	6,488,001	6,352,801
Less accumulated depreciation	(5,127,622)	(4,997,790)
Fixed assets - net	1,360,379	1,355,011
Other assets		
Deferred financing fees	52,064	-
Total assets	\$ 1,769,195	\$ 1,608,354

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

<u>LIABILITIES AND NET DEFICIT</u>	2012	2011
Current Liabilities		
Accounts payable - operations	\$ 42,601	\$ 154,989
Accounts payable - related party	385,974	39,341
Accrued expenses		
Interest	-	1,622
Wages and vacation	18,339	22,259
Other	2,748	6,300
Current maturities of long-term debt	81,797	85,891
Prepaid rent	5,190	4,276
Total current liabilities	<u>536,649</u>	<u>314,678</u>
Noncurrent Liabilities		
Tenant deposits held in trust	19,044	17,216
Long-term debt - net of current maturities		
Mortgage payable	468,942	550,664
Flexible subsidy loan		
Loan payable	1,671,580	1,671,580
Accrued interest payable	325,475	308,770
Total noncurrent liabilities	<u>2,485,041</u>	<u>2,548,230</u>
Total liabilities	<u>3,021,690</u>	<u>2,862,908</u>
Net assets (deficit)		
Unrestricted	(1,279,672)	(1,279,725)
Temporarily restricted	27,177	25,171
Total liabilities and net deficit	<u>\$ 1,769,195</u>	<u>\$ 1,608,354</u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF ACTIVITIES

DECEMBER 31, 2012

	Unrestricted	Temporarily Restricted	Total
Revenue			
Rent	\$ 937,275	\$ -	\$ 937,275
Financial	81	-	81
Grants	25,000	20,000	45,000
Contributions	91,917	6	91,923
Other	31,862	-	31,862
Released from restrictions	18,000	(18,000)	-
Total revenue	1,104,135	2,006	1,106,141
Expenses			
Administrative	273,388	-	273,388
Utilities	205,277	-	205,277
Operating and maintenance	363,884	-	363,884
Taxes and insurance	97,134	-	97,134
Interest	34,567	-	34,567
Depreciation	129,832	-	129,832
Total expenses	1,104,082	-	1,104,082
Change in net assets (deficit)	53	2,006	2,059
Net Assets (Deficit) - Beginning	(1,279,725)	25,171	(1,254,554)
Net Assets (Deficit) - Ending	\$ (1,279,672)	\$ 27,177	\$ (1,252,495)

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

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF ACTIVITIES

DECEMBER 31, 2011

	Unrestricted	Temporarily Restricted	Total
Revenue			
Rent	\$ 969,051	\$ -	\$ 969,051
Financial	210	-	210
Contributions	30	2,370	2,400
Other	85,659	-	85,659
Released from restrictions	99,624	(99,624)	-
Total revenue	<u>1,154,574</u>	<u>(97,254)</u>	<u>1,057,320</u>
Expenses			
Administrative	244,830	-	244,830
Utilities	236,149	-	236,149
Operating and maintenance	264,943	-	264,943
Taxes and insurance	101,679	-	101,679
Interest	37,006	-	37,006
Depreciation	137,367	-	137,367
Total expenses	<u>1,021,974</u>	<u>-</u>	<u>1,021,974</u>
Change in net assets (deficit)	132,600	(97,254)	35,346
Net Assets (Deficit) - Beginning	<u>(1,412,325)</u>	<u>122,425</u>	<u>(1,289,900)</u>
Net Assets (Deficit) - Ending	<u>\$ (1,279,725)</u>	<u>\$ 25,171</u>	<u>\$ (1,254,554)</u>

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, 2012 AND 2011

	2012	2011
Cash Flows from Operating Activities		
Cash received from rentals	\$ 951,881	\$ 950,730
Interest received	8	125
Other cash received	178,669	218,333
Total receipts	1,130,558	1,169,188
Administrative	77,419	42,270
Management fees	-	85,513
Utilities	210,181	250,831
Salaries and wages	285,354	313,324
Operating and maintenance	7,284	234,059
Property and liability insurance	27,788	52,887
Miscellaneous taxes and insurance	2,352	2,290
Tenant security deposits	(2,467)	89
Interest on mortgage	19,484	18,532
Total disbursements	627,395	999,795
Net cash provided by operating activities	503,163	169,393
Cash Flows from Investing Activities		
Net (deposits to) withdrawals from reserve for replacement	(53,543)	47,866
Purchase of fixed assets	(249,970)	(263,553)
Net cash used in investing activities	(303,513)	(215,687)
Cash Flows from Financing Activities		
Principal payments on long-term debt	(85,816)	(70,568)
Payment of deferred financing fees	(36,414)	-
Net cash used in financing activities	(122,230)	(70,568)
Net increase (decrease) in cash and cash equivalents	77,420	(116,862)
Cash and Cash Equivalents:		
Beginning	21,929	138,791
Ending	\$ 99,349	\$ 21,929

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF CASH FLOWS (Cont'd)

YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Reconciliation of Changes in Net Deficit to		
Net Cash Provided by Operating Activities		
Change in net deficit	\$ 2,059	\$ 35,346
Adjustments to reconcile change in net deficit to net cash provided by operating activities		
Change in allowance for doubtful accounts	(17,882)	-
Interest earned on replacement reserve account	(73)	(85)
Depreciation	129,832	137,367
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	20,756	(6,687)
Accounts receivable - HUD	15,170	(15,170)
Accounts receivable - grants	(468)	23,534
Contributions receivable	6,000	106,000
Prepaid expenses	3,710	(12,003)
Cash restricted for tenant deposits held in trust	341	486
(Decrease) increase in:		
Accounts payable - operations	(13,268)	(120,759)
Accounts payable - related party	346,633	(6,672)
Accrued expenses	(9,094)	7,285
Accrued interest	16,705	16,852
Prepaid revenue	914	4,276
Tenant deposits held in trust	1,828	(377)
Net cash provided by operating activities	\$ 503,163	\$ 169,393
Supplemental schedule of noncash investing activities		
Total purchase of fixed assets	\$ 135,200	\$ 246,442
Decrease in accounts payable	114,770	17,111
Cash paid for fixed assets	\$ 249,970	\$ 263,553
Supplemental schedule of noncash financing activities		
Total deferred financing fees incurred	\$ 52,064	\$ -
Increase in accounts payable	(15,650)	-
Cash paid for deferred financing fees	\$ 36,414	\$ -

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 agreement 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 (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. 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.

Deferred Financing Fees: Deferred financing fees consist of costs related to the refinancing of the Organization's HUD mortgage. The fees will begin amortizing on the date that the refinancing occurs. As of the date the financial statements were issued, no date has been determined for settlement.

(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.

Donor Restrictions: The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose to which the donation is restricted is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements.

The Organization reports non-cash gifts as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributions, including unconditional promises to give, are recognized as revenues when the promise to give is first made. Conditional promises to give are not recognized until they become unconditional, that is when the conditions upon which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value as of the date of contribution.

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. Management believes it is no longer subject to income tax examinations for years prior to 2009.

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, 2012, and through February 25, 2013, the date the financial statements were available to be issued.

Reclassification: Certain items in the 2011 financial statements have been reclassified to conform to the presentation of the 2012 financial statements.

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

Note 2. 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.

Residual Receipts Reserve

Surplus cash is calculated annually and must be deposited into the residual receipts account within 90 days after the end of each fiscal year. Use of these funds is contingent upon HUD's prior written approval. The Project has not had surplus cash; therefore no residual receipts account has been established. No payments were due for 2012 or 2011.

Note 3. Long-Term Debt

		2012		2011
Loans payable - HUD	(A)	\$ 1,671,580	\$	1,671,580
Accrued interest payable - HUD	(A)	325,475		308,770
Mortgage payable - HUD	(B)	550,739		636,555
Accrued interest payable - HUD	(B)	-		1,622
		2,547,794		2,618,527
Less current portion of mortgage		(81,797)		(85,891)
		\$ 2,465,997	\$	2,532,636

(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, 2012, 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, 2012:

Year	Amount
2013	\$ 81,797
2014	84,285
2015	86,849
2016	89,491
2017	92,213
Future years	<u>116,104</u>
	<u>\$ 550,739</u>

The Organization incurred interest cost totaling \$34,567 and \$37,006 for the years ended December 31, 2012 and 2011. Interest costs totaling \$19,484 and \$18,532 were paid in 2012 and 2011.

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. Management fees were calculated at 6.5% of revenues as specified on the management certification through March 31, 2012, and increased to 7.5% effective April 1, 2012. Total management fees due to Presbyterian Senior Living were \$68,007 and \$63,458, for the years ended December 31, 2012 and 2011, respectively. Management fees included in accounts payable – related party were \$68,732 and \$725 as of December 31, 2012 and 2011.

Presbyterian Senior Living also advances cash to the project and 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 \$317,242 and \$38,616 as of December 31, 2012 and 2011.

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2012 and 2011, are available for the following purposes:

	2012	2011
Replace call bell system	\$ -	\$ 18,000
Purchase fitness equipment	20,000	-
Other	7,177	7,171
	\$ 27,177	\$ 25,171

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 2012 and 2011, the Organization contributed \$6,136 and \$9,449 to the Plan, respectively.

Note 8. Trash Dispute

The Project was 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 had ceased payment of the trash fees, but continued to accrue the trash portion of the bills received from the City of Harrisburg. A resolution was received by the Project during the year ended December 31, 2011, which was significantly less than the amounts accrued in prior years. Total trash expense agreed to by the Project and the City of Harrisburg equaled \$18,430 in 2011, which includes penalties incurred due to nonpayment. Credits were received related to billings for the years 2008-2010 and \$72,235 was recorded to miscellaneous income in the year ended December 31, 2011.

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.

	2012	2011
Program services	\$ 988,232	\$ 910,378
Management and general	115,850	111,596
Total expenses	\$ 1,104,082	\$ 1,021,974

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

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
REQUIRED BY HUD**

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF FINANCIAL POSITION DATA

DECEMBER 31, 2012

Account Number	ASSETS	
	Current Assets	
1120	Cash - operations	\$ 99,349
1130	Accounts receivable - tenants	10,363
1140	Accounts receivable - other	1,235
1200	Prepaid expenses	8,330
1100T	Total current assets	<u>119,745</u>
1191	Tenant deposits held in trust	<u>18,584</u>
	Restricted Deposits	
1320	Replacement reserve	<u>218,423</u>
	Fixed Assets	
1410	Land	183,519
1420	Building	5,852,407
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
1400T	Total fixed assets	<u>6,488,001</u>
1495	Less accumulated depreciation	<u>(5,127,622)</u>
1400N	Fixed assets - net	<u>1,360,379</u>
	Other Assets	
1520	Deferred financing fees	<u>52,064</u>
1000T	Total assets	<u><u>\$ 1,769,195</u></u>

Account Number	LIABILITIES AND NET DEFICIT	
	Current Liabilities	
2110	Accounts payable - operations	\$ 42,601
2110	Accounts payable - related party	385,974
2190	Accrued expenses	21,087
2170	Current maturities of long-term debt	81,797
2210	Prepaid revenue	5,190
2122T	Total current liabilities	<u>536,649</u>
2191	Tenant deposits held in trust	<u>19,044</u>
	Long-term debt	
2320	Mortgage payable - net of current portion	468,942
2325	Flexible subsidy loan payable	1,671,580
2330	Accrued interest payable - flexible subsidy	325,475
2300T	Total long-term liabilities	<u>2,465,997</u>
2000T	Total liabilities	<u>3,021,690</u>
	Net assets (deficit)	
3131	Unrestricted	(1,279,672)
3132	Temporarily restricted	<u>27,177</u>
3130	Total net assets (deficit)	<u>(1,252,495)</u>
2033T	Total liabilities and net deficit	<u>\$ 1,769,195</u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF ACTIVITIES DATA

YEAR ENDED DECEMBER 31, 2012

Account Number			
	Revenue		
5120	Rent - gross potential	\$	941,842
5121	Tenant assistance payments		76,128
5140	Rent - commercial		33,861
5170	Parking spaces		7,610
5190	Miscellaneous rent revenue		3,237
5100T	Total potential rent revenue		<u>1,062,678</u>
5220	Vacancies - apartments		(124,975)
5250	Rent concessions		(428)
5152N	Net rental revenue		<u>937,275</u>
5410	Revenue from investments - operations		8
5440	Revenue from investments - reserve for replacements		73
5400T	Total financial revenue		<u>81</u>
5910	Laundry and vending revenue		9,706
5970	Gifts		91,923
5990	Miscellaneous revenue		67,156
5900T	Total other revenue		<u>168,785</u>
5000T	Total revenue		1,106,141
	Expenses		
6204	Management consultants		4,170
6210	Advertising		8,432
6310	Office salaries		84,422
6311	Office expenses		4,659
6320	Management fee		68,007
6330	Manager salaries		41,405
6340	Legal expenses - project		717
6350	Audit expense		10,800
6360	Telephone and answering services		11,399
6370	Bad debt expense		17,996
6390	Miscellaneous administrative expense		21,381
6263T	Total administrative expenses		<u>273,388</u>

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF ACTIVITIES DATA (Cont'd)

YEAR ENDED DECEMBER 31, 2012

Account Number		
	Expenses (Continued)	
6450	Electricity	132,447
6451	Water	31,158
6452	Gas and steam	30,030
6453	Sewer	11,642
6263T	Total utilities expense	205,277
6510	Payroll	127,964
6515	Supplies	15,901
6520	Contracts	133,511
6521	Rent free unit	1,690
6525	Garbage and trash removal	18,430
6530	Security contract	5,202
6546	Heating/cooling repairs and maintenance	34,692
6590	Miscellaneous operating and maintenance	26,494
6550T	Total operating and maintenance expense	363,884
6710	Real estate taxes	2,352
6711	Payroll taxes	19,046
6720	Property and liability insurance	28,789
6722	Workmen's compensation	10,058
6723	Health insurance and other employee benefits	36,889
6700T	Total taxes and insurance	97,134
6820	Interest expense	34,567
6800T	Total financial expenses	34,567
6000T	Total cost of operations before depreciation	974,250
5060T	Profit before depreciation	131,891
6600	Depreciation	129,832
5060N	Operating profit	2,059
3247	Change in unrestricted net assets from operations	53
3248	Change in temporarily restricted net assets from operations	2,006
3250	Change in total net assets from operations	\$ 2,059
S1000-010	Total mortgage principal payments required during the year	\$ 85,816
S1000-020	Total of 12 monthly deposits during the year into the replacement reserve account, as required by the regulatory agreement	\$ 53,655
S1000-030	Replacement reserves, or residual receipts and releases which are included as expense items on this Profit and Loss statement	\$ -

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF CASH FLOWS DATA

YEAR ENDED DECEMBER 31, 2012

Account Number		
Cash Flows from Operating Activities		
S1200-010	Rental receipts	\$ 951,881
S1200-202	Interest receipts	8
S1200-030	Other operating receipts	178,669
S1200-040	Total receipts	1,130,558
S1200-050	Administrative	77,419
S1200-090	Utilities	210,181
S1200-100	Salaries and wages	285,354
S1200-110	Operating and maintenance	7,284
S1200-140	Property and liability insurance	27,788
S1200-150	Miscellaneous taxes and insurance	2,352
S1200-160	Tenant security deposits	(2,467)
S1200-180	Interest on mortgage	19,484
S1200-230	Total disbursements	627,395
S1200-240	Net cash provided by operating activities	503,163
Cash Flows from Investing Activities		
S1200-250	Net deposits to reserve for replacement	(53,543)
S1200-330	Purchase of fixed assets	(249,970)
S1200-350	Net cash used in investing activities	(303,513)
Cash Flows from Financing Activities		
S1200-360	Principal payments on long-term debt	(85,816)
S1200-450	Payments of deferred financing fees	(36,414)
S1200-460	Net cash used in financing activities	(122,230)
S1200-470	Net increase in cash and cash equivalents	77,420
Cash and Cash Equivalents:		
S1200-480	Beginning	21,929
S1200T	Ending	\$ 99,349

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF CASH FLOWS DATA (Cont'd)

YEAR ENDED DECEMBER 31, 2012

Account Number		
	Reconciliation of Changes in Net Deficit to	
	Net Cash Provided by Operating Activities	
3250	Change in net deficit	\$ 2,059
	Adjustments to reconcile change in net deficit to net cash provided by operating activities	
S1200-600	Change in allowance for doubtful accounts	(17,882)
S1200-600	Interest earned on replacement reserve account	(73)
6600	Depreciation	129,832
	Changes in assets and liabilities:	
	(Increase) decrease in:	
S1200-490	Accounts receivable	20,756
S1200-500	Accounts receivable - HUD	15,170
S1200-505	Contributions receivable	6,000
S1200-520	Prepaid expenses	3,710
S1200-530	Cash restricted for tenant deposits held in trust	341
	(Decrease) increase in:	
S1200-540	Accounts payable - operations	(13,268)
S1200-540	Accounts payable - related party	346,633
S1200-560	Accrued expenses	(9,094)
S1200-570	Accrued interest	16,705
S1200-580	Tenant deposits held in trust	1,828
S1200-590	Prepaid revenue	914
		<hr/>
S1200-610	Net cash provided by operating activities	\$ 503,163
		<hr/> <hr/>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULES OF MISCELLANEOUS PROFIT AND LOSS DATA
(MISCELLANEOUS CATEGORIES > 10% OF TOTAL)

YEAR ENDED DECEMBER 31, 2012

Other revenue - Account 5990

Grant revenue	\$ 45,000
Community store revenue	1,873
Private pay revenue	12,796
Reimbursement of energy grant paid for Smart Rehab	6,500
Miscellaneous revenue	<u>987</u>
	<u><u>\$ 67,156</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF RESERVE FOR REPLACEMENT

YEAR ENDED DECEMBER 31, 2012

Account Number		
1320P	Balance - January 1, 2012	\$ 164,807
1320DT	Monthly deposits	53,655
1320INT	Interest	<u>73</u>
		218,535
1320WT	Withdrawals - approved by HUD	-
1320OWT	Other withdrawals - bank service fees	<u>(112)</u>
1320	Balance - December 31, 2012	<u><u>\$ 218,423</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

COMPUTATION OF SURPLUS CASH - ANNUAL

YEAR ENDED DECEMBER 31, 2012

Account Number		
S1300-010	Cash	\$ 117,933
S1300-040	Total cash	117,933
	Current obligations	
S1300-075	Accounts payable due within 30 days	428,575
S1300-100	Accrued expenses	21,087
2191	Tenant security deposits	19,044
2210	Prepaid rent	5,190
S1300-140	Total current obligations	473,896
S1300-150	Surplus cash (deficiency)	\$ (355,963)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF CHANGES IN FIXED ASSET ACCOUNTS

YEAR ENDED DECEMBER 31, 2012

Account Number		Beginning Balance	Additions	Disposals	Ending Balance
1410	Land	\$ 183,519	\$ -	\$ -	\$ 183,519
1420	Buildings	5,474,571	377,836	-	5,852,407
1440	Building equipment	134,361	-	-	134,361
1450	Furniture for project - tenant use	89,472	-	-	89,472
1460	Furnishings	192,802	-	-	192,802
1465	Office furniture and equipment	26,154	-	-	26,154
1470	Maintenance equipment	9,286	-	-	9,286
1490	Construction in progress	242,636	-	242,636	-
1400T	Total fixed assets	6,352,801	377,836	242,636	6,488,001
1495	Accumulated depreciation	4,997,790	129,832	-	5,127,622
1400N	Total net book value				<u><u>\$ 1,360,379</u></u>

Schedule of Additions to Buildings

<u>Description</u>	<u>Amount</u>
Fire alarm system	\$ 325,358
Hot water heater system	52,478
	<u><u>\$ 377,836</u></u>

Schedule of Disposals from Construction in Progress

<u>Description</u>	<u>Amount</u>
Construction in progress placed in service	\$ 242,636
	<u><u>\$ 242,636</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2012

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	\$ 550,739
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>325,475</u>
		1,997,055
3 Lower Income Housing Assistance Program		
Section 8 - Moderate Rehabilitation	14.856	<u>76,128</u>
Total expenditures of federal awards		<u><u>\$ 2,623,922</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. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Presbyterian Apartments, Inc., Project No. 034SH006, under programs of the federal government for the year ended December 31, 2012. 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*. Because the Schedule presents only a selected portion of the operations of Presbyterian Apartments, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Presbyterian Apartments, Inc.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.



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

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

We have audited the financial statements of Presbyterian Apartments, Inc. as of and for the year ended December 31, 2012, and have issued our report thereon February 25, 2013. 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

Management of Presbyterian Apartments, Inc. is responsible for establishing and maintaining effective 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 the Presbyterian Apartments, Inc. internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Presbyterian Apartments, Inc. 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 Presbyterian Apartments, Inc.'s financial statements will not be prevented, or detected and corrected on a timely basis.

(continued)

Our consideration of 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

Management's Responsibility for Compliance

Compliance with certain provisions of laws, regulations, contracts and grant agreements related to the Project is the responsibility of Presbyterian Apartments, Inc.'s management.

Auditor's Responsibility

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 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*.

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and on compliance and other matters, and the results of that testing, and not to provide an opinion on the effectiveness of Presbyterian Apartments, Inc.'s internal control over financial reporting or on compliance and other matters. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Presbyterian Apartments, Inc.'s internal control over financial reporting and on compliance and other matters. Accordingly, this report is not suitable for any other purpose.

McKonly & Asbury, LLP

Camp Hill, Pennsylvania
February 25, 2013



**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.
Dillsburg, Pennsylvania

Compliance

We have audited Presbyterian Apartments, Inc.'s compliance with the 14 types of compliance requirements described in the *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations Compliance Supplement (OMB Circular A-133)* applicable to Presbyterian Apartments, Inc.'s major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2012.

Management's Responsibility for Compliance

Compliance with the requirements referred to above is the responsibility of Presbyterian Apartments, Inc.'s management.

Auditor's Responsibility

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*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs 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)

Opinion

In our opinion, Presbyterian Apartments, Inc. complied, in all material respects, with the compliance requirements referred to above that are applicable to its major Federal programs identified above for the year ended December 31, 2012.

Internal Control Over Compliance

Management of Presbyterian Apartments, Inc. is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered Presbyterian Apartments, Inc.'s internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, 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 the Presbyterian Apartments, Inc.'s internal control over compliance.

A deficiency in internal control over compliance 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, noncompliance 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 compliance requirement 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 that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The purpose of this report is solely to describe the scope of our testing of compliance with the compliance requirements referred to above that are applicable to each of Presbyterian Apartments, Inc.'s major federal programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on Presbyterian Apartments, Inc.'s compliance but not to provide an opinion on the effectiveness of Presbyterian Apartments, Inc.'s internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and *OMB Circular A-133* in considering Presbyterian Apartments, Inc.'s compliance with the relevant 14 types of compliance requirements applicable to its major federal programs and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

McKonly & Asbury, LLP

Camp Hill, Pennsylvania
February 25, 2013

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2012

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)
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

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, 2012

None.

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

CERTIFICATE OF OFFICERS

YEAR ENDED DECEMBER 31, 2012

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, 2012

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

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