

OPERATION SECOND CHANCE, INC.

**FINANCIAL STATEMENTS FOR THE
YEARS ENDED DECEMBER 31, 2015 AND 2014
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 CPAs
Maryland Association of CPAs

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, 2015 and 2014, 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 audit 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, 2015 and 2014, 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.

Report on Summarized Comparative Information

We have previously audited Operation Second Chance's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 3, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bechanan & Company LLC

CERTIFIED PUBLIC ACCOUNTANTS

June 1, 2016

OPERATION SECOND CHANCE, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents (Notes 1c and 2)	\$ 982,528	\$ 751,071
Certificates of deposit (Note 5)	523,873	324,088
Accrued interest receivable	1,851	733
Total current assets	<u>1,508,252</u>	<u>1,075,892</u>
Property and equipment (Note 1e)	107,116	74,147
Accumulated depreciation	(51,247)	(39,667)
Total property and equipment	<u>55,869</u>	<u>34,480</u>
Total assets	<u><u>\$ 1,564,121</u></u>	<u><u>\$ 1,110,372</u></u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 2,602	\$ 4,500
Net assets - unrestricted (Note 1b)	1,561,519	1,077,334
Net assets - temporarily restricted (Note 1b)	-	28,538
Total net assets	<u>1,561,519</u>	<u>1,105,872</u>
Total liabilities and net assets	<u><u>\$ 1,564,121</u></u>	<u><u>\$ 1,110,372</u></u>

See notes to financial statements.

OPERATION SECOND CHANCE, INC.

STATEMENTS OF ACTIVITIES For the years ended December 31, 2015 and 2014

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Combined	Combined
	2015	2015	2015	2014
Revenues				
Contributions (Note 1f and 3)	\$ 1,384,048	\$ -	\$ 1,384,048	\$ 1,012,350
Grant income.	-	80,000	80,000	120,000
In kind contributions (Notes 1f and 6)	281,372		281,372	221,882
Investment income (Note 4).	2,960		2,960	736
Net assets released from restrictions.	108,538	(108,538)	-	-
Total revenues	1,776,918	(28,538)	1,748,380	1,354,968
Expenses of direct activities				
General morale, welfare, and recreation	458,033		458,033	452,693
Assistance to individual veterans.	367,933		367,933	268,505
Total expenses of direct activities	825,966	-	825,966	721,198
Other expenses				
Personnel costs	136,063		136,063	185,815
Fundraising expense	127,917		127,917	66,526
Professional fees	59,036		59,036	16,942
Community awareness	43,452		43,452	14,572
Occupancy	40,000		40,000	40,000
Computer services	15,615		15,615	19,105
Depreciation expense	11,580		11,580	7,624
Telephone expense	8,300		8,300	7,144
Other general and administrative expenses	7,463		7,463	2,285
Insurance expense	7,388		7,388	6,788
Office supplies	3,793		3,793	8,588
Travel and meetings expense	3,251		3,251	3,394
Advertising	1,674		1,674	-
Vehicle expenses	969		969	4,700
Bank fees	266		266	47
Total other expenses	466,767	-	466,767	383,530
Total expenses	1,292,733	-	1,292,733	1,104,728
Changes in net assets	484,185	(28,538)	455,647	250,240
Net assets - beginning of year	1,077,334	28,538	1,105,872	855,632
Net assets - end of year	\$ 1,561,519	\$ -	\$ 1,561,519	\$ 1,105,872

See notes to financial statements.

OPERATION SECOND CHANCE, INC.

STATEMENTS OF CASH FLOWS For the years ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Changes in net assets	\$ 455,647	\$ 250,240
Adjustments to reconcile net increase in net assets to cash provided by operating activities:		
Depreciation expense	11,580	7,624
Received donation of property and equipment.	0	(8,980)
Realized (gain) in disposition of investments	(62)	0
Unrealized (gain)/loss in market value of investments	277	945
(Increase)/decrease in accrued interest receivable.	(1,118)	(249)
Increase/(decrease) in accounts payable and accrued expense	(1,899)	2,900
Net cash provided by operating activities	464,425	252,480
Cash flows from investing activities		
Purchase of property and equipment.	(32,968)	(2,651)
Proceeds from the sale and maturity of investments	250,000	80,000
Purchase of investments	(450,000)	(225,000)
Net cash from investing activities	(232,968)	(147,651)
Net change in cash	231,457	104,829
Cash and cash equivalents, beginning of the year	751,071	646,242
Cash and cash equivalents, end of the year	\$ 982,528	\$ 751,071
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, 2015**

	Programs	Management and General	Fund Raising	Total
General morale, welfare and recreation	\$ 458,033	\$ -	\$ -	\$ 458,033
Assistance to individual veterans and veteran families.	367,933	-	-	367,933
Personnel costs	79,850	56,213	-	136,063
Fundraising expense	-	-	127,917	127,917
Professional fees	33,487	14,753	10,796	59,036
Community awareness	43,452	-	-	43,452
Occupancy	23,474	16,526	-	40,000
Computer services	15,615	-	-	15,615
Depreciation expense	9,206	2,374	-	11,580
Telephone expense	7,470	830	-	8,300
Other general and administrative expenses	3,791	3,672	-	7,463
Insurance expense	7,388	-	-	7,388
Office supplies	-	3,793	-	3,793
Travel and meetings expense	3,251	-	-	3,251
Advertising	1,674	-	-	1,674
Vehicle expenses	969	-	-	969
Bank fees	-	266	-	266
Total expenses	<u>\$ 1,055,593</u>	<u>\$ 98,427</u>	<u>\$ 138,713</u>	<u>\$ 1,292,733</u>

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.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

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, 2015 and 2014, 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, 2015 AND 2014**

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Income taxes

The Organization is exempt from Federal income tax as an organization described in Section 501c3 of the Internal Revenue Code. No federal income tax expense was incurred in 2015 and 2014. 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, 2015 and 2014, public support revenue included \$501,605 (34%) from 46 contributors and \$307,242 (27%) from 31 contributors, respectively.

4. INVESTMENT INCOME

Investment income includes for the years ended December 31, 2015 and 2014:

	2015	2014
Interest income	\$ 3,175	\$ 1,681
Realized gain in disposition of investments	62	0
Unrealized (loss) in market value of investments.	(277)	(945)
Total investment income	<u>\$ 2,960</u>	<u>\$ 736</u>

5. INVESTMENTS

Investments at December 31, 2015 consist of the following:

	Cost	Market
CD – Berkshire Bank, Pittsfield, MA .6%, matures 9/23/16	\$ 150,000	\$ 149,820
CD – Discover Bank, Greenwood, DE 1.15%, matures 7/17/17	75,000	74,812
CD – Ally Bank, Midvale, UT 1.25%, matures 9/18/17.	150,000	149,649
CD – Goldman Sachs, New York NY 1.65%, matures 9/24/18	150,000	149,592
	<u>\$ 525,000</u>	<u>\$ 523,873</u>

**OPERATION SECOND CHANCE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014**

5. INVESTMENTS (Continued)

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>

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, 2015 and 2014 was \$40,000. 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.

In-kind donations in the amount of \$241,372 and \$181,882 were also included in the financial statements in the years ended December 31, 2015 and 2014, respectively, from a number of individuals and organizations. These contributions were as follows:

	2015	2014
Direct activity expenses	\$173,706	\$158,004
Legal fees.	33,184	500
Advertising expenses.	26,661	0
Fund raising expenses	7,821	12,848
Office related expenses	0	1,550
Property additions	0	8,980
Non facility in-kind contributions.	<u>\$241,372</u>	<u>\$181,882</u>

**OPERATION SECOND CHANCE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014**

7. RECLASSIFICATIONS

Certain reclassifications have been made to the 2014 financial statements to conform to their 2015 financial statement presentation.

8. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through June 1, 2016, the date on which the financial statements were available to be issued.