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

**Oak Center Towers**
**(a California Nonprofit Public Benefit Corporation)**

*March 31, 2020*

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# Report of Independent Auditors

To the Board of Directors
Oak Center Towers
(a California Nonprofit Public Benefit Corporation)

## Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Oak Center Towers (a California nonprofit public benefit corporation) (the "Organization"), which comprise the consolidated statement of financial position as of March 31, 2020, and the related consolidated statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Oak Center Towers as of March 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 1 to the consolidated financial statements, during the year ended March 31, 2020, the Organization adopted Financial Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)*. The ASU has been applied using the modified-retrospective approach. Our opinion is not modified with respect to this matter.

***Other Matters***

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Organization's accompanying consolidating statement of financial position and consolidating statement of activities and changes in net assets as of and for the year ended March 31, 2020, presented as supplementary information, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of the Organization's management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Moss Adams LLP

San Francisco, California
June 30, 2020

# Consolidated Financial Statements

# Oak Center Towers
## (a California Nonprofit Public Benefit Corporation)
### Consolidated Statement of Financial Position
### March 31, 2020

| | | |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ | 394,323 |
| Cash and cash equivalents - restricted | | 82,497 |
| Cash and cash equivalents - investments | | 2,429,962 |
| Accounts receivable - operations | | 2,103 |
| Notes receivable - interest | | 47,568 |
| Prepaid expenses | | 194,352 |
| Inventory | | 5,792 |
| Right-of-use asset - current portion | | 113,717 |
| Total current assets | | 3,270,314 |
| **RESTRICTED CASH - TENANT SECURITY DEPOSITS** | | 50,223 |
| **RESTRICTED CASH - RESTRICTED DEPOSITS AND FUNDED RESERVES** | | |
| Operating reserves | | 934,350 |
| Replacement reserves | | 1,259,778 |
| Bond reserves | | 24,525 |
| Insurance and tax reserves | | 103,377 |
| Restabilization reserves | | 135,279 |
| Total restricted cash - restricted deposits and funded reserves | | 2,457,309 |
| **RIGHT-OF-USE ASSET, NET** | | 2,039,053 |
| **PROPERTY AND EQUIPMENT** | | |
| Land and land improvements | | 445,115 |
| Buildings and improvements | | 16,996,660 |
| Furniture and equipment | | 864,266 |
| Furnishings | | 128,253 |
| Computer software | | 24,936 |
| Motor vehicles | | 33,525 |
| | | 18,492,755 |
| Accumulated depreciation | | (9,026,070) |
| Total property and equipment, net | | 9,466,685 |
| **OTHER ASSETS** | | |
| Other assets, net of accumulated amortization of $74,910 | | 5,344 |
| Predevelopment costs | | 156,962 |
| **TOTAL ASSETS** | $ | 17,445,890 |


See accompanying notes.

| | |
|---|---|
| **CURRENT LIABILITIES** | |
| Accounts payable | $ 164,596 |
| Accrued liabilities | 24,854 |
| Due to CAC | 367,330 |
| Lease liability - current portion | 113,717 |
| Total current liabilities | 670,497 |
| **TENANT SECURITY DEPOSITS** | 50,223 |
| **LONG-TERM LIABILITIES** | |
| Loans payable | 2,728,663 |
| Ground lease payable | 715,067 |
| Lease liability, net | 2,039,053 |
| Total long-term liabilities | 5,482,783 |
| Total liabilities | 6,203,503 |
| **NET ASSETS** | |
| Net assets without donor restrictions | |
| Noncontrolling interest | 1,262,038 |
| Controlling interest | 9,898,864 |
| Total net assets without donor restrictions | 11,160,902 |
| Net assets with donor restrictions | 81,485 |
| Total net assets | 11,242,387 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 17,445,890 |

# Oak Center Towers
## (a California Nonprofit Public Benefit Corporation)
### Consolidated Statement of Activities and Changes in Net Assets
### Year Ended March 31, 2020

| | |
|---|---|
| **REVENUES AND SUPPORT WITHOUT DONOR RESTRICTIONS** | |
| Residential rental income, net of vacancy loss of $20,843 | $ 3,221,941 |
| Laundry and vending income | 2,911 |
| Interest reduction revenue | 1,642 |
| Interest income | 65,412 |
| Miscellaneous income | 723 |
| Total revenues and support without donor restrictions | 3,292,629 |
| **EXPENSES** | |
| Program services | |
| Maintenance expenses | 1,257,246 |
| Rental expenses | 298,124 |
| Depreciation and amortization expenses | 760,522 |
| Interest and bond expenses | 131,103 |
| Other program service expenses | 294,062 |
| Supporting services | |
| General and administrative | 827,837 |
| Total expenses | 3,568,894 |
| **CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS** | (276,265) |
| **CHANGE IN NET ASSETS** | (276,265) |
| **BEGINNING NET ASSETS** | 11,518,652 |
| **ENDING NET ASSETS** | $ 11,242,387 |
| Reconciliation of net assets | |
| Noncontrolling interest - without donor restrictions | |
| Beginning of year | $ 1,774,857 |
| Noncontrolling interests in limited partnership earnings | (512,819) |
| End of year | $ 1,262,038 |
| Controlling interest - without donor restrictions | |
| Beginning of year | $ 9,662,310 |
| Change in net assets | 236,554 |
| End of year | $ 9,898,864 |
| Controlling interest - with donor restrictions | |
| Beginning of year | $ 81,485 |
| End of year | $ 81,485 |



See accompanying notes.

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Rental receipts | $ 3,204,901 |
| Interest receipts | 67,473 |
| Tenant Security Deposits | 3,719 |
| Other operating receipts | 354,501 |
| Total receipts | 3,630,594 |
| Administrative | (444,532) |
| Management fee | (174,062) |
| Utilities | (521,291) |
| Salaries and wages | (475,772) |
| Operating and maintenance | (657,576) |
| Real estate taxes | (70,495) |
| Property insurance | (74,756) |
| Miscellaneous taxes and insurance | (142,726) |
| Interest on loans payable | (66,246) |
| Predevelopment costs | (156,962) |
| Miscellaneous financial | (64,857) |
| Total disbursements | (2,849,275) |
| Net cash provided by operating activities | 781,319 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Purchase of fixed assets | (294,811) |
| Net cash used in investing activities | (294,811) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | |
| Principal payments on loans payable | (100,000) |
| Net cash used in financing activities | (100,000) |
| **INCREASE IN CASH AND RESTRICTED CASH** | 386,508 |
| **CASH, CASH EQUIVALENTS, AND RESTRICTED CASH,** beginning of year | 5,027,806 |
| **CASH, CASH EQUIVALENTS, AND RESTRICTED CASH,** end of year | $ 5,414,314 |
| **Reconciliation of cash, cash equivalents, and restricted cash** | |
| Cash - operations | $ 394,323 |
| Cash and cash equivalents - restricted | 82,497 |
| Cash and cash equivalents - investments | 2,429,962 |
| Restricted cash - tenant security deposits | 50,223 |
| Restricted cash - restricted deposits and funded reserves | 2,457,309 |
| End of year | $ 5,414,314 |

See accompanying notes.

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

**Nature of operations** – Oak Center Towers, a California nonprofit corporation (the “Organization” or “OCT”), was organized in 1971 under the original sponsorship of Covia Communities (“Communities”), formerly Episcopal Senior Communities, in order to operate a 196-unit affordable residential complex for elderly or disabled persons in Oakland, California (the “Project”), and to provide associated supporting social services at the Project. In June 2005, OCT sold its interest in the Project to Oak Centers, L.P., a California limited partnership (“OCLP”), as part of a low-income housing tax credit refinancing transaction. The purpose of the transaction was to generate funds to perform a substantial rehabilitation of the Project. OCT is the sole general partner of OCLP and owns a 0.01% interest. OCT provided a capital contribution of $1,200,000 and committed to a long-term loan totaling $3,805,437. Covia Affordable Communities (“Affordable Communities”), formerly Lytton Gardens Senior Communities, is the sole member of OCT.

**Affiliated organizations** – The Organization is affiliated with Covia Group (formerly Senior Resources of the West), Covia Communities (the “Communities”, formerly Episcopal Senior Communities), Covia Foundation (formerly Episcopal Senior Communities Foundation), Covia Affordable Communities (the “Affordable Communities”, formerly Lytton Gardens Senior Communities), Community Housing, Inc. (Lytton Gardens I and Lytton Gardens II), Lytton IV Housing Corporation, Presidio Gate Apartments, and Jennings Senior Housing, Inc.

On April 1, 2018, Affordable Communities entered into an affiliation agreement with the Bethany Center Senior Housing, Inc. (“BCSH”), and became the sole member. BCSH, a California nonprofit public benefit corporation, was formed in 1968 for the purpose of operating a low-income senior rental housing project. BCSH consists of 135 affordable senior housing apartments which is located in San Francisco, California. BCSH is the sole member of Bethany Center Foundation of San Francisco (“BCSF”), a California nonprofit public benefit corporation. BCSF was formed in 2007, for the purpose of providing support to BCSH.

On March 16, 2018, Affordable Communities entered into an affiliation agreement with Shires Memorial Center (“SMC”) and became the sole member. SMC, a California nonprofit public benefit corporation, was formed in 1961 for the purpose of operating a 99-unit low income senior housing project located in San Jose, California.

These entities share common officers, directors, and management with the following exception: BCSH as the sole member of the BCSF has common control. BCSF has its own Board of Directors. BCSH and BCSF share management function. At times, these entities provide various support services to each other.

**Basis of presentation** – The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements include the accounts of OCT and OCLP. OCLP is included in the consolidation in accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810-20, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*. OCT determined that the presumption of control for the limited partnership, in which OCT is the general partner, had not been overcome and as a result, OCT is required to consolidate the financial statements of the limited partnership. All significant inter-company balances and transactions have been eliminated. OCLP’s year end is December 31, and its balances and activity have been included as of and for the year ended December 31, 2019.

**Cash and cash equivalents** – Cash and cash equivalents includes cash on hand and cash held in demand deposit, sweep, savings accounts, and certain investments in highly liquid instruments with original maturities of three months or less. Not included in cash are funds restricted as to their use, regardless of their liquidity, such as security deposits and operating and replacement reserves.

**Concentration of credit risk** – Financial instruments potentially subjecting the Organization to concentrations of credit risk consist primarily of bank demand deposits in excess of the Federal Deposit Insurance Corporation insurance thresholds. Demand deposits are placed with local financial institutions, and management has not experienced any loss related to these demand deposits in the past. Management believes it is not exposed to any significant risk on such demand deposits.

**Accounts receivables** – The Organization receives payment from residents and U.S. Department of Housing and Urban Development ("HUD") for services provided. The Organization 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 operating, replacement, bond, and insurance of the Organization. Such assets consist of cash and cash equivalents.

**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 five to thirty years. The Organization periodically evaluates the carrying value of its long-lived assets for impairment. Based on this evaluation, no impairment was recorded for the year ended March 31, 2020.

**Tenant security deposits** – In accordance with government regulations for the Organization, the Organization must maintain on deposit funds equal to the related liability for tenant security deposits. Security deposits are held in a separate interest-bearing savings account in the name of the Project.

**Net assets** – The Organization classifies net assets as follows:

> *Net assets without donor restrictions* represent unrestricted resources available to support the Organization's operations and temporarily restricted resources which have become available for use by the Organization in accordance with the intention of the donor.
>
> *Net assets with donor restrictions* represent contributions that are limited in use by the Organization in accordance with temporary donor-imposed stipulations. These stipulations may expire with time or may be satisfied by the actions of the Organization 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.

**Program services** – The Organization is the general partner of OCLP and provides management oversight. OCLP operates an affordable residential complex for elderly or disabled persons in Oakland, California, and provides transportation for residents, a nutrition program, supportive social services, and education programs at the Project.

**Fair value of measurements** – FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, prescribes fair value measurements and disclosures for financial and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements. FASB ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

**Level 1** – Quoted prices in active markets for identical assets or liabilities

**Level 2** – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

**Level 3** – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Unless otherwise indicated, the fair value of all reported assets and liabilities that represent financial instruments approximate their carrying values.

**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 and as an expense of operations. Other income includes fees for late payments, cleaning, damages, laundry facilities, and other charges, and is recorded when earned. The Organization recognizes revenue for services under the resident agreements in accordance with the provisions of FASB ASC Topic 842, *Leases*, which is recognized as the services are performed.

**Tax-exempt status** – The Organization is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code ("IRC") and has been granted tax-exempt status by the Internal Revenue Service and the California Franchise Tax Board.

The Organization adopted the provisions of the FASB ASC Topic 740-10, *Income Taxes,* relating to accounting for uncertain tax positions on April 1, 2009, which had no financial statement impact to the Organization. The Organization 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 Organization recognizes interest and penalties related to income tax matters in operating expenses.

In regards to OCLP, no provision has been made for income taxes, except for the $800 minimum franchise tax required by California for limited partnerships that is included in accounts payable in the accompanying consolidated statement of activities and changes in net assets, since the income or loss of the Partnership is to be included in the tax returns of the individual partners. Income for consolidated financial statement purposes differs from that which is allocated to the partners primarily because of book to tax depreciation and amortization differences.

**Property taxes** – The Organization 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 consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated 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 Organization could be affected by changes in the economic or other conditions in the geographic area of Oakland, California, or by changes in federal low-income housing subsidies or the demand for such housing.

**New accounting pronouncements** – In January 2016, the FASB issued Accounting Standards Update ("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. The Organization adopted the provisions of ASU 2016-01 during the year ended March 31, 2020. The adoption of ASU 2016-01 did not have a material impact on the Organization's consolidated financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). This guidance requires the recognition of rights and obligations arising from lease contracts, including existing and new arrangements, as assets and liabilities on the statement of financial position. The guidance is effective for annual reporting periods beginning after December 15, 2019. Early adoption is permitted. The Organization adopted the provisions of ASU 2016-02 during the year ended March 31, 2020 using the modified retrospective method applied to all existing leases as of April 1, 2019. See Note 6 for the impact of the adoption of ASU 2016-02.

In November 2016, FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This guidance enhances the statement of cash flows 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 annual reporting periods beginning after December 15, 2019. The Organization adopted the provisions of ASU 2016-18 during the year ended March 31, 2020 using the retrospective method, for all period presented - where Tenant Security Deposits and all Restricted Deposits and Funded Reserves are presented as restricted cash on the statement of financial position as of March 31, 2020.

## NOTE 2 – RESTRICTED CASH - RESTRICTED DEPOSITS AND FUNDED RESERVES

**Operating reserves** – OCLP is required to maintain two operating reserve funds.

Pursuant to the Partnership Agreement, on November 15, 2007, OCT funded an interest-bearing operating reserve account in the amount of $334,555. The operating reserve funds shall be maintained throughout the term of OCLP. Any withdrawal from the operating reserve must be approved by the Limited Partner.

Pursuant to the terms of the Reimbursement Agreement for California Statewide Communities Development Authority ("CSCDA") Variable Rate Demand Multifamily Housing Revenue Bonds 2005 Series (the "Revenue Bonds 2005 Series"), OCLP is required to make monthly deposits to a separate operating reserve account beginning November 15, 2007 (the date of conversion of the Permanent Financing Phase). Monthly payments are determined by the Loan Servicer based on six months of debt service coverage on the loan and shall be adjusted annually.

During the year ended March 31, 2020, transactions affecting the operating reserves were as follows:

| | |
|---|---|
| Beginning balance at April 1, 2019 | $ 884,746 |
| Monthly deposits | 49,000 |
| Bank interest, net of bank fees | 604 |
| Ending balance at March 31, 2020 | $ 934,350 |

**Replacement reserves** – OCLP is required to maintain two replacement reserve accounts.

Under the Partnership Agreement, OCLP is required to make monthly deposits to a replacement reserve account starting November 1, 2006 for use in funding future and replacement costs. Monthly payments are required based upon an initial amount of $350 per unit per year, adjusted annually at the rate of 3%. Disbursements from this account greater than $10,000 must be approved by the Limited Partner.

Pursuant to the terms of the Reimbursement Agreement for the Revenue Bonds 2005 Series, OCLP is required to make monthly deposits to a separate replacement reserve account beginning November 15, 2007 (the date of conversion of the Permanent Financing Phase). Monthly payments are required in the amount of $4,083, calculated at $250 per unit per year. Disbursements from this account must be approved in advance by the lender.

During the year ended March 31, 2020, transactions affecting the replacement reserves were as follows:

| | |
|---|---|
| Beginning balance at April 1, 2019 | $ 1,286,903 |
| Monthly deposits | 146,308 |
| Bank interest, net of bank fees | 1,533 |
| Approved distributions | (174,966) |
| Ending balance at March 31, 2020 | $ 1,259,778 |

**Bond reserves** – Pursuant to the Reimbursement Agreement commencing on November 15, 2007, OCLP is required to make monthly payments for deposit into principal reserve and escrow accounts to pay for issuer fees, trustee fees, remarketing fees, and the loan servicing fees. These accounts are maintained in accounts held by the Trustee and the Loan Servicer until the fees are paid. As of March 31, 2020, OCLP had a balance of $24,525 in the bond reserves account.

**Insurance and tax reserves** – OCLP is required to maintain two insurance reserve accounts and a tax reserve account.

Pursuant to the Partnership Agreement on November 15, 2007, OCT funded an interest-bearing insurance reserve account in the amount of $40,000. The insurance reserve shall be maintained throughout the term OCLP. Upon termination and winding up of the Partnership, amounts in the insurance reserve shall be utilized as approved by the Limited Partner.

Pursuant to the terms of the Reimbursement Agreement for the Revenue Bonds 2005 Series, OCLP is required to make monthly deposits to a separate insurance reserve account beginning November 15, 2007 (the date of conversion of the Permanent Financing Phase).

As of March 31, 2019, OCLP had a balance of $103,377 in the insurance and tax reserves account.

**Restabilization reserves** – Pursuant to the Reimbursement Agreement on November 15, 2007, OCLP funded an interest-bearing restabilization reserve account in the amount of $133,298 in order to mitigate the risk associated with termination or delay in renewal or funding of the Housing Assistance Payments (the “HAP”) Program Contract and to act as a debt service reserve fund. Any disbursement from this account must have prior approval from the lender. As of March 31, 2020, OCLP had a balance of $135,279 in the restabilization reserves account.

## NOTE 3 – OTHER ASSETS

Other assets are amortized over their estimated useful lives. Other assets as of March 31, 2020, consisted of the following:

**Tax credit fees** – OCLP incurred fees totaling $80,254 to apply for and ultimately obtain a final reservation of low-income housing tax credits. The credits are amortized over the fifteen-year credit period. Amortization expense for the year ended March 31, 2020, was $5,350.

| | | |
|---|---|---|
| Total other assets | $ | 80,254 |
| Accumulated amortization | | (74,910) |
| Other assets - net | $ | 5,344 |

The estimated annual amortization expense at March 31, 2020 is $5,344.

## NOTE 4 – LOANS PAYABLE

OCLP has received permanent financing as follows:

| | |
|---|---|
| California Statewide Communities Development Authority Variable Rate Demand Multifamily Housing Revenue Bonds 2005 Series L, dated June 1, 2005, in the original amount of $11,450,000 which was reduced to $3,820,000 on November 15, 2007. Bonds bear a variable rate of interest determined weekly by the remarketing agent, payable monthly, and mature on December 15, 2037, secured by the borrower's leasehold interest in land and ownership of improvements. The interest rate at March 31, 2020 was 1.5%. | $ 3,020,000 |
| | 3,020,000 |
| Net unamortized cost of issuance | (291,337) |
| Total loans payable, net | $ 2,728,663 |

Scheduled maturities for the above loans payable are as follows:

| Year Ending March 31, | |
|---|---|
| 2021 | $ - |
| 2022 | - |
| 2023 | - |
| 2024 | - |
| Thereafter | 3,020,000 |
| | $ 3,020,000 |

## NOTE 5 – INTEREST EXPENSE

Interest expense for the year ended March 31, 2020, consisted of the following:

| | |
|---|---|
| CSCDA Variable Rate Demand Multifamily Housing Revenue Bonds 2005 Series L | $ 66,246 |
| Total interest expense | $ 66,246 |

**NOTE 6 – GROUND LEASE**

On June 1, 2005, OCLP entered into a ground lease agreement from OCT. The term is for ninety-nine (99) years effective June 1, 2005, and terminates on May 31, 2104. OCT has assigned the ground lease to the Communities. Basic annual rent is $120,000 per year, payable solely from surplus cash. OCLP has discounted the rent payments over the life of the lease, using a discount rate of 5.51%, and recorded a right-to-use asset and a lease liability in accordance with FASB ASC Topic 842, *Leases*. As of March 31, 2020, the right-to-use asset was $2,152,770 and the lease liability was $2,152,770.

Unpaid rents shall accrue without interest until paid in full; and OCLP shall maintain certain amounts of insurance for personal injury and property damage under the lease agreement. During 2020, OCLP did not make any payments for the ground lease. As of March 31, 2020, the ground lease payable was $715,067.

**NOTE 7 – HOUSING ASSISTANCE PAYMENTS PROGRAM CONTRACT**

The Project has entered into a Section 8 HAP Program Contract with HUD for 195 units and 1 non-rent bearing manager's unit. The current contract is effective July 1, 2005 to June 30, 2025.

**NOTE 8 – RELATED-PARTY TRANSACTIONS**

**Developer fee** – OCLP has entered into a development agreement with Communities. The agreement provided for developer fee and overhead in the amount of $1,835,799 for services in connection with the development of the Project and supervision of construction. Of this amount, $1,000,000 is deferred, noninterest bearing, and payable from capital contributions and surplus cash, and as of December 31, 2008, $835,799 was paid from capital contribution. There were no payables outstanding as of March 31, 2020.

**Development costs payable** – In 2020, Affordable Communities advanced the Project funds for development and operating costs. Development costs are planned to be reimbursed to Affordable Communities at the close of future development opportunities. At March 31, 2020 and 2019, $351,139 and $0, respectively, is due to Affordable Communities, as included in the statements of financial position.

**Investor service fee** – Pursuant to the Investor Services Agreement, OCLP pays Enterprise Social Investment Corporation an annual investor service fee of $3,000. For each year after 2005, the fee increases at the rate of three percent (3%) per year. The investor service fee shall be paid from available cash flow. If cash flow is not sufficient to pay the fee provided, then any unpaid fees shall accumulate and shall be payable out of the next available cash flow or capital proceeds; provided, however, that no amount of such investor services fee shall be deducted as an expense by OCLP until such amount is actually paid. There were no payables outstanding as of March 31, 2020.

**Ground lease** – See Note 6.

**Property management fee** – OCLP together with its affiliated organizations (see Note 1) entered into a Memo of Understanding with Communities on April 1, 2008, whereas Communities assigned Affordable Communities to provide certain administrative, accounting, fundraising, and other general management services and the employment of personnel on a shared basis. OCLP incurred $169,656 of shared property management fees per year during the year ended March 31, 2020. There were no payables outstanding as of March 31, 2020.

These and other transactions resulted in accounts payable of $1,082,397 to related parties for the year ended March 31, 2020.

## NOTE 9 – COMMITMENTS AND CONTINGENCIES

**Low-income housing tax credits** – The Project has been allocated low-income housing tax credits under Section 42 of the IRC. Provisions under Section 42 require that the Project remains low-income for fifteen years.

**Operating deficit guaranty** – The Communities, as guarantor, will advance funds to OCT in an amount necessary for OCT to make the required – Operating Deficit Contribution when such operating deficit cannot be satisfied from OCLP funds including OCLP's Operating Reserve and OCT does not have sufficient funds to make an operating deficit contribution to OCLP. The advances shall be interest free and payable out of capital proceeds. The operating deficit period begins after the completion date and ends on the date the following have occurred: (1) the Project has operated at break-even for at least three consecutive calendar years following the Stabilization date of the Project; and (2) the balance in the Operating Reserve equals or exceeds the Operating Reserve Amount. As of March 31, 2020, no advances have been made under the agreement.

**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 that are to be held by the mortgagee (see Notes 1 and 2).

**Litigation** – The Organization 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.

## NOTE 10 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, within one year of March 31, 2020, comprise the following:

| | |
|---|---|
| Cash and cash equivalents | $ 394,323 |
| Cash and cash equivalents - investments | 2,429,962 |
| | $ 2,824,285 |

None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the consolidated statement of financial position date. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

## NOTE 11 – FUNCTIONAL EXPENSES

The expenses for providing program services and supporting services activities of the Organization that can be directly identified with a specific function are allocated directly to that function. Expenses that cannot be directly identified with a specific function are allocated among program services and supporting services activities benefited based upon employee time and effort recorded on functions related to the specific activity, or in the case of shared expenses, using an allocation based on personnel costs, space usage, or other relevant bases.

| | 2020 | | |
|---|---|---|---|
| | Program Services | General and Administrative | Total Expenses |
| Salaries and benefits | $ 236,657 | $ 381,185 | $ 617,842 |
| Supplies | 25,642 | 13,998 | 39,640 |
| Other purchased services | 7,297 | 124,158 | 131,455 |
| Repairs and maintenance | 342,478 | 38,053 | 380,531 |
| Utilities | 608,311 | 67,590 | 675,901 |
| Depreciation and amortization | 679,654 | 80,868 | 760,522 |
| Other | 673,254 | 289,749 | 963,003 |
| Total | $ 2,573,293 | $ 995,601 | $ 3,568,894 |

## NOTE 12 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the consolidated statement of financial position date but before financial statements are issued. The Organization recognizes in the consolidated 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 Organization’s consolidated 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 and before consolidated financial statements are issued.

Subsequent to March 31, 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 Organization’s. It is not possible for the Organization to predict the duration or magnitude of the adverse results of the outbreak and its disruptive effects on the Organization’s operations and financial results at this time.

The Organization held various investments at March 31, 2020. At this time, the market volatility and the continuing situation surrounding the pandemic is uncertain. Management believes that the decline in fair value of these investments is temporary and will continue to monitor the situation closely.

On June 1, 2020, the Boards of Directors for Front Porch, Covia Communities and Covia Group voted to affiliate. The new affiliation will create one of the top not-for-profit organizations providing senior living, affordable housing and community services for more than 10,000 people. The affiliation is subject to the receipt of regulatory approvals and is expected to close in early 2021. Front Porch and Covia will continue to operate their organizations and their respective communities separately until the affiliation is approved.

The Organization has evaluated subsequent events through June 30, 2020, which is the date the consolidated financial statements are available to be issued.

# Supplementary Information

## Oak Center Towers
## (a California Nonprofit Public Benefit Corporation)
### Consolidating Statement of Financial Position
### March 31, 2020

| ASSETS | OCT | OCLP | Eliminating | 2020 |
|---|---|---|---|---|
| **CURRENT ASSETS** | | | | |
| Cash and cash equivalents | $ 190,470 | $ 203,853 | $ - | $ 394,323 |
| Cash and cash equivalents - restricted | 82,497 | - | - | 82,497 |
| Cash and cash equivalents - investments | 2,429,962 | - | - | 2,429,962 |
| Accounts receivable – operations | - | 2,103 | - | 2,103 |
| Notes receivable - affiliates | 3,805,437 | - | (3,805,437) | - |
| Notes receivable - interest | 2,357,710 | - | (2,310,142) | 47,568 |
| Prepaid expenses | - | 194,352 | - | 194,352 |
| Inventory | - | 5,792 | - | 5,792 |
| Right-of-use asset - current portion | - | 113,717 | - | 113,717 |
| Total current assets | 8,866,076 | 519,817 | (6,115,579) | 3,270,314 |
| **RESTRICTED CASH - TENANT SECURITY DEPOSITS** | - | 50,223 | - | 50,223 |
| **RETRICTED CASH - RESTRICTED DEPOSITS AND FUNDED RESERVES** | | | | |
| Operating reserves | - | 934,350 | - | 934,350 |
| Replacement reserves | - | 1,259,778 | - | 1,259,778 |
| Bond reserves | - | 24,525 | - | 24,525 |
| Insurance and tax reserves | - | 103,377 | - | 103,377 |
| Restabilization reserves | - | 135,279 | - | 135,279 |
| Total restricted cash - restricted deposits and funded reserves | - | 2,457,309 | - | 2,457,309 |
| **RIGHT-OF-USE ASSET, NET** | - | 2,039,053 | | 2,039,053 |
| **PROPERTY AND EQUIPMENT** | | | | |
| Land and land improvements | 109,029 | 336,086 | - | 445,115 |
| Buildings and improvements | - | 16,996,660 | - | 16,996,660 |
| Furniture and equipment | - | 864,266 | - | 864,266 |
| Furnishings | - | 128,253 | - | 128,253 |
| Computer software | - | 24,936 | - | 24,936 |
| Motor vehicles | - | 33,525 | - | 33,525 |
| | 109,029 | 18,383,726 | - | 18,492,755 |
| Accumulated depreciation | - | (9,026,070) | - | (9,026,070) |
| Total property and equipment, net | 109,029 | 9,357,656 | - | 9,466,685 |
| **OTHER ASSETS** | | | | |
| Other assets, net of accumulated amortization of $74,910 | - | 5,344 | - | 5,344 |
| Predevelopment costs | 156,962 | - | - | 156,962 |
| Investment in Oak Centers, L.P. | 1,199,517 | - | (1,199,517) | - |
| **TOTAL ASSETS** | $ 10,331,584 | $ 14,429,402 | $ (7,315,096) | $ 17,445,890 |

| | OCT | OCLP | Eliminating | 2020 |
|---|---|---|---|---|
| **LIABILITIES AND NET ASSETS** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Accounts payable | $ 96 | $ 164,500 | $ - | $ 164,596 |
| Accrued liabilities | - | 24,854 | - | 24,854 |
| Due to CAC | 351,139 | 16,191 | - | 367,330 |
| Lease liability - current portion | - | 113,717 | - | 113,717 |
| Total current liabilities | 351,235 | 319,262 | - | 670,497 |
| **TENANT SECURITY DEPOSITS** | - | 50,223 | - | 50,223 |
| **LONG-TERM LIABILITIES, NET OF CURRENT PORTION:** | | | | |
| Loans payable | - | 6,534,100 | (3,805,437) | 2,728,663 |
| Accrued interest payable | - | 2,310,142 | (2,310,142) | - |
| Ground lease payable | - | 715,067 | - | 715,067 |
| Lease liability, net | - | 2,039,053 | - | 2,039,053 |
| Total long-term liabilities, net of current portion | - | 11,598,362 | (6,115,579) | 5,482,783 |
| Total liabilities | 351,235 | 11,967,847 | (6,115,579) | 6,203,503 |
| **NET ASSETS** | | | | |
| Net assets without donor restrictions | | | | |
| Noncontrolling interest | - | 1,262,038 | - | 1,262,038 |
| Controlling interest | 9,898,864 | 1,199,517 | (1,199,517) | 9,898,864 |
| Total net assets without donor restrictions | 9,898,864 | 2,461,555 | (1,199,517) | 11,160,902 |
| Net assets with donor restrictions | 81,485 | - | - | 81,485 |
| Total net assets | 9,980,349 | 2,461,555 | (1,199,517) | 11,242,387 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 10,331,584 | $ 14,429,402 | $ (7,315,096) | $ 17,445,890 |

# Oak Center Towers
## (a California Nonprofit Public Benefit Corporation)
### Consolidating Statement of Activities and Changes in Net Assets
### Year Ended March 31, 2020

| | OCT | OCLP | Eliminating | 2020 |
|---|---|---|---|---|
| **REVENUES AND SUPPORT WITHOUT DONOR RESTRICTIONS** | | | | |
| Residential rental income, net of vacancy loss of $20,843 | $ 2,476,609 | $ 3,221,941 | $ (2,476,609) | $ 3,221,941 |
| Laundry and vending income | - | 2,911 | - | 2,911 |
| Interest reduction revenue | - | 1,642 | - | 1,642 |
| Interest income | 253,623 | 2,061 | (190,272) | 65,412 |
| Miscellaneous income | 91 | 632 | - | 723 |
| Total revenues and support without donor restrictions | 2,730,323 | 3,229,187 | (2,666,881) | 3,292,629 |
| **EXPENSES** | | | | |
| Program services | | | | |
| Maintenance expenses | - | 1,257,246 | - | 1,257,246 |
| Rental expenses | - | 298,124 | - | 298,124 |
| Depreciation and amortization | - | 760,522 | - | 760,522 |
| Interest and bond expenses | - | 321,375 | (190,272) | 131,103 |
| Other program service expenses | 2,476,609 | 294,062 | (2,476,609) | 294,062 |
| Supporting services | | | | |
| General and administrative | 17,160 | 810,728 | (51) | 827,837 |
| Total expenses | 2,493,769 | 3,742,057 | (2,666,932) | 3,568,894 |
| **CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS** | 236,554 | (512,870) | 51 | (276,265) |
| **CHANGE IN NET ASSETS** | 236,554 | (512,870) | 51 | (276,265) |
| **BEGINNING NET ASSETS** | 9,743,795 | 2,974,425 | (1,199,568) | 11,518,652 |
| **ENDING NET ASSETS** | $ 9,980,349 | $ 2,461,555 | $ (1,199,517) | $ 11,242,387 |