



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

**Lytton Gardens II
Community Housing, Inc.**
(a California Nonprofit Public Benefit Corporation)
March 31, 2021 and 2020

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Report of Independent Auditors

To 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”), of Community Housing, Inc. (a California nonprofit public benefit corporation) (“CHI”), which comprise the statements of financial position as of March 31, 2021 and 2020, 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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards as shown on page 16 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 29, 2021, 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.

Moss Adams LLP

San Francisco, California
June 29, 2021

Financial Statements

**Lytton Gardens II
Community Housing, Inc.
Statements of Financial Position
March 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,002,331	\$497,957
Accounts receivable	12,614	3,651
Prepaid expenses	<u>69,468</u>	<u>54,823</u>
Total current assets	<u>1,084,413</u>	<u>556,431</u>
TENANT SECURITY DEPOSITS	<u>32,894</u>	<u>30,879</u>
RESTRICTED DEPOSITS AND FUNDED RESERVES		
Replacement reserves	1,204,376	1,203,676
Residual receipts	<u>21,281</u>	<u>21,189</u>
Total restricted cash - restricted deposits and funded reserves	<u>1,225,657</u>	<u>1,224,865</u>
PROPERTY AND EQUIPMENT		
Land and land improvements	564,827	564,827
Building and building improvements	5,848,881	5,672,881
Furniture and fixtures	117,420	117,420
Office equipment	<u>277,754</u>	<u>96,962</u>
	<u>6,808,882</u>	<u>6,452,090</u>
Accumulated depreciation	<u>(4,535,394)</u>	<u>(4,227,066)</u>
Total property and equipment, net	<u>2,273,488</u>	<u>2,225,024</u>
OTHER ASSETS		
Development costs	<u>544,381</u>	<u>334,069</u>
TOTAL ASSETS	<u>\$ 5,160,833</u>	<u>\$ 4,371,268</u>

**Lytton Gardens II
Community Housing, Inc.
Statements of Financial Position (Continued)
March 31, 2021 and 2020**

	2021	2020
CURRENT LIABILITIES		
Accounts payable	\$ 415,313	\$ 474,219
Accounts payable - affiliated organizations	248,620	290,866
Accrued wages payable	116,343	98,213
Other accrued liabilities	1,977	-
Total current liabilities	782,253	863,298
TENANT SECURITY DEPOSITS	32,894	30,879
Total liabilities	815,147	894,177
NET ASSETS		
Net assets without donor restrictions		
Board-designated net assets:		
Restricted deposits and funded reserves	1,225,657	1,224,865
Undesignated	3,120,029	2,252,226
Total net assets	4,345,686	3,477,091
TOTAL LIABILITIES AND NET ASSETS	\$ 5,160,833	\$ 4,371,268

**Lytton Gardens II
Community Housing, Inc.
Statements of Activities and Changes in Net Assets
Years Ended March 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues and support:		
Rental income, net of vacancy loss of \$125,592 in 2021 and \$170,289 in 2020	\$ 455,063	\$ 396,050
HUD assistance income	2,156,062	1,437,435
Interest income	814	5,040
Laundry and other	-	1,258
Food service and other	770,374	738,944
Miscellaneous income	<u>5,122</u>	<u>14,953</u>
Total revenues and support	<u>3,387,435</u>	<u>2,593,680</u>
Expenses:		
Administrative	430,855	522,603
Utilities	154,259	133,633
Operating and maintenance	284,199	321,259
Taxes and insurance	106,023	106,685
Food service and other	1,235,176	1,280,543
Depreciation	<u>308,328</u>	<u>272,617</u>
Total expenses	<u>2,518,840</u>	<u>2,637,340</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	868,595	(43,660)
NET ASSETS, beginning of year	<u>3,477,091</u>	<u>3,520,751</u>
NET ASSETS, end of year	<u>\$ 4,345,686</u>	<u>\$ 3,477,091</u>

**Lytton Gardens II
Community Housing, Inc.
Statements of Cash Flows
Years Ended March 31, 2021 and 2020**

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Rental receipts	\$ 2,602,162	\$ 1,843,341
Interest receipts	814	5,040
Other operating receipts	775,496	755,155
Total receipts	3,378,472	2,603,536
Administrative	(622,265)	(563,607)
Management fee	(118,200)	(117,144)
Utilities	(154,259)	(133,633)
Salaries and wages	(774,759)	(874,237)
Operating and maintenance	(284,199)	(170,480)
Real estate taxes	(19)	40
Property insurance	(71,884)	(46,546)
Miscellaneous taxes and insurance	(48,642)	(65,454)
Other operating expenses	(442,287)	(706,278)
Interest on first mortgage	-	(1,598)
Miscellaneous financial	2,015	947
Total disbursements	(2,514,499)	(2,677,990)
Cash provided by (used in) operating activities	863,973	(74,454)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(356,792)	(186,005)
Cash used in investing activities	(356,792)	(186,005)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on mortgage payable	-	(43,716)
Cash used in financing activities	-	(43,716)
NET CHANGE IN CASH AND RESTRICTED CASH	507,181	(304,175)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of year	1,753,701	2,057,876
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year	\$ 2,260,882	\$ 1,753,701
RECONCILIATION OF CASH AND RESTRICTED CASH		
Cash and cash equivalents	\$ 1,002,331	\$ 497,957
Restricted cash - tenant security deposits	32,894	30,879
Restricted cash - restricted deposits and funded reserves	1,225,657	1,224,865
TOTAL CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year	\$ 2,260,882	\$ 1,753,701

Lytton Gardens II 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 (“the Group”), a California nonprofit public benefit corporation, the Project is also affiliated with Covia Communities (“the Communities”), which operates five life plan communities, Covia Foundation (“the 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, and 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 because 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
Community Housing, Inc.
Notes to Financial Statements (Continued)**

Property and equipment – Property and equipment are stated at cost. Acquisitions of \$7,500 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, 2021 and 2020.

Tenant security deposits – In accordance with government regulations for the Project, the Project must maintain 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, 2021 and 2020, the Project had incurred development fees of \$544,381 and \$334,069, respectively.

Net assets – 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 or to be maintained in perpetuity. 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 net assets with donor restrictions and recognized as net assets without donor restrictions. Net assets with donor restrictions are available primarily for assistance and capital projects as designated by the donors. At March 31, 2021 and 2020, the Project had no net assets with donor restrictions.

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. The Project recognized revenue for services under resident agreements in accordance with the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") (*Topic 842*), *Leases*, which is recognized as the services are performed. Revenue is recognized as earned when rental are invoiced. Rental units occupied by employees are included in rental income as an expense of operations. Other income includes fees for late payments, cleaning, damages, laundry facilities, and other charges, and is recorded when earned.

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

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

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, 2021 and 2020, 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 Revenue and Taxation 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, the 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.

New accounting pronouncements – In September 2020, the FASB issued Accounting Standards Update (“ASU”) No. 2020-07, *Not-For-Profit Entities (Topic 958): Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets* (“ASU 2020-07”), which increases the transparency of contributed nonfinancial assets for not-for-profit organizations through enhancements to presentation and disclosure. The update addresses certain stakeholders’ concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by not-for-profit organizations, as well as the amount of those contributions used in a not-for-profit organization’s programs and other activities. ASU 2020-07 is effective for the Project for the fiscal year beginning April 1, 2022. Management is currently evaluating the impact of the provisions of ASU 2020-07 on the financial statements.

NOTE 2 – RESTRICTED DEPOSITS AND FUNDED RESERVES

Replacement reserves – In accordance with the HUD regulatory agreement, the Project was required to maintain a reserve for replacement and repair of property and equipment. The reserve was 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 years ended March 31, 2020 and 2019, the Project received approval to defer monthly reserve payments for five six-month periods effective February 2017 through August 2017, August 2017 to February 2018, February 2018 to August 2018, August 2018 to February 2019, and February 2019 to June 2019. No reserve deposits are required at the termination of the regulatory agreement in May 2019.

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

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

	2021	2020
Beginning balance at April 1,	\$ 1,203,676	\$ 1,452,222
Withdrawals	-	(253,567)
Bank interest, net of bank fees	700	5,021
Ending balance at March 31,	\$ 1,204,376	\$ 1,203,676

Residual receipts – The Project, before the mortgage was terminate, was required to maintain a reserve for residual receipt. The funds can be used for the operating needs of the property. This balance is classified as restricted cash on the statement of financial position. Residual receipt totaled \$21,281 and \$21,189 as of March 31, 2021 and 2020, respectively.

NOTE 3 – 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 \$2,156,062 and \$1,437,435 for the years ended March 31, 2021 and 2020, respectively.

NOTE 4 – RELATED-PARTY TRANSACTIONS

The Project, together with its affiliated organizations (Note 1), entered into a Memo of Understanding 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 \$1,856,017 and \$1,303,987 of shared costs during the years ended March 31, 2021 and 2020, respectively. Of this amount, \$248,620 and \$266,501 is included in accounts payable – affiliated organizations at March 31, 2021 and 2020, respectively.

NOTE 5 – COMMITMENTS AND CONTINGENCIES

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

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

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. 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, 2021 and 2020, totaled \$84,838 and \$95,202 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.

In May 2019, the Project’s federal government insured loan was paid in full and 45 years had 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, 2021 and 2020, there is \$400,000 included in accounts payable for the forbearance fee.

Litigation – The Project is aware of certain asserted and unasserted legal claims. While the outcome cannot be determined at this time, it is management’s opinion that the liability, if any, from these actions will not have a material adverse effect on the Organization’s financial position.

COVID-19 – In March 2020, the World Health Organization declared the novel coronavirus (“COVID-19”) a global pandemic and recommended containment and mitigation measures worldwide. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, customers, economies, and financial markets globally, potentially leading to an economic downturn. It has also disrupted the normal operations of many businesses and organizations, including the Project’s. It is not possible for the Project to predict the duration or magnitude of the adverse results of the outbreak and its disruptive effects on the Project’s operations and financial results at this time.

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

NOTE 6 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of March 31, 2021, comprise the following:

	2021	2020
Cash and cash equivalents	\$ 1,002,331	\$ 497,957
Accounts receivable, net	12,614	3,651
	\$ 1,014,945	\$ 501,608

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 statement of financial position 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 7 – FUNCTIONAL EXPENSES

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

	Year Ended March 31, 2021			
	Residential Services	Assisted Living & Other Services	General and Administrative	Total
Salaries and benefits	\$ 136,422	\$ 828,390	\$ 140,141	\$ 1,104,953
Other purchased services	-	292,768	57,353	350,121
Other	40,153	36,542	251,580	328,275
Depreciation and amortization	138,748	138,748	30,832	308,328
Utilities	46,172	88,435	19,652	154,259
Supplies	10,656	126,341	2,362	139,359
Repairs and maintenance	83,340	41,077	9,128	133,545
	\$ 455,491	\$ 1,552,301	\$ 511,048	\$ 2,518,840

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

	Year Ended March 31, 2020			
	Residential Services	Assisted Living & Other Services	General and Administrative	Total
Salaries and benefits	\$ 145,458	\$ 885,643	\$ 203,361	\$ 1,234,462
Other purchased services	22,845	289,664	102,012	414,521
Other	40,670	25,025	244,654	310,349
Depreciation and amortization	122,677	122,677	27,263	272,617
Utilities	39,843	76,737	17,053	133,633
Supplies	15,100	123,971	2,397	141,468
Repairs and maintenance	78,922	42,028	9,340	130,290
	<u>\$ 465,515</u>	<u>\$ 1,565,745</u>	<u>\$ 606,080</u>	<u>\$ 2,637,340</u>

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

NOTE 8 – SUBSEQUENT EVENTS

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

On June 1, 2020, the Board of Directors for Front Porch, Covia Communities and Covia Group voted to affiliate. The affiliation was approved and completed on April 1, 2021.

The Project has evaluated subsequent events through June 29, 2021, which is the date the financial statements were available to be issue.

Supplementary Information

**Lytton Gardens II
Community Housing, Inc.
Schedule of Expenditures of Federal Awards
Year Ended March 31, 2021**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal Assistance Listing Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development ("HUD") Section 8 Project-Based Cluster Section 8 Housing Assistance Payment Program	14.195	\$ 2,156,062
Total direct expenditures of federal awards		<u>\$ 2,156,062</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, 2021. 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, 2021.

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*

To 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”), of Community Housing, Inc. (a California nonprofit public benefit corporation) (“CHI”), which comprise the statement of financial position as of March 31, 2021, 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 29, 2021.

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) as a basis for designing 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 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 financial statements. 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.

Moss Adams LLP

San Francisco, California
June 29, 2021

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

To 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's (the "Project"), of the Community Housing, Inc. (a California nonprofit public benefit corporation) ("CHI"), 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, 2021. 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 the 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 Each Major Federal Program

In our opinion, the Project 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, 2021.

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 each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Project's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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.

Moss Adams LLP

San Francisco, California
June 29, 2021

**Lytton Gardens II
Community Housing, Inc.
Schedule of Findings and Questioned Costs
Year Ended March 31, 2021**

Section I – Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statements 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>Assistance Listing 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 Project Based Cluster	<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
Community Housing, Inc.
Summary Schedule of Prior Audit Findings
Year Ended March 31, 2021**

There are no prior audit findings to report on.

