

SANTA CLARA TEACHER HOUSING
FOUNDATION

Audited Financial Statements
June 30, 2021



SANTA CLARA TEACHER HOUSING FOUNDATION
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Santa Clara Teacher Housing Foundation
Santa Clara, California

Report on the financial statements

We have audited the accompanying financial statements of Santa Clara Teacher Housing Foundation, (the "Foundation"), a nonprofit organization, which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 Santa Clara Teacher Housing Foundation as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2022, on our consideration of Santa Clara Teacher Housing Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Harshmal & Company LLP

Oakland, California
January 28, 2022

FINANCIAL STATEMENTS

SANTA CLARA TEACHER HOUSING FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2021

ASSETS

Current assets:

Cash and cash equivalents	\$	5,000
Other assets		<u>5,376</u>
Total current assets		<u>10,376</u>
Total assets		<u>10,376</u>

LIABILITIES

Current liabilities:

Accounts payable	31,376
Tenant deposits	<u>97,301</u>
Total current liabilities	<u>128,677</u>
Total liabilities	<u>128,677</u>

NET ASSETS

With donor restrictions	-
Without donor restrictions	<u>(118,301)</u>
Total net assets	<u>(118,301)</u>
Total liabilities and net assets	<u>\$ 10,376</u>

The accompanying notes are an integral part of these financial statements.

SANTA CLARA TEACHER HOUSING FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<i>REVENUES AND OTHER SUPPORT</i>			
Rent	\$ 1,453,592	\$ -	\$ 1,453,592
Other	<u>588</u>	<u>-</u>	<u>588</u>
Total revenues and other support	<u>1,454,180</u>	<u>-</u>	<u>1,454,180</u>
<i>EXPENSES AND LOSSES</i>			
Program services	1,414,320	-	1,414,320
Supporting services	<u>62,025</u>	<u>-</u>	<u>62,025</u>
Total expenses and losses	<u>1,476,345</u>	<u>-</u>	<u>1,476,345</u>
Changes in net assets	(22,165)	-	(22,165)
Net assets at beginning of year	<u>(96,136)</u>	<u>-</u>	<u>(96,136)</u>
Net assets at end of year	<u><u>\$ (118,301)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (118,301)</u></u>

The accompanying notes are an integral part of these financial statements.

SANTA CLARA TEACHER HOUSING FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021

	<u>Program services</u>	<u>Support services</u>	<u>Total</u>
Administrative expenses	\$ -	\$ 12,000	\$ 12,000
Maintenance	34,182	-	34,182
Consultants and commissions	-	34,385	34,385
Pest control	7,097	-	7,097
Repairs	55,781	-	55,781
Painting	14,370	-	14,370
Carpet/Linoleum/Tile	31,225	-	31,225
Appliances	13,240	-	13,240
Telephone	-	12,099	12,099
Landscaping	29,700	-	29,700
Management fee	72,680	-	72,680
Insurance	1,260	-	1,260
Lighting service	5,813	-	5,813
Utilities	119,992	-	119,992
Plumbing/Electrical/Heating	40,900	-	40,900
Locksmith	3,689	-	3,689
Miscellaneous	1,903	3,541	5,444
Lease expenses (excess net rent)	<u>982,488</u>	<u>-</u>	<u>982,488</u>
Total expenses	<u>\$ 1,414,320</u>	<u>\$ 62,025</u>	<u>\$ 1,476,345</u>

The accompanying notes are an integral part of these financial statements.

SANTA CLARA TEACHER HOUSING FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021

Cash flows from operating activities:

Change in net assets	\$ (22,165)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:	
Changes in operating assets and liabilities:	
Other assets	(5,376)
Accounts payable	17,683
Tenant deposits	<u>9,858</u>
Net cash provided (used) by operating activities	<u>-</u>
Net change in cash and cash equivalents	-
Cash and cash equivalents at beginning of year	<u>5,000</u>
Cash and cash equivalents at end of year	<u><u>\$ 5,000</u></u>

The accompanying notes are an integral part of these financial statements.

SANTA CLARA TEACHER HOUSING FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 - NATURE OF ACTIVITIES

Santa Clara Teacher Housing Foundation (the "Foundation") is a non-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation was formed on May 24, 2001 for the purpose of advancing education by supporting the Santa Clara Unified School District (The "District") in its efforts to retain qualified teachers who might otherwise leave the District because of the lack of affordable housing through the development and operation of affordable faculty housing.

The Foundation and District have entered into a lease agreement for rental of land owned by the District. The Foundation has further entered into an agreement to assist in the acquisition of certain capital facilities and lease those facilities to the District. The Foundation by resolution has agreed to assist the District through a Trust Agreement to fund the improvements and repay principal and interest from the Certificates of participation (COPs). The Foundation has assigned all rights to receive excess rental payments without recourse to Wells Fargo Bank, trustee for the Certificates. The project was completed in 2009.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

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. Under this method, revenues are recorded when rights to receive are earned, or when services have been provided and expenditures are recorded when obligation to pay is incurred.

B. Basis of Presentation

The financial statements of the Foundation are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Foundation applies all relevant FASB pronouncements.

The Foundation implemented Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return.

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the Foundation classifies the net assets and changes in net assets as follows:

Net assets Without Donor Restrictions: - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. The Foundation's board may designate assets without restrictions for specific operational purposes from time to time.

Net assets With Donor Restrictions: - Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. The Foundation had no net assets with donor restrictions at June 30, 2021.

SANTA CLARA TEACHER HOUSING FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

C. Income Tax Status

All tax-exempt entities are subject to review and audit by federal, state and other applicable agencies. Such agencies may review the taxability of unrelated business income, or the qualification of the tax-exempt entity under the Internal Revenue Code and applicable state statutes. There was no unrelated Business Income for the year ended June 30, 2021 with few exceptions, the Foundation is no longer subject to U.S. federal income tax examinations for years before 2019, or state income tax examinations for years before 2018. The Foundation has resubmitted its request for nonprofit status with the state of California which was suspended for not filing an informational return. The Foundation is tax exempt for Federal purposes.

D. Use of Estimates

The financial statements include estimates and assumptions made by management that affect the carrying amounts of assets and liabilities and the reported amounts of revenues and expenses. Actual results may differ from those estimates.

E. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Foundation tries to maintain a cash balance of \$5,000 with all additional funds being used for excess net rent.

The Foundation had deposits as of June 30, 2021 at financial institutions that did not exceed federally insured limits.

F. Allowance for doubtful rents

The Foundation rents to employees of the Santa Clara School District and experiences little if any bad debt.

G. Functional Expenses

Directly identifiable expenses are charged to program and support services. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

NOTE 3 - BOARD RESTRICTED ASSETS

The Foundation uses the services of a real estate management company to operate the rental units. Excess net rents are the result of paying all operating costs from the gross rents. Excess net rents are restricted by the Foundation to lease payments made to repay principal and interest from the COPs. If the COPs are repaid and there is excess net revenue generated from the operation of the housing faculty (excess net rent), will be donated to the Santa Clara Unified School District Education Foundation, an organization that is tax exempt.

The Housing project was completed in 2009. The District re-issued COPS in 2013 and 2015 maturing 2031 and 2036 respectively to replace the 2001 and 2006 COPS respectively.

Part of the COPs refinancing plan was to establish a policy that keeps rents at or near 80% of market rents. This plan projects a substantial pay down of outstanding principal.

SANTA CLARA TEACHER HOUSING FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 3 - BOARD RESTRICTED ASSETS - CONT'D

The total of COPS issued is as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 8,025,000
2015	<u>5,530,000</u>
Total	<u>\$ 13,555,000</u>

NOTE 4 - RELATED PARTIES

The District approves all appointments of the Foundation Board Members. The excess net rent paid to the District in the fiscal year ended June 30, 2021 was \$982,488. No excess net rent was due at June 30, 2021.

NOTE 5 - CONCENTRATIONS

All primary renters are employees of the District. A significant reduction in teacher/employees of the District could cause a larger than normal vacancy rate.

NOTE 6 - GOING CONCERN

The Foundation experienced some losses over the last few years. Those losses represent rental deposits that have been forwarded to the District and accounts payable that can be recovered through future rental payments. Management does not feel this is a significant problem.

NOTE 7 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The Foundation maintains a cash balance of \$5,000. The excess rental income is made available monthly to assist the District in repayment of the outstanding COPS.

The following represents the Foundation's financial assets at June 30, 2021:

Financial assets:

Cash and cash equivalents	\$ 5,000
Account receivable	<u>5,376</u>
Total financial assets	<u>10,376</u>
Less amounts not available to be used within one year for general purposes:	
With donor restriction	-
Amount set aside for liquidity reserve	<u>5,000</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,376</u>

SANTA CLARA TEACHER HOUSING FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 8 - EVALUATION OF SUBSEQUENT EVENTS.

Management has reviewed the change in the net assets and evaluated all subsequent events through January 28, 2022, the date which the financial statements were available to be issued.

As the COVID_19 pandemic is complex and rapidly evolving. At this point, we cannot reasonably estimate the duration and severity of this pandemic, which could have a material adverse impact on our business, results of operations, financial position and cash flows.

COMPLIANCE SECTION

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

To the Board of Directors,
Santa Clara Teacher Housing Foundation
Santa Clara, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Santa Clara Teacher Housing Foundation (the "Foundation"), a non-profit organization, which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 28, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Santa Clara Teacher Housing Foundation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harshmal & Company LLP

Oakland, California
January 28, 2022

**SANTA CLARA TEACHER HOUSING FOUNDATION
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2021**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness?	None reported
• Noncompliance material to financial statements noted?	No

**SANTA CLARA TEACHER HOUSING FOUNDATION
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2021**

SECTION II - AUDIT FINDINGS IN RELATION TO FINANCIAL STATEMENTS

There is no finding related to financial statements.

**SANTA CLARA TEACHER HOUSING FOUNDATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2021**

There is no prior year finding.