

OPERATION SECOND CHANCE, INC.

**FINANCIAL STATEMENTS FOR THE
YEARS ENDED DECEMBER 31, 2020 AND 2019
AND INDEPENDENT AUDITORS' REPORT**

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, 2020, 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, 2020, 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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 23, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.



CERTIFIED PUBLIC ACCOUNTANTS

May 19, 2021

OPERATION SECOND CHANCE, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2020

with comparative totals for December 31, 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 1,599,447	\$ 1,745,241
Certificates of deposit	-	200,304
Investments	1,350,321	1,640,940
Accrued interest receivable	456	4,068
Total current assets	<u>2,950,224</u>	<u>3,590,553</u>
Property and equipment	2,601,423	184,976
Accumulated depreciation	(84,491)	(87,802)
Total property and equipment	<u>2,516,932</u>	<u>97,174</u>
Total assets	<u><u>\$ 5,467,156</u></u>	<u><u>\$ 3,687,727</u></u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 13,420	\$ 19,478
Current portion of long term debt	143,594	-
Total current liabilities	<u>157,014</u>	<u>19,478</u>
Mortgage payable	644,791	-
Total long-term debt	<u>644,791</u>	<u>-</u>
Total liabilities	<u>801,805</u>	<u>19,478</u>
Net assets - without donor restrictions	4,635,351	3,633,249
Net assets - with donor restrictions	30,000	35,000
Total net assets	<u>4,665,351</u>	<u>3,668,249</u>
Total liabilities and net assets	<u><u>\$ 5,467,156</u></u>	<u><u>\$ 3,687,727</u></u>

See notes to financial statements.

OPERATION SECOND CHANCE, INC.

STATEMENTS OF ACTIVITIES
For the year ended December 31, 2020
with comparative totals for December 31, 2019

	Without Donor Restrictions Net Assets 2020	With Donor Restrictions Net Assets 2020	Combined Net Assets 2020	Combined Net Assets 2019
Revenues				
Contributions	\$ 1,071,606	\$ -	\$ 1,071,606	\$ 755,237
Bequests and legacies	-	-	-	1,611,495
Special events	721,978	-	721,978	665,301
Grant income	-	215,000	215,000	160,000
In kind contributions	163,519	-	163,519	183,458
Investment income	89,519	-	89,519	111,286
Gain on the disposition of fixed assets	4,803	-	4,803	-
Net assets released from restrictions - Satisfaction of restricted purpose	220,000	(220,000)	-	-
Total revenues	2,271,425	(5,000)	2,266,425	3,486,777
Expenses				
Program expenses	1,070,189	-	1,070,189	1,608,449
Management and general expenses	88,749	-	88,749	88,422
Fundraising expenses	110,385	-	110,385	131,709
Total expenses	1,269,323	-	1,269,323	1,828,580
Changes in net assets	1,002,102	(5,000)	997,102	1,658,197
Net assets - beginning of year	3,633,249	35,000	3,668,249	2,010,052
Net assets - end of year	\$ 4,635,351	\$ 30,000	\$ 4,665,351	\$ 3,668,249

See notes to financial statements.

OPERATION SECOND CHANCE, INC.

STATEMENTS OF CASH FLOWS For the year ended December 31, 2020 with comparative totals for December 31, 2019

	2020	2019
Cash flows from operating activities		
Changes in net assets	\$ 997,102	\$ 1,658,197
Adjustments to reconcile change in net assets to cash provided by/(used in) operating activities:		
Contribution revenue from donated investments	(3,232)	(11,221)
Depreciation expense	27,679	12,569
Gain on the disposition of fixed assets	(4,803)	0
Realized (gain)/loss in disposition of investments	22,833	(8,589)
Unrealized (gain) in market value of investments	(48,632)	(73,921)
Changes in assets and liabilities		
(Increase)/decrease in accrued interest receivable.	3,612	(2,854)
Increase/(decrease) in accounts payable and accrued expenses. . .	(6,058)	18,184
Net cash provided by operating activities	988,501	1,592,365
Cash flows from investing activities		
Purchase of property and equipment.	(2,447,438)	(64,535)
Proceeds from the sale of fixed assets	4,803	-
Proceeds from the sale and maturity of investments	956,322	734,894
Purchase of investments	(436,367)	(1,672,542)
Net cash used for investing activities	(1,922,680)	(1,002,183)
Cash flows from financing activities		
Proceeds from mortgage note payable.	800,000	-
Repayments of long-term debt.	(11,615)	-
Net cash provided by investing activities	788,385	-
Net (decrease)/increase in cash and cash equivalents	(145,794)	590,182
Cash and cash equivalents, beginning of the year	1,745,241	1,155,059
Cash and cash equivalents, end of the year	\$ 1,599,447	\$ 1,745,241
Supplemental Disclosures:		
Interest paid.	\$ 3,862	\$ -
Income taxes paid	\$ -	\$ -

See notes to financial statements.

OPERATION SECOND CHANCE, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Programs	Management and General	Fund Raising	Total
Assistance to individual veterans and veteran families. . . .	\$ 565,408	\$ -	\$ -	\$ 565,408
Personnel costs	181,319	40,217	-	221,536
General morale, welfare and recreation	134,500	-	-	134,500
Fundraising expense	-	-	103,120	103,120
Heroes Ridge	64,975	-	-	64,975
Occupancy	49,108	10,892	-	60,000
Professional fees	2,241	26,317	7,265	35,823
Depreciation expense	26,445	1,234	-	27,679
Insurance expense	12,255	-	-	12,255
Other general and administrative expenses	6,404	5,057	-	11,461
Telephone expense	8,402	933	-	9,335
Community awareness	7,757	-	-	7,757
Computer services	5,105	-	-	5,105
Office supplies	-	3,967	-	3,967
Interest expense	3,862	-	-	3,862
Travel and meetings expense	1,276	-	-	1,276
Vehicle expenses	1,132	-	-	1,132
Bank fees	-	132	-	132
Total expenses	<u>\$ 1,070,189</u>	<u>\$ 88,749</u>	<u>\$ 110,385</u>	<u>\$ 1,269,323</u>

See notes to financial statements.

OPERATION SECOND CHANCE, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Programs	Management and General	Fund Raising	Total
Assistance to individual veterans and veteran families. . . .	\$ 742,639	\$ -	\$ -	\$ 742,639
General morale, welfare and recreation	416,220	-	-	416,220
Personnel costs	215,256	46,480	-	261,736
Fundraising expense	-	-	127,264	127,264
Community awareness	115,217	-	-	115,217
Occupancy	49,345	10,655	-	60,000
Professional fees	2,041	22,610	4,445	29,096
Computer services	27,055	-	-	27,055
Depreciation expense	11,434	1,135	-	12,569
Telephone expense	8,222	913	-	9,135
Travel and meetings expense	8,094	-	-	8,094
Other general and administrative expenses	5,737	1,353	-	7,090
Insurance expense	6,187	-	-	6,187
Office supplies	-	5,167	-	5,167
Vehicle expenses	1,002	-	-	1,002
Bank fees	-	109	-	109
Total expenses	<u>\$ 1,608,449</u>	<u>\$ 88,422</u>	<u>\$ 131,709</u>	<u>\$ 1,828,580</u>

See notes to financial statements.

OPERATION SECOND CHANCE, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 with comparative totals for December 31, 2019

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) Revenue recognition

The Organization derives its revenues primarily by receiving contributions from the general public, philanthropic foundations and other organizations. Revenues are recognized as increases in net assets without donor restrictions when received. Revenue that is restricted by the donor is reported as an increase in net assets with donor restrictions even when the restriction is met in the reporting period in which the revenue is received. When a restriction expires and the purpose has been accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

d) Cash equivalents

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

e) 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.

OPERATION SECOND CHANCE, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020
with comparative totals for December 31, 2019

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Property and equipment

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

g) Non-cash gifts and contributions

Donated goods and services that could be measured have 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 their fair value in the period received. A significant portion of the Organization's functions are conducted by unpaid Board Trustees and volunteers. Volunteers also provide valuable services that are not recognized as contributions in the financial statements since the recognition criteria were not met.

h) Income taxes

The Organization is exempt from Federal income tax as an organization described under Section 501c3 of the Internal Revenue Code. No federal income tax expense was incurred in 2020 and 2019. 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.

i) Functional allocation of expenses

The costs of providing programs 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

j) Newly Adopted Accounting Pronouncements

In May, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers." This standard, along with its related amendments, requires organizations to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard has been implemented by the Organization beginning on January 1, 2020. The adoption of this standard did not have an impact on the Organization's financial position or changes in its net assets.

In June, 2018, the FASB issued ASU 2018-08, "Not-for-Profit Entities Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made." This standard clarifies and improves the reporting for contributions received and contributions made by providing guidance for evaluating whether transactions should be accounted for as contributions or as exchange transactions. This standard has also been implemented by the Organization beginning on January 1, 2020. The adoption of this standard also did not have an impact on the Organization's financial position or changes in its net assets.

OPERATION SECOND CHANCE, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020
with comparative totals for December 31, 2019

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, 2020 and 2019, public support revenue included \$1,045,762 (52%) from 65 contributors and \$2,131,813 (67%) from 42 contributors, respectively.

4. INVESTMENT INCOME

Investment income includes for the years ended December 31, 2020 and 2019:

	2020	2019
Interest income	\$ 15,836	\$ 16,468
Dividend income	64,296	18,461
Unrealized gain/(loss) in value of investments.	48,632	73,921
Realized gain/(loss) in disposition of investments	(22,833)	8,589
Investment fees and foreign taxes paid	(16,412)	(6,153)
Total investment income	<u>\$ 89,519</u>	<u>\$ 111,286</u>

5. INVESTMENTS

Investments at December 31, 2020 consist of the following:

	Cost	Fair Value
Corporate Fixed Income	\$ 28,532	\$ 30,147
US Government Securities	50,861	52,052
Stocks	563,168	671,266
Mutual Funds	593,248	596,856
	<u>\$ 1,235,809</u>	<u>\$ 1,350,321</u>

OPERATION SECOND CHANCE, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020
with comparative totals for December 31, 2019

5. INVESTMENTS (Continued)

Investments at December 31, 2019 consist of the following:

	<u>Cost</u>	<u>Fair Value</u>
CD – Zions Bancorporation 2.4%, matures 4/1/20	\$ 200,000	\$ 200,304
Corporate Fixed Income	30,209	30,241
US Government Securities	94,736	94,018
Exchange-Traded Funds	10,617	10,604
Stocks	722,911	766,928
Mutual Funds	738,256	739,149
	<u>\$ 1,796,729</u>	<u>\$ 1,841,244</u>

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.

The following table sets forth by level, within the fair value hierarchy, the Organization’s assets at fair value as of December 31, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate Fixed Income . . .	\$ 30,147	\$ 0	\$ 0	\$ 30,147
US Government Securities.	52,052	0	0	52,052
Stocks	671,266	0	0	671,266
Mutual funds.	596,856	0	0	596,856
Total	<u>\$ 1,350,321</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,350,321</u>

OPERATION SECOND CHANCE, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020
with comparative totals for December 31, 2019

6. FAIR VALUE MEASUREMENTS (Continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2019:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ 200,304	\$ 0	\$ 0	\$ 200,304
Corporate Fixed Income	30,241	0	0	30,241
US Government Securities	94,018	0	0	94,018
Exchange-Traded Funds	10,604	0	0	10,604
Stocks	766,928	0	0	766,928
Mutual funds	739,149	0	0	739,149
Total	\$ 1,841,244	\$ 0	\$ 0	\$ 1,841,244

7. PROPERTY AND EQUIPMENT

Property and equipment at December 31, was comprised of the following:

	2020	2019
Land	\$ 433,800	\$ 0
Buildings and improvements	1,878,721	0
Furniture and equipment	191,031	57,105
Vehicles	88,891	118,891
Leasehold improvements	8,980	8,980
	<u>2,601,423</u>	<u>184,976</u>
Less accumulated depreciation	(84,491)	(87,802)
Total property and equipment	<u>\$2,516,932</u>	<u>\$ 97,174</u>

8. MORTGAGE PAYABLE

In October, 2020, the Organization purchased property on the Maryland and Pennsylvania border to use as a retreat center for wounded soldiers. The purchase was financed with a mortgage loan in the amount of \$800,000 at 5.5% that will mature in 5 years.

Long-term debt consists of the following at December 31, 2020:

Mortgage loan payable to the property seller at 5.5%, due in monthly installments of \$15,281, due in November, 2025, secured by the property in Sabillasville, MD and Fairfield, PA acquired with the proceeds of the loan	\$ 788,385
Less: current portion	(143,594)
Note payable, net of current portion	<u>\$ 644,791</u>

OPERATION SECOND CHANCE, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020
with comparative totals for December 31, 2019

8. MORTGAGE PAYABLE (Continued)

The maturities of long-term debt for the years ending December 31:

2021	\$ 143,594
2022	151,694
2023	160,250
2024	169,290
2025	<u>163,557</u>
	<u>\$ 788,385</u>

9. 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 both of the years ended December 31, 2020 and 2019 was \$60,000. 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, 2020 and 2019.

Total in-kind contributions received were as follows:

	<u>2020</u>	<u>2019</u>
Direct activity expenses	\$ 7,326	\$ 11,564
Community awareness expenses.	0	84,417
Furniture and equipment	74,035	0
Supplies	17,700	0
Occupancy.	60,000	60,000
Fund raising expenses.	4,000	27,019
Legal and accounting fees.	458	458
Total in-kind contributions.	<u>\$ 163,519</u>	<u>\$ 183,458</u>

10. 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, 2019, from which the summarized information was derived. Certain reclassifications have been made to the 2019 financial statements to conform to their 2020 financial statement presentation.

OPERATION SECOND CHANCE, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020
with comparative totals for December 31, 2019

11. NET ASSETS WITH DONOR RESTRICTIONS

In November and December, 2019, the Organization received two grants that totaled \$35,000 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 2019. They were carried over and used in 2020. In December, 2020, the Organization also received a grant that totaled \$30,000 also designated to be used for emergency financial assistance. This grant is being carried over to be used in 2021.

12. 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 date to fund expenses without limitations:

	2020	2019
Cash and cash equivalents	\$ 1,599,447	\$ 1,745,241
Certificates of deposit	0	200,304
Investments	1,350,321	1,640,940
Accrued interest receivable	456	4,068
Less amount to fund donor imposed restrictions	(30,000)	(35,000)
Financial assets available to meet cash needs for expenditures within one year	<u>\$ 2,920,224</u>	<u>\$ 3,555,553</u>

13. UNUSUAL AND INFREQUENT ITEM

The financial statements for the year ended December 31, 2019 include income of \$1,611,495 from a bequest to the Organization. This bequest was received in 2015 and finally settled in 2019 with the sale of property that named the Organization as the beneficiary of the property by the estate. This was a highly unusual event for the Organization and it is highlighted as such because it is not anticipated that it will recur on a regular basis.

14. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through May 19, 2021, the date on which the financial statements were available to be issued.

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The length or severity of this pandemic, or the extent to which the disruption may materially impact the financial position, results of operations and cash flows in 2021 and beyond, cannot be reasonably estimated. As of the date of the financial statements, operations have continued subject to regulated limitations and restrictions.