



*Report of Independent Auditors and
Financial Statements with
Supplementary Information*

**Lytton Gardens I
Community Housing, Inc.
(a California Nonprofit Public Benefit Corporation)**

March 31, 2018 and 2017

Table of Contents

REPORT OF INDEPENDENT AUDITORS	1
FINANCIAL STATEMENTS	
Statements of Financial Position	4
Statements of Activities and Changes in Net Assets	6
Statements of Cash Flows	7
Notes to Financial Statements	9
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	15
REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	16
REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	18
Schedule of Findings and Questioned Costs	20
Summary Schedule of Prior Audit Findings	21

Report of Independent Auditors

The Board of Directors
Lytton Gardens I
Community Housing, Inc.
(a California Nonprofit Public Benefit Corporation)

Report on the Financial Statements

We have audited the accompanying financial statements of Lytton Gardens I (the “Project”), of the Community Housing, Inc. (a California nonprofit public benefit corporation) (“CHI”), which comprise the statements of financial position as of March 31, 2018 and 2017, and the related statements of activities and changes in net assets 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 entity’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 entity’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.

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 Lytton Gardens I, as of March 31, 2018 and 2017, 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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards as shown on page 15 required by *Title 2 U.S. Code of Federal Regulations (“CFR”) 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 statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated June 28, 2018, on our consideration of the Project’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 the Project’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 the Project’s internal control over financial reporting and compliance.



San Francisco, California
June 28, 2018

Financial Statements

**Lytton Gardens I
Community Housing, Inc.
Statements of Financial Position
March 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,881,009	\$ 2,744,398
Accounts receivable	8,173	6,124
Prepaid expenses	60,624	156,061
Total current assets	<u>2,949,806</u>	<u>2,906,583</u>
TENANT SECURITY DEPOSITS	<u>63,205</u>	<u>69,285</u>
RESTRICTED DEPOSITS AND FUNDED RESERVES		
Replacement reserves	4,260,621	3,837,112
Residual receipts	141,623	141,438
Total restricted deposits and funded reserves	<u>4,402,244</u>	<u>3,978,550</u>
PROPERTY AND EQUIPMENT		
Land	511,181	511,181
Buildings	13,226,652	13,901,208
Building equipment (portable)	6,985	1,362
Furniture for project/tenant use	85,270	220,409
Furnishings	24,687	53,404
Office furniture and equipment	561,092	561,092
Motor vehicles	163,418	163,418
	<u>14,579,285</u>	<u>15,412,074</u>
Accumulated depreciation	<u>(8,760,672)</u>	<u>(8,540,393)</u>
Total property and equipment, net	<u>5,818,613</u>	<u>6,871,681</u>
OTHER ASSETS		
Development costs	<u>533,934</u>	<u>57,941</u>
TOTAL ASSETS	<u><u>\$ 13,767,802</u></u>	<u><u>\$ 13,884,040</u></u>

**Lytton Gardens I
Community Housing, Inc.
Statements of Financial Position (continued)
March 31, 2018 and 2017**

	2018	2017
CURRENT LIABILITIES		
Accounts payable	\$ 334,756	\$ 371,177
Accrued wages payable	109,453	77,984
Total current liabilities	444,209	449,161
TENANT SECURITY DEPOSITS	63,205	69,285
Total liabilities	507,414	518,446
NET ASSETS		
Designated by the Board:		
Restricted deposits and funded reserves	4,402,244	3,978,550
Undesignated	8,858,144	9,387,044
Total unrestricted net assets	13,260,388	13,365,594
TOTAL LIABILITIES AND NET ASSETS	\$ 13,767,802	\$ 13,884,040

**Lytton Gardens I
Community Housing, Inc.
Statements of Activities and Changes in Net Assets
Years Ended March 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
UNRESTRICTED REVENUES AND SUPPORT		
Rental income, net of vacancy loss of \$151,205 in 2018 and \$55,302 in 2017	\$ 858,449	\$ 930,116
HUD assistance income	4,628,561	4,523,678
Interest income	7,080	2,347
Laundry and other	7,488	7,893
Food service and other	17,544	16,894
Miscellaneous income	<u>71,849</u>	<u>72,327</u>
Total unrestricted revenues and support	<u>5,590,971</u>	<u>5,553,255</u>
PROGRAM EXPENSES		
Administrative	1,044,016	966,393
Utilities	361,721	338,036
Operating and maintenance	559,323	584,952
Taxes and insurance	180,057	190,836
Food service and other	126,251	213,325
Depreciation	<u>1,129,572</u>	<u>1,162,615</u>
Total program expenses	<u>3,400,940</u>	<u>3,456,157</u>
INCOME BEFORE CHANGES IN NET ASSETS	2,190,031	2,097,098
Equity transfer	<u>(2,295,237)</u>	<u>-</u>
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	(105,206)	2,097,098
NET ASSETS, beginning of year	<u>13,365,594</u>	<u>11,268,496</u>
NET ASSETS, end of year	<u>\$ 13,260,388</u>	<u>\$ 13,365,594</u>

**Lytton Gardens I
Community Housing, Inc.
Statements of Cash Flows
Years Ended March 31, 2018 and 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Rental receipts	\$ 5,484,961	\$ 5,441,398
Interest receipts	7,080	2,347
Other operating receipts	96,881	97,114
Total receipts	5,588,922	5,540,859
Administrative	(191,580)	(213,113)
Utilities	(361,721)	(338,036)
Management fee	(393,564)	(383,423)
Salaries and wages	(506,255)	(494,790)
Operating and maintenance	(188,096)	(291,151)
Real estate taxes	(3,091)	(3,063)
Property insurance	(67,493)	(64,645)
Miscellaneous taxes and insurance	(14,036)	(115,292)
Other operating expenses	(126,251)	(213,325)
Miscellaneous financial	(775,993)	(357,941)
Total disbursements	(2,628,080)	(2,474,779)
Cash provided by operating activities	2,960,842	3,066,080
CASH FLOWS FROM INVESTING ACTIVITIES		
Funds used for purchase of property and equipment	(105,300)	(1,212,310)
Funding of replacement reserves	(423,509)	(418,960)
Funding of residual receipts	(185)	-
Equity transfer	(2,295,237)	-
Cash used in investing activities	(2,824,231)	(1,631,270)
INCREASE IN CASH	136,611	1,434,810
CASH AND CASH EQUIVALENTS, beginning of year	2,744,398	1,309,588
CASH AND CASH EQUIVALENTS, end of year	\$ 2,881,009	\$ 2,744,398

**Lytton Gardens I
Community Housing, Inc.
Statements of Cash Flows (continued)
Years Ended March 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
(Decrease) Increase in unrestricted net assets	\$ (105,206)	\$ 2,097,098
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Equity transfer	2,295,237	-
Depreciation	1,129,572	1,162,615
Loss on disposal of property and equipment	28,796	-
Changes in operating assets and liabilities:		
Accounts receivable	(2,049)	(3,864)
Prepaid expenses	95,437	7,836
Other assets	(475,993)	(57,941)
Accounts payable	(36,421)	(126,946)
Accounts payable - affiliated organizations	-	(9,633)
Accrued wages payable	31,469	(3,085)
	<u>\$ 2,960,842</u>	<u>\$ 3,066,080</u>

NOTE 1 – DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations – Community Housing, Inc. (“CHI”), is a California nonprofit public benefit corporation organized in 1970 to provide housing and personal care programs for the elderly. Covia Affordable Communities (“Affordable Communities”), formerly Lytton Gardens Senior Communities, a California nonprofit public benefit corporation, is the sole member of CHI. In 1975, CHI opened a 220-unit affordable senior housing community, Lytton Gardens I (the “Project”) in Palo Alto, California. The Project is operated under Section 236 of the National Housing Act. The Project is regulated by the U.S. Department of Housing and Urban Development (“HUD”) as to rent charges, operating methods, and other matters. Lytton Gardens I entered into a Section 8 Housing Assistance Payments (“HAP”) Program Contract with HUD for 184 of the apartments. Of the remaining 36 apartments, all are unsubsidized Section 236 apartments of which two are non-rent bearing resident managers units. The Project generates its revenue primarily from rental income. Rental fee increases are subject to HUD approval.

Affiliated organizations – CHI, which operates Lytton Gardens I and II (both affordable senior housing communities), through its sole member, Affordable Communities, a management and fundraising support organization, is affiliated with Lytton IV Housing Corporation, Oak Center Towers, Presidio Gate Apartments, and Jennings Senior Housing, Inc., all of which are also affordable senior housing communities. Through Affordable Communities’ sole member, Covia Group (“Group”), formerly Senior Resources of the West, a California nonprofit public benefit corporation, the Project is also affiliated with Covia Communities (“Communities”), formerly Episcopal Senior Communities which operates six life plan communities, Covia Foundation (“Foundation”), formerly Episcopal Senior Communities Foundation, a fundraising and supporting organization to Communities, (collectively, the “Affiliates”). All of the Affiliates are California nonprofit public benefit corporations. Some of the Affiliates share common officers, directors, and management and, at times, provide various support services to one another. The Affiliates’ financial statements are not included in the accompanying financial statements of the Project.

Basis of presentation – The financial statements have been prepared on the accrual basis of accounting which recognizes income in the period earned and expenses when incurred, consistent with accounting principles generally accepted in the United States of America.

Cash and cash equivalents – Cash and cash equivalents includes cash on hand and cash held in demand deposit, sweep, savings accounts, and certain investments in highly liquid instruments with original maturities of three months or less. Not included in cash are funds restricted as to their use, regardless of their liquidity, such as security deposits and operating and replacement reserves.

Concentration of risk – Financial instruments potentially subjecting the Project to concentrations of credit risk consist primarily of bank demand deposits in excess of Federal Deposit Insurance Corporation (“FDIC”) limits.

Account receivables – The Project receives payment from residents and HUD for services provided. The Project uses the specific write-off method to provide for doubtful accounts since past experience and management’s estimation indicates an adequate allowance for such accounts is immaterial.

Restricted deposits and funded reserves – Assets whose use is limited, are funded reserves for replacement of the Project. Such assets consist of cash and cash equivalents carried at fair value based on quoted market prices (see Notes 2 and 3).

**Lytton Gardens I
Community Housing, Inc.
Notes to Financial Statements (continued)**

Property and equipment – Property and equipment are stated at cost. Acquisitions of \$5,000 or more and with a useful life of more than one year are capitalized. Depreciation is based upon the straight-line method at rates based on the estimated useful lives of the various classes of property which range from 3 to 40 years. The Project periodically evaluates the carrying value of its long-lived assets for impairment. Based on this evaluation, no impairment was recorded for the years ended March 31, 2018 and 2017.

Tenant security deposits – In accordance with government regulations for the Project, the Project must maintain on deposit funds equal to the related liability for tenant security deposits. Security deposits are held in a separate interest-bearing account in the name of Lytton Gardens I.

Development costs – Development costs consist of legal and feasibility costs incurred in preparation for capital improvements by the Project, which will be recovered during financing of the capital improvements. As of March 31, 2018 and 2017, the Project had incurred development fees of \$533,934 and \$57,941, respectively.

Net assets – The Project classifies net assets as follows:

Unrestricted net assets represent unrestricted resources available to support the Project's operations and temporarily restricted resources which have become available for use by the Project in accordance with the intention of the donor.

Temporarily restricted net assets represent contributions that are limited in use by the Project in accordance with temporary donor-imposed stipulations. These stipulations may expire with time or may be satisfied by the actions of the Project according to the intention of the donor. Upon satisfaction of such stipulations, the associated net assets are released from temporarily restricted net assets and recognized as unrestricted net assets. Temporarily restricted net assets are available primarily for assistance and capital projects as designated by the donors. At March 31, 2018 and 2017, the Project had no temporarily restricted net assets.

Permanently restricted net assets represent net assets subject to donor-imposed stipulations that they be maintained by the Project in perpetuity. At March 31, 2018 and 2017, the Project had no permanently restricted net assets.

Revenue recognition – Rental income is shown at its maximum gross potential. Rental income is derived from rental rates subject to HUD approval. Vacancy loss is shown as a reduction in rental income. Rental units occupied by employees are included in rental income as an expense of operations. Other income includes fees for late payments, cleaning, damages, laundry facilities, and other charges, and is recorded when earned.

Tax-exempt status – The Project is managed under CHI which is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and has been granted tax-exempt status by the Internal Revenue Service and the California Franchise Tax Board.

**Lytton Gardens I
Community Housing, Inc.
Notes to Financial Statements (continued)**

The Project adopted the provisions of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 740-10, *Income Taxes*, relating to accounting for uncertain tax positions on April 1, 2009, which had no financial statement impact to the Project. The Project recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Project recognizes interest and penalties related to income tax matters in operating expenses.

Property taxes – The Project has filed and received an exemption from certain property taxes in accordance with Section 214 of the California Code.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Economic concentrations – The future operations of the Project could be affected by changes in the economic or other conditions in the geographic area of Palo Alto, California or by changes in federal low-income housing subsidies or the demand for such housing.

NOTE 2 – RESTRICTED DEPOSITS AND FUNDED RESERVES

Replacement reserves – In accordance with the HUD regulatory agreement, the Project is required to maintain a reserve for replacement and repair of property and equipment. The reserve is required to be funded in the amount of \$34,718 per month. The funds are held in an interest-bearing account. All withdrawals require prior written approval by HUD. The replacement reserve account activity for the fiscal years ended March 31 is as follows:

	2018	2017
Beginning balance at April 1,	\$ 3,837,112	\$ 3,418,152
Monthly deposits	416,616	416,616
Bank interest, net of bank fees	6,893	2,344
Ending balance at March 31,	\$ 4,260,621	\$ 3,837,112

**Lytton Gardens I
Community Housing, Inc.
Notes to Financial Statements (continued)**

Residual receipts – The Project is required to deposit surplus cash within 60 days after year end in a separate, interest-bearing account. The funds can be used for the operating needs of the property with the prior, written approval of HUD. The residual receipt’s account activity for the fiscal years ended March 31 is as follows:

	<u>2018</u>	<u>2017</u>
Beginning balance at April 1,	\$ 141,438	\$ 141,438
Investment gains	<u>185</u>	<u>-</u>
Ending balance at March 31,	<u>\$ 141,623</u>	<u>\$ 141,438</u>

NOTE 3 – HOUSING ASSISTANCE PAYMENTS PROGRAM CONTRACT

The Project has entered into a Section 8 Housing Assistance Payments (“HAP”) Program Contract with HUD for 184 units. The contract was most recently renewed on July 1, 2009, and is effective for 20 years from the date of renewal. HAP program revenue totaled \$4,628,561 and \$4,530,746 for the years ended March 31, 2018 and 2017, respectively.

NOTE 4 – RELATED-PARTY TRANSACTIONS

The Project, together with its Affiliates (see Note 1), entered into a Memo of Understanding with Communities, on April 1, 2008, whereas Communities assigned Affordable Communities to provide certain administrative, accounting, fundraising, and other general management services and the employment of personnel on a shared basis. The Project incurred \$1,364,774 and \$1,178,701 of shared costs during the years ended March 31, 2018 and 2017, respectively.

During the year ended March 31, 2018, the Project also made cash contributions totaling \$2,295,237 to Affordable Communities.

NOTE 5 – COMMITMENTS AND CONTINGENCIES

HUD regulations – In connection with the HUD agreements, there are certain restrictions on occupancy of the units which include maximum income limitations and maximum rents chargeable. In addition, these agreements require the maintenance of security deposits, and replacement and other reserves which are to be held by the mortgagee (see Notes 1 and 2).

Employee benefit plan – The Project has implemented a 403(b) tax deferred annuity plan (the “Plan”). Eligible employees who have satisfied the age and service requirements are allowed to make salary reduction contributions with a maximum contribution of up to the statutory limit. The Project pays for all the administrative expenses to operate the Plan.

City of Palo Alto repurchase rights – The City of Palo Alto (the “City”) has the right to repurchase the Project’s land and building currently held by CHI for \$1 in either of the following situations: (1) the Project’s federal government insured loan is repaid; (2) 45 years have passed from the October 26, 1971, original purchase date by the Project; (3) there is a default under the original purchase agreement with the City; or (4) there is a foreclosure by the holder of any secured lien. If the City gains the right to repurchase but fails to exercise that right within one year, then the Project must pay the City a forbearance fee of \$300,000, payable of at least \$100,000 per year over three years.

In October 2015, the Project’s federal government insured loan was paid in full as 45 years had passed since the original purchase date, triggering the repurchase rights for the City. In May 2016, approval was granted by HUD to pay the forbearance fee from operating cash. The City has extended their period to exercise their option to repurchase. As of April 2017, the Project is negotiating terms of a new regulatory agreement that will maintain affordability restrictions and be subordinate to any refinancing or tax credit syndication undertaken by the Project. The Project recognized the expense and has reserved the forbearance fee for payment at an agreed time with the City. As of March 31, 2018 and 2017, there is \$300,000 included in accounts payable for the forbearance fee.

NOTE 6 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The Project recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Project’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements were available to be issued.

The Management of the Project has evaluated subsequent events through June 28, 2018, which is the date the financial statements were available to be issued.

Supplementary Information

**Lytton Gardens I
Community Housing, Inc.
Schedule of Expenditures of Federal Awards
Year Ended March 31, 2018**

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development (HUD)		
Section 8 Housing Assistance Payments Program	14.195	\$ 4,623,794
Total direct expenditures of federal awards		<u>\$ 4,623,794</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of presentation – The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant of the Project under programs of the federal government for the year ended March 31, 2018. 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 the Project, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Project.

Summary of significant accounting policies – Expenditures in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations* and the Uniform Guidance, as applicable, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Subrecipients – The Project did not provide any federal awards to subrecipients during the year ended March 31, 2018.

Indirect costs – The Project has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Lytton Gardens I
Community Housing, Inc.
(a California Nonprofit Public Benefit Corporation)

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 Lytton Gardens I (the "Project"), of Community Housing, Inc. (a California nonprofit public benefit corporation), which comprise the statements of financial position as of March 31, 2018, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 28, 2018.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Project's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in blue ink that reads "Mess Adams LLP". The signature is written in a cursive, flowing style.

San Francisco, California
June 28, 2018

Report of Independent Auditors on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

The Board of Directors
Lytton Gardens I
Community Housing, Inc.
(a California Nonprofit Public Benefit Corporation)

Report on Compliance for the Major Federal Program

We have audited Lytton Gardens I (the “Project”), of the Community Housing, Inc. (a California nonprofit public benefit corporation), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Project’s major federal programs for the year ended March 31, 2018. The Project’s major federal program is 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 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 the Project’s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Those standards and 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 a major federal program occurred. An audit includes examining, on a test basis, evidence about the Project’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Project’s compliance.

Opinion on the Major Federal Program

In our opinion, Lytton Gardens I complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended March 31, 2018.

Report on Internal Control over Compliance

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

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



San Francisco, California
June 28, 2018

**Lytton Gardens I
Community Housing, Inc.
Schedule of Findings and Questioned Costs
Year Ended March 31, 2018**

Section I – Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statement audited were prepared in accordance with GAAP: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of Major Federal Programs and Type of Auditor’s Report Issued on Compliance for Major Federal Programs:

<i>CFDA Numbers</i>	<i>Name of Federal Program or Cluster</i>	<i>Type of Auditor’s Report Issued on Compliance for Major Federal Programs</i>
14.195	Section 8 Housing Assistance Payment Program	<i>Unmodified</i>

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? Yes No

Section II – Financial Statement Findings

None reported

Section III – Federal Award Findings and Questioned Costs

None reported

**Lytton Gardens I
Community Housing, Inc.
Summary Schedule of Prior Audit Findings
Year Ended March 31, 2018**

There are no prior audit findings to report on.

