

**SAN JOSE
CONSERVATION CORPS**

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

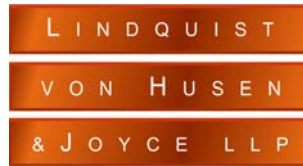
YEARS ENDED JUNE 30, 2009 AND 2008

SAN JOSE CONSERVATION CORPS
(A California Nonprofit Public Benefit Corporation)
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1
Statements of Financial Position	3
Statements of Activities.....	4
Statements of Functional Expenses	5
Statements of Cash Flows	7
Notes to Financial Statements	9
OMB Circular A-133 Disclosures	17
Schedule of Expenditures of Federal Awards	18
Note to Schedule of Expenditures of Federal Awards	19
Schedule of Findings and Questioned Costs	20
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.....	23

* * * *



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

CATHY L. HWANG
RITA B. DELA CRUZ
STANLEY WOO

Board of Directors
San Jose Conservation Corps
San Jose, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial position of San Jose Conservation Corps, a California nonprofit public benefit corporation, as of June 30, 2009 and 2008, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of San Jose Conservation Corps' management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of San Jose Conservation Corps Charter School (Charter School), a division of San Jose Conservation Corps, as of and for the years ended June 30, 2009 and 2008 whose statements reflect total assets and revenues constituting 9% and 7% (after eliminations), and 27% and 21% (after eliminations), respectively, of the related combined totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Charter School, is based solely on the reports of the other auditor.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of San Jose Conservation Corps' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of San Jose Conservation Corps as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 12, 2010 on our consideration of San Jose Conservation Corps' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Lindquist, von Husen and Joyce LLP

January 12, 2010

SAN JOSE CONSERVATION CORPS
(A California Nonprofit Public Benefit Corporation)
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009 AND 2008

	2009	2008
ASSETS		
Current assets:		
Cash	\$ 524,802	\$ 799,455
Restricted cash	66,492	101,446
Receivables:		
Contracts and grants	1,180,326	854,320
Contributions – current portion (Note 3)	-	239,375
Other	16,448	75,452
Investments	93,606	91,255
Prepaid expenses	104,211	187,963
Total current assets	1,985,885	2,349,266
Contributions receivable – net of current portion (Note 3)	-	15,000
Construction in progress (Note 4)	2,548,364	1,222,060
Property and equipment – net (Note 4)	6,966,241	6,901,105
Deferred costs	21,455	25,491
Total assets	\$ 11,521,945	\$ 10,512,922
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 476,312	\$ 550,893
Construction costs payable (Note 4)	351,108	233,356
Deferred revenue	13,416	146,682
Notes payable – current portion (Note 5)	96,905	-
Total current liabilities	937,741	930,931
Note payable - net of current portion (Note 5)	2,868,821	2,865,726
Total liabilities	3,806,562	3,796,657
Net assets:		
Unrestricted	7,648,891	6,469,152
Temporarily restricted (Note 6)	66,492	247,113
Total net assets	7,715,383	6,716,265
Total liabilities and net assets	\$ 11,521,945	\$ 10,512,922

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

SAN JOSE CONSERVATION CORPS
(A California Nonprofit Public Benefit Corporation)
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2009 AND 2008

	2009			2008		
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>
Revenue and support:						
Government grant income	\$ 5,352,102	\$ -	\$ 5,352,102	\$ 6,120,986	\$ -	\$ 6,120,986
Contributions	65,746	191,185	256,931	43,920	328,210	372,130
Interest income	7,446	-	7,446	15,346	-	15,346
Other income	67,510	-	67,510	38,734	-	38,734
Net assets released from restrictions (Note 6)	371,806	(371,806)	-	488,616	(488,616)	-
Total revenue and support	<u>5,864,610</u>	<u>(180,621)</u>	<u>5,683,989</u>	<u>6,707,602</u>	<u>(160,406)</u>	<u>6,547,196</u>
Expenses:						
Program services:						
Corpsmember training	3,189,080	-	3,189,080	3,915,628	-	3,915,628
In-school youth	-	-	-	452,217	-	452,217
Charter school	1,516,326	-	1,516,326	1,225,683	-	1,225,683
Total program services	<u>4,705,406</u>	<u>-</u>	<u>4,705,406</u>	<u>5,593,528</u>	<u>-</u>	<u>5,593,528</u>
Supporting services:						
Management and general	981,518	-	981,518	989,750	-	989,750
Fundraising	72,289	-	72,289	153,621	-	153,621
Total supporting services	<u>1,053,807</u>	<u>-</u>	<u>1,053,807</u>	<u>1,143,371</u>	<u>-</u>	<u>1,143,371</u>
Total expenses	<u>5,759,213</u>	<u>-</u>	<u>5,759,213</u>	<u>6,736,899</u>	<u>-</u>	<u>6,736,899</u>
Change in net assets before other revenue (loss)	105,397	(180,621)	(75,224)	(29,297)	(160,406)	(189,703)
Other revenue (loss):						
Capital grants	1,242,445	-	1,242,445	245,928	-	245,928
Write off of uncollectible contributions	(168,103)	-	(168,103)	-	-	-
Loss from discontinued project (Note 4)	-	-	-	(132,634)	-	(132,634)
Change in net assets	1,179,739	(180,621)	999,118	83,997	(160,406)	(76,409)
Net assets, beginning of year	<u>6,469,152</u>	<u>247,113</u>	<u>6,716,265</u>	<u>6,385,155</u>	<u>407,519</u>	<u>6,792,674</u>
Net assets, end of year	<u>\$ 7,648,891</u>	<u>\$ 66,492</u>	<u>\$ 7,715,383</u>	<u>\$ 6,469,152</u>	<u>\$ 247,113</u>	<u>\$ 6,716,265</u>

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

SAN JOSE CONSERVATION CORPS
(A California Nonprofit Public Benefit Corporation)
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

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

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

SAN JOSE CONSERVATION CORPS
(A California Nonprofit Public Benefit Corporation)
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

	2008							
	<i>Program Services</i>				<i>Supporting Services</i>			
	<i>Corpsmember Training</i>	<i>In-School Youth</i>	<i>Charter School</i>	<i>Total</i>	<i>Management and General</i>	<i>Fundraising</i>	<i>Total</i>	<i>Total</i>
Personnel costs	\$ 2,676,558	\$ 361,013	\$ 950,182	\$ 3,987,753	\$ 616,702	\$ 39,690	\$ 656,392	\$ 4,644,145
Education and training	27,305	23,131	43,097	93,533	214	-	214	93,747
Professional services	16,181	8,555	97,637	122,373	87,613	23,700	111,313	233,686
Office and other expenses	35,691	3,411	31,619	70,721	56,356	647	57,003	127,724
Insurance	59,486	14,087	3,402	76,975	41,837	-	41,837	118,812
Equipment and related expenses	13,313	728	4,117	18,158	43,863	199	44,062	62,220
Vehicle expenses	163,337	13,174	4,380	180,891	940	406	1,346	182,237
Travel	3,978	1,601	22,612	28,191	13,885	-	13,885	42,076
Facilities	37,033	1,115	19,720	57,868	78,034	5,018	83,052	140,920
Marketing and communication	150	425	-	575	10,980	73,270	84,250	84,825
Field expenses	625,421	7,009	2,392	634,822	-	399	399	635,221
Depreciation and amortization	151,375	17,968	46,525	215,868	39,326	10,292	49,618	265,486
Interest	105,800	-	-	105,800	-	-	-	105,800
Total expenses as shown on the statements of activities	\$ 3,915,628	\$ 452,217	\$ 1,225,683	\$ 5,593,528	\$ 989,750	\$ 153,621	\$ 1,143,371	\$ 6,736,899

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

SAN JOSE CONSERVATION CORPS
(A California Nonprofit Public Benefit Corporation)
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ 999,118	\$ (76,409)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	329,415	265,485
Amortization of deferred costs	4,036	-
Gain on disposal of assets	-	20,588
Income from capital grants	(1,242,445)	(245,928)
Loss from discontinued projects	-	132,634
Write off of uncollectible contributions	168,103	-
(Increase) decrease in assets:		
Contracts and grants receivable	(326,006)	(83,995)
Contributions receivable	86,272	136,500
Other receivables	59,004	(68,720)
Prepaid expenses	83,752	(22,791)
Decrease in liabilities:		
Accounts payable and accrued expenses	(74,581)	(42,292)
Deferred revenue	(133,266)	(19,110)
Net cash used in operating activities	(46,598)	(4,038)
Cash flows from investing activities:		
Increase in investments	(2,351)	(6,975)
Acquisition of property and equipment	(394,551)	(336,950)
Net increase (decrease) in restricted cash	34,954	(27,389)
Construction in progress	(1,208,552)	(429,849)
Net cash used in investing activities	(1,570,500)	(801,163)
Cash flows from financing activities:		
Proceeds from capital grants	1,242,445	391,731
Proceeds from notes payable	100,000	2,840,235
Payments of notes payable	-	(2,550,946)
Net cash provided by financing activities	1,342,445	681,020
Net decrease in cash	(274,653)	(124,181)
Cash, beginning of year	799,455	923,636
Cash, end of year	\$ 524,802	\$ 799,455

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

SAN JOSE CONSERVATION CORPS
(A California Nonprofit Public Benefit Corporation)
 STATEMENTS OF CASH FLOWS
 YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
Supplemental disclosures:		
Cash paid for interest	\$ 188,126	\$ 40,124
Noncash investing and financing transactions:		
Assets acquired with short-term debt	\$ 117,752	\$ 280,876
Assets obtained from contributions	\$ -	\$ 80,287
Assets acquired with long-term debt	\$ 100,000	\$ 25,491

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

SAN JOSE CONSERVATION CORPS
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method

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

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

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or otherwise limited by contractual arrangements with external parties.

Temporarily Restricted Net Assets – Net assets that are subject to donor-imposed restrictions that can be fulfilled either by actions of the Organization pursuant to those restrictions and/or expire with the passage of time.

Permanently Restricted Net Assets – Net assets that are subject to donor-imposed restrictions that are required to be retained in perpetuity by the Organization.

During the reporting period, the Organization had only unrestricted and temporarily restricted net assets. Temporarily restricted net assets at June 30, 2009 and 2008, related primarily to contributions for which the funds had not yet been spent for the purpose designated by the donor.

SAN JOSE CONSERVATION CORPS
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

Estimates

The preparation of financial statements in conformity with accounting principles general accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

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

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

The Organization entered into an agreement to lease their office facility with the city of San Jose. The lease is for a 30-year period, retroactive to March 15, 2000 and requires monthly rental payments of \$1, which is significantly less than fair value. The Organization intends to expand their office facility which, during the life of the lease, should significantly impact the value of the property. It would be difficult to objectively measure the current and future fair value of the leasehold interest, therefore, these financial statements only reflect annual rent expense equal to the lease with the city of San Jose.

Fair Value Measurements

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

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

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

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

SAN JOSE CONSERVATION CORPS
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

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

Cash

Cash is defined as cash in demand deposit accounts as well as cash on hand. Not included as cash are funds restricted as to their use, regardless of liquidity. The Organization occasionally maintains cash on deposit at banks in excess of the Federal Deposit Insurance Corporation limit. The uninsured cash balance, including restricted accounts, was approximately \$32,000 as of June 30, 2009. The Organization has not experienced any losses in such accounts.

Restricted Cash

Restricted cash represents contributions received with donor-imposed restrictions that have not been fulfilled at year end and those amounted to \$66,492 and \$101,446 at June 30, 2009 and 2008, respectively.

Accounts Receivable

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

Investments

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

Property and Equipment and Construction in Progress

Property and equipment is stated at cost of acquisition or construction, or fair value if donated. The costs of maintenance and repairs are charged to expense as incurred. Depreciation is computed based on the straight-line method over the estimated useful lives of the assets. Construction in progress is not depreciated until the completion of construction.

The useful lives of the assets are estimated as follows:

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

Deferred Costs

Deferred costs are incurred in order to obtain permanent financing for the Organization. Deferred costs are stated at cost and amortized on a straight-line basis over the loan term of 10 years.

SAN JOSE CONSERVATION CORPS
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

Construction in Progress

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

Capitalized Interest

The Organization capitalizes interest incurred during development as a component of construction in progress. Total interest cost incurred was \$192,162 and \$249,993 for 2009 and 2008, of which interest capitalized was \$160,481 and \$144,193 in 2009 and 2008, respectively.

Income Taxes

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

Functional Expenses Allocation

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

Reclassification

Certain amounts previously reported in the 2008 financial statements were reclassified to conform to the 2009 presentation for comparative purposes.

Subsequent Events

Management has evaluated subsequent events through January 12, 2010, the date which the financial statements were available to be issued.

NOTE 3 – RESTRICTED CONTRIBUTIONS RECEIVABLE

Restricted contributions receivable are summarized as follows:

	<u>2009</u>		<u>2008</u>
Less than one year	\$ -	\$	239,375
One to five years	-		15,000
	<u>\$ -</u>	\$	<u>254,375</u>

SAN JOSE CONSERVATION CORPS
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 4 – PROPERTY AND EQUIPMENT AND CONSTRUCTION IN PROGRESS

Property and equipment is summarized as follows:

	2009	2008
Land	\$ 2,463,319	\$ 2,463,319
Buildings and site improvements	4,605,043	4,605,043
Vehicles	1,685,313	1,387,200
Recycling and service equipment	610,341	577,500
Computer equipment	203,423	203,423
Office and other equipment	647,289	585,393
	10,214,728	9,821,878
Less: accumulated depreciation	(3,248,487)	(2,920,773)
 Total property and equipment	 \$ 6,966,241	 \$ 6,901,105

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

In December 2004, the Organization acquired land and a building (1560 Berger Drive) at a cost of \$4,200,000. The property is currently undergoing rehabilitation and will be used for Charter School expansion, a day care center and other program services. Management expects to complete the rehabilitation in 2010. Certain portions of the building are being used on a limited basis for various program activities.

Construction in progress consists of the following:

	2009	2008
Charter School	\$ 217,501	\$ 92,578
1534 Berger Drive	454,555	206,654
1560 Berger Drive	1,876,308	922,828
	\$ 2,548,364	\$ 1,222,060
	\$ 2,548,364	\$ 1,222,060

The Lazzarini development was discontinued due to lack of funding, and \$132,634 was written off in 2008.

SAN JOSE CONSERVATION CORPS
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 5 – NOTE PAYABLE

The note payable is secured by the property unless otherwise noted and consist of the following:

	<u>2008</u>	<u>2007</u>
	<u>Principal</u>	<u>Principal</u>
<u>1560 and 1534 Berger Drive Properties</u>		
Heritage Bank loan in the maximum amount of \$4,000,000. The loan is a non-revolving credit line for the first 20 months, requires interest only payments based on a fixed rate of 6.5%, and of the loan amount, \$1,034,274 is available to be drawn down by August 2009. Thereafter, the outstanding principal balance will be converted into a 100-month commercial mortgage with a 30-year amortization. The loan requires:		
(a) beginning September 2009, 16 monthly payments of principal and interest in the amount of \$25,521, with an interest rate of 6.5%;		
(b) beginning January 2011, 83 monthly payments of principal and interest in the initial amount of \$26,176, with initial interest rate of 6.75%. Interest is calculated on unpaid principal balances at an interest rate based on the Prime Rate as published in the Western Edition of the Wall Street Journal;		
(c) and if the full loan amount is drawn down by August 2009, one balloon payment of \$3,569,788 including outstanding principal and interest is due on December 3, 2017.		
Interest cost was \$188,126 and \$85,360 in 2009 and 2008, respectively.	\$ 2,965,726	\$ 2,865,726
Less: current portion	(96,905)	-
Total	<u>\$ 2,868,821</u>	<u>\$ 2,865,726</u>

At August 30, 2009, the Organization opted not to take the available drawdown of \$1,034,274.

On November 20, 2009, the Organization borrowed a loan of \$430,800 from Heritage Bank of Commerce with a fixed rate of 6.5% and maturity date of February 20, 2010, which will be used to pay for construction costs associated with property improvements made to the 1560 Berger Drive campus.

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

2010	\$ 96,905
2011	123,871
2012	132,889
2013	142,142
2014	73,144

SAN JOSE CONSERVATION CORPS
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

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

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

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

	2008			
	<i>June 30, 2007</i>	<i>Contributions</i>	<i>Release from Restrictions</i>	<i>June 30, 2008</i>
YouthBuild program	\$ -	\$ 138,000	\$ 107,348	\$ 30,652
Youth Corps program	32,500	5,000	37,500	-
Capital campaign	325,962	156,833	304,620	178,175
Scholarship program	49,057	20,000	30,771	38,286
Other	-	8,377	8,377	-
	<u>\$ 407,519</u>	<u>\$ 328,210</u>	<u>\$ 488,616</u>	<u>\$ 247,113</u>

NOTE 7 – RETIREMENT PLANS

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

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

CalPERS:

Active participants are required to contribute 7% of their salary, and the Charter School is required to contribute an actuarially determined rate. Actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. Contributions to CalPERS were \$22,623 and \$22,222 for the years ended June 30, 2009 and 2008, respectively.

SAN JOSE CONSERVATION CORPS
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

STRS:

Active participants are required to contribute 8% of their salary, and the Charter School is required to contribute an actuarially determined rate. The required employer contribution rate for fiscal year 2008-2009 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to STRS were \$37,129 and \$34,579 for the years ended June 30, 2009 and 2008, respectively.

NOTE 8 – CONCENTRATIONS AND CONTINGENCIES

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

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

Contingencies

In February 2009, the City of San Jose performed an independent audit of certain of the Organization's contracts with the City for four fiscal years ending June 30, 2008. As a result of that audit, the City requested reimbursement for claimed overpayments on some of the contracts, which the Organization disputed. In December 2009, the parties reached a non-monetary resolution of the issues. The San Jose City Council approved the settlement agreement on January 12, 2010.

OMB CIRCULAR A-133 DISCLOSURES

SAN JOSE CONSERVATION CORPS
(A California Nonprofit Public Benefit Corporation)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009

<i>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</i>	<i>Federal CFDA Number</i>	<i>Pass-Through Entity Identifying Number</i>	<i>Federal Expenditures</i>
<u>U.S. Department of Housing and Urban Development:</u>			
Pass-through programs from city of San Jose:			
Community Development Block Grant – Entitlement Grants	14.218	55365	\$ 150,780
Pass-through programs from city of San Jose:			
Community Development Block Grant – Special Purpose Grant SJCC Daycare & Preschool Center Projects	14.227	None	450,000
Total U.S. Department of Housing and Urban Development			600,780
<u>U.S. Department of Labor:</u>			
Rehabilitation and Weatherization Projects	17.274	A6/YB176422	80,000
Pass-through programs from city of San Jose:			
WIA Title I – Younger Youth Program	17.259	None	9,645
WIA Title I – Older Youth Program	17.259	None	197,066
			206,711
Total U.S. Department of Labor			286,711
TOTAL FEDERAL AWARDS			\$ 887,491

SAN JOSE CONSERVATION CORPS
(A California Nonprofit Public Benefit Corporation)
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009

NOTE 1 – BASIS OF PRESENTATION

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

SAN JOSE CONSERVATION CORPS
 (A California Nonprofit Public Benefit Corporation)
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2009

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor's report issued:	Unqualified		
Internal control over financial reporting:			
Material weakness(es) identified?	_____ Yes	_____ <u>X</u> _____ No	
Significant deficiencies identified that are not considered to be material weakness(es)?	_____ Yes	_____ <u>X</u> _____ No	

Federal Awards

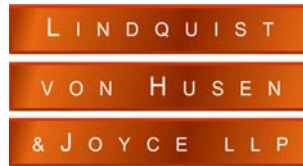
Internal control over major programs:			
Material weakness(es) identified?	_____ Yes	_____ <u>X</u> _____ No	
Significant deficiencies identified that are not considered to be material weakness(es)?	_____ Yes	_____ <u>X</u> _____ None reported	
Type of auditor's report issued on compliance for major programs:	Unqualified		
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____ Yes	_____ <u>X</u> _____ No	
Identification of major programs:	<u>Name of Federal Program or Cluster</u>		
CFDA # 14.227	CDBG / Technical Assistance Program		
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000		
Auditee qualified as low-risk auditee?	_____ Yes	_____ <u>X</u> _____ No	

Section II – Financial Statement Findings

No significant matters noted.

Section III – Federal Award Findings and Questioned Costs

No significant matters noted.



Board of Directors
San Jose Conservation Corps
San Jose, California

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

CATHY L. HWANG
RITA B. DELA CRUZ
STANLEY WOO

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of San Jose Conservation Corps, a California nonprofit public benefit corporation, as of and for the year ended June 30, 2009, and have issued our report thereon dated January 12, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Jose Conservation Corps' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of San Jose Conservation Corps in a separate letter dated January 12, 2010.

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

Lindquist, von Husen and Joyce LLP

January 12, 2010



Board of Directors
San Jose Conservation Corps
San Jose, California

JAMES M. KRAFT
S. SCOTT SEAMANDS
MARK O. BRITTAIN
ALEXIS H. WONG
CHARLOTTE SIEW-KUN TAY
CATHY L. HWANG
RITA B. DELA CRUZ
STANLEY WOO

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of San Jose Conservation Corps, a California nonprofit public benefit corporation, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. San Jose Conservation Corps's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of San Jose Conservation Corps' management. Our responsibility is to express an opinion on San Jose Conservation Corp's compliance based on our audit.

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

In our opinion, San Jose Conservation Corps complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

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

A control deficiency in an Organization's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with a type of material compliance requirement of a federal program will not be prevented or detected by the Organization's internal control.

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

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

Lindquist, von Husen and Joyce LLP

January 12, 2010