



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

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

*March 31, 2021*

# Table of Contents

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<b>REPORT OF INDEPENDENT AUDITORS .....</b>	<b>1</b>
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## **CONSOLIDATED FINANCIAL STATEMENTS**

Consolidated Statement of Financial Position .....	4
Consolidated Statement of Activities and Changes in Net Assets.....	6
Consolidated Statement of Cash Flows.....	7
Notes to Consolidated Financial Statements.....	8

## **SUPPLEMENTARY INFORMATION**

Consolidating Statement of Financial Position.....	18
Consolidating Statement of Activities and Changes in Net Assets.....	20

## **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, 2021, 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, 2021, 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.

## ***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, 2021, 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 29, 2021

**Consolidated Financial Statements**

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**Oak Center Towers**  
**(a California Nonprofit Public Benefit Corporation)**  
**Consolidated Statement of Financial Position**  
**March 31, 2021**

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<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 329,199
Cash and cash equivalents - restricted	82,513
Cash and cash equivalents - investments	2,462,481
Accounts receivable - operations	775,092
Notes receivable - interest	47,569
Prepaid expenses	381,774
Right-of-use asset - current portion	113,733
Inventory	<u>5,792</u>
Total current assets	<u>4,198,153</u>
<b>TENANT SECURITY DEPOSITS</b>	<u>51,536</u>
<b>RESTRICTED DEPOSITS AND FUNDED RESERVES</b>	
Operating reserves	247,566
Replacement reserves	119,956
Bond reserves	23,992
Insurance and tax reserves	103,055
Restabilization reserves	<u>135,324</u>
Total restricted deposits and funded reserves	<u>629,893</u>
<b>RIGHT-OF-USE ASSET, NET</b>	<u>2,037,989</u>
<b>PROPERTY AND EQUIPMENT, at cost</b>	
Land and land improvements	445,115
Buildings and improvements	17,007,494
Building equipment	1,002,461
Computer software	24,936
Motor vehicles	33,525
Construction in progress	<u>2,637,935</u>
	21,151,466
Accumulated depreciation	<u>(9,800,628)</u>
Total property and equipment, net	<u>11,350,838</u>
<b>OTHER ASSETS</b>	
Predevelopment	<u>174,152</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 18,442,561</u></u>

**Oak Center Towers**  
**(a California Nonprofit Public Benefit Corporation)**  
**Consolidated Statement of Financial Position (continued)**  
**March 31, 2021**

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<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 507,641
Accrued liabilities	43,871
Due to affiliates	572,290
Lease liability - current portion	<u>113,733</u>
Total current liabilities	<u>1,237,535</u>
<b>TENANT SECURITY DEPOSITS</b>	<u>51,536</u>
<b>LONG-TERM LIABILITIES</b>	
Loans payable	2,649,177
Ground lease payable	835,067
Lease liability, net	<u>2,037,989</u>
Total long-term liabilities	<u>5,522,233</u>
Total liabilities	<u>6,811,304</u>
<b>NET ASSETS</b>	
Net assets without donor restrictions	
Noncontrolling interest	1,463,849
Controlling interest	<u>10,085,923</u>
Total net assets without donor restrictions	11,549,772
Net assets with donor restrictions	<u>81,485</u>
Total net assets	<u>11,631,257</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 18,442,561</u></u>

**Oak Center Towers**  
**(a California Nonprofit Public Benefit Corporation)**  
**Consolidated Statement of Activities and Changes in Net Assets**  
**Year Ended March 31, 2021**

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REVENUES AND SUPPORT WITHOUT DONOR RESTRICTIONS	
Residential rental income, net of vacancy loss of \$0	\$ 3,970,372
Laundry and vending income	1,536
Interest income	35,525
Miscellaneous income	16,520
	<hr/>
Total unrestricted revenues and support	4,023,953
	<hr/>
EXPENSES	
Program services	
Maintenance expenses	1,327,597
Rental expenses	354,606
General and administrative	784,437
Depreciation and amortization expenses	779,902
Interest and bond expenses	94,347
Other program service expenses	294,194
	<hr/>
Total expenses	3,635,083
	<hr/>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	388,870
	<hr/>
CHANGE IN NET ASSETS	388,870
	<hr/>
BEGINNING NET ASSETS	11,242,387
	<hr/>
ENDING NET ASSETS	\$ 11,631,257
	<hr/> <hr/>
Reconciliation of net assets	
Noncontrolling interest - without donor restrictions	
Beginning of year	\$ 1,262,038
Noncontrolling interests in limited partnership earnings	201,811
	<hr/>
End of year	\$ 1,463,849
	<hr/> <hr/>
Controlling interest - without donor restrictions	
Beginning of year	\$ 9,898,864
Change in net assets	187,059
	<hr/>
End of year	\$ 10,085,923
	<hr/> <hr/>
Controlling interest - with donor restrictions	
Beginning of year	\$ 81,485
	<hr/>
End of year	\$ 81,485
	<hr/> <hr/>



**Oak Center Towers**  
**(a California Nonprofit Public Benefit Corporation)**  
**Consolidated Statement of Cash Flows**  
**Year Ended March 31, 2021**

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<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Rental receipts	\$ 3,180,343
Interest receipts	35,525
Tenant security deposits	1,313
Other operating receipts	18,056
	<hr/>
Total receipts	3,235,237
	<hr/>
Management fee	174,194
Utilities	561,072
Salaries and wages	569,558
Operating and maintenance	588,602
Real estate taxes	219,940
Property insurance	85,424
Miscellaneous taxes and insurance	197,892
Interest on loans payable	37,895
Miscellaneous financial	56,452
Other	(34,302)
	<hr/>
Total disbursements	2,799,570
	<hr/>
Net cash provided by operating activities	435,667
	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of property and equipment	(2,194,359)
	<hr/>
Net cash used in investing activities	(2,194,359)
	<hr/>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Principal payments on loans payable	(100,000)
	<hr/>
Net cash used in financing activities	(100,000)
	<hr/>
<b>DECREASE IN CASH AND RESTRICTED CASH</b>	<b>(1,858,692)</b>
<b>CASH AND RESTRICTED CASH, beginning of year</b>	<b>5,414,314</b>
	<hr/>
<b>CASH AND RESTRICTED CASH, end of year</b>	<b>\$ 3,555,622</b>
	<hr/> <hr/>
Reconciliation of cash and restricted cash	
Cash - operations	\$ 329,199
Cash and cash equivalents - restricted	82,513
Cash and cash equivalents - investments	2,462,481
Restricted cash - tenant security deposits	51,536
Restricted cash - restricted deposits and funded reserves	629,893
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End of year	\$ 3,555,622
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# Oak Center Towers

## (a California Nonprofit Public Benefit Corporation)

### Notes to Consolidated Financial Statements

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#### 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, Covia Foundation, formerly Episcopal Senior Communities Foundation, Affordable Communities, Community Housing, Inc. (Lytton Gardens I and Lytton Gardens II), Lytton IV Housing Corporation, Presidio Gate Apartments, Jennings Senior Housing, Inc., Bethany Center Senior Housing, Inc., and Shires Medical Center.

Some of entities share common officers, directors, and management and, at times, provide various support services to one another. These entities’ financial statements are not included in the accompanying consolidated financial statements of the Organization.

**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, 2020.

**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.

**Oak Center Towers**  
**(a California Nonprofit Public Benefit Corporation)**  
**Notes to Consolidated Financial Statements (continued)**

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**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.

**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.

**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 \$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 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, 2021.

**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

## Oak Center Towers (a California Nonprofit Public Benefit Corporation) Notes to Consolidated Financial Statements (continued)

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**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 recognized revenue for services under 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. At March 31, 2021 and 2020 OCT had no unsettled tax matters.

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 operations, 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.

**Oak Center Towers**  
**(a California Nonprofit Public Benefit Corporation)**  
**Notes to Consolidated Financial Statements (continued)**

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**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.

**NOTE 2 – 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, 2021, transactions affecting the operating reserves were as follows:

Beginning balance at April 1, 2020	\$	934,350
Monthly deposits		36,750
Bank interest, net of bank fees		11
Approved distributions		<u>(723,545)</u>
Ending balance at March 31, 2021	\$	<u><u>247,566</u></u>

**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.

**Oak Center Towers**  
**(a California Nonprofit Public Benefit Corporation)**  
**Notes to Consolidated Financial Statements (continued)**

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During the year ended March 31, 2021, transactions affecting the replacement reserves were as follows:

Beginning balance at April 1, 2020	\$ 1,259,778
Monthly deposits	149,228
Bank interest, net of bank fees	2,575
Approved distributions	<u>(1,291,625)</u>
Ending balance at March 31, 2021	<u>\$ 119,956</u>

**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, 2021, OCLP had a balance of \$23,992 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, 2021, OCLP had a balance of \$103,055 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, 2021, OCLP had a balance of \$135,324 in the restabilization reserves account.

**Oak Center Towers**  
**(a California Nonprofit Public Benefit Corporation)**  
**Notes to Consolidated Financial Statements (continued)**

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**NOTE 3 – 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, 2021 and 2020 was 0.12% and 1.50%.

	<u>\$ 2,920,000</u>
Net unamortized cost of issuance	<u>2,920,000</u> <u>(270,823)</u>
Total loans payable, net	<u><u>\$ 2,649,177</u></u>

Scheduled maturities for the above loan payable are as follows:

Year Ending March 31,

2022	\$ -
2023	-
2024	-
2025	-
2026	-
Thereafter	<u>2,920,000</u>
	<u><u>\$ 2,920,000</u></u>

**NOTE 4 – INTEREST EXPENSE**

Interest expense for the year ended March 31, 2021, consisted of the following:

CSCDA Variable Rate Demand Multifamily Housing Revenue Bonds 2005 Series L	<u>\$ 37,895</u>
Total interest expense	<u><u>\$ 37,895</u></u>

# Oak Center Towers

## (a California Nonprofit Public Benefit Corporation)

### Notes to Consolidated Financial Statements (continued)

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#### NOTE 5 – GROUND LEASE

On June 1, 2005, OCLP entered into a ground lease agreement with 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, 2021, the right-to-use asset was \$2,151,722 and the lease liability was \$2,151,722.

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 2021, OCLP did not make any payments for the ground lease. As of March 31, 2020, the ground lease payable was \$835,067.

#### NOTE 6 – HOUSING ASSISTANCE PAYMENTS PROGRAM CONTRACT

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

#### NOTE 7 – 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, 2021.

**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, 2021.

**Ground lease** – See Note 5.

**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, 2021. There were no payables outstanding as of March 31, 2021.

These and other transactions resulted in accounts payable of \$835,067 to related parties for the year ended March 31, 2021.



**Oak Center Towers**  
**(a California Nonprofit Public Benefit Corporation)**  
**Notes to Consolidated Financial Statements (continued)**

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**NOTE 8 – COMMITMENTS AND CONTINGENCIES**

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

**Operating deficit guaranty** – 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, the Communities guarantor arrangement is no longer in effect as no advances were ever made under the agreement and the Project has been stable during the 15-year compliance period.

**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 (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.

**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 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.

**NOTE 9 – LIQUIDITY AND AVAILABILITY**

Financial assets available for general expenditure, within one year of March 31, 2021, comprise the following:

Cash and cash equivalents	\$ 329,199
Cash and cash equivalents - investments	<u>2,462,481</u>
	<u><u>\$ 2,791,680</u></u>

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.

**Oak Center Towers**  
**(a California Nonprofit Public Benefit Corporation)**  
**Notes to Consolidated Financial Statements (continued)**

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**NOTE 10 – 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.

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total Expenses</u>
Salaries and benefits	\$ 357,587	\$ 416,638	\$ 774,225
Supplies	56,195	15,112	71,307
Other purchased services	102	81,655	81,757
Repairs and maintenance	307,323	34,147	341,470
Utilities	644,621	71,625	716,246
Depreciation and amortization	697,102	82,800	779,902
Other	584,941	285,235	870,176
	<u>\$ 2,647,871</u>	<u>\$ 987,212</u>	<u>\$ 3,635,083</u>
Total	<u>\$ 2,647,871</u>	<u>\$ 987,212</u>	<u>\$ 3,635,083</u>

**NOTE 11 – SUBSEQUENT EVENTS**

Subsequent events are events or transactions that occur after the consolidated statement of financial position date but before consolidated financial statements are issued. The Organization recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial position, including the estimates inherent in the process of preparing the consolidated 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 consolidated statement of financial position but arose after the consolidated statement of financial position date and before financial statements are 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 Organization has evaluated subsequent events through June 29, 2021, which is the date the consolidated financial statements are available to be issued.

## **Supplementary Information**

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**Oak Center Towers**  
**(a California Nonprofit Public Benefit Corporation)**  
**Consolidating Statement of Financial Position**  
**March 31, 2021**

<b>ASSETS</b>	<u>OCT</u>	<u>OCLP</u>	<u>Eliminating</u>	<u>2021</u>
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 189,024	\$ 140,175	\$ -	\$ 329,199
Cash and cash equivalents - restricted	82,513	-	-	82,513
Cash and cash equivalents - investments	2,462,481	-	-	2,462,481
Accounts receivable – operations	-	775,092	-	775,092
Notes receivable - affiliates	3,805,437	-	(3,805,437)	-
Notes receivable - interest	2,547,983	-	(2,500,414)	47,569
Prepaid expenses	-	381,774	-	381,774
Right-of-use asset - current portion	-	113,733	-	113,733
Inventory	-	5,792	-	5,792
Total current assets	<u>9,087,438</u>	<u>1,416,566</u>	<u>(6,305,851)</u>	<u>4,198,153</u>
<b>TENANT SECURITY DEPOSITS</b>	<u>-</u>	<u>51,536</u>	<u>-</u>	<u>51,536</u>
<b>RESTRICTED DEPOSITS AND FUNDED RESERVES</b>				
Operating reserves	-	247,566	-	247,566
Replacement reserves	-	119,956	-	119,956
Bond reserves	-	23,992	-	23,992
Insurance and tax reserves	-	103,055	-	103,055
Restabilization reserves	-	135,324	-	135,324
Total restricted deposits and funded reserves	<u>-</u>	<u>629,893</u>	<u>-</u>	<u>629,893</u>
<b>RIGHT-OF-USE ASSET, NET</b>	<u>-</u>	<u>2,037,989</u>	<u>-</u>	<u>2,037,989</u>
<b>PROPERTY AND EQUIPMENT, at cost</b>				
Land and land improvements	109,029	336,086	-	445,115
Buildings and improvements	-	17,007,494	-	17,007,494
Buildings equipment	-	1,002,461	-	1,002,461
Computer software	-	24,936	-	24,936
Motor vehicles	-	33,525	-	33,525
Construction in progress	-	2,637,935	-	2,637,935
Total property and equipment, at cost	<u>109,029</u>	<u>21,042,437</u>	<u>-</u>	<u>21,151,466</u>
Accumulated depreciation	-	(9,800,628)	-	(9,800,628)
Total property and equipment, net	<u>109,029</u>	<u>11,241,809</u>	<u>-</u>	<u>11,350,838</u>
<b>OTHER ASSETS</b>				
Predevelopment	174,152	-	-	174,152
Investment in Oak Centers, L.P.	1,199,537	-	(1,199,537)	-
<b>TOTAL ASSETS</b>	<u>\$ 10,570,156</u>	<u>\$ 15,377,793</u>	<u>\$ (7,505,388)</u>	<u>\$ 18,442,561</u>

**Oak Center Towers**  
**(a California Nonprofit Public Benefit Corporation)**  
**Consolidating Statement of Financial Position (continued)**  
**March 31, 2021**

	<u>OCT</u>	<u>OCLP</u>	<u>Eliminating</u>	<u>2021</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ -	\$ 507,641	\$ -	\$ 507,641
Accrued liabilities	-	43,871	-	43,871
Due to affiliates	402,748	169,542	-	572,290
Lease liability - current portion	-	113,733	-	113,733
Total current liabilities	<u>402,748</u>	<u>834,787</u>	<u>-</u>	<u>1,237,535</u>
<b>TENANT SECURITY DEPOSITS</b>	<u>-</u>	<u>51,536</u>	<u>-</u>	<u>51,536</u>
<b>LONG-TERM LIABILITIES, NET OF CURRENT PORTION:</b>				
Loans payable	-	6,454,614	(3,805,437)	2,649,177
Accrued interest payable	-	2,500,414	(2,500,414)	-
Ground lease payable	-	835,067	-	835,067
Lease liability, net	-	2,037,989	-	2,037,989
Total long-term liabilities, net of current portion	<u>-</u>	<u>11,828,084</u>	<u>(6,305,851)</u>	<u>5,522,233</u>
Total liabilities	<u>402,748</u>	<u>12,714,407</u>	<u>(6,305,851)</u>	<u>6,811,304</u>
<b>NET ASSETS</b>				
Net assets without donor restrictions				
Noncontrolling interest	-	1,463,849	-	1,463,849
Controlling interest	10,085,923	1,199,537	(1,199,537)	10,085,923
Total net assets without donor restrictions	<u>10,085,923</u>	<u>2,663,386</u>	<u>(1,199,537)</u>	<u>11,549,772</u>
Net assets with donor restrictions				
	<u>81,485</u>	<u>-</u>	<u>-</u>	<u>81,485</u>
Total net assets	<u>10,167,408</u>	<u>2,663,386</u>	<u>(1,199,537)</u>	<u>11,631,257</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 10,570,156</u>	<u>\$ 15,377,793</u>	<u>\$ (7,505,388)</u>	<u>\$ 18,442,561</u>

**Oak Center Towers**  
**(a California Nonprofit Public Benefit Corporation)**  
**Consolidating Statement of Activities and Changes in Net Assets**  
**Year Ended March 31, 2021**

	OCT	OCLP	Eliminating	2021
<b>REVENUES AND SUPPORT WITHOUT DONOR RESTRICTIONS</b>				
Residential rental income, net of vacancy loss of \$52,970	\$ 3,612,588	\$ 3,970,372	\$ (3,612,588)	\$ 3,970,372
Laundry and vending income	-	1,536	-	1,536
Interest income	222,791	3,006	(190,272)	35,525
Miscellaneous revenue	16	16,504	-	16,520
	<u>3,835,395</u>	<u>3,991,418</u>	<u>(3,802,860)</u>	<u>4,023,953</u>
<b>EXPENSES</b>				
Program services				
Maintenance	-	1,327,597	-	1,327,597
Rental expenses	-	354,606	-	354,606
Depreciation and amortization	-	779,902	-	779,902
Interest and bond expenses	-	284,619	(190,272)	94,347
Other program service expenses	3,612,588	294,194	(3,612,588)	294,194
Supporting services				
General and administrative	35,748	748,669	20	784,437
	<u>3,648,336</u>	<u>3,789,587</u>	<u>(3,802,840)</u>	<u>3,635,083</u>
<b>CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<u>187,059</u>	<u>201,831</u>	<u>(20)</u>	<u>388,870</u>
<b>CHANGE IN NET ASSETS</b>	187,059	201,831	(20)	388,870
<b>BEGINNING NET ASSETS</b>	<u>9,980,349</u>	<u>2,461,555</u>	<u>(1,199,517)</u>	<u>11,242,387</u>
<b>ENDING NET ASSETS</b>	<u>\$ 10,167,408</u>	<u>\$ 2,663,386</u>	<u>\$ (1,199,537)</u>	<u>\$ 11,631,257</u>

