SAN DIEGO SECOND CHANCE PROGRAM

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019

Leaf & Cole, LLP
Certified Public Accountants

SAN DIEGO SECOND CHANCE PROGRAM
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

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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, 2019, 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.

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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, 2019, 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 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 8, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited 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*, 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 March 25, 2020, 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
March 25, 2020

SAN DIEGO SECOND CHANCE PROGRAM
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2018)

ASSETS

	2019	2018
Current Assets: (Notes 2, 5, 6 and 9)		
Cash and cash equivalents	$ 896,998	$ 382,228
Accounts receivable	750,899	848,321
Contributions receivable	64,320	25,000
Deposits and other assets	37,757	61,338
Total Current Assets	1,749,974	1,316,887
Noncurrent Assets: (Notes 2, 4, 7, 8, 9, 10 and 13)		
Property and equipment, net	5,739,176	7,343,957
Investments	245,579	245,086
Total Noncurrent Assets	5,984,755	7,589,043
TOTAL ASSETS	$ 7,734,729	$ 8,905,930

LIABILITIES AND NET ASSETS

	2019	2018
Current Liabilities: (Notes 2 and 10)		
Accounts payable and accrued expenses	$ 454,189	$ 367,792
Deferred revenue	3,060	-
Accrued interest payable	12,326	18,598
Current portion of notes payable	82,730	135,127
Total Current Liabilities	552,305	521,517
Noncurrent Liabilities: (Notes 2, 9 and 10)		
Line of credit	-	5,500
Notes payable, net of current portion	3,142,426	4,797,504
Total Noncurrent Liabilities	3,142,426	4,803,004
Total Liabilities	3,694,731	5,324,521
Commitments (Note 12)		
Net Assets: (Notes 2, 11 and 13)		
Without Donor Restrictions	3,709,519	3,349,770
With Donor Restrictions:		
Purpose restriction	184,900	86,553
Time restriction	15,579	15,086
Perpetual in nature	130,000	130,000
Total Net Assets With Donor Restrictions	330,479	231,639
Total Net Assets	4,039,998	3,581,409
TOTAL LIABILITIES AND NET ASSETS	$ 7,734,729	$ 8,905,930

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, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and Revenue:				
Grants and contract revenue	$ 3,615,218	$ -	$ 3,615,218	$ 3,446,312
Housing	714,118	-	714,118	1,091,847
Contributions	397,107	156,857	553,964	537,511
Other income	27,679	-	27,679	38,214
Investment income	10	5,977	5,987	9,818
Special events	-	-	-	4,027
Gain (loss) on sale of property and equipment	884,469	-	884,469	(89,797)
Net assets released from restriction	63,994	(63,994)	-	-
Total Support and Revenue	5,702,595	98,840	5,801,435	5,037,932
Expenses				
Program services:				
Workforce development	1,935,890	-	1,935,890	1,957,363
Youth services	1,620,114	-	1,620,114	1,734,207
Housing	1,217,711	-	1,217,711	1,079,646
Total Program Services	4,773,715	-	4,773,715	4,771,216
Supporting Services:				
Development	379,984	-	379,984	540,858
Administration	189,147	-	189,147	206,799
Total Supporting Services	569,131	-	569,131	747,657
Total Expenses	5,342,846	-	5,342,846	5,518,873
Change in Net Assets	359,749	98,840	458,589	(480,941)
Net Assets at Beginning of Year	3,349,770	231,639	3,581,409	4,062,350
NET ASSETS AT END OF YEAR	$ 3,709,519	$ 330,479	$ 4,039,998	$ 3,581,409

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, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2018)

	Program Services				Supporting Services				
	Workforce Development	Youth Services	Housing	Total Program Services	Administration	Development	Total Supporting Services	2019 Total	2018 Total
Salaries and Related Expenses:									
Salaries, taxes and benefits	$ 941,525	$ 928,997	$ 353,304	$ 2,223,826	$ 491,849	$ 277,123	$ 768,972	$ 2,992,798	$ 3,083,419
Total Salaries and Related Expenses	941,525	928,997	353,304	2,223,826	491,849	277,123	768,972	2,992,798	3,083,419
Nonsalary Related Expenses:									
Conference/staff development	3,534	6,580	-	10,114	4,202	1,064	5,266	15,380	78,437
Consulting/subcontracts	337,678	132,501	32,018	502,197	273,089	3,386	276,475	778,672	861,336
Consumables/postage	11,569	8,895	44,938	65,402	17,535	3,821	21,356	86,758	181,482
Dues/fees	11,102	5,730	80,308	97,140	83,971	5,436	89,407	186,547	55,545
Insurance		-	33,048	33,048	73,240	-	73,240	106,288	83,181
Lease expense	869	-	-	869	-	-	-	869	-
Mortgage interest	-	-	209,070	209,070		-	-	209,070	166,038
Participant support	245,911	99,307	30,898	376,116	1,865	53	1,918	378,034	342,108
Public relations/outreach	3,895		-	3,895	347	13,718	14,065	17,960	65,944
Repair & maintenance/equipment	8,350	4,435	147,532	160,317	-	2,206	2,206	162,523	152,250
Utilities	6,288	8,151	90,424	104,863	7,131	461	7,592	112,455	173,738
Vehicle/travel	23,724	44,505	15,686	83,915	17,217	647	17,864	101,779	70,256
Total Nonsalary Related Expenses	652,920	310,104	683,922	1,646,946	478,597	30,792	509,389	2,156,335	2,230,315
Total Expenses Before Depreciation and Program Administration	1,594,445	1,239,101	1,037,226	3,870,772	970,446	307,915	1,278,361	5,149,133	5,313,734
Program Administration	338,006	377,309	-	715,315	(786,061)	70,746	(715,315)	-	-
Depreciation	3,439	3,704	180,485	187,628	4,762	1,323	6,085	193,713	202,925
TOTAL PROGRAM AND SUPPORTING SERVICES	$ 1,935,890	$ 1,620,114	$ 1,217,711	4,773,715	$ 189,147	$ 379,984	$ 569,131	$ 5,342,846	$ 5,516,659

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, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2018)

	2019	2018
Cash Flows From Operating Activities:		
Change in net assets	$ 458,589	$ (480,941)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	193,713	202,925
Amortization of debt issuance costs	5,891	1,376
Unrealized gains on investments	(3,359)	(6,959)
(Gain) loss on disposal of property and equipment	(884,469)	89,797
Settlement	-	(1,378,500)
(Increase) Decrease in:		
Accounts receivable	97,422	(96,810)
Contributions receivable	(39,320)	-
Deposits and other assets	23,581	(7,355)
Increase (Decrease) in:		
Accounts payable and accrued expenses	86,093	(11,955)
Accrued interest payable	(6,992)	8,126
Deferred revenue	3,060	-
Net Cash Used in Operating Activities	(65,791)	(1,680,296)
Cash Flows From Investing Activities:		
Sales of investments	5,483	2,449
Purchases of investments	(2,617)	-
Proceeds from the sale of property and equipment	2,345,000	-
Purchase of property and equipment	(44,306)	(580,000)
Net Cash Provided by (Used in) Investing Activities	2,303,560	(577,551)
Cash Flows From Financing Activities:		
Payments for debt issuance costs	-	(36,409)
Payments on notes payable	(1,717,499)	(105,215)
Proceeds from notes payable	-	1,700,000
Payments on line of credit	(5,500)	5,500
Net Cash (Used in) Provided by Financing Activities	(1,722,999)	1,563,876
Net Increase (Decrease) in Cash and Cash Equivalents	514,770	(693,971)
Cash and Cash Equivalents at Beginning of Year	382,228	1,076,199
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 896,998	$ 382,228
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 210,171	$ 157,256
Cash paid for taxes	$ 7,600	$ 7,600

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

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.

Hope Housing Works, 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. San Diego Second Chance Properties, LLC changed their name to Hope Housing Works, LLC in the current year.

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 five 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.

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 Hope Housing Works, 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 consolidated 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

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes thereon are classified and reported as follows:

- Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

- Net Assets With Donor Restrictions - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Note 2 - Significant Accounting Policies: (Continued)

Estimates

The preparation of consolidated 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 consolidated 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.

The Organization's consolidated 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.

Note 2 - Significant Accounting Policies: (Continued)

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, 2019 and 2018.

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 support without donor restrictions 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 support with donor restrictions. Absent donor stipulations regarding how 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 net assets with donor restrictions to net assets without donor restrictions 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

Depreciation totaled $193,713 and $202,925 for the years ended June 30, 2019 and 2018, respectively.

Maintenance and repairs are charged to operations as incurred. Upon sale or disposition of property and equipment, the asset account is relieved of 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 future undiscounted net cash flows expected to be generated by the property and any 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 2019 and 2018.

Noe 2 - Significant Accounting Policies: (Continued)

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 $5,891 and $1,376 for the years ended June 30, 2019 and 2018, respectively

Compensated Absences

Accumulated unpaid vacation totaling $72,764 and $63,925 at June 30, 2019 and 2018, respectively, is accrued when incurred and included in accounts payable and accrued expenses.

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 without donor restriction or with donor restriction, depending on the existence or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When the stipulated time restriction ends or purpose restriction is accomplished, donor restricted net assets are reclassified to net assets without donor restrictions. 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.

Contract and Grant Revenue

Grants and contract 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. Deferred revenue is recorded when cash received under a grant or contract exceeds the revenue earned. Deferred revenue totaled $3,060 and $-0- at June 30, 2019 and 2018, respectively.

Donated Services and Materials

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, 2019 and 2018, did not meet the requirements above, therefore no amounts were recognized in the financial statements.

Note 2 - Significant Accounting Policies: (Continued)

Functional Allocation of Expenses

The consolidated statement of functional expenses present expenses by function and natural classification. 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.

Hope Housing Works, 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. Hope Housing Works, 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, 2019 and 2018, respectively.

San Diego Second Chance Program's Return of Organization Exempt from Income Tax for the years ended June 30, 2019, 2018, 2017 and 2016 and the LLC's tax returns for the years ended June 30, 2019, 2018, 2017 and 2016, 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.

Note 2 - Significant Accounting Policies: (Continued)

Comparative Totals for June 30, 2018

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, 2018, from which the summarized comparative information was derived.

Accounting Pronouncements Adopted

In August 2016, the FASB issued ASU 2016-14, "Presentation of Financial Statements of Not-for-Profit Entities" (Topic 958). The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The Organization has adopted this ASU as of and for the year ended December 31, 2018.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The ASU clarifies and improves guidance for contributions received and contributions made and provides guidance to organizations on how to account for certain exchange transactions. This change is preferable in that it clarifies whether to account for transactions as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. The change in accounting principle was adopted on a modified prospective basis in 2019. As a result, there was no cumulative-effect adjustment to opening net assets without donor restrictions or opening net asses with donor restrictions as of July 1, 2018. There was no effect of adopting the new accounting principles in contributions in 2019.

Subsequent Events

The Organization has evaluated subsequent events through March 25, 2020, 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.

Note 3 - Liquidity and Availability:

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Organization considers contributions without donor restrictions and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities as well as the conduct of services undertaken to support those activities to be general expenditures.

Cash and cash equivalents	$ 896,998
Accounts receivable	750,899
Contributions receivable	64,320
	$ 1,712,217

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization has a line-of-credit with available borrowings totaling$500,000 as described in Note 9.

In addition, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures

Endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Appropriations of endowment fund earnings are made in accordance with the spending policy as described in Note 13. Donor-restricted endowment funds that must be held in perpetuity are not available for general expenditure.

Note 4 - Fair Value Measurements:

The following table summarizes assets measured at fair value by classification within the fair value hierarchy at June 30, 2019:

	2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2019
Beneficial interest in endowment funds (Note 8)	$ -	$ 145,579	$ -	$ 145,579
Land available for sale (Note 8)	-	-	100,000	100,000
	$ -	$ 145,579	$ 100,000	$ 245,579

Note 4 - Fair Value Measurements: (Continued)

	2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2018
Beneficial interest in endowment funds (Note 8)	$ -	$ 145,086	$ -	$ 145,086
Land available for sale (Note 8)	-	-	100,000	100,000
	$ -	$ 145,086	$ 100,000	$ 245,086

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:

2019				
Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Land	$ 100,000	Valuation of underlying assets as provided by real estate professionals	Carrying value	N/A

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

Note 5 - Accounts Receivable:

Accounts receivable consist of the following at June 30:

	2019	2018
County of San Diego - Probation Department	$ 224,525	$ 243,704
STRIVE International	149,163	163,121
County of San Diego - Reentry Drug Court	140,944	201,050
San Diego Workforce Partnership	105,794	62,223
City of San Diego	51,769	33,661
Transitional Housing Program	42,657	131,810
Other receivables	29,202	12,752
County of San Diego - Property tax	6,845	-
Total Accounts Receivable	$ 750,899	$ 848,321

Note 6 - Contributions Receivable:

Contributions receivable are due in less than one year and total $64,320 and $25,000 at June 30, 2019 and 2018, respectively.

Note 7 - Property and Equipment:

Property and equipment consists of the following at June 30:

	2019	2018
Land	$ 2,085,196	$ 2,999,046
Buildings	3,024,704	3,922,435
Improvements	2,271,259	2,416,756
Furniture and equipment	171,373	168,123
Vehicles	77,642	77,641
Subtotal	7,630,174	9,584,001
Less: Accumulated depreciation	(1,890,998)	(2,240,044)
Property and Equipment, Net	$ 5,739,176	$ 7,343,957

Note 8 - Investments:

Beneficial Interest in Endowment Funds

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

	2019	2018
San Diego Foundation	$ 66,959	$ 67,552
Rancho Santa Fe Foundation	42,185	40,550
Jewish Community Foundation	36,435	36,984
Total	$ 145,579	$ 145,086

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% international equities, 28% domestic equities, 20% alternative investment, 17% fixed income, 6% real estate and 2% 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 32.0% domestic equities, 21.3% international equities, 2.0% emerging markets, 43.2% fixed income and 1.5% 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.

Note 8 - Investments: (Continued)

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, 2019 and 2018, respectively.

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

	Without Donor Restrictions	With Donor Restrictions	2019	2018
Interest and dividend income	$ 10	$ 2,617	$ 2,627	$ 2,859
Unrealized gains (losses) on investments	-	3,360	3,360	6,959
Total Investment Income	$ 10	$ 5,977	$ 5,987	$ 9,818

Note 9 - 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% (6.50% at June 30, 2019). The line of credit matures in May 2020 and is secured by assets of the Organization. Outstanding advances under the line-of-credit totaled $-0- and $5,500 at June 30, 2019 and 2018, respectively.

Note 10 - Notes Payable:

Notes payable consist of the following:

	2019	2018
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.	$ 1,222,130	$ 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.	474,831	492,624
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

Note 10 - Notes Payable: (Continued)

	2019	2018
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
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
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.	350,234	363,277
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.	339,562	351,794
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
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.	210,332	214,839
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.	440,324	447,254
Total Notes Payable	3,257,413	4,974,910
Less: Unamortized debt issuance costs	(32,257)	(42,279)
Notes Payable, Net	$ 3,225,156	$ 4,932,631

Debt issuance costs total $39,470 and $44,314, less accumulated amortization of $7,213 and $2,035 at June 30, 2019 and 2018, respectively.

Note 10 - Notes Payable: (Continued)

The future principal payments are as follows:

Years Ended June 30		
2020	$	82,730
2021		86,896
2022		91,082
2023		95,475
2024		99,917
Thereafter		2,801,313
Total	$	3,257,413

Note 11 - Net Assets With Donor Restrictions:

Net assets with donor restrictions represent contributions and other inflows received by the Organization, which are limited in their use by the donor-imposed stipulations. Net assets with donor restrictions are available for the following purposes at June 30:

		2019		2018
Subject to Expenditure for Specified Purpose:				
Adult programs	$	98,315	$	-
Youth programs		86,585		69,583
Other		-		16,970
Total Subject to Expenditure for Specified Purpose		184,900		86,553
Subject to the Passage of Time:				
Accumulated earnings on endowment assets		15,579		15,086
Perpetual in Nature:				
Endowments (Note 13)		130,000		130,000
Total Net Assets With Donor Restrictions	$	330,479	$	231,639

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of the passage of time or other events specified by the donors are as follows for the year ended June 30, 2019:

Purpose Restrictions Accomplished:		
Youth programs	$	41,540
Other		16,970
Accumulated earnings on endowment assets		5,484
	$	63,994

Note 12 - 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.

Note 13 - 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 holds its endowment funds as a beneficial interest in endowment funds held by Jewish Community Foundation ("JCF"), Rancho Santa Fe Foundation ("RSFF") and San Diego Foundation ("SDF").

The beneficial interest in endowment funds held by JCF, RSF and SDF are managed in accordance with the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). The investment objectives are to maintain the purchasing power (real value) of the endowment funds. 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.

The Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. The Organization has no underwater endowment funds at June 30, 2019 and 2018.

Net assets with donor restrictions in perpetuity are comprised of:

- The original value of gifts donated to the fund.
- The original value of the Organization funds transferred to the fund.
- The original value of subsequent gifts donated to the fund.
- Investment income and realized and unrealized gains and losses on investments.
- Less: Distributions from the fund in accordance with the spending policy

Investment and spending policies have been adopted 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

Note 13 - Endowment Net Assets: (Continued)

JCF's endowment funds are invested in a diversified portfolio of equity and debt securities, which is structured for long-term total return. JCF's spending policy is to disburse 5% of the value of the fund annually, based on a historical average value of the fund. The calculation is based on the average value of the fund for twelve quarters prior to the date of the distribution.

RSF's endowment funds are invested in a diversified portfolio of equity and debt securities, which is structured for long-term total return. RSF's spending policy is to disburse the amount requested by the Fund Advisors and shall be made at such times and in such amounts are may be determined by RSF Board of Directors.

SDF's endowment funds are invested in a diversified portfolio of equity and debt securities, which is structured for long-term total return. SDF's spending policy is to disburse 5% annually, based upon endowment principal market value over the last 36 months. These calculations are made on a monthly basis (1/12 of the annual distribution rate). If the market value of the Endowment Principal of any fund, at the end of each month, is less than the initial value of all contributions made to the Endowment Principal, then distributions will be limited to interest and dividends received.

Endowment composition by type of fund at June 30:

	2019 With Donor Restrictions Perpetual	2018 With Donor Restrictions Perpetual
Beneficial interest in endowment funds	$ 130,000	$ 130,000

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

	Without Donor Restrictions	With Donor Restrictions - Time	Permanently Restrictions - Perpetual	Total
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
Investment income	-	5,977	-	5,977
Appropriation of endowment assets for expenditure	-	(5,484)	-	(5,484)
Endowment Net Assets at June 30, 2019	$ -	$ 15,579	$ 130,000	$ 145,579

SAN DIEGO SECOND CHANCE PROGRAM
SUPPLEMENTARY CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
JUNE 30, 2019

ASSETS

	San Diego Second Chance Program	Hope Housing Works LLC	Second Chance San Diego Headquarters, LLC	Eliminations	Consolidated
Current Assets:					
Cash and cash equivalents	$ 89,354	$ 743,455	$ 64,189	$ -	$ 896,998
Accounts receivable	659,432	436,596	2,224,939	(2,570,068)	750,899
Contributions receivable	64,320	-	-	-	64,320
Deposits and other assets	51,350	3,907	-	(17,500)	37,757
Total Current Assets	864,456	1,183,958	2,289,128	(2,587,568)	1,749,974
Noncurrent Assets:					
Property and equipment, net	3,160	1,982,604	3,753,412	-	5,739,176
Investments	2,245,579	-	-	(2,000,000)	245,579
Total Noncurrent Assets	2,248,739	1,982,604	3,753,412	(2,000,000)	5,984,755
TOTAL ASSETS	$ 3,113,195	$ 3,166,562	$ 6,042,540	$ (4,587,568)	$ 7,734,729

LIABILITIES AND NET ASSETS

	San Diego Second Chance Program	Hope Housing Works LLC	Second Chance San Diego Headquarters, LLC	Eliminations	Consolidated
Current Liabilities:					
Accounts payable and accrued expenses	$ 3,018,689	$ 2,396	$ 20,672	$ (2,587,568)	$ 454,189
Deferred revenue	3,060	-	-	-	3,060
Accrued interest payable	-	6,949	5,377	-	12,326
Current portion of notes payable	-	56,230	26,500	-	82,730
Total Current Liabilities	3,021,749	65,575	52,549	(2,587,568)	552,305
Noncurrent Liabilities:					
Notes payable, net of current portion	-	1,747,650	1,394,776	-	3,142,426
Total Noncurrent Liabilities	-	1,747,650	1,394,776	-	3,142,426
Total Liabilities	3,021,749	1,813,225	1,447,325	(2,587,568)	3,694,731
Net Assets:					
Without donor restrictions	(239,033)	1,353,337	4,595,215	(2,000,000)	3,709,519
With donor restrictions	330,479	-	-	-	330,479
Total Net Assets	91,446	1,353,337	4,595,215	(2,000,000)	4,039,998
TOTAL LIABILITIES AND NET ASSETS	$ 3,113,195	$ 3,166,562	$ 6,042,540	$ (4,587,568)	$ 7,734,729

SAN DIEGO SECOND CHANCE PROGRAM
SUPPLEMENTARY CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

	San Diego Second Chance Program	Hope Housing Works LLC	Second Chance San Diego Headquarters, LLC	Eliminations	Consolidated
Support and Revenue:					
Grants and contract revenue	$ 3,579,572	$ -	$ 283,650	$ (248,004)	$ 3,615,218
Housing	-	806,638	-	(92,520)	714,118
Contributions	553,964	-	-	-	553,964
Other income	24,504	3,036	139	-	27,679
Investment income	5,987	-	-	-	5,987
Gain on sale of property and equipment	-	884,469	-	-	884,469
Management income	130,178	-	-	(130,178)	-
Total Support and Revenue	4,294,205	1,694,143	283,789	(470,702)	5,801,435
Expenses:					
Program Services:					
Workforce development	2,137,171	-	-	(201,281)	1,935,890
Youth services	1,702,667	-	-	(82,553)	1,620,114
Housing	-	1,104,729	243,160	(130,178)	1,217,711
Total Program Services	3,839,838	1,104,729	243,160	(414,012)	4,773,715
Supporting Services:					
Development	411,016	-	-	(31,032)	379,984
Administration	214,805	-	-	(25,658)	189,147
Total Supporting Services	625,821	-	-	(56,690)	569,131
Total Expenses	4,465,659	1,104,729	243,160	(470,702)	5,342,846
Change in Net Assets	(171,454)	589,414	40,629	-	458,589
Net Assets at Beginning of Year	262,900	763,923	4,554,586	(2,000,000)	3,581,409
NET ASSETS AT END OF YEAR	$ 91,446	$ 1,353,337	$ 4,595,215	$ (2,000,000)	$ 4,039,998

SAN DIEGO SECOND CHANCE PROGRAM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

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			$ -	$ 212,302	$ 212,302
Total U.S. Department of Housing and Urban Development			-	212,302	212,302
U.S. Department of Labor:					
Pass-Through Programs:					
WIOA Cluster:					
WIOA Adult Program:	17.258	126-17			
San Diego Workforce Partnership			-	296,499	296,499
WIOA Youth Activities:					
San Diego Workforce Partnership	17.259	126-16M1	-	308,304	308,304
Total WIOA Cluster			-	604,803	604,803
Reentry Employment Opportunities:					
Strive International, Inc.	17.270	SFLR-001/SFS-001	-	523,625	523,625
Total U.S. Department of Labor			-	1,128,428	1,128,428
Total Expenditures of Federal Awards			$ -	$ 1,340,730	$ 1,340,730

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, 2019. 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 financial statements of San Diego Second Chance Program, which comprise the statement of financial position as of June 30, 2019, and the related 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 March 25, 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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies as item 2019-001.

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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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2019-001.

San Diego Second Chance Program's Response to Findings

San Diego Second Chance Program's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. San Diego Second Chance Program's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 San Diego Second Chance Program's internal control or on compliance. This 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 and compliance. Accordingly, this communication is not suitable for any other purpose.

Leaf & Cole LLP

San Diego, California
March 25, 2020

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, 2019. 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; 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.

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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, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on each major federal program is not modified with respect to these matters.

San Diego Second Chance Program's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. San Diego Second Chance Program's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be significant deficiencies.

San Diego Second Chance Program's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. San Diego Second Chance Program's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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
March 25, 2020

SAN DIEGO SECOND CHANCE PROGRAM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued on whether the consolidated 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?	X	Yes		No
Noncompliance material to consolidated 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?	X	Yes		No
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	X	Yes		No

Identification of the major programs:

CDFA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grants/ Entitlement Grants
17.270	Reentry Employment Opportunities

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000			
Auditee qualified as low-risk auditee?	X	Yes		No

Section II – Financial Statement Findings:

Finding 2019-001: Internal Controls Over Cash Disbursements and Payroll

Condition

A review of invoices discovered that some invoices were missing and not reviewed and approved. A review of the labor distribution reports revealed that labor distribution reports were not reviewed and approved and did not support the billings under the grant. The Organization is required to maintain support for all costs expended under the grant in accordance with Regulation 2 CFR Part 200.302 Financial Management and Regulation 2 CFR Part 200.303 Internal Controls (a)(e).

Criteria

Invoices and labor distribution reports should be properly reviewed and approved to ensure that they are correctly coded and billed to grants and contracts.

Cause

Internal control systems were not in place to ensure that the review and approval of invoices and labor distributions reports was completed.

Effect

The lack of review and approval of invoices and labor distribution reports could result in an error in the billing to specific grants and contracts which could result in questioned or disallowed costs.

Recommendation

The Organization should improve their invoice and labor distribution report review and approval process and implement internal controls to ensure that the review and approval is completed.

Views of Responsible Officials and Planned Corrective Actions

The Organization is reviewing opportunities to update and or implement a new payroll system with the ability for tracking and allocating staff time. Also a process has been implemented to track all incoming invoices. Invoices will be reviewed and approved by Program Directors, Senior Accounting Manager and or CFO and CEO before posting to the system.

Section III - Federal Award Findings and Questioned Costs:

Finding 2019-001: Allowable Costs - U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants - CFDA 14.218 & U.S. Department of Labor – Reentry Employment Opportunities - CFDA 17.270

Condition

A review of invoices discovered that some invoices were missing and not reviewed and approved. A review of the labor distribution reports revealed that labor distribution reports were not reviewed and approved and did not support the billings under the grant. The Organization is required to maintain support for all costs expended under the grant in accordance with Regulation 2 CFR Part 200.302 Financial Management and Regulation 2 CFR Part 200.303 Internal Controls (a)(e).

Criteria

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Effect

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