

**PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006
FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2013 AND 2012**



McKONLY & ASBURY_{LLP}
CERTIFIED PUBLIC ACCOUNTANTS

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2013 and 2012, 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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1.800.569.5199 • www.macpas.com • Fax: 717.761.7944

MAILING ADDRESS

McKonly & Asbury LLP • 415 Fallowfield Road • Camp Hill, PA 17011

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, 2013 and 2012, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on pages 15 to 26 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, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated February 10, 2014, 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 internal control over financial reporting or on compliance. That 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 compliance.

McKonly & Asbury, LLP

Camp Hill, Pennsylvania
February 10, 2014

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2013 AND 2012

ASSETS	2013	2012
Current Assets		
Cash and cash equivalents	\$ 39,919	\$ 99,349
Accounts receivable - tenants (net of allowance for doubtful accounts of \$13,435 and \$17,882)	5,719	10,363
Accounts receivable - HUD	1,016	-
Accounts receivable - other	974	1,235
Prepaid expenses	6,350	8,330
Total current assets	53,978	119,277
Noncurrent Assets		
Restricted Deposits		
Replacement reserve	272,888	218,423
Tenant deposits	28,816	19,052
Total restricted deposits	301,704	237,475
Fixed Assets		
Land	183,519	183,519
Building and improvements	5,855,877	5,852,407
Furniture and equipment	472,179	452,075
Total fixed assets	6,511,575	6,488,001
Less accumulated depreciation	(5,248,448)	(5,127,622)
Fixed assets - net	1,263,127	1,360,379
Other Assets		
Deferred financing fees	52,064	52,064
Total assets	\$ 1,670,873	\$ 1,769,195

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

<u>LIABILITIES AND NET ASSETS (DEFICIT)</u>	2013	2012
Current Liabilities		
Accounts payable - operations	\$ 54,983	\$ 42,601
Accounts payable - related party	400,763	385,974
Accrued expenses		
Wages and vacation	21,039	18,339
Other	2,535	2,748
Current maturities of long-term debt	84,285	81,797
Prepaid rent	3,329	5,190
Deferred revenue	6,769	-
Total current liabilities	<u>573,703</u>	<u>536,649</u>
Noncurrent Liabilities		
Tenant deposits	28,775	19,044
Long-term debt - net of current maturities		
Mortgage payable	384,652	468,942
Flexible subsidy loan		
Loan payable	1,671,580	1,671,580
Accrued interest payable	342,190	325,475
Total noncurrent liabilities	<u>2,427,197</u>	<u>2,485,041</u>
Total liabilities	<u>3,000,900</u>	<u>3,021,690</u>
Net assets (deficit)		
Unrestricted	(1,338,455)	(1,279,672)
Temporarily restricted	8,428	27,177
Total liabilities and net assets (deficit)	<u>\$ 1,670,873</u>	<u>\$ 1,769,195</u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF ACTIVITIES

DECEMBER 31, 2013

	Unrestricted	Temporarily Restricted	Total
Revenue			
Rent	\$ 880,772	\$ -	\$ 880,772
Financial	114	-	114
Grants	53,431	-	53,431
Contributions	266	469	735
Other	22,957	-	22,957
Released from restrictions	19,218	(19,218)	-
Total revenue	<u>976,758</u>	<u>(18,749)</u>	<u>958,009</u>
Expenses			
Administrative	248,925	-	248,925
Utilities	215,988	-	215,988
Operating and maintenance	309,706	-	309,706
Taxes and insurance	107,983	-	107,983
Interest	32,113	-	32,113
Depreciation	120,826	-	120,826
Total expenses	<u>1,035,541</u>	<u>-</u>	<u>1,035,541</u>
Change in net assets (deficit)	(58,783)	(18,749)	(77,532)
Net Assets (Deficit) - Beginning	<u>(1,279,672)</u>	<u>27,177</u>	<u>(1,252,495)</u>
Net Assets (Deficit) - Ending	<u>\$ (1,338,455)</u>	<u>\$ 8,428</u>	<u>\$ (1,330,027)</u>

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

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	<u>1,104,135</u>	<u>2,006</u>	<u>1,106,141</u>
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	<u>1,104,082</u>	<u>-</u>	<u>1,104,082</u>
Change in net assets (deficit)	53	2,006	2,059
Net Assets (Deficit) - Beginning	<u>(1,279,725)</u>	25,171	<u>(1,254,554)</u>
Net Assets (Deficit) - Ending	<u>\$ (1,279,672)</u>	<u>\$ 27,177</u>	<u>\$ (1,252,495)</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, 2013 AND 2012

	2013	2012
Cash Flows from Operating Activities		
Cash received from rentals	\$ 882,456	\$ 951,881
Interest received	33	8
Other cash received	84,236	178,669
Total receipts	<u>966,725</u>	<u>1,130,558</u>
Administrative	93,809	77,419
Management fees	50,000	-
Utilities	199,668	210,181
Salaries and wages	257,898	285,354
Operating and maintenance	189,043	7,284
Property and liability insurance	57,839	27,788
Miscellaneous taxes and insurance	2,409	2,352
Tenant security deposits	331	(2,467)
Interest on mortgage	15,398	19,484
Total disbursements	<u>866,395</u>	<u>627,395</u>
Net cash provided by operating activities	100,330	503,163
Cash Flows from Investing Activities		
Net deposits to reserve for replacement	(54,384)	(53,543)
Purchase of fixed assets	(23,574)	(249,970)
Net cash used in investing activities	<u>(77,958)</u>	<u>(303,513)</u>
Cash Flows from Financing Activities		
Principal payments on long-term debt	(81,802)	(85,816)
Payment of deferred financing fees	-	(36,414)
Net cash used in financing activities	<u>(81,802)</u>	<u>(122,230)</u>
Net increase (decrease) in cash and cash equivalents	<u>(59,430)</u>	<u>77,420</u>
Cash and Cash Equivalents:		
Beginning	99,349	21,929
Ending	<u>\$ 39,919</u>	<u>\$ 99,349</u>

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF CASH FLOWS (Cont'd)

YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Reconciliation of Changes in Net Deficit to		
Net Cash Provided by Operating Activities		
Change in net deficit	\$ (77,532)	\$ 2,059
Adjustments to reconcile change in net deficit to net cash provided by operating activities		
Change in allowance for doubtful accounts	4,447	(17,882)
Interest earned on replacement reserve account	(81)	(73)
Depreciation	120,826	129,832
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable - tenants	458	20,756
Accounts receivable - HUD	(1,016)	15,170
Contributions receivable	-	6,000
Prepaid expenses	1,980	3,710
Cash restricted for tenant deposits held in trust	(9,764)	(127)
(Decrease) increase in:		
Accounts payable - operations	12,382	(13,268)
Accounts payable - related party	14,789	346,633
Accrued expenses	2,487	(9,094)
Accrued interest	16,715	16,705
Prepaid revenue	(1,861)	914
Deferred revenue	6,769	-
Tenant deposits held in trust	9,731	1,828
	<u>\$ 100,330</u>	<u>\$ 503,163</u>
Supplemental schedule of noncash investing activities		
Total purchase of fixed assets	\$ 23,574	\$ 135,200
Decrease in accounts payable	-	114,770
	<u>\$ 23,574</u>	<u>\$ 249,970</u>
Supplemental schedule of noncash financing activities		
Total deferred financing fees incurred	\$ -	\$ 52,064
Increase in accounts payable	-	(15,650)
	<u>\$ -</u>	<u>\$ 36,414</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 that owns a housing project 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.

Deferred Revenue: Any funds received by the Organization in advance of incurring eligible expenses are accounted for as deferred revenue in the Statements of Financial Position.

(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 2010.

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, 2013, and through February 10, 2014, the date the financial statements were available to be issued.

Reclassification: Certain items in the 2012 financial statements have been reclassified to conform to the presentation of the 2013 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 2013 or 2012.

Note 3. Long-Term Debt

		2013		2012
Loans payable - HUD	(A)	\$ 1,671,580	\$	1,671,580
Accrued interest payable - HUD	(A)	342,190		325,475
Mortgage payable - HUD	(B)	468,937		550,739
		2,482,707		2,547,794
Less current portion of mortgage		(84,285)		(81,797)
		\$ 2,398,422	\$	2,465,997

(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, 2013, 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, 2013:

Year	Amount
2014	84,285
2015	86,849
2016	89,491
2017	92,213
2018	95,017
Future years	21,082
	<u>\$ 468,937</u>

The Organization incurred interest cost totaling \$32,113 and \$34,567 for the years ended December 31, 2013 and 2012. Interest costs totaling \$15,398 and \$19,484 were paid in 2013 and 2012.

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 \$66,406 and \$68,007, for the years ended December 31, 2013 and 2012, respectively. Unpaid management fees as of December 31, 2013 and 2012, are included in accounts payable – related party.

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 as of December 31, 2013 and 2012, are included in accounts payable – related party.

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2013 and 2012, are available for the following purposes:

	2013	2012
Purchase fitness equipment	\$ 1,145	\$ 20,000
Emergency fund	7,283	7,177
	\$ 8,428	\$ 27,177

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 2013 and 2012, the Organization contributed \$3,603 and \$6,136 to the Plan, respectively.

Note 8. 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.

	2013	2012
Program services	\$ 931,881	\$ 988,232
Management and general	103,660	115,850
Total expenses	\$ 1,035,541	\$ 1,104,082

Note 9. Current Vulnerability due to Certain Concentrations

The Project's primary 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, 2013

Account Number	ASSETS		
	Current Assets		
1120	Cash - operations	\$	39,919
1130	Accounts receivable - tenants		5,719
1135	Accounts receivable - HUD		1,016
1140	Accounts receivable - other		974
1200	Prepaid expenses		6,350
1100T	Total current assets		<u>53,978</u>
1191	Tenant deposits		<u>28,816</u>
	Restricted Deposits		
1320	Replacement reserve		<u>272,888</u>
	Fixed Assets		
1410	Land		183,519
1420	Building		5,855,877
1440	Building equipment		134,361
1450	Furniture for project - tenant use		97,403
1460	Furnishings		204,975
1465	Office furniture and equipment		26,154
1470	Maintenance equipment		9,286
1400T	Total fixed assets		<u>6,511,575</u>
1495	Less accumulated depreciation		<u>(5,248,448)</u>
1400N	Fixed assets - net		<u>1,263,127</u>
	Other Assets		
1520	Deferred financing fees		<u>52,064</u>
1000T	Total assets	\$	<u><u>1,670,873</u></u>

Account Number	LIABILITIES AND NET ASSETS (DEFICIT)		
	Current Liabilities		
2110	Accounts payable - operations	\$	54,983
2110	Accounts payable - related party		400,763
2190	Accrued expenses		23,574
2170	Current maturities of long-term debt		84,285
2210	Prepaid revenue		3,329
2290	Deferred revenue		6,769
2122T	Total current liabilities		<u>573,703</u>
2191	Tenant deposits		<u>28,775</u>
	Long-term debt		
2320	Mortgage payable - net of current portion		384,652
2325	Flexible subsidy loan payable		1,671,580
2330	Accrued interest payable - flexible subsidy		342,190
2300T	Total long-term liabilities		<u>2,398,422</u>
2000T	Total liabilities		<u>3,000,900</u>
	Net assets (deficit)		
3131	Unrestricted		(1,338,455)
3132	Temporarily restricted		8,428
3130	Total net assets (deficit)		<u>(1,330,027)</u>
2033T	Total liabilities and net assets (deficit)	\$	<u><u>1,670,873</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF ACTIVITIES DATA

YEAR ENDED DECEMBER 31, 2013

Account Number			
	Revenue		
5120	Rent - gross potential	\$ 922,124	
5121	Tenant assistance payments	81,878	
5140	Rent - commercial	33,374	
5170	Parking spaces	7,600	
5190	Miscellaneous rent revenue	2,892	
5100T	Total potential rent revenue	<u>1,047,868</u>	
5220	Vacancies - apartments	(167,080)	
5250	Rent concessions	(16)	
5152N	Net rental revenue	<u>880,772</u>	
5410	Revenue from investments - operations	33	
5440	Revenue from investments - reserve for replacements	81	
5400T	Total financial revenue	<u>114</u>	
5910	Laundry and vending revenue	8,452	
5970	Gifts	735	
5990	Miscellaneous revenue	67,936	
5900T	Total other revenue	<u>77,123</u>	
5000T	Total revenue	958,009	
	Expenses		
6204	Management consultants	38	
6210	Advertising	6,426	
6310	Office salaries	72,191	
6311	Office expenses	6,026	
6320	Management fee	66,406	
6330	Manager salaries	42,261	
6340	Legal expenses - project	715	
6350	Audit expense	11,200	
6360	Telephone and answering services	9,415	
6370	Bad debt expense	15,827	
6390	Miscellaneous administrative expense	18,420	
6263T	Total administrative expenses	<u>248,925</u>	
6450	Electricity	146,243	
6451	Water	29,784	
6452	Gas and steam	29,276	
6453	Sewer	10,685	
6263T	Total utilities expense	<u>215,988</u>	

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF ACTIVITIES DATA (Cont'd)

YEAR ENDED DECEMBER 31, 2013

Account Number		
6510	Payroll	139,411
6515	Supplies	12,851
6520	Contracts	55,512
6521	Rent free unit	1,692
6525	Garbage and trash removal	17,963
6530	Security contract	4,747
6546	Heating/cooling repairs and maintenance	34,499
6560	Decorating contract	37,364
6561	Decorating supplies	3,229
6590	Miscellaneous operating and maintenance	2,438
6550T	Total operating and maintenance expense	309,706
6710	Real estate taxes	2,409
6711	Payroll taxes	18,166
6720	Property and liability insurance	33,207
6722	Workmen's compensation	12,796
6723	Health insurance and other employee benefits	41,405
6700T	Total taxes and insurance	107,983
6820	Interest expense	32,113
6800T	Total financial expenses	32,113
6000T	Total cost of operations before depreciation	914,715
5060T	Profit before depreciation	43,294
6600	Depreciation	120,826
5060N	Operating profit (loss)	(77,532)
3247	Change in unrestricted net assets from operations	(58,783)
3248	Change in temporarily restricted net assets from operations	(18,749)
3250	Change in total net assets from operations	\$ (77,532)
S1000-010	Total mortgage principal payments required during the year	\$ 81,802
S1000-020	Total of 12 monthly deposits during the year into the replacement reserve account, as required by the regulatory agreement	\$ 54,384
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, 2013

Account Number		
<hr/>		
Cash Flows from Operating Activities		
S1200-010	Rental receipts	\$ 882,456
S1200-202	Interest receipts	33
S1200-030	Other operating receipts	84,236
S1200-040	Total receipts	<hr/> 966,725
S1200-050	Administrative	93,809
S1200-070	Management fees	50,000
S1200-090	Utilities	199,668
S1200-100	Salaries and wages	257,898
S1200-110	Operating and maintenance	189,043
S1200-140	Property and liability insurance	57,839
S1200-150	Miscellaneous taxes and insurance	2,409
S1200-160	Tenant security deposits	331
S1200-180	Interest on mortgage	15,398
S1200-230	Total disbursements	<hr/> 866,395
S1200-240	Net cash provided by operating activities	100,330
Cash Flows from Investing Activities		
S1200-250	Net deposits to reserve for replacement	(54,384)
S1200-330	Purchase of fixed assets	<hr/> (23,574)
S1200-350	Net cash used in investing activities	(77,958)
Cash Flows from Financing Activities		
S1200-360	Principal payments on long-term debt	<hr/> (81,802)
S1200-460	Net cash used in financing activities	(81,802)
S1200-470	Net decrease in cash and cash equivalents	(59,430)
Cash and Cash Equivalents:		
S1200-480	Beginning	<hr/> 99,349
S1200T	Ending	<hr/> <hr/> \$ 39,919

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF CASH FLOWS DATA (Cont'd)

YEAR ENDED DECEMBER 31, 2013

Account Number		
	Reconciliation of Changes in Net Deficit to	
	Net Cash Provided by Operating Activities	
3250	Change in net deficit	\$ (77,532)
	Adjustments to reconcile change in net deficit to net cash	
	provided by operating activities	
S1200-600	Change in allowance for doubtful accounts	4,447
S1200-600	Interest earned on replacement reserve account	(81)
6600	Depreciation	120,826
	Changes in assets and liabilities:	
	(Increase) decrease in:	
S1200-490	Accounts receivable - tenant	458
S1200-500	Accounts receivable - HUD	(1,016)
S1200-520	Prepaid expenses	1,980
S1200-530	Cash restricted for tenant deposits	(9,764)
	(Decrease) increase in:	
S1200-540	Accounts payable - operations	12,382
S1200-540	Accounts payable - related party	14,789
S1200-560	Accrued expenses	2,487
S1200-570	Accrued interest	16,715
S1200-580	Tenant deposits held in trust	9,731
S1200-590	Prepaid revenue	4,908
		<hr/>
S1200-610	Net cash provided by operating activities	\$ 100,330
		<hr/> <hr/>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

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

YEAR ENDED DECEMBER 31, 2013

Other revenue - Account 5990

Grant revenue	\$ 53,431
Community store revenue	791
Private pay revenue	<u>13,714</u>
	<u><u>\$ 67,936</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF RESERVE FOR REPLACEMENT

YEAR ENDED DECEMBER 31, 2013

Account Number		
1320P	Balance - January 1, 2013	\$ 218,423
1320DT	Monthly deposits	54,384
1320INT	Interest	81
		<u>272,888</u>
1320WT	Withdrawals - approved by HUD	-
1320OWT	Other withdrawals - bank service fees	<u>-</u>
1320	Balance - December 31, 2013	<u><u>\$ 272,888</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

COMPUTATION OF SURPLUS CASH - ANNUAL

YEAR ENDED DECEMBER 31, 2013

Account Number		
S1300-010	Cash	\$ 68,735
1135	Accounts receivable - HUD	<u>1,016</u>
S1300-040	Total cash	69,751
	Current obligations	
S1300-075	Accounts payable due within 30 days	455,746
S1300-100	Accrued expenses	23,574
2191	Tenant security deposits	28,775
2210	Prepaid rent	<u>3,329</u>
S1300-140	Total current obligations	<u>511,424</u>
S1300-150	Surplus cash (deficiency)	<u><u>\$ (441,673)</u></u>

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

SCHEDULE OF CHANGES IN FIXED ASSET ACCOUNTS

YEAR ENDED DECEMBER 31, 2013

Account Number		Beginning Balance	Additions	Disposals	Ending Balance
1410	Land	\$ 183,519	\$ -	\$ -	\$ 183,519
1420	Buildings	5,852,407	3,470	-	5,855,877
1440	Building equipment	134,361	-	-	134,361
1450	Furniture for project - tenant use	89,472	7,931	-	97,403
1460	Furnishings	192,802	12,173	-	204,975
1465	Office furniture and equipment	26,154	-	-	26,154
1470	Maintenance equipment	9,286	-	-	9,286
1400T	Total fixed assets	6,488,001	23,574	-	6,511,575
1495	Accumulated depreciation	5,127,622	120,826	-	5,248,448
1400N	Total net book value				<u><u>\$ 1,263,127</u></u>

Schedule of Additions to Buildings

<u>Description</u>	<u>Amount</u>
Elevator controls for fire alarm system	<u><u>\$ 3,470</u></u>

Schedule of Additions to Furnishings

<u>Description</u>	<u>Amount</u>
Treadmills	<u><u>\$ 12,173</u></u>

Schedule of Additions to Furniture for project - tenant use

<u>Description</u>	<u>Amount</u>
Medical room equipment	\$ 3,431
Heat pump	<u>4,500</u>
	<u><u>\$ 7,931</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2013

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	\$ 468,937
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	342,190
		2,013,770
3 Lower Income Housing Assistance Program Section 8 - Moderate Rehabilitation	14.856	81,878
Total expenditures of federal awards		\$ 2,564,585

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, 2013. 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, 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, the financial statements of Presbyterian Apartments, Inc., HUD Project No. 034SH006, which comprise the statement of financial position as of December 31, 2013, and the related statement of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Presbyterian Apartments, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Presbyterian Apartments, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Presbyterian Apartments, Inc.'s internal control.

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 Project's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a 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.

(continued)

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Presbyterian Apartments, Inc.'s financial statements are free from 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*.

Purpose of this Report

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

McKonly & Asbury, LLP

Camp Hill, Pennsylvania
February 10, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited Presbyterian Apartments, Inc.'s, HUD Project No. 034SH006, compliance 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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Presbyterian Apartments, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. 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 the 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.

(continued)

We believe that our audit provides a reasonable basis for our opinion on compliance with each major federal program. However, our audit does not provide a legal determination of Presbyterian Apartments, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Presbyterian Apartments, Inc. complied, in all material respects, with the types of compliance 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, 2013.

Report on Internal Control Over Compliance

Management of Presbyterian Apartments, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Presbyterian Apartments, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 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 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. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of our testing based on the requirements of *OMB Circular A-133*. Accordingly, this report is not suitable for any other purpose.

McKonly & Asbury, LLP

Camp Hill, Pennsylvania
February 10, 2014

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2013

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified 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 unmodified 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, 2013

None.

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

CERTIFICATE OF OFFICERS

YEAR ENDED DECEMBER 31, 2013

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, 2013

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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