

SANTA CLARA TEACHER HOUSING
FOUNDATION

Audited Financial Statements
June 30, 2023



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 audit of the Financial Statements

Opinion

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, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2023, 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.

Basis for Opinion

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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 01, 2023, on our consideration of the 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
November 01, 2023

FINANCIAL STATEMENTS

SANTA CLARA TEACHER HOUSING FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2023

ASSETS

Current assets:

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

LIABILITIES

Current liabilities:

Accounts payable	9,214
Tenant deposits	<u>112,805</u>
Total current liabilities	<u>122,019</u>
Total liabilities	<u>122,019</u>

NET ASSETS

With donor restrictions	-
Without donor restrictions	<u>(117,019)</u>
Total net assets	<u>(117,019)</u>
Total liabilities and net assets	<u>\$ <u>5,000</u></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, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<i>REVENUES AND OTHER SUPPORT</i>			
Rent	\$ 1,487,896	\$ -	\$ 1,487,896
Other	<u>34</u>	<u>-</u>	<u>34</u>
Total revenues and other support	<u>1,487,930</u>	<u>-</u>	<u>1,487,930</u>
<i>EXPENSES AND LOSSES</i>			
Program services	1,423,554	-	1,423,554
Supporting services	<u>77,407</u>	<u>-</u>	<u>77,407</u>
Total expenses and losses	<u>1,500,961</u>	<u>-</u>	<u>1,500,961</u>
Changes in net assets	(13,031)	-	(13,031)
Net assets at beginning of year	<u>(103,988)</u>	<u>-</u>	<u>(103,988)</u>
Net assets at end of year	<u><u>\$ (117,019)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (117,019)</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, 2023

	<u>Program services</u>	<u>Support services</u>	<u>Total</u>
Maintenance	\$ 23,487	\$ -	\$ 23,487
Consultants and commissions	-	41,280	41,280
Pest control	8,142	-	8,142
Repairs	60,367	-	60,367
Painting	10,867	-	10,867
Carpet/Linoleum/Tile	14,877	-	14,877
Appliances	12,617	-	12,617
Telephone	-	23,737	23,737
Landscaping	17,498	-	17,498
Management fee	73,482	-	73,482
Insurance	906	-	906
Lighting service	8,117	-	8,117
Utilities	111,511	-	111,511
Plumbing/Electrical/Heating	54,664	-	54,664
Locksmith	4,408	-	4,408
Charitable	12,000	-	12,000
Security services	910	-	910
Miscellaneous	-	12,390	12,390
Lease expenses (excess net rent)	<u>1,009,701</u>	<u>-</u>	<u>1,009,701</u>
Total expenses	<u>\$ 1,423,554</u>	<u>\$ 77,407</u>	<u>\$ 1,500,961</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, 2023

Cash flows from operating activities:	
Change in net assets	\$ (13,031)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:	
Changes in operating assets and liabilities:	
Other assets	7,876
Accounts payable	3,864
Tenant deposits	<u>1,291</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 FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 - NATURE OF ACTIVITIES

Santa Clara Teacher Housing Foundation (the "Foundation") is a nonprofit 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 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 the 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, 2023.

SANTA CLARA TEACHER HOUSING FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

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, 2023. The Foundation has adopted the accounting guidance related to uncertain tax positions, and has evaluated its tax positions, and believes that all of the positions taken by the Foundation in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination.

The Foundation returns are subject to examination by federal and state taxing authorities, generally for three years and four years respectively after they are filed.

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, 2023 at financial institutions that did not exceed federally insured limits.

F. Allowance for Doubtful Rents

The Foundation rents to employees of the 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 Foundation.

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. The District re-issued COP in 2022 to replace the 2013 COP.

SANTA CLARA TEACHER HOUSING FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

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.

NOTE 3 - BOARD RESTRICTED ASSETS - CONT'D

The total of COPs issued is as follows:

<u>Year</u>	<u>Amount</u>
2022	\$ 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, 2023 was \$1,009,701. No excess net rent was due at June 30, 2023.

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, 2023:

Financial assets:

Cash and cash equivalents	\$ <u>5,000</u>
Total financial assets	<u>5,000</u>
Less : amount not available to be used within one year for general purposes:	
Amount set aside for liquidity reserve	<u>(5,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ -</u>

SANTA CLARA TEACHER HOUSING FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 8 - EVALUATION OF SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 01, 2023, the date that the financial statements were available to be issued and has determined that there are no additional adjustments and for disclosures required.

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, 2023, 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 November 01, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 or significant deficiencies may exist that have not been identified.

Report on 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
November 01, 2023

**SANTA CLARA TEACHER HOUSING FOUNDATION
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2023**

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, 2023**

SECTION II - AUDIT FINDINGS IN RELATION TO FINANCIAL STATEMENTS

There are no findings related to financial statements.

**SANTA CLARA TEACHER HOUSING FOUNDATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2023**

There is no prior year finding.