



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

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

*March 31, 2019 and 2018*

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## **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 Community Housing, Inc. (a California nonprofit public benefit corporation) (“CHI”), which comprise the statements of financial position as of March 31, 2019 and 2018, 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of a Matter***

As discussed in Note 1 to the financial statements, as of and for the year ended March 31, 2019, the Project adopted Accounting Standards Update (“ASU”) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, information about liquidity and availability of resources, methods used to allocate costs to programmatic and other support information, and direction for consistency about information provided on investment return. The adoption of the standard resulted in additional footnote disclosures and significant changes to the classification of net assets and the disclosures related to net assets. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### ***Supplementary Information***

Our audits were 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 17 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, 2019, 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.

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, 2019

## **Financial Statements**

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**Lytton Gardens I  
Community Housing, Inc.  
Statements of Financial Position  
March 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	2,352,029	2,881,009
Accounts receivable	3,914	8,173
Prepaid expenses	<u>90,177</u>	<u>60,624</u>
Total current assets	<u>2,446,120</u>	<u>2,949,806</u>
<b>TENANT SECURITY DEPOSITS</b>		
	<u>59,932</u>	<u>63,205</u>
<b>RESTRICTED DEPOSITS AND FUNDED RESERVES</b>		
Replacement reserves	4,688,459	4,260,621
Residual receipts	<u>141,977</u>	<u>141,623</u>
Total restricted deposits and funded reserves	<u>4,830,436</u>	<u>4,402,244</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land and land improvements	511,181	511,181
Buildings	13,485,033	13,226,652
Building equipment	6,985	6,985
Furniture for project/tenant use	85,270	85,270
Furnishings	24,687	24,687
Office and other equipment	561,092	561,092
Motor vehicles	<u>163,418</u>	<u>163,418</u>
	14,837,666	14,579,285
Accumulated depreciation	<u>(9,844,905)</u>	<u>(8,760,672)</u>
Total property and equipment, net	<u>4,992,761</u>	<u>5,818,613</u>
<b>OTHER ASSETS</b>		
Development costs	<u>1,359,685</u>	<u>533,934</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 13,688,934</u></u>	<u><u>\$ 13,767,802</u></u>

**Lytton Gardens I  
Community Housing, Inc.  
Statements of Financial Position (Continued)  
March 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 508,693	\$ 334,756
Accrued wages payable	<u>67,796</u>	<u>109,453</u>
Total current liabilities	<u>576,489</u>	<u>444,209</u>
<b>TENANT SECURITY DEPOSITS</b>	<u>59,932</u>	<u>63,205</u>
Total liabilities	<u>636,421</u>	<u>507,414</u>
<b>NET ASSETS</b>		
Net assets without donor restrictions		
Board-Designated net assets:		
Restricted deposits and funded reserves	4,830,436	4,402,244
Undesignated	<u>8,222,077</u>	<u>8,858,144</u>
Total net assets without donor restrictions	<u>13,052,513</u>	<u>13,260,388</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 13,688,934</u>	<u>\$ 13,767,802</u>

**Lytton Gardens I  
Community Housing, Inc.  
Statements of Activities and Changes in Net Assets  
Years Ended March 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
Revenues and support		
Residential rental revenue, net of vacancy loss of \$283,783 in 2019 and \$151,205 in 2018	\$ 772,142	\$ 858,449
HUD assistance income	4,696,880	4,628,561
Interest income	11,576	7,080
Laundry and other	5,414	7,488
Food service and other	21,499	17,544
Miscellaneous income	<u>70,623</u>	<u>71,849</u>
Total revenues and support	<u>5,578,134</u>	<u>5,590,971</u>
Expenses		
Administrative	978,118	1,044,016
Utilities	379,019	361,721
Operating and maintenance	558,137	559,323
Taxes and insurance	141,037	180,057
Food service and other	208,423	126,251
Depreciation	<u>1,084,231</u>	<u>1,129,572</u>
Total expenses	<u>3,348,965</u>	<u>3,400,940</u>
<b>INCOME BEFORE CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	2,229,169	2,190,031
Equity transfer	<u>(2,437,044)</u>	<u>(2,295,237)</u>
<b>CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	(207,875)	(105,206)
NET ASSETS, beginning of year	<u>13,260,388</u>	<u>13,365,594</u>
NET ASSETS, end of year	<u>\$ 13,052,513</u>	<u>\$ 13,260,388</u>

**Lytton Gardens I  
Community Housing, Inc.  
Statements of Cash Flows  
Years Ended March 31, 2019 and 2018**

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Rental receipts	\$ 5,473,281	\$ 5,484,961
Interest from operations	11,576	7,080
Other operating receipts	97,536	96,881
Total receipts	5,582,393	5,588,922
Administrative	(181,131)	(191,580)
Utilities	(379,019)	(361,721)
Management fee	(393,564)	(393,564)
Salaries and wages	(556,576)	(506,255)
Operating and maintenance	(272,704)	(188,096)
Real estate taxes	(2,332)	(3,091)
Property insurance	(64,685)	(67,493)
Miscellaneous taxes and insurance	(103,573)	(14,036)
Other operating expenses	(208,423)	(126,251)
Miscellaneous financial	(825,751)	(775,993)
Total disbursements	(2,987,758)	(2,628,080)
Cash provided by operating activities	2,594,635	2,960,842
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Funds used for purchase of property and equipment	(258,379)	(105,300)
Funding of replacement reserves	(427,838)	(423,509)
Funding of residual receipts	(354)	(185)
Equity Transfer	(2,437,044)	(2,295,237)
Cash used in investing activities	(3,123,615)	(2,824,231)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(528,980)	136,611
CASH AND CASH EQUIVALENTS, beginning of year	2,881,009	2,744,398
CASH AND CASH EQUIVALENTS, end of year	\$ 2,352,029	\$ 2,881,009

# Lytton Gardens I

## Community Housing, Inc.

### Notes to Financial Statements

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#### 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”), 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; Jennings Senior Housing, Inc.; Shires Memorial Center; and Bethany Center Senior Housing, Inc. (“BCSH”), all of which are also affordable senior housing communities. Through BCSH, the Project is affiliated with Bethany Center Foundation of San Francisco. Through Affordable Communities’ sole member, Covia Group (“Group”), a California nonprofit public benefit corporation, the Project is also affiliated with Covia Communities (“Communities”), which operates six life plan communities, Covia Foundation (“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 and cash equivalents 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 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 Note 2).

**Lytton Gardens I  
Community Housing, Inc.  
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, 2019 and 2018.

**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, 2019 and 2018, the Project had incurred development fees of \$1,359,685 and \$533,934, respectively.

**Net assets** – On April 1, 2018, the Project adopted Accounting Standards Update (“ASU”) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (“ASU 2016-14”) applying the full retrospective method. ASU 2016-14 changes the current net asset classification requirements and the information presented in financial statements and notes about an entity’s liquidity, financial performance, and cash flows. The update replaces the requirement to present three classes of net assets with two classes: net assets with donor restrictions, and net assets without donor restrictions. The update also removes the requirement to present or disclose the indirect method (reconciliation) if using the direct method for the statement of cash flows, and adds several additional enhanced disclosures to the notes. The project has adjusted the presentation of these financial statements accordingly, including changes to the presentation of net asset classification, inclusion of information about liquidity and availability of resources, and inclusion of information provided about expenses. In accordance with ASU 2016-14, net assets as of March 31, 2018, have been reclassified as follows:

	Without Donor Restrictions	With Donor Restrictions
Unrestricted net assets		
Board-Designated net assets:		
Replacement reserves and residual receipts	\$ 4,402,244	\$ -
Undesignated	8,858,144	-
Total net assets	\$ 13,260,388	\$ -

The Project classifies net assets as follows:

*Net assets without donor restrictions* 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.

# Lytton Gardens I

## Community Housing, Inc.

### Notes to Financial Statements (Continued)

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*Net assets with donor restrictions* 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. Net assets with donor restrictions are available primarily for assistance and capital projects as designated by the donors. At March 31, 2019 and 2018, the Project had no temporarily restricted net assets.

*Net assets with donor restrictions* also represent net assets subject to donor-imposed stipulations that they be maintained by the Project in perpetuity. At March 31, 2019 and 2018, the Project had no net assets with donor restrictions maintained by the organization in perpetuity.

**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.

The Project applies the provisions of Accounting Standards Codification (“ASC”) Topic 740-10, *Income Taxes*, relating to accounting for uncertain tax positions. 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. At March 31, 2019 and 2018, the Project had no unsettled tax matters.

**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.

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

**New accounting pronouncements** – In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance moves revenue recognition towards one principles-based revenue standard to be applied across all industries. The guidance is effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted. On April 1, 2018, the Project adopted Topic 606. Adoption of this standard did not have a significant impact on the Project.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (“ASU 2016-01”). This guidance among other things eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities. The guidance is effective for annual reporting periods beginning after December 15, 2018. Management is currently evaluating the impact ASU 2016-01 will have on the Project’s future financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (“ASU 2016-02”), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. The adoption of ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2019. Management is currently evaluating the impact ASU 2016-02 will have on the Project’s future financial statements.

In November 2016, FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (“ASU 2016-18”). This guidance enhances the statement of cash flow by streamlining the activities between cash and restricted cash as operating, investing, or financing, or as a combination of those activates. The guidance also highlights explanations of the change of cash, cash equivalents, restricted cash or restricted cash equivalents during the period. The guidance is effective for fiscal years beginning after December 15, 2018. Management is currently evaluating the impact ASU 2016-18 will have on the Project’s future financial statements.

**NOTE 2 – RESTRICTED DEPOSITS AND FUNDED RESERVES**

**Replacement reserves** – The Project maintains a reserve for replacement and repair of property and equipment. The reserve is funded in the amount of \$34,718 per month. The funds are held in an interest-bearing account. The replacement reserve account activity for the fiscal years ended March 31 is as follows:

	2019	2018
Beginning balance at April 1,	\$ 4,260,621	\$ 3,837,112
Monthly deposits	416,616	416,616
Bank interest, net of bank fees	11,222	6,893
Ending balance at March 31,	\$ 4,688,459	\$ 4,260,621

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

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**Residual receipts** – The Project deposits 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. The residual receipt’s account activity for the fiscal years ended March 31 is as follows:

	2019	2018
Beginning balance at April 1,	\$ 141,623	\$ 141,438
Investment gains	354	185
Ending balance at March 31,	\$ 141,977	\$ 141,623

**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 \$4,696,880 and \$4,628,561 for the years ended March 31, 2019 and 2018, respectively.

**NOTE 4 – 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 \$1,373,436 and \$1,364,774 of shared costs during the years ended March 31, 2019 and 2018, respectively.

During the years ended March 31, 2019 and 2018, the Project also made cash contributions totaling \$2,437,044 and \$2,295,237, respectively, 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 (see Notes 1 and 2).

**Employee benefit plan** – The Project has implemented a 403(b) tax deferred annuity plan (the “Plan”) through Affordable Communities. 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 makes matching contributions on behalf of the participants up to 3% of each participant’s wages. Affordable Communities pays for all the administrative expenses to operate the Plan. Effective August 1, 2018, the Affordable Communities amended the Plan, terminating the employer match and adopting a 10% employer 403(b) contribution to the employee’s individual plan accounts in accordance with HUD Notice H 5-08 across all Affordable Communities projects. Employees are not required to contribute and certain age and service requirements apply. The Project’s contribution for the years ended March 31, 2019 and 2018, totaled \$35,209 and \$5,560, respectively.

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

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**City of Palo Alto repurchase rights** – The City of Palo Alto (the “City”) has the right to repurchase the Project’s land and improvements currently held by CHI for \$1 in 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, 2019 and 2018, there is \$300,000 included in accounts payable for the forbearance fee.

**NOTE 6 – LIQUIDITY AND AVAILABILITY**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of March 31, 2019, comprise the following:

Cash and cash equivalents	\$ 2,352,029
Accounts receivable, net	<u>3,914</u>
	<u>\$ 2,355,943</u>

None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The Project has a goal to maintain a current ratio greater than 1:1 in order to meet general expenditures, liabilities, and other obligations as they come due.

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

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**NOTE 7 – FUNCTIONAL EXPENSES**

The costs of providing residential services and supporting activities are summarized on a functional basis as follows:

	Year Ended March 31, 2019		
	Residential Services	General and Administrative	Total
Salaries and benefits	\$ 340,293	\$ 350,635	\$ 690,928
Supplies	25,074	12,344	37,418
Other purchased services	58,691	56,624	115,315
Repairs and maintenance	208,398	23,037	231,435
Utilities	388,147	43,127	431,274
Depreciation and amortization	975,875	108,429	1,084,304
Other	319,665	438,626	758,291
	<u>\$ 2,316,143</u>	<u>\$ 1,032,822</u>	<u>\$ 3,348,965</u>

Salaries and benefits are allocated based on time and effort. All other expenses are allocated based on direct costs. Costs not directly attributable to a function, including depreciation, interest and other occupancy costs, are allocated to a function based on a square footage or units of service basis.

**NOTE 8 – 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, 2019, which is the date the financial statements were available to be issued.

## **Supplementary Information**

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**Lytton Gardens I  
Community Housing, Inc.  
Schedule of Expenditures of Federal Awards  
Year Ended March 31, 2019**

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Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development ("HUD") Section 236 Operating Assistance for Troubled Multi-Family Housing Project No. 121-44390-NP-WAH		
Section 8 Housing Assistance Payments Program	14.195	4,696,880
Total direct expenditures of federal awards		<u>\$ 4,696,880</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, 2019. The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Because the Schedule presents only a selected portion of the operations of 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, 2019.

**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, 2019, 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, 2019.

### ***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 "Moss Adams LLP". The signature is written in a cursive, flowing style.

San Francisco, California  
June 28, 2019

## **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, 2019. 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, 2019.

### **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, 2019

**Lytton Gardens I  
Community Housing, Inc.  
Schedule of Findings and Questioned Costs  
Year Ended March 31, 2019**

**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, 2019**

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There are no prior audit findings to report on.

