SAN JOSE
CONSERVATION CORPS

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2010 AND 2009

SAN JOSE CONSERVATION CORPS

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

TABLE OF CONTENTS

Page

* * * *

LINDQUIST
VON HUSEN
& JOYCE LLP

JAMES M. KRAFT
S. SCOTT SEAMANDS
MARK O. BRITTAIN
ALEXIS H. WONG
CHARLOTTE SIEW-KUN TAY

CATHY L. HWANG
RITA B. DELA CRUZ
STANLEY WOO

Board of Directors
San Jose Conservation Corps
San Jose, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial position of San Jose Conservation Corps, a California nonprofit public benefit corporation, as of June 30, 2010 and 2009, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of San Jose Conservation Corps' management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of San Jose Conservation Corps Charter School (Charter School), a division of San Jose Conservation Corps, as of and for the years ended June 30, 2010 and 2009 whose statements reflect total assets and revenues constituting 8% and 9% (after eliminations), and 20% and 27% (after eliminations), respectively, of the related combined totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Charter School, is based solely on the reports of the other auditor.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of San Jose Conservation Corps' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of San Jose Conservation Corps as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

BKR INTERNATIONAL
CERTIFIED PUBLIC ACCOUNTANTS, 90 New Montgomery, 11th Floor, San Francisco, California 94105
Telephone 415 957 9999 Facsimile 415 957 1629 Email mail@lvhj.com http://www.lvhj.com

AN INDEPENDENT MEMBER FIRM OF BKR INTERNATIONAL WITH ASSOCIATES IN PRINCIPAL CITIES WORLDWIDE

In accordance with *Government Auditing Standards*, we have also issued a report dated December 15, 2010 on our consideration of San Jose Conservation Corps' 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards on page 17 is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133*, Audit of States, Local Governments and Nonprofit Organizations*, is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lindquist, von Husen and Joyce LLP

December 15, 2010

SAN JOSE CONSERVATION CORPS

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2010 AND 2009

	2010	2009
ASSETS		
Current assets:		
Cash	$ 778,377	$ 524,802
Restricted cash	125,297	66,492
Receivables:		
Contracts and grants	2,938,351	1,180,326
Other	6,080	16,448
Investments	73,326	93,606
Prepaid expenses and other current assets	100,005	104,211
Total current assets	4,021,436	1,985,885
Construction in progress – (Note 3)	2,923,794	2,548,364
Property and equipment – net (Note 3)	11,124,205	6,966,241
Deferred costs	18,906	21,455
Total assets	$ 18,088,341	$ 11,521,945
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 521,112	$ 476,312
Construction costs payable (Note 3)	1,917,921	351,108
Deferred revenue	25,065	13,416
Notes payable – current portion (Note 4)	35,972	96,905
Line of credit (Note 5)	730,000	-
Total current liabilities	3,230,070	937,741
Note payable – net of current portion (Note 4)	2,902,596	2,868,821
Total liabilities	6,132,666	3,806,562
Net assets:		
Unrestricted	11,829,557	7,648,891
Temporarily restricted (Note 6)	126,118	66,492
Total net assets	11,955,675	7,715,383
Total liabilities and net assets	$ 18,088,341	$ 11,521,945

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

SAN JOSE CONSERVATION CORPS

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2010 AND 2009

	2010			*2009*		
	Unrestricted	*Temporarily Restricted*	*Total*	*Unrestricted*	*Temporarily Restricted*	*Total*
Revenue and support:						
Government grant income	$ 2,707,871	$ -	$ 2,707,871	3,477,013	$ -	$ 3,477,013
General and program revenues – Charter School	1,813,154	-	1,813,154	1,875,089	-	1,875,089
Contributions	36,941	195,000	231,941	65,746	191,185	256,931
Donated rent (Note 2)	88,431	-	88,431	-	-	-
Interest income	3,334	-	3,334	7,446	-	7,446
Other income	76,646	-	76,646	67,510	-	67,510
Net assets released from restrictions (Note 6)	135,374	(135,374)	-	371,806	(371,806)	-
Total revenue and support	4,861,751	59,626	4,921,377	5,864,610	(180,621)	5,683,989
Expenses:						
Program services:						
Corpsmember training	2,312,845	-	2,312,845	3,189,080	-	3,189,080
Charter school	1,535,238	-	1,535,238	1,516,326	-	1,516,326
Total program services	3,848,083	-	3,848,083	4,705,406	-	4,705,406
Supporting services:						
Management and general	1,057,802	-	1,057,802	981,518	-	981,518
Fundraising	15,202	-	15,202	72,289	-	72,289
Total supporting services	1,073,004	-	1,073,004	1,053,807	-	1,053,807
Total expenses	4,921,087	-	4,921,087	5,759,213	-	5,759,213
Change in net assets before other revenue (loss)	(59,336)	59,626	290	105,397	(180,621)	(75,224)
Other revenue (loss):						
Capital grants	4,240,002	-	4,240,002	1,242,445	-	1,242,445
Write off of uncollectible contributions	-	-	-	(168,103)	-	(168,103)
Change in net assets	4,180,666	59,626	4,240,292	1,179,739	(180,621)	999,118
Net assets, beginning of year	7,648,891	66,492	7,715,383	6,469,152	247,113	6,716,265
Net assets, end of year	$ 11,829,557	$ 126,118	$ 11,955,675	$ 7,648,891	$ 66,492	$ 7,715,383

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

SAN JOSE CONSERVATION CORPS

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2010 AND 2009

	2010						
	Program Services			*Supporting Services*			
	Corpsmember Training	*Charter School*	*Subtotal*	*Management and General*	*Fundraising*	*Subtotal*	*Total*
Personnel costs	$ 1,589,321	$ 1,072,620	$ 2,661,941	$ 646,460	$ 9,257	$ 655,717	$ 3,317,658
Education and training	28,369	31,354	59,723	1,756	-	1,756	61,479
Professional services	80,821	175,998	256,819	114,281	1,908	116,189	373,008
Office and other expenses	14,470	34,276	48,746	37,269	956	38,225	86,971
Insurance	47,139	4,996	52,135	31,856	-	31,856	83,991
Equipment and related expenses	15,538	11,578	27,116	26,333	-	26,333	53,449
Vehicle expenses	70,671	2,012	72,683	3,452	-	3,452	76,135
Travel	3,586	4,943	8,529	6,602	-	6,602	15,131
Facilities	17,015	79,013	96,028	103,202	536	103,738	199,766
Donated rent	17,030	44,739	61,769	25,266	1,396	26,662	88,431
Marketing and communication	791	-	791	200	-	200	991
Field expenses	116,322	1,426	117,748	5,087	-	5,087	122,835
Depreciation and amortization	275,590	37,517	313,107	28,890	1,149	30,039	343,146
Interest	32,943	34,766	67,709	26,648	-	26,648	94,357
Loan closing costs amortization	2,549	-	2,549	500	-	500	3,049
Loss from uncollectible receivable	690	-	690	-	-	-	690
Total expenses	$ 2,312,845	$ 1,535,238	$ 3,848,083	$ 1,057,802	$ 15,202	$ 1,073,004	$ 4,921,087

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

SAN JOSE CONSERVATION CORPS

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2010 AND 2009

	2009						
	Program Services			*Supporting Services*			
	Corpsmember Training	*Charter School*	*Subtotal*	*Management and General*	*Fundraising*	*Subtotal*	*Total*
Personnel costs	$ 2,440,303	$ 1,175,334	$ 3,615,637	$ 536,297	$ 34,188	$ 570,485	$ 4,186,122
Education and training	50,888	16,454	67,342	-	-	-	67,342
Professional services	28,617	170,281	198,898	142,937	19,663	162,600	361,498
Office and other expenses	11,614	37,101	48,715	71,490	3,655	75,145	123,860
Insurance	72,187	12,143	84,330	30,045	-	30,045	114,375
Equipment and related expenses	9,960	196	10,156	28,632	-	28,632	38,788
Vehicle expenses	109,488	3,899	113,387	465	-	465	113,852
Travel	18,043	13,863	31,906	15,086	-	15,086	46,992
Facilities	48,329	36,977	85,306	78,425	2,634	81,059	166,364
Marketing and communication	150	-	150	5,750	5,125	10,875	11,025
Field expenses	154,513	7,303	161,816	6,082	-	6,082	167,898
Depreciation and amortization	213,307	42,775	256,082	66,309	7,024	73,333	329,415
Interest	27,645	-	27,645	-	-	-	27,645
Loan closing costs amortization	4,036	-	4,036	-	-	-	4,036
Total expenses	$ 3,189,080	$ 1,516,326	$ 4,705,406	$ 981,518	$ 72,289	$ 1,053,807	$ 5,759,213

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

SAN JOSE CONSERVATION CORPS

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	$ 4,240,292	$ 999,118
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	343,146	329,415
Amortization of deferred costs	2,549	4,036
Loss on disposal of assets	388	-
Income from capital grants	(4,240,002)	(1,242,445)
Loss from discontinued projects	-	-
Write-off of uncollectible contributions	340	168,103
Decrease (increase) in assets:		
Contracts and grants receivable	241,462	(326,006)
Contributions receivable	-	86,272
Other receivables	10,028	59,004
Prepaid expenses and other current assets	4,207	83,752
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	44,800	(74,581)
Deferred revenue	11,649	(133,266)
Net cash provided by (used in) operating activities	658,859	(46,598)
Cash flows from investing activities:		
Decrease (increase) in investments	20,280	(2,351)
Acquisition of property and equipment	(12,247)	(394,551)
Net decrease (increase) in restricted cash	(58,806)	34,954
Additions to construction in progress	(3,297,868)	(1,208,552)
Net cash used in investing activities	(3,348,641)	(1,570,500)
Cash flows from financing activities		
Proceeds from capital grants	2,240,515	1,242,445
Proceeds from (payments of) notes payable	(27,158)	100,000
Borrowing from line of credit	730,000	-
Net cash provided by financing activities	2,943,357	1,342,445
Net increase (decrease) in cash	253,575	(274,653)
Cash, beginning of year	524,802	799,455
Cash, end of year	$ 778,377	$ 524,802

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

SAN JOSE CONSERVATION CORPS

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Supplemental disclosures:		
Cash paid for interest (net of capitalized portion)	$ 93,857	$ 27,645
Noncash investing and financing transactions:		
Assets acquired with short-term debt	$ 1,566,813	$ 117,752
Assets acquired with long-term debt	$ -	$ 100,000
Transfer from construction in progress to property and equipment	$ 4,489,251	$ -

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

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

The San Jose Conservation Corps (the Organization or the Corps) was incorporated in May 1987 as an independent nonprofit organization formed to provide disadvantaged, young men and women (mostly minority) with the academic education, hands-on learning, and development of basic skills such as leadership communication, computer literacy, and employment training needed to enter and succeed in the Silicon Valley skilled workforce. The Organization offers secondary education courses through its on-site charter high school, and vocational education and job training through its Projects and Recycling Departments. Another program, YouthBuild San Jose, combines the mandatory academics with paid on-site job training in the high demand and high wage construction trades. The Organization's mission is to provide youth with a quality high school education and teach valuable work and life skills that empower them to become responsible, productive, and caring citizens.

The Organization operates the San Jose Conservation Corps Charter School (Charter School), which was established on July 1, 2002 to provide vocational training as well as academic hands-on learning. The Charter School is a division of San Jose Conservation Corps. The governing board of the Charter School is also the governing board of the Organization.

The Charter School derives its separate income primarily from state Block Grants (attendance and categorical programs), other federal and foundation grants, as well as from independent donor contributions.

Oversight, beyond the internal review by the Charter School Board of Directors, is under the auspices of the local sponsoring education entity, East Side Union High School District. The Charter School is financially independent of the District. Reports are also made to the Santa Clara County Office of Education and the California Department of Education. Individual grants also have reporting requirements.

In July 2008, the Organization ceased to operate the In-School Youth program due to lack of local funding.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method

The Organization uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, regardless of timing of payments.

The Organization reports information regarding its financial position and activities according to three classes of net assets as follows:

> *Unrestricted Net Assets* – Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or otherwise limited by contractual arrangements with external parties.
>
> *Temporarily Restricted Net Assets* – Net assets that are subject to donor-imposed restrictions that can be fulfilled either by actions of the Organization pursuant to those restrictions and/or expire with the passage of time.
>
> *Permanently Restricted Net Assets* – Net assets that are subject to donor-imposed restrictions that are required to be retained in perpetuity by the Organization.

During the reporting period, the Organization had only unrestricted and temporarily restricted net assets. Temporarily restricted net assets at June 30, 2010 and 2009, related primarily to contributions for which the funds had not yet been spent for the purpose designated by the donor.

Estimates

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

Revenue Recognition

Contributions are recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recorded at their fair value as unrestricted support, temporarily restricted support, or permanently restricted support, depending on the absence or existence of donor-imposed restrictions as applicable. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions. Contributions restricted for the purchase of long-lived assets, are reported as unrestricted or temporarily restricted support with restrictions released over the useful lives of the assets.

Government contracts, which are funded on a reimbursement basis, are considered exchange transactions and are also shown as unrestricted revenue.

In-kind revenue and expense recorded on the statements of activities consists of contributed office facility.

The Organization entered into an agreement to lease their office facility with the City of San Jose. The lease is for a 30-year period, retroactive to March 15, 2000 and requires monthly rental payments of $1, which is significantly less than fair value. The Organization intends to expand their office facility which, during the life of the lease, should significantly impact the value of the property. For the fiscal year ended June 30, 2010, the city of San Jose has determined the fair value of the donated rent to be $88,431.

Fair Value Measurements

Generally accepted accounting principles establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Under these standards, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs, if any, reflects the Organization’s assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that Organization has the ability to access at measurement date. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on significant inputs that are observable, either directly or indirectly or quoted prices in markets that are not active, that is, markets in which there are few transactions, the prices are not current or price quotations vary substantially either over time or among market makers.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed.

Cash

Cash is defined as cash in demand deposit accounts as well as cash on hand. Not included as cash are funds restricted as to their use, regardless of liquidity. The Organization occasionally maintains cash on deposit at banks in excess of the Federal Deposit Insurance Corporation limit. The uninsured cash balance, including restricted accounts, was approximately $80,000 as of June 30, 2010. The Organization has not experienced any losses in such accounts.

Restricted Cash

Restricted cash represents contributions received with donor-imposed restrictions that have not been fulfilled at year-end and those amounted to $125,297 and $66,492 at June 30, 2010 and 2009, respectively.

Accounts Receivable

Management has elected to record bad debts using the direct write-off method. Accounting principles generally accepted in the United States of America require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the result that would have been obtained had the allowance method been followed.

Investments

Investments consist of certificate of deposits that mature within one year, are stated at fair value, and are valued using level 1 inputs.

Property and Equipment

Property and equipment is stated at cost of acquisition or construction, or fair value if donated. The costs of maintenance and repairs are charged to expense as incurred. Costs of improvement or betterment that increase the value of the property or extend its useful life are capitalized. Depreciation is computed based on the straight-line method over the estimated useful lives of the assets, except leasehold improvements. Leasehold improvements are stated at cost and are amortized over the shorter of the life of the asset or the terms of the underlying leases.

The useful lives of the assets are estimated as follows:

Buildings and site improvements	5 to 40 years
Leasehold improvements	10 to 40 years
Vehicles	2 to 5 years
Furniture and equipment	2 to 7 years

Deferred Costs

Deferred costs are incurred in order to obtain permanent financing for the Organization. Deferred costs are stated at cost and amortized on a straight-line basis, which approximately the effective-yield method over the loan term of 10 years and reflected as a component of interest expense.

Construction in Progress

Construction in progress is stated at cost and generally consists of governmental fees, consulting and professional fees as well as construction costs. These costs are recorded as construction in progress and are not depreciated until the property is placed in service.

Capitalized Interest

The Organization capitalizes interest incurred during development as a component of construction in progress. Total interest cost incurred was $219,046 and $192,162 for 2010 and 2009, of which interest capitalized was $121,640 and $160,481 in 2010 and 2009, respectively.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under the related California code sections.

Functional Expenses Allocation

The costs of providing program services and supporting services are summarized on a functional basis in the Statements of Activities and Statements of Functional Expenses. Accordingly, certain costs are allocated among program services and supporting services based on estimates of employees' time incurred and on usage of resources.

Subsequent Events

Management has evaluated subsequent events through December 15, 2010, the date which the financial statements were available to be issued.

NOTE 3 – PROPERTY AND EQUIPMENT AND CONSTRUCTION IN PROGRESS

Property and equipment is summarized as follows:

	2010	*2009*
Land	$ 2,463,319	$ 2,463,319
Buildings and site improvements	9,094,294	4,605,043
Vehicles	1,634,903	1,685,313
Recycling and service equipment	610,341	610,341
Computer equipment	203,423	203,423
Office and other equipment	659,536	647,289
	14,665,816	10,214,728
Less: accumulated depreciation	(3,541,611)	(3,248,487)
Total property and equipment	$ 11,124,205	$ 6,966,241

Construction in progress consists of the following:

	2010	*2009*
Charter School	$ 98,220	$ 217,501
1534 Berger Drive [(1)]	2,825,574	454,555
1560 Berger Drive [(2)]	-	1,876,308
	$ 2,923,794	$ 2,548,364

[(1)] In September 2003, the Organization acquired land and a building (1534 Berger Drive) at a cost of $1,750,000. The property is currently being used for the youth corps and recycling programs, Charter School and office space. Part of the building is vacant and is currently under renovation.

[(2)] In December 2004, the Organization acquired land and a building (1560 Berger Drive) at a cost of $4,200,000. The property had undergone significant rehabilitation for Charter School expansion, a day care center and other program services. Management completed the rehabilitation as of June 30, 2010. Certain portions of the building were being used on a limited basis during the fiscal year 2010 for various program activities.

NOTE 4 – NOTE PAYABLE

The note payable is secured by the property and is summarized as follows:

	2010 *Principal*	*2009* *Principal*
<u>*1560 and 1534 Berger Drive Properties*</u> Heritage Bank note in the maximum amount of $4,000,000. A total of $2,965,726 was originally borrowed on this loan. Beginning January 3, 2011, the note will be subject to an interest rate based on the Prime Rate as published in the Western Edition of the Wall Street Journal. When a range of rates has been published, the higher of the rates will be used (currently 7.50%), plus a margin of -0.75%, resulting in an initial interest rate of 6.75%. The loan requires payments as follows, with interest calculated on unpaid principal balances at an interest rate of 6.50% through December 3, 2010 and at 6.75% thereafter: (a) 16 monthly consecutive principal and interest payments in the initial amount of $18,931 each, beginning September 3, 2009; (b) 83 monthly consecutive principal and interest payments in the initial amount of $19,510 each, beginning January 3, 2011; and (c) One principal and interest payment of $2,611,545 on December 3, 2017 (maturity date). Interest cost was $194,848 and $188,126 in 2010 and 2009, respectively.	$ 2,938,568	$ 2,965,726
Less: current portion	(35,972)	(96,905)
Total	$ 2,902,596	$ 2,868,821

Principal payments on notes payable for the next five years are estimated as follows:

2011	$	35,972
2012		39,397
2013		42,140
2014		45,075
2015		48,213

NOTE 5 – LINE OF CREDIT

The Organization entered into a revolving line of credit arrangement in the original amount of $430,000 on November 25, 2009 and amended it after for $730,000 with Heritage Bank of Commerce on February 2, 2010. The line of credit bears a fixed rate of 6.5% and matured on November 2, 2010, which will be used to pay for construction costs associated with property improvements made to the 1534 and 1560 Berger Drive campuses. The total amount is outstanding as of the fiscal year ended June 30, 2010. Interest cost was $21,148 and $-0- in 2010 and 2009, respectively.

In August and September 2010, the Organization made payments totaling $200,000. As of the date of these financial statements, management is in the process of restructuring the line of credit.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets are for the following purposes or periods:

	2010			
	June 30, 2009	*Contributions*	*Release from Restrictions*	*June 30, 2010*
YouthBuild program	$ -	$ 25,000	$ 25,000	$ -
Green program	-	70,000	-	70,000
Capital campaign	50,000	100,000	100,000	50,000
Scholarship program	16,492	-	10,374	6,118
	$ 66,492	$ 195,000	$ 135,374	$ 126,118

	2009			
	June 30, 2008	*Contributions*	*Release from Restrictions*	*June 30, 2009*
YouthBuild program	$ 30,652	$ 52,500	$ 83,152	$ -
Environmental project	-	10,000	10,000	-
Capital campaign	178,175	127,185	255,360(1)	50,000
Scholarship program	38,286	1,500	23,294	16,492
	$ 247,113	$ 191,185	$ 371,806	$ 66,492

(1) Includes $78,175 of bad debt write off.

NOTE 7 – RETIREMENT PLANS

The Organization sponsors a 403(b) retirement plan covering eligible employees. The employer is not required to make contributions to the plan.

Qualified Charter School employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Classified Charter School employees are members of the California Public Employees' Retirement System (CalPERS), and certified employees are members of the State Teachers' Retirement system (STRS). Benefit provisions of the plans are established by state statutes within the Public Employees' Retirement Law and State Teachers' Retirement Law.

<u>CalPERS:</u>

Active participants are required to contribute 7% of their salary, and the Charter School is required to contribute an actuarially determined rate. Actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The Charter School's required employer contribution rate for fiscal year 2009-2010 was 9.709%. The contribution requirements of the participants are established by state statute. Contributions to CalPERS were $23,419 and $22,623 for the years ended June 30, 2010 and 2009, respectively.

<u>STRS:</u>

Active participants are required to contribute 8% of their salary, and the Charter School is required to contribute an actuarially determined rate. Actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2009-2010 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to STRS were $29,293 and $37,129 for the years ended June 30, 2010 and 2009, respectively.

NOTE 8 – CONCENTRATIONS AND CONTINGENCIES

The Organization receives a substantial amount of its support from federal, state, city and county governments. A significant reduction in the level of this support, if this were to occur, may have an effect on the Organization's program and activities.

Grant and contract awards require the fulfillment of certain conditions as set forth in the agreements. Failure to fulfill the conditions could result in the return of the funds to the grantors. The Organization deems this contingency remote since by accepting the grants and contracts and their terms, it has accommodated the objectives of the Organization to the provisions of the grants. The Organization's management is of the opinion that the Organization has complied with the terms of all grants.

<u>*Contingencies*</u>

In May 2009, the City of San Jose released the results of its independent audit on City contracts with the Corps for four fiscal years ending June 30, 2008. As a result of that audit, the City requested reimbursement for alleged overpayments on some of the contracts, which the Corps disputed. In December 2009, the parties reached a non-monetary resolution of the issues. The San Jose City Council approved the settlement agreement on January 12, 2010.

SUPPLEMENTARY INFORMATION

SAN JOSE CONSERVATION CORPS

(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	*Federal CFDA Number*	*Pass-Through Entity Identifying Number*	*Federal Expenditures*
U.S. Department of Housing and Urban Development:			
Direct funded awards:			
YouthBuild Program – Economic Development Initiative			
Special Projects for Neighborhood Initiatives	14.251		$ 27,738
Pass-through awards:			
City of San Jose Community Development Block Grant			
Special Purpose Grants			
The Seismic Retrofit and Cafeteria/Nutrition Center			
of 1534 Berger Dr Project	14.218		362,396
City of Milpitas Housing and Neighborhood Services Division			
Community Development Block Grant – Formula Grants			
Housing Rehabilitation	14.218		5,000
			367,396
Total U.S. Department of Housing and Urban Development			395,134
U.S. Department of Labor			
Direct funded awards:			
Rehabilitation and Weatherization Projects – Youthbuild	17.274		48,560
Pass-through awards from City of San Jose:			
WIA Title I – Older Youth Program	17.259		227,477
Employment Development Department (EDD) State of California			
Workforce Investment Act (WIA) 15-Percent CalGRIP (ARRA)	17.258		260,660
Total U.S. Department of Labor			536,697
Corporation for National and Community Service			
Pass-through awards from California Conservation Corps (CCC)			
California Energy and Environmental Conservation Recovery Corps –			
American Recovery and Reinvestment Act (ARRA) AmeriCorps	94.006		32,820
Total Corporation for National and Community Service			32,820
U.S. Department of Education			
Pass-through awards from Santa Clara County Office of Education -			
State Fiscal Stabilization Fund (SFSF) – Education State Grants	84.394	S394A090005	115,076
Total U.S. Department of Education			115,076
TOTAL FEDERAL AWARDS			$ 1,079,727

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activities of San Jose Conservation Corps and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

LINDQUIST
VON HUSEN
& JOYCE LLP

JAMES M. KRAFT
S. SCOTT SEAMANDS
MARK O. BRITTAIN
ALEXIS H. WONG
CHARLOTTE SIEW-KUN TAY

CATHY L. HWANG
RITA B. DELA CRUZ
STANLEY WOO

Board of Directors
San Jose Conservation Corps
San Jose, California

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*

We have audited the financial statements of San Jose Conservation Corps, a California nonprofit public benefit corporation, as of and for the year ended June 30, 2010, and have issued our report thereon dated December 15, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered San Jose Conservation Corps' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of San Jose Conservation Corps' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of San Jose Conservation Corps' internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

BKR INTERNATIONAL
CERTIFIED PUBLIC ACCOUNTANTS, 90 New Montgomery, 11th Floor, San Francisco, California 94105
Telephone 415 957 9999 Facsimile 415 957 1629 Email mail@lvhj.com http://www.lvhj.com

AN INDEPENDENT MEMBER FIRM OF BKR INTERNATIONAL WITH ASSOCIATES IN PRINCIPAL CITIES WORLDWIDE

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Jose Conservation Corps' financial statements are free of 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 determination of financial statement amounts. 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.*

This report is intended solely for the information and use of management, others within the Organization, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Lindquist, von Husen and Joyce LLP

December 15, 2010

LINDQUIST
VON HUSEN
& JOYCE LLP

JAMES M. KRAFT
S. SCOTT SEAMANDS
MARK O. BRITTAIN
ALEXIS H. WONG
CHARLOTTE SIEW-KUN TAY

CATHY L. HWANG
RITA B. DELA CRUZ
STANLEY WOO

Board of Directors
San Jose Conservation Corps
San Jose, California

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVEA DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of San Jose Conservation Corps, a California nonprofit public benefit corporation, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. San Jose Conservation Corps's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of San Jose Conservation Corps' management. Our responsibility is to express an opinion on San Jose Conservation Corp's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about San Jose Conservation Corps' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide legal determination on San Jose Conservation Corps' compliance with those requirements.

In our opinion, San Jose Conservation Corps complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of San Jose Conservation Corps is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered San Jose Conservation Corps' internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of San Jose Conservation Corps' internal control over compliance.

BKR INTERNATIONAL
CERTIFIED PUBLIC ACCOUNTANTS, 90 New Montgomery, 11th Floor, San Francisco, California 94105
Telephone 415 957 9999 Facsimile 415 957 1629 Email mail@lvhj.com http://www.lvhj.com

AN INDEPENDENT MEMBER FIRM OF BKR INTERNATIONAL WITH ASSOCIATES IN PRINCIPAL CITIES WORLDWIDE

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designated to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the board of directors, management, others within the Organization, the California Department of Conservation, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Lindquist, von Husen and Joyce LLP

December 15, 2010

SAN JOSE CONSERVATION CORPS

(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2010

Section I – Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	______ Yes	X No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	______ Yes	X None reported
Type of auditor's report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	______ Yes	X No
Identification of major programs:	*Name of Federal Program or Cluster*	
CFDA # 14.218	CDBG / Special purpose grants	
CFDA # 17.258	WIA-Adult Program (ARRA)	
Dollar threshold used to distinguish between Type A and Type B programs:	$300,000	
Auditee qualified as low-risk auditee?	______ Yes	X No

Section II – Financial Statement Findings

No significant matters noted.

Section III – Federal Award Findings and Questioned Costs

No significant matters noted.