

OPERATION SECOND CHANCE, INC.

**FINANCIAL STATEMENTS FOR THE
YEARS ENDED DECEMBER 31, 2014 AND 2013
AND INDEPENDENT AUDITORS' REPORT**

**BECHANAN
& COMPANY, LLC**
CERTIFIED PUBLIC ACCOUNTANTS

22226 Creekview Drive
Gaithersburg, Maryland 20882
(301) 869-3747 • Fax (301) 948-4688
www.bechanan.com

Members
American Institute of CPA's
Maryland Association of CPA's

INDEPENDENT AUDITORS' REPORT

Board of Directors
Operation Second Chance, Inc.
22708 Birchcrest Lane
Clarksburg, MD 20871

We have audited the accompanying financial statements of Operation Second Chance, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Operation Second Chance, Inc. as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Bechanan & Company, LLC

CERTIFIED PUBLIC ACCOUNTANTS

June 3, 2015

OPERATION SECOND CHANCE, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents (Notes 1c and 2)	\$ 751,071	\$ 646,242
Certificates of deposit (Note 4)	324,088	180,032
Accrued interest receivable	733	484
Total current assets	<u>1,075,892</u>	<u>826,758</u>
Property and equipment (Note 1e)	74,147	65,617
Accumulated depreciation	(39,667)	(35,143)
Total property and equipment	<u>34,480</u>	<u>30,474</u>
Total assets	<u>\$ 1,110,372</u>	<u>\$ 857,232</u>
 LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 4,500	\$ 1,600
Net assets - unrestricted (Note 1b).	1,077,334	855,632
Net assets - temporarily restricted (Note 1b and 5).	28,538	-
Total net assets	<u>1,105,872</u>	<u>855,632</u>
Total liabilities and net assets	<u>\$ 1,110,372</u>	<u>\$ 857,232</u>

See notes to financial statements.

OPERATION SECOND CHANCE, INC.

STATEMENTS OF ACTIVITIES For the years ended December 31, 2014 and 2013

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Combined	Combined
	2014	2014	2014	2013
Revenues				
Contributions (Note 1f and 3)	\$ 1,012,350	\$ -	\$ 1,012,350	\$ 738,915
Grant income (Note 5).	-	120,000	120,000	-
In kind contributions (Notes 1f and 6)	221,882	-	221,882	306,061
Investment income (Note 4).	736	-	736	853
Net assets released from restrictions.	91,462	(91,462)	-	-
Total revenues	1,326,430	28,538	1,354,968	1,045,829
Expenses of direct activities				
General morale, welfare, and recreation	452,693	-	452,693	491,343
Assistance to individual veterans.	268,505	-	268,505	192,046
Total expenses of direct activities	721,198	-	721,198	683,389
Other expenses				
Personnel costs	185,815	-	185,815	132,117
Fundraising expense	66,526	-	66,526	29,518
Occupancy	40,000	-	40,000	12,683
Computer services	19,105	-	19,105	17,416
Professional fees	16,942	-	16,942	11,306
Community awareness	14,572	-	14,572	16,064
Office supplies	8,588	-	8,588	5,228
Depreciation expense	7,624	-	7,624	7,540
Telephone expense	7,144	-	7,144	5,480
Insurance expense	6,788	-	6,788	3,106
Vehicle expenses	4,700	-	4,700	3,720
Travel and meetings expense	3,394	-	3,394	1,426
Other general and administrative expenses	2,285	-	2,285	2,647
Bank fees	47	-	47	322
Loss on disposition of fixed assets	-	-	-	245
Total other expenses	383,530	-	383,530	248,818
Total expenses	1,104,728	-	1,104,728	932,207
Changes in net assets	221,702	28,538	250,240	113,622
Net assets - beginning of year	855,632	-	855,632	742,010
Net assets - end of year	\$ 1,077,334	\$ 28,538	\$ 1,105,872	\$ 855,632

See notes to financial statements.

OPERATION SECOND CHANCE, INC.

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Change in net assets	\$ 250,240	\$ 113,622
Adjustments to reconcile net increase in net assets to cash provided by operating activities:		
Depreciation expense	7,624	7,540
Loss on disposition of fixed assets	0	245
Received donation of property and equipment.	(8,980)	0
Unrealized (gain)/loss in market value of investments	945	373
(Increase)/decrease in investment proceeds receivable.	0	964
(Increase)/decrease in accrued interest receivable.	(249)	(50)
Increase/(decrease) in accounts payable and accrued expense	2,900	1,600
Net cash provided by operating activities	252,480	124,294
Cash flows from investing activities		
Purchase of property and equipment.	(2,651)	(30,435)
Proceeds from the sale and maturity of investments	80,000	40,000
Purchase of investments	(225,000)	(99,936)
Net cash from investing activities	(147,651)	(90,371)
Net change in cash	104,829	33,923
Cash and cash equivalents, beginning of the year	646,242	612,319
Cash and cash equivalents, end of the year	\$ 751,071	\$ 646,242
Supplemental Disclosures:		
Interest paid.	\$ -	\$ -
Income taxes paid	\$ -	\$ -

See notes to financial statements.

OPERATION SECOND CHANCE, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Programs	Management and General	Fund Raising	Total
General morale, welfare and recreation	\$ 452,693	\$ -	\$ -	\$ 452,693
Assistance to individual veterans and veteran families.	268,505	-	-	268,505
Personnel costs	144,838	40,977	-	185,815
Fundraising expense	-	-	66,526	66,526
Occupancy	31,179	8,821	-	40,000
Computer services	19,105	-	-	19,105
Professional fees	-	11,625	5,317	16,942
Community awareness	14,572	-	-	14,572
Office supplies	-	8,588	-	8,588
Depreciation expense	5,671	1,953	-	7,624
Telephone expense	6,430	714	-	7,144
Insurance expense	6,788	-	-	6,788
Vehicle expenses	4,700	-	-	4,700
Travel and meetings expense	3,394	-	-	3,394
Other general and administrative expenses	-	2,285	-	2,285
Bank fees	-	47	-	47
Total expenses	<u>\$ 957,875</u>	<u>\$ 75,010</u>	<u>\$ 71,843</u>	<u>\$ 1,104,728</u>

See notes to financial statements.

OPERATION SECOND CHANCE, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Programs	Management and General	Fund Raising	Total
General morale, welfare and recreation	\$ 491,343	\$ -	\$ -	\$ 491,343
Assistance to individual veterans and veteran families. . . .	192,046	-	-	192,046
Personnel costs	100,964	31,153	-	132,117
Fundraising expense	-	-	29,518	29,518
Computer services	17,416	-	-	17,416
Community awareness	16,064	-	-	16,064
Occupancy	-	12,683	-	12,683
Professional fees	-	8,921	2,385	11,306
Depreciation expense	6,472	1,068	-	7,540
Telephone expense	4,932	548	-	5,480
Supplies	-	5,228	-	5,228
Vehicle expenses	3,720	-	-	3,720
Insurance expense	3,106	-	-	3,106
Other general and administrative expenses	-	2,647	-	2,647
Travel and meetings expense	1,426	-	-	1,426
Bank fees	-	322	-	322
Loss on disposition of fixed assets.	245	-	-	245
Total expenses	<u>\$ 837,734</u>	<u>\$ 62,570</u>	<u>\$ 31,903</u>	<u>\$ 932,207</u>

See notes to financial statements.

OPERATION SECOND CHANCE, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

1. SIGNIFICANT ACCOUNTING POLICIES

Operation Second Chance, Inc. (OSC) was incorporated as a nonprofit organization in the state of Maryland on March 16, 2005. OSC provides aid in the recovery and rehabilitation of wounded service personnel, assists in the modification of housing to accommodate disabled veterans, assists the families of wounded service personnel, and facilitates the transition of wounded service personnel back into civilian society. OSC is supported by contributions made by the public, private foundations and corporations.

Specific accounting policies of the Organization are:

a) Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, other assets and liabilities. Under this method, revenue is recognized as earned and costs are recognized when incurred.

b) Basis of Presentation

The Organization presents information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. As of December 31, 2014 and 2013, the Organization had no permanently restricted net assets.

c) Cash equivalents

The Organization considers cash on deposit, cash on hand, and money market funds to be cash equivalents.

d) Accounting estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the Organization to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

e) Property and equipment

Property and equipment is recorded at cost. Depreciation is provided on a straight line basis over the lives of the assets acquired.

f) Non-cash gifts and contributions

A significant portion of the Organization's functions are conducted by unpaid Board Trustees and volunteers. The value of these donated goods and services that could be measured has been reflected in the accompanying financial statements as in-kind contributions. Contributions of financial assets and property with a readily determinable value are recognized as income in the period when received. Contributed property to be used by the organization is capitalized at its fair value at the time of receipt, and depreciated over its useful life.

**OPERATION SECOND CHANCE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013**

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Income taxes

The Organization is exempt from Federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code. No federal income tax expense was incurred in 2014 and 2013. The Organization's income tax returns are subject to possible examination by taxing authorities for federal income tax purposes, for a period of three years after the respective filing deadlines for those returns.

2. CONCENTRATIONS OF RISK

The Organization has concentrated its credit risk for cash by maintaining a cash balance with a high quality financial institution and securities dealer, which may at times exceed amounts covered by the U.S. Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC). The Organization has not experienced any losses in such accounts and believes the Organization is not exposed to a significant credit risk on uninsured cash.

3. MAJOR CONTRIBUTORS

The Organization depends upon public support to carry out its mission. For the years ended December 31, 2014 and 2013, public support revenue included \$307,242 (27%) from 31 contributors and \$90,440 (12%) from 11 contributors, respectively.

4. INVESTMENT INCOME

Investment income includes for the years ended December 31, 2014 and 2013:

	2014	2013
Interest income	\$ 1,681	\$ 1,226
Unrealized gain/(loss) in market value of investments. . .	(945)	(373)
Total investment income	<u>\$ 736</u>	<u>\$ 853</u>

Investments at December 31, 2014 consist of the following:

	Cost	Market
CD – Apple Bank, Manhasset, NY .20%, matures 1/26/15	\$ 50,000	\$ 49,993
CD – Synovus Bank, Columbus, GA .50%, matures 7/23/15	75,000	74,999
CD – Ally Bank, Midvale, UT .90%, matures 9/11/15	50,000	50,125
CD – Security Federal, Aiken, SC .70%, matures 7/25/16	75,000	74,642
CD – Discover Bank, Greenwood, DE 1.15%, matures 7/17/17	75,000	74,329
	<u>\$ 325,000</u>	<u>\$ 324,088</u>

**OPERATION SECOND CHANCE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013**

4. INVESTMENT INCOME (Continued)

Investments at December 31, 2013 consist of the following:

	<u>Cost</u>	<u>Market</u>
CD – American Express Centurion Bank 1.05%, matures 2/18/14	\$ 40,000	\$ 40,034
CD – Goldman Sachs, New York, NY 1.00%, matures 8/1/14	40,000	40,102
CD – Apple Bank, Manhasset, NY .20%, matures 1/26/15	50,000	49,878
CD – Ally Bank, Midvale, UT .90%, matures 9/11/15	50,000	50,018
	<u>\$ 180,000</u>	<u>\$ 180,032</u>

5. TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets of the Organization consist of grant funds that have been received but not completely expended at December 31, 2014. The net assets are reclassified when the specific use of the funds is fulfilled. Temporarily restricted net assets at December 31, 2014 are as follows:

Genentech Foundation - Grant	\$ 25,622
Westmeath Foundation - Grant.	<u>2,916</u>
	<u>\$ 28,538</u>

6. IN-KIND CONTRIBUTIONS

The Organization received the use of offices and a storage unit as contributions to the Organization. The estimated fair value of the facilities included in the financial statements for the years ended December 31, 2014 and 2013 was \$40,000 and \$12,683, respectively. The office space, electricity and heating are being contributed to the Organization on a month to month basis and may be terminated by either the landlord or the tenant with 45 days written notice.

Donations in the amount of \$158,004 and \$293,378 were also included in the financial statements in the years ended December 31, 2014 and 2013, respectively, from a number of individuals and organizations to cover the costs of providing assistance to veterans. In-kind donations were also received in the amount of \$500 for legal fees, \$8,980 for property additions, \$1,550 for office related expenses and \$12,848 for fund raising expenses during the year ended December 31, 2014.

7. RECLASSIFICATIONS

Certain reclassifications have been made to the 2013 financial statements to conform to their 2014 financial statement presentation.

8. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through June 3, 2015, the date on which the financial statements were available to be issued.