

OPERATION SECOND CHANCE, INC.

**FINANCIAL STATEMENTS FOR THE
YEARS ENDED DECEMBER 31, 2017 AND 2016
AND INDEPENDENT AUDITORS' REPORT**

**BECHANAN
& COMPANY, LLC**

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2017 and 2016, 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, 2017 and 2016, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 4, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bechanan & Company, LLC

CERTIFIED PUBLIC ACCOUNTANTS

April 3 2018

OPERATION SECOND CHANCE, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|----------------------------|----------------------------|
| ASSETS | | |
| Cash and cash equivalents (Notes 1c and 2) | \$ 1,230,567 | \$ 1,246,836 |
| Certificates of deposit (Note 5) | 423,685 | 376,517 |
| Investments (Notes 5 and 6) | 390,708 | - |
| Accrued interest receivable | 2,149 | 1,615 |
| Total current assets | <u>2,047,109</u> | <u>1,624,968</u> |
| Property and equipment (Note 1e) | 107,450 | 107,766 |
| Accumulated depreciation | (76,726) | (64,165) |
| Total property and equipment | <u>30,724</u> | <u>43,601</u> |
| Total assets | <u><u>\$ 2,077,833</u></u> | <u><u>\$ 1,668,569</u></u> |
| LIABILITIES AND NET ASSETS | | |
| Accounts payable and accrued expenses | <u>\$ 4,205</u> | <u>\$ 3,620</u> |
| Total current liabilities | <u>4,205</u> | <u>3,620</u> |
| Net assets - unrestricted (Note 1b) | 1,953,628 | 1,664,949 |
| Net assets - temporarily restricted (Notes 1b and 9) | 120,000 | - |
| Total net assets | <u>2,073,628</u> | <u>1,664,949</u> |
| Total liabilities and net assets | <u><u>\$ 2,077,833</u></u> | <u><u>\$ 1,668,569</u></u> |

See notes to financial statements.

OPERATION SECOND CHANCE, INC.

STATEMENTS OF ACTIVITIES For the year ended December 31, 2017 with comparative totals for December 31, 2016

| | Unrestricted Net Assets | Temporarily Restricted Net Assets | Combined | Combined |
|--|----------------------------|---|---------------------|---------------------|
| | 2017 | 2017 | 2017 | 2016 |
| Revenues | | | | |
| Contributions (Note 1f and 3) | \$ 1,284,984 | \$ - | \$ 1,284,984 | \$ 1,172,171 |
| Grant income | - | 265,000 | 265,000 | 72,500 |
| In kind contributions (Notes 1f and 7) | 254,730 | | 254,730 | 177,894 |
| Investment income (Note 4) | 13,807 | | 13,807 | 8,572 |
| Net assets released from restrictions | 145,000 | (145,000) | - | - |
| Total revenues | 1,698,521 | 120,000 | 1,818,521 | 1,431,137 |
| Expenses of direct activities | | | | |
| Assistance to individual veterans | 523,397 | | 523,397 | 483,865 |
| General morale, welfare, and recreation | 311,740 | | 311,740 | 345,745 |
| Total expenses of direct activities | 835,137 | - | 835,137 | 829,610 |
| Other expenses | | | | |
| Personnel costs | 188,727 | | 188,727 | 205,728 |
| Community awareness | 166,397 | | 166,397 | 65,901 |
| Fundraising expense | 93,277 | | 93,277 | 86,098 |
| Occupancy | 40,000 | | 40,000 | 40,000 |
| Professional fees | 22,843 | | 22,843 | 26,134 |
| Travel and meetings expense | 15,197 | | 15,197 | 14,337 |
| Other general and administrative expenses | 12,999 | | 12,999 | 28,869 |
| Depreciation expense | 12,877 | | 12,877 | 12,918 |
| Insurance expense | 6,882 | | 6,882 | 2,393 |
| Telephone expense | 6,604 | | 6,604 | 8,275 |
| Office supplies | 3,499 | | 3,499 | 3,850 |
| Advertising | 3,300 | | 3,300 | - |
| Vehicle expenses | 1,205 | | 1,205 | 94 |
| Bank fees | 798 | | 798 | 340 |
| Computer services | 100 | | 100 | 3,160 |
| Total other expenses | 574,705 | - | 574,705 | 498,097 |
| Total expenses | 1,409,842 | - | 1,409,842 | 1,327,707 |
| Changes in net assets | 288,679 | 120,000 | 408,679 | 103,430 |
| Net assets - beginning of year | 1,664,949 | - | 1,664,949 | 1,561,519 |
| Net assets - end of year | \$ 1,953,628 | \$ 120,000 | \$ 2,073,628 | \$ 1,664,949 |

See notes to financial statements.

OPERATION SECOND CHANCE, INC.

STATEMENTS OF CASH FLOWS For the years ended December 31, 2017 and 2016

| | 2017 | 2016 |
|--|--------------|--------------|
| Cash flows from operating activities | | |
| Changes in net assets | \$ 408,679 | \$ 103,430 |
| Adjustments to reconcile net increase in net assets to cash provided by operating activities: | | |
| Contribution revenue from donated investments | (1,437) | (2,081) |
| Depreciation expense | 12,877 | 12,918 |
| Realized (gain)/loss in disposition of investments | (2,167) | 22 |
| Unrealized (gain)/loss in market value of investments | (1,115) | (2,644) |
| (Increase)/decrease in accrued interest receivable. | (534) | 236 |
| Increase/(decrease) in accounts payable and accrued expenses. | 585 | 1,018 |
| Net cash provided by operating activities | 416,888 | 112,899 |
| Cash flows from investing activities | | |
| Purchase of property and equipment. | - | (650) |
| Proceeds from the sale and maturity of investments | 239,843 | 152,059 |
| Purchase of investments | (673,000) | 0 |
| Net cash from investing activities | (433,157) | 151,409 |
| Net change in cash | (16,269) | 264,308 |
| Cash and cash equivalents, beginning of the year | 1,246,836 | 982,528 |
| Cash and cash equivalents, end of the year | \$ 1,230,567 | \$ 1,246,836 |
| Supplemental Disclosures: | | |
| Interest paid. | \$ - | \$ - |
| Income taxes paid | \$ - | \$ - |

See notes to financial statements.

OPERATION SECOND CHANCE, INC.

**SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017**

| | Programs | Management and General | Fund Raising | Total |
|--|----------------------------|------------------------------|-------------------------|----------------------------|
| Assistance to individual veterans and veteran families . . . | \$ 523,397 | \$ - | \$ - | \$ 523,397 |
| General morale, welfare and recreation | 311,740 | - | - | 311,740 |
| Personnel costs | 133,727 | 55,000 | - | 188,727 |
| Community awareness | 166,397 | - | - | 166,397 |
| Fundraising expense | - | - | 93,277 | 93,277 |
| Occupancy | 28,343 | 11,657 | - | 40,000 |
| Professional fees | 511 | 19,523 | 2,809 | 22,843 |
| Travel and meetings expense | 15,197 | - | - | 15,197 |
| Other general and administrative expenses | 12,449 | 550 | - | 12,999 |
| Depreciation expense | 11,278 | 1,599 | - | 12,877 |
| Insurance expense | 6,882 | - | - | 6,882 |
| Telephone expense | 5,944 | 660 | - | 6,604 |
| Office supplies | - | 3,499 | - | 3,499 |
| Advertising | 3,300 | - | - | 3,300 |
| Vehicle expenses | 1,205 | - | - | 1,205 |
| Bank fees | - | 798 | - | 798 |
| Computer services | 100 | - | - | 100 |
| Total expenses | <u>\$ 1,220,470</u> | <u>\$ 93,286</u> | <u>\$ 96,086</u> | <u>\$ 1,409,842</u> |

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

See notes to financial statements.

OPERATION SECOND CHANCE, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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, 2017 and 2016, 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, 2017 AND 2016**

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 2017 and 2016. 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, 2017 and 2016, public support revenue included \$680,730 (44%) from 45 contributors and \$551,178 (44%) from 46 contributors, respectively.

4. INVESTMENT INCOME

Investment income includes for the years ended December 31, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|--|------------------|-----------------|
| Interest income | \$ 5,991 | \$ 5,950 |
| Dividend income | 4,534 | - |
| Unrealized gain in market value of investments | 1,115 | 2,644 |
| Realized gain/(loss) in disposition of investments | 2,167 | (22) |
| Total investment income | <u>\$ 13,807</u> | <u>\$ 8,572</u> |

5. INVESTMENTS

Investments at December 31, 2017 consist of the following:

| | <u>Cost</u> | <u>Fair Value</u> |
|--|-------------------|-------------------|
| CD – Morgan Stanley National Assn 1.90%, matures 8/14/18 | \$ 100,000 | \$ 100,209 |
| CDs – MS Bank, Salt Lake City UT 1.90%, matures 8/21/18. | 173,000 | 173,367 |
| CD – Goldman Sachs, New York NY 1.65%, matures 9/24/18 | 150,000 | 150,109 |
| Stocks | 110,926 | 112,771 |
| Mutual Funds | 278,520 | 277,937 |
| | <u>\$ 812,446</u> | <u>\$ 814,393</u> |

**OPERATION SECOND CHANCE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016**

5. INVESTMENTS (Continued)

Investments at December 31, 2016 consist of the following:

| | Cost | Fair Value |
|--|-------------------|-------------------|
| 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 |
| | \$ 375,000 | \$ 376,517 |

6. FAIR VALUE MEASUREMENTS

FASB ASC 820 of the FASB Accounting Standards Codification, Fair Value Measurements, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

- Level 1 Inputs that reflect quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs that reflect quoted prices for similar assets or liabilities in active markets.
- Level 3 Inputs that are unobservable for the asset or liability.

The Organization’s investments were valued by reference to quoted market prices generated by market transactions and listed on an active market.

The following tables set forth by level, within the fair value hierarchy, the Organization’s assets at fair value as of December 31, 2017 and 2016:

| 2017 | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) |
|------------------------|-------------------|---|
| Stocks | \$ 112,771 | \$ 112,771 |
| Mutual funds | 277,937 | 277,937 |
| Total | \$ 390,708 | \$ 390,708 |

**OPERATION SECOND CHANCE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016**

7. 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, 2017 and 2016 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 \$214,730 and \$137,894 were also included in the financial statements in the years ended December 31, 2017 and 2016, respectively, from a number of individuals and organizations. These contributions were as follows:

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| Direct activity expenses | \$ 64,600 | \$ 81,585 |
| Community awareness expenses. | 149,600 | 51,400 |
| Legal and accounting fees. | 530 | 4,909 |
| Non facility in-kind contributions. | <u>\$ 214,730</u> | <u>\$ 137,894</u> |

8. 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, 2016, from which the summarized information was derived. Certain reclassifications have been made to the 2016 financial statements to conform to their 2017 financial statement presentation.

9. TEMPORARILY RESTRICTED NET ASSETS

In December, 2017, the Organization received two grants that totaled \$120,000 that were designated to be used for emergency financial assistance. These funds were received so late in the year that the Organization did not have the opportunity to use them in 2017. They were carried over to be used in 2018.

10. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through April 3, 2018, the date on which the financial statements were available to be issued.