

SAN DIEGO SECOND CHANCE PROGRAM
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018



Leaf & Cole, LLP
Certified Public Accountants

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Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

Independent Auditor's Report

To the Board of Directors
San Diego Second Chance Program

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of San Diego Second Chance Program, which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of San Diego Second Chance Program as of June 30, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited San Diego Second Chance Program's 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 29, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information on pages 22 to 23 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2019, on our consideration of San Diego Second Chance Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of San Diego Second Chance Program's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering San Diego Second Chance Program's internal control over financial reporting and compliance.

Leaf & Cole LLP

San Diego, California
April 8, 2019

SAN DIEGO SECOND CHANCE PROGRAM
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

ASSETS

	<u>2018</u>	<u>2017</u>
<u>Current Assets:</u> (Notes 2, 4 and 7)		
Cash and cash equivalents	\$ 382,228	\$ 1,076,199
Accounts receivable	873,321	526,511
Deposits and other assets	61,338	53,983
Total Current Assets	<u>1,316,887</u>	<u>1,656,693</u>
<u>Noncurrent Assets:</u> (Notes 2, 3, 4, 5, 6, 7, 8 and 13)		
Accounts receivable	-	250,000
Property and equipment, net	7,343,957	7,056,679
Investments	245,086	240,576
Total Noncurrent Assets	<u>7,589,043</u>	<u>7,547,255</u>
TOTAL ASSETS	<u>\$ 8,905,930</u>	<u>\$ 9,203,948</u>

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u> (Notes 2 and 8)		
Accounts payable and accrued expenses	\$ 367,792	\$ 379,027
Accrued interest payable	18,598	11,192
Current portion of notes payable	135,127	99,296
Total Current Liabilities	<u>521,517</u>	<u>489,515</u>
<u>Noncurrent Liabilities:</u> (Notes 2, 7, 8 and 13)		
Other long-term liability	-	1,378,500
Line of credit	5,500	-
Notes payable, net of current portion	4,797,504	3,273,583
Total Noncurrent Liabilities	<u>4,803,004</u>	<u>4,652,083</u>
Total Liabilities	<u>5,324,521</u>	<u>5,141,598</u>
<u>Commitments</u> (Note 11)		
<u>Net Assets:</u> (Notes 2, 9, 10 and 12)		
Unrestricted	3,349,770	3,870,234
Temporarily restricted	101,639	62,116
Permanently restricted	130,000	130,000
Total Net Assets	<u>3,581,409</u>	<u>4,062,350</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,905,930</u>	<u>\$ 9,203,948</u>

The accompanying notes are an integral part of the consolidated financial statements.

**SAN DIEGO SECOND CHANCE PROGRAM
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017)**

	2018			2017	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<u>Support and Revenue:</u>					
Contract and grant revenue	\$ 3,446,312	\$ -	\$ -	\$ 3,446,312	\$ 2,795,916
Housing	1,091,847	-	-	1,091,847	1,130,169
Contributions	443,319	94,192	-	537,511	504,187
Other income	38,214	-	-	38,214	41,487
Investment income	752	9,066	-	9,818	15,322
Special events	4,027	-	-	4,027	84,481
(Loss) gain on disposal of property and equipment	(89,797)	-	-	(89,797)	331,481
Net assets released from restriction	63,735	(63,735)	-	-	-
Total Support and Revenue	<u>4,998,409</u>	<u>39,523</u>	<u>-</u>	<u>5,037,932</u>	<u>4,903,043</u>
<u>Expenses</u>					
Program services:					
Workforce development	1,957,363	-	-	1,957,363	1,401,789
Youth services	1,734,207	-	-	1,734,207	1,559,776
Housing	1,079,646	-	-	1,079,646	1,070,410
Second Chance Academy	-	-	-	-	203,987
Total Program Services	<u>4,771,216</u>	<u>-</u>	<u>-</u>	<u>4,771,216</u>	<u>4,235,962</u>
Supporting Services:					
Development	538,644	-	-	538,644	465,091
Administration	206,799	-	-	206,799	141,724
Total Supporting Services	<u>745,443</u>	<u>-</u>	<u>-</u>	<u>745,443</u>	<u>606,815</u>
Total Program and Supporting Services	5,516,659	-	-	5,516,659	4,842,777
Special Events	<u>2,214</u>	<u>-</u>	<u>-</u>	<u>2,214</u>	<u>35,708</u>
Total Expenses	<u>5,518,873</u>	<u>-</u>	<u>-</u>	<u>5,518,873</u>	<u>4,878,485</u>
Change in Net Assets from Operating Activities	<u>(520,464)</u>	<u>39,523</u>	<u>-</u>	<u>(480,941)</u>	<u>24,558</u>
<u>Nonoperating Expenses:</u> (Note 13)					
Settlement	-	-	-	-	1,128,500
Legal Expense	-	-	-	-	50,000
Total Nonoperating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,178,500</u>
Change in Net Assets	(520,464)	39,523	-	(480,941)	(1,153,942)
Net Assets at Beginning of Year	<u>3,870,234</u>	<u>62,116</u>	<u>130,000</u>	<u>4,062,350</u>	<u>5,216,292</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,349,770</u>	<u>\$ 101,639</u>	<u>\$ 130,000</u>	<u>\$ 3,581,409</u>	<u>\$ 4,062,350</u>

The accompanying notes are an integral part of the consolidated financial statements.

**SAN DIEGO SECOND CHANCE PROGRAM
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017)**

	Program Services					Supporting Services			2017 Total	
	Workforce Development	Youth Services	Housing	Second Chance Academy	Total Program Services	Administration	Development	Supporting Services		2018 Total
Salaries and Related Expenses:										
Salaries and wages	\$ 902,250	\$ 982,953	\$ 332,245	\$ -	\$ 2,217,448	\$ 529,893	\$ 336,078	\$ 865,971	\$ 3,083,419	
Total Salaries and Related Expenses	<u>902,250</u>	<u>982,953</u>	<u>332,245</u>	<u>-</u>	<u>2,217,448</u>	<u>529,893</u>	<u>336,078</u>	<u>865,971</u>	<u>3,083,419</u>	
Nonsalary Related Expenses:										
Consulting/subcontracts	491,695	158,203	50,043	-	699,941	158,943	2,452	161,395	861,336	
Participant support	47,205	159,725	133,635	-	340,565	1,353	190	1,543	342,108	
Consumables/postage	75,158	15,468	65,253	-	155,879	18,897	6,706	25,603	181,482	
Utilities	23,358	27,333	106,150	-	156,841	9,992	6,905	16,897	173,738	
Mortgage interest	-	-	155,793	-	155,793	10,245	-	10,245	166,038	
Repair & maintenance/equipment	20,111	18,529	90,568	-	129,208	16,304	6,738	23,042	152,250	
Insurance	4,089	3,823	21,800	-	29,712	52,060	1,409	53,469	83,181	
Conference/staff development	16,154	13,845	3,419	-	33,418	43,592	1,427	45,019	78,437	
Vehicle/travel	16,134	36,952	5,900	-	58,986	9,358	1,912	11,270	70,256	
Public relations/outreach	-	324	-	-	324	-	65,620	65,620	65,149	
Dues/fees	3,381	4,593	13,538	-	21,512	28,702	5,331	34,033	55,545	
Total Nonsalary Related Expenses	<u>697,285</u>	<u>438,795</u>	<u>646,099</u>	<u>-</u>	<u>1,782,179</u>	<u>349,446</u>	<u>98,690</u>	<u>448,136</u>	<u>2,230,315</u>	
Total Expenses Before Depreciation and Program Administration	1,599,535	1,421,748	978,344	-	3,999,627	879,339	434,768	1,314,107	5,313,734	
Program Administration	330,453	282,656	3,004	-	616,113	(709,002)	92,889	(616,113)	-	
Depreciation	27,375	29,803	98,298	-	155,476	36,462	10,987	47,449	202,925	
TOTAL PROGRAM AND SUPPORTING SERVICES	<u>\$ 1,957,363</u>	<u>\$ 1,734,207</u>	<u>\$ 1,079,646</u>	<u>\$ -</u>	<u>\$ 4,771,216</u>	<u>\$ 206,799</u>	<u>\$ 538,644</u>	<u>\$ 745,443</u>	<u>\$ 5,516,659</u>	
									<u>\$ 4,842,777</u>	

The accompanying notes are an integral part of the consolidated financial statements.

**SAN DIEGO SECOND CHANCE PROGRAM
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017)**

	<u>2018</u>	<u>2017</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (480,941)	\$ (1,153,942)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	202,925	245,864
Amortization of debt issuance costs	1,376	1,986
Unrealized gains on investments	(6,959)	(13,866)
(Loss) gain on disposal of property and equipment	89,797	(331,481)
Settlement	(1,378,500)	1,128,500
(Increase) Decrease in:		
Accounts receivable	(96,810)	(50,680)
Deposits and other assets	(7,355)	(6,465)
Increase (Decrease) in:		
Accounts payable and accrued expenses	(11,955)	154,109
Accrued interest payable	8,126	(2,868)
Severance agreement	-	(103,000)
Net Cash Used in Operating Activities	<u>(1,680,296)</u>	<u>(131,843)</u>
<u>Cash Flows From Investing Activities:</u>		
Proceeds from sale of investments, net	2,449	3,838
Proceeds from the sale of property and equipment	-	1,350,000
Purchase of property and equipment	<u>(580,000)</u>	<u>(103,456)</u>
Net Cash (Used in) Provided by Investing Activities	<u>(577,551)</u>	<u>1,250,382</u>
<u>Cash Flows From Financing Activities:</u>		
Payments for debt issuance costs	(36,409)	-
Payments on notes payable	(105,215)	(786,458)
Proceeds from notes payable	1,700,000	-
Proceeds from line of credit	5,500	-
Net Cash Provided by (Used in) Financing Activities	<u>1,563,876</u>	<u>(786,458)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(693,971)	332,081
Cash and Cash Equivalents at Beginning of Year	<u>1,076,199</u>	<u>744,118</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 382,228</u>	<u>\$ 1,076,199</u>
<u>Supplemental Disclosure of Cash Flow Information:</u>		
Cash paid for interest	\$ 157,256	\$ 167,361
Cash paid for taxes	<u>\$ 7,600</u>	<u>\$ 7,600</u>

The accompanying notes are an integral part of the consolidated financial statements.

SAN DIEGO SECOND CHANCE PROGRAM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

Note 1 - Organization:

The consolidated financial statements of the Organization include the following entities:

San Diego Second Chance Program

San Diego Second Chance Program (“Second Chance”) is a California Nonprofit Corporation incorporated in 1993. Second Chance creates opportunities for self-sufficiency by providing the chronically unemployed with job readiness and life skills training, employment placement, and safe affordable transitional housing.

San Diego Second Chance Properties, LLC

San Diego Second Chance Properties, LLC was established as a wholly owned tax exempt LLC on May 13, 2008 to acquire, own, hold for investment, develop, entitle, operate, improve, maintain, refinance, manage and lease certain residential properties contributed to it by its member or acquired at the member’s direction. Second Chance is the sole member of San Diego Second Chance Properties, LLC.

Second Chance San Diego Headquarters, LLC

Second Chance San Diego Headquarters, LLC was established as a wholly owned tax exempt LLC on June 29, 2010 for the purpose of holding title to property on Imperial Avenue, collecting income therefrom, and turning over the entire amount thereof, less expenses, to the member. Second Chance is the sole member of Second Chance San Diego Headquarters, LLC.

The following is a brief description of Second Chance’s programs:

Housing

The Organization operates nine sober living properties. Goals are to foster personal responsibility, restore self-esteem and self-confidence, and eliminate isolation by creating a community atmosphere with the ultimate goal of staying clean and sober while transitioning to independent living. Transitional youth housing provides up to two years of stable housing, intensive case management and access to education, behavioral health and other social services, job readiness training and job placement for then emancipated foster youth each year.

Youth Services

Strive Forward Juvenile Justice Initiative focusses on supporting and addressing the educational and employment barriers faced by court-involved youth while helping them attain life-skills and in-demand occupational and employment skills needed to obtain livable wage jobs. The Second Chance Youth Garden provides young people (14-21) with a supportive, structured environment that helps to prepare them for success in the job market, high school, and higher education. Through paid transitional employment, youth receive job readiness training, learn positive communication skills, and engage in leadership training/development. Through hands-on, garden-based education, youth learn to seed, cultivate and harvest the fruits of their labor and share this bounty with the community through our neighborhood farm stands. In partnership with the San Diego County Juvenile Court and Community Schools, the program combines in-class and experiential learning to increase youth awareness of urban agriculture and food justice and help move them towards successful high school graduation. The Youth Offender Rehabilitation Program uses evidence based curricula and cognitive behavioral training to aid incarcerated youth.

SAN DIEGO SECOND CHANCE PROGRAM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

Note 1 - Organization: (Continued)

Workforce Development

Job Readiness Training provides four weeks of pre-employment attitudinal and soft-skill training, job search, job placement assistance and post-placement services to lead people to permanent employment and self-sufficiency. The Second Chance Job Center is a team-based case management program. Partnering with San Diego Sheriff's Department and San Diego County Probation, Second Chance staff delivers employment services at East Mesa Reentry Facility and Las Colinas Detention and Reentry Facility. The Job Centers expand upon services already offered by local government, community corrections and workforce development agencies by uniting resources to break the cycle of recidivism, build stronger communities and promote public safety.

Note 2 - Significant Accounting Policies:

Consolidated Financial Statements

The consolidated financial statements of the Organization include the accounts of the San Diego Second Chance Program as well as San Diego Second Chance Properties, LLC and Second Chance San Diego Headquarters, LLC, which are collectively referred to as the "Organization". All material intercompany transactions have been eliminated in consolidation.

Accounting Method

The financial statements of the Organization have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

The financial statements present information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

- Unrestricted net assets – Net assets not subject to donor imposed stipulations.
- Temporarily restricted net assets – Net assets subject to donor imposed stipulations that will be met by actions of the Organization and/or the passage of time. When a donor stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- Permanently restricted net assets – Net assets subject to donor imposed stipulations requiring that they be maintained permanently by the Organization. The income from these assets is available for either general operations or specific programs as specified by the donor.

SAN DIEGO SECOND CHANCE PROGRAM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

Note 2 - Significant Accounting Policies: (Continued)

Financial Statement Presentation (Continued)

The FASB has issued reporting standards for endowments of not-for-profit Organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and enhanced disclosures for all endowment funds. The standards provide guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. The standards also require additional disclosures about endowments (both donor-restricted funds and board-designated funds) to enable users of financial statements to understand the net asset classification, net asset composition, changes in net asset composition, spending policies, and related investment policies of its endowment funds.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties

The Organization invests in various types of investment securities which are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of financial position.

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the investment.

SAN DIEGO SECOND CHANCE PROGRAM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

Note 2 - Significant Accounting Policies: (Continued)

Fair Value Measurements (Continued)

The Organization's statement of financial position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

- Beneficial interest in endowment funds held at Jewish Community Foundation, Rancho Santa Fe Foundation and the San Diego Foundation are considered Level 2 assets and are reported at fair value based on the fair value of the underlying assets in the funds as reported by the fund managers, Jewish Community Foundation, Rancho Santa Fe Foundation and the San Diego Foundation, since these funds are valued monthly by the fund manager and are not traded in an active market.
- The Organization also has a nonrecurring fair value measurement based upon proposals from several real estate professionals for undeveloped land that is considered a Level 3 asset. Management made the undeveloped land available for sale in 2013 and it was considered to be impaired. The land was written down at that time.

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. Management believes that all accounts receivable were fully collectible; therefore, no allowance for doubtful accounts receivable was recorded at June 30, 2018 and 2017.

Capitalization and Depreciation

The Organization capitalizes all expenditures in excess of \$5,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as unrestricted unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the estimated useful asset lives as follows:

Buildings	27.5 - 39 years
Improvements	39 years
Furniture and equipment	3 - 7 years
Vehicles	3 years

SAN DIEGO SECOND CHANCE PROGRAM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

Noe 2 - Significant Accounting Policies: (Continued)

Capitalization and Depreciation (Continued)

Depreciation totaled \$202,925 and \$245,864 for the years ended June 30, 2018 and 2017, respectively.

Maintenance and repairs are charged to operations as incurred. Upon sale or disposition of property or equipment, the asset account is reduced by the cost and the accumulated depreciation account is reduced by the depreciation taken prior to the sale. Any resultant gain or loss is then recorded as income or expense.

Impairment of Real Estate

The Organization reviews its investment in real estate for impairment whenever events and changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of real estate exceeds the fair value of such property. There were no impairment losses recognized in 2018 and 2017.

Compensated Absences

Accumulated unpaid vacation totaling \$63,925 and \$62,450 at June 30, 2018 and 2017, respectively, is accrued when incurred and included in accounts payable and accrued expenses.

Debt Issuance Costs

Debt issuance costs are incurred in order to obtain financing for the Organization. Debt issuance costs are amortized on a straight-line basis over the term of the related loan, which approximates the interest method. Unamortized debt issuance costs are presented as a direct reduction from the carrying value of the related obligation to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and totaled \$1,376 and \$1,986 for the years ended June 30, 2018 and 2017, respectively.

Revenue Recognition

Contributions

Contributions are recognized when the donor makes a promise to give in writing to the Organization that is in substance, unconditional. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily restricted net assets. When the stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

SAN DIEGO SECOND CHANCE PROGRAM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

Note 2 - Significant Accounting Policies: (Continued)

Revenue Recognition (Continued)

Contract and Grant Revenue

Contract and grant revenue is recognized in the period in which the related work is performed in accordance with the terms of the grant or contract. Accounts receivable are recorded when revenue earned under a grant or contract exceeds the cash received. Unearned revenue is recorded when cash received under a grant or contract exceeds the revenue earned.

Donated Services and Support

The Organization utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services for the years ended June 30, 2018 and 2017, did not meet the requirements above, therefore no amounts were recognized in the financial statements.

Allocated Expenses

The Organization allocates its expenses on a functional basis among its various programs and supporting services. Expenditures which can be identified with a specific program or support services are allocated directly, according to their natural expenditure classification. Costs that are common to several functions are allocated among the program and supporting services on the basis of time records, space utilized and estimates made by the Organization's management.

Income Taxes

San Diego Second Chance Program is a public charity and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Second Chance believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. San Diego Second Chance Program is not a private foundation.

San Diego Second Chance Properties, LLC and Second Chance San Diego Headquarters, LLC are disregarded entities for tax purposes. No provision or benefit for Federal income taxes for the LLC's has been included in these consolidated statements, since taxable income (loss) passes through to, and is reportable by, the member individually. San Diego Second Chance Properties, LLC and Second Chance San Diego Headquarters, LLC are subject to an \$800 California minimum tax and a Limited Liability Company fee. The provision for state taxes and fees totaled \$7,600 and \$7,600 for the years ended June 30, 2018 and 2017, respectively.

SAN DIEGO SECOND CHANCE PROGRAM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

Note 2 - Significant Accounting Policies: (Continued)

Income Taxes (Continued)

San Diego Second Chance Program's Return of Organization Exempt from Income Tax for the years ended June 30, 2018, 2017, 2016 and 2015 and the LLC's tax returns for the years ended June 30, 2018, 2017, 2016 and 2015, are subject to examination by the Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.

Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts and money market funds which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Organization considers all highly liquid investment instruments purchased with a maturity of three months or less to be cash equivalents.

Comparative Totals for June 30, 2017

The financial statements include certain prior year summarized comparative information in total but not by net asset class. This summarized information is for comparative purposes only, and accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2017, from which the summarized comparative information was derived.

Subsequent Events

The Organization has evaluated subsequent events through April 8, 2019, which is the date the consolidated financial statements are available for issuance, and concluded that there were no events or transactions that needed to be disclosed.

Reclassification

The Organization has reclassified certain prior year information to conform with the current year presentation.

SAN DIEGO SECOND CHANCE PROGRAM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

Note 3 - Fair Value Measurements:

The following table summarizes assets measured at fair value by classification within the fair value hierarchy at June 30, 2018:

	2018			Balance at June 30, 2018
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Beneficial interest in endowment funds (Note 6)	\$ -	\$ 145,086	\$ -	\$ 145,086
Land available for sale (Note 6)	-	-	100,000	100,000
	<u>\$ -</u>	<u>\$ 145,086</u>	<u>\$ 100,000</u>	<u>\$ 245,086</u>

	2017			Balance at June 30, 2017
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Beneficial interest in endowment funds (Note 6)	\$ -	\$ 140,576	\$ -	\$ 140,576
Land available for sale (Note 6)	-	-	100,000	100,000
	<u>\$ -</u>	<u>\$ 140,576</u>	<u>\$ 100,000</u>	<u>\$ 240,576</u>

The reconciliation for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are included in the notes as indicated above.

The following table represents the Organization's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the range of values for those inputs for the years ended June 30:

2018				
<u>Instrument</u>	<u>Fair Value</u>	<u>Principal Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Significant Input Values</u>
Land	\$ 100,000	Valuation of underlying assets as provided by real estate professionals	Carrying value	N/A

2017				
<u>Instrument</u>	<u>Fair Value</u>	<u>Principal Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Significant Input Values</u>
Land	\$ 100,000	Valuation of underlying assets as provided by real estate professionals	Carrying value	N/A

SAN DIEGO SECOND CHANCE PROGRAM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

Note 4 - Accounts Receivable:

Accounts receivable consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Grants and contracts receivable	\$ 847,601	\$ 496,797
Settlement receivable	-	250,000
Contributions receivable	25,000	22,000
Other receivables	720	7,714
Total Accounts Receivable	<u>\$ 873,321</u>	<u>\$ 776,511</u>

	<u>2018</u>	<u>2017</u>
<u>Financial Statement Presentation:</u>		
Current	\$ 873,321	\$ 526,511
Noncurrent	-	250,000
	<u>\$ 873,321</u>	<u>\$ 776,511</u>

Note 5 - Property and Equipment:

Property and equipment consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Land	\$ 2,999,046	\$ 2,818,350
Buildings	3,922,435	3,523,131
Improvements	2,416,756	2,416,756
Furniture and equipment	168,123	168,123
Vehicles	77,641	77,641
Development in progress	-	89,797
Subtotal	<u>9,584,001</u>	<u>9,093,798</u>
Less: Accumulated depreciation	<u>(2,240,044)</u>	<u>(2,037,119)</u>
Property and Equipment, Net	<u>\$ 7,343,957</u>	<u>\$ 7,056,679</u>

SAN DIEGO SECOND CHANCE PROGRAM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

Note 6 - Investments:

Beneficial Interest in Endowment Funds

The Organization has a beneficial interest in the following endowment funds at June 30:

	<u>2018</u>	<u>2017</u>
San Diego Foundation	\$ 67,552	\$ 66,280
Rancho Santa Fe Foundation	40,550	38,391
Jewish Community Foundation	36,984	35,905
Total	<u>\$ 145,086</u>	<u>\$ 140,576</u>

The beneficial interest in endowment funds held at the San Diego Foundation is invested in a portfolio of equity and debt securities which is invested for long-term return consisting of 27.0% international equities, 25.0% domestic equities, 21.0% alternative investment, 17.0% fixed income, 7.0% real estate and 3.0% commodities.

The beneficial interest in endowment funds held at the Rancho Santa Fe Foundation is invested in a portfolio of equity and debt securities which is structured for long-term total return consisting of 34.1% domestic equities, 22.5% international equities, 1.9% emerging markets, 33.6% fixed income and 7.9% cash and cash equivalents.

The beneficial interest in endowment funds held at the Jewish Community Foundation are held in an investment pool, which is structured for long-term, total return consisting of 59% domestic and international equities, 38% fixed income, 3% real estate assets consisting of REITs and commodities.

Land Available for Sale

The Organization received a contribution of undeveloped land in 2008. The land contribution was recorded at fair value at the time of donation. During 2013, management made the undeveloped land available for sale. Management selected several real estate professionals to give proposals on the marketing of the property. Through these proposals, management has estimated that the fair value of the land has decreased to \$100,000 and adjusted the carrying value of the land accordingly. Management believes this to be the best estimate of the fair market value. No change to assets measured at fair value on a recurring basis using significant unobservable inputs was recorded for the year ended June 30, 2018 and 2017, respectively.

SAN DIEGO SECOND CHANCE PROGRAM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

Note 6 - Investments: (Continued)

The following schedule summarizes the investment return which is included in investment income for the years ended June 30:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 423	\$ 2,436	\$ 2,859	\$ 1,618
Realized gains (losses)	-	-	-	(162)
Unrealized gains (losses) on investments	329	6,630	6,959	13,866
Total Investment Income	<u>\$ 752</u>	<u>\$ 9,066</u>	<u>\$ 9,818</u>	<u>\$ 15,322</u>

Note 7 - Line of Credit:

The Organization has a line of credit with Endeavor Bank in the amount of \$500,000 with interest at the Wall Street Journal prime rate plus 1.0% (6.00% at June 30, 2018). The line of credit matures in May 2020 and is secured by assets of the Organization. Outstanding advances under the line-of-credit totaled \$5,500 and \$-0- at June 30, 2018 and 2017, respectively.

Note 8 - Notes Payable:

Notes payable consist of the following:

	<u>2018</u>	<u>2017</u>
Note payable - Endeavor Bank, payable in monthly principal and interest payments of \$7,571 through May 2028, interest at 5.28% per annum, collateralized by real property.	\$ 1,246,829	\$ -
Note payable - Bank of America, payable in monthly principal and interest payments of \$3,199 through January 2037, interest at 4.25% per annum, collateralized by real property.	492,624	509,684
Note payable - Bank of America, payable in monthly principal and interest payments of \$3,060 through December 2036, interest at 4.25% per annum, collateralized by real property.	469,719	486,092
Note payable - Bank of America, payable in monthly principal and interest payments of \$3,169 through July 2035, interest at 4.25% per annum, collateralized by real property.	456,512	474,722

SAN DIEGO SECOND CHANCE PROGRAM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

Note 8 - Notes Payable: (Continued)

	<u>2018</u>	<u>2017</u>
Note payable - Union Bank, payable in monthly principal and interest payments of \$2,046 through December 2044, interest at 4.25% per annum, collateralized by real property.	\$ 387,948	\$ 395,835
Note payable - Bank of America, payable in monthly principal and interest payments of \$2,352 through February 2037, interest at 4.25% per annum, collateralized by real property.	363,277	375,778
Note payable - Bank of America, payable in monthly principal and interest payments of \$2,246 through July 2037, interest at 4.25% per annum, collateralized by real property.	351,794	363,518
Note payable - Bank of America, payable in monthly principal and interest payments of \$2,105 through January 2037, interest at 4.25% per annum, collateralized by real property.	324,114	335,337
Note payable - Union Bank, payable in monthly principal and interest payments of \$1,129 through December 2044, interest at 4.25% per annum, collateralized by real property.	214,839	219,159
Note payable, City of San Diego, no interest, collateralized by real property, repayment only in the event of any sale, transfer, or conveyance of the Imperial Avenue building. (See Note 10)	220,000	220,000
Note payable - Neighborhood National Bank, payable in monthly principal and interest payments of \$2,558 through September 2027, interest at 5.5% per annum, collateralized by real property.	447,254	-
Total Notes Payable	4,974,910	3,380,125
Less: Unamortized debt issuance costs	(42,279)	(7,246)
Notes Payable, Net	\$ 4,932,631	\$ 3,372,879

Debt issuance costs total \$44,314 and \$7,905, less accumulated amortization of \$2,035 and \$659 at June 30, 2018 and 2017, respectively.

**SAN DIEGO SECOND CHANCE PROGRAM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)**

Note 8 - Notes Payable: (Continued)

The future principal payments are as follows:

Years Ended June 30	
2019	\$ 135,127
2020	141,178
2021	147,877
2022	154,705
2023	161,855
Thereafter	4,234,168
Total	<u>\$ 4,974,910</u>

Note 9 - Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2018</u>	<u>2017</u>
Youth programs	\$ 69,583	\$ 41,784
Unappropriated endowment earnings	15,086	10,576
Other	16,970	9,756
Total Temporarily Restricted Net Assets	<u>\$ 101,639</u>	<u>\$ 62,116</u>

Net assets totaling \$63,735 was released from donor restrictions during the year ended June 30, 2018 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Note 10 - Permanently Restricted Net Assets:

Permanently restricted net assets are assets received with a donor-imposed restriction that stipulates the resources be maintained permanently, but permits the Organization to expend part or all of the income derived. Permanently restricted net assets totaled \$130,000 at June 30, 2018 and 2017, respectively. The income from which is expendable for operational support.

Note 11 - Commitments:

Building Commitment

Second Chance accepted funds from the City of San Diego as part of the City's Community Development Block Grant (CDBG) Program to help fund renovations to Second Chance's Imperial Avenue building. As a condition for accepting funds from the City, Second Chance must continue to use the building as noted in the terms of the grant agreement with the City. If Second Chance sells the building before five years, it is required to pay back to the City all funds originally received from the CDBG Program. Second Chance has no plans to sell its building during this period.

SAN DIEGO SECOND CHANCE PROGRAM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

Note 11 - Commitments: (Continued)

Line-of-Credit

San Diego Second Chance Program had a line-of-credit with Neighborhood National Bank in the amount of \$412,000 and was secured by real property. The line-of-credit provided for interest based upon the Wall Street Journal Prime Rate plus a margin of 2.25 percentage points. The line-of-credit was to mature on December 28, 2031. The line-of-credit was terminated during the year ended June 30, 2017.

Note 12 - Endowment Net Assets:

The Organization's endowment was established to provide general support. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

The Organization has interpreted the enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment (2) the original value of subsequent gifts donated to the permanent endowment (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

From time to time, the fair value of the assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, there were no such deficiencies at June 30, 2018 and 2017.

The Organization has adopted investment and spending policies for endowment funds that:

- Protect the invested assets
- Preserve spending capacity of the fund income
- Maintain a diversified portfolio of assets that meet investment return objectives while keeping risk at a level commensurate with that of the median fund in comparable foundations
- Comply with applicable laws

SAN DIEGO SECOND CHANCE PROGRAM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

Note 12 - Endowment Net Assets: (Continued)

The Organization's endowment funds are invested in certain mutual, index, and exchange traded funds that are structured to satisfy its long-term rate-of-return objectives. The Organization's spending policy is to disburse funds available to meet the current program needs of the Organization.

Endowment composition by type of fund at June 30:

	2018	
	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ 130,000	\$ 130,000
	2017	
	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ 130,000	\$ 130,000

Changes in endowment net assets for the years ended June 30:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets at June 30, 2016	\$ -	\$ 548	\$ 130,000	\$ 130,548
Investment income	-	15,146	-	15,146
Appropriation of endowment assets for expenditure	-	(5,118)	-	(5,118)
Endowment Net Assets at June 30, 2017	-	10,576	130,000	140,576
Investment income	-	9,066	-	9,066
Appropriation of endowment assets for expenditure	-	(4,556)	-	(4,556)
Endowment Net Assets at June 30, 2018	\$ -	\$ 15,086	\$ 130,000	\$ 145,086

**SAN DIEGO SECOND CHANCE PROGRAM
SUPPLEMENTARY CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
JUNE 30, 2018**

ASSETS

	San Diego Second Chance Program	San Diego Second Chance Properties, LLC	Second Chance San Diego Headquarters LLC	Eliminations	Consolidated
<u>Current Assets:</u>					
Cash and cash equivalents	\$ 222,999	\$ 67,010	\$ 92,219	\$ -	\$ 382,228
Accounts receivable	734,643	713,475	2,086,356	(2,661,153)	873,321
Deposits and other assets	63,609	15,229	-	(17,500)	61,338
Total Current Assets	<u>1,021,251</u>	<u>795,714</u>	<u>2,178,575</u>	<u>(2,678,653)</u>	<u>1,316,887</u>
<u>Noncurrent Assets:</u>					
Property and equipment, net	13,138	3,481,430	3,849,389	-	7,343,957
Investments	2,245,086	-	-	(2,000,000)	245,086
Total Noncurrent Assets	<u>2,258,224</u>	<u>3,481,430</u>	<u>3,849,389</u>	<u>(2,000,000)</u>	<u>7,589,043</u>
TOTAL ASSETS	\$ <u>3,279,475</u>	\$ <u>4,277,144</u>	\$ <u>6,027,964</u>	\$ <u>(4,678,653)</u>	\$ <u>8,905,930</u>

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u>					
Accounts payable and accrued expenses	\$ 3,016,575	\$ 8,907	\$ 20,963	\$ (2,678,653)	\$ 367,792
Accrued interest payable	-	13,085	5,513	-	18,598
Current portion of notes payable	-	109,831	25,296	-	135,127
Total Current Liabilities	<u>3,016,575</u>	<u>131,823</u>	<u>51,772</u>	<u>(2,678,653)</u>	<u>521,517</u>
<u>Noncurrent Liabilities:</u>					
Line of credit	-	-	5,500	-	5,500
Notes payable, net of current portion	-	3,381,398	1,416,106	-	4,797,504
Total Noncurrent Liabilities	<u>-</u>	<u>3,381,398</u>	<u>1,421,606</u>	<u>-</u>	<u>4,803,004</u>
Total Liabilities	<u>3,016,575</u>	<u>3,513,221</u>	<u>1,473,378</u>	<u>(2,678,653)</u>	<u>5,324,521</u>
<u>Net Assets:</u>					
Unrestricted	31,261	763,923	4,554,586	(2,000,000)	3,349,770
Temporarily restricted	101,639	-	-	-	101,639
Permanently restricted	130,000	-	-	-	130,000
Total Net Assets	<u>262,900</u>	<u>763,923</u>	<u>4,554,586</u>	<u>(2,000,000)</u>	<u>3,581,409</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>3,279,475</u>	\$ <u>4,277,144</u>	\$ <u>6,027,964</u>	\$ <u>(4,678,653)</u>	\$ <u>8,905,930</u>

**SAN DIEGO SECOND CHANCE PROGRAM
SUPPLEMENTARY CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

	San Diego Second Chance Program	San Diego Second Chance Properties, LLC	Second Chance San Diego Headquarters LLC	Eliminations	Consolidated
<u>Support and Revenue:</u>					
Contracts and grant revenue	\$ 3,411,704	\$ -	\$ 282,612	\$ (248,004)	\$ 3,446,312
Housing	-	1,141,655	-	(49,808)	1,091,847
Contributions	495,711	41,800	-	-	537,511
Other income	30,223	7,991	-	-	38,214
Investment income	9,818	-	-	-	9,818
Special events	4,027	-	-	-	4,027
Loss on disposal of property and equipment	(89,797)	-	-	-	(89,797)
Management income	184,835	-	-	(184,835)	-
Total Support and Revenue	<u>4,046,521</u>	<u>1,191,446</u>	<u>282,612</u>	<u>(482,647)</u>	<u>5,037,932</u>
<u>Expenses:</u>					
Program Services:					
Workforce development	2,022,743	-	61,151	(126,531)	1,957,363
Youth services	1,748,765	-	57,165	(71,723)	1,734,207
Housing	-	1,263,587	29,987	(213,928)	1,079,646
Total Program Services	<u>3,771,508</u>	<u>1,263,587</u>	<u>148,303</u>	<u>(412,182)</u>	<u>4,771,216</u>
Supporting Services:					
Development	544,011	-	21,075	(26,442)	538,644
Administration	220,126	-	30,696	(44,023)	206,799
Total Supporting Services	<u>764,137</u>	<u>-</u>	<u>51,771</u>	<u>(70,465)</u>	<u>745,443</u>
Total Program and Supporting Services	4,535,645	1,263,587	200,074	(482,647)	5,516,659
Special Events	2,214	-	-	-	2,214
Total Expenses	<u>4,537,859</u>	<u>1,263,587</u>	<u>200,074</u>	<u>(482,647)</u>	<u>5,518,873</u>
Change in Net Assets	(491,338)	(72,141)	82,538	-	(480,941)
Net Assets (Deficit) at Beginning of Year	754,238	836,064	4,472,048	(2,000,000)	4,062,350
NET ASSETS (DEFICIT) AT END OF YEAR	<u>\$ 262,900</u>	<u>\$ 763,923</u>	<u>\$ 4,554,586</u>	<u>\$ (2,000,000)</u>	<u>\$ 3,581,409</u>

**SAN DIEGO SECOND CHANCE PROGRAM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grants/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Grant Identification Number	Passed Through to Subrecipient	Federal Expenditures	Total Expenditures
U.S. Department of Housing and Urban Development:					
Pass-Through Program:					
Community Development Block Grants/Entitlement Grants:	14.218	N/A			
City of San Diego			\$ -	\$ 188,826	\$ 188,826
Total U.S. Department of Housing and Urban Development			<u>-</u>	<u>188,826</u>	<u>188,826</u>
U.S. Department of Labor:					
Pass-Through Programs:					
WIOA Cluster:					
WIOA Adult Program:	17.258	126-07 M2			
San Diego Workforce Partnership			<u>-</u>	<u>360,576</u>	<u>360,576</u>
WIOA Youth Activities:					
San Diego Workforce Partnership	17.259	126-10	<u>-</u>	<u>295,982</u>	<u>295,982</u>
Reentry Employment Opportunities:					
Strive International, Inc.	17.270	SFS-001/A-15-001	<u>-</u>	<u>463,758</u>	<u>463,758</u>
Total U.S. Department of Labor			<u>-</u>	<u>1,120,316</u>	<u>1,120,316</u>
Total Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 1,309,142</u>	<u>\$ 1,309,142</u>

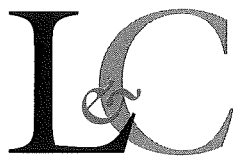
Note 1 - Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of San Diego Second Chance Program under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of San Diego Second Chance Program, it is not intended to and does not present the financial position, changes in net assets, or cash flows of San Diego Second Chance Program.

Note 2 - Summary of Significant Accounting Policies:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass through entity identifying numbers are presented where available.

San Diego Second Chance Program has elected to use the 10-percent de minimis indirect cost rate as allowed under Uniform Guidance.



Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards***

To the Board of Directors
San Diego Second Chance Program

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of San Diego Second Chance Program, which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated April 8, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered San Diego Second Chance Program's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of San Diego Second Chance Program's internal control. Accordingly, we do not express an opinion on the effectiveness of San Diego Second Chance Program's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Diego Second Chance Program's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Purpose of this Report

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

Leaf & Cole LLP

San Diego, California
April 8, 2019



Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

**Independent Auditor's Report on Compliance
for Each Major Program and on Internal Control Over
Compliance Required by the Uniform Guidance**

To the Board of Directors
San Diego Second Chance Program

Report on Compliance for Each Major Federal Program

We have audited San Diego Second Chance Program's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of San Diego Second Chance Program's major federal programs for the year ended June 30, 2018. San Diego Second Chance Program's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of San Diego Second Chance Program's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Diego Second Chance Program's 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 on compliance for each major federal program. However, our audit does not provide a legal determination of San Diego Second Chance Program's compliance.

Opinion on Each Major Federal Program

In our opinion, San Diego Second Chance Program complied, in all material respects, with the types of 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, 2018.

Report on Internal Control over Compliance

Management of San Diego Second Chance Program is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered San Diego Second Chance Program's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Diego Second Chance Program's 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Leaf & Cole LLP

San Diego, California
April 8, 2019

**SAN DIEGO SECOND CHANCE PROGRAM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with U.S. GAAP: Unmodified

Internal control over financial reporting:

Material weaknesses identified?	_____	Yes	_____	X	No
Significant deficiencies identified?	_____	Yes	_____	X	No

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Type of auditor's report issued on compliance for the major programs: Unmodified

Internal control over major programs:

Material weaknesses identified?	_____	Yes	_____	X	No
Significant deficiencies identified?	_____	Yes	_____	X	No

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ Yes X No

Identification of the major programs:

<u>C DFA Number</u>	<u>Name of Federal Program or Cluster</u>
17.258	<u>WIOA Clusters:</u>
17.259	WIOA Adult Program
	WIOA Youth Activities
17.270	Reentry Employment Opportunities
Dollar threshold used to distinguish between Type A and Type B programs:	\$ <u>750,000</u>
Auditee qualified as low-risk auditee?	_____ Yes <u> X </u> No

Section II - Financial Statement Findings:

None

Section III - Federal Award Findings and Questioned Costs:

None