

**OPERATION SECOND CHANCE, INC.**

**FINANCIAL STATEMENTS FOR THE  
YEARS ENDED DECEMBER 31, 2016 AND 2015  
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.

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, 2016 and 2015, 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, 2016 and 2015, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 1, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Bechanan & Company LLC*

**CERTIFIED PUBLIC ACCOUNTANTS**

April 4, 2017

# OPERATION SECOND CHANCE, INC.

## STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents (Notes 1c and 2) . . . . .	\$ 1,246,836	\$ 982,528
Certificates of deposit (Note 5) . . . . .	376,517	523,873
Accrued interest receivable . . . . .	1,615	1,851
Total current assets . . . . .	<u>1,624,968</u>	<u>1,508,252</u>
Property and equipment (Note 1e) . . . . .	107,766	107,116
Accumulated depreciation . . . . .	(64,165)	(51,247)
Total property and equipment . . . . .	<u>43,601</u>	<u>55,869</u>
Total assets . . . . .	<u>\$ 1,668,569</u>	<u>\$ 1,564,121</u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and accrued expenses . . . . .	<u>\$ 3,620</u>	<u>\$ 2,602</u>
Net assets - unrestricted (Note 1b) . . . . .	1,664,949	1,561,519
Net assets - temporarily restricted (Note 1b) . . . . .	-	-
Total net assets . . . . .	<u>1,664,949</u>	<u>1,561,519</u>
Total liabilities and net assets . . . . .	<u>\$ 1,668,569</u>	<u>\$ 1,564,121</u>

See notes to financial statements.

## OPERATION SECOND CHANCE, INC.

### STATEMENTS OF ACTIVITIES For the year ended December 31, 2016 with comparative totals for December 31, 2015

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Combined	Combined
	2016	2016	2016	2015
<b>Revenues</b>				
Contributions (Note 1f and 3) . . . . .	\$ 1,172,171	\$ -	\$ 1,172,171	\$ 1,384,048
Grant income . . . . .	-	72,500	72,500	80,000
In kind contributions (Notes 1f and 6) . . . . .	177,894		177,894	281,372
Investment income (Note 4) . . . . .	8,572		8,572	2,960
Net assets released from restrictions . . . . .	72,500	(72,500)	-	-
Total revenues . . . . .	1,431,137	-	1,431,137	1,748,380
<b>Expenses of direct activities</b>				
General morale, welfare, and recreation . . . . .	345,745		345,745	458,033
Assistance to individual veterans . . . . .	483,865		483,865	367,933
Total expenses of direct activities . . . . .	829,610	-	829,610	825,966
<b>Other expenses</b>				
Personnel costs . . . . .	205,728		205,728	136,063
Fundraising expense . . . . .	86,098		86,098	127,917
Community awareness . . . . .	65,901		65,901	43,452
Occupancy . . . . .	40,000		40,000	40,000
Other general and administrative expenses . . . . .	28,869		28,869	7,463
Professional fees . . . . .	26,134		26,134	59,036
Travel and meetings expense . . . . .	14,337		14,337	3,251
Depreciation expense . . . . .	12,918		12,918	11,580
Telephone expense . . . . .	8,275		8,275	8,300
Office supplies . . . . .	3,850		3,850	3,793
Computer services . . . . .	3,160		3,160	15,615
Insurance expense . . . . .	2,393		2,393	7,388
Bank fees . . . . .	340		340	266
Vehicle expenses . . . . .	94		94	969
Advertising . . . . .	-		-	1,674
Total other expenses . . . . .	498,097	-	498,097	466,767
Total expenses . . . . .	1,327,707	-	1,327,707	1,292,733
<b>Changes in net assets</b>				
Net assets - beginning of year . . . . .	1,561,519		1,561,519	1,105,872
Net assets - end of year . . . . .	\$ 1,664,949	\$ -	\$ 1,664,949	\$ 1,561,519

See notes to financial statements.

# OPERATION SECOND CHANCE, INC.

## STATEMENTS OF CASH FLOWS

For the years ended December 31, 2016 and 2015

	2016	2015
<b>Cash flows from operating activities</b>		
Changes in net assets . . . . .	\$ 103,430	\$ 455,647
Adjustments to reconcile net increase in net assets to cash provided by operating activities:		
Contribution revenue from donated investments . . . . .	(2,081)	-
Depreciation expense . . . . .	12,918	11,580
Realized (gain)/loss in disposition of investments . . . . .	22	(62)
Unrealized (gain)/loss in market value of investments . . . . .	(2,644)	277
(Increase)/decrease in accrued interest receivable. . . . .	236	(1,118)
Increase/(decrease) in accounts payable and accrued expense	1,018	(1,899)
Net cash provided by operating activities . . . . .	112,899	464,425
<b>Cash flows from investing activities</b>		
Purchase of property and equipment. . . . .	(650)	(32,968)
Proceeds from the sale and maturity of investments . . . . .	152,059	250,000
Purchase of investments . . . . .	-	(450,000)
Net cash from investing activities . . . . .	151,409	(232,968)
Net change in cash . . . . .	264,308	231,457
Cash and cash equivalents, beginning of the year . . . . .	982,528	751,071
Cash and cash equivalents, end of the year . . . . .	\$ 1,246,836	\$ 982,528
<b>Supplemental Disclosures:</b>		
Interest paid. . . . .	\$ -	\$ -
Income taxes paid . . . . .	\$ -	\$ -

See notes to financial statements.

**OPERATION SECOND CHANCE, INC.**

**SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Programs	Management and General	Fund Raising	Total
General morale, welfare and recreation . . . . .	\$ 345,745	\$ -	\$ -	\$ 345,745
Assistance to individual veterans and veteran families . . .	483,865	-	-	483,865
Personnel costs . . . . .	131,469	74,259	-	205,728
Fundraising expense . . . . .	-	-	86,098	86,098
Community awareness . . . . .	65,901	-	-	65,901
Occupancy . . . . .	25,562	14,438	-	40,000
Other general and administrative expenses . . . . .	26,973	1,896	-	28,869
Professional fees . . . . .	1,546	18,208	6,380	26,134
Travel and meetings expense . . . . .	14,337	-	-	14,337
Depreciation expense . . . . .	11,256	1,662	-	12,918
Telephone expense . . . . .	7,447	828	-	8,275
Office supplies . . . . .	-	3,850	-	3,850
Computer services . . . . .	3,160	-	-	3,160
Insurance expense . . . . .	2,393	-	-	2,393
Bank fees . . . . .	-	340	-	340
Vehicle expenses . . . . .	94	-	-	94
Advertising . . . . .	-	-	-	-
<b>Total expenses . . . . .</b>	<b><u>\$ 1,119,748</u></b>	<b><u>\$ 115,481</u></b>	<b><u>\$ 92,478</u></b>	<b><u>\$ 1,327,707</u></b>

See notes to financial statements.

**OPERATION SECOND CHANCE, INC.**

**SCHEDULE 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
Community awareness . . . . .	43,452	-	-	43,452
Occupancy . . . . .	23,474	16,526	-	40,000
Other general and administrative expenses . . . . .	3,791	3,672	-	7,463
Professional fees . . . . .	33,487	14,753	10,796	59,036
Travel and meetings expense . . . . .	3,251	-	-	3,251
Depreciation expense . . . . .	9,206	2,374	-	11,580
Telephone expense . . . . .	7,470	830	-	8,300
Office supplies . . . . .	-	3,793	-	3,793
Computer services . . . . .	15,615	-	-	15,615
Insurance expense . . . . .	7,388	-	-	7,388
Bank fees . . . . .	-	266	-	266
Vehicle expenses . . . . .	969	-	-	969
Advertising . . . . .	1,674	-	-	1,674
<b>Total expenses . . . . .</b>	<b><u>\$ 1,055,593</u></b>	<b><u>\$ 98,427</u></b>	<b><u>\$ 138,713</u></b>	<b><u>\$ 1,292,733</u></b>

See notes to financial statements.

# OPERATION SECOND CHANCE, INC.

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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### 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, 2016 and 2015, 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, 2016 AND 2015**

**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 2016 and 2015. 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, 2016 and 2015, public support revenue included \$551,178 (44%) from 46 contributors and \$501,605 (34%) from 31 contributors, respectively.

**4. INVESTMENT INCOME**

Investment income includes for the years ended December 31, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Interest income . . . . .	\$ 5,950	\$ 3,175
Realized gain in disposition of investments . . . . .	(22)	62
Unrealized gain/(loss) in market value of investments. . .	2,644	(277)
<b>Total investment income . . . . .</b>	<b>\$ 8,572</b>	<b>\$ 2,960</b>

**5. INVESTMENTS**

Investments at December 31, 2016 consist of the following:

	<b>Cost</b>	<b>Market</b>
CD – Discover Bank, Greenwood, DE 1.15%, matures 7/17/17 . . . . .	\$ 75,000	\$ 75,116
CD – Ally Bank, Midvale, UT 1.25%, matures 9/18/17. . . . .	150,000	150,331
CD – Goldman Sachs, New York NY 1.65%, matures 9/24/18 . . . . .	150,000	151,070
	<b>\$ 375,000</b>	<b>\$ 376,517</b>

**OPERATION SECOND CHANCE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

**5. INVESTMENTS (Continued)**

Investments at December 31, 2015 consist of the following:

	<b>Cost</b>	<b>Market</b>
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>

**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, 2016 and 2015 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 \$137,894 and \$241,372 were also included in the financial statements in the years ended December 31, 2016 and 2015, respectively, from a number of individuals and organizations. These contributions were as follows:

	<b>2016</b>	<b>2015</b>
Direct activity expenses .....	\$ 81,585	\$173,706
Community awareness expenses. ....	51,400	26,661
Legal fees. ....	4,909	33,184
Fund raising expenses .....	0	7,821
Non facility in-kind contributions. ....	<u>\$137,894</u>	<u>\$241,372</u>

**7. PRIOR YEAR PRESENTATION**

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended December 31, 2015, from which the summarized information was derived. Certain reclassifications have been made to the 2015 financial statements to conform to their 2016 financial statement presentation.

**8. SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events through April 4, 2017, the date on which the financial statements were available to be issued.