

San Jose Conservation Corps
(A California Nonprofit Public Benefit Corporation)

Audited Financial Statements &
Independent Auditors' Reports

June 30, 2011 and June 30, 2010



Chavan & Associates, LLP
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San Jose Conservation Corps
(A California Nonprofit Public Benefit Corporation)

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Financial Section

INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Jose Conservation Corps
San Jose, California

We have audited the accompanying statement of financial position the San Jose Conservation Corps (a California Nonprofit Public Benefit Corporation), as of and for the year ended June 30, 2011, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the fiscal year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of San Jose Conservation Corps as of June 30, 2010, were audited by other auditors whose report, dated December 15, 2010, expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2011, and the changes in its net assets and its cash flow for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2011 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

C & A LLP

December 2, 2011
Campbell, California

Basic Financial Statements

San Jose Conservation Corps
(A California Nonprofit Public Benefit Corporation)
Statement of Financial Position
June 30, 2011 and 2010

ASSETS	<u>2011</u>	<u>2010</u>
Current Assets:		
Cash and cash equivalents	\$ 271,216	\$ 778,377
Restricted cash	245,621	125,297
Receivables:		
Contracts and grants	1,604,517	2,938,351
Other	119,895	6,080
Investments	-	73,326
Prepaid and other current assets	<u>127,079</u>	<u>100,005</u>
Total Current Assets	2,368,328	4,021,436
Noncurrent Assets:		
Construction progress	3,556,002	2,923,794
Property and equipment - net	10,789,870	11,124,205
Deferred costs	<u>2,141</u>	<u>18,906</u>
Total Noncurrent Assets	<u>14,348,013</u>	<u>14,066,905</u>
Total Assets	<u><u>\$ 16,716,341</u></u>	<u><u>\$ 18,088,341</u></u>
 LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 294,045	\$ 225,775
Accrued expenses	268,239	295,337
Construction costs payable	72,021	1,917,921
Unearned revenue	41,286	25,065
Line of credit	333,957	730,000
Notes payable - current portion	<u>71,223</u>	<u>35,972</u>
Total Current Liabilities	1,080,771	3,230,070
Noncurrent Liabilities:		
Notes payable - noncurrent portion	<u>2,819,546</u>	<u>2,902,596</u>
Total Liabilities	<u>3,900,317</u>	<u>6,132,666</u>
 NET ASSETS		
Temporarily Restricted	245,621	126,118
Unrestricted Net Assets	<u>12,570,403</u>	<u>11,829,557</u>
Total Net Assets	<u>12,816,024</u>	<u>11,955,675</u>
Total Liabilities and Net Assets	<u><u>\$ 16,716,341</u></u>	<u><u>\$ 18,088,341</u></u>

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

San Jose Conservation Corps
(A California Nonprofit Public Benefit Corporation)
Statement of Activities and Changes in Net Assets
For the Fiscal Years Ended June 30, 2011 and 2010

	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Government grant income	3,162,765	\$ -	\$ 3,162,765	\$ 2,707,871	\$ -	\$ 2,707,871
General and program revenues - charter school	2,413,779	-	2,413,779	1,813,154	-	1,813,154
Contributions	31,072	212,402	243,474	36,941	195,000	231,941
Donated rent	88,431	-	88,431	88,431	-	88,431
Interest income	1,923	-	1,923	3,334	-	3,334
Miscellaneous	40,674	-	40,674	76,646	-	76,646
Net assets released from restrictions	92,899	(92,899)	-	135,374	(135,374)	-
Total revenue and support	<u>5,831,543</u>	<u>119,503</u>	<u>5,951,046</u>	<u>4,861,751</u>	<u>59,626</u>	<u>4,921,377</u>
EXPENSES						
Program services:						
Corpsmember training	2,743,132	-	2,743,132	2,312,845	-	2,312,845
Charter school	2,314,627	-	2,314,627	1,535,238	-	1,535,238
Total program services	<u>5,057,759</u>	<u>-</u>	<u>5,057,759</u>	<u>3,848,083</u>	<u>-</u>	<u>3,848,083</u>
Support services:						
Management and general	733,827	-	733,827	1,057,802	-	1,057,802
Fundraising	36,422	-	36,422	15,202	-	15,202
Total support services	<u>770,249</u>	<u>-</u>	<u>770,249</u>	<u>1,073,004</u>	<u>-</u>	<u>1,073,004</u>
Total expenses	<u>5,828,008</u>	<u>-</u>	<u>5,828,008</u>	<u>4,921,087</u>	<u>-</u>	<u>4,921,087</u>
Change in Net Assets Before Other Revenue	3,535	119,503	123,038	(59,336)	59,626	290
Other Revenue:						
Capital grants	737,311	-	737,311	4,240,002	-	4,240,002
Change in Net Assets	740,846	119,503	860,349	4,180,666	59,626	4,240,292
Total Net Assets - Beginning	<u>11,829,557</u>	<u>126,118</u>	<u>11,955,675</u>	<u>7,648,891</u>	<u>66,492</u>	<u>7,715,383</u>
Total Net Assets - Ending	<u>\$ 12,570,403</u>	<u>\$ 245,621</u>	<u>\$ 12,816,024</u>	<u>\$ 11,829,557</u>	<u>\$ 126,118</u>	<u>\$ 11,955,675</u>

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

San Jose Conservation Corps
(A California Nonprofit Public Benefit Corporation)
Statement of Functional Expenses
For the Fiscal Years Ended June 30, 2011 and 2010

	2011							2010						
	Program Services			Support Services			Total Expenses 2011	Program Services			Support Services			Total Expenses 2010
	Corpsmember Training	Charter School	Total Program Services	Management and General	Fundraising	Total Support Services		Corpsmember Training	Charter School	Total Program Services	Management and General	Fundraising	Total Support Services	
Personnel costs	\$ 2,039,912	1,316,877	\$ 3,356,789	\$ 415,526	\$ 10,624	\$ 426,150	\$ 3,782,939	\$ 1,589,321	\$ 1,072,620	\$ 2,661,941	\$ 646,460	\$ 9,257	\$ 655,717	\$ 3,317,658
Education and training	101,855	33,749	135,604	612	-	612	136,216	28,369	31,354	59,723	1,756	-	1,756	61,479
Professional services	14,170	249,489	263,659	80,541	25,523	106,064	369,723	80,821	175,998	256,819	114,281	1,908	116,189	373,008
Office and other	35,203	39,422	74,625	40,693	114	40,807	115,432	14,470	34,276	48,746	37,269	956	38,225	86,971
Insurance	42,268	3,851	46,119	35,564	-	35,564	81,683	47,139	4,996	52,135	31,856	-	31,856	83,991
Equipment and related	33,228	50,206	83,434	31,548	-	31,548	114,982	15,538	11,578	27,116	26,333	-	26,333	53,449
Vehicle	84,217	2,650	86,867	3,204	-	3,204	90,071	70,671	2,012	72,683	3,452	-	3,452	76,135
Travel	55,643	7,224	62,867	9,435	-	9,435	72,302	3,586	4,943	8,529	6,602	-	6,602	15,131
Facilities	118,880	135,213	254,093	89,676	161	89,837	343,930	17,015	79,013	96,028	103,202	536	103,738	199,766
Donated rent	6,391	75,490	81,881	6,550	-	6,550	88,431	17,030	44,739	61,769	25,266	1,396	26,662	88,431
Marketing and communication	4,750	0	4,750	188	-	188	4,938	791	-	791	200	-	200	991
Field	50,862	2,416	53,278	4,492	-	4,492	57,770	116,322	1,426	117,748	5,087	-	5,087	122,835
Interest	5,107	160,782	165,889	5,216	-	5,216	171,105	32,943	34,766	67,709	26,648	-	26,648	94,357
Loan closing costs amortization	19,100	-	19,100	-	-	-	19,100	2,549	-	2,549	500	-	500	3,049
Loss from uncollectible accounts	42	-	42	697.0	-	697	739	690.0	-	690	-	-	-	690
Depreciation and amortization	131,504	237,258	368,762	9,885	-	9,885	378,647	275,590	37,517	313,107	28,890	1,149	30,039	343,146
Total Expenses	\$ 2,743,132	\$ 2,314,627	\$ 5,057,759	\$ 733,827	\$ 36,422	\$ 770,249	\$ 5,828,008	\$ 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)
Statement of Cash Flows
For the Fiscal Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 860,349	\$ 4,240,292
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation and amortization expense	378,647	343,146
Amortization of deferred costs	19,100	2,549
Loss on disposal of assets	15,442	388
Income from capital grants	(737,311)	(4,240,002)
Uncollectible accounts	-	340
Changes in operating assets and liabilities:		
(Increase) decrease in contracts and grants receivable	(361,961)	241,462
(Increase) decrease in other receivables	(113,815)	10,028
(Increase) decrease in prepaid and other current assets	(27,074)	4,207
Increase (decrease) in accounts payable	68,270	44,800
Increase (decrease) in accrued expenses	(27,098)	-
Increase (decrease) in unearned revenue	16,221	11,649
Net cash provided by operating activities	<u>90,770</u>	<u>658,859</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(59,754)	(12,247)
Proceeds from the disposal of property and equipment	4,938	-
Construction costs paid for construction in progress	(2,478,108)	(3,297,868)
Decrease (increase) in investments	73,326	20,280
Net cash used for investing activities	<u>(2,459,598)</u>	<u>(3,289,835)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in restricted cash	(120,324)	(58,806)
Proceeds from capital grants	2,306,510	2,240,515
Repayment of notes payable	(47,800)	(27,158)
Proceeds from line of credit	-	730,000
Repayments on line of credit	(397,043)	-
Net cash provided by financing activities	<u>1,861,667</u>	<u>2,884,551</u>
Net increase (decrease) in cash and cash equivalents	(507,161)	253,575
Cash and cash equivalents - beginning of year	<u>778,377</u>	<u>524,802</u>
Cash and cash equivalents - end of year	<u>\$ 271,216</u>	<u>\$ 778,377</u>
Supplemental Cash Flows Disclosures:		
Cash paid for interest (net of capitalized portion)	<u>94,784</u>	<u>\$ 93,857</u>
Noncash investing and financing transactions:		
Assets acquired with short-term debt	<u>\$ -</u>	<u>\$ 1,566,813</u>
Assets acquired with long-term debt	<u>\$ -</u>	<u>\$ -</u>
Construction in progress transfers to property and equipment	<u>\$ -</u>	<u>\$ 4,489,251</u>

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

San Jose Conservation Corps
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2011 and June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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.

Basis of Presentation

The financial statements are presented in conformity with Financial Accounting Standards Board Accounting Standards Codification 958 (FASB ASC 958) of Not-For-Profit Organizations. Under FASB ASC 958, the Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Permanently Restricted Net Assets - Net assets subject to third party or legal stipulations that they be maintained permanently. There were no permanently restricted net assets as of June 30, 2011 and June 30, 2010.

Temporarily Restricted Net Assets - Net assets whose use is limited by third party or legal stipulations that either expire by passage of time or can be fulfilled and released by actions pursuant to those donor-imposed or legal stipulations.

Unrestricted Net Assets - Net assets whose use is not subject to third party or legal 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.

During the reporting period, the Organization had only unrestricted and temporarily restricted net assets.

San Jose Conservation Corps
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2011 and June 30, 2010

Temporarily restricted net assets at June 30, 2011 and 2010, related primarily to contributions for which the funds had not yet been spent for the purpose designated by the donor.

Revenues are reported as increases in unrestricted net assets unless their use is limited by third party restrictions. Expenses are reported as decreases in unrestricted net assets. 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 as net assets released from restrictions in the statement of activities.

Accounting Principles

The accounting policies of the Organization conform to accounting principles generally accepted in the United States of America, as prescribed by the American Institute of Certified Public Accountants, which require the use of the accrual method of accounting. Under the accrual method of accounting, revenue is recognized when earned and expenses are recognized in the period incurred

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.

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, 2011, the city of San Jose has determined the fair value of the donated rent to be \$88,431.

Donated Assets

Noncash donations are recorded as contributions at their estimated fair values at the date of donation.

Donated Services and Items

A substantial number of individuals have donated significant amounts of time and inventory to the Organization's programs and supporting functions. However, these services do not meet the criteria for recognition in accordance with accounting principles generally accepted in the United States and, therefore, are not recorded in the financial statements.

San Jose Conservation Corps
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2011 and June 30, 2010

Concentrations of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk include cash and investments. The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits as guaranteed by the Federal Depository Insurance Corporation (FDIC).

The carrying amount of the Organization's total cash was \$516,837 at June 30, 2011. The bank balance, before reconciling items, was \$598,452 at June 30, 2011 of which \$105,143 was not covered by FDIC. FDIC covers up to \$250,000 per bank.

Cash and Cash Equivalents

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity that the risk of changes in value due to changes in interest rates is negligible. For financial statement purposes, the Organization considers investments with maturity of three months or less to be cash equivalents. Funds with use restrictions are not included as cash, regardless of their liquidity.

Restricted Cash

Restricted cash represents contributions received with donor-imposed restrictions that have not been fulfilled at year-end and those amounted to \$245,621 and \$125,297 at June 30, 2011 and 2010, respectively.

Investments and Fair Value Measurements

Investments held by a broker in customer accounts are protected against physical loss by the Securities Investor Protection Corporation (SIPC). The following methods and significant assumptions were used to estimate the fair values of financial assets and financial liabilities:

1. Assets for which carrying amounts approximate fair values include cash and cash equivalents and certain other assets that mature within 90 days.
2. For investment securities for which it was practicable to determine fair value, fair value is based either on exchange-traded prices or broker-dealer quotations for the same or similar securities.
3. For accounts payable and accrued expenses, fair value approximates carrying value due to the relatively short period of time between their origination and expected realization.

In accordance with FASB ASC 820-10 (formerly SFAS No.157), the Organization has characterized its investments in securities, based on the priority of the inputs used to value the investments, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities [Level 1], and the lowest priority to unobservable inputs [Level 3]. If the inputs used to measure the investments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the investment.

San Jose Conservation Corps
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Notes to Financial Statements
For the Fiscal Years Ended June 30, 2011 and June 30, 2010

Investments recorded in the statement of financial position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Organization has the ability to access. The investments are exchange-traded equity securities.

Level 2. These are investments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the investments. These investments are comprised of corporate bonds that trade infrequently.

Level 3. These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments. These investments are certain private equity investments.

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.

Property, Equipment and Improvements

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

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

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Notes to Financial Statements
For the Fiscal Years Ended June 30, 2011 and June 30, 2010

progress. Total interest cost incurred was \$171,105 and \$219,046 for 2011 and 2010, of which interest capitalized was \$76,321 and \$121,640 in 2011 and 2010, respectively.

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 approximates the effective-yield method over the loan term of 10 years and reflected as a component of interest expense.

Income Tax Status

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 Allocation of Expenses

The cost of providing various programs and other activities has been summarized on a functional basis in the Statement of Activities and Changes in Net Assets and the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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 that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Recent Accounting Pronouncements

Update No. 2010-20 - Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses: The main objective in developing this Update is to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables. In the aftermath of the global economic crisis, effective financial reporting has become the subject of worldwide attention, with a focus on the urgent need for improved accounting standards in a number of areas, including financial instruments. This Update is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Currently, a high threshold for recognition of credit impairments impedes timely recognition of losses. The FASB recently issued an Exposure Draft of a proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities: Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815)*, that would remove that threshold.

San Jose Conservation Corps
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2011 and June 30, 2010

NOTE 2 - PROPERTY, EQUIPMENT AND CONSTRUCTION IN PROGRESS

Property and equipment consisted of the following as of June 30, 2011 and June 30, 2010:

Property, Plant and Equipment	Balance			Ending
	June 30, 2010	Additions	Deletions	June 30, 2011
Land	\$ 2,463,319	\$ -	\$ -	\$ 2,463,319.00
Buildings and site improvements	9,094,294	-	-	9,094,294
Vehicles	1,634,903	-	-	1,634,903
Recycling and service equipment	610,341	13,510	-	623,851
Computer equipment	203,423	33,258	8,764	227,917
Office and other equipment	659,536	12,986	30,752	641,770
Total Property and Equipment	14,665,816	59,754	39,516	14,686,054
Less: Accumulated Depreciation	(3,541,611)	(378,647)	(24,074)	(3,896,184)
Property and Equipment - Net	\$ 11,124,205	\$ (318,893)	\$ 15,442	\$ 10,789,870

Depreciation expense was \$378,647 for the year ended June 30, 2011 and \$343,146 for the year ended June 30, 2010.

Construction in Progress	Beginning			Ending
	June 30, 2010	Additions	Deletions	June 30, 2011
Charter school	\$ 98,220	\$ 69,469	\$ -	\$ 167,689
1534 Berger Drive ⁽¹⁾	2,825,574	632,208	69,469	3,388,313
Total Construction in Progress	\$ 2,923,794	\$ 701,677	\$ 69,469	\$ 3,556,002

(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.

NOTE 3 - CONTRACTS AND GRANTS RECEIVABLE

Contracts and grants receivable consisted of the following as of June 30, 2011:

Resource	Corps	Charter	Total
Federal Government	\$ 148,216	\$ -	\$ 148,216
State Government	266,903	725,348	992,251
Local Government	311,230	-	311,230
Other	152,820	-	152,820
Total Contracts and Grant Receivable	\$ 879,169	\$ 725,348	\$ 1,604,517

San Jose Conservation Corps
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2011 and June 30, 2010

NOTE 4 - LINE OF CREDIT

The Organization opened a \$730,000 revolving line of credit with Heritage Bank of Commerce in November of 2009. The line has a fixed rate of 6.5% and is used to pay for construction costs associated with property improvements made to the 1534 and 1560 Berger Drive campuses. The remaining balance on the line of credit as of June 30, 2011 and June 30, 2010 was \$333,957 and \$730,000, respectively. Interest cost was \$34,475 and \$21,148 in 2011 and 2010, respectively. The line was been adjusted and renewed in November of 2010, decreasing the credit amount to \$430,000 with a maturity date of November 2, 2011. The line was not renewed upon maturity.

The Organization opened a \$100,000 unsecured line of credit with Wells Fargo in November of 2011 which was subsequent to the fiscal year ended June 30, 2011, but prior to the issuance of this report.

NOTE 5 - NOTES PAYABLE

Notes payable consisted of the following as of June 30, 2011 and June 30, 2010:

	Balance			Balance		
Notes Payable	June 30, 2010	Additions	Deletions	June 30, 2011	Current Portion	Total Noncurrent
Heritage Bank	\$ 2,938,568	\$ -	\$ 47,799	\$ 2,890,769	\$ 71,223	\$ 2,819,546

The Heritage Bank note was issued at the maximum amount of \$4,000,000 and secured by the Organization's property located at 1534 Berger Drive in San Jose, CA. A total of \$2,965,726 was originally borrowed. The note was adjusted on December 22, 2010 to reflect an outstanding balance of \$2,921,857 that matures on December 3, 2017. The note is 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 3.25%) and adjusted for the minimum rate limitation of 5%; resulting in an initial interest rate of 5%. A final payment of \$2,395,993 is due when the loan matures. The loan repayment schedule through the fiscal year ending June 30, 2018 is as follows:

Year Ending June 30	Principal	Interest	Total
2012	\$ 71,223	\$ 142,862	\$ 214,085
2013	72,589	139,329	211,918
2014	76,302	135,615	211,917
2015	80,206	131,711	211,917
2016	84,310	127,608	211,918
2017-2018	2,506,139	173,342	2,679,481
Total Debt Service	\$ 2,890,769	\$ 850,467	\$ 3,741,236

San Jose Conservation Corps
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2011 and June 30, 2010

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following as of June 30, 2011 and June 30, 2010:

Program	2011			
	June 30, 2010	Contributions	Released from Restrictions	June 30, 2011
YouthBuild Program	\$ -	\$ 64,860	\$ -	\$ 64,860
Green Program	70,000	110,000	-	180,000
Capital Campaign	50,000	-	(50,000)	-
Scholarship Program	6,118	-	(5,357)	761
Other Programs	-	37,543	(37,543)	-
Totals	\$ 126,118	\$ 212,403	\$ (92,900)	\$ 245,621

Program	2010			
	June 30, 2009	Contributions	Released 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
Totals	\$ 66,492	\$ 195,000	\$ (135,374)	\$ 126,118

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.

PERS

Plan Description - The Charter School contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95811.

San Jose Conservation Corps
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
For the Fiscal Years Ended June 30, 2011 and June 30, 2010

Funding Policy - Active plan members are required to contribute 7% of their salary and the Charter School is required to contribute an actuarially determined rate. The 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 2010-2011 was 10.707%. The contribution requirements of the plan members are established by state statute. For the fiscal year ending June 30, 2011, the Charter School contributed \$23,083 to CalPERS. For the fiscal years ending June 30, 2010 and 2009, the Charter School contributed \$23,419 and \$22,623 to CalPERS. These were the Charter School's required contribution.

STRS

Plan Description - The Charter School contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7919 Folsom Boulevard, Sacramento, California 95826.

Funding Policy - Active plan members are required to contribute 8% of their salary and the Charter School is required to contribute an actuarially determined rate. The 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 2010-2011 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The Charter School's contributions to STRS for the fiscal years ending June 30, 2011, 2010, and 2009, were \$41,344, \$29,293 and \$37,129, respectively, and equals 100% of the required contributions for each year.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Federal and State Awards and Grants

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.

NOTE 9 - SUBSEQUENT EVENTS

Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the date the financial statements were issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

*Federal Award
Compliance Section*

San Jose Conservation Corps
(A California Nonprofit Public Benefit Corporation)
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2011

Program Name	Federal Catalog Number	Pass-through Identifying Number	Program Expenditures
U.S. Department of Housing and Urban Development:			
Direct-funded awards:			
YouthBuild - Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	None	\$ 1,662
Pass-through awards:			
City of San Jose Community Development Block Grant ARRA Entitlement Grants – Special Purpose Grants The Seismic Retrofit and Cafeteria/Nutrition Center of 1534 Berger Dr Project	14.218	None	191,294
City of Milpitas Housing and Neighborhood Services Division Community Development Block Grant – Formula Grants Housing Rehabilitation	14.218	None	<u>22,813</u>
Total U.S. Department of Housing and Urban Development			<u>215,769</u>
U.S. Department of Labor:			
Direct-funded awards:			
YouthBuild - Employment Training Administration	17.274 ⁽¹⁾	None	369,098
Pass-through awards from the City of San Jose:			
WIA Title I - Older Youth Program	17.259	None	191,371
ARRA - Employment Development Department (EDD) State of California Workforce Investment Act (WIA) 15-Percent CalGRIP	17.258	None	<u>505,445</u>
Total U.S. Department of Labor			<u>1,065,914</u>
Corporation for National and Community Service:			
Pass-through awards:			
California Conservation Corps (CCC) California Energy and Environmental Conservation Recovery Corps- American Recovery & Reinvestment Act (ARRA) AmeriCorps YouthBuild USA	94.006	None	2,809
California Energy and Environmental Conservation Recovery Corps- American Recovery & Reinvestment Act (ARRA) AmeriCorps	94.006	None	<u>54,840</u>
Total Corporation for National and Community Service			<u>57,649</u>
Department of Education:			
Pass-through program from Santa Clara County Office of Education:			
Education Jobs Fund of the Education job and Medicaid Assistance Act (PL111-226) (ARRA)	84.410	S410A100005	10,170
State Fiscal Stabilization Fund (SFSF) - Education State Grants (ARRA)	84.394	S394A090005	<u>62,684</u>
Total Department of Education			<u>72,854</u>
TOTAL FEDERAL AWARDS			<u><u>\$ 1,412,186</u></u>

⁽¹⁾ Audited as major program

SAN JOSE CONSERVATION CORPS
(A California Nonprofit Public Benefit Corporation)
Notes to Federal Awards Compliance Section
For the Years Ended June 30, 2011 and June 30, 2010

NOTE 1 - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs when expenditures of federal awards equal \$500,000 or more.

Basis of Presentation

The schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Organization under programs of the federal government for the year ended June 30, 2011. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Summary of Significant Accounting Policies

1. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Nonprofit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
2. Pass-through entity identifying numbers are presented where available.

Federal programs are labeled either as Type A or Type B. Type A programs are defined as Federal programs with Federal awards expended during the audit period exceeding the larger of:

1. \$300,000 or three percent (.03) of total Federal awards expended if the Organization's total Federal awards expended equal or exceed \$300,000 but are less than or equal to \$100 million.
2. \$3 million or three-tenths of one percent (.003) of total Federal awards expended if the Organization's total Federal awards expended equal or exceed \$100 million but are less than or equal to \$10 billion.
3. \$30 million or 15 hundredths of one percent (.0015) of total Federal awards expended if the Organization's total Federal awards expended equal or exceed \$10 billion. Federal programs not labeled Type A as described above are labeled Type B programs.

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree or can be reconciled with the amounts reported or to be reported in the federal financial reports.

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*Other Independent
Auditor's Reports*

**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**

Board of Directors
San Jose Conservation Corps
San Jose, California

We have audited the financial statements of San Jose Conservation Corps as of and for the year ended June 30, 2011, and have issued our report thereon dated December 2, 2011. 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 the San Jose Conservation Corps' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 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.

Compliance

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 the Board, management, 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.

C & A LLP

December 2, 2011
Campbell, California

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

Board of Directors
San Jose Conservation Corps
San Jose, California

Compliance

We have audited San Jose Conservation Corps of San Jose, California's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Corps' major federal programs for the year ended June 30, 2011. Corps' 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 Corps' management. Our responsibility is to express an opinion on Corps' 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 Non-Profit 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 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 a legal determination of Corps' compliance with those requirements.

In our opinion, San Jose Conservation Corps, complied, in all material respects, with the compliance 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, 2011.

Internal Control over Compliance

Management of San Jose Conservation Corps is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Corps' internal control over compliance with the 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 Corps' internal control over compliance.

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 designed 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 management, the Board of Directors, others within the entity, 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.

C & A LLP

December 2, 2011
Campbell, California

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*Findings and
Recommendations*

San Jose Conservation Corps
 (A California Nonprofit Public Benefit Corporation)
 Schedule of Findings and Questioned Costs
 For the Years ended June 30, 2011 and 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 weaknesses?	_____ Yes	___X___ No
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes	___X___ None
Noncompliance material to financial statements noted?	_____ Yes	___X___ No

Federal Awards

Internal control over major programs:		
Material weaknesses?	_____ Yes	___X___ No
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes	___X___ None
Type of auditor's report issued on compliance over major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	_____ Yes	___X___ No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
17.274	YouthBuild Employment Training Administration

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000	
Auditee qualified as low-risk auditee?	___X___ Yes	_____ No

Section II - Financial Statement Findings

No findings noted.

Section III - Federal Award Findings and Questioned Costs

No findings noted.

(Continued)

San Jose Conservation Corps
(A California Nonprofit Public Benefit Corporation)
Status of Prior Year Findings and Recommendations
For the Years ended June 30, 2011 and June 30, 2010

No findings noted.