

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

DECEMBER 31, 2021 AND 2020
AND
INDEPENDENT AUDITOR'S REPORT



McKONLY & ASBURY
CPAs & Business Advisors

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.

Report on the Financial Statements

Opinion

We have audited the financial statements of Presbyterian Apartments, Inc. (a nonprofit organization), HUD Project No. 034SH006, which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Presbyterian Apartments, Inc. as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Presbyterian Apartments, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Substantial Doubt About the Entity's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming the entity will continue as a going concern. As discussed in Note 12 to the financial statements, the entity has a significant loan payable that is past due, and has stated that substantial doubt exists about the entity's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 12. The financial statements do not contain any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Presbyterian Apartments, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Presbyterian Apartments, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Presbyterian Apartments, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on pages 21 to 28 as required by the *Uniform Financial Reporting Standards* issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards shown on page 29 as required by 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) is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other

records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The Schedule of the Status of Prior Audit Findings, Questioned Costs, and Recommendations has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated March 10, 2022, 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 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 Presbyterian Apartments, Inc.'s 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 10, 2022

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2021 AND 2020

ASSETS			
		<u>2021</u>	<u>2020</u>
Current assets			
Cash	\$	68,832	\$ 71,481
Accounts receivable - tenants (net of allowance of doubtful accounts of \$27,980 and \$31,974)		377	11,187
Accounts receivable - HUD		-	1,158
Accounts receivable - other		7,376	3,955
Prepaid expenses		<u>14,669</u>	<u>16,612</u>
Total current assets		<u>91,254</u>	<u>104,393</u>
Restricted deposits and funded reserves			
Replacement reserve		168,506	318,714
Tenant security deposits		<u>55,334</u>	<u>59,900</u>
Total restricted deposits and funded reserves		<u>223,840</u>	<u>378,614</u>
Fixed assets			
Land		183,519	183,519
Building and improvements		7,451,823	7,422,994
Furniture and equipment		1,088,791	965,440
Construction in progress		<u>25,825</u>	<u>15,965</u>
Total fixed assets		8,749,958	8,587,918
Less accumulated depreciation		<u>(6,469,870)</u>	<u>(6,259,738)</u>
Fixed assets - net		2,280,088	2,328,180
		<u> </u>	<u> </u>
Total assets	\$	<u><u>2,595,182</u></u>	<u><u>\$ 2,811,187</u></u>

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

LIABILITIES AND NET ASSETS (DEFICIT)

	<u>2021</u>	<u>2020</u>
Current liabilities		
Accounts payable - operations	\$ 50,583	\$ 37,459
Accounts payable - related party	1,223,409	1,341,805
Accrued expenses		
Audit	9,175	9,175
Other	13,225	9,059
Prepaid rent - tenant	10,775	14,993
Prepaid rent - HAP	1,018	9,225
Current maturities of loan payable	1,671,580	-
Current maturities of accrued interest payable	475,917	-
Current portion of capital lease obligation	<u>1,408</u>	<u>1,473</u>
Total current liabilities	<u>3,457,090</u>	<u>1,423,189</u>
Long-term liabilities		
Tenant security deposits	55,496	59,616
Capital lease obligation	-	1,408
Long-term debt - net of current maturities		
Loan payable	-	1,671,580
Accrued interest payable	-	459,201
AHP direct subsidy loan payable	<u>650,000</u>	<u>650,000</u>
Total long-term liabilities	<u>705,496</u>	<u>2,841,805</u>
Total liabilities	4,162,586	4,264,994
Net assets (deficit)		
Without donor restrictions	(1,573,314)	(1,459,717)
With donor restrictions	<u>5,910</u>	<u>5,910</u>
Total net assets (deficit)	<u>(1,567,404)</u>	<u>(1,453,807)</u>
Total liabilities and net assets (deficit)	<u><u>\$ 2,595,182</u></u>	<u><u>\$ 2,811,187</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue			
Rent, net	\$ 1,190,600	\$ -	\$ 1,190,600
Financial	472	-	472
Contributions	7,429	-	7,429
Other	21,872	-	21,872
	<u>1,220,373</u>	<u>-</u>	<u>1,220,373</u>
Total revenue			
	<u>1,220,373</u>	<u>-</u>	<u>1,220,373</u>
Expenses			
Administrative	278,617	-	278,617
Utilities	269,508	-	269,508
Operating and maintenance	356,531	-	356,531
Taxes and insurance	156,757	-	156,757
Interest	16,980	-	16,980
Supportive services	45,445	-	45,445
Depreciation	210,132	-	210,132
	<u>1,333,970</u>	<u>-</u>	<u>1,333,970</u>
Total expenses			
	<u>1,333,970</u>	<u>-</u>	<u>1,333,970</u>
Change in net assets	(113,597)	-	(113,597)
Net assets (deficit) - beginning	<u>(1,459,717)</u>	<u>5,910</u>	<u>(1,453,807)</u>
Net assets (deficit) - ending	<u>\$ (1,573,314)</u>	<u>\$ 5,910</u>	<u>\$ (1,567,404)</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, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue			
Rent, net	\$ 1,225,998	\$ -	\$ 1,225,998
Financial	94	-	94
Contributions	7,716	-	7,716
Other	59,520	-	59,520
	<u>1,293,328</u>	<u>-</u>	<u>1,293,328</u>
Total revenue			
	<u>1,293,328</u>	<u>-</u>	<u>1,293,328</u>
Expenses			
Administrative	265,057	-	265,057
Utilities	205,368	-	205,368
Operating and maintenance	323,995	-	323,995
Taxes and insurance	117,905	-	117,905
Interest	17,001	-	17,001
Supportive services	42,169	-	42,169
Depreciation	202,174	-	202,174
	<u>1,173,669</u>	<u>-</u>	<u>1,173,669</u>
Total expenses			
	<u>1,173,669</u>	<u>-</u>	<u>1,173,669</u>
Change in net assets	119,659	-	119,659
Net assets (deficit) - beginning	<u>(1,579,376)</u>	<u>5,910</u>	<u>(1,573,466)</u>
Net assets (deficit) - ending	<u>\$ (1,459,717)</u>	<u>\$ 5,910</u>	<u>\$ (1,453,807)</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, 2021

	Program Services	Management and General	Total
Administrative	\$ 179,282	\$ 99,335	\$ 278,617
Utilities	269,508	-	269,508
Operating and maintenance	356,531	-	356,531
Taxes and insurance	156,757	-	156,757
Interest	16,980	-	16,980
Supportive services	45,445	-	45,445
Depreciation	210,132	-	210,132
	<hr/>	<hr/>	<hr/>
Total expenses	<u>\$ 1,234,635</u>	<u>\$ 99,335</u>	<u>\$ 1,333,970</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, 2020

	Program Services	Management and General	Total
Administrative	\$ 167,164	\$ 97,893	\$ 265,057
Utilities	205,368	-	205,368
Operating and maintenance	323,995	-	323,995
Taxes and insurance	117,905	-	117,905
Interest	17,001	-	17,001
Supportive services	42,169	-	42,169
Depreciation	202,174	-	202,174
	<hr/>	<hr/>	<hr/>
Total expenses	<u>\$ 1,075,776</u>	<u>\$ 97,893</u>	<u>\$ 1,173,669</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, 2021 AND 2020

	2021	2020
Cash flows from operating activities		
Receipts		
Rental receipts	\$ 1,186,722	\$ 1,230,294
Interest received	10	54
Other cash received	29,301	67,236
Total receipts	1,216,033	1,297,584
Disbursements		
Administrative	180,233	177,005
Management fees	68,000	586,306
Utilities	252,784	202,119
Salaries and wages	402,893	401,712
Operating and maintenance	219,850	190,186
Property and liability insurance	85,373	57,791
Miscellaneous taxes and insurance	2,627	2,625
Tenant security deposits received	4,120	3,616
Total disbursements	1,215,880	1,621,360
Net cash provided by (used in) operating activities	153	(323,776)
Cash flows from investing activities		
Deposits to replacement reserve	(63,726)	(62,376)
Withdrawals from replacement reserve	214,396	-
Cash paid for fixed assets	(156,565)	(308,179)
Net cash used in investing activities	(5,895)	(370,555)
Cash flows from financing activities		
Principal payments on long-term debt	-	(200,000)
Proceeds from AHP direct subsidy loan payable	-	650,000
Payment of capital lease obligation	(1,473)	(1,410)
Net cash provided by (used in) financing activities	(1,473)	448,590
Net decrease in cash and restricted cash	(7,215)	(245,741)
Cash and restricted cash - beginning	131,381	377,122
Cash and restricted cash - ending	\$ 124,166	\$ 131,381

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENTS OF CASH FLOWS (Cont'd)

YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of change in net assets to net cash provided by (used in) operating activities		
Change in net assets	\$ (113,597)	\$ 119,659
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Change in allowance for doubtful accounts	3,995	(21,181)
Interest earned on replacement reserve	(462)	(40)
Depreciation	210,132	202,174
(Increase) decrease in		
Accounts receivable - tenants	6,815	25,116
Accounts receivable - HUD	1,158	27,571
Accounts receivable - other	(3,421)	(2,636)
Prepaid expenses	1,943	(2,555)
(Decrease) increase in		
Accounts payable - operations	7,649	4,786
Accounts payable - related party	(118,396)	(663,830)
Accrued expenses - audit	-	200
Accrued expenses - other	4,166	(1,566)
Accrued interest	16,716	16,716
Prepaid rent - tenants	(4,218)	(1,151)
Prepaid rent - HAP	(8,207)	(23,423)
Tenant security deposits	<u>(4,120)</u>	<u>(3,616)</u>
Net cash provided by (used in) operating activities	<u>\$ 153</u>	<u>\$ (323,776)</u>
Supplemental schedule of noncash investing and financing activities		
Total additions to fixed assets	\$ 162,040	\$ 89,251
Decrease in accounts payable - operations	6,723	225,651
Increase in accounts payable - operations	<u>(12,198)</u>	<u>(6,723)</u>
Cash paid for fixed assets	<u>\$ 156,565</u>	<u>\$ 308,179</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 BUSINESS 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) and 53 apartments receive Section 8 Project Based vouchers (effective March 1, 2020) from 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, 2021 and 2020.

For purposes of the statements of cash flows presentation, cash and restricted cash consist of the following as of December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Cash	\$ 68,832	\$ 71,481
Tenant security deposits	<u>55,334</u>	<u>59,900</u>
Total cash and restricted cash	<u>\$ 124,166</u>	<u>\$ 131,381</u>

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 3 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.

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).

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. See Note 8 for additional information on net assets with donor restrictions.

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

Revenue Recognition

Rental revenue attributable to residential leases is recorded when due from residents, generally upon the first day of each month. Leases are for periods of up to one year, with rental payments due monthly. Advance receipts of revenue are deferred and classified as liabilities until earned. A monthly housing assistance payment is received from HUD for leases to qualifying low-income tenants.

Grant Revenue

The Organization recognizes grant revenue in accordance with the terms and conditions included within the grant agreements. Grant revenue is considered to be a nonreciprocal transaction and follows contribution guidance in FASB ASC 958. Amounts received in advance of conditions being satisfied are recognized as a refundable advance. Grant revenue is classified on the statements of activities based on the existence of donor restrictions.

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 2018.

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.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 became effective for the Organization on January 1, 2022. Management has not determined the impact of these changes on the Organization's financial statements.

Subsequent Events

Management evaluated subsequent events March 10, 2022, the date the financial statements were available to be issued.

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

2. LIQUIDITY AND AVAILABILITY

The financial assets as of December 31, 2021 and 2020, which are available for general expenditures within one year of the statements of financial position dates comprise the following:

	<u>2021</u>	<u>2020</u>
Cash	\$ 68,832	\$ 71,481
Accounts receivable – tenants	377	11,187
Accounts receivable – HUD	-	1,158
Accounts receivable – other	<u>7,376</u>	<u>3,955</u>
	76,585	87,781
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>\$ 70,675</u></u>	<u><u>\$ 81,871</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.

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 2021 or 2020.

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

4. LONG-TERM DEBT

Long-term debt consist of the following at December 31, 2021 and 2020:

	2021	2020
Loans payable – HUD (A)	\$ 1,671,580	\$ 1,671,580
Accrued interest payable – HUD (A)	475,917	459,201
AHP direct subsidy loan payable - First National Bank (B)	650,000	650,000
	2,797,497	2,780,781
Less current portion of long-term debt	(2,147,497)	-
Total long-term debt, net of current portion of long-term debt	\$ 650,000	\$ 2,780,781

(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 and accrued interest is due upon the sale of the project building or upon satisfaction of the HUD permanent building loan. Simple interest at the rate of 1% per annum is payable at the time of principal payments. The Organization must execute and record a use agreement for a period of 35 years.
-
- This provision made this loan due on April 1, 2019, when the HUD mortgage was paid in full. The Organization has been in communication with HUD to refinance the loan. However, on December 6, 2021, HUD provided a 90-day extension to receive the Organization’s plan for repayment of the loan or will issue a Declaration of Default. The loan is classified as a current liability as of December 31, 2021. On March 4, 2022, an additional extension was requested and it is anticipated this extension will be approved. See Note 12 for additional information.

(B) The Organization received a loan from First National Bank in the amount of \$650,000 from funds made available from the Federal Home Loan Bank of Pittsburgh through its Affordable Housing Program (“AHP”) to finance building improvements. No payments are required during the loan period unless default occurs as defined. The loan agreement contains a requirement of compliance to maintain housing for individuals at or below levels committed at the time of application for a period of fifteen years (retention period) from the date of completion of the improvements (February 10, 2020). If the Organization meets the compliance requirement and no other default as defined in the loan documents occurs during the retention period, then repayments of the loan and interest as defined in the loan documents, will not be required.

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

The Organization incurred interest cost totaling \$16,716 for the years ended December 31, 2021 and 2020.

5. CAPITAL LEASES

Capital lease obligations consist of the following at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Capital lease obligation for a copier; payable in monthly installments of \$131, including interest at 4.36%; through November 2022.	\$ 1,408	\$ 2,881
Current portion	<u>-</u>	<u>(1,473)</u>
	<u>\$ 1,408</u>	<u>\$ 1,408</u>

Interest expense on capital leases amounted to \$96 and \$159 for the years ended December 31, 2021 and 2020.

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 \$90,054 and \$85,444, for the years ended December 31, 2021 and 2020, respectively. Unpaid management fees as of December 31, 2021 and 2020, 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, 2021 and 2020, are included in accounts payable – related party.

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

8. NET ASSETS WITH DONOR RESTRICTIONS

Emergency Fund

The Organization has a fund that is restricted for an emergency fund for people served by the Organization. The balance in this fund is \$5,910 at December 31, 2021 and 2020.

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, 2021:

<u>Year</u>	<u>Amount</u>
2022	\$ 13,794
2023	9,417
2024	5,014
2025	719
	<u>\$ 28,944</u>

In 2020, the Organization has entered into a lease agreement with a communications carrier to install an antennae and other equipment at the property. The lease has an initial term of five years and is renewable for four additional terms of five years each. Income earned on this lease is included in other on the statement of activities.

The following is a schedule by years of future minimum rentals under the lease at December 31, 2021:

<u>Year</u>	<u>Amount</u>
2022	\$ 33,000
2023	33,000
2024	33,000
2025	36,960
	<u>\$ 135,960</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,

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

NOTES TO FINANCIAL STATEMENTS

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. RISKS AND UNCERTAINTIES

The COVID-19 pandemic has caused disruption of many businesses which is resulting in significant economic uncertainties. The extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and its effect on the Organization's tenants, employees, and vendors. All of these factors are uncertain and cannot be predicted. At this time, the extent to which COVID-19 may impact the Organization's financial condition or results of operations is unknown.

12. GOING CONCERN

As discussed in Note 4, the Organization has a \$1,671,580 loan payable to HUD with accrued interest payable of \$475,917, as of December 31, 2021. Discussions with HUD on refinancing the loan under current operating conditions have been unsuccessful and HUD has requested a plan for repayment by March 6, 2022 or it will issue a Declaration of Default and pursue further action on the Organization. On March 4, 2022, an additional extension was requested and it is anticipated this extension will be approved.

The Board of Directors is evaluating its options to sell the property and payoff the loan or refinance the loan with a third party.

SUPPLEMENTARY INFORMATION

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF FINANCIAL POSITION DATA

DECEMBER 31, 2021

ASSETS

<u>Account Number</u>		
	Current assets	
1120	Cash - operations	\$ 68,832
1130	Accounts receivable - tenants	28,357
1131	Allowance for doubtful accounts	(27,980)
1135	Accounts receivable - HUD	-
1140	Accounts receivable - commercial	7,376
1200	Prepaid expenses	<u>14,669</u>
1100T	Total current assets	<u>91,254</u>
	Restricted deposits and funded reserves	
1191	Tenant deposits	55,334
1320	Replacement reserve	<u>168,506</u>
1300T	Total restricted deposits and funded reserves	<u>223,840</u>
	Fixed assets	
1410	Land	183,519
1420	Building	7,451,823
1440	Building equipment	337,047
1450	Furniture for project - tenant use	106,862
1460	Furnishings	529,324
1465	Office furniture and equipment	106,271
1470	Maintenance equipment	9,287
1490	Construction in progress	<u>25,825</u>
1400T	Total fixed assets	<u>8,749,958</u>
1495	Less accumulated depreciation	<u>(6,469,870)</u>
1400N	Fixed assets - net	<u>2,280,088</u>
1000T	Total assets	<u><u>\$ 2,595,182</u></u>

LIABILITIES AND NET ASSETS (DEFICIT)

Account Number		
	Current liabilities	
2110	Accounts payable	\$ 1,273,992
2170	Current maturities of loan payable	1,671,580
2170	Current maturities of accrued interest payable	475,917
2210	Prepaid revenue	11,793
2190	Accrued expenses other	13,225
2190	Accrued audit	9,175
2190	Current portion of capital lease obligation	<u>1,408</u>
2122T	Total current liabilities	<u>3,457,090</u>
2191	Tenant deposits	<u>55,496</u>
	Long-term liabilities	
2325	Flexible subsidy loan payable	-
2330	Accrued interest payable - flexible subsidy loan payable	-
2324	AHP direct subsidy loan payable	650,000
2390	Capital lease obligation - net of current portion	<u>-</u>
2300T	Total long-term liabilities	<u>650,000</u>
2000T	Total liabilities	<u>4,162,586</u>
	Net assets (deficit)	
3131	Without donor restrictions	(1,573,314)
3132	With donor restrictions	<u>5,910</u>
3130	Total net assets (deficit)	(1,567,404)
2033T	Total liabilities and net assets (deficit)	<u><u>\$ 2,595,182</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF ACTIVITIES DATA

YEAR ENDED DECEMBER 31, 2021

Account Number		
	Revenue	
5120	Rent - gross potential	\$ 920,576
5121	Tenant assistance payments	379,927
5140	Rent - commercial	59,919
5170	Parking spaces	7,920
5190	Miscellaneous rent revenue	27,086
		<hr/>
5100T	Total rent revenue	1,395,428
5220	Vacancies - apartments	(205,746)
5250	Rent concessions	918
		<hr/>
5200T	Total vacancies	(204,828)
5152N	Net rental revenue	1,190,600
		<hr/>
5410	Revenue from investments - operations	10
5440	Revenue from investments - replacement reserve	462
		<hr/>
5400T	Total financial revenue	472
		<hr/>
5910	Laundry and vending revenue	7,119
5970	Gifts	7,429
5990	Miscellaneous revenue	14,753
		<hr/>
5900T	Total other revenue	29,301
		<hr/>
5000T	Total revenue	1,220,373
		<hr/>
	Expenses	
6210	Advertising	9,244
6311	Office expenses	23,910
6320	Management fee	90,054
6330	Manager salaries	110,509
6340	Legal expenses - project	7,696
6350	Audit expense	9,175
6370	Bad debt expense	11,602
6390	Meeting expense	1,695
6390	Fees and permits	14,608
6390	Miscellaneous administrative expense	124
		<hr/>
6263T	Total administrative expenses	278,617
		<hr/>
6450	Electricity	170,259
6451	Water	50,449
6452	Gas and steam	25,164
6453	Sewer	23,636
		<hr/>
6400T	Total utilities expense	269,508
		<hr/>

(continued)

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF ACTIVITIES DATA (Cont'd)

YEAR ENDED DECEMBER 31, 2021

Account Number		
6510	Payroll	140,216
6515	Supplies	1,308
6520	Contracts	162,925
6525	Garbage and trash removal	25,464
6546	Heating/cooling repairs and maintenance	9,698
6548	Snow removal	224
6590	Repairs material	10,838
6590	Decorating	5,858
6550T	Total operating and maintenance expense	<u>356,531</u>
6710	Real estate taxes	2,627
6711	Payroll taxes	22,482
6720	Property and liability insurance	85,373
6723	Health insurance and other employee benefits	<u>46,275</u>
6700T	Total taxes and insurance	<u>156,757</u>
6820	Interest expense	16,716
6890	Interest on capital lease	96
6890	Bank fees	<u>168</u>
6800T	Total financial expenses	<u>16,980</u>
6900	Supportive services	<u>45,445</u>
6000T	Total cost of operations before depreciation	<u>1,123,838</u>
5060T	Profit before depreciation	96,535
6600	Depreciation	<u>210,132</u>
5060N	Operating income	<u>(113,597)</u>
3247	Change in net assets without donor restrictions	(113,597)
3248	Change in net assets with donor restrictions	<u>-</u>
3250	Change in total net assets from operations	<u>\$ (113,597)</u>
S1000-010	Total mortgage principal payments required during the year	<u>\$ -</u>
S1000-020	Total of 12 monthly deposits during the year into the replacement reserve account, as required by the regulatory agreement	<u>\$ 63,726</u>
S1000-030	Replacement reserves, or residual receipts and releases, which are included as expense items on this Profit and Loss statement	<u>\$ 567</u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

STATEMENT OF CASH FLOWS DATA

YEAR ENDED DECEMBER 31, 2021

Account Number		
	Cash Flows from Operating Activities	
S1200-010	Rental receipts	\$ 1,186,722
S1200-202	Interest receipts	10
S1200-030	Other operating receipts	29,301
		<hr/>
S1200-040	Total receipts	1,216,033
		<hr/>
S1200-050	Administrative	180,233
S1200-070	Management fees	68,000
S1200-090	Utilities	252,784
S1200-100	Salaries and wages	402,893
S1200-110	Operating and maintenance	219,850
S1200-140	Property and liability insurance	85,373
S1200-150	Miscellaneous taxes and insurance	2,627
S1200-160	Tenant security deposits	(446)
		<hr/>
S1200-230	Total disbursements	1,211,314
		<hr/>
S1200-240	Net cash used in operating activities	4,719
	Cash Flows from Investing Activities	
S1200-250	Net withdrawals from to reserve for replacement	150,670
S1200-330	Purchase of fixed assets	(156,565)
		<hr/>
S1200-350	Net cash used in investing activities	(5,895)
	Cash Flows from Financing Activities	
S1200-450	Repayment of capital lease obligation	(1,473)
		<hr/>
S1200-460	Net cash provided by financing activities	(1,473)
S1200-470	Net decrease in cash	(2,649)
	Cash	
S1200-480	Beginning	71,481
		<hr/>
S1200T	Ending	\$ 68,832
		<hr/>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF RESERVE FOR REPLACEMENT

YEAR ENDED DECEMBER 31, 2021

<u>Account Number</u>		
1320P	Balance - January 1, 2021	\$ 318,714
1320DT	Monthly deposits	63,726
1320INT	Interest	462
1320WT	Withdrawals - approved by HUD	(214,371)
1320OWT	Other withdrawals - bank service fees	<u>(25)</u>
1320	Balance - December 31, 2021	<u><u>\$ 168,506</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

COMPUTATION OF SURPLUS CASH - ANNUAL

YEAR ENDED DECEMBER 31, 2021

<u>Account Number</u>		
S1300-010	Cash	<u>\$ 124,166</u>
S1300-040	Total cash	124,166
S1300-075	Accounts payable due within 30 days	1,273,992
S1300-100	Accrued expenses	13,225
2191	Tenant security deposits	55,496
2210	Prepaid rent	<u>11,793</u>
S1300-140	Total current obligations	<u>1,354,506</u>
S1300-150	Surplus cash (deficiency)	<u><u>\$ (1,230,340)</u></u>
S1300-210	Deposit Due Residual Receipts	<u><u>\$ -</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF CHANGES IN FIXED ASSET ACCOUNTS

YEAR ENDED DECEMBER 31, 2021

Account Number		Beginning Balance	Additions	Disposals	Ending Balance
1410	Land	\$ 183,519	\$ -	\$ -	\$ 183,519
1420	Buildings	7,422,994	28,829	-	7,451,823
1440	Building equipment	277,285	59,762	-	337,047
1450	Furniture for project - tenant use	99,200	7,662	-	106,862
1460	Furnishings	477,956	51,369	-	529,325
1465	Office furniture and equipment	101,713	4,558	-	106,271
1470	Maintenance equipment	9,286	-	-	9,286
1490	Construction in progress	15,965	9,860	-	25,825
1400T	Total fixed assets	8,587,918	162,040	-	8,749,958
1495	Accumulated depreciation	6,259,738	210,132	-	6,469,870
1400N	Total net book value				<u><u>\$ 2,280,088</u></u>

Schedule of Additions to Buildings

<u>Description</u>	<u>Amount</u>
Fire pump	\$ 1,268
Roof system	27,561
	<u><u>\$ 28,829</u></u>

Schedule of Additions to Building equipment

<u>Description</u>	<u>Amount</u>
Elevator chains	\$ 14,012
Diesel fire pump	17,940
Hot water heater pump	8,551
Heat pumps (4)	9,111
Upper mixing valve	10,148
	<u><u>\$ 59,762</u></u>

Schedule of Additions to Furniture for project - tenant use

<u>Description</u>	<u>Amount</u>
Speed switch on fire pump	\$ 7,662
	<u><u>\$ 7,662</u></u>

Schedule of Additions to Furnishings

<u>Description</u>	<u>Amount</u>
Flooring and paint (16 units)	\$ 48,809
Counter tops	2,560
	<u><u>\$ 51,369</u></u>

Schedule of Additions to Office furniture and equipment

<u>Description</u>	<u>Amount</u>
Heat pumps (4), fridge (2), stove (1)	\$ 4,558
	<u><u>\$ 4,558</u></u>

Schedule of Additions to Construction in progress

<u>Description</u>	<u>Amount</u>
Generator	\$ 9,860
	<u><u>\$ 9,860</u></u>

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2021

Federal Grantor	Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures	Passed Through to Subrecipients
U.S. Department of Housing and Urban Development				
Operating Assistance for Troubled Multi-Family Housing Projects (Flexible Subsidy Fund)	14.164	Not applicable	\$ 1,671,580	\$ -
Section 8 Project-Based Cluster				
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	Not applicable	171,107	-
Total Section 8 Project-Based Cluster			171,107	-
Housing Voucher Cluster				
Section 8 Housing Choice Vouchers Passed-Through Harrisburg Housing Authority	14.871	119183	208,820	-
Total Housing Voucher Cluster			208,820	-
Total expenditures of federal awards			\$ 2,051,507	\$ -

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, 2021

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Presbyterian Apartments, Inc., Project No. 034SH006, under programs of the federal government for the year ended December 31, 2021. 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 a U.S. Department of Housing and Urban Development direct loan. 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 loan outstanding at December 31, 2021, consists of:

Assistance Listing Number	Program Name	Outstanding Balance at December 31, 2021
14.164	Operating Assistance for Troubled Multi-Family Housing Projects (Flexible Subsidy Fund)	\$ 1,671,580

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.

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, 2021, 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, 2022.

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 as a basis for designing 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 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.

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 entity'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 entity'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, 2022

MEMBERS

AMERICAN AND PENNSYLVANIA INSTITUTES
OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT MEMBER OF



REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Independent Auditor's Report

To the Board of Directors
Presbyterian Apartments, Inc.

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Presbyterian Apartments, Inc.'s, compliance with the types of compliance requirements identified as subject to audit 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, 2021. Presbyterian Apartments, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings, questioned costs, and recommendations.

In our opinion, Presbyterian Apartments, Inc. complied, in all material respects, with the 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, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Presbyterian Apartments, Inc. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Presbyterian Apartments, Inc.'s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Presbyterian Apartments, Inc.'s federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Presbyterian Apartments, Inc.'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Presbyterian Apartments, Inc.'s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Presbyterian Apartments, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Presbyterian Apartments, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Presbyterian Apartments, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 10, 2022

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND RECOMMENDATIONS

YEAR ENDED DECEMBER 31, 2021

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued on whether the financial statements were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

___ Yes X No

Significant deficiencies identified?

___ Yes X None reported

Noncompliance material to financial statements noted?

___ Yes X No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

___ Yes X No

Significant deficiencies identified?

___ Yes X None reported

Type of auditors’ report issued on compliance for major federal programs?

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a)?

___ Yes X No

Identification of major programs:

Assistance

Name of Federal Program or Cluster

Listing

Number

14.164

Operating Assistance for Troubled Multi-Family Housing Projects
(Flexible Subsidy Fund)

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

X Yes ___ No

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

**SCHEDULE OF THE STATUS OF PRIOR AUDIT FINDINGS, QUESTIONED COSTS, AND
RECOMMENDATIONS**

YEAR ENDED DECEMBER 31, 2021

None.

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

OTHER INFORMATION

YEAR ENDED DECEMBER 31, 2021

1. Name and address of lead auditor

Mr. Gary J. Dubas, CPA
Partner
McKonly & Asbury, LLP
Camp Hill, PA 17011
717-761-7910
gdubas@macpas.com

EIN: 23-1909723

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

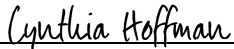
CERTIFICATION OF OFFICERS

YEAR ENDED DECEMBER 31, 2021

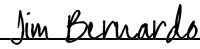
We hereby certify that we have read the foregoing financial statements and additional information of Presbyterian Apartments, Inc. and, to the best of our knowledge and belief, they are complete and accurate.

Corporate Officers

Date

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March 10, 2022

DocuSigned by:

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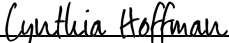
March 10, 2022

PRESBYTERIAN APARTMENTS, INC.
PROJECT NO. 034SH006

MANAGEMENT AGENT'S CERTIFICATION

YEAR ENDED DECEMBER 31, 2021

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

DocuSigned by:


Cynthia Hoffman
Presbyterian Senior Living Housing
Management Corporation

March 10, 2022

Date



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