



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

**Lytton IV Housing Corporation  
(a California Nonprofit Public Benefit Corporation)  
HUD Project No: 121-EE 012-NP-WAH**

*March 31, 2018 and 2017*

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## **Report of Independent Auditors**

The Board of Directors  
Lytton IV Housing Corporation  
(a California Nonprofit Public Benefit Corporation)

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Lytton IV Housing Corporation (a California nonprofit public benefit corporation) (the “Project”), HUD Project No. 121-EE 012-NP-WAH, 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 the Project, 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 Required by HUD and 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 14 to 24 is presented for purposes of additional analysis as required by the *Consolidated Audit Guide for Audits of HUD Programs* issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards as shown on page 26 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**

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**Lytton IV Housing Corporation**  
**HUD Project No. 121-EE 012-NP-WAH**  
**Statements of Financial Position**  
**March 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 9,926	\$ 9,036
Accounts receivable	4,296	6,486
Prepaid expenses	<u>18,451</u>	<u>18,792</u>
Total current assets	<u>32,673</u>	<u>34,314</u>
<b>TENANT SECURITY DEPOSITS</b>	<u>14,877</u>	<u>14,919</u>
<b>RESTRICTED DEPOSITS AND FUNDED RESERVES</b>		
Replacement reserves	<u>128,283</u>	<u>95,092</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land and land improvements	1,653,440	1,653,440
Building and building improvements	6,145,514	6,068,587
Furniture and fixtures for project/tenant use	64,770	51,738
Office equipment	<u>10,044</u>	<u>10,044</u>
	7,873,768	7,783,809
Accumulated depreciation	<u>(3,453,342)</u>	<u>(3,246,670)</u>
Total property and equipment, net	<u>4,420,426</u>	<u>4,537,139</u>
<b>TOTAL ASSETS</b>	<u>\$ 4,596,259</u>	<u>\$ 4,681,464</u>

**Lytton IV Housing Corporation**  
**HUD Project No. 121-EE 012-NP-WAH**  
**Statements of Financial Position (continued)**  
**March 31, 2018 and 2017**

	2018	2017
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 4,306	\$ 5,370
Accounts payable - affiliated organizations	24,116	34,371
Accrued wages payable	10,024	5,581
Total current liabilities	38,446	45,322
<b>TENANT SECURITY DEPOSITS</b>	14,877	14,919
<b>LONG-TERM LIABILITIES</b>		
Mortgage payable - City of Palo Alto	504,826	504,826
HUD capital advance	5,738,600	5,738,600
Total long-term liabilities	6,243,426	6,243,426
Total liabilities	6,296,749	6,303,667
<b>NET DEFICIT</b>		
Designated by the Board:		
Restricted deposits and funded reserves	128,283	95,092
Undesignated	(1,828,773)	(1,717,295)
Total unrestricted net deficit	(1,700,490)	(1,622,203)
<b>TOTAL LIABILITIES AND NET DEFICIT</b>	\$ 4,596,259	\$ 4,681,464



**Lytton IV Housing Corporation**  
**HUD Project No. 121-EE 012-NP-WAH**  
**Statements of Activities and Changes in Net Assets**  
**Years Ended March 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>UNRESTRICTED REVENUES AND SUPPORT</b>		
Rental income, net of vacancy loss of \$4,986 in 2018 and \$2,278 in 2017	\$ 133,793	\$ 137,295
HUD assistance income	232,408	234,142
Interest income	191	157
Laundry and other	1,890	1,848
Miscellaneous income	36,000	36,650
Contribution income	23,726	-
	<u>428,008</u>	<u>410,092</u>
<b>PROGRAM EXPENSES</b>		
Administrative	135,763	146,735
Utilities	40,457	39,522
Operating and maintenance	83,544	96,966
Taxes and insurance	34,501	37,875
Resident services	3,723	3,213
Depreciation	208,307	183,675
	<u>506,295</u>	<u>507,986</u>
<b>DECREASE IN UNRESTRICTED NET ASSETS</b>	(78,287)	(97,894)
<b>DEFICIENCY IN NET ASSETS, beginning of year</b>	<u>(1,622,203)</u>	<u>(1,524,309)</u>
<b>DEFICIENCY IN NET ASSETS, end of year</b>	<u>\$ (1,700,490)</u>	<u>\$ (1,622,203)</u>

**Lytton IV Housing Corporation**  
**HUD Project No. 121-EE 012-NP-WAH**  
**Statements of Cash Flows**  
**Years Ended March 31, 2018 and 2017**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Rental receipts	\$ 373,377	\$ 364,941
Interest receipts	191	157
Gifts	23,726	-
Other operating receipts	37,890	38,498
	<b>435,184</b>	<b>403,596</b>
Administrative	(99,382)	(67,571)
Utilities	(40,457)	(39,522)
Salaries and wages	(60,162)	(69,472)
Operating and maintenance	(69,559)	(82,352)
Real estate taxes	(2,239)	(2,407)
Property insurance	(19,493)	(18,165)
Miscellaneous taxes and insurance	(12,817)	(17,104)
Other operating expenses	(3,723)	(3,213)
	<b>(307,832)</b>	<b>(299,806)</b>
Cash provided by operating activities	<b>127,352</b>	<b>103,790</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(93,271)	(339,358)
Funding of replacement reserves	(33,191)	(72,387)
Withdrawals from replacement reserves	-	300,344
	<b>(126,462)</b>	<b>(111,401)</b>
<b>INCREASE (DECREASE) IN CASH</b>	<b>890</b>	<b>(7,611)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>9,036</b>	<b>16,647</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 9,926</b>	<b>\$ 9,036</b>
<b>RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Decrease in unrestricted net assets	\$ (78,287)	\$ (97,894)
Adjustments to reconcile change in net assets provided by operating activities:		
Depreciation	208,307	183,675
Loss on disposal of property and equipment	1,677	-
Changes in operating assets and liabilities:		
Accounts receivable	2,190	848
Prepaid expenses	341	(1,527)
Accounts payable	(1,064)	(1,660)
Accounts payable-affiliated organizations	(10,255)	21,512
Accrued wages payable	4,443	(1,164)
	<b>127,352</b>	<b>103,790</b>
Cash provided by operating activities	<b>\$ 127,352</b>	<b>\$ 103,790</b>

# **Lytton IV Housing Corporation**

## **HUD Project No. 121-EE 012-NP-WAH**

### **Notes to Financial Statements**

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

**Nature of operations** – Lytton IV Housing Corporation (the “Project”), is a California nonprofit public benefit corporation organized in 1992 to develop, construct, and operate a 51-unit independent living apartment complex for seniors in Palo Alto, California. The Project is operated under Section 202 of the National Housing Act, as amended and regulated by the U.S. Department of Housing and Urban Development (“HUD”) as to rent charges, operating methods, and other matters. The Project consists of 50 partially subsidized apartments and one resident manager’s unit. The Project generates its revenue primarily from rental income. Rental fee increases are subject to HUD approval.

**Affiliated organizations** – The Project, through its sole member, Covia Affordable Communities (“Affordable Communities”), formerly Lytton Gardens Senior Communities, a management and fundraising support organization’s affiliated with Community Housing, Inc., which operates Lytton Gardens I and II, Oak Center Towers, Presidio Gate Apartments, and Jennings Senior Housing, Inc., all of which are 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 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 replacements 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.

**Accounts 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 Note 2).

**Lytton IV Housing Corporation**  
**HUD Project No. 121-EE 012-NP-WAH**  
**Notes to Financial Statements (continued)**

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**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 IV Housing Corporation.

**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 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.

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.

**Lytton IV Housing Corporation**  
**HUD Project No. 121-EE 012-NP-WAH**  
**Notes to Financial Statements (continued)**

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**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 \$2,750 per month. The funds are held in an interest-bearing account. All withdrawals require prior written approval by HUD. The replacement reserve’s account activity for the fiscal years ended March 31 is as follows:

	<u>2018</u>	<u>2017</u>
Beginning balance at April 1,	\$ 95,092	\$ 323,049
Monthly deposits	33,000	72,230
Investment maturity	-	157
Bank interest, net of bank fees	191	-
Withdrawals	-	(300,344)
	<u>          </u>	<u>          </u>
Ending balance at March 31,	<u>\$ 128,283</u>	<u>\$ 95,092</u>

**Residual receipts** – The Project is required to deposit residual receipts within 60 days after year end in a separate, interest-bearing account. The funds can be used for the operating needs of the property, including debt service on the City of Palo Alto note, with the prior written approval of HUD (see Note 4). There was no required deposit to residual receipts reserve for either of the years ended March 31, 2018 and 2017.

**Lytton IV Housing Corporation**  
**HUD Project No. 121-EE 012-NP-WAH**  
**Notes to Financial Statements (continued)**

**NOTE 3 – MORTGAGES PAYABLE**

The Project's mortgages payable consisted of the following at March 31:

	2018	2017
<p>U.S. Department of Housing and Urban Development Section 202 Capital Advance, dated November 26, 1993, secured by first deed of trust on real property, bearing no interest. The advance is essentially a forgivable loan and shall only be repayable if the Project fails to remain available to very low-income households as approved by HUD through June 1, 2035.</p>	\$ 5,738,600	\$ 5,738,600
<p>City of Palo Alto note, dated November 30, 1993, bearing 5% simple interest per annum beginning December 1, 1995. Payments may only be made from residual receipts with the approval of HUD. The balance of principal and interest is due at the maturity on June 1, 2035. The term is designed to coincide with the closing of the HUD Capital Advance period. At this time, the City has an option to acquire the Project in exchange for cancellation of the principal and accrued interest outstanding at that date.</p>	504,826	504,826
<p>Total mortgages payable</p>	<u>\$ 6,243,426</u>	<u>\$ 6,243,426</u>

**NOTE 4 – PROJECT RENTAL ASSISTANCE CONTRACT**

The Project entered into a Project Rental Assistance Contract with HUD for 50 units effective May 1, 1995. The twenty-year subsidy contract provides for an initial annual maximum commitment of \$215,640, as of the effective date of the agreement. This amount is modified upon rent increases or decreases and the availability of funds, as approved by HUD. Rents cannot be increased without prior written approval from HUD. At the end of the initial contract period, the Project entered into a one year agreement with HUD. Effective May 1, 2016, a 0.00% rent increase was granted which provides for a maximum commitment of \$376,380 (for the period from May 1, 2016 to April 30, 2017). Effective May 1, 2017, a 0.00% rent increase was granted which provides for a maximum commitment of \$376,380 (for the period from May 1, 2017 to April 30, 2018).

**NOTE 5 – RELATED-PARTY TRANSACTIONS**

The Project, together with its affiliated organizations (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 \$201,455 and \$225,548 of shared costs during the years ended March 31, 2018 and 2017, respectively. Of this amount, \$24,116 and \$34,371 are included in accounts payable—affiliated organizations at March 31, 2018 and 2017, respectively.

**Lytton IV Housing Corporation**  
**HUD Project No. 121-EE 012-NP-WAH**  
**Notes to Financial Statements (continued)**

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**NOTE 6 – 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. These agreements also require the maintenance of security deposits and replacement 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. 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 Plan pays for all the administrative expenses to operate the Plan.

**City of Palo Alto acquisition rights** – Upon expiration of the 40 year term of HUD regulatory agreement, the City of Palo Alto (the “City”) may, at its sole option, require the Project to transfer ownership of the Project (all improvements and land) to the City. The City must exercise said option within six months of the termination of HUD regulatory agreement. In consideration of the exercise of said option, the City shall cancel any remaining balance then owing by the Project on the note with the City.

**NOTE 7 – 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 Project has evaluated subsequent events through June 28, 2018, which is the date the financial statements were available to be issued.

## **Supplementary Information Required by HUD**

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**Lytton IV Housing Corporation**  
**HUD Project No. 121-EE 012-NP-WAH**  
**Balance Sheet Data**  
**March 31, 2018**

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<u>Account</u>	<u>Description</u>	<u>Value</u>
1120	Cash - operations	\$ 9,926
1130	Tenant/member accounts receivable (co-ops)	4,296
1130N	Net tenant account receivable	4,296
1200	Prepaid expenses	18,451
1100T	Total current assets	32,673
1191	Tenant/patient deposits held in trust	14,877
1320	Replacement reserve	128,283
1300T	Total deposits	128,283
1410	Land	1,653,440
1420	Buildings	6,145,514
1450	Furniture for project/tenant use	64,770
1465	Office furniture and equipment	10,044
1400T	Total fixed assets	7,873,768
1495	Accumulated depreciation	(3,453,342)
1400N	Net fixed assets	4,420,426
1000T	Total assets	\$ 4,596,259

**Lytton IV Housing Corporation**  
**HUD Project No. 121-EE 012-NP-WAH**  
**Balance Sheet Data (continued)**  
**March 31, 2018**

<u>Account</u>	<u>Description</u>	<u>Value</u>
2110	Accounts payable - operations	\$ 4,306
2120	Accrued wages payable	10,024
2190	Miscellaneous current liabilities	<u>24,116</u>
	2190-010 - Details - Accounts payable - affiliated organizations	
	2190-020 - Amount	<u>\$ 24,116</u>
2122T	Total current liabilities	<u>38,446</u>
2191	Tenant/patient deposits held in trust (contra)	<u>14,877</u>
2320	Mortgage (or bonds) payable - First mortgage (or bonds)	5,738,600
2322	Other mortgages payable (long-term)	<u>504,826</u>
	Details - Other mortgages payable (long-term)	
	2322-010 - Type of mortgage	Second mortgage
	2322-020 - Amount of mortgage(s) payable	\$ 504,826
2300T	Total long-term liabilities	<u>6,243,426</u>
2000T	Total liabilities	6,296,749
3131	Unrestricted net assets	<u>(1,700,490)</u>
3130	Total net assets	<u>(1,700,490)</u>
2033T	Total liabilities and equity/net assets	<u>\$ 4,596,259</u>

**Lytton IV Housing Corporation**  
**HUD Project No. 121-EE 012-NP-WAH**  
**Profit and Loss Data**  
**Year Ended March 31, 2018**

<u>Account</u>	<u>Description</u>	<u>Value</u>
<b>REVENUES</b>		
5120	Rent revenue - gross potential	\$ 138,779
5121	Tenant assistance payments	232,408
5100T	Total rent revenue	371,187
5220	Apartments	4,986
5200T	Total vacancies	4,986
5152N	Net rental revenue (rent revenue less vacancies)	366,201
5440	Revenue from investments - replacement reserve	191
5400T	Total financial revenue	191
5910	Laundry and vending revenue	1,890
5970	Gifts	23,726
5990	Miscellaneous revenue	36,000
	Details - Miscellaneous revenue	
	5990-010 - Description - Commerical lease revenue	
	5990-020 - Amount	\$ 36,000
5900T	Total other revenue	61,616
5000T	Total revenue	428,008
<b>EXPENSES</b>		
6250	Other renting expenses	2,376
6310	Office salaries	50,620
6311	Office expenses	66,589
6340	Legal expense - Project	190
6350	Audit expense	15,988
6263T	Total administrative expenses	135,763
6450	Electricity	15,058
6451	Water	12,198
6452	Gas	11,656
6453	Sewer	1,545
6400T	Total utilities	40,457

**Lytton IV Housing Corporation**  
**HUD Project No. 121-EE 012-NP-WAH**  
**Profit and Loss Data (continued)**  
**Year Ended March 31, 2018**

<u>Account</u>	<u>Description</u>	<u>Value</u>
6510	Payroll	\$ 13,985
6515	Supplies	12,052
6520	Contracts	32,752
6525	Garbage and trash removal	23,078
6590	Miscellaneous operating and maintenance expenses	<u>1,677</u>
	Details - Miscellaneous operating and maintenance expenses	
	6590-010 - Description - Loss on disposal of property and equipment	
	6590-020 - Amount	\$ 1,677
6500T	Total operating and maintenance expenses	<u>83,544</u>
6710	Real estate taxes	2,337
6711	Payroll taxes (Project's share)	4,663
6720	Property and liability insurance (hazard)	19,296
6722	Workers' compensation	589
6723	Health insurance and other employee benefits	<u>7,616</u>
6700T	Total taxes and insurance	<u>34,501</u>
6900	Nursing homes/assisted living/board & care/other elderly care expenses	<u>3,723</u>
6000T	Total cost of operations before depreciation	<u>297,988</u>
5060T	Profit (loss) before depreciation	130,020
6600	Depreciation expenses	<u>208,307</u>
5060N	Operating loss	<u><u>\$ (78,287)</u></u>
3247	Change in unrestricted net assets from operations	<u>(78,287)</u>
3250	Change in total net assets from operations	<u><u>\$ (78,287)</u></u>

**Lytton IV Housing Corporation**  
**HUD Project No. 121-EE 012-NP-WAH**  
**Profit and Loss Data (continued)**  
**Year Ended March 31, 2018**

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<u>Account</u>	<u>Description</u>	<u>Value</u>
S1000-020	The total of all monthly reserve for replacement deposits (usually 12 months) required during the audit period even if deposits have been temporarily waived or suspended.	<u>\$ 33,000</u>

<u>Account</u>	<u>Description</u>	<u>Value</u>
S1100-060	Previous year unrestricted net assets	\$ (1,622,203)
3247	Change in unrestricted net assets from operations	<u>(78,287)</u>
3131	Unrestricted net assets	<u>\$ (1,700,490)</u>
S1100-050	Previous year total net assets	\$ (1,622,203)
3250	Change in total net assets from operations	<u>(78,287)</u>
3130	Total net assets	<u>\$ (1,700,490)</u>

**Lytton IV Housing Corporation**  
**HUD Project No. 121-EE 012-NP-WAH**  
**Statement of Cash Flows Data**  
**Year Ended March 31, 2018**

Account	Description	Value
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
S1200-010	Rental receipts	\$ 373,377
S1200-020	Interest receipts	191
S1200-025	Gifts	23,726
S1200-030	Other operating receipts	<u>37,890</u>
S1200-040	Total receipts	<u>435,184</u>
S1200-050	Administrative	(99,382)
S1200-090	Utilities	(40,457)
S1200-100	Salaries and wages	(60,162)
S1200-110	Operating and maintenance	(69,559)
S1200-120	Real estate taxes	(2,239)
S1200-140	Property insurance	(19,493)
S1200-150	Miscellaneous taxes and insurance	(12,817)
S1200-170	Other operating expenses	<u>(3,723)</u>
S1200-230	Total disbursements	<u>(307,832)</u>
S1200-240	Net cash provided by operating activities	<u>127,352</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
S1200-250	Net deposits to the reserve for replacement account	(33,191)
S1200-330	Net purchase of fixed assets	<u>(93,271)</u>
S1200-350	Net cash used in investing activities	<u>(126,462)</u>
S1200-470	Net increase in cash and cash equivalents	890
S1200-480	Beginning of period cash	<u>9,036</u>
S1200T	End of period cash	<u><u>\$ 9,926</u></u>

**Lytton IV Housing Corporation**  
**HUD Project No. 121-EE 012-NP-WAH**  
**Statement of Cash Flows Data (continued)**  
**Year Ended March 31, 2018**

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Account	Description	Value
Reconciliation of net loss to net cash provided by operating activities		
3250	Change in total net assets from operations	\$ (78,287)
6600	Depreciation expenses	208,307
Adjustments to reconcile net loss to net cash provided by operating activities		
S1200-490	Decrease in tenant/member accounts receivable	2,190
S1200-520	Increase in prepaid expenses	341
S1200-540	Increase in accounts payable	(11,319)
S1200-560	Decrease in accrued liabilities	4,443
S1200-600	Other adjustment to reconcile net loss to net cash provided by operating activities	1,677
	Details - Other adjustments to reconcile net loss to net cash provided by operating activities	
	S1200-601 - Description - Loss on disposal of property and equipment	
	S1200-602 - Amount	\$ 1,677
S1200-610	Net cash provided by operating activities	<u>\$ 127,352</u>

**Lytton IV Housing Corporation**  
**HUD Project No. 121-EE 012-NP-WAH**  
**Schedule of Surplus Cash**  
**As of March 31, 2018**

Account	Description	Value
S1300-010	Cash	\$ 24,803
S1300-040	Total cash	<u>24,803</u>
S1300-075	Accounts payable - 30 days	4,306
S1300-100	Accrued expenses (not escrowed)	10,024
2191	Tenant security deposit held in trust (contra)	14,877
S1300-110	Other current obligations	<u>24,116</u>
	Details - Other current obligations	
	S1300-120 - Description - Accounts payable - affiliated organizations	
	S1300-130 - Amount	\$ 24,116
S1300-140	Total current obligations	<u>53,323</u>
S1300-150	Cash deficiency	<u>\$ (28,520)</u>
S1300-210	Deposit due residual receipts	<u>\$ -</u>



**Lytton IV Housing Corporation**  
**HUD Project No. 121-EE 012-NP-WAH**  
**Schedule of Changes in Fixed Asset Accounts**  
**Year Ended March 31, 2018**

<u>Account</u>	<u>Description</u>	<u>Value</u>
1410P	Beginning balance for 1410	\$ 1,653,440
1410	Land	1,653,440
1420P	Beginning balance for 1420	6,068,587
1420AT	Additions for 1420	93,270
	Details - Additions for 1420	
	1420A-010 - Building improvements	
	1420A-030 - Total amount	\$ 93,270
1420DT	Deductions for 1420	16,343
	Details -Deductions for 1420	
	1420D-010 - Building improvements	
	1420D-030 - Total amount	\$ 16,343
1420	Buildings	6,145,514
1450P	Beginning balance for 1450	51,738
1450AT	Additions for 1450	13,032
	Details - Additions for 1450	
	1450D-010 - Furniture	
	1450D-030 - Total amount	\$ 13,032
1450	Furniture for project/tenant use	64,770
1465P	Beginning balance for 1465	10,044
1465	Office furniture and equipment	10,044
1400PT	Total beginning balance for fixed assets	\$ 7,783,809
1400AT	Total asset additions	106,302
1400DT	Total asset deductions	16,343
1400T	Total fixed assets	7,873,768
1495P	Beginning balance for 1495	3,246,670
6600	Total provisions	208,307
1400ADT	Total accumulated depreciation for disposed assets	1,635
1495	Ending balance for accumulated depreciation	3,453,342
1400N	Total net book value	\$ 4,420,426

**Lytton IV Housing Corporation**  
**HUD Project No. 121-EE 012-NP-WAH**  
**Schedule of Replacement Reserve**  
**Year Ended March 31, 2018**

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<u>Account</u>	<u>Description</u>	<u>Value</u>
1320P	Balance at beginning of year	\$ 95,092
1320DT	Total monthly deposits	33,000
1320INT	Interest on replacement reserve accounts	191
		<hr/>
1320	Balance at end of year	<u>\$ 128,283</u>
1320R	Deposits suspended or waived indicator	N

**Lytton IV Housing Corporation**  
**HUD Project No. 121-EE 012-NP-WAH**  
**Assisted Living Data**  
**Year Ended March 31, 2018**

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<u>Account</u>	<u>Description</u>	<u>Value</u>
6990	Other service expenses	<u>\$ 3,723</u>
6900	Nursing homes/assisted living/board & care/other elderly care expenses	<u>\$ 3,723</u>

## **Supplementary Information**

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**Lytton IV Housing Corporation**  
**HUD Project No. 121-EE 012-NP-WAH**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended March 31, 2018**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development (HUD) Section 202 Supportive Housing for the Elderly Project No. 121-EE 012-NP-WAH Outstanding mortgage balance with continuing compliance requirements, beginning balance	14.157	\$ 5,738,600
Project Rental Assistance Contract (PRAC)	14.157	<u>232,408</u>
Total direct expenditures of federal awards		<u>\$ 5,971,008</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 and loan activity 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.

**Loan balance** – The federal loan program is administered directly by the Project, and balances and transactions relating to this program is included in the Project’s basic financial statements. Loans outstanding at the beginning of the year are included in the federal expenditures presented in the schedule. The balance of loans outstanding at March 31, 2018 was \$5,738,600.

## **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 IV Housing Corporation  
(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 IV Housing Corporation (a California nonprofit public benefit corporation) (the “Project”), HUD Project No. 121-EE 012-NP-WAH, which comprise the statement 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 IV Housing Corporation  
(a California Nonprofit Public Benefit Corporation)

### **Report on Compliance for the Major Federal Program**

We have audited Lytton IV Housing Corporation (a California nonprofit public benefit corporation) (the "Project"), HUD Project No. 121-EE 012-NP-WAH, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Project's major federal program 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, the Lytton IV Housing Corporation 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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 IV Housing Corporation**  
**HUD Project No. 121-EE 012-NP-WAH**  
**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>
14.157	Section 202 Supportive Housing for the Elderly	<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 IV Housing Corporation**  
**HUD Project No. 121-EE 012-NP-WAH**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended March 31, 2018**

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There are no prior audit findings to report on.

**Lytton IV Housing Corporation**  
**HUD Project No. 121-EE 012-NP-WAH**  
**Mortgagor's Certification**  
**Year Ended March 31, 2018**

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Account	Description	Value
		We hereby certify that we have examined the accompanying financial statements and supplemental data and to the best of our knowledge and belief, the same is complete and accurate.
S2900-010	Narrative	
S2900-020	Name of Signatory #1	Ronald Schaefer
S2900-025	Title of Certifying Official #1	Chief Operating Officer
S2900-030	Name of Signatory #2	Jonathan Casey
S2900-035	Title of Certifying Official #2	Vice President of Finance for Affordable Housing
S2900-040	Auditee Telephone Number	(925) 956-7400
S2900-050	Date of Certification	June 28, 2018
S2900-080	Auditee Name	Lytton IV Housing Corporation
S2900-090	Auditee Street Address Line 1	2185 N. California Blvd #575
S2900-110	Auditee City	Walnut Creek
S2900-120	Auditee State	CA
S2900-130	Auditee Zip Code	94596
S2900-150	Auditee Contact Name	Jonathan Casey
S2900-160	Auditee Contact Title	Vice President of Finance for Affordable Housing
S2900-170	Auditee Contact Fax Number	(925) 407-0060
S2900-180	Auditee Contact E-mail	jc Casey@covia.org

**Lytton IV Housing Corporation**  
**HUD Project No. 121-EE 012-NP-WAH**  
**Management Agent's Certification**  
**Year Ended March 31, 2018**

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Account	Description	Value
S3000-010	Narrative	We hereby certify that we have examined the accompanying financial statements and supplemental data and to the best of our knowledge and belief, the same is complete and accurate.
S3000-020	Name of Managing Agent	
S3000-030	Name of Signatory	
S3000-040	Name of Agent TIN	
S3000-050	Name of Individual (i.e., Property Manager)	
		Covia Affordable Communities Ronald Schaefer 94-2264235 Doris Lee

**Lytton IV Housing Corporation**  
**HUD Project No. 121-EE 012-NP-WAH**  
**Transmittal Letter of Auditor**  
**Year Ended March 31, 2018**

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Account	Description	Value
S3200-005	Audit Firm ID (UII)	10980
S3200-010	Audit Firm	Moss Adams LLP - San Francisco
S3200-020	Lead Auditor First Name	Amy
S3200-030	Lead Auditor Middle Name	R
S3200-040	Lead Auditor Last Name	Runge
S3200-045	Auditor Contact Title	Partner
S3200-050	Auditor Street Address Line 1	101 Second Street
S3200-060	Auditor Street Address Line 2	Suite 900
S3200-070	Auditor City	San Francisco
S3200-080	Auditor State	CA
S3200-090	Auditor Zip Code	94105
S3200-100	Auditor Zip Code Extension	1605
S3200-110	Telephone Number	(415) 956-1500
S3200-120	Auditor Finn TIN	91-0189318
S3200-130	Date of Independent Auditor's Report	June 28, 2018
S3200-140	Auditor Contact Fax Number	(415) 956-4149
S3200-150	Auditor Contact E-mail	amy.runge@mossadams.com

