Report of Independent Auditors and
Financial Statements

Shires Memorial Center
(a California Nonprofit Public Benefit Corporation)

March 31, 2020 and 2019

MOSSADAMS

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Report of Independent Auditors

The Board of Directors
Shires Memorial Center
(a California Nonprofit Public Benefit Corporation)

Report on the Financial Statements

We have audited the accompanying financial statements of Shires Memorial Center a California nonprofit public benefit corporation (the "Project"),, which comprise the statements of financial position as of March 31, 2020 and 2019, 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. 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 Shires Memorial Center as of March 31, 2020 and 2019, 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.

Moss Adams LLP

San Francisco, California
June 30, 2020

Financial Statements

Shires Memorial Center
Statements of Financial Position
March 31, 2020 and 2019

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 608,773	$ 788,862
Accounts receivable	3,348	10,240
Prepaid expenses	75,297	107,012
Total current assets	687,418	906,114
TENANT SECURITY DEPOSITS	102,972	88,123
RESTRICTED DEPOSITS AND FUNDED RESERVES		
Replacement reserves	502,278	-
Total restricted deposits and funded reserves	502,278	-
PROPERTY AND EQUIPMENT		
Land and land improvements	3,789,081	3,789,081
Buildings and improvements	833,350	833,350
Construction in progress	106,630	67,560
	4,729,061	4,689,991
Accumulated depreciation	(578,715)	(300,932)
Total property and equipment, net	4,150,346	4,389,059
OTHER ASSETS		
Development costs	38,300	10,720
Total other assets	38,300	10,720
TOTAL ASSETS	$ 5,481,314	$ 5,394,016
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 37,597	$ 89,644
Accounts payable - affiliated organizations	43,914	-
Accrued wages payable	17,166	13,821
Total current liabilities	98,677	103,465
TENANT SECURITY DEPOSITS	102,972	88,123
Total liabilities	201,649	191,588
NET ASSETS		
Net assets without donor restrictions	5,279,665	5,202,428
Total net assets	5,279,665	5,202,428
TOTAL LIABILITIES AND NET ASSETS	$ 5,481,314	$ 5,394,016

See accompanying notes.

Shires Memorial Center
Statements of Activities and Changes in Net Assets
Years Ended March 31, 2020 and 2019

	2020	2019
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues and support:		
Residential rental revenue, net of vacancy loss of $23,379 in 2020 and $93,608 in 2019	$ 739,295	$ 755,297
HUD assistance income	543,810	399,289
Interest income	3,069	601
Laundry and other	4,657	7,121
Miscellaneous income	59,734	8,000
Total revenues and support	1,350,565	1,170,308
Expenses:		
Administrative	258,500	230,006
Utilities	236,180	248,500
Operating and maintenance	354,128	283,712
Taxes and insurance	134,559	81,484
Food service and other	12,178	2,752
Depreciation	277,783	655,352
Total expenses	1,273,328	1,501,806
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	77,237	(331,498)
NET ASSETS, beginning of year	5,202,428	5,533,926
NET ASSETS, end of year	$ 5,279,665	$ 5,202,428

See accompanying notes.

Shires Memorial Center
Statements of Cash Flows
Years Ended March 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Rental receipts	$ 1,289,997	$ 1,146,233
Interest from operations	3,069	601
Other operating receipts	64,391	15,121
Total receipts	1,357,457	1,161,955
Administrative	(93,422)	(147,909)
Utilities	(236,180)	(248,500)
Management fee	(71,280)	(71,280)
Salaries and wages	(181,705)	(122,079)
Operating and maintenance	(271,009)	(219,781)
Real estate taxes	(90,345)	(54,207)
Property insurance	(50,354)	(45,252)
Miscellaneous taxes and insurance	37,855	(55,035)
Other operating expenses	(12,178)	(2,752)
Miscellaneous financial	(12,731)	(567)
Total disbursements	(981,349)	(967,362)
Cash provided by operating activities	376,108	194,593
CASH FLOWS FROM INVESTING ACTIVITIES		
Funds used for purchase of property and equipment	(39,070)	(67,560)
Cash used in investing activities	(39,070)	(67,560)
NET INCREASE IN CASH AND CASH EQUIVALENTS	337,038	127,033
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of year	876,985	749,952
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year	$ 1,214,023	$ 876,985
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH		
Cash - operations	$ 608,773	$ 788,862
Restricted cash - tenant security deposits	102,972	88,123
Restricted cash - restricted deposits and funded reserves	502,278	-
TOTAL CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year	$ 1,214,023	$ 876,985

See accompanying notes.

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

Nature of operations – Shires Memorial Center (the "Project"), is a California nonprofit public benefit corporation organized in 1961 for the purpose of operating low income senior housing in San Jose, California, under Section 202 of the National Housing Act. The project affiliated with Covia Affordable Communities ("Affordable Communities") in 2018. The Project consists of 98 affordable senior housing apartments plus one non rent-bearing resident manager's unit. The Project generates its revenue primarily from rental income.

Affiliated organizations – The Project, through its sole member, 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; Presidio Gate Apartments; Jennings Senior Housing, Inc.; 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 Covia Communities ("Communities"), which operates six life plan communities, Covia Foundation ("Foundation"), a fundraising and supporting organization to Communities (collectively, the "Affiliates"). All of the Affiliates are California nonprofit public benefit corporations. Some of the Affiliates share common officers, directors, and management and, at times, provide various support services to one another. The Affiliates' financial statements are not included in the accompanying financial statements of the Project.

Basis of presentation – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance 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 liquidity, such as security deposits and operating and replacement reserves.

Concentration of risk – Financial instruments potentially subjecting the Project to concentrations of credit risk consist primarily of bank demand deposits in excess of Federal Deposit Insurance Corporation limits.

Account receivables – The Project receives payment from residents and HUD for services provided. The Project uses the specific write-off method to provide for doubtful accounts because past experience and management's estimation indicates an adequate allowance for such accounts is immaterial.

Property and equipment – Property and equipment are stated at cost. Acquisitions of $5,000 or more and with a useful life of more than one year are capitalized. Depreciation is based upon the straight-line method at rates based on the estimated useful lives of the various classes of property, which range from 3 to 40 years. The Project periodically evaluates the carrying value of its long-lived assets for impairment. Based on this evaluation, no impairment was recorded for the years ended March 31, 2020 and 2019.

Tenant security deposits – The Project maintains 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 Shires Memorial Center.

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.

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, 2020 and 2019, the Project had incurred development fees of $38,300 and $10,720.

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 that 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, 2020 and 2019, 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 board of director approval. Vacancy loss is shown as a reduction in rental income. Rental units occupied by employees are included in rental income as an expense of operations. Other income includes fees for late payments, cleaning, damages, laundry facilities, and other charges, and is recorded when earned.

Tax-exempt status – The Project is 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, 2020 and 2019, 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 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 Jose, California, or by changes in City of San Jose low-income housing subsidies or the demand for such housing.

New accounting pronouncements – In January 2016, the Financial Accounting Standards Board ("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 Project 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 Project's 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. The Project adopted the provisions of ASU 2016-02 during the year ended March 31, 2020. The adoption of ASU 2016-02 did not have a material impact on the Project's financial statements.

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 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, and restricted cash or restricted cash equivalents during the period. The guidance is effective for fiscal years beginning after December 15, 2018. The Project adopted the provisions of ASU 2016-18 during the year ended March 31, 2020 using the retrospective method for all periods 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 and 2019.

NOTE 2 – RELATED-PARTY TRANSACTIONS

The Project 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 $197,886 and $253,840 of shared costs during the years ended March 31, 2020 and 2019. Of this amount, $43,914 and zero was due to Affordable Communities at March 31, 2020 and 2019.

NOTE 3 – COMMITMENTS AND CONTINGENCIES

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, 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, 2020 and 2019, totaled $15,098 and $7,752.

NOTE 4 – 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, 2020, comprise the following:

Cash and cash equivalents	$	608,773
Accounts receivable		3,348
	$	612,121

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 5 – FUNCTIONAL EXPENSES

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

	Year Ended March 31, 2020		
	Residential Services	General and Administrative	Total
Salaries and benefits	$ 68,154	$ 134,350	$ 202,504
Supplies	821	6,510	7,331
Other purchased services	40,479	79,232	119,711
Repairs and maintenance	143,493	15,944	159,437
Utilities	240,868	26,763	267,631
Depreciation and amortization	250,005	27,778	277,783
Other	145,984	92,947	238,931
	$ 889,804	$ 383,524	$ 1,273,328

	Year Ended March 31, 2019		
	Residential Services	General and Administrative	Total
Salaries and benefits	$ 61,439	$ 93,871	$ 155,310
Supplies	-	5,763	5,763
Other purchased services	(4,190)	63,784	59,594
Repairs and maintenance	186,194	20,688	206,882
Utilities	229,928	25,548	255,476
Depreciation and amortization	250,005	27,778	277,783
Other	414,125	126,873	540,998
	$ 1,137,501	$ 364,305	$ 1,501,806

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

NOTE 6 – 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.

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 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.

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 Project has evaluated subsequent events through June 30, 2020, which is the date the financial statements were available to be issued.

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