

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

DECEMBER 31, 2019 AND 2018

AND INDEPENDENT AUDITOR'S REPORT



McKONLY & ASBURY

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

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MEMBERS

AMERICAN AND PENNSYLVANIA INSTITUTES
OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT MEMBER OF



INDEPENDENT AUDITOR'S REPORT

To 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, 2019 and 2018, and the related statements of activities, functional expenses, 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.

MAILING ADDRESS

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, 2019 and 2018, 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 20 to 28 is presented for purposes of additional analysis as required by the *Uniform Financial Reporting Standards* 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 shown on page 29 is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2020, 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 and 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 10, 2020

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

ASSETS

	<u>2019</u>	<u>2018</u>
Current assets		
Cash	\$ 315,200	\$ 82,491
Accounts receivable - tenants (net of allowance for doubtful accounts of \$10,794 and \$8,243)	15,122	14,272
Accounts receivable - HUD	28,729	-
Accounts receivable - other	1,319	685
Prepaid expenses	<u>14,057</u>	<u>14,398</u>
Total current assets	<u>374,427</u>	<u>111,846</u>
Restricted deposits and funded reserves		
Replacement reserve	256,298	408,468
Tenant security deposits	<u>61,922</u>	<u>50,642</u>
Total restricted deposits and funded reserves	<u>318,220</u>	<u>459,110</u>
Fixed assets		
Land	183,519	183,519
Building and improvements	7,179,795	6,479,616
Furniture and equipment	916,923	812,514
Construction in progress	<u>218,430</u>	<u>601,089</u>
Total fixed assets	8,498,667	8,076,738
Less accumulated depreciation	<u>(6,057,564)</u>	<u>(5,879,193)</u>
Fixed assets - net	2,441,103	2,197,545
	<u> </u>	<u> </u>
Total assets	<u><u>\$ 3,133,750</u></u>	<u><u>\$ 2,768,501</u></u>

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

LIABILITIES AND NET ASSETS (DEFICIT)

	<u>2019</u>	<u>2018</u>
Current liabilities		
Accounts payable - operations	\$ 251,601	\$ 162,118
Accounts payable - related party	2,005,635	1,955,504
Accrued expenses		
Audit	8,975	8,975
Other	10,625	25
Current maturities of mortgage payable	-	21,055
Current maturities of AHP loan payable	200,000	500
Prepaid rent - tenant	16,144	7,893
Prepaid rent - HAP	32,648	1,276
Current portion of capital lease obligation	<u>1,410</u>	<u>-</u>
Total current liabilities	<u>2,527,038</u>	<u>2,157,346</u>
Long-term liabilities		
Tenant security deposits	63,232	53,611
Capital lease obligation	2,881	-
Long-term debt - net of current maturities		
Flexible subsidy loan		
Loan payable	1,671,580	1,671,580
Accrued interest payable	<u>442,485</u>	<u>425,769</u>
Total noncurrent liabilities	<u>2,180,178</u>	<u>2,150,960</u>
Total liabilities	<u>4,707,216</u>	<u>4,308,306</u>
Net assets (deficit)		
Without donor restrictions	(1,579,376)	(1,545,715)
With donor restrictions	<u>5,910</u>	<u>5,910</u>
Total liabilities and net assets (deficit)	<u><u>\$ 3,133,750</u></u>	<u><u>\$ 2,768,501</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue			
Rent	\$ 1,121,190	\$ -	\$ 1,121,190
Financial	209	-	209
Contributions	4,258	-	4,258
Other	66,301	-	66,301
	<u>1,191,958</u>	<u>-</u>	<u>1,191,958</u>
Expenses			
Administrative	273,985	-	273,985
Utilities	208,574	-	208,574
Operating and maintenance	396,385	-	396,385
Taxes and insurance	109,927	-	109,927
Interest	16,871	-	16,871
Supportive services	41,506	-	41,506
Depreciation	178,371	-	178,371
	<u>1,225,619</u>	<u>-</u>	<u>1,225,619</u>
Change in net assets (deficit)	(33,661)	-	(33,661)
Net assets (deficit) - beginning	<u>(1,545,715)</u>	<u>5,910</u>	<u>(1,539,805)</u>
Net assets (deficit) - ending	<u><u>\$ (1,579,376)</u></u>	<u><u>\$ 5,910</u></u>	<u><u>\$ (1,573,466)</u></u>

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

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue			
Rent	\$ 1,044,475	\$ -	\$ 1,044,475
Financial	189	-	189
Contributions	64,383	-	64,383
Other	12,888	-	12,888
Released from restrictions	<u>40</u>	<u>(40)</u>	<u>-</u>
Total revenue	<u>1,121,975</u>	<u>(40)</u>	<u>1,121,935</u>
Expenses			
Administrative	238,902	-	238,902
Utilities	256,630	-	256,630
Operating and maintenance	299,828	-	299,828
Taxes and insurance	105,885	-	105,885
Interest	19,470	-	19,470
Supportive services	51,650	-	51,650
Depreciation	<u>143,929</u>	<u>-</u>	<u>143,929</u>
Total expenses	<u>1,116,294</u>	<u>-</u>	<u>1,116,294</u>
Change in net assets (deficit)	5,681	(40)	5,641
Net assets (deficit) - beginning	<u>(1,551,396)</u>	<u>5,950</u>	<u>(1,545,446)</u>
Net assets (deficit) - ending	<u><u>\$ (1,545,715)</u></u>	<u><u>\$ 5,910</u></u>	<u><u>\$ (1,539,805)</u></u>

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

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

	Program Services	Management and General	Total
Administrative	\$ 165,773	\$ 108,212	\$ 273,985
Utilities	208,574	-	208,574
Operating and maintenance	396,385	-	396,385
Taxes and insurance	109,927	-	109,927
Interest	16,871	-	16,871
Supportive services	41,506	-	41,506
Depreciation	178,371	-	178,371
Total expenses	<u>\$ 1,117,407</u>	<u>\$ 108,212</u>	<u>\$ 1,225,619</u>

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

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Program Services	Management and General	Total
Administrative	\$ 148,782	\$ 90,120	\$ 238,902
Utilities	256,630	-	256,630
Operating and maintenance	299,828	-	299,828
Taxes and insurance	105,885	-	105,885
Interest	19,470	-	19,470
Supportive services	51,650	-	51,650
Depreciation	143,929	-	143,929
Total expenses	<u>\$ 1,026,174</u>	<u>\$ 90,120</u>	<u>\$ 1,116,294</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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Receipts		
Cash received from rentals	\$ 1,130,600	\$ 1,036,234
Interest received	87	72
Other cash received	<u>70,559</u>	<u>77,271</u>
Total receipts	<u>1,201,246</u>	<u>1,113,577</u>
Disbursements		
Administrative	41,322	41,028
Utilities	216,080	239,070
Salaries and wages	363,570	11,176
Operating and maintenance	327,752	159,066
Property and liability insurance	55,114	43,348
Miscellaneous taxes and insurance	2,625	2,567
Tenant security deposits	(9,621)	(4,322)
Interest on mortgage	<u>84</u>	<u>2,177</u>
Total disbursements	<u>996,926</u>	<u>494,110</u>
Net cash provided by operating activities	<u>204,320</u>	<u>619,467</u>
Cash flows from investing activities		
Deposits to replacement reserve	(61,368)	(60,375)
Withdrawals from replacement reserve	213,660	68,368
Cash paid for fixed assets	<u>(290,953)</u>	<u>(524,497)</u>
Net cash used in investing activities	(138,661)	(516,504)
Cash flows from financing activities		
Principal payments on mortgage payable	(21,055)	(95,024)
Proceeds from AHP loan payable	199,500	500
Repayment of capital lease obligation	<u>(115)</u>	<u>-</u>
Net cash provided by (used in) financing activities	178,330	(94,524)
Net increase in cash and restricted cash	<u>243,989</u>	<u>8,439</u>
Cash and restricted cash - beginning	<u>133,133</u>	<u>124,694</u>
Cash and restricted cash - ending	<u><u>\$ 377,122</u></u>	<u><u>\$ 133,133</u></u>

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF CASH FLOWS (Cont'd)

YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets	\$ (33,661)	\$ 5,641
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in allowance for doubtful accounts	(2,551)	(2,246)
Interest earned on replacement reserve	(122)	(117)
Depreciation	178,371	143,929
(Increase) decrease in		
Accounts receivable - tenants	1,701	(3,556)
Accounts receivable - HUD	(28,729)	628
Accounts receivable - other	(634)	1,553
Prepaid expenses	341	(1,109)
(Decrease) increase in		
Accounts payable - operations	(37,087)	15,931
Accounts payable - related party	50,131	434,358
Accrued expenses	10,600	8,038
Accrued interest	16,716	16,715
Prepaid rent - tenants	8,251	(5,570)
Prepaid rent - HAP	31,372	950
Tenant security deposits	9,621	4,322
Net cash provided by operating activities	<u>\$ 204,320</u>	<u>\$ 619,467</u>
Supplemental schedule of noncash investing and financing activities		
Total additions to fixed assets	\$ 421,929	\$ 697,160
Decrease in accounts payable - operations	99,081	7,310
Increase in accounts payable - operations	(225,651)	(99,081)
Increase in accounts payable - related parties	-	(80,892)
Property and equipment acquisition with capital lease obligation	(4,406)	-
Cash paid for fixed assets	<u>\$ 290,953</u>	<u>\$ 524,497</u>

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

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Presbyterian Apartments, Inc. (the "Organization") is a nonprofit organization that owns a housing development located in Harrisburg, Pennsylvania. Presbyterian Apartments (the "Project") contains 165 apartments, of which 29 apartments 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 of the Organization, and has approval rights for Board of Director appointments. PSL is a provider of senior care services, including housing, nursing, personal care, and day care in Pennsylvania, Maryland, Ohio and Delaware.

Financial Statement Presentation

The Organization follows the requirements of FASB Accounting Standards Codification (ASC) 958 *Not-for-profit Entities*, and the provisions of Accounting Standards Update 2016-14 *Not-For-profit Entities* (Topic 958): *Presentation of Financial Statements of Not-For-Profit Entities*. ASU 2016-14 requires the Organization to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

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, 2019 and 2018.

For purposes of the statements of cash flows presentation, cash and restricted cash consist of the following as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Cash	\$ 315,200	\$ 82,491
Tenant security deposits	<u>61,922</u>	<u>50,642</u>
Total cash and restricted cash	<u>\$ 377,122</u>	<u>\$ 133,133</u>

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

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.

Tenant Security Deposits

Tenant security deposits are held in a bank account in the name of the Organization.

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 building 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 statements 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.

Net Asset Classifications

Net assets, revenues, and gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available to use in general operations and not subject to donor (or certain grantor restrictions).

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions may be temporary in nature, such as those that will be met with the passage of time or other events specified by the donor. Other donor-imposed restrictions may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when stipulated time has elapsed, when the stipulated purpose for which the resources was restricted has been fulfilled, or both. Net assets with donor restrictions at December 31, 2019 and 2018, are restricted for an emergency fund for people served by the Organization.

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 HUD for leases to qualifying low-income tenants.

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

Functional Allocation of Expenses

The costs of providing the program and supporting service activities have been directly charged. Management and general costs primarily consist of management fees, audit expense, and miscellaneous administrative expenses.

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 FASB 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 2016.

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.

Reclassification

Certain items in the 2018 financial statements have been reclassified to conform to the presentation of the 2019 financial statements.

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

Recently Adopted Accounting Standards

In November 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-18, *Restricted Cash (Topic 230)*. The changes associated with this ASU include the requirement for amounts generally described as restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. This guidance was effective for the Organization on January 1, 2019, and was applied retrospectively. As a result, the 2018 statement of cash flows has been restated to conform to the new presentation requirements.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The changes associated with this ASU include the requirement for lessors to classify leases as operating, direct financing, or sales-type. The changes become effective for the Organization on January 1, 2021. Management has not determined the impact of these changes on the Organization's financial statements.

Subsequent Events

Management evaluated subsequent events through March 10, 2020, the date the financial statements were available to be issued. See Note 11 for details to subsequent events.

2. LIQUIDITY AND AVAILABILITY

The financial assets as of December 31, 2019 and 2018, which are available for general expenditures within one year of the statements of financial position dates comprise the following:

	<u>2019</u>	<u>2018</u>
Cash	\$ 315,200	\$ 82,491
Accounts receivable – tenants	15,122	14,272
Accounts receivable – HUD	28,729	-
Accounts receivable – other	<u>1,319</u>	<u>685</u>
	360,370	97,448
Less: Net assets with donor restrictions		
Emergency Fund (Note 8)	<u>5,910</u>	<u>5,910</u>
Total financial assets available for general expenditure within one year	<u><u>\$ 354,460</u></u>	<u><u>\$ 91,538</u></u>

To help manage unanticipated liquidity needs, the Organization receives cash advances from PSL for operating expenses of the Project. See Note 7 for additional information.

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

3. HUD-RESTRICTED DEPOSITS AND FUNDED RESERVES

Replacement Reserve

Under the regulatory agreement, the Organization 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 Organization has not had surplus cash; therefore no residual receipts account has been established. No payments were due for 2019 or 2018.

4. LONG-TERM DEBT

Long-term debt consist of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Loans payable – HUD (A)	\$ 1,671,580	\$ 1,671,580
Accrued interest payable – HUD (A)	442,485	425,769
Mortgage payable – HUD (B)	-	21,055
AHP loan payable - First National Bank (C)	<u>200,000</u>	<u>500</u>
	2,314,065	2,118,904
Less current portion of long-term debt	<u>(200,000)</u>	<u>(21,555)</u>
Total long-term debt, net of current portion of long-term debt	<u>\$ 2,114,065</u>	<u>\$ 2,097,349</u>

(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. This provision made this loan due on April 1, 2019. The Organization has approval from HUD to refinance this loan. At the time of refinancing, it is expected the Organization will make a payment of \$406,468 from the replacement reserve account. The Organization must execute and record a use agreement for a period of 35 years. The remaining balance on the loan, plus accrued interest, will be repaid annually from 100 percent available surplus cash. The interest on the loan will remain at one percent.

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

- 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, 2019, represented a permanent building loan provided by HUD. The monthly installments of principal and interest were \$8,100. Interest was being charged at 3.0%. The mortgage note was secured by the apartment project and was satisfied in March 2019.
- (C) First National Bank has issued a loan to the Organization in the total amount of \$200,000 on June 22, 2018, through funds made available through the Federal Home Loan Bank of Pittsburgh Affordable Housing Program ("AHP"). The loan bears interest at a variable rate equal to one-month LIBOR. The loan was repaid in February 2020.

The Organization incurred interest cost totaling \$16,871 and \$19,470 for the years ended December 31, 2019 and 2018. Interest costs totaling \$84 and \$2,177 were paid in 2019 and 2018.

5. CAPITAL LEASES

Capital lease obligations consist of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Capital lease obligation for a copier; payable in monthly installments of \$131, including interest at 4.36%; through November 2022.	\$ 4,291	\$ -
Current portion	<u>(1,410)</u>	<u>-</u>
	<u>\$ 2,881</u>	<u>\$ -</u>

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

Future minimum lease payments under the capital lease consist of the following for the year ending December 31:

2020	\$ 1,569
2021	1,569
2022	<u>1,439</u>
	4,577
Amount representing interest	<u>(286)</u>
	<u>\$ 4,291</u>

Interest expense on capital leases amounted to \$16 and zero for the years ended December 31, 2019 and 2018.

6. RENT INCREASES

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

7. RELATED PARTY TRANSACTIONS

Some members of the Board of Directors of the Organization are also officers of PSL.

PSLHMC is the management agent. Management fees were calculated at 7.5% of revenues as specified on the management certification. Total management fees due to PSLHMC were \$84,119 and \$78,159, for the years ended December 31, 2019 and 2018, respectively. Unpaid management fees as of December 31, 2019 and 2018, are included in accounts payable – related party.

PSL and PSLHMC also advances cash to the project and pays expenses on behalf of the Organization and is reimbursed as funds allow. Total reimbursements due to PSL and PSLHMC as of December 31, 2019 and 2018, are included in accounts payable – related party.

8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2019 and 2018, are available for the following purposes:

	<u>2019</u>	<u>2018</u>
Emergency fund	<u>\$ 5,910</u>	<u>\$ 5,910</u>

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

9. COMMERCIAL LEASE

The Organization has entered into multiple lease agreements to lease space to unrelated third parties that expire over the next five years.

The following is a schedule by years of future minimum rentals under the lease at December 31, 2019:

<u>Year</u>	<u>Amount</u>
2020	\$ 13,361
2021	9,511
2022	9,749
2023	5,252
2024	724
	<u>\$ 38,597</u>

10. 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.

11. SUBSEQUENT EVENTS

The Organization received a grant of \$650,000 in February 2020 from the Federal Home Loan Bank of Pittsburgh's Affordable Housing Program. The grant was used to finance a building improvement project that began in 2018 and was completed in 2020.

SUPPLEMENTARY INFORMATION

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF FINANCIAL POSITION DATA

DECEMBER 31, 2019

ASSETS

<u>Account Number</u>		
	Current assets	
1120	Cash - operations	\$ 315,200
1130	Accounts receivable - tenants	15,122
1135	Accounts receivable - HUD	28,729
1140	Accounts receivable - other	1,319
1200	Prepaid expenses	<u>14,057</u>
1100T	Total current assets	<u>374,427</u>
	Restricted deposits and funded reserves	
1191	Tenant deposits	61,922
1320	Replacement reserve	<u>256,298</u>
1300T	Total restricted deposits and funded reserves	<u>318,220</u>
	Fixed assets	
1410	Land	183,519
1420	Building	7,179,795
1440	Building equipment	277,285
1450	Furniture for project - tenant use	99,200
1460	Furnishings	432,674
1465	Office furniture and equipment	98,478
1470	Maintenance equipment	9,286
1490	Construction in progress	<u>218,430</u>
1400T	Total fixed assets	<u>8,498,667</u>
1495	Less accumulated depreciation	<u>(6,057,564)</u>
1400N	Fixed assets - net	<u>2,441,103</u>
1000T	Total assets	<u><u>\$ 3,133,750</u></u>

LIABILITIES AND NET ASSETS (DEFICIT)

Account Number		
	Current liabilities	
2110	Accounts payable - operations	\$ 251,601
2110	Accounts payable - related party	2,005,635
2190	Accrued expenses	10,625
2170	Current maturities of AHP loan payable	200,000
2190	Accrued audit	8,975
2210	Prepaid revenue	16,144
2210	Prepaid housing assistance payments	32,648
2190	Current portion of capital lease obligation	<u>1,410</u>
2122T	Total current liabilities	<u>2,527,038</u>
2191	Tenant deposits	<u>63,232</u>
	Long-term liabilities	
2325	Flexible subsidy loan payable	1,671,580
2330	Accrued interest payable - flexible subsidy loan payable	442,485
2390	Capital lease obligation - net of current portion	<u>2,881</u>
2300T	Total long-term liabilities	<u>2,116,946</u>
2000T	Total liabilities	<u>4,707,216</u>
	Net assets (deficit)	
3131	Without donor restrictions	(1,579,376)
3132	With donor restrictions	<u>5,910</u>
3130	Total net assets (deficit)	(1,573,466)
2033T	Total liabilities and net assets (deficit)	<u><u>\$ 3,133,750</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF ACTIVITIES DATA

YEAR ENDED DECEMBER 31, 2019

Account Number		
	Revenue	
5120	Rent - gross potential	\$ 970,766
5121	Tenant assistance payments	179,140
5140	Rent - commercial	25,839
5170	Parking spaces	8,596
5190	Miscellaneous rent revenue	33,373
		<hr/>
5100T	Total rent revenue	1,217,714
5220	Vacancies - apartments	(94,948)
5250	Rent concessions	(1,576)
		<hr/>
5152N	Net rental revenue	1,121,190
		<hr/>
5410	Revenue from investments - operations	87
5440	Revenue from investments - replacement reserve	122
		<hr/>
5400T	Total financial revenue	209
		<hr/>
5910	Laundry and vending revenue	8,818
5920	Grant income	50,000
5970	Gifts	4,258
5990	Miscellaneous revenue	7,483
		<hr/>
5900T	Total other revenue	70,559
		<hr/>
5000T	Total revenue	1,191,958
		<hr/>
	Expenses	
6210	Advertising	8,003
6311	Office expenses	27,932
6320	Management fee	84,119
6330	Manager salaries	95,144
6340	Legal expenses - project	1,350
6350	Audit expense	8,975
6370	Bad debt expense	15,911
6390	Miscellaneous administrative expense	32,551
		<hr/>
6263T	Total administrative expenses	273,985
		<hr/>
6450	Electricity	107,506
6451	Water	50,055
6452	Gas and steam	28,326
6453	Sewer	22,687
		<hr/>
6400T	Total utilities expense	208,574
		<hr/>

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF ACTIVITIES DATA (Cont'd)

YEAR ENDED DECEMBER 31, 2019

Account Number		
6510	Payroll	121,125
6515	Supplies	1,256
6520	Contracts	220,097
6525	Garbage and trash removal	24,631
6541	Repairs material	14,623
6546	Heating/cooling repairs and maintenance	6,577
6548	Snow removal	609
6570	Vehicle and maintenance equipment operations and repair	173
6590	Decorating	7,294
6550T	Total operating and maintenance expense	<u>396,385</u>
6710	Real estate taxes	2,625
6711	Payroll taxes	20,072
6720	Property and liability insurance	55,114
6723	Health insurance and other employee benefits	<u>32,116</u>
6700T	Total taxes and insurance	<u>109,927</u>
6820	Interest expense	16,800
6890	Miscellaneous financial expenses	<u>71</u>
6800T	Total financial expenses	<u>16,871</u>
6900	Supportive services	<u>41,506</u>
6000T	Total cost of operations before depreciation	<u>1,047,248</u>
5060T	Profit before depreciation	144,710
6600	Depreciation	<u>178,371</u>
5060N	Operating income	<u>(33,661)</u>
3247	Change in net assets without donor restrictions	(33,661)
3248	Change in net assets with donor restrictions	<u>-</u>
3250	Change in total net assets from operations	<u>\$ (33,661)</u>
S1000-010	Total mortgage principal payments required during the year	<u>\$ (21,055)</u>
S1000-020	Total of 12 monthly deposits during the year into the replacement reserve account, as required by the regulatory agreement	<u>\$ 61,368</u>
S1000-030	Replacement reserves, or residual receipts and releases, which are included as expense items on this Profit and Loss statement	<u>\$ 17,640</u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF CASH FLOWS DATA

YEAR ENDED DECEMBER 31, 2019

Account Number		
	Cash Flows from Operating Activities	
S1200-010	Rental receipts	\$ 1,130,600
S1200-202	Interest receipts	87
S1200-030	Other operating receipts	<u>70,559</u>
S1200-040	Total receipts	<u>1,201,246</u>
S1200-050	Administrative	41,322
S1200-090	Utilities	216,080
S1200-100	Salaries and wages	363,570
S1200-110	Operating and maintenance	327,752
S1200-140	Property and liability insurance	55,114
S1200-150	Miscellaneous taxes and insurance	2,625
S1200-160	Tenant security deposits	1,659
S1200-180	Interest on mortgage	<u>84</u>
S1200-230	Total disbursements	<u>1,008,206</u>
S1200-240	Net cash provided by operating activities	193,040
	Cash Flows from Investing Activities	
S1200-250	Net withdrawals from to reserve for replacement	152,292
S1200-330	Purchase of fixed assets	<u>(290,953)</u>
S1200-350	Net cash used in investing activities	(138,661)
	Cash Flows from Financing Activities	
S1200-360	Principal payments on mortgage payable	(21,055)
S1200-365	Proceeds from mortgages, loans, or notes payable	199,500
S-1200-450	Repayment of capital lease obligation	<u>(115)</u>
S1200-460	Net cash provided by financing activities	178,330
S1200-470	Net increase in cash	232,709
	Cash	
S1200-480	Beginning	<u>82,491</u>
S1200T	Ending	<u><u>\$ 315,200</u></u>

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF CASH FLOWS DATA (Cont'd)

YEAR ENDED DECEMBER 31, 2019

<u>Account Number</u>		
	Reconciliation of changes in net assets to net cash provided by operating activities	
3250	Change in net assets	\$ (33,661)
	Adjustments to reconcile change in net assets to net cash provided by operating activities	
6600	Depreciation	178,371
S1200-600	Change in allowance for doubtful accounts	(2,551)
S1200-600	Interest earned on replacement reserve	(122)
	Changes in assets and liabilities	
	(Increase) decrease in	
S1200-490	Accounts receivable - tenant	1,701
S1200-500	Accounts receivable - HUD	(28,729)
S1200-505	Contributions receivable	-
S1200-500	Accounts receivable - other	(634)
S1200-520	Prepaid expenses	341
S1200-530	Tenant security deposits	(11,280)
	(Decrease) increase in	
S1200-540	Accounts payable - operations	(37,087)
S1200-540	Accounts payable - related party	50,131
S1200-560	Accrued expenses	10,600
S1200-570	Accrued interest	16,716
S1200-580	Tenant security deposits	9,621
S1200-590	Prepaid revenue	8,251
S1200-590	Prepaid housing assistance payments	<u>31,372</u>
S1200-610	Net cash provided by operating activities	<u>\$ 193,040</u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF RESERVE FOR REPLACEMENT

YEAR ENDED DECEMBER 31, 2019

<u>Account Number</u>		
1320P	Balance - January 1, 2019	\$ 408,468
1320DT	Monthly deposits	61,368
1320INT	Interest	<u>122</u>
		469,958
1320WT	Withdrawals - approved by HUD	<u>(213,660)</u>
1320	Balance - December 31, 2019	<u><u>\$ 256,298</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

COMPUTATION OF SURPLUS CASH - ANNUAL

YEAR ENDED DECEMBER 31, 2019

<u>Account Number</u>		
S1300-010	Cash	\$ 315,200
1135	Accounts receivable - HUD	<u>28,729</u>
S1300-040	Total cash	343,929
S1300-075	Accounts payable due within 30 days	2,257,236
S1300-100	Accrued expenses	10,625
2191	Tenant security deposits	63,232
2210	Prepaid housing assistance payments	32,648
2210	Prepaid rent	<u>16,144</u>
S1300-140	Total current obligations	<u>2,379,885</u>
S1300-150	Surplus cash (deficiency)	<u><u>\$ (2,035,956)</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF CHANGES IN FIXED ASSET ACCOUNTS

YEAR ENDED DECEMBER 31, 2019

Account Number	Beginning Balance	Additions	Disposals	Ending Balance
1410 Land	\$ 183,519	\$ -	\$ -	\$ 183,519
1420 Buildings	6,479,616	700,179	-	7,179,795
1440 Building equipment	259,303	17,982	-	277,285
1450 Furniture for project - tenant use	97,403	1,797	-	99,200
1460 Furnishings	359,347	73,327	-	432,674
1465 Office furniture and equipment	87,175	11,303	-	98,478
1470 Maintenance equipment	9,286	-	-	9,286
1490 Construction in progress	601,089	-	382,659	218,430
1400T Total fixed assets	8,076,738	804,588	382,659	8,498,667
1495 Accumulated depreciation	5,879,193	178,371	-	6,057,564
1400N Total net book value				<u>\$ 2,441,103</u>

Schedule of Additions to Furnishings

*Schedule of Additions to Furniture for
Project - Tenant Use*

<u>Description</u>	<u>Amount</u>	<u>Description</u>	<u>Amount</u>
Flooring, carpeting and paint (multiple units)	\$ 73,327	Computers	\$ 1,797
	<u>\$ 73,327</u>		<u>\$ 1,797</u>

Schedule of Additions to Building Equipment

Schedule of Additions to Buildings

<u>Description</u>	<u>Amount</u>	<u>Description</u>	<u>Amount</u>
Hot water heat exchanger	\$ 1,580	Windows	\$ 700,179
HVAC unit (café)	10,750		
Breaker panel	4,535		<u>\$ 700,179</u>
Elevator exhaust	1,117		
	<u>\$ 17,982</u>		

Schedule of Additions to Office furniture and Equipment

<u>Description</u>	<u>Amount</u>
Stoves and refrigerators (2 each)	\$ 1,840
Shower	3,153
Cabinets	1,904
Copier	4,406
	<u>\$ 11,303</u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2019

Federal Grantor	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Passed Through to Subrecipients
U.S. Department of Housing and Urban Development				
Supportive Housing for the Elderly (Section 202 Direct Loan)	14.157	Not available	\$ 21,055	\$ -
Operating Assistance for Troubled Multi-Family Housing Projects (Flexible Subsidy Fund)	14.164	Not available	1,671,580	-
Section 8 Project-Based Cluster				
Lower Income Housing Assistance Program				
Section 8 Moderate Rehabilitation	14.856	Not available	142,458	-
Housing Voucher Cluster				
Section 8 Housing Choice Vouchers				
Passed-Through Harrisburg Housing Authority	14.871	119183	36,682	-
Total expenditures of federal awards			\$ 1,871,775	\$ -

See Notes to Schedule of Expenditures of Federal Awards.

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2019

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, 2019. 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.

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.

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, 2019, consists of:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Outstanding Balance at December 31, 2019</u>
14.164	Operating Assistance for Troubled Multi-Family Housing Projects (Flexible Subsidy Fund)	\$ 1,671,580
14.157	Supportive Housing for the Elderly (Section 202 Direct Loan)	-
		<u>\$ 1,671,580</u>

4. INDIRECT COST RATE

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

MEMBERS

AMERICAN AND PENNSYLVANIA INSTITUTES
OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT MEMBER OF



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

Independent Auditor's Report

To 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, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated March 10, 2020.

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 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Presbyterian Apartments, Inc.'s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented, or detected and corrected, on a timely basis. 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)

MAILING ADDRESS

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

McKonly & Asbury, LLP

Camp Hill, Pennsylvania
March 10, 2020

MEMBERS

AMERICAN AND PENNSYLVANIA INSTITUTES
OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT MEMBER OF



REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Independent Auditor's Report

To the Board of Directors
Presbyterian Apartments, Inc.
Dillsburg, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Presbyterian Apartments, Inc.'s, 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, 2019. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* (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)

MAILING ADDRESS

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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 Compliance 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, 2019.

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 the attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of our testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

McKonly & Asbury, LLP

Camp Hill, Pennsylvania
March 10, 2020

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2019

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 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 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:

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, 2019

None.

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

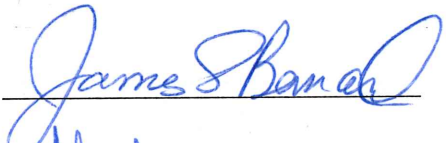
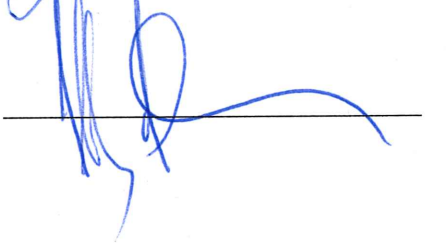
CERTIFICATION OF OFFICERS

YEAR ENDED DECEMBER 31, 2019

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 10, 2020

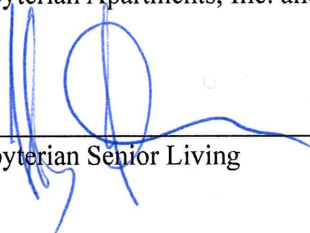
March 10, 2020

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

MANAGING AGENT'S CERTIFICATION

YEAR ENDED DECEMBER 31, 2019

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

March 10, 2020
Date



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