

**PRESBYTERIAN APARTMENTS, INC.  
PROJECT NO. 034SH006  
FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION  
AND INDEPENDENT AUDITOR'S REPORT  
DECEMBER 31, 2015 AND 2014**



**McKONLY & ASBURY**

**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, 2015 and 2014, 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, 2015 and 2014, 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.

## **Other Matters**

### *Other 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 24 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 audits 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 our report dated March 7, 2016, 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  
March 7, 2016

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

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2015 AND 2014

ASSETS	2015	2014
<b>Current Assets</b>		
Cash and cash equivalents	\$ 43,074	\$ 112,996
Accounts receivable - tenants (net of allowance for doubtful accounts of \$8,683 and \$28,020)	7,757	20,147
Accounts receivable - HUD	641	894
Accounts receivable - other	3,582	493
Prepaid expenses	12,283	17,817
Total current assets	67,337	152,347
<b>Noncurrent Assets</b>		
Restricted deposits and funded reserves		
Replacement reserve	298,584	263,354
Tenant security deposits	35,528	39,668
Total restricted deposits and funded reserves	334,112	303,022
<b>Fixed Assets</b>		
Land	183,519	183,519
Building and improvements	6,201,160	5,879,227
Furniture and equipment	579,254	569,675
Construction in progress	3,943	-
Total fixed assets	6,967,876	6,632,421
Less accumulated depreciation	(5,483,179)	(5,367,377)
Fixed assets - net	1,484,697	1,265,044
Total assets	\$ 1,886,146	\$ 1,720,413

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

<u>LIABILITIES AND NET ASSETS (DEFICIT)</u>	2015	2014
<b>Current Liabilities</b>		
Accounts payable - operations	\$ 83,537	\$ 61,381
Accounts payable - related party	780,044	582,870
Accrued expenses		
Wages and vacation	18,152	21,407
Other	3,260	3,454
Current maturities of mortgage payable	89,491	86,849
Prepaid - tenant	17,208	9,155
Prepaid rent - HAP	326	11,678
Deferred revenue	-	25,000
Total current liabilities	<u>992,018</u>	<u>801,794</u>
<b>Noncurrent Liabilities</b>		
Tenant security deposits	35,869	40,069
Long-term liabilities - net of current maturities		
Mortgage payable	208,300	297,797
Flexible subsidy loan		
Loan payable	1,671,580	1,671,580
Accrued interest payable	375,622	358,906
Total noncurrent liabilities	<u>2,291,371</u>	<u>2,368,352</u>
Total liabilities	<u>3,283,389</u>	<u>3,170,146</u>
<b>Net assets (deficit)</b>		
Unrestricted	(1,403,761)	(1,457,906)
Temporarily restricted	6,518	8,173
Total liabilities and net assets (deficit)	<u>\$ 1,886,146</u>	<u>\$ 1,720,413</u>

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

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Total
<b>Revenue</b>			
Rent	\$ 1,058,737	\$ -	\$ 1,058,737
Financial	140	-	140
Grants	75,000	-	75,000
Contributions	7,892	60	7,952
Other	22,689	-	22,689
Released from restrictions	1,715	(1,715)	-
Total revenue	1,166,173	(1,655)	1,164,518
<b>Expenses</b>			
Administrative	276,399	-	276,399
Utilities	246,610	-	246,610
Operating and maintenance	327,968	-	327,968
Taxes and insurance	118,188	-	118,188
Interest	27,061	-	27,061
Depreciation	115,802	-	115,802
Total expenses	1,112,028	-	1,112,028
Change in net assets (deficit)	54,145	(1,655)	52,490
Net Assets (Deficit) - Beginning	(1,457,906)	8,173	(1,449,733)
Net Assets (Deficit) - Ending	\$ (1,403,761)	\$ 6,518	\$ (1,397,243)

(continued)

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

STATEMENT OF ACTIVITIES (Cont'd)

YEAR ENDED DECEMBER 31, 2014

	Unrestricted	Temporarily Restricted	Total
<b>Revenue</b>			
Rent	\$ 1,005,527	\$ -	\$ 1,005,527
Financial	128	-	128
Grants	28,113	-	28,113
Contributions	16,974	1,220	18,194
Other	21,417	-	21,417
Released from restrictions	1,475	(1,475)	-
Total revenue	<u>1,073,634</u>	<u>(255)</u>	<u>1,073,379</u>
<b>Expenses</b>			
Administrative	283,275	-	283,275
Utilities	247,851	-	247,851
Operating and maintenance	345,465	-	345,465
Taxes and insurance	115,876	-	115,876
Interest	29,625	-	29,625
Depreciation	118,929	-	118,929
Amortization	52,064	-	52,064
Total expenses	<u>1,193,085</u>	<u>-</u>	<u>1,193,085</u>
Change in net assets	(119,451)	(255)	(119,706)
Net Assets (Deficit) - Beginning	(1,338,455)	8,428	(1,330,027)
Net Assets (Deficit) - Ending	<u>\$ (1,457,906)</u>	<u>\$ 8,173</u>	<u>\$ (1,449,733)</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, 2015 AND 2014

	2015	2014
<b>Cash Flows from Operating Activities</b>		
Cash received from rentals	\$ 1,064,992	\$ 1,008,232
Interest received	58	51
Other cash received	80,641	86,929
Total receipts	<u>1,145,691</u>	<u>1,095,212</u>
Administrative	20,642	124,478
Management fees	10,679	4,612
Utilities	247,927	257,089
Salaries and wages	269,257	295,461
Operating and maintenance	298,827	91,404
Property and liability insurance	28,596	43,381
Miscellaneous taxes and insurance	2,409	2,409
Tenant security deposits	(236)	(442)
Interest on mortgage	10,345	12,909
Total disbursements	<u>888,446</u>	<u>831,301</u>
Net cash provided by operating activities	257,245	263,911
<b>Cash Flows from Investing Activities</b>		
Net withdrawals from (deposits to) replacement reserve	(35,148)	9,611
Purchase of fixed assets	(205,164)	(116,154)
Net cash used in investing activities	(240,312)	(106,543)
<b>Cash Flows from Financing Activities</b>		
Principal payments on mortgage payable	(86,855)	(84,291)
Net cash used in financing activities	(86,855)	(84,291)
Net increase (decrease) in cash and cash equivalents	<u>(69,922)</u>	<u>73,077</u>
<b>Cash and Cash Equivalents:</b>		
Beginning	<u>112,996</u>	<u>39,919</u>
Ending	<u>\$ 43,074</u>	<u>\$ 112,996</u>

(continued)

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

STATEMENTS OF CASH FLOWS (Cont'd)

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Reconciliation of Changes in Net Assets to		
Net Cash Provided by Operating Activities		
Change in net assets	\$ 52,490	\$ (119,706)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in allowance for doubtful accounts	19,337	(14,585)
Interest earned on replacement reserve	(82)	(77)
Depreciation and amortization	115,802	170,993
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable - tenants	(6,947)	157
Accounts receivable - HUD	253	122
Accounts receivable - other	(3,089)	481
Prepaid expenses	5,534	(11,467)
Tenant security deposits	4,140	(10,852)
(Decrease) increase in:		
Accounts payable - operations	(13,135)	1,706
Accounts payable - related party	102,174	182,107
Accrued expenses	(3,449)	1,287
Accrued interest	16,716	16,716
Prepaid rent - tenants	8,053	5,826
Prepaid rent - HAP	(11,352)	11,678
Deferred revenue	(25,000)	18,231
Tenant security deposits	(4,200)	11,294
	<u>\$ 257,245</u>	<u>\$ 263,911</u>
Supplemental schedule of noncash investing activities		
Total purchase of fixed assets	\$ 335,455	\$ 120,846
Decrease in accounts payable - operations	4,692	-
Increase in accounts payable - operations	(39,983)	-
Increase in accounts payable - related parties	(95,000)	(4,692)
	<u>\$ 205,164</u>	<u>\$ 116,154</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; 5 to 45 years for buildings and improvements, and 5 to 10 years for furniture 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. During the year ended December 31, 2014, the Organization determined that refinancing of the HUD mortgage would not occur and fully amortized the deferred financing fees of \$52,064.

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 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 2012.

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 Organization.

Subsequent Events: Management evaluated events subsequent to December 31, 2015, and through March 7, 2016, the date the financial statements were available to be issued.

Reclassification: Certain items in the 2014 financial statements have been reclassified to conform to the presentation of the 2015 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 2015 or 2014.

**Note 3. Long-Term Liabilities**

Long-term liabilities consist of the following at December 31, 2015 and 2014:

	2015	2014
Loans payable - HUD (A)	\$ 1,671,580	\$ 1,671,580
Accrued interest payable – HUD (A)	375,622	358,906
Mortgage payable – HUD (B)	297,791	384,646
	2,344,993	2,415,132
Less current portion of mortgage payable	(89,491)	(86,849)
	\$ 2,255,502	\$ 2,328,283

(A) This loan is made as part of the HUD flexible subsidy program. The flexible subsidy program provides funds for major repair and replacement expenditures. The terms of the loan is 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, 2015, 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 and is due April 1, 2019.

(continued)

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

NOTES TO FINANCIAL STATEMENTS

Following are minimum principal payments of the mortgage payable for each of the remaining years and in the aggregate as of December 31, 2015:

Year	Amount
2016	\$ 89,491
2017	92,213
2018	95,017
2019	21,070
	<u>\$ 297,791</u>

The Organization incurred interest cost totaling \$27,061 and \$29,625 for the years ended December 31, 2015 and 2014. Interest costs totaling \$10,345 and \$12,909 were paid in 2015 and 2014.

**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 7.5% of revenues as specified on the management certification. Total management fees due to Presbyterian Senior Living were \$78,652 and \$75,794, for the years ended December 31, 2015 and 2014, respectively. Unpaid management fees as of December 31, 2015 and 2014, 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, 2015 and 2014, are included in accounts payable – related party.

**Note 6. Temporarily Restricted Net Assets**

Temporarily restricted net assets at December 31, 2015 and 2014, are available for the following purposes:

	2015	2014
Elevators	\$ -	\$ 1,020
Emergency fund	6,518	6,953
Stoves	-	200
	<u>\$ 6,518</u>	<u>\$ 8,173</u>

(continued)

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

NOTES TO FINANCIAL STATEMENTS

**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 2015 and 2014, the Organization contributed \$7,273 and \$5,994 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.

	<u>2015</u>	<u>2014</u>
Program services	\$ 1,003,662	\$ 1,086,010
Management and general	<u>108,366</u>	<u>107,075</u>
Total expenses	<u>\$ 1,112,028</u>	<u>\$ 1,193,085</u>

**Note 9. Current Vulnerability Due to Certain Concentrations**

The Organization's primary asset is a 165 unit apartment project. The Organization's operations are concentrated in the multifamily real estate market. In addition, the Project operates in a heavily regulated environment. The operations of the Organization are subject to administrative directives, rules and regulations of federal, state, and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules, and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

**SUPPLEMENTARY INFORMATION**



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

STATEMENT OF FINANCIAL POSITION DATA

DECEMBER 31, 2015

Account Number	ASSETS		
	Current Assets		
1120	Cash - operations	\$	43,074
1130	Accounts receivable - tenants		7,757
1135	Accounts receivable - HUD		641
1140	Accounts receivable - other		3,582
1200	Prepaid expenses		12,283
1100T	Total current assets		67,337
	Restricted Deposits and Funded Reserves		
1191	Tenant deposits		35,528
1320	Replacement reserve		298,584
1300T	Total Restricted Deposits and Funded Reserves		334,112
	Fixed Assets		
1410	Land		183,519
1420	Building		6,201,160
1440	Building equipment		189,022
1450	Furniture for project - tenant use		97,403
1460	Furnishings		204,975
1465	Office furniture and equipment		78,568
1470	Maintenance equipment		9,286
1490	Construction in progress		3,943
1400T	Total fixed assets		6,967,876
1495	Less accumulated depreciation		(5,483,179)
1400N	Fixed assets - net		1,484,697
1000T	Total assets	\$	1,886,146

Account Number	LIABILITIES AND NET ASSETS (DEFICIT)		
	Current Liabilities		
2110	Accounts payable - operations	\$	83,537
2110	Accounts payable - related party		780,044
2190	Accrued expenses		21,412
2170	Current maturities of mortgage payable		89,491
2210	Prepaid revenue		17,208
2210	Prepaid housing assistance payments		326
2290	Deferred revenue		-
2122T	Total current liabilities		<u>992,018</u>
2191	Tenant deposits		<u>35,869</u>
	Long-term liabilities		
2320	Mortgage payable - net of current portion		208,300
2325	Flexible subsidy loan payable		1,671,580
2330	Accrued interest payable - flexible subsidy loan payable		<u>375,622</u>
2300T	Total long-term liabilities		<u>2,255,502</u>
2000T	Total liabilities		<u>3,283,389</u>
	Net assets (deficit)		
3131	Unrestricted		(1,403,761)
3132	Temporarily restricted		<u>6,518</u>
3130	Total net assets (deficit)		(1,397,243)
2033T	Total liabilities and net assets (deficit)	\$	<u><u>1,886,146</u></u>

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

STATEMENT OF ACTIVITIES DATA

YEAR ENDED DECEMBER 31, 2015

Account Number		
	<u>Revenue</u>	
5120	Rent - gross potential	\$ 977,349
5121	Tenant assistance payments	141,477
5140	Rent - commercial	30,998
5170	Parking spaces	8,163
5190	Miscellaneous rent revenue	36,830
5100T	Total potential rent revenue	<u>1,194,817</u>
5220	Vacancies - apartments	(136,080)
5152N	Net rental revenue	<u>1,058,737</u>
5410	Revenue from investments - operations	58
5440	Revenue from investments - reserve for replacements	82
5400T	Total financial revenue	<u>140</u>
5910	Laundry and vending revenue	8,833
5920	Tenant charges	50
5970	Gifts	7,952
5990	Miscellaneous revenue	88,806
5900T	Total other revenue	<u>105,641</u>
5000T	Total revenue	1,164,518
	<u>Expenses</u>	
6204	Management consultants	24
6210	Advertising	2,044
6310	Office salaries	73,251
6311	Office expenses	5,766
6320	Management fee	78,652
6330	Manager salaries	35,709
6340	Legal expenses - project	784
6350	Audit expense	10,800
6360	Telephone and answering services	9,867
6370	Bad debt expense	30,496
6390	Miscellaneous administrative expense	29,006
6263T	Total administrative expenses	<u>276,399</u>
6450	Electricity	147,860
6451	Water	39,771
6452	Gas and steam	38,455
6453	Sewer	20,524
6263T	Total utilities expense	<u>246,610</u>

(continued)

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

STATEMENT OF ACTIVITIES DATA (Cont'd)

YEAR ENDED DECEMBER 31, 2015

Account Number		
6510	Payroll	130,262
6515	Supplies	22,691
6520	Contracts	68,407
6521	Rent free unit	2,148
6525	Garbage and trash removal	22,688
6546	Heating/cooling repairs and maintenance	12,615
6560	Decorating contract	30,803
6561	Decorating supplies	1,741
6570	Vehicle and maintenance equipment operations and repair	430
6590	Miscellaneous operating and maintenance	36,183
6550T	Total operating and maintenance expense	<u>327,968</u>
6710	Real estate taxes	2,409
6711	Payroll taxes	17,664
6720	Property and liability insurance	34,129
6722	Workmen's compensation	11,472
6723	Health insurance and other employee benefits	52,514
6700T	Total taxes and insurance	<u>118,188</u>
6820	Interest expense	<u>27,061</u>
6800T	Total financial expenses	<u>27,061</u>
6000T	Total cost of operations before depreciation	<u>996,226</u>
5060T	Profit before depreciation	168,292
6600	Depreciation	115,802
5060N	Operating income	<u>52,490</u>
3247	Change in unrestricted net assets from operations	54,145
3248	Change in temporarily restricted net assets from operations	<u>(1,655)</u>
3250	Change in total net assets from operations	<u>\$ 52,490</u>
S1000-010	Total mortgage principal payments required during the year	<u>\$ 86,855</u>
S1000-020	Total of 12 monthly deposits during the year into the replacement reserve account, as required by the regulatory agreement	<u>\$ 56,592</u>
S1000-030	Replacement reserves, or residual receipts and releases which are included as expense items on this Profit and Loss statement	<u>\$ -</u>

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

STATEMENT OF CASH FLOWS DATA

YEAR ENDED DECEMBER 31, 2015

Account Number		
<hr/>		
	Cash Flows from Operating Activities	
S1200-010	Rental receipts	\$ 1,064,992
S1200-202	Interest receipts	58
S1200-030	Other operating receipts	80,641
S1200-040	Total receipts	<u>1,145,691</u>
S1200-050	Administrative	20,642
S1200-070	Management fees	(54,612)
S1200-090	Utilities	247,927
S1200-100	Salaries and wages	269,257
S1200-110	Operating and maintenance	364,118
S1200-140	Property and liability insurance	28,596
S1200-150	Miscellaneous taxes and insurance	2,409
S1200-160	Tenant security deposits	(236)
S1200-180	Interest on mortgage	10,345
S1200-230	Total disbursements	<u>888,446</u>
S1200-240	Net cash provided by operating activities	257,245
	Cash Flows from Investing Activities	
S1200-250	Net deposits to reserve for replacement	(35,148)
S1200-330	Purchase of fixed assets	<u>(205,164)</u>
S1200-350	Net cash used in investing activities	(240,312)
	Cash Flows from Financing Activities	
S1200-360	Principal payments on mortgage payable	<u>(86,855)</u>
S1200-460	Net cash used in financing activities	(86,855)
S1200-470	Net increase in cash and cash equivalents	(69,922)
	Cash and Cash Equivalents	
S1200-480	Beginning	<u>112,996</u>
S1200T	Ending	<u><u>\$ 43,074</u></u>

(continued)

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

STATEMENT OF CASH FLOWS DATA (Cont'd)

YEAR ENDED DECEMBER 31, 2015

Account Number			
	Reconciliation of Changes in Net Assets to		
	Net Cash Provided by Operating Activities		
3250	Change in net assets	\$	52,490
	Adjustments to reconcile change in net assets to net cash		
	provided by operating activities		
S1200-600	Change in allowance for doubtful accounts		19,337
S1200-600	Interest earned on replacement reserve		(82)
6600	Depreciation		115,802
	Changes in assets and liabilities:		
	(Increase) decrease in		
S1200-490	Accounts receivable - tenant		(6,947)
S1200-500	Accounts receivable - HUD		253
S1200-500	Accounts receivable - other		(3,089)
S1200-520	Prepaid expenses		5,534
S1200-530	Tenant security deposits		4,140
	Increase in		
S1200-540	Accounts payable - operations		(13,135)
S1200-540	Accounts payable - related party		102,174
S1200-560	Accrued expenses		(3,449)
S1200-570	Accrued interest		16,716
S1200-580	Tenant security deposits		(4,200)
S1200-590	Prepaid revenue		(16,947)
S1200-590	Prepaid housing assistance payments		(11,352)
S1200-610	<b>Net cash provided by operating activities</b>	<b>\$</b>	<b><u>257,245</u></b>

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

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

YEAR ENDED DECEMBER 31, 2015

*Other revenue - Account 5990*

Grant revenue	\$ 75,000
Miscellaneous	211
Private pay revenue	<u>13,595</u>
	<u><u>\$ 88,806</u></u>

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

SCHEDULE OF RESERVE FOR REPLACEMENT

YEAR ENDED DECEMBER 31, 2015

Account Number		
1320P	Balance - January 1, 2015	\$ 263,354
1320DT	Monthly deposits	56,592
1320INT	Interest	82
		<u>320,028</u>
1320WT	Withdrawals - approved by HUD	<u>(21,444)</u>
1320	Balance - December 31, 2015	<u><u>\$ 298,584</u></u>



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

COMPUTATION OF SURPLUS CASH - ANNUAL

YEAR ENDED DECEMBER 31, 2015

Account Number		
S1300-010	Cash	\$ 78,602
1135	Accounts receivable - HUD	<u>641</u>
S1300-040	<b>Total cash</b>	79,243
	Current obligations	
S1300-075	Accounts payable due within 30 days	863,581
S1300-100	Accrued expenses	21,412
2191	Tenant security deposits	35,869
2210	Prepaid housing assistance payments	326
2210	Prepaid rent	<u>17,208</u>
S1300-140	<b>Total current obligations</b>	<u>938,396</u>
S1300-150	<b>Surplus cash (deficiency)</b>	<u><u>\$ (859,153)</u></u>

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

SCHEDULE OF CHANGES IN FIXED ASSET ACCOUNTS

YEAR ENDED DECEMBER 31, 2015

Account Number		Beginning Balance	Additions	Disposals	Ending Balance
1410	Land	\$ 183,519	\$ -	\$ -	\$ 183,519
1420	Buildings	5,879,227	321,933	-	6,201,160
1440	Building equipment	184,722	4,300	-	189,022
1450	Furniture for project - tenant use	97,403	-	-	97,403
1460	Furnishings	204,975	-	-	204,975
1465	Office furniture and equipment	73,289	5,279	-	78,568
1470	Maintenance equipment	9,286	-	-	9,286
1490	Construction in progress	-	3,943	-	3,943
1400T	<b>Total fixed assets</b>	6,632,421	335,455	-	6,967,876
1495	Accumulated depreciation	5,367,377	115,802	-	5,483,179
1400N	<b>Total net book value</b>				<u>\$ 1,484,697</u>

*Schedule of Additions to Buildings*

<u>Description</u>	<u>Amount</u>
Elevator	<u>\$ 321,933</u>

*Schedule of Additions to Building Equipment*

<u>Description</u>	<u>Amount</u>
Heat pump	<u>\$ 4,300</u>

*Schedule of Additions to Office Furniture and Equipment*

<u>Description</u>	<u>Amount</u>
Electric stoves	<u>\$ 5,279</u>

*Schedule of Additions to Construction in Progress*

<u>Description</u>	<u>Amount</u>
Building façade permit	<u>\$ 3,943</u>

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2015

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	\$    384,646
2    Operating Assistance for Troubled Multi-Family Housing Projects (Flexible Subsidy Fund) Outstanding principal balance	14.164	1,671,580
3    Lower Income Housing Assistance Program Section 8 Housing Assistance Payments	14.856	<u>141,477</u>
<b>Total expenditures of federal awards</b>		<u><u>\$    2,197,703</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 award activity of Presbyterian Apartments, Inc., Project No. 034SH006, under programs of the federal government for the year ended December 31, 2015. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note 3. U.S. Department of Housing and Urban Development Loan Program**

Presbyterian Apartments, Inc. has received U.S. Department of Housing and Urban Development direct loans. The loan balances outstanding at the beginning of the year is included in the federal expenditures presented in the Schedule. Presbyterian Apartments, Inc. received no additional loans during the year. The balance of the loans outstanding at December 31, 2015, consists of:

CFDA Number	Program Name	Outstanding Balance at December 31, 2015
14.157	Housing for the Elderly	\$ 297,791
14.164	Flexible Subsidy Fund	1,671,580
		\$ 1,969,371

## 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 the 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, 2015, 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 March 7, 2016.

### 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 opinion 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Entity'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 over financial reporting, 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 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 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  
March 7, 2016

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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 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, 2015. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 programs 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 for 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, 2015.

### **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 the Uniform Guidance, 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 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 that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*McKonly & Asbury, LLP*

Camp Hill, Pennsylvania  
March 7, 2016



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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2015

**SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Presbyterian Apartments, Inc. were prepared in accordance with GAAP.
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.
6. There are no findings required to be reported in accordance with 2 CFR section 200.516 (a).
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 \$750,000.
9. Presbyterian Apartments, Inc. was determined to be 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, 2015

None.

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

CERTIFICATION OF OFFICERS

YEAR ENDED DECEMBER 31, 2015

We hereby certify that we have read the foregoing financial statements and additional information of Presbyterian Apartments, Inc. and, to the best of our knowledge and belief, they are complete and accurate.

Corporate Officers

Date

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

MANAGING AGENT'S CERTIFICATION

YEAR ENDED DECEMBER 31, 2015

We hereby certify that we have read the foregoing financial statements and additional information of Presbyterian Apartments, Inc. and, to the best of our knowledge and belief, they are complete and accurate.

\_\_\_\_\_  
Presbyterian Senior Living

\_\_\_\_\_  
Date

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