

**OPERATION SECOND CHANCE, INC.**

**FINANCIAL STATEMENTS FOR THE  
YEARS ENDED DECEMBER 31, 2018 AND 2017  
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 statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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, 2018, and the changes in its net assets and its cash flows for the year 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 3, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Bechanan & Company, LLC*

**CERTIFIED PUBLIC ACCOUNTANTS**

February 19, 2019

**OPERATION SECOND CHANCE, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**December 31, 2018**

**with comparative totals for December 31, 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents (Notes 1c and 2) . . . . .	\$ 1,155,059	\$ 1,230,567
Certificates of deposit (Note 5) . . . . .	439,540	423,685
Investments (Notes 5 and 6) . . . . .	370,325	390,708
Accrued interest receivable . . . . .	1,214	2,149
Total current assets . . . . .	<u>1,966,138</u>	<u>2,047,109</u>
Property and equipment (Note 1e) . . . . .	122,209	107,450
Accumulated depreciation . . . . .	(77,001)	(76,726)
Total property and equipment . . . . .	<u>45,208</u>	<u>30,724</u>
Total assets . . . . .	<u><u>\$ 2,011,346</u></u>	<u><u>\$ 2,077,833</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and accrued expenses . . . . .	\$ 1,294	\$ 4,205
Total current liabilities . . . . .	<u>1,294</u>	<u>4,205</u>
Net assets - without donor restrictions (Note 1b) . . . . .	1,985,052	1,953,628
Net assets - with donor restrictions (Notes 1b and 9) . . . . .	25,000	120,000
Total net assets . . . . .	<u>2,010,052</u>	<u>2,073,628</u>
Total liabilities and net assets . . . . .	<u><u>\$ 2,011,346</u></u>	<u><u>\$ 2,077,833</u></u>

See notes to financial statements.

**OPERATION SECOND CHANCE, INC.**

**STATEMENTS OF ACTIVITIES**  
**For the year ended December 31, 2018**  
**with comparative totals for December 31, 2017**

	Without Donor Restrictions Net Assets	With Donor Restrictions Net Assets	Combined Net Assets	Combined Net Assets
	2018	2018	2018	2017
<b>Revenues</b>				
Contributions (Note 1f and 3) . . . . .	\$ 1,414,457	\$ -	\$ 1,414,457	\$ 1,284,984
Grant income . . . . .	-	47,500	47,500	265,000
In kind contributions (Notes 1f and 7) . . . . .	126,605		126,605	254,730
Investment income (Note 4) . . . . .	(7,301)		(7,301)	13,249
Net assets released from restrictions -				
Satisfaction of restricted purpose . . . . .	142,500	(142,500)	-	-
Total revenues . . . . .	<u>1,676,261</u>	<u>(95,000)</u>	<u>1,581,261</u>	<u>1,817,963</u>
<b>Expenses of direct activities</b>				
Assistance to individual veterans . . . . .	722,251		722,251	523,397
General morale, welfare, and recreation . . . . .	383,514		383,514	311,740
Total expenses of direct activities . . . . .	<u>1,105,765</u>	<u>-</u>	<u>1,105,765</u>	<u>835,137</u>
<b>Other expenses</b>				
Personnel costs . . . . .	257,550		257,550	188,727
Fundraising expense . . . . .	95,238		95,238	93,277
Occupancy . . . . .	50,000		50,000	40,000
Professional fees . . . . .	27,702		27,702	22,843
Community awareness . . . . .	26,888		26,888	166,397
Depreciation expense . . . . .	13,594		13,594	12,877
Other general and administrative expenses . . . . .	12,755		12,755	12,999
Travel and meetings expense . . . . .	11,235		11,235	15,197
Loss on the disposition of fixed assets . . . . .	11,194		11,194	-
Computer services . . . . .	10,921		10,921	100
Telephone expense . . . . .	8,252		8,252	6,604
Insurance expense . . . . .	6,805		6,805	6,882
Office supplies . . . . .	5,931		5,931	3,499
Vehicle expenses . . . . .	884		884	1,205
Bank fees . . . . .	123		123	240
Advertising . . . . .	-		-	3,300
Total other expenses . . . . .	<u>539,072</u>	<u>-</u>	<u>539,072</u>	<u>574,147</u>
Total expenses . . . . .	<u>1,644,837</u>	<u>-</u>	<u>1,644,837</u>	<u>1,409,284</u>
<b>Changes in net assets . . . . .</b>	<b>31,424</b>	<b>(95,000)</b>	<b>(63,576)</b>	<b>408,679</b>
Net assets - beginning of year . . . . .	1,953,628	120,000	2,073,628	1,664,949
Net assets - end of year . . . . .	<u>\$ 1,985,052</u>	<u>\$ 25,000</u>	<u>\$ 2,010,052</u>	<u>\$ 2,073,628</u>

See notes to financial statements.

# OPERATION SECOND CHANCE, INC.

## STATEMENTS OF CASH FLOWS For the year ended December 31, 2018 with comparative totals for December 31, 2017

	2018	2017
<b>Cash flows from operating activities</b>		
Changes in net assets . . . . .	\$ (63,576)	\$ 408,679
Adjustments to reconcile change in net assets to cash provided by/(used in) operating activities:		
Contribution revenue from donated investments . . . . .	(1,665)	(1,437)
Depreciation expense . . . . .	13,594	12,877
Loss on the disposition of fixed assets . . . . .	11,194	0
Realized (gain)/loss in disposition of investments . . . . .	2,216	(2,167)
Unrealized (gain)/loss in market value of investments . . . . .	30,925	(1,115)
Changes in assets and liabilities		
(Increase)/decrease in accrued interest receivable. . . . .	935	(534)
Increase/(decrease) in accounts payable and accrued expenses. . .	(2,911)	585
Net cash provided by/(used for) operating activities . . . . .	(9,288)	416,888
<b>Cash flows from investing activities</b>		
Purchase of property and equipment. . . . .	(39,272)	0
Proceeds from the sale and maturity of investments . . . . .	461,768	239,843
Purchase of investments . . . . .	(488,715)	(673,000)
Net cash used for investing activities . . . . .	(66,219)	(433,157)
Net decrease in cash and cash equivalents . . . . .	(75,507)	(16,269)
Cash and cash equivalents, beginning of the year . . . . .	1,230,567	1,246,836
Cash and cash equivalents, end of the year . . . . .	\$ 1,155,059	\$ 1,230,567
<b>Supplemental Disclosures:</b>		
Interest paid. . . . .	\$ -	\$ -
Income taxes paid . . . . .	\$ -	\$ -

See notes to financial statements.

**OPERATION SECOND CHANCE, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Programs	Management and General	Fund Raising	Total
Assistance to individual veterans and veteran families. . . .	\$ 722,251	\$ -	\$ -	\$ 722,251
General morale, welfare and recreation . . . . .	383,514	-	-	383,514
Personnel costs . . . . .	201,705	55,845	-	257,550
Fundraising expense . . . . .	-	-	95,238	95,238
Occupancy . . . . .	39,158	10,842	-	50,000
Professional fees . . . . .	1,928	22,320	3,454	27,702
Community awareness . . . . .	26,888	-	-	26,888
Depreciation expense . . . . .	12,311	1,283	-	13,594
Other general and administrative expenses . . . . .	12,113	642	-	12,755
Travel and meetings expense . . . . .	11,235	-	-	11,235
Loss on the disposition of fixed assets . . . . .	11,194	-	-	11,194
Computer services . . . . .	10,921	-	-	10,921
Telephone expense . . . . .	7,427	825	-	8,252
Insurance expense . . . . .	6,805	-	-	6,805
Office supplies . . . . .	-	5,931	-	5,931
Vehicle expenses . . . . .	884	-	-	884
Bank fees . . . . .	-	123	-	123
Advertising . . . . .	-	-	-	-
Total expenses . . . . .	<u>\$ 1,448,334</u>	<u>\$ 97,811</u>	<u>\$ 98,692</u>	<u>\$ 1,644,837</u>

See notes to financial statements.

**OPERATION SECOND CHANCE, INC.**

**STATEMENT 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
Fundraising expense . . . . .	-	-	93,277	93,277
Occupancy . . . . .	28,343	11,657	-	40,000
Professional fees . . . . .	511	19,523	2,809	22,843
Community awareness . . . . .	166,397	-	-	166,397
Depreciation expense . . . . .	11,278	1,599	-	12,877
Other general and administrative expenses . . . . .	12,449	550	-	12,999
Travel and meetings expense . . . . .	15,197	-	-	15,197
Loss on the disposition of fixed assets . . . . .	-	-	-	-
Computer services . . . . .	100	-	-	100
Telephone expense . . . . .	5,944	660	-	6,604
Insurance expense . . . . .	6,882	-	-	6,882
Office supplies . . . . .	-	3,499	-	3,499
Vehicle expenses . . . . .	1,205	-	-	1,205
Bank fees . . . . .	-	240	-	240
Advertising . . . . .	3,300	-	-	3,300
Total expenses . . . . .	<u>\$ 1,220,470</u>	<u>\$ 92,728</u>	<u>\$ 96,086</u>	<u>\$ 1,409,284</u>

See notes to financial statements.

# OPERATION SECOND CHANCE, INC.

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 with comparative totals for December 31, 2017

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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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions – Net assets that are not subject to or are no longer subject to donor-imposed restrictions.

Net Assets With Donor Restrictions – Net assets whose use is limited by donor imposed time and/or program restrictions.

Revenues are reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions.

##### 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.



**OPERATION SECOND CHANCE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2018**  
**with comparative totals for December 31, 2017**

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**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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. Contributions of donated services that create or enhance non-financial assets or require specialized skills, and would typically be purchased if not provided by donation, are recorded at fair value in the period received. Volunteers also provide valuable services that are not recognized as contributions in the financial statements since the recognition criteria were not met.

**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 2018 and 2017. 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.

**h) Functional allocation of expenses**

The costs of providing the program have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated between the program and supporting services that benefited. Personnel and donated occupancy costs are the primary costs that are allocated. Allocations are based on the time spent on the program and supporting activities

**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, 2018 and 2017, public support revenue included \$445,042 (30%) from 40 contributors and \$680,730 (44%) from 45 contributors, respectively.

**OPERATION SECOND CHANCE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2018**  
**with comparative totals for December 31, 2017**

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**4. INVESTMENT INCOME**

Investment income includes for the years ended December 31, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
Interest income . . . . .	\$ 11,736	\$ 5,991
Dividend income . . . . .	18,862	4,534
Unrealized gain in market value of investments. . . . .	(30,925)	1,115
Realized gain/(loss) in disposition of investments . . . .	(2,216)	2,167
Investment fess and foreign taxes paid . . . . .	(4,758)	(558)
Total investment income . . . . .	<u>\$ (7,301)</u>	<u>\$ 13,249</u>

**5. INVESTMENTS**

Investments at December 31, 2018 consist of the following:

	<b>Cost</b>	<b>Fair Value</b>
CD – Sallie Mae Bank 2.3%, matures 4/17/19 . . . . .	\$ 200,000	\$ 199,886
CDs – Wells Fargo Bank 2.45%, matures 10/15/19. . . . .	240,000	239,654
Stocks . . . . .	108,180	102,583
Mutual Funds . . . . .	290,869	267,742
	<u>\$ 839,049</u>	<u>\$ 809,865</u>

Investments at December 31, 2017 consist of the following:

	<b>Cost</b>	<b>Fair Value</b>
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**  
**YEAR ENDED DECEMBER 31, 2018**  
**with comparative totals for December 31, 2017**

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**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 Organization’s investments were valued by reference to quoted market prices generated by market transactions and listed on an active market. All investments of the Organization are valued using Level 1 inputs.

**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 year ended December 31, 2018 was \$50,000 and for the year ended December 31, 2017 it 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. Other additional in-kind contributions from a number of individuals and organizations were included in the financial statements in the years ended December 31, 2018 and 2017. Total in-kind contributions received were as follows:

	<b>2018</b>	<b>2017</b>
Direct activity expenses . . . . .	\$ 65,421	\$ 64,600
Community awareness expenses. . . . .	0	149,600
Occupancy. . . . .	50,000	40,000
Fund raising expenses. . . . .	7,454	0
Legal and accounting fees. . . . .	3,730	530
Total in-kind contributions. . . . .	<u>\$ 126,605</u>	<u>\$ 254,730</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, 2017, from which the summarized information was derived. Certain reclassifications have been made to the 2017 financial statements to conform to their 2018 financial statement presentation.

**OPERATION SECOND CHANCE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2018**  
**with comparative totals for December 31, 2017**

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**9. NET ASSETS WITH DONOR RESTRICTIONS**

In December, 2018, the Organization received a grant that totaled \$25,000 that was 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 2018. They were carried over to be used in 2019.

**10. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The Organization monitors its liquidity so that it is able to meet its operating needs and contractual commitments while maximizing the investment of its excess operating cash. The Organization has the following financial assets that could readily be made available within one year of the balance sheet to fund expenses without limitations:

	<b>2018</b>	<b>2017</b>
Cash and cash equivalents . . . . .	\$ 1,155,059	\$ 1,230,567
Certificates of deposit. . . . .	439,540	423,685
Investments . . . . .	370,325	390,708
Accrued interest receivable. . . . .	1,214	2,149
Less amount to fund donor imposed restrictions . . . . .	(25,000)	(125,000)
Financial assets available to meet cash needs for expenditures within one year. . . . .	<u>\$ 1,941,138</u>	<u>\$ 1,922,109</u>

**11. SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events through February 19, 2019, the date on which the financial statements were available to be issued.