SAN DIEGO SECOND CHANCE PROGRAM

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020

Leaf & Cole, LLP
Certified Public Accountants

SAN DIEGO SECOND CHANCE PROGRAM
CONSOLIDATED FINANCIAL STATEMENTS
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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, 2020 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 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, 2020 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.

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 21 to 22 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 February 9, 2022, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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
February 9, 2022

SAN DIEGO SECOND CHANCE PROGRAM
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020

ASSETS

Current Assets: (Notes 2, 3 and 5)		
Cash and cash equivalents	$	1,418,625
Accounts receivable		723,713
Deposits and other assets		34,214
Total Current Assets		2,176,552
Noncurrent Assets: (Notes 2, 4, 6, 7 and 8)		
Property and equipment, net		5,782,235
Investments		242,820
Total Noncurrent Assets		6,025,055
TOTAL ASSETS	$	8,201,607

LIABILITIES AND NET ASSETS

Current Liabilities: (Notes 2 and 8)		
Accounts payable and accrued expenses	$	632,117
Deferred revenue		91,035
Accrued interest payable		10,912
Current portion of notes payable		88,893
Total Current Liabilities		822,957
Noncurrent Liabilities: (Notes 2 and 8)		
Notes payable, net of current portion		3,413,875
Total Noncurrent Liabilities		3,413,875
Total Liabilities		4,236,832
Commitments and Contingency (Notes 10 and 12)		
Net Assets: (Notes 2, 9 and 11)		
Without Donor Restrictions		3,500,274
With Donor Restrictions:		
Purpose restriction		321,681
Time restriction		12,820
Perpetual in nature		130,000
Total Net Assets With Donor Restrictions		464,501
Total Net Assets		3,964,775
TOTAL LIABILITIES AND NET ASSETS	$	8,201,607

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, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:			
Grant and contract revenue	$ 3,349,835	$ -	$ 3,349,835
Contributions	549,586	312,783	862,369
Housing	718,896	-	718,896
Other income	251,510	-	251,510
Investment income	1,370	1,895	3,265
Net assets released from restriction	180,656	(180,656)	-
Total Support and Revenue	5,051,853	134,022	5,185,875
Expenses			
Program services:			
Youth services	1,644,250	-	1,644,250
Workforce development	1,590,913	-	1,590,913
Housing	1,087,334	-	1,087,334
Total Program Services	4,322,497	-	4,322,497
Supporting Services:			
Administration	476,825	-	476,825
Development	461,776	-	461,776
Total Supporting Services	938,601	-	938,601
Total Expenses	5,261,098	-	5,261,098
Change in Net Assets	(209,245)	134,022	(75,223)
Net Assets at Beginning of Year	3,709,519	330,479	4,039,998
NET ASSETS AT END OF YEAR	$ 3,500,274	$ 464,501	$ 3,964,775

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, 2020

	Program Services				Supporting Services			
	Youth Services	Workforce Development	Housing	Total Program Services	Administration	Development	Total Supporting Services	Total
Salaries and Related Expenses:								
Salaries, taxes and benefits	$ 1,072,342	$ 846,548	$ 507,922	$ 2,426,812	$ 410,886	$ 283,302	$ 694,188	$ 3,121,000
Total Salaries and Related Expenses	1,072,342	846,548	507,922	2,426,812	410,886	283,302	694,188	3,121,000
Nonsalary Related Expenses:								
Conference/staff development	10,688	6,362	116	17,166	7,356	412	7,768	24,934
Consulting/subcontracts	157,206	373,889	14,262	545,357	179,050	22,775	201,825	747,182
Consumables/postage	11,953	6,887	45,539	64,379	27,164	16,751	43,915	108,294
Dues/fees	10,077	35,636	40,756	86,469	136,316	15,332	151,648	238,117
Insurance	17,090	8,907	25,792	51,789	81,167	3,159	84,326	136,115
Mortgage/other interest	286	446	74,284	75,016	70,050	169	70,219	145,235
Participant support	78,816	80,985	28,094	187,895	570	14,203	14,773	202,668
Public relations/outreach	6,423	112	-	6,535	10,898	15,647	26,545	33,080
Repair and maintenance/equipment	17,048	27,076	79,554	123,678	13,098	9,875	22,973	146,651
Utilities	5,765	20,960	102,351	129,076	9,286	5,914	15,200	144,276
Vehicle/travel	37,806	9,484	4,628	51,918	7,758	3,963	11,721	63,639
Total Nonsalary Related Expenses	353,158	570,744	415,376	1,339,278	542,713	108,200	650,913	1,990,191
Total Expenses Before Depreciation and Program Administration	1,425,500	1,417,292	923,298	3,766,090	953,599	391,502	1,345,101	5,111,191
Program Administration	193,752	134,651	108,117	436,520	(492,240)	55,720	(436,520)	-
Depreciation	24,998	38,970	55,919	119,887	15,466	14,554	30,020	149,907
TOTAL PROGRAM AND SUPPORTING SERVICES	$ 1,644,250	$ 1,590,913	$ 1,087,334	4,322,497	$ 476,825	$ 461,776	$ 938,601	$ 5,261,098

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, 2020

Cash Flows From Operating Activities:		
Change in net assets	$	(75,223)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		149,907
Amortization of debt issuance costs		5,535
Net realized and unrealized gains on investments		(1,339)
(Increase) Decrease in:		
Accounts receivable		27,186
Contributions receivable		64,320
Deposits and other assets		3,543
Increase (Decrease) in:		
Accounts payable and accrued expenses		177,928
Deferred revenue		87,975
Accrued interest payable		(1,414)
Net Cash Provided by Operating Activities		438,418
Cash Flows From Investing Activities:		
Sales of investments		4,654
Purchases of investments		(556)
Purchase of property and equipment		(192,966)
Net Cash Used in Investing Activities		(188,868)
Cash Flows From Financing Activities:		
Payments on notes payable		(306,123)
Proceeds from notes payable		578,200
Net Cash Provided by Financing Activities		272,077
Net Increase in Cash and Cash Equivalents		521,627
Cash and Cash Equivalents at Beginning of Year		896,998
CASH AND CASH EQUIVALENTS AT END OF YEAR	$	1,418,625
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$	146,649
Cash paid for taxes	$	8,500

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, case management, systems navigation, 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. San Diego Second Chance Properties, LLC changed its name to Hope Housing Works, LLC on August 2, 2018. Second Chance is the sole member of Hope Housing Works, LLC.

Imperial 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 San Diego Headquarters, LLC changed its name to Imperial Headquarters, LLC on April 30, 2018. Second Chance is the sole member of Second Chance San Diego Headquarters, LLC.

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

Youth Services

STRIVE Future Leaders focuses 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 Community Schools, the program combines in-class and experiential learning to increase youth awareness of urban agriculture and food justice and helps 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. Reentry Works 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. These 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.

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 goal of staying clean and sober while transitioning to independent living.

Note 2 - Significant Accounting Policies:

Consolidated Financial Statements

The consolidated financial statements of the Organization include 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, 2020.

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 $149,907 for the year ended June 30, 2020.

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.

The Organization has property that was available for sale totaling $100,000 which is included in investments at June 30, 2020.

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 2020.

Note 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 $5,535 for the year ended June 30, 2020.

Compensated Absences

Accumulated unpaid vacation totaling $101,932 at June 30, 2020, 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.

Grants and Contract 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 $91,035 at June 30, 2020.

Housing

Rental income is recognized as it accrues. Advance receipts of rental income are deferred or classified as liabilities until earned. There were no advance rental payments received at June 30, 2020.

Other Income

Other income consists primarily of garden sales and is recognized at the time of the sale.

Note 2 - Significant Accounting Policies: (Continued)

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 year ended June 30, 2020, did not meet the requirements above, therefore no amounts were recognized in the consolidated financial statements.

Functional Allocation of Expenses

The consolidated statement of functional expenses presents 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 supporting 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 $8,500 for the year ended June 30, 2020.

San Diego Second Chance Program's Return of Organization Exempt from Income Tax for the years ended June 30, 2020, 2019, 2018 and 2017 and the LLC's tax returns for the years ended June 30, 2020, 2019, 2018 and 2017, 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.

Approximately 57% of the Organization's revenues are earned from contracts and grants from the County of San Diego. Discontinuance of these contracts and grants could negatively impact the Organization.

Note 2 - Significant Accounting Policies: (Continued)

Cash and Cash Equivalents and Restricted Cash

For purposes of the consolidated statement of cash flows, the Organization considers all highly liquid investment instruments available for current year with an initial maturity of three months or less to be cash equivalents. Certificates of deposits that may be redeemed without a significant penalty are considered cash and cash equivalents regardless of the maturity.

Accounting Pronouncements Adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 outlines a single, comprehensive model for companies to use in accounting for revenue arising from contracts with customers. The core principle of the revenue model is that revenue is recognized when a customer obtains control of a good or service. The change in accounting principle was adopted on the retrospective basis, which resulted in no change to revenue previously reported and also had no effect on the revenue reported for the year ended June 30, 2020.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230)*. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The adoption of ASU 2016-18 for the year ended June 30, 2020 had no effect on the beginning-of-period and end-of-period totals shown on the statements of cash flows.

Subsequent Events

The Organization has evaluated subsequent events through February 9, 2022, 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, except as disclosed in Note 13.

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	$ 1,418,625
Accounts receivable	723,713
	$ 2,142,338

Note 3 - Liquidity and Availability: (Continued)

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 12. 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, 2020:

	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, 2020
Beneficial interest in endowment funds (Note 7)	$ -	$ 142,820	$ -	$ 142,820
Land available for sale (Note 7)	-	-	100,000	100,000
	$ -	$ 142,820	$ 100,000	$ 242,820

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, 2020:

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, 2020:

STRIVE International	$ 392,932
San Diego Workforce Partnership	129,094
County of San Diego - Reentry Drug Court	103,790
County of San Diego - Probation Department	69,150
County of San Diego - Property tax	16,118
Other	12,629
Total Accounts Receivable	$ 723,713

Note 6 - Property and Equipment:

Property and equipment consists of the following at June 30, 2020:

Land	$ 2,085,196
Buildings	3,024,704
Improvements	2,462,054
Furniture and equipment	173,544
Vehicles	77,642
Subtotal	7,823,140
Less: Accumulated depreciation	(2,040,905)
Property and Equipment, Net	$ 5,782,235

Note 7 - Investments:

Beneficial Interest in Endowment Funds

The Organization has a beneficial interest in the following endowment funds at June 30, 2020:

San Diego Foundation	$ 64,716
Rancho Santa Fe Foundation	43,516
Jewish Community Foundation	34,588
Total	$ 142,820

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 19.7% international equities, 5.5% global equity, 28.0% domestic equities, 21.9% alternative investment, 16.9% fixed income, 5.8% real estate, 1.9% commodities and 0.30% cash.

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 32.4% domestic equities, 18.0% international equities, 6.4% emerging markets, 41.8% fixed income and 1.4% 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 58.5% domestic and international equities, 38.0% fixed income, 3.5% 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, 2020.

Note 7 - Investments: (Continued)

The following schedule summarizes the investment return which is included in investment income for the year ended June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	
Interest and dividend income	$ 1,370	$ 556	$ 1,926
Net realized and unrealized gains on investments	-	1,339	1,339
Total Investment Income	$ 1,370	$ 1,895	$ 3,265

Note 8 - Notes Payable:

Notes payable consist of the following at June 30, 2020:

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. Accrued interest totaled $5,263 at June 30, 2020.	$ 1,196,259
Note payable - Neighborhood National Bank under the CARES Act Paycheck Protection Program (PPP). The loan is forgivable to the extent the Organization meets the terms and conditions of the PPP. Any portion of the loan note forgiven bear interest at 1% and is due April 14, 2022. Subsequent to year end the entire loan was forgiven.	578,200
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. Accrued interest totaled $1,616 at June 30, 2020.	457,834
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. Accrued interest totaled $2,113 at June 30, 2020.	432,220
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. Accrued interest totaled $1,192 at June 30, 2020.	337,783

Note 8 - Notes Payable: (Continued)

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.	$	321,166
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. Accrued interest totaled $728 at June 30, 2020.		206,028
Total Notes Payable		3,529,490
Less: Unamortized debt issuance costs		(26,722)
Notes Payable, Net	$	3,502,768

Debt issuance costs total $39,470, less accumulated amortization of $12,748 at June 30, 2020.

The future principal payments are as follows:

Years Ended June 30		
2021	$	88,893
2022		670,520
2023		96,671
2024		101,072
2025		106,010
Thereafter		2,466,324
Total	$	3,529,490

Note 9 - 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, 2020:

Subject to Expenditure for Specified Purpose:		
Adult programs	$	291,738
Youth programs		29,943
Total Subject to Expenditure for Specified Purpose		321,681
Subject to the Passage of Time:		
Accumulated earnings on endowment assets		12,820
Perpetual in Nature:		
Endowments (Note 11)		130,000
Total Net Assets With Donor Restrictions	$	464,501

Note 9 - Net Assets With Donor Restrictions: (Continued)

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, 2020:

Purpose Restrictions Accomplished:	
Youth programs	$ 91,525
Adult programs	89,131
	$ 180,656

Note 10 - 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 was required to continue to use the building as noted in the terms of the grant agreement with the City. If Second Chance sold the building before five years, it was required to pay back to the City all funds originally received from the CDBG Program. Second Chance's use of the building has exceeded the five-year requirement and the CDBG grant has been recognized as contribution revenue during the year ended June 30, 2020.

Note 11 - 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. However, from time to time, the fair value of the assets in the endowment funds may fall below the level that the donor 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, 2020.

Note 11 - Endowment Net Assets: (Continued)

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

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, 2020:

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

Note 11 - Endowment Net Assets: (Continued)

Changes in endowment net assets for the year ended June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions - Time	Permanently Restrictions - Perpetual	Total
Endowment Net Assets at June 30, 2019	$ -	$ 15,579	$ 130,000	$ 145,579
Investment income	-	1,895	-	1,895
Appropriation of endowment assets for expenditure	-	(4,654)	-	(4,654)
Endowment Net Assets at June 30, 2020	$ -	$ 12,820	$ 130,000	$ 142,820

Note 12 - Coronavirus Pandemic Contingency:

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. The United States and global markets experienced significant declines in value resulting from uncertainty caused by the pandemic. The Organization is closely monitoring its investment portfolio and its liquidity and is actively working to minimize the impact of these declines. The extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on the Organization's donors, customers, employees, and vendors, all of which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact the Organization's financial position and changes in net assets and cash flows is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic.

Note 13 - Subsequent Events:

In October 2021, San Diego Second Chance Program, Inc. entered into an unsecured promissory note with one of its board members. The note bears no interest and is due 180 days from the date of the note. The unsecured promissory note was fully repaid in January 2022.

In November 2021, Imperial Headquarters, LLC entered into a note payable with Fidelity Bridge Loans, LLC in the amount of $1,600,000 to pay the outstanding balance on the note payable to Endeavor Bank including any title or lender charges and provide additional capital. The note payable bears interest at 7.5%, is secured by a deed of trust. The note requires interest only payments for 36 months and matures in November 2024.

In December 2021, Hope Housing Works, LLC sold its Flicker Street residential property and paid the outstanding balance on the 4.25% note payable securing the property.

SAN DIEGO SECOND CHANCE PROGRAM
SUPPLEMENTARY CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
JUNE 30, 2020

ASSETS

	San Diego Second Chance Program	Hope Housing Works LLC	Second Chance San Diego Headquarters, LLC	Eliminations	Consolidated
Current Assets:					
Cash and cash equivalents	$ 473,176	$ 833,799	$ 111,650	$ -	$ 1,418,625
Accounts receivable	694,037	578,357	2,282,895	(2,831,576)	723,713
Deposits and other assets	49,828	1,886	-	(17,500)	34,214
Total Current Assets	1,217,041	1,414,042	2,394,545	(2,849,076)	2,176,552
Noncurrent Assets:					
Property and equipment, net	3,886	2,128,209	3,650,140	-	5,782,235
Investments	2,242,820	-	-	(2,000,000)	242,820
Total Noncurrent Assets	2,246,706	2,128,209	3,650,140	(2,000,000)	6,025,055
TOTAL ASSETS	$ 3,463,747	$ 3,542,251	$ 6,044,685	$ (4,849,076)	$ 8,201,607

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	$ 3,361,577	$ 70,619	$ 48,997	$ (2,849,076)	$ 632,117
Deferred revenue	91,035	-	-	-	91,035
Accrued interest payable	-	5,649	5,263	-	10,912
Current portion of notes payable	-	61,499	27,394	-	88,893
Total Current Liabilities	3,452,612	137,767	81,654	(2,849,076)	822,957
Noncurrent Liabilities:					
Notes payable, net of current portion	-	2,261,498	1,152,377	-	3,413,875
Total Noncurrent Liabilities	-	2,261,498	1,152,377	-	3,413,875
Total Liabilities	3,452,612	2,399,265	1,234,031	(2,849,076)	4,236,832
Net Assets:					
Without donor restrictions	(453,366)	1,142,986	4,810,654	(2,000,000)	3,500,274
With donor restrictions	464,501	-	-	-	464,501
Total Net Assets	11,135	1,142,986	4,810,654	(2,000,000)	3,964,775
TOTAL LIABILITIES AND NET ASSETS	$ 3,463,747	$ 3,542,251	$ 6,044,685	$ (4,849,076)	$ 8,201,607

SAN DIEGO SECOND CHANCE PROGRAM
SUPPLEMENTARY CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

	San Diego Second Chance Program	Hope Housing Works LLC	Second Chance San Diego Headquarters, LLC	Eliminations	Consolidated
Support and Revenue:					
Grants and contract revenue	$ 3,312,765	$ -	$ 308,726	$ (271,656)	$ 3,349,835
Contributions	862,369	-	-	-	862,369
Housing	-	861,752	-	(142,856)	718,896
Other income	21,251	10,259	220,000	-	251,510
Investment income	3,147	-	118	-	3,265
Total Support and Revenue	4,199,532	872,011	528,844	(414,512)	5,185,875
Expenses:					
Program Services:					
Youth services	1,652,585	-	57,424	(65,759)	1,644,250
Workforce development	1,746,762	-	89,514	(245,363)	1,590,913
Housing	8,550	1,082,362	24,646	(28,224)	1,087,334
Total Program Services	3,407,897	1,082,362	171,584	(339,346)	4,322,497
Supporting Services:					
Administration	403,030	-	108,390	(34,595)	476,825
Development	468,916	-	33,431	(40,571)	461,776
Total Supporting Services	871,946	-	141,821	(75,166)	938,601
Total Expenses	4,279,843	1,082,362	313,405	(414,512)	5,261,098
Change in Net Assets	(80,311)	(210,351)	215,439	-	(75,223)
Net Assets at Beginning of Year	91,446	1,353,337	4,595,215	(2,000,000)	4,039,998
NET ASSETS AT END OF YEAR	$ 11,135	$ 1,142,986	$ 4,810,654	$ (2,000,000)	$ 3,964,775

SAN DIEGO SECOND CHANCE PROGRAM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020

Federal Grants/Pass-Through Grantor Program or Cluster Title	Assistance Listing Number	Grant Identification Number	Passed Through to Subrecipient	Federal Expenditures	Total Expenditures
U.S. Department of Labor:					
Pass-Through Programs:					
WIOA Cluster:					
WIOA Adult Program:	17.258	Reentry Works (LEAP 1)			
San Diego Workforce Partnership			$ -	$ 18,561	$ 18,561
WIOA Youth Activities:					
San Diego Workforce Partnership	17.259	WIOA Work Experience	-	86,229	86,229
San Diego Workforce Partnership		WIOA Non-Work Experience	-	159,526	159,526
Total WIOA Youth Activities			-	245,755	245,755
Total WIOA Cluster			-	264,316	264,316
Reentry Employment Opportunities:					
Strive International, Inc.	17.270	Strive Fresh Start	-	290,231	290,231
Strive International, Inc.		Strive Future Leaders	-	228,775	228,775
Total Reentry Employment Opportunities			-	519,006	519,006
Total U.S. Department of Labor			-	783,322	783,322
Total Expenditures of Federal Awards			$ -	$ 783,322	$ 783,322

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, 2020. 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, 2020, 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, and have issued our report thereon dated February 9, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered San Diego Second Chance Program's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated 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 consolidated 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 and therefore material weaknesses or significant deficiencies may exist that have not been 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 as item 2020-01 that we consider to be significant deficiencies.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Diego Second Chance Program's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 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
February 9, 2022

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

Independent Auditor's Report on Compliance for the 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 the 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 San Diego Second Chance Program's major federal program for the year ended June 30, 2020. San Diego Second Chance Program's major federal program is 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 program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for San Diego Second Chance Program's major federal program 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 the 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 the 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 its major federal program for the year ended June 30, 2020.

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 major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. We did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2020-01 that we consider to be significant deficiencies.

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
February 9, 2022

SAN DIEGO SECOND CHANCE PROGRAM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020

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:

Assistance Listing Number	Name of Federal Program or Cluster
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 2020-01 - Accounting Oversight and Review

Condition

The Organization employed a chief financial officer and accounting support staff during the year, but experienced turnover in both positions at year-end. The Organization's small staff does not lend itself well to proper separation of duties and may not have allowed for an appropriate workload for the staff assigned. The Organization is complex with multiple programs funded through Federal Financial Assistance as well as both restricted and unrestricted contributions. Insufficient management oversight of the accounting function by those trained in nonprofit accounting was noted. Small staff with limited training led to a lack of proper guidance when the senior accounting position was vacant.

Criteria

A proper accounting system should include proper staffing levels with appropriate experience, separation of duties and oversight as well a back-up plan to cover staffing vacancies.

Cause

The accounting staff are heavily involved in the day-to-day accounting needs of the Organization and vacancies occurred near year-end. This led to a lack of review of the accounting functions and significant difficulties with year-end cutoff.

Effect

Many accounts needed adjustment subsequent to year-end as accruals of both revenues and expenses were not properly captured.

Recommendation

A monthly review of the accounting records should be undertaken by an individual skilled in nonprofit accounting and financial reporting, including the allocation of costs to programs, the use of federal funds, and proper revenue recognition related to both restricted and conditional contributions.

Views of Responsible Officials and Planned Corrective Action

Management's analysis of the audit findings, and its own root cause analysis confirms that gaps in organizational capability existed in the areas of the fiscal controls that were tested. Second Chance management has corrected these deficiencies and put in place preventive measures to rebuild the Organization's capabilities. The Organization has experienced significant staff, management, and leadership turnover in the midst of the global pandemic. The most significant factors from management's root cause analysis of each finding are a loss of organizational capability due to staff turnover, and the slow recovery of organizational capability following the loss of institutional knowledge and expertise.

Section II - Financial Statement Findings: (Continued)

Finding 2020-01 - Accounting Oversight and Review (Continued)

Views of Responsible Officials and Planned Corrective Action (Continued)

Second Chance management recognized its need for additional leadership and increased organizational capabilities in the area of fiscal management and control shortly after the end of the 2020 fiscal year. Management has subsequently contracted with a specialized accounting and consulting firm to address the existing gaps in organizational capabilities. This firm began their engagement in early August, 2020. Their specialization includes extensive experience in the nonprofit space.

The initial scope of work was increased after securing the funding in October, 2020 to include assistance with bookkeeping, accounting, and reporting functions until the department is staffed appropriately. They will continue to provide fractional resources in the Controller, C-level, and analyst roles. The scope of the engagement includes addressing the deficiencies in financial controls.

Section III - Federal Award Findings and Questioned Costs:

Finding 2020-01 - Accounting Oversight and Review

U.S. Department of Labor - Reentry Employment Opportunities - CFDA 17.270

Condition

The Organization employed a chief financial officer and accounting support staff during the year, but experienced turnover in both positions at year-end. The Organization's small staff does not lend itself well to proper separation of duties and may not have allowed for an appropriate workload for the staff assigned. The Organization is complex with multiple programs funded through Federal Financial Assistance as well as both restricted and unrestricted contributions. Insufficient management oversight of the accounting function by those trained in nonprofit accounting was noted. Small staff with limited training led to a lack of proper guidance when the senior accounting position was vacant.

Criteria

A proper accounting system should include proper staffing levels with appropriate experience, separation of duties and oversight as well a back-up plan to cover staffing vacancies.

Cause

The accounting staff are heavily involved in the day-to-day accounting needs of the Organization and vacancies occurred near year-end. This led to a lack of review of the accounting functions and significant difficulties with year-end cutoff.

Effect

Many accounts needed adjustment subsequent to year-end as accruals of both revenues and expenses were not properly captured.

Recommendation

A monthly review of the accounting records should be undertaken by an individual skilled in nonprofit accounting and financial reporting, including the allocation of costs to programs, the use of federal funds, and proper revenue recognition related to both restricted and conditional contributions.

Views of Responsible Officials and Planned Corrective Action

Management's analysis of the audit findings, and its own root cause analysis confirms that gaps in organizational capability existed in the areas of the fiscal controls that were tested. Second Chance management has corrected these deficiencies and put in place preventive measures to rebuild the Organization's capabilities. The Organization has experienced significant staff, management, and leadership turnover in the midst of the global pandemic. The most significant factors from management's root cause analysis of each finding are a loss of organizational capability due to staff turnover, and the slow recovery of organizational capability following the loss of institutional knowledge and expertise.

Section III - Federal Award Findings and Questioned Costs: (Continued)

Finding 2020-01 - Accounting Oversight and Review (Continued)

U.S. Department of Labor - Reentry Employment Opportunities - CFDA 17.270 (Continued)

Views of Responsible Officials and Planned Corrective Action (Continued)

Second Chance management recognized its need for additional leadership and increased organizational capabilities in the area of fiscal management and control shortly after the end of the 2020 fiscal year. Management has subsequently contracted with a specialized accounting and consulting firm to address the existing gaps in organizational capabilities. This firm began their engagement in early August, 2020. Their specialization includes extensive experience in the nonprofit space.

The initial scope of work was increased after securing the funding in October, 2020 to include assistance with bookkeeping, accounting, and reporting functions until the department is staffed appropriately. They will continue to provide fractional resources in the Controller, C-level, and analyst roles. The scope of the engagement includes addressing the deficiencies in financial controls.

SAN DIEGO SECOND CHANCE PROGRAM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020

Status of Prior Year Audit Findings, Questioned Costs and Recommendations:

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

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.

Action Taken

The Organization improved their invoice and labor distribution report review and approval process. Similar findings were not noted prior to the departure of the chief financial officer at year-end.