



**FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

THE SECOND STEP, INC.

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JUNE 30, 2012 AND 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Second Step, Inc.:

We have audited the accompanying statements of financial position of The Second Step, Inc. (a Massachusetts corporation, not for profit) as of June 30, 2012 and 2011, and the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of TSS's management. 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. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Second Step, Inc. as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Wellesley, Massachusetts
December 5, 2012

THE SECOND STEP, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

	2012				2011			
	UNRESTRICTED OPERATING	PROPERTY AND EQUIPMENT	TEMPORARILY RESTRICTED	TOTAL	UNRESTRICTED OPERATING	PROPERTY AND EQUIPMENT	TEMPORARILY RESTRICTED	TOTAL
ASSETS								
CURRENT ASSETS:								
Cash and cash equivalents	\$ 507,083	\$ -	\$ 103,718	\$ 610,801	\$ 758,016	\$ -	\$ 63,654	\$ 821,670
Restricted certificate of deposit	-	-	50,063	50,063	-	-	-	-
Restricted cash	-	-	247,490	247,490	-	-	365,803	365,803
Accounts receivable	63,005	-	-	63,005	49,559	-	-	49,559
Current portion of pledges receivable	21,000	-	113,000	134,000	21,250	-	108,000	129,250
Prepaid expenses and deposit	21,630	-	-	21,630	6,195	-	-	6,195
Total current assets	612,718	-	514,271	1,126,989	835,020	-	537,457	1,372,477
RESTRICTED CERTIFICATE OF DEPOSIT	-	-	50,092	50,092	-	-	-	-
PLEDGES RECEIVABLE, net of current portion	-	-	145,000	145,000	-	-	248,000	248,000
INVESTMENTS	501,228	-	-	501,228	473,231	-	-	473,231
PROPERTY AND EQUIPMENT, net	-	1,836,685	-	1,836,685	-	1,910,737	-	1,910,737
Total assets	\$ 1,113,946	\$ 1,836,685	\$ 709,363	\$ 3,659,994	\$ 1,308,251	\$ 1,910,737	\$ 785,457	\$ 4,004,445
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES:								
Accounts payable	\$ 51,450	\$ -	\$ -	\$ 51,450	\$ 19,903	\$ -	\$ -	\$ 19,903
Accrued expenses	46,799	-	-	46,799	50,361	-	-	50,361
Deferred revenue	7,988	-	-	7,988	9,850	-	-	9,850
Total current liabilities	106,237	-	-	106,237	80,114	-	-	80,114
CONTINGENT LOANS	-	1,282,236	-	1,282,236	-	1,284,472	-	1,284,472
Total liabilities	106,237	1,282,236	-	1,388,473	80,114	1,284,472	-	1,364,586
NET ASSETS:								
Unrestricted:								
Operating	175,072	-	-	175,072	290,084	-	-	290,084
Property and equipment Board designated:	-	554,449	-	554,449	-	626,265	-	626,265
Opportunity fund	32,031	-	-	32,031	31,170	-	-	31,170
Operating reserve	302,098	-	-	302,098	436,273	-	-	436,273
Capital asset reserve	157,405	-	-	157,405	148,596	-	-	148,596
Program reserve	341,103	-	-	341,103	322,014	-	-	322,014
Total unrestricted	1,007,709	554,449	-	1,562,158	1,228,137	626,265	-	1,854,402
Temporarily restricted:								
Donor restricted	-	-	361,718	361,718	-	-	419,654	419,654
Allene R. Giglio Fund	-	-	347,645	347,645	-	-	365,803	365,803
Total temporarily restricted	-	-	709,363	709,363	-	-	785,457	785,457
Total net assets	1,007,709	554,449	709,363	2,271,521	1,228,137	626,265	785,457	2,639,859
Total liabilities and net assets	\$ 1,113,946	\$ 1,836,685	\$ 709,363	\$ 3,659,994	\$ 1,308,251	\$ 1,910,737	\$ 785,457	\$ 4,004,445

The accompanying notes are an integral part of these statements.

THE SECOND STEP, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012				2011			
	UNRESTRICTED		TEMPORARILY		UNRESTRICTED		TEMPORARILY	
	OPERATING	PROPERTY AND EQUIPMENT	UNRESTRICTED	RESTRICTED	OPERATING	PROPERTY AND EQUIPMENT	UNRESTRICTED	RESTRICTED
OPERATING REVENUES AND SUPPORT:								
Gifts, grants and contributions	\$ 376,442	\$ -	\$ 376,442	\$ 95,003	\$ 341,494	\$ -	\$ 341,494	\$ 586,720
Contracts	634,772	-	634,772	-	697,905	-	697,905	-
Special events	366,321	-	366,321	-	367,113	-	367,113	-
Investment income	23,619	-	23,619	1,623	37,023	-	37,023	2,394
Donated services	15,767	-	15,767	-	30,343	-	30,343	-
Client rents	16,612	-	16,612	-	14,794	-	14,794	-
Net assets released from restrictions:								
Satisfaction of program restrictions	172,720	-	172,720	(172,720)	284,565	-	284,565	(284,565)
Total operating revenues and support	<u>1,606,253</u>	<u>-</u>	<u>1,606,253</u>	<u>(76,094)</u>	<u>1,773,237</u>	<u>-</u>	<u>1,773,237</u>	<u>304,549</u>
OPERATING EXPENSES:								
Program services:								
Residential	565,341	61,635	626,976	-	564,716	59,312	624,028	-
Children's Services	296,584	2,064	298,648	-	285,939	1,639	287,578	-
Community Programs	303,196	2,383	305,579	-	285,559	-	285,559	-
Outreach and Education	52,140	-	52,140	-	49,325	-	49,325	-
Total program services	<u>1,217,261</u>	<u>66,082</u>	<u>1,283,343</u>	<u>-</u>	<u>1,185,539</u>	<u>60,951</u>	<u>1,246,490</u>	<u>-</u>
Supporting services:								
General and Administrative	230,610	5,587	236,197	-	226,999	11,420	238,419	-
Institutional Advancement	384,414	2,383	386,797	-	356,024	-	356,024	-
Total supporting services	<u>615,024</u>	<u>7,970</u>	<u>622,994</u>	<u>-</u>	<u>583,023</u>	<u>11,420</u>	<u>594,443</u>	<u>-</u>
Total operating expenses	<u>1,832,285</u>	<u>74,052</u>	<u>1,906,337</u>	<u>-</u>	<u>1,768,562</u>	<u>72,371</u>	<u>1,840,933</u>	<u>-</u>
Changes in net assets from operations	<u>(226,032)</u>	<u>(74,052)</u>	<u>(300,084)</u>	<u>(76,094)</u>	<u>4,675</u>	<u>(72,371)</u>	<u>(67,696)</u>	<u>304,549</u>
NON-OPERATING REVENUES (EXPENSES):								
Forgiveness of contingent loan	-	2,236	2,236	-	-	2,236	2,236	-
Unrealized gain (loss) on investments	5,604	-	5,604	-	(5,657)	-	(5,657)	-
Loss on disposal of property and equipment	-	-	-	-	-	(623)	(623)	-
Net assets released from restrictions:								
Satisfaction of capital restrictions	-	-	-	-	-	363,029	363,029	(363,029)
Total non-operating revenues (expenses)	<u>5,604</u>	<u>2,236</u>	<u>7,840</u>	<u>-</u>	<u>(5,657)</u>	<u>364,642</u>	<u>358,985</u>	<u>(363,029)</u>
Changes in net assets	<u>(220,428)</u>	<u>(71,816)</u>	<u>(292,244)</u>	<u>(76,094)</u>	<u>(982)</u>	<u>292,271</u>	<u>291,289</u>	<u>(58,480)</u>
NET ASSETS, beginning of year	1,228,137	626,265	1,854,402	785,457	1,242,626	320,487	1,563,113	843,937
Transfers	-	-	-	-	(13,507)	13,507	-	-
NET ASSETS, end of year	<u>\$ 1,007,709</u>	<u>\$ 554,449</u>	<u>\$ 1,562,158</u>	<u>\$ 709,363</u>	<u>\$ 1,228,137</u>	<u>\$ 626,265</u>	<u>\$ 1,854,402</u>	<u>\$ 785,457</u>
								<u>\$ 2,639,859</u>

The accompanying notes are an integral part of these statements.

THE SECOND STEP, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets from operations	\$ (376,178)	\$ 236,853
Adjustments to reconcile changes in net assets from operations to net cash used in operating activities:		
Depreciation	74,052	72,371
Reinvested investment income	(22,393)	(31,814)
Changes in operating assets and liabilities:		
Accounts receivable	(13,446)	(10,212)
Other receivables	-	30,446
Pledges receivable	98,250	(370,250)
Prepaid expenses and deposit	(15,435)	13,320
Accounts payable	31,547	(15,787)
Accrued expenses	(3,562)	(22,989)
Deferred revenue	(1,862)	(6,700)
	<u>(229,027)</u>	<u>(104,762)</u>
Net cash used in operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in restricted cash	118,313	(365,803)
Redemptions and purchases of certificates of deposit, including accrued interest	(100,155)	222,718
Proceeds from sale of property held for sale	-	753,004
Proceeds from sale of investments	-	140,000
Purchase of property and equipment	-	(6,493)
	<u>18,158</u>	<u>743,426</u>
Net cash provided by investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on note payable to a bank	-	(370,043)
	<u>-</u>	<u>(370,043)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(210,869)	268,621
CASH AND CASH EQUIVALENTS, beginning of year	<u>821,670</u>	<u>553,049</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 610,801</u>	<u>\$ 821,670</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Unrealized gain (loss) on investments	<u>\$ 5,604</u>	<u>\$ (5,657)</u>
Cash paid for interest	<u>\$ -</u>	<u>\$ 4,692</u>
Cost basis of disposed property and equipment	<u>\$ -</u>	<u>\$ 3,114</u>
Forgiveness of contingent loan	<u>\$ 2,236</u>	<u>\$ 2,236</u>

The accompanying notes are an integral part of these statements.

THE SECOND STEP, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012
(With Summarized Comparative Totals for the Year Ended June 30, 2011)

	2012					2011		
	PROGRAM SERVICES			SUPPORTING SERVICES		TOTAL	TOTAL	TOTAL
	RESIDENTIAL SERVICES	CHILDREN'S SERVICES	COMMUNITY PROGRAMS	OUTREACH AND EDUCATION	TOTAL PROGRAM SERVICES			
EXPENSES:								
Salaries and related:								
Salaries	\$ 307,238	\$ 207,768	\$ 181,280	\$ 30,224	\$ 726,510	\$ 74,108	\$ 228,243	\$ 1,028,861
Employee benefits	19,931	18,884	9,786	-	48,601	48,902	17,057	114,560
Payroll taxes	27,610	18,146	15,458	1,799	63,013	10,070	21,042	94,125
Donated salaries	-	-	-	-	-	10,000	-	10,000
Total salaries and related	<u>354,779</u>	<u>244,798</u>	<u>206,524</u>	<u>32,023</u>	<u>838,124</u>	<u>143,080</u>	<u>266,342</u>	<u>1,247,546</u>
Program costs:								
Transitional assistance and other program expenses	32,414	12,963	42,718	-	88,095	80	-	88,175
Vehicle expense	7,890	1,888	1,714	-	11,492	-	-	11,492
Total program costs	<u>40,304</u>	<u>14,851</u>	<u>44,432</u>	<u>-</u>	<u>99,587</u>	<u>80</u>	<u>-</u>	<u>99,667</u>
Occupancy:								
Rent	58,363	8,802	18,949	-	86,114	18,949	18,949	124,012
Depreciation	61,635	2,064	2,383	-	66,082	5,587	2,383	74,052
Utilities	38,872	6,814	-	-	45,686	-	-	45,686
Repairs and maintenance	25,588	4,603	960	-	31,151	1,538	1,384	34,073
Donated utilities	3,560	-	-	-	3,560	-	-	3,560
Interest	-	-	-	-	-	-	-	-
Total occupancy	<u>188,018</u>	<u>22,283</u>	<u>22,292</u>	<u>-</u>	<u>232,593</u>	<u>26,074</u>	<u>22,716</u>	<u>281,383</u>
Other costs:								
Professional services	10,650	7,070	10,430	-	28,150	41,003	4,483	73,636
Fundraising	-	-	1,314	14,101	15,415	94	55,138	70,647
Miscellaneous	5,545	1,557	11,785	848	19,735	10,175	8,180	38,090
Printing and postage	404	38	890	5,009	6,341	604	23,652	30,597
Insurance	16,133	3,673	1,500	-	21,306	5,689	753	27,748
Telephone	8,336	2,028	3,754	133	14,251	2,450	2,369	19,070
Office expenses	1,850	763	1,581	26	4,220	2,473	2,904	9,997
Training and education	827	1,562	1,017	-	3,406	2,158	260	5,824
Donated legal services	-	-	-	-	-	2,207	-	2,207
Advertising	130	25	60	-	215	110	-	325
Total other costs	<u>43,875</u>	<u>16,716</u>	<u>32,331</u>	<u>20,117</u>	<u>113,039</u>	<u>66,963</u>	<u>97,739</u>	<u>277,741</u>
Total operating expenses before general and administrative allocation	626,976	298,648	305,579	52,140	1,283,343	236,197	386,797	1,906,337
General and administrative allocation	88,669	42,236	43,216	7,374	181,495	(236,197)	54,702	-
Total operating expenses	<u>\$ 715,645</u>	<u>\$ 340,884</u>	<u>\$ 348,795</u>	<u>\$ 59,514</u>	<u>\$ 1,464,838</u>	<u>\$ -</u>	<u>\$ 441,499</u>	<u>\$ 1,840,933</u>

The accompanying notes are an integral part of these statements.

THE SECOND STEP, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011

	PROGRAM SERVICES				SUPPORTING SERVICES			TOTAL
	RESIDENTIAL	CHILDREN'S SERVICES	COMMUNITY PROGRAMS	OUTREACH AND EDUCATION	GENERAL AND ADMINISTRATIVE	INSTITUTIONAL ADVANCEMENT		
EXPENSES:								
Salaries and related:								
Salaries	\$ 294,029	\$ 197,186	\$ 153,659	\$ 24,265	\$ 92,691	\$ 218,210	\$ 980,040	
Employee benefits	15,630	17,589	10,097	-	20,759	11,301	75,376	
Payroll taxes	24,834	15,793	11,369	2,269	11,113	18,316	83,694	
Donated salaries	-	-	-	-	13,880	-	13,880	
Total salaries and related	<u>334,493</u>	<u>230,568</u>	<u>175,125</u>	<u>26,534</u>	<u>138,443</u>	<u>247,827</u>	<u>1,152,990</u>	
Program costs:								
Transitional assistance and other program expenses	33,701	14,668	62,012	-	-	-	110,381	
Vehicle expense	5,548	2,715	-	-	-	-	8,263	
Total program costs	<u>39,249</u>	<u>17,383</u>	<u>62,012</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>118,644</u>	
Occupancy:								
Rent	54,866	9,819	18,318	-	19,792	19,792	122,587	
Depreciation	59,312	1,639	-	-	11,420	-	72,371	
Utilities	38,658	6,877	-	-	193	-	45,728	
Repairs and maintenance	37,392	6,839	-	-	619	180	45,030	
Donated utilities	4,340	-	-	-	-	-	4,340	
Interest	3,989	703	-	-	-	-	4,692	
Total occupancy	<u>198,557</u>	<u>25,877</u>	<u>18,318</u>	<u>-</u>	<u>32,024</u>	<u>19,972</u>	<u>294,748</u>	
Other costs:								
Professional services	10,875	5,000	13,098	1,932	27,833	8,568	67,306	
Fundraising	-	-	-	12,704	-	39,270	51,974	
Miscellaneous	9,302	2,354	2,919	616	8,926	4,674	28,791	
Printing and postage	472	38	1,700	7,281	2,705	25,625	37,821	
Insurance	18,168	3,025	1,250	-	7,238	1,500	31,181	
Telephone	8,236	1,487	3,954	-	2,683	2,358	18,718	
Office expenses	3,967	789	6,098	258	4,374	5,750	21,236	
Training and education	649	937	1,025	-	1,905	270	4,786	
Donated legal services	-	-	-	-	12,123	-	12,123	
Advertising	60	120	60	-	165	210	615	
Total other costs	<u>51,729</u>	<u>13,750</u>	<u>30,104</u>	<u>22,791</u>	<u>67,952</u>	<u>88,225</u>	<u>274,551</u>	
Total operating expenses before general and administrative allocation	624,028	287,578	285,559	49,325	238,419	356,024	1,840,933	
General and administrative allocation	92,841	42,785	42,485	7,339	(238,419)	52,969	-	
Total operating expenses	<u>\$ 716,869</u>	<u>\$ 330,363</u>	<u>\$ 328,044</u>	<u>\$ 56,664</u>	<u>\$ -</u>	<u>\$ 408,993</u>	<u>\$ 1,840,933</u>	

The accompanying notes are an integral part of these statements.

THE SECOND STEP, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**

OPERATIONS AND NONPROFIT STATUS

The Second Step, Inc. (TSS) is a Massachusetts not for profit corporation founded in 1988. TSS is dedicated to adult and child survivors of domestic violence. Responding to each family's strengths and values, TSS partners to enhance the supportive community and identify pathways to physical and emotional healing, housing, and financial security. TSS works at the individual, community and societal levels to end domestic violence.

TSS is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code. TSS is also exempt from state income taxes. Donors may deduct contributions made to TSS within the Internal Revenue Code requirements.

SIGNIFICANT ACCOUNTING POLICIES

TSS prepares its financial statements in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these footnotes are to the FASB Accounting Standards Codification.

Revenue Recognition

Contract revenue is recorded over the contract period as services are provided. Client rents are also recorded as the services are provided. Unrestricted gifts, grants and contributions are recorded as revenue when received or unconditionally pledged. Special events revenue is recorded at the time of the event. All other revenue is recorded as it is earned.

Restricted gifts, grants and contributions are recorded as temporarily restricted revenues and net assets when received or unconditionally pledged. Transfers are made to unrestricted net assets as costs are incurred or time restrictions or program restrictions have lapsed.

Property and Equipment and Depreciation

Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at fair market value at the time of donation. Depreciation is computed using the straight-line method over the following estimated useful lives:

Building and building improvements	40 years
Leasehold improvements	Lease term
Furniture and fixtures	5 - 10 years
Vehicles	5 - 10 years
Office equipment	3 - 10 years

Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

THE SECOND STEP, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

TSS follows the *Fair Value Measurements and Disclosures* standards. These standards define fair value, establish a framework for measuring fair value under U.S. GAAP, and mandate disclosures about fair value measurements. This policy establishes a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value. TSS values its qualifying assets and liabilities using Level I inputs. Level I inputs reflect unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. A qualifying asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Investments

TSS records all of its investments at fair value using Level I inputs (see above and Note 5). Interest and dividends are recorded when earned. Gains and losses are recognized as incurred or based on fair value changes during the period.

Certificates of Deposit

During fiscal year 2012, TSS used restricted cash (see Note 11) to open two certificates of deposit for \$50,000 each on March 22, 2012 and April 3, 2012. The interest rates for these accounts are 0.50% and 1.10%, respectively, per annum, and interest is compounded monthly. The certificates have initial maturities of 2 years and 1 year and mature on March 22, 2013 and April 3, 2014, respectively.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, management considers all highly liquid investments with an initial maturity of three months or less and no restrictions to be cash equivalents.

Special Events

Special events are shown gross in the accompanying financial statements and the following is a summary for the years ended June 30:

	<u>2012</u>	<u>2011</u>
Contributions and support	\$347,211	\$347,548
Event revenue	\$19,110	\$19,565
Less - direct expenses	<u>19,110</u>	<u>19,565</u>
Fundraising expenses	<u>52,054</u>	<u>41,370</u>
Total special events, net	<u>\$295,157</u>	<u>\$306,178</u>

THE SECOND STEP, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expense Allocations

Expenses related directly to a program are distributed to that program, while other expenses are allocated based upon management's estimate of the percentage attributable to each program.

Donated Services

Volunteers and other organizations contribute services to TSS in support of various aspects of its programs. These services are reflected in the accompanying financial statements based upon the estimated value assigned to them by the donating volunteers, agencies or by management. The value of these services was \$15,767 and \$30,343 for the years ended June 30, 2012 and 2011, respectively, and were for salaries, utilities and legal services.

TSS also receives services of volunteers and donated goods in various aspects of its programs. The value of these goods and services is not reflected in the accompanying financial statements, since the value is not ascertainable and does not meet the criteria for *Accounting for Contributions Received and Contributions Made* in accordance with U.S. GAAP.

Pledges Receivable

Pledges receivable consist of donor-restricted contributions designated for specific program purposes. Pledges are recorded at their net present value when unconditionally committed (see Note 2).

An allowance for uncollectible pledges receivable is recorded based on management's analysis of specific accounts and collection history. As of June 30, 2012 and 2011, there was no allowance for uncollectible accounts.

Funding

TSS received approximately \$427,000 and \$456,000 of its total operating revenues and support from the U.S. Department of Housing and Urban Development (HUD) during the years ended June 30, 2012 and 2011, respectively.

TSS also received approximately \$151,000 and \$146,000 of its total operating revenues and support from the Commonwealth of Massachusetts, Department of Children and Families during the years ended June 30, 2012 and 2011, respectively.

These grants and contracts have been expended in accordance with the terms contained in the respective agreements and are subject to possible final audit determination by these agencies. In the opinion of management, the results of such audits, if any, will not have a material effect on the financial position of TSS as of June 30, 2012 and 2011, or on its results of operations for the years then ended.

THE SECOND STEP, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

TSS expenses advertising costs as they are incurred.

Subsequent Events

Subsequent events were evaluated through December 5, 2012, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

Uncertainty in Income Taxes

TSS follows the U.S. GAAP standards for *Accounting for Uncertainty in Income Taxes* which requires TSS to report any uncertain tax positions and to adjust its financial statements for the impact thereof. As of June 30, 2012, TSS determined that it had no material unrecognized tax benefits to report. TSS files information returns in the United States Federal and Massachusetts state jurisdictions. These returns are generally subject to examination by tax authorities for the last three years. TSS does not expect that the amounts of unrecognized tax benefits will change significantly within the next twelve months.

(2) PLEDGES RECEIVABLE

Pledges receivable consisted of the following as of June 30:

	<u>2012</u>	<u>2011</u>
Due in within one year	\$134,000	\$129,250
Due in two to five years	<u>145,000</u>	<u>248,000</u>
	279,000	377,250
Less - current portion	<u>134,000</u>	<u>129,250</u>
Long-term pledges receivable, net	<u>\$145,000</u>	<u>\$248,000</u>

The pledges due beyond one year have not been discounted to present value since the amount of the discount would not be material to the accompanying financial statements.

Approximately 75% and 74% of the pledges receivable were due from two donors at June 30, 2012 and 2011, respectively.

THE SECOND STEP, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

(3) NET ASSETS

Unrestricted Net Assets

Unrestricted net assets are those net resources that bear no external restriction and are generally available for use by TSS. TSS has grouped its unrestricted net assets into the following categories:

Operating - represent funds available to carry on the operations of TSS.

Property and Equipment - reflect and account for the activities relating to TSS's property and equipment, net of related debt.

Board Designated - Opportunity Fund - represent investments set aside by the Board to help survivors move to independent safe lives. Withdrawals from this reserve require approval from the Executive Director.

Board Designated - Operating Reserve - represent funds set aside by the Board to supplement operating cash flow needs. Withdrawals from this reserve require Board notification at the next Board meeting.

Board Designated - Capital Asset Reserve - represent funds set aside by the Board for property and equipment maintenance and acquisition.

Board Designated - Program Reserve - represent funds set aside by the Board for program funding.

Any withdrawals of the Capital Asset Reserve and Program Reserve require the prior approval of the Board of Directors. During 2011, TSS transferred \$140,000 from the Program Reserve to the Operating Reserve. During 2012, TSS withdrew \$140,000 from the Operating Reserve which was transferred to operating net assets.

Temporarily Restricted Net Assets

Temporarily restricted net assets include donor-restricted funds designated for specific program, period of time or capital purposes. These amounts are recorded as temporarily restricted net assets until they are expended for their designated purposes or as the time restrictions expire.

TSS has grouped its temporarily restricted net assets into the following categories:

Donor restricted - represent funds designated for specific program, period of time or capital purposes. All amounts were purpose restricted as of June 30, 2012 and 2011.

Ailene R. Giglio Fund - represent net proceeds from the sale of a property, after payment of a note payable to a bank (see Note 6), to be maintained in a separate restricted fund. The income and principal of the fund may be expended to provide maintenance, repair, renovation or expansion of the Ailene R. Giglio House (see Note 11).

THE SECOND STEP, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

(4) **PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Land	\$ 130,000	\$ 130,000
Building and building improvements	2,206,734	2,206,734
Leasehold improvements	532,082	532,082
Furniture and fixtures	163,673	163,673
Vehicles	54,302	54,302
Office equipment	<u>52,897</u>	<u>52,897</u>
	3,139,688	3,139,688
Less - accumulated depreciation	<u>1,303,003</u>	<u>1,228,951</u>
Net property and equipment	<u>\$1,836,685</u>	<u>\$1,910,737</u>

Property and equipment are pledged as security for the contingent loans described in Note 8.

(5) **INVESTMENTS**

The following is a summary of the investment portfolio and unrealized appreciation as of June 30:

	<u>2012</u>	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Appreciation</u>
Government bonds		\$480,993	\$498,510	\$17,517
Stocks		<u>2,462</u>	<u>2,718</u>	<u>256</u>
		<u>\$483,455</u>	<u>\$501,228</u>	17,773
Unrealized appreciation at June 30, 2011				<u>12,169</u>
Net unrealized gain on investments				<u>\$ 5,604</u>
	<u>2011</u>	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Appreciation</u>
Government bonds		\$458,648	\$470,611	\$11,963
Stocks		<u>2,414</u>	<u>2,620</u>	<u>206</u>
		<u>\$461,062</u>	<u>\$473,231</u>	12,169
Unrealized appreciation at June 30, 2010				<u>17,826</u>
Net unrealized loss on investments				<u>\$ (5,657)</u>

Investments are not insured and are subject to ongoing market fluctuations. Investments are classified as non-current based on management's intent to hold them for long-term purposes.

THE SECOND STEP, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

(6) NOTE PAYABLE TO A BANK

TSS had a note payable to a bank, due in monthly principal and interest installments of \$3,902, with interest at 6.5% through December 7, 2012. There was a balloon payment of approximately \$320,000 due on December 7, 2012. This note was secured by a first mortgage on a building. This note was paid off during fiscal year 2011, with proceeds from a bequest (see Note 11).

(7) LEASES

TSS leases its administrative space under an agreement that expires on May 31, 2014. The monthly rent was \$4,737 at June 30, 2012 and 2011. The facility lease requires TSS to maintain certain insurance coverage and pay for its proportionate share of real estate taxes and operating expenses.

TSS also rents space for its programs under an agreement which expired on June 30, 2012. TSS was required to pay its proportionate share of operating costs. The monthly rent was \$5,597 and \$5,804, respectively at June 30, 2012 and 2011. TSS opted to extend the lease for an additional four year period through June, 2016.

Rent expense for the years ended June 30, 2012 and 2011, was \$124,012 and \$122,587, respectively.

Remaining future minimum lease payments are as follows:

2013	\$126,493
2014	\$124,237
2015	\$ 74,606
2016	\$ 77,086

(8) CONTINGENT LOANS

TSS has the following contingent loans:

- The Community Economic Development Assistance Corporation (CEDAC) has given TSS a loan in the amount of \$500,000 for the acquisition and rehabilitation of a program residence. TSS is required to maintain the property as housing for low to moderate income women. This loan does not bear interest. There are annual payments due within 45 days of the end of the fiscal year which are equal to the amount that gross cash receipts for the fiscal year just ended exceeds 105% of cash expenditures for the same period. TSS has deferred all payments at June 30, 2012. If on May 30, 2032, TSS continues to be in compliance with the terms of the agreement, TSS may request the term of the loan to be extended for additional ten year periods. No interest will accrue on any outstanding amounts during any extension period. If TSS defaults on these obligations at any time, the total amount of principal and accrued interest becomes due on demand. This loan is secured by a building and equipment.

THE SECOND STEP, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

(8) CONTINGENT LOANS (Continued)

- The Massachusetts Housing Finance Agency, through the Department of Housing and Community Development Affordable Housing Trust Fund (DHCD), has given TSS a loan in the amount of \$400,000 for the acquisition and rehabilitation of a program residence. TSS is required to maintain the property as housing for low to moderate income women. The loan does not bear interest. The principal balance is due in full on May 1, 2032. If on May 1, 2032, TSS continues to be in compliance with the terms of the agreement, the term of the loan will be extended for additional ten year periods. If TSS defaults on these obligations at any time, the total amount of principal becomes due on demand. This loan is secured by a building and equipment.
- The Newton Community Development Authority (NCDA) has provided TSS a loan in the amount of \$300,000 for the acquisition and rehabilitation of a program residence. TSS is required to maintain the property as housing for eight low to moderate income women. The loan accrues simple interest at 7%. There are annual payments of \$7,500 plus simple interest due under the loan that may be deferred if TSS is in compliance with the terms of the agreement. TSS has deferred all payments at June 30, 2012. If on January 31, 2042, TSS continues to be in compliance with the terms of the agreement, the principal and accrued interest will be forgiven. If TSS defaults on these obligations at any time, the total amount of principal and accrued interest becomes due on demand. This loan is secured by a building and equipment.
- The Federal Home Loan Bank (FHLB) has provided TSS with a loan in the amount of \$80,000 for the acquisition and rehabilitation of a program residence. TSS is required to maintain the property as housing for low to moderate income women. If TSS defaults on these obligations at any time, the total amount of principal becomes due on demand.
- The City of Newton has provided TSS with a loan in the amount of \$11,180 for the construction of a handicapped accessible ramp at a program residence. TSS is required to maintain the legal and beneficial interest of two housing properties. On each anniversary date of the execution of the funding agreement, the loan will be forgiven by twenty percent or \$2,236 annually, if TSS is in compliance with the terms of the agreement. If upon the fifth anniversary, TSS continues to be in compliance with the terms of the funding agreement, the loan will be forgiven in its entirety. If TSS defaults on these obligations at any time, the grant will be repaid pro-rata. During the five-year compliance period, the loan is secured by a building.

The contingent loans contain various covenants and restrictions on TSS as described in the agreements. TSS was in compliance with these covenants as of June 30, 2012 and 2011.

THE SECOND STEP, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)**

(8) CONTINGENT LOANS (Continued)

In the opinion of management, the conditions in the agreements will be met; accordingly, no accrued interest has been recorded in the accompanying financial statements. Accrued interest due upon the default of the agreements would be approximately \$220,000 and \$199,000 as of June 30, 2012 and 2011, respectively.

The outstanding balances of the contingent loans consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
CEDAC	\$ 500,000	\$ 500,000
DHCD	400,000	400,000
NCDA	300,000	300,000
FHLB	80,000	80,000
City of Newton	2,236	4,472
	<u>\$1,282,236</u>	<u>\$1,284,472</u>

(9) RETIREMENT PLAN

TSS maintains a retirement plan under Internal Revenue Code Section 403(b), covering all employees. TSS did not make any contributions to the plan in fiscal year 2012 or 2011.

(10) CONCENTRATION OF CREDIT RISK

TSS maintains its cash balances in various banks in Massachusetts. The Federal Deposit Insurance Corporation (FDIC) insures balances at each bank up certain amounts. At times during the year, cash balances exceed the insured amounts. TSS has not experienced any losses in such accounts. TSS believes it is not exposed to any significant credit risk on cash and cash equivalents.

(11) PROPERTY HELD FOR SALE AND RESTRICTED CASH

During fiscal year 2008, TSS was notified it was named as a beneficiary of an estate, which provided for TSS to receive a property, contingent on certain conditions. TSS determined it was unable to meet those conditions and, as a result, TSS sought relief through the probate process. It was ordered and adjudged by the Commonwealth of Massachusetts that the property be sold and the proceeds be distributed in accordance with a settlement agreement dated April, 2010. The settlement agreement provided for reimbursement to TSS for certain carrying costs related to the property and payment of executor commissions and legal fees. Upon payment of the obligations, the remaining proceeds were to be distributed 85% to TSS and 15% to the donor's heirs. The property was sold on September 10, 2010.

THE SECOND STEP, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

(Continued)

(11) PROPERTY HELD FOR SALE AND RESTRICTED CASH (Continued)

In accordance with the settlement agreement, TSS used the proceeds it received to pay off the remaining mortgage on its residence located in Newton, Massachusetts (see Note 6), renamed the residence the Ailene R. Giglio House (the House), and created and displayed a sign on the front of the House stating the name as long as TSS owns the House. Net proceeds after the payoff of the mortgage of the House is maintained in a separate restricted fund held by TSS and known as the Ailene R. Giglio Fund (the Fund) (see Note 3). The income and principal of the Fund may be expended to provide maintenance, repair, renovation or expansion of the House or to establish permanent housing for survivors of domestic violence who are clients of TSS, including expenses associated with establishing permanent rental housing.

If the House is sold, TSS is to use the net proceeds of the sale to purchase a new house which will also be named the Ailene R. Giglio House and create and display a sign on the front of the property stating the name as long as TSS owns the House, and place any available net proceeds after the mortgage of the House is paid into the Fund.

If the income is not spent for any of the costs indicated, at the end of each calendar year, funds up to 5% of the value of the Fund, may be used for expenses related to programming costs of the House.