



*Report of Independent Auditors and
Financial Statements*

**Shires Memorial Center
(a California Nonprofit Public Benefit Corporation)**

March 31, 2021 and 2020

Table of Contents

REPORT OF INDEPENDENT AUDITORS1

FINANCIAL STATEMENTS

Statements of Financial Position.....4

Statements of Activities and Changes in Net Assets.....5

Statements of Cash Flows6

Notes to Financial Statements7

Report of Independent Auditors

To 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, 2021 and 2020, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

San Francisco, California
June 29, 2021

Financial Statements

Shires Memorial Center
Statements of Financial Position
March 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 776,953	\$ 608,773
Accounts receivable, net	19,419	3,348
Prepaid expenses	111,704	75,297
Total current assets	<u>908,076</u>	<u>687,418</u>
TENANT SECURITY DEPOSITS	<u>101,605</u>	<u>102,972</u>
RESTRICTED DEPOSITS AND FUNDED RESERVES		
Replacement reserves	502,570	502,278
Total restricted deposits and funded reserves	<u>502,570</u>	<u>502,278</u>
PROPERTY AND EQUIPMENT		
Land and land improvements	3,789,081	3,789,081
Buildings and improvements	833,350	833,350
Construction in progress	124,993	106,630
Office furniture and equipment	52,019	-
	<u>4,799,443</u>	<u>4,729,061</u>
Accumulated depreciation	(847,448)	(578,715)
Total property and equipment, net	<u>3,951,995</u>	<u>4,150,346</u>
OTHER ASSETS		
Development costs	41,741	38,300
Total other assets	<u>41,741</u>	<u>38,300</u>
TOTAL ASSETS	<u>\$ 5,505,987</u>	<u>\$ 5,481,314</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 7,950	\$ 37,597
Accounts payable - affiliated organizations	122,414	43,914
Accrued wages payable	25,570	17,166
Total current liabilities	<u>155,934</u>	<u>98,677</u>
TENANT SECURITY DEPOSITS	<u>101,605</u>	<u>102,972</u>
Total liabilities	<u>257,539</u>	<u>201,649</u>
NET ASSETS		
Net assets without donor restrictions	5,248,448	5,279,665
Total net assets	<u>5,248,448</u>	<u>5,279,665</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,505,987</u>	<u>\$ 5,481,314</u>

Shires Memorial Center
Statements of Activities and Changes in Net Assets
Years Ended March 31, 2021 and 2020

	2021	2020
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues and support:		
Residential rental revenue, net of vacancy loss of \$68,836 in 2021 and \$23,379 in 2020	\$ 761,047	\$ 739,295
HUD assistance income	565,390	543,810
Interest income	357	3,069
Laundry and other	5,276	4,657
Miscellaneous income	29,198	59,734
Total revenues and support	1,361,268	1,350,565
Expenses:		
Administrative	438,056	258,500
Utilities	271,087	236,180
Operating and maintenance	310,263	354,128
Taxes and insurance	103,846	134,559
Food service and other	500	12,178
Depreciation	268,733	277,783
Total expenses	1,392,485	1,273,328
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(31,217)	77,237
NET ASSETS, beginning of year	5,279,665	5,202,428
NET ASSETS, end of year	\$ 5,248,448	\$ 5,279,665

Shires Memorial Center
Statements of Cash Flows
Years Ended March 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Rental receipts	\$ 1,310,366	\$ 1,289,997
Interest from operations	357	3,069
Other operating receipts	<u>34,474</u>	<u>64,391</u>
Total receipts	<u>1,345,197</u>	<u>1,357,457</u>
Administrative	(102,716)	(93,422)
Utilities	(271,087)	(236,180)
Management fee	(83,160)	(71,280)
Salaries and wages	(194,923)	(181,705)
Operating and maintenance	(310,263)	(271,009)
Real estate taxes	(48,587)	(90,345)
Property insurance	(68,304)	(50,354)
Miscellaneous taxes and insurance	(23,362)	37,855
Other operating expenses	(500)	(12,178)
Miscellaneous financial	<u>(36,398)</u>	<u>(12,731)</u>
Total disbursements	<u>(1,139,300)</u>	<u>(981,349)</u>
Cash provided by operating activities	<u>205,897</u>	<u>376,108</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Funds used for purchase of property and equipment	<u>(38,792)</u>	<u>(39,070)</u>
Cash used in investing activities	<u>(38,792)</u>	<u>(39,070)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	167,105	337,038
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of year	<u>1,214,023</u>	<u>876,985</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year	<u>\$ 1,381,128</u>	<u>\$ 1,214,023</u>
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH		
Cash - operations	\$ 776,953	\$ 608,773
Restricted cash - tenant security deposits	101,605	102,972
Restricted cash - restricted deposits and funded reserves	<u>502,570</u>	<u>502,278</u>
TOTAL CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year	<u>\$ 1,381,128</u>	<u>\$ 1,214,023</u>

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 (“the Group”), a California nonprofit public benefit corporation, the Project is also affiliated with Covia Communities (“the Communities”), which operates six life plan communities, Covia Foundation (“ the Foundation”), a fundraising and supporting organization to Communities (collectively, the “Affiliates”). All of the Affiliates are California nonprofit public benefit corporations. Some of the Affiliates share common officers, directors, and management and, at times, provide various support services to one another. The Affiliates’ financial statements are not included in the accompanying financial statements of the Project.

Basis of presentation – The 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 \$7,500 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, 2021 and 2020.

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.

Shires Memorial Center Notes to Financial Statements (Continued)

Development costs – Development costs consist of legal and feasibility costs incurred in preparation for capital improvements by the Project, which will be recovered during financing of the capital improvements. As of March 31, 2021 and 2020, the Project had incurred development fees of \$41,741 and \$38,300, respectively.

Net assets – The Project classifies net assets as follows:

Net assets without donor restrictions represent unrestricted resources available to support the Project's operations and temporarily restricted resources 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, 2021 and 2020, the Project had no net assets with donor restrictions.

Revenue recognition – Rental income is shown at its maximum gross potential. Rental income is derived from rental rates subject to board of director approval. Vacancy loss is shown as a reduction in rental income. The Project recognized revenue for services under resident agreements in accordance with the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 842, *Leases*, which is recognized as the services are performed. Revenue is recognized as earned when rental are invoiced. Rental units occupied by employees are included in rental income as an expense of operations. Other income includes fees for late payments, cleaning, damages, laundry facilities, and other charges, and is recorded when earned.

Tax-exempt status – The Project is 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, 2021 and 2020, the Project had no unsettled tax matters.

Property taxes – The Project has filed and received an exemption from certain property taxes in accordance with Section 214 of the California Revenue and Taxation Code.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities 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.

Shires Memorial Center Notes to Financial Statements (Continued)

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

NOTE 2 – 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 \$971,802 and \$197,886 of shared costs during the years ended March 31, 2021 and 2020. Of this amount, \$122,414 and 43,914 was due to Affordable Communities at March 31, 2021 and 2020.

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. 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, 2021 and 2020, totaled \$19,901 and \$15,098.

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

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

Shires Memorial Center Notes to Financial Statements (Continued)

NOTE 4 – LIQUIDITY AND AVAILABILITY

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

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 776,953	\$ 608,773
Accounts receivable	19,419	3,348
	<u>\$ 796,372</u>	<u>\$ 612,121</u>

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:

	<u>Year Ended March 31, 2021</u>		
	<u>Residential Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and benefits	\$ 90,001	\$ 181,051	\$ 271,052
Supplies	2,519	7,962	10,481
Other purchased services	14,671	46,574	61,245
Repairs and maintenance	188,683	20,965	209,648
Utilities	242,735	28,352	271,087
Depreciation and amortization	241,860	26,873	268,733
Other	155,029	145,210	300,239
	<u>\$ 935,498</u>	<u>\$ 456,987</u>	<u>\$ 1,392,485</u>

Shires Memorial Center
Notes to Financial Statements (Continued)

	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	209,417	26,763	236,180
Depreciation and amortization	250,005	27,778	277,783
Other	177,435	92,947	270,382
	\$ 889,804	\$ 383,524	\$ 1,273,328

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

NOTE 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.

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

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

