



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

**Presidio Gate Apartments, Inc.
(a California Nonprofit Public Benefit Corporation)
HUD Project No: 121-EH 132-NP-WAH-L8**

March 31, 2019 and 2018

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Report of Independent Auditors

The Board of Directors
Presidio Gate Apartments, Inc.
(a California Nonprofit Public Benefit Corporation)

Report on the Financial Statements

We have audited the accompanying financial statements of Presidio Gate Apartments, Inc. (a California nonprofit public benefit corporation) (the "Project"), HUD Project No. 121-EH 132-NP-WAH-L8, 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 Presidio Gate Apartments, Inc., 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 December 31, 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*. 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 28 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 financial statements. The accompanying schedule of expenditures of federal awards shown on page 30 as 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 statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
Statements of Financial Position
March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 74,833	\$ 88,327
Prepaid expenses	30,327	34,243
Total current assets	<u>105,160</u>	<u>122,570</u>
TENANT SECURITY DEPOSITS	<u>17,258</u>	<u>17,258</u>
RESTRICTED DEPOSITS AND FUNDED RESERVES		
Replacement reserves	406,194	360,247
Residual receipts	252,505	216,298
Segregated repair reserves	2,199,625	2,171,385
Restricted deposits	57,753	57,609
Other reserves	36,600	28,134
Total restricted deposits and funded reserves	<u>2,952,677</u>	<u>2,833,673</u>
PROPERTY AND EQUIPMENT		
Land	509,575	509,575
Buildings	4,913,042	4,856,497
Building equipment (portable)	107,616	107,616
Furniture for project/tenant use	191,000	191,000
Furnishings	31,926	31,926
Motor vehicles	54,054	54,054
Construction in progress	93,565	-
	5,900,778	5,750,668
Accumulated depreciation	<u>(4,579,515)</u>	<u>(4,379,900)</u>
Total property and equipment, net	<u>1,321,263</u>	<u>1,370,768</u>
OTHER ASSETS		
Development costs	<u>162,346</u>	<u>20,995</u>
TOTAL ASSETS	<u>\$ 4,558,704</u>	<u>\$ 4,365,264</u>

Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
Statements of Financial Position (Continued)
March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CURRENT LIABILITIES		
Accounts payable	\$ 50,895	\$ 9,262
Accounts payable - affiliated organizations	129,620	-
Accrued wages payable	28,255	29,173
Accrued interest	14,033	14,303
Mortgage payable - current portion	<u>107,168</u>	<u>103,881</u>
Total current liabilities	<u>329,971</u>	<u>156,619</u>
TENANT SECURITY DEPOSITS	<u>17,258</u>	<u>17,258</u>
LONG-TERM LIABILITIES		
Mortgage payable, net of current portion	<u>4,765,107</u>	<u>4,863,631</u>
Total long-term liabilities	<u>4,765,107</u>	<u>4,863,631</u>
Total liabilities	<u>5,112,336</u>	<u>5,037,508</u>
NET ASSETS (DEFICIT)		
Net assets without donor restrictions		
Board-Designated net assets:		
Replacement reserves and residual receipts	658,699	576,545
Undesignated	<u>(1,270,084)</u>	<u>(1,306,398)</u>
Total net assets without donor restrictions	(611,385)	(729,853)
Net assets with donor restrictions	<u>57,753</u>	<u>57,609</u>
Total net deficit	<u>(553,632)</u>	<u>(672,244)</u>
TOTAL LIABILITIES AND NET DEFICIT	<u><u>\$ 4,558,704</u></u>	<u><u>\$ 4,365,264</u></u>

Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
Statements of Activities and Changes in Net Assets
Years Ended March 31, 2019 and 2018

	2019	2018
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues and support:		
Rental income, net of vacancy loss of \$11,520 in 2019 and \$3,232 in 2018	\$ 203,210	\$ 195,708
HUD assistance income	1,059,959	983,876
Interest income	34,107	4,925
Laundry income and other	2,995	4,091
Total revenue and support	1,300,271	1,188,600
Expenses:		
Administrative	398,081	341,556
Utilities	71,172	67,494
Operating and maintenance	153,016	155,572
Taxes and insurance	113,981	94,480
Interest expense	175,247	178,804
Resident services	70,691	74,737
Depreciation	199,615	207,812
Total expenses	1,181,803	1,120,455
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	118,468	68,145
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Interest income	144	98
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	144	98
CHANGES IN NET ASSETS	118,612	68,243
NET DEFICIT, beginning of year	(672,244)	(740,487)
NET DEFICIT end of year	\$ (553,632)	\$ (672,244)

Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
Statements of Cash Flows
Years Ended March 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Rental receipts	\$ 1,263,169	\$ 1,179,584
Interest receipts	34,251	5,023
Other operating receipts	2,995	4,091
Total receipts	1,300,415	1,188,698
Administrative	(17,577)	(190,673)
Management fee	(47,772)	(47,769)
Utilities	(71,172)	(69,608)
Salaries and wages	(272,736)	(266,870)
Operating and maintenance	(93,156)	(75,835)
Real estate taxes	(605)	(5,531)
Property insurance	(49,355)	(47,988)
Miscellaneous taxes and insurance	(60,105)	(44,176)
Other operating expenses	(20,212)	(22,664)
Interest on first mortgage	(166,873)	(170,159)
Miscellaneous financial	(141,351)	(20,995)
Total disbursements	(940,914)	(962,268)
Cash provided by operating activities	359,501	226,430
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(150,110)	(69,082)
Change in restricted deposits and other reserves	(8,610)	864
Change in segregated repair reserves	(28,240)	(3,929)
Funding of replacement reserves	(45,947)	(41,526)
Funding of residual receipts	(36,207)	(368)
Cash used in investing activities	(269,114)	(114,041)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on mortgage payable	(103,881)	(100,594)
Cash used in financing activities	(103,881)	(100,594)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(13,494)	11,795
CASH AND CASH EQUIVALENTS, beginning of year	88,327	76,532
CASH AND CASH EQUIVALENTS, end of year	\$ 74,833	\$ 88,327

See accompanying notes.

Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
Notes to Financial Statements

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

Nature of operations – Presidio Gate Apartments, Inc. (the “Project”), is a California nonprofit public benefit corporation organized in 1982 under the original sponsorship of Covia Communities (“Communities”), for the purpose of constructing and operating a senior rental housing project in San Francisco, California under Section 202 of the National Housing Act. The Project is regulated by the U.S. Department of Housing and Urban Development (“HUD”) as to rent charges and operating methods. The Project consists of 54 affordable senior housing apartments plus one resident manager’s unit. The Project generates its revenue primarily from rental income. Rental fee increases are subject to HUD approval.

Affiliated organizations – The Project, through its sole member, Covia Affordable Communities (“Affordable Communities”), a management and fundraising support organization, is affiliated with: Community Housing, Inc., which operates Lytton Gardens I and II; Lytton IV Housing Corporation; Oak Center Towers; Jennings Senior Housing, Inc.; Shires Memorial Center; and Bethany Center Senior Housing, Inc. (“BCSH”), all of which are 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 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.

Accounts receivable – 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 and insurance of the project. Such assets consist of cash and cash equivalents carried at fair value based on quoted market prices (Note 2).

Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
Notes to Financial Statements (Continued)

Segregated repair reserves – The Project refinanced its initial HUD 202 Loan with a Federal Housing Administration (“FHA”) Insured Loan under the provisions of Section 207, pursuant to Section 223(f) of the National Housing Act in June of 2013. Assets whose use is limited are funded reserves segregated for repairs of the project. Such assets consist of cash and cash equivalents carried at fair value based on quoted market prices (Note 2).

Other reserves – Assets whose use is limited are held in escrow for mortgage insurance, property tax, and property insurance of the project. Such assets consist of cash and cash equivalents carried at fair value based on quoted market prices (Note 2).

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 Presidio Gate Apartments, Inc.

Development costs – Development costs consist of legal and feasibility costs incurred in preparation for capital improvements by the Project, which will be recovered upon release of segregated repair reserves with approval from HUD. As of March 31, 2019 and 2018, the Project had incurred development fees of \$162,346 and \$20,995, respectively.

Debt issuance costs – Financing costs incurred in connection with the Project's refinancing of its HUD debt are amortized over the term of the related debt using the effective interest method. Unamortized debt issuance cost amounted to \$253,565 and \$262,209 at March 31, 2019 and 2018, respectively, are reported net of mortgage payable. Amortization expense, included in interest expense, for the years ended March 31, 2019 and 2018, was \$8,644 and \$8,644, respectively.

Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
Notes to Financial Statements (Continued)

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:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>
Unrestricted net assets		
Board-Designated net assets:		
Replacement reserves and residual receipts	\$ 576,545	\$ -
Undesignated	(1,306,398)	-
Temporarily restricted net assets		<u>57,609</u>
Total net (deficit) assets	<u>\$ (729,853)</u>	<u>\$ 57,609</u>

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.

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, the Project had net assets with donor restrictions of \$57,753.

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.

Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
Notes to Financial Statements (Continued)

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

The Project 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 San Francisco, California or by changes in federal low-income housing subsidies or the demand for such housing.

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.

Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
Notes to Financial Statements (Continued)

In November 2016, the 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 make monthly deposits of \$3,409 into the replacement reserve fund. The funds are to be used for replacement and maintenance of the property. All expenditures require prior approval from HUD. The replacement reserve’s account activity for the fiscal years ended March 31, is as follows:

	<u>2019</u>	<u>2018</u>
Beginning balance at April 1,	\$ 360,247	\$ 318,721
Monthly deposits	40,908	40,908
Bank interest, net of bank fees	<u>5,039</u>	<u>618</u>
Ending balance at March 31,	<u>\$ 406,194</u>	<u>\$ 360,247</u>

Residual receipts – The Project is required to deposit surplus cash into a separate interest-bearing account within 60 days following the fiscal year end. 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,	\$ 216,298	\$ 215,930
Deposits	35,589	-
Bank interest, net of bank fees	<u>618</u>	<u>368</u>
Ending balance at March 31,	<u>\$ 252,505</u>	<u>\$ 216,298</u>

The required deposit to residual receipts for the year ended March 31, 2019, was \$35,589. There was no required deposit to residual receipts for the year ended March 31, 2018.

Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
Notes to Financial Statements (Continued)

Segregated repair reserves – In accordance with FHA Insured Loan under the provisions of Section 207, pursuant to Section 223(f) of the National Housing Act, the Project is required to maintain deposits in a segregated repair reserve fund. The funds are to be used for replacement and maintenance of the property. All expenditures require prior approval from HUD. The segregated repair reserve's account activity for the fiscal years ended March 31 is as follows:

	2019	2018
Beginning balance at April 1,	\$ 2,171,385	\$ 2,167,456
Bank interest, net of bank fees	28,240	3,929
Ending balance at March 31,	\$ 2,199,625	\$ 2,171,385

Restricted deposits – Restricted deposits consist primarily of cash, which are restricted by the donor as to use.

NOTE 3 – MORTGAGE PAYABLE

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

	2019	2018
Mortgage loan payable insured by the FHA under the provisions of Section 207, pursuant to Section 223(f) of the National Housing Act, dated June 1, 2013, with an initial term of 35 years, secured by a first deed of trust on real property, bearing interest of 3.22% per annum. Principal and interest are payable in monthly installments of \$22,563, due in full on June 1, 2048.	\$ 5,125,840	\$ 5,229,721
Current portion of mortgage payable	(107,168)	(103,881)
Debt issuance costs, net of amortization	(253,565)	(262,209)
Total mortgage payable, net of current portion	\$ 4,765,107	\$ 4,863,631

Scheduled maturities for the above debt are as follows:

Year Ending March 31,	
2020	\$ 107,168
2021	110,781
2022	114,402
2023	118,140
2024	122,001
Thereafter	4,553,348
	\$ 5,125,840

Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
Notes to Financial Statements (Continued)

NOTE 4 – HOUSING ASSISTANCE PAYMENTS PROGRAM CONTRACT

On September 12, 1984, the Project entered into a Section 8 Housing Assistance Payments (“HAP”) Program Contract with HUD for 54 units. The contract was most recently renewed on October 1, 2013, and is effective for 20 years from the date of renewal. HAP program revenue totaled \$1,059,959 and \$983,876 for the years ended March 31, 2019 and 2018, respectively.

NOTE 5 – RELATED-PARTY TRANSACTIONS

The Project has entered into a service agreement with 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 \$211,595 and \$167,318 of shared costs during the years ended March 31, 2019 and 2018, respectively. Of this amount, \$129,620 and zero are included in accounts payable – affiliated organizations at March 31, 2019 and 2018, respectively.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

HUD restrictions – In connection with the HUD agreements, there are certain restrictions on occupancy of the units which include maximum income limitations and maximum rents chargeable. These agreements also require the maintenance of security deposits and replacement reserves which are to be held by the mortgagee (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 \$15,857 and \$2,048, respectively.

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	\$	74,833
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Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
Notes to Financial Statements (Continued)

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. As part of the Project's liquidity management plan, Affordable Communities will provide for shortfalls in liquidity if necessary.

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		
	Residential Services	General and Administrative	Total
Salaries and benefits	\$ 130,786	\$ 204,141	\$ 334,927
Supplies	4,827	4,405	9,232
Other purchased services	-	52,684	52,684
Repairs and maintenance	69,059	7,623	76,682
Utilities	109,503	12,167	121,670
Depreciation and amortization	179,653	19,962	199,615
Other	297,309	89,684	386,993
	\$ 791,137	\$ 390,666	\$ 1,181,803

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 9 – SUBSEQUENT EVENTS

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

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

Supplementary Information Required by HUD

Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
Balance Sheet Data
March 31, 2019

Account	Description	Value
1120	Cash - operations	\$ 74,833
1200	Prepaid expenses	30,327
1100T	Total current assets	105,160
1191	Tenant/patient deposits - held in trust	17,258
1320	Replacement reserve	406,194
1330	Other reserves	2,293,978
	Details - Other reserves	
	1330-005 - Description - Reserves - Segregated repair	
	1330-10 - Amount	\$ 2,199,625
	1330-005 - Description - Restricted deposits	
	1330-10 - Amount	\$ 57,753
	1330-005 - Description - Miscellaneous reserves	
	1330-10 - Amount	\$ 36,600
1340	Residual receipts reserve	252,505
1300T	Total deposits	2,952,677
1410	Land	509,575
1420	Buildings	4,913,042
1440	Building equipment (portable)	107,616
1450	Furniture for project/tenant use	191,000
1460	Furnishings	31,926
1480	Motor vehicles	54,054
1490	Miscellaneous fixed assets	93,565
1400T	Total fixed assets	5,900,778
1495	Accumulated depreciation	(4,579,515)
1400N	Net fixed assets	1,321,263
1590	Miscellaneous other assets	162,346
	Detail - Miscellaneous other assets	
	1590-010 - Description - Development costs	
	1590-020 - Amount	\$ 162,346
1500T	Total other assets	162,346
1000T	Total assets	\$ 4,558,704

Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
Balance Sheet Data (Continued)
March 31, 2019

Account	Description	Value
2110	Accounts payable - operations	\$ 50,895
2120	Accrued wages payable	28,255
2131	Accrued interest payable - first mortgage	14,033
2170	Mortgage payable - first mortgage (short-term)	107,168
2190	Misceallaneous current liabilities	<u>129,620</u>
	Details - Miscellaneous current liabilities	
	2190-010 - Description - Accounts payable - affiliated organizations	
	2190-020 - Amount	\$ 129,620
2122T	Total current liabilities	<u>329,971</u>
2191	Tenant/patient deposits held in trust (contra)	<u>17,258</u>
2320	Mortgage payable - first mortgage	<u>4,765,107</u>
2300T	Total long-term liabilities	<u>4,765,107</u>
2000T	Total liabilities	<u>5,112,336</u>
3131	Net assets without donor restrictions	(611,385)
3133	Net assets with donor restrictions	<u>57,753</u>
3130	Total net assets	<u>(553,632)</u>
2033T	Total liabilities and equity/net assets	<u>\$ 4,558,704</u>

Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
Profit and Loss Data
Year Ended March 31, 2019

Account	Description	Value
REVENUES		
5120	Rent revenue - gross potential	\$ 214,730
5121	Tenant assistance payments	<u>1,059,959</u>
5100T	Total rent revenue	<u>1,274,689</u>
5220	Apartments	<u>11,520</u>
5200T	Total vacancies	<u>11,520</u>
5152N	Net rental revenue (rent revenue less vacancies)	<u>1,263,169</u>
5410	Financial revenue - project operations	604
5430	Revenue from investments - residual receipts	368
5440	Revenue from investments - replacement reserve	5,039
5490	Revenue from investments - miscellaneous	<u>28,240</u>
	Detail - Miscellaneous revenue from investments	
	5490-010 - Description - Segregated repair account	
	5490-020 - Amount	\$ 28,240
5400T	Total financial revenue	<u>34,251</u>
5910	Laundry and vending revenue	2,995
5900T	Total other revenue	<u>2,995</u>
5000T	Total revenue	<u>1,300,415</u>
EXPENSES		
6203	Conventions and meetings	4,059
6310	Office salaries	63,649
6311	Office expenses	158,532
6320	Management fee	47,772
6330	Manager or superintendent salaries	97,830
6340	Legal expense - Project	2,672
6350	Audit expense	16,693

Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
Profit and Loss Data (Continued)
Year Ended March 31, 2019

Account	Description	Value
6390	Miscellaneous administrative expenses	\$ 6,874
	Details - Miscellaneous administrative expenses	
	6390-010 - Description - Dues and subscriptions	
	6390-020 - Amount	\$ 3,904
	6390-010 - Description - Tenant screening	
	6390-020 - Amount	\$ 142
	6390-010 - Description - Bank service fees	
	6390-020 - Amount	\$ 1,064
	6390-010 - Description - Licenses	
	6390-020 - Amount	\$ 1,764
6263T	Total administrative expenses	<u>398,081</u>
6450	Electricity	16,910
6451	Water	15,699
6452	Gas	15,185
6453	Sewer	<u>23,378</u>
6400T	Total utilities expense	<u>71,172</u>
6510	Payroll	59,860
6515	Supplies	23,343
6520	Contracts	51,769
6525	Garbage and trash removal	16,474
6590	Miscellaneous operating and maintenance expenses	<u>1,570</u>
	Details - Miscellaneous operating and maintenance expenses	
	6590-010 - Description - Other landscaping services	
	6590-020 - Amount	\$ 1,120
	6590-010 - Description - Transportation - Repair & maintenance	
	6590-020 - Amount	\$ 450
6500T	Total operating and maintenance expenses	<u>153,016</u>
6710	Real estate taxes	1,069
6711	Payroll taxes (Project's share)	21,025
6720	Property and liability insurance (hazard)	47,383
6723	Health insurance and other employee benefits	<u>44,504</u>
6700T	Total taxes and insurance	<u>113,981</u>
6820	Interest on first mortgage (or bonds) payable	<u>166,603</u>
6800T	Total financial expenses	<u>166,603</u>
6900	Nursing homes/assisted living/board & care/other elderly care expenses	<u>70,691</u>

Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
Profit and Loss Data (Continued)
Year Ended March 31, 2019

Account	Description	Value
6000T	Total cost of operations before depreciation	\$ 973,544
5060T	Profit before depreciation	326,871
6600	Depreciation expenses	199,615
6610	Amortization expense	8,644
5060N	Operating profit or (loss)	\$ 118,612
3247	Change in net assets without donor restrictions	\$ 118,468
3249	Change in net assets with donor restrictions	144
3250	Change in total assets from operations	\$ 118,612
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.	\$ 103,881
S1000-020	The total of all monthly reserves for replacement deposits (usually 12 months) required during the audit period even if deposits have been temporarily waived or suspended.	\$ 40,908
Account	Description	Value
S1100-060	Previous year net assets without donor restrictions	\$ (729,853)
3247	Change in net assets without donor restrictions	118,468
3131	Net assets without donor restrictions	(611,385)
S1100-080	Previous year net assets with donor restrictions	57,609
3249	Change in net assets with donor restrictions	144
3133	Net assets with donor restrictions	57,753
S1100-050	Previous year total net assets	(672,244)
3250	Change in total net assets from operations	118,612
3130	Total net assets	\$ (553,632)

Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
Statement of Cash Flows Data
Year Ended March 31, 2019

Account	Description	Value
CASH FLOWS FROM OPERATING ACTIVITIES		
S1200-010	Rental receipts	\$ 1,263,169
S1200-020	Interest receipts	34,251
S1200-030	Other operating receipts	2,995
S1200-040	Total receipts	<u>1,300,415</u>
S1200-050	Administrative	(17,577)
S1200-070	Management fee	(47,772)
S1200-090	Utilities	(71,172)
S1200-100	Salaries and wages	(272,736)
S1200-110	Operating and maintenance	(93,156)
S1200-120	Real estate taxes	(605)
S1200-140	Property insurance	(49,355)
S1200-150	Miscellaneous taxes and insurance	(60,105)
S1200-170	Other operating expenses	(20,212)
S1200-180	Interest on first mortgage	(166,873)
S1200-220	Miscellaneous financial	<u>(141,351)</u>
S1200-230	Total disbursements	<u>(940,914)</u>
S1200-240	Net cash provided by operating activities	<u>359,501</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
S1200-250	Net deposits to the reserve for replacement account	(45,947)
S1200-255	Net deposits to other reserves	(36,850)
	Detail - Net deposits to other reserves	
	S1200-256 - Description - Net deposits to segregated reserves	
	S1200-257 - Amount	\$ (28,240)
	S1200-256 - Description - Net deposits to other reserves	
	S1200-257 - Amount	\$ (8,610)
S1200-260	Net deposits to the residual receipts account	(36,207)
S1200-330	Net purchase of fixed assets	<u>(150,110)</u>
S1200-350	Net cash used in investing activities	<u>(269,114)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
S1200-360	Principal payments - first mortgage (or bonds)	<u>(103,881)</u>
S1200-460	Net cash used in financing activities	<u>(103,881)</u>
S1200-470	Net decrease in cash	(13,494)
S1200-480	Beginning of period cash and cash equivalents	<u>88,327</u>
S1200T	End of period cash and cash equivalents	<u>\$ 74,833</u>

Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
Schedule of Surplus Cash
As of March 31, 2019

Account	Description	Value
S1300-010	Cash	\$ 92,091
S1300-040	Total cash	<u>92,091</u>
S1300-050	Accrued mortgage interest payable	14,033
S1300-075	Accounts payable - 30 days	50,895
S1300-080	Mortgage payable - 30 days	28,093
S1300-100	Accrued expenses (not escrowed)	28,255
2191	Tenant/patient security deposits held in trust (contra)	17,258
S1300-110	Other current obligations	<u>129,620</u>
	Details - Other current obligations	
	S1300-120 - Description - Accounts payable - affiliated	
	S1300-130 - Amount	\$ 129,620
S1300-140	Total current obligations	<u>268,154</u>
S1300-150	Surplus cash (deficiency)	<u>\$ (176,063)</u>
S1300-210	Deposit due residual receipts	<u>\$ -</u>

Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
Schedule of Changes in Fixed Asset Accounts
Year Ended March 31, 2019

Account	Description	Value
1410P	Beginning balance for 1410	\$ 509,575
1410	Land	<u>509,575</u>
1420P	Beginning balance for 1420	4,856,497
1420AT	Additions for 1420	<u>56,545</u>
	Details - additions for 1420	
	1420A-010 - Items purchased - Unit improvements	
	1420A-030 - Total amount	\$ 56,545
1420	Buildings	<u>4,913,042</u>
1440P	Beginning balance for 1440	107,616
1440	Building equipment (portable)	<u>107,616</u>
1450P	Beginning balance for 1450	191,000
1450	Furniture for project/tenant use	<u>191,000</u>
1460P	Beginning balance for 1460	31,926
1460	Furnishings	<u>31,926</u>
1480P	Beginning balance for 1480	54,054
1480	Motor vehicles	<u>54,054</u>
1490P	Beginning balance for 1490	-
1490AT	Additions for 1490	<u>93,565</u>
	Details - deductions for 1490	
	1490A-010 - Reclassified - construction in progress	
	1490A-030 - Total amount	\$ 93,565
1490	Miscellaneous fixed assets	<u>93,565</u>

Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
Schedule of Changes in Fixed Asset Accounts (Continued)
Year Ended March 31, 2019

<u>Account</u>	<u>Description</u>	<u>Value</u>
1400PT	Total beginning balance for fixed assets	\$ 5,750,668
1400AT	Total asset additions	<u>150,110</u>
1400T	Total fixed assets	<u>5,900,778</u>
1495P	Beginning balance for 1495	4,379,900
6600	Total provisions	<u>199,615</u>
1495	Ending balance for accumulated depreciation	<u>4,579,515</u>
1400N	Total net book value	<u><u>\$ 1,321,263</u></u>

Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
Schedule of Reserve Accounts
Year Ended March 31, 2019

RESERVE FOR REPLACEMENT

Account	Description	Value
1320P	Balance at beginning of year	\$ 360,247
1320DT	Total monthly deposits	40,908
1320INT	Interest on replacement reserve accounts	5,039
		<hr/>
1320	Balance at end of year, confirmed by mortgagee	<u>\$ 406,194</u>
1320R	Deposits suspended or waived indicator	N

RESIDUAL RECEIPTS

Account	Description	Value
1340P	Balance at beginning of year	\$ 216,298
1340DT	Total deposits	35,589
1340INT	Interest on residual receipt accounts	618
		<hr/>
1340	Balance at current fiscal year end	<u>\$ 252,505</u>

Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
Assisted Living Data
Year Ended March 31, 2019

<u>Account</u>	<u>Other Elderly Care Expenses Description</u>	<u>Value</u>
6950	Housekeeping salaries	\$ 34,619
6951	Housekeeping supplies	434
6980	Recreation and rehabilitation	15,143
6983	Rehabilitation salaries	15,707
6990	Other service expenses	<u>4,788</u>
6900	Nursing homes/assisted living/board & care/other elderly care expenses	<u>\$ 70,691</u>

Supplementary Information

Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
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 132-NP-WAH-L8		
Section 8 Housing Assistance Payment Program	14.195	\$ 1,059,959
Total Direct Expenditures of Federal Awards		<u>\$ 1,059,959</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.

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
Presidio Gate Apartments, 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 Presidio Gate Apartments, Inc. (a California nonprofit public benefit corporation) (the “Project”), HUD Project No. 121-EH 132-NP-WAH-L8, 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 a 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control 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 as Required by the Uniform Guidance

The Board of Directors
Presidio Gate Apartments, Inc.
(a California Nonprofit Public Benefit Corporation)

Report on Compliance for the Major Federal Program

We have audited Presidio Gate Apartments, Inc.'s (a California nonprofit public benefit corporation) (the "Project"), HUD Project No. 121-EH 132-NP-WAH-L8, 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, Presidio Gate Apartments, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the 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

Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
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

Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
Summary Schedule of Prior Audit Findings
Year Ended March 31, 2019

There are no prior audit findings to report on.

Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
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	Presidio Gate Apartments, Inc.
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

Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
Managing 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)	David Dolan

Presidio Gate Apartments, Inc.
HUD Project No. 121-EH 132-NP-WAH-L8
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
S3200-050	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 firm 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

