



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

Lytton Gardens II
HUD Project No.: 121-EH 003-NP-L8-WAH
Community Housing, Inc.
(a California Nonprofit Public Benefit Corporation)

March 31, 2019 and 2018

Table of Contents

REPORT OF INDEPENDENT AUDITORS	1
---	----------

FINANCIAL STATEMENTS

Statements of Financial Position.....	5
Statements of Activities and Changes in Net Assets.....	7
Statements of Cash Flows	8
Notes to Financial Statements	9

SUPPLEMENTARY INFORMATION REQUIRED BY HUD

Balance Sheet Data	18
Profit and Loss Data.....	20
Statement of Cash Flows Data	23
Schedule of Surplus Cash.....	24
Schedule of Changes in Fixed Asset Accounts	25
Schedule of Reserve Accounts.....	26
Assisted Living Data.....	27

SUPPLEMENTAL INFORMATION

Schedule of Expenditures of Federal Awards.....	29
---	----

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 STANDARDS30

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE32

Schedule of Findings and Questioned Costs34

Summary Schedule of Prior Audit Findings35

Mortgagor’s Certification36

Management Agent’s Certification37

Transmittal Letter of Auditor38

Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of Lytton Gardens II (the “Project”), HUD Project No. 121-EH 003-NP-L8-WAH, 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 II, 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 Required by HUD and Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on pages 18 to 27 is presented for purposes of additional analysis as required by the *Uniform Financial Reporting Standards* issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards as shown on page 29 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, 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 "Moss Adams LLP". The signature is written in a cursive, flowing style.

San Francisco, California
June 28, 2019

Financial Statements

Lytton Gardens II
HUD Project No. 121-EH 003-NP-L8-WAH
Community Housing, Inc.
Statements of Financial Position
March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 554,556	\$ 449,042
Accounts receivable - operations	13,507	8,192
Prepaid expenses	<u>46,790</u>	<u>39,481</u>
Total current assets	<u>614,853</u>	<u>496,715</u>
TENANT SECURITY DEPOSITS	<u>29,932</u>	<u>28,105</u>
RESTRICTED DEPOSITS AND FUNDED RESERVES		
Replacement reserves	1,452,222	1,736,459
Residual receipts	<u>21,166</u>	<u>21,113</u>
Total restricted deposits and funded reserves	<u>1,473,388</u>	<u>1,757,572</u>
PROPERTY AND EQUIPMENT		
Land and land improvements	564,827	564,827
Building and building improvements	5,486,876	5,274,710
Furniture and fixtures	117,420	117,420
Office equipment	<u>96,962</u>	<u>96,962</u>
	<u>6,266,085</u>	<u>6,053,919</u>
Accumulated depreciation	<u>(3,954,449)</u>	<u>(3,650,213)</u>
Total property and equipment, net	<u>2,311,636</u>	<u>2,403,706</u>
OTHER ASSETS		
Development costs	<u>15,907</u>	<u>-</u>
TOTAL ASSETS	<u><u>\$ 4,445,716</u></u>	<u><u>\$ 4,686,098</u></u>

Lytton Gardens II
HUD Project No. 121-EH 003-NP-L8-WAH
Community Housing, Inc.
Statements of Financial Position (Continued)
March 31, 2019 and 2018

	2019	2018
CURRENT LIABILITIES		
Accounts payable	\$ 493,739	\$ 450,943
Accounts payable - affiliated organizations	273,717	247,844
Accrued wages payable	82,083	169,508
Other accrued liabilities	180	264
Accrued interest	1,598	1,598
Mortgage payable - current portion	43,716	252,055
Total current liabilities	895,033	1,122,212
TENANT SECURITY DEPOSITS	29,932	28,105
LONG-TERM LIABILITIES		
Mortgage payable, net of current portion	-	43,716
Total long-term liabilities	-	43,716
Total liabilities	924,965	1,194,033
NET ASSETS		
Net assets without donor restrictions		
Board-Designated net assets:		
Restricted deposits and funded reserves	1,473,388	1,757,572
Undesignated	2,047,363	1,734,493
Total net assets	3,520,751	3,492,065
TOTAL LIABILITIES AND NET ASSETS	\$ 4,445,716	\$ 4,686,098

Lytton Gardens II
HUD Project No. 121-EH 003-NP-L8-WAH
Community Housing, Inc.
Statements of Activities and Changes in Net Assets
Years Ended March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues and support:		
Rental income, net of vacancy loss of \$131,420 in 2019 and \$60,381 in 2018	\$ 394,993	\$ 414,956
HUD assistance income	1,476,675	1,506,244
Interest income	4,036	3,212
Laundry and other	1,265	1,374
Food service and other	682,813	678,394
Miscellaneous income	<u>16,513</u>	<u>17,025</u>
Total revenues and support	<u>2,576,295</u>	<u>2,621,205</u>
Expenses:		
Administrative	477,975	457,853
Utilities	122,333	123,233
Operating and maintenance	324,980	339,865
Taxes and insurance	95,077	170,320
Financial expense	12,490	27,746
Food service and other	1,210,518	1,231,724
Depreciation	<u>304,236</u>	<u>292,021</u>
Total expenses	<u>2,547,609</u>	<u>2,642,762</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	28,686	(21,557)
NET ASSETS, beginning of year	<u>3,492,065</u>	<u>3,513,622</u>
NET ASSETS, end of year	<u>\$ 3,520,751</u>	<u>\$ 3,492,065</u>

Lytton Gardens II
HUD Project No. 121-EH 003-NP-L8-WAH
Community Housing, Inc.
Statements of Cash Flows
Years Ended March 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Rental receipts	\$ 1,866,353	\$ 1,916,927
Interest receipts	4,036	3,212
Other operating receipts	700,591	717,186
Total receipts	2,570,980	2,637,325
Administrative	(221,770)	(181,867)
Management fee	(117,144)	(103,458)
Utilities	(122,333)	(188,164)
Salaries and wages	(352,052)	(277,542)
Operating and maintenance	(150,820)	(168,618)
Real estate taxes	(251)	(79)
Property insurance	(42,573)	(38,596)
Miscellaneous taxes and insurance	(55,478)	(130,842)
Other operating expenses	(1,210,518)	(1,231,724)
Interest on first mortgage	(12,490)	(27,746)
Total disbursements	(2,285,429)	(2,348,636)
Cash provided by operating activities	285,551	288,689
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(212,166)	(311,415)
Funding of replacement reserves	(3,983)	(3,184)
Release of replacement reserves	288,220	198,519
Funding of residual receipts	(53)	(28)
Cash provided by (used in) investing activities	72,018	(116,108)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on mortgage payable	(252,055)	(235,354)
Cash used in financing activities	(252,055)	(235,354)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	105,514	(62,773)
CASH AND CASH EQUIVALENTS, beginning of year	449,042	511,815
CASH AND CASH EQUIVALENTS, end of year	\$ 554,556	\$ 449,042

See accompanying notes.

Lytton Gardens II
HUD Project No. 121-EH 003-NP-L8-WAH
Community Housing, Inc.
Notes to Financial Statements

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 1979, CHI opened a 100-unit apartment complex, consisting of 50 residential care apartments and 50 independent living apartments, Lytton Gardens II (the “Project”), in Palo Alto, California. The Project is operated under Section 202 of the National Housing Act and is regulated by the U.S. Department of Housing and Urban Development (“HUD”) as to rent charges, operating methods, and other matters. The Project entered into a Section 8 Housing Assistance Payments (“HAP”) Program Contract with HUD for 100 apartments and 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 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 II
HUD Project No. 121-EH 003-NP-L8-WAH
Community Housing, Inc.
Notes to Financial Statements (Continued)

Property and equipment – Property and equipment are stated at cost. Acquisitions of \$5,000 or more and with a useful life of more than one year are capitalized. Depreciation is based upon 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 II.

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 \$15,907 and zero, 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	\$ 1,757,572	\$ -
Undesignated	1,734,493	-
Total net (deficit) assets	\$ 3,492,065	\$ -

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 II
HUD Project No. 121-EH 003-NP-L8-WAH
Community Housing, Inc.
Notes to Financial Statements (Continued)

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 II
HUD Project No. 121-EH 003-NP-L8-WAH
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 activities. 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 – 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 \$20,549 per month. The funds are to be held by the mortgagee in trust in an interest-bearing account. All withdrawals require prior written approval by HUD. During the year ended March 31, 2019 and 2018, the Project received approval to defer monthly reserve payments for 5 six-month periods effective February 2017 through August 2017, August 2017 to February 2018, February 2018 to August 2018, August 2018 to February 2019, February 2019 to June 2019. Final approval is expected from HUD for 2 of the periods February 2018 to August 2018 and February 2019 to June 2019.

Lytton Gardens II
HUD Project No. 121-EH 003-NP-L8-WAH
Community Housing, Inc.
Notes to Financial Statements (Continued)

The replacement reserve account activity for the fiscal years ended March 31 is as follows:

	<u>2019</u>	<u>2018</u>
Beginning balance at April 1,	\$ 1,736,459	\$ 1,931,794
Monthly deposits	-	-
Withdrawals	(288,220)	(198,519)
Bank interest, net of bank fees	<u>3,983</u>	<u>3,184</u>
Ending balance at March 31,	<u>\$ 1,452,222</u>	<u>\$ 1,736,459</u>

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

	<u>2019</u>	<u>2018</u>
Beginning balance at April 1,	\$ 21,113	\$ 21,085
Interest	<u>53</u>	<u>28</u>
Ending balance at March 31,	<u>\$ 21,166</u>	<u>\$ 21,113</u>

NOTE 3 – MORTGAGES PAYABLE

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

	<u>2019</u>	<u>2018</u>
HUD note - Secured by first deed of trust on the real property of the Project bearing 6.875% simple interest. This note is insured under the provisions of Section 202 of the National Housing Act. Monthly payment of principal and interest in the amount of \$22,045. The balance is due May 1, 2019.	<u>\$ 43,716</u>	<u>\$ 295,771</u>
Current portion	<u>43,716</u>	<u>252,055</u>
Total mortgage payable, net of current portion	<u>\$ -</u>	<u>\$ 43,716</u>

Schedule maturities for the above mortgage payable are as follows:

Year Ending March 31,

2020	\$ 43,716
------	-----------

Lytton Gardens II
HUD Project No. 121-EH 003-NP-L8-WAH
Community Housing, Inc.
Notes to Financial Statements (Continued)

NOTE 4 – HOUSING ASSISTANCE PAYMENTS PROGRAM CONTRACT

The Project has entered into a Section 8 HAP Program Contract with HUD for 100 units. The contract was most recently renewed on February 5, 2009, and is effective for 20 years from the date of renewal. HAP program revenue totaled \$1,476,675 and \$1,506,244 for the years ended March 31, 2019 and 2018, respectively.

NOTE 5 – RELATED-PARTY TRANSACTIONS

The Project, together with its affiliated organizations (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 \$1,022,978 and \$1,076,190 of shared costs during the years ended March 31, 2019 and 2018, respectively. Of this amount, \$273,717 and \$247,844 are included in accounts payable–affiliated organizations at March 31, 2019 and 2018, respectively.

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. In addition, these agreements require the maintenance of security deposits, and replacement and other reserves which are to be held by the mortgagee (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 \$54,772 and \$7,908, respectively.

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 in May 2019, (2) 45 years has passed from the June 1974, 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 \$400,000, payable of at least \$100,000 per year over four years.

Lytton Gardens II
HUD Project No. 121-EH 003-NP-L8-WAH
Community Housing, Inc.
Notes to Financial Statements (Continued)

In May 2019, the Project's federal government insured loan will be paid in full and 45 years will have passed since the original purchase date, triggering the repurchase rights for the City. The Project is scheduling payment to the City in advance of the one-year period to exercise their option. In May 2016, approval was granted by HUD to pay the forbearance fee from operating reserve cash. 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 or after the option terminates. As of March 31, 2019 and 2018, there is \$400,000 included in accounts payable for the forbearance fee.

NOTE 7 – 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	\$ 554,556
Accounts receivable, net	<u>13,507</u>
	<u><u>\$ 568,063</u></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.

NOTE 8 – FUNCTIONAL EXPENSES

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

	Year Ended March 31, 2019			
	<u>Residential Services</u>	<u>Assisted Living & Other Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and benefits	\$ 126,191	\$ 785,344	\$ 197,561	\$ 1,109,096
Other purchased services	30,312	281,973	72,521	384,806
Other	53,414	28,837	254,778	337,029
Depreciation and amortization	136,906	136,906	30,424	304,236
Utilities	70,771	70,771	15,727	157,269
Supplies	15,238	119,501	3,492	138,231
Repairs and maintenance	<u>52,624</u>	<u>52,624</u>	<u>11,694</u>	<u>116,942</u>
	<u><u>\$ 485,456</u></u>	<u><u>\$ 1,475,956</u></u>	<u><u>\$ 586,197</u></u>	<u><u>\$ 2,547,609</u></u>

Salaries and benefits are allocated based on time and effort. All other expenses are allocated based on direct costs.

Lytton Gardens II
HUD Project No. 121-EH 003-NP-L8-WAH
Community Housing, Inc.
Notes to Financial Statements (Continued)

NOTE 9 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the statement of financial condition 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 condition, 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 condition but arose after the statement of financial condition date and before financial statements were available to be issued.

The Project has evaluated subsequent events through June 28, 2019, which is the date the financial statements were available to be issued.

Supplementary Information Required by HUD

Lytton Gardens II
HUD Project No. 121-EH 003-NP-L8-WAH
Community Housing, Inc.
Balance Sheet Data
March 31, 2019

Account	Description	Value
1120	Cash - operations	\$ 554,556
1130	Tenant/member accounts receivable (co-ops)	<u>13,507</u>
1130N	Net tenant account receivable	13,507
1200	Prepaid expenses	<u>46,790</u>
1100T	Total current assets	<u>614,853</u>
1191	Tenant/patient deposits held in trust	<u>29,932</u>
1320	Replacement reserve	1,452,222
1340	Residual receipts reserve	<u>21,166</u>
1300T	Total deposits	<u>1,473,388</u>
1410	Land	564,827
1420	Buildings	5,486,876
1460	Furnishings	117,420
1465	Office furniture and equipment	<u>96,962</u>
1400T	Total fixed assets	<u>6,266,085</u>
1495	Accumulated depreciation	<u>(3,954,449)</u>
1400N	Net fixed assets	<u>2,311,636</u>
1590	Miscellaneous other assets	<u>15,907</u>
	Details - Miscellaneous other assets	
	1590-010 - Description - Development costs	
	1590-020 - Amount	\$ 15,907
1500T	Total other assets	<u>15,907</u>
1000T	Total assets	<u><u>\$ 4,445,716</u></u>

Lytton Gardens II
HUD Project No. 121-EH 003-NP-L8-WAH
Community Housing, Inc.
Balance Sheet Data (Continued)
March 31, 2019

Account	Description	Value
2110	Accounts payable - operations	\$ 493,739
2120	Accrued wages payable	82,083
2131	Accrued interest payable - first mortgage (or bonds)	1,598
2170	Mortgage (or bonds) payable - first mortgage (bonds) (short-term)	43,716
2190	Miscellaneous current liabilities	<u>273,897</u>
	Details - Miscellaneous current liabilities	
	2190-010 - Description - Other liabilities	
	2190-020 - Amount	\$ 180
	2190-010 - Description - Accounts payable - affiliated organizations	
	2190-020 - Amount	\$ 273,717
2122T	Total current liabilities	<u>895,033</u>
2191	Tenant/patient deposits held in trust (contra)	<u>29,932</u>
2000T	Total liabilities	<u>924,965</u>
3131	Net assets without donor restrictions	<u>3,520,751</u>
3130	Total net assets	<u>3,520,751</u>
2033T	Total liabilities and equity/net assets	<u>\$ 4,445,716</u>

Lytton Gardens II
HUD Project No. 121-EH 003-NP-L8-WAH
Community Housing, Inc.
Profit and Loss Data
Year Ended March 31, 2019

Account	Description	Value
REVENUES		
5120	Rent revenue - gross potential	\$ 526,413
5121	Tenant assistance payments	1,476,675
5100T	Total rent revenue	<u>2,003,088</u>
5220	Apartments	131,420
5200T	Total vacancies	<u>131,420</u>
5152N	Net rental revenue (rent revenue less vacancies)	<u>1,871,668</u>
5300	Nursing homes/assisted living/board & care/ other elderly care/co-op/and other revenues	<u>682,813</u>
5430	Revenue from investments - residual receipts	53
5440	Revenue from investments - replacement reserve	<u>3,983</u>
5400T	Total financial revenue	<u>4,036</u>
5910	Laundry and vending revenue	1,265
5990	Miscellaneous revenue	<u>16,513</u>
	Details - Miscellaneous revenue	
	5990-010 - Description - Cable TV charges	
	5990-020 - Amount	\$ 8,204
	5990-010 - Description - Beauty shop revenue	
	5990-020 - Amount	\$ 222
	5990-010 - Description - Miscellaneous revenue	
	5990-020 - Amount	\$ 1,000
	5990-010 - Description - Guest room revenue	
	5990-020 - Amount	\$ 7,087
5900T	Total other revenue	<u>17,778</u>
5000T	Total revenue	<u>2,576,295</u>
EXPENSES		
6310	Office salaries	133,263
6311	Office expenses	203,907
6320	Management fee	117,144
6340	Legal expense - Project	502
6350	Audit expense	<u>23,159</u>
6263T	Total administrative expenses	<u>\$ 477,975</u>

Lytton Gardens II
HUD Project No. 121-EH 003-NP-L8-WAH
Community Housing, Inc.
Profit and Loss Data (Continued)
Year Ended March 31, 2019

Account	Description	Value
6450	Electricity	\$ 61,331
6451	Water	24,943
6452	Gas	18,033
6453	Sewer	18,026
6400T	Total utilities expense	<u>122,333</u>
6510	Payroll	131,364
6515	Supplies	112,864
6520	Contracts	50,180
6525	Garbage and trash removal	30,572
6500T	Total operating and maintenance expenses	<u>324,980</u>
6711	Payroll taxes (Project's share)	22,038
6720	Property and liability insurance (hazard)	40,543
6723	Health insurance and other employee benefits	32,496
6700T	Total taxes and insurance	<u>95,077</u>
6820	Interest on first mortgage (or bonds) payable	12,490
6800T	Total financial expenses	<u>12,490</u>
6900	Nursing homes/assisted living/board & care/other elderly care expenses	1,210,518
6000T	Total cost of operations before depreciation	<u>2,243,373</u>
5060T	Profit (loss) before depreciation	332,922
6600	Depreciation expenses	304,236
5060N	Operating profit or (loss)	<u>28,686</u>
3247	Change in net assets without donor restrictions	<u>28,686</u>
3250	Change in total net assets from operations	<u><u>\$ 28,686</u></u>

Lytton Gardens II
HUD Project No. 121-EH 003-NP-L8-WAH
Community Housing, Inc.
Profit and Loss Data (Continued)
Year Ended March 31, 2019

Account	Description	Value
S1000-010	Total first mortgage (or bond) principal payments required during the audit period (usually 12 months). This applies to all direct loans, HUD-held and HUD-insured first mortgages.	<u>\$ 252,055</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>\$ 246,588</u>

Account	Description	Value
S1100-060	Previous year net assets without donor restrictions	\$ 3,492,065
3247	Change in net assets without donor restrictions	<u>28,686</u>
3131	Net assets without donor restrictions	<u>\$ 3,520,751</u>
S1100-050	Previous year total net assets	\$ 3,492,065
3250	Change in total net assets from operations	<u>28,686</u>
3130	Total net assets	<u>\$ 3,520,751</u>

Lytton Gardens II
HUD Project No. 121-EH 003-NP-L8-WAH
Community Housing, Inc.
Statement of Cash Flows Data
Year Ended March 31, 2019

Account	Description	Value
CASH FLOWS FROM OPERATING ACTIVITIES		
S1200-010	Rental receipts	\$ 1,866,353
S1200-020	Interest receipts	4,036
S1200-030	Other operating receipts	700,591
S1200-040	Total receipts	<u>2,570,980</u>
S1200-050	Administrative	(221,770)
S1200-070	Management fee	(117,144)
S1200-090	Utilities	(122,333)
S1200-100	Salaries and wages	(352,052)
S1200-110	Operating and maintenance	(150,820)
S1200-120	Real estate taxes	(251)
S1200-140	Property insurance	(42,573)
S1200-150	Miscellaneous taxes and insurance	(55,478)
S1200-170	Other operating expenses	(1,210,518)
S1200-180	Interest on first mortgage	(12,490)
S1200-230	Total disbursements	<u>(2,285,429)</u>
S1200-240	Net cash provided by operating activities	<u>285,551</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
S1200-250	Net deposits to the reserve for replacement account	284,237
S1200-260	Net deposits to the residual receipts account	(53)
S1200-330	Net purchase of fixed assets	(212,166)
S1200-350	Net cash used in investing activities	<u>72,018</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
S1200-360	Principal payments - first mortgage (or bonds)	<u>(252,055)</u>
S1200-460	Net cash used in financing activities	<u>(252,055)</u>
S1200-470	Net increase in cash and cash equivalents	105,514
S1200-480	Beginning of period cash	<u>449,042</u>
S1200T	End of period cash	<u><u>\$ 554,556</u></u>

Lytton Gardens II
HUD Project No. 121-EH 003-NP-L8-WAH
Community Housing, Inc.
Schedule of Surplus Cash
As of March 31, 2019

Account	Description	Value
S1300-010	Cash	\$ 584,488
S1300-040	Total cash	<u>584,488</u>
S1300-050	Accrued mortgage (or bond) interest payable	1,598
S1300-075	Accounts payable - 30 days	493,739
S1300-080	Mortgage payable - 30 days	22,045
S1300-100	Accrued expenses (not escrowed)	82,263
2191	Tenant/patient deposits held in trust (Contra)	29,932
S1300-110	Other current obligations	<u>273,717</u>
	Details - Miscellaneous financial expenses	
	S1300-120 Description - Accounts payable - affiliated organizations	
	S1300-130 - Amount	\$ 273,717
S1300-140	Total current obligations	<u>903,294</u>
S1300-150	Cash deficiency	<u>\$ (318,806)</u>
S1300-120	Deposit due residual receipts	<u>\$ -</u>

Lytton Gardens II
HUD Project No. 121-EH 003-NP-L8-WAH
Community Housing, Inc.
Schedule of Changes in Fixed Asset Accounts
Year Ended March 31, 2019

Account	Description	Value
1410P	Beginning balance for 1410	\$ 564,827
1410	Land	<u>564,827</u>
1420P	Beginning balance for 1420	5,274,710
1420AT	Additions for 1420	<u>212,166</u>
	Details - Additions for 1420	
	1420A-010 - Building improvements	
	1420A-030 - Total amount	\$ 212,166
1420	Buildings	<u>5,486,876</u>
1460P	Beginning balance for 1460	117,420
1460	Furnishings	<u>117,420</u>
1465P	Beginning balance for 1465	96,962
1465	Office furniture and equipment	<u>96,962</u>
1400PT	Total beginning balance for fixed assets	6,053,919
1400AT	Total asset additions	<u>212,166</u>
1400T	Total fixed assets	<u>6,266,085</u>
1495P	Beginning balance for 1495	3,650,213
6600	Total provisions	<u>304,236</u>
1495	Ending balance for accumulated depreciation	<u>3,954,449</u>
1400N	Total net book value	<u><u>\$ 2,311,636</u></u>

Lytton Gardens II
HUD Project No. 121-EH 003-NP-L8-WAH
Community Housing, Inc.
Schedule of Reserve Accounts
Year Ended March 31, 2019

RESERVE FOR REPLACEMENT

Account	Description	Value
1320P	Balance at beginning of year	\$ 1,736,459
1320INT	Interest on replacement reserve accounts	3,983
1320WT	Approved withdrawals	<u>(288,220)</u>
1320	Balance at end of year, certified by mortgagee	<u>\$ 1,452,222</u>
1320R	Deposits suspended or waived indicator	Y

RESIDUAL RECEIPTS

Account	Description	Value
1340P	Balance at beginning of year	\$ 21,113
1340INT	Interest on residual receipt accounts	<u>53</u>
1340	Balance at current fiscal year end	<u>\$ 21,166</u>

Lytton Gardens II
HUD Project No. 121-EH 003-NP-L8-WAH
Community Housing, Inc.
Assisted Living Data
Year Ended March 31, 2019

ASSISTED LIVING REVENUE

Account	Description	Value
5332	Food	\$ 285,853
5376	Health/medical services	396,960
5300	Nursing homes/assisted living/board & care/other elderly care revenues	<u>\$ 682,813</u>

ASSISTED LIVING EXPENSES

Account	Description	Value
6930	Dietary salaries	\$ 268,364
6932	Food	101,111
6941	Licensed practical nurses payroll	676,669
6942	Other nursing salaries	66,589
6963	Medical supplies	7,841
6980	Recreation and rehabilitation	40,145
6981	Activities supplies	<u>49,799</u>
6900	Nursing homes/assisted living/board & care/other elderly care expenses	<u>\$ 1,210,518</u>

Supplemental Information

Lytton Gardens II
HUD Project No. 121-EH 003-NP-L8-WAH
Community Housing, Inc.
Schedule of Expenditures of Federal Awards
Year Ended March 31, 2019

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development ("HUD") Section 202 Supportive Housing for the Elderly Project No. 121-EH 003-NP-L8-WAH Outstanding mortgage balance with continuing compliance requirements, beginning balance	14.157	\$ 295,771
Section 8 Housing Assistance Payment Program	14.195	<u>1,476,675</u>
Total direct expenditures of federal awards		<u>\$ 1,772,446</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, 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.

Loan balance – The federal loan program is administered directly by the Project, and balances and transactions relating to this program are 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, 2019 was \$43,715.

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 II
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 II (the “Project”), HUD Project No. 121-EH 003-NP-L8-WAH, of Community Housing, Inc. (a California nonprofit public benefit corporation), which comprise the statement 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 "Mess 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 II
Community Housing, Inc.
(a California Nonprofit Public Benefit Corporation)

Report on Compliance for the Major Federal Program

We have audited Lytton Gardens II (the “Project”), HUD Project No. 121-EH 003-NP-L8-WAH, 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 the Project’s major federal program 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 II 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 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, 2019

Lytton Gardens II
HUD Project No. 121-EH 003-NP-L8-WAH
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 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 II
HUD Project No. 121-EH 003-NP-L8-WAH
Community Housing, Inc.
Summary Schedule of Prior Audit Findings
Year Ended March 31, 2019

There are no prior audit findings to report on.

Lytton Gardens II
HUD Project No. 121-EH 003-NP-L8-WAH
Community Housing, Inc.
Mortgagor's Certification
Year Ended March 31, 2019

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, 2019
S2900-080	Auditee Name	Lytton Gardens II
S2900-090	Auditee Street Address Line 1	2185 N. California Blvd., #215
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	jcasey@covia.org

Lytton Gardens II
HUD Project No. 121-EH 003-NP-L8-WAH
Community Housing, Inc.
Management Agent's Certification
Year Ended March 31, 2019

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.
S3000-010	Narrative	
S3000-020	Name of Managing Agent	Covia Affordable Communities
S3000-030	Name of Signatory	Ronald Schaefer
S3000-040	Name of Agent TIN	94-2264235
S3000-050	Name of Individual (i.e., Property Manager)	Doris Lee

Lytton Gardens II
HUD Project No. 121-EH 003-NP-L8-WAH
Community Housing, Inc.
Transmittal Letter of Auditor
Year Ended March 31, 2019

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, 2019
S3200-140	Auditor Contact FAX Number	(415) 956-4149
S3200-150	Auditor Contact E-mail	amy.runge@mossadams.com

