

**PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006
FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2016 AND 2015**



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, 2016 and 2015, 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: 717.737.2068

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, 2016 and 2015, 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 9, 2017, 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 9, 2017

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

ASSETS	2016	2015
Current Assets		
Cash and cash equivalents	\$ 60,215	\$ 43,074
Accounts receivable - tenants (net of allowance for doubtful accounts of \$10,066 and \$8,683)	17,586	7,757
Accounts receivable - HUD	1,793	641
Accounts receivable - other	708	3,582
Prepaid expenses	12,460	12,283
Total current assets	92,762	67,337
Noncurrent Assets		
Restricted deposits and funded reserves		
Replacement reserve	356,909	298,584
Tenant security deposits	43,079	35,528
Total restricted deposits and funded reserves	399,988	334,112
Fixed Assets		
Land	183,519	183,519
Building and improvements	6,479,616	6,201,160
Furniture and equipment	579,254	579,254
Construction in progress	-	3,943
Total fixed assets	7,242,389	6,967,876
Less accumulated depreciation	(5,604,340)	(5,483,179)
Fixed assets - net	1,638,049	1,484,697
Total assets	\$ 2,130,799	\$ 1,886,146

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

<u>LIABILITIES AND NET ASSETS (DEFICIT)</u>	2016	2015
Current Liabilities		
Accounts payable - operations	\$ 105,789	\$ 83,537
Accounts payable - related party	1,133,256	780,044
Accrued expenses		
Wages and vacation	12,981	18,152
Other	2,598	3,260
Current maturities of mortgage payable	92,213	89,491
Prepaid rent - tenant	9,612	17,208
Prepaid rent - HAP	326	326
Total current liabilities	<u>1,356,775</u>	<u>992,018</u>
Noncurrent Liabilities		
Tenant security deposits	43,554	35,869
Long-term liabilities - net of current maturities		
Mortgage payable	116,084	208,300
Flexible subsidy loan		
Loan payable	1,671,580	1,671,580
Accrued interest payable	392,338	375,622
Total noncurrent liabilities	<u>2,223,556</u>	<u>2,291,371</u>
Total liabilities	<u>3,580,331</u>	<u>3,283,389</u>
Net assets (deficit)		
Unrestricted	(1,455,673)	(1,403,761)
Temporarily restricted	6,141	6,518
Total liabilities and net assets (deficit)	<u>\$ 2,130,799</u>	<u>\$ 1,886,146</u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue			
Rent	\$ 1,001,808	\$ -	\$ 1,001,808
Financial	154	-	154
Contributions	755	-	755
Other	12,035	-	12,035
Released from restrictions	377	(377)	-
Total revenue	1,015,129	(377)	1,014,752
Expenses			
Administrative	215,052	-	215,052
Utilities	223,490	-	223,490
Operating and maintenance	316,882	-	316,882
Taxes and insurance	118,670	-	118,670
Interest	25,195	-	25,195
Supportive services	46,591	-	46,591
Depreciation	121,161	-	121,161
Total expenses	1,067,041	-	1,067,041
Change in net assets (deficit)	(51,912)	(377)	(52,289)
Net Assets (Deficit) - Beginning	(1,403,761)	6,518	(1,397,243)
Net Assets (Deficit) - Ending	\$ (1,455,673)	\$ 6,141	\$ (1,449,532)

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF ACTIVITIES (Cont'd)

YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Total
Revenue			
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
Expenses			
Administrative	236,267	-	236,267
Utilities	246,610	-	246,610
Operating and maintenance	325,982	-	325,982
Taxes and insurance	118,188	-	118,188
Interest	27,061	-	27,061
Supportive services	42,118	-	42,118
Depreciation	115,802	-	115,802
Total expenses	1,112,028	-	1,112,028
Change in net assets	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)

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, 2016 AND 2015

	2016	2015
Cash Flows from Operating Activities		
Cash received from rentals	\$ 986,105	\$ 1,064,992
Interest received	56	58
Other cash received	12,790	80,641
Total receipts	<u>998,951</u>	<u>1,145,691</u>
Administrative	41,156	20,642
Management fees	-	10,679
Utilities	216,655	247,927
Salaries and wages	241,648	269,257
Operating and maintenance	203,716	298,827
Property and liability insurance	38,914	28,596
Miscellaneous taxes and insurance	2,436	2,409
Tenant security deposits	162	(236)
Interest on mortgage	7,706	10,345
Total disbursements	<u>752,393</u>	<u>888,446</u>
Net cash provided by operating activities	246,558	257,245
Cash Flows from Investing Activities		
Net deposits to replacement reserve	(58,227)	(35,148)
Cash paid for fixed assets	(81,696)	(205,164)
Net cash used in investing activities	(139,923)	(240,312)
Cash Flows from Financing Activities		
Principal payments on mortgage payable	(89,494)	(86,855)
Net cash used in financing activities	(89,494)	(86,855)
Net increase (decrease) in cash and cash equivalents	<u>17,141</u>	<u>(69,922)</u>
Cash and Cash Equivalents:		
Beginning	<u>43,074</u>	<u>112,996</u>
Ending	<u>\$ 60,215</u>	<u>\$ 43,074</u>

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF CASH FLOWS (Cont'd)

YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Reconciliation of Changes in Net Assets to		
Net Cash Provided by Operating Activities		
Change in net assets	\$ (52,289)	\$ 52,490
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in allowance for doubtful accounts	(1,383)	19,337
Interest earned on replacement reserve	(98)	(82)
Depreciation and amortization	121,161	115,802
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable - tenants	(8,446)	(6,947)
Accounts receivable - HUD	(1,152)	253
Accounts receivable - other	2,874	(3,089)
Prepaid expenses	(177)	5,534
Tenant security deposits	(7,551)	4,140
(Decrease) increase in:		
Accounts payable - operations	24,435	(13,135)
Accounts payable - related party	158,212	102,174
Accrued expenses	(5,833)	(3,449)
Accrued interest	16,716	16,716
Prepaid rent - tenants	(7,596)	8,053
Prepaid rent - HAP	-	(11,352)
Deferred revenue	-	(25,000)
Tenant security deposits	7,685	(4,200)
Net cash provided by operating activities	<u>\$ 246,558</u>	<u>\$ 257,245</u>
Supplemental schedule of noncash investing activities		
Total additions to fixed assets	\$ 278,456	\$ 335,455
Construction in progress placed in-service	(3,943)	-
Decrease in accounts payable - operations	39,983	4,692
Increase in accounts payable - operations	(37,800)	(39,983)
Increase in accounts payable - related parties	(195,000)	(95,000)
Cash paid for fixed assets	<u>\$ 81,696</u>	<u>\$ 205,164</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 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 2013.

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. There were no cash equivalents at December 31, 2016 and 2015.

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, 2016, and through March 9, 2017, the date the financial statements were available to be issued.

Reclassification: Certain items in the 2015 financial statements have been reclassified to conform to the presentation of the 2016 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 2016 or 2015.

Note 3. Long-Term Liabilities

Long-term liabilities consist of the following at December 31, 2016 and 2015:

	2016	2015
Loans payable - HUD (A)	\$ 1,671,580	\$ 1,671,580
Accrued interest payable – HUD (A)	392,338	375,622
Mortgage payable – HUD (B)	208,297	297,791
	2,272,215	2,344,993
Less current portion of mortgage payable	(92,213)	(89,491)
	\$ 2,180,002	\$ 2,255,502

(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.

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

(B) This mortgage payable as of December 31, 2016, 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.

Following are minimum principal payments of the mortgage payable for each of the remaining years and in the aggregate as of December 31, 2016:

Year	Amount
2017	\$ 92,213
2018	95,017
2019	21,067
	\$ 208,297

The Organization incurred interest cost totaling \$25,195 and \$27,061 for the years ended December 31, 2016 and 2015. Interest costs totaling \$8,479 and \$10,345 were paid in 2016 and 2015.

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 \$75,161 and \$78,652, for the years ended December 31, 2016 and 2015, respectively. Unpaid management fees as of December 31, 2016 and 2015, 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, 2016 and 2015, are included in accounts payable – related party.

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2016 and 2015, are available for the following purposes:

	2016	2015
Emergency fund	\$ 6,141	\$ 6,518

(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 2016 and 2015, the Organization contributed \$5,748 and \$7,273 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>2016</u>	<u>2015</u>
Program services	\$ 958,743	\$ 1,003,662
Management and general	<u>108,300</u>	<u>108,366</u>
Total expenses	<u>\$ 1,067,043</u>	<u>\$ 1,112,028</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, 2016

Account Number	ASSETS		
	Current Assets		
1120	Cash - operations	\$	60,215
1130	Accounts receivable - tenants		17,586
1135	Accounts receivable - HUD		1,793
1140	Accounts receivable - other		708
1200	Prepaid expenses		12,460
1100T	Total current assets		<u>92,762</u>
	Restricted Deposits and Funded Reserves		
1191	Tenant deposits		43,079
1320	Replacement reserve		<u>356,909</u>
1300T	Total Restricted Deposits and Funded Reserves		<u>399,988</u>
	Fixed Assets		
1410	Land		183,519
1420	Building		6,479,616
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		-
1400T	Total fixed assets		<u>7,242,389</u>
1495	Less accumulated depreciation		<u>(5,604,340)</u>
1400N	Fixed assets - net		<u>1,638,049</u>
1000T	Total assets	\$	<u><u>2,130,799</u></u>

Account Number	LIABILITIES AND NET ASSETS (DEFICIT)	
	Current Liabilities	
2110	Accounts payable - operations	\$ 105,789
2110	Accounts payable - related party	1,133,256
2190	Accrued expenses	15,579
2170	Current maturities of mortgage payable	92,213
2210	Prepaid revenue	9,612
2210	Prepaid housing assistance payments	326
2122T	Total current liabilities	<u>1,356,775</u>
2191	Tenant deposits	<u>43,554</u>
	Long-term liabilities	
2320	Mortgage payable - net of current portion	116,084
2325	Flexible subsidy loan payable	1,671,580
2330	Accrued interest payable - flexible subsidy loan payable	392,338
2300T	Total long-term liabilities	<u>2,180,002</u>
2000T	Total liabilities	<u>3,580,331</u>
	Net assets (deficit)	
3131	Unrestricted	(1,455,673)
3132	Temporarily restricted	<u>6,141</u>
3130	Total net assets (deficit)	(1,449,532)
2033T	Total liabilities and net assets (deficit)	<u>\$ 2,130,799</u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF ACTIVITIES DATA

YEAR ENDED DECEMBER 31, 2016

Account Number			
	Revenue		
5120	Rent - gross potential	\$	980,079
5121	Tenant assistance payments		146,952
5140	Rent - commercial		31,607
5170	Parking spaces		6,871
5190	Miscellaneous rent revenue		34,083
5100T	Total rent revenue		<u>1,199,592</u>
5220	Vacancies - apartments		(195,636)
5250	Rent concessions		(2,148)
5152N	Net rental revenue		<u>1,001,808</u>
5410	Revenue from investments - operations		56
5440	Revenue from investments - replacement reserve		98
5400T	Total financial revenue		<u>154</u>
5910	Laundry and vending revenue		8,156
5920	Tenant charges		100
5970	Gifts		755
5990	Miscellaneous revenue		3,779
5900T	Total other revenue		<u>12,790</u>
5000T	Total revenue		1,014,752
	Expenses		
6210	Advertising		3,586
6310	Office salaries		24,179
6311	Office expenses		21,245
6320	Management fee		75,161
6330	Manager salaries		55,206
6340	Legal expenses - project		410
6350	Audit expense		8,600
6370	Bad debt expense		10,784
6390	Miscellaneous administrative expense		15,881
6263T	Total administrative expenses		<u>215,052</u>
6450	Electricity		137,705
6451	Water		41,380
6452	Gas and steam		25,776
6453	Sewer		18,629
6263T	Total utilities expense		<u>223,490</u>

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF ACTIVITIES DATA (Cont'd)

YEAR ENDED DECEMBER 31, 2016

Account Number		
6510	Payroll	100,458
6515	Supplies	2,849
6520	Contracts	147,832
6525	Garbage and trash removal	20,886
6541	Repairs material	19,471
6546	Heating/cooling repairs and maintenance	2,794
6548	Snow removal	518
6560	Decorating contract	20,377
6570	Vehicle and maintenance equipment operations and repair	1,697
6550T	Total operating and maintenance expense	316,882
6710	Real estate taxes	2,436
6711	Payroll taxes	18,843
6720	Property and liability insurance	38,737
6722	Workmen's compensation	11,051
6723	Health insurance and other employee benefits	47,603
6700T	Total taxes and insurance	118,670
6820	Interest expense	24,422
6890	Miscellaneous financial expenses	773
6800T	Total financial expenses	25,195
6910	Payroll	41,303
6920	Supplies	5,288
6900T	Total supportive services	46,591
6000T	Total cost of operations before depreciation	945,880
5060T	Profit before depreciation	68,872
6600	Depreciation	121,161
5060N	Operating income	(52,289)
3247	Change in unrestricted net assets from operations	(51,912)
3248	Change in temporarily restricted net assets from operations	(377)
3250	Change in total net assets from operations	\$ (52,289)
S1000-010	Total mortgage principal payments required during the year	\$ 89,494
S1000-020	Total of 12 monthly deposits during the year into the replacement reserve account, as required by the regulatory agreement	\$ 58,227
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, 2016

Account Number		
<hr/>		
	Cash Flows from Operating Activities	
S1200-010	Rental receipts	\$ 986,105
S1200-202	Interest receipts	56
S1200-030	Other operating receipts	12,790
S1200-040	Total receipts	<u>998,951</u>
S1200-050	Administrative	41,156
S1200-090	Utilities	216,655
S1200-100	Salaries and wages	241,648
S1200-110	Operating and maintenance	203,716
S1200-140	Property and liability insurance	38,914
S1200-150	Miscellaneous taxes and insurance	2,436
S1200-160	Tenant security deposits	162
S1200-180	Interest on mortgage	7,706
S1200-230	Total disbursements	<u>752,393</u>
S1200-240	Net cash provided by operating activities	246,558
	Cash Flows from Investing Activities	
S1200-250	Net deposits to reserve for replacement	(58,227)
S1200-330	Purchase of fixed assets	<u>(81,696)</u>
S1200-350	Net cash used in investing activities	(139,923)
	Cash Flows from Financing Activities	
S1200-360	Principal payments on mortgage payable	<u>(89,494)</u>
S1200-460	Net cash used in financing activities	(89,494)
S1200-470	Net increase in cash and cash equivalents	17,141
	Cash and Cash Equivalents	
S1200-480	Beginning	<u>43,074</u>
S1200T	Ending	<u><u>\$ 60,215</u></u>

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF CASH FLOWS DATA (Cont'd)

YEAR ENDED DECEMBER 31, 2016

Account Number		
	Reconciliation of Changes in Net Assets to	
	Net Cash Provided by Operating Activities	
3250	Change in net assets	\$ (52,289)
	Adjustments to reconcile change in net assets to net cash provided by operating activities	
S1200-600	Change in allowance for doubtful accounts	(1,383)
S1200-600	Interest earned on replacement reserve	(98)
6600	Depreciation	121,161
	Changes in assets and liabilities:	
	(Increase) decrease in	
S1200-490	Accounts receivable - tenant	(8,446)
S1200-500	Accounts receivable - HUD	(1,152)
S1200-500	Accounts receivable - other	2,874
S1200-520	Prepaid expenses	(177)
S1200-530	Tenant security deposits	(7,551)
	Increase in	
S1200-540	Accounts payable - operations	24,435
S1200-540	Accounts payable - related party	158,212
S1200-560	Accrued expenses	(5,833)
S1200-570	Accrued interest	16,716
S1200-580	Tenant security deposits	7,685
S1200-590	Prepaid revenue	<u>(7,596)</u>
S1200-610	Net cash provided by operating activities	<u><u>\$ 246,558</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

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

YEAR ENDED DECEMBER 31, 2016

Other revenue - Account 5990

Miscellaneous

\$ 2,866

Contributions - community store

913

\$ 3,779

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF RESERVE FOR REPLACEMENT

YEAR ENDED DECEMBER 31, 2016

Account Number		
1320P	Balance - January 1, 2016	\$ 298,584
1320DT	Monthly deposits	58,227
1320INT	Interest	98
		<u>356,909</u>
1320WT	Withdrawals - approved by HUD	<u>-</u>
1320	Balance - December 31, 2016	<u><u>\$ 356,909</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

COMPUTATION OF SURPLUS CASH - ANNUAL

YEAR ENDED DECEMBER 31, 2016

Account Number		
S1300-010	Cash	\$ 103,294
1135	Accounts receivable - HUD	1,793
		105,087
S1300-040	Total cash	105,087
	Current obligations	
S1300-075	Accounts payable due within 30 days	1,239,045
S1300-100	Accrued expenses	15,579
2191	Tenant security deposits	43,554
2210	Prepaid housing assistance payments	326
2210	Prepaid rent	9,612
		1,308,116
S1300-140	Total current obligations	1,308,116
S1300-150	Surplus cash (deficiency)	\$ (1,203,029)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF CHANGES IN FIXED ASSET ACCOUNTS

YEAR ENDED DECEMBER 31, 2016

Account Number		Beginning Balance	Additions	Disposals	Ending Balance
1410	Land	\$ 183,519	\$ -	\$ -	\$ 183,519
1420	Buildings	6,201,160	278,456	-	6,479,616
1440	Building equipment	189,022	-	-	189,022
1450	Furniture for project - tenant use	97,403	-	-	97,403
1460	Furnishings	204,975	-	-	204,975
1465	Office furniture and equipment	78,568	-	-	78,568
1470	Maintenance equipment	9,286	-	-	9,286
1490	Construction in progress	3,943	-	3,943	-
1400T	Total fixed assets	6,967,876	278,456	3,943	7,242,389
1495	Accumulated depreciation	5,483,179	121,161	-	5,604,340
1400N	Total net book value				<u>\$ 1,638,049</u>

Schedule of Additions to Buildings

<u>Description</u>	<u>Amount</u>
Building facade replacement	\$ 233,292
Sprinkler heads	45,164
	<u>\$ 278,456</u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2016

Federal Grantor	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Passed Through to Subrecipients
U.S. Department of Housing and Urban Development				
1 Supportive Housing for the Elderly (Section 202 Direct Loan)	14.157	N/A	\$ 297,791	\$ -
2 Operating Assistance for Troubled Multi-Family Housing Projects (Flexible Subsidy Fund)	14.164	N/A	1,671,580	-
3 Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	14.856	N/A	<u>146,952</u>	<u>-</u>
Total expenditures of federal awards			<u><u>\$ 2,116,323</u></u>	<u><u>\$ -</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, 2016. 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, 2016, consists of:

CFDA Number	Program Name	Outstanding Balance at December 31, 2016
14.157	Supportive Housing for the Elderly (Section 202 Direct Loan)	\$ 208,297
14.164	Operating Assistance for Troubled Multi-Family Housing Projects (Flexible Subsidy Fund)	1,671,580
		\$ 1,879,877

Note 4. Indirect Cost Rate

Presbyterian Apartments, Inc. has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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, 2016, 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 9, 2017.

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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McKonly & Asbury, LLP

Camp Hill, Pennsylvania
March 9, 2017

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, 2016. 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, 2016.

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 9, 2017

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2016

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 and reported in the 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*.
3. No instances of noncompliance material to the financial statements of Presbyterian Apartments, Inc., which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No material weaknesses were identified during the audit of the major federal award programs and reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for Presbyterian Apartments, Inc. expresses an unmodified opinion on all major programs.
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:
 - Supportive Housing for the Elderly (Section 202 Direct Loan) (CFDA # 14.157)
 - Operating Assistance for Troubled Multi-Family Housing Projects (Flexible Subsidy Fund) (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 FINDINGS

YEAR ENDED DECEMBER 31, 2016

None.

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

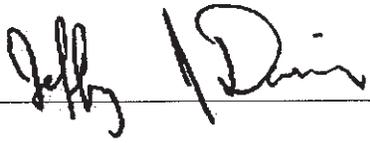
CERTIFICATION OF OFFICERS

YEAR ENDED DECEMBER 31, 2016

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



March 9, 2017

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

MANAGING AGENT'S CERTIFICATION

YEAR ENDED DECEMBER 31, 2016

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

3/9/17

Date

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