



**FINANCIAL STATEMENTS IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS AND  
OMB CIRCULAR A-133  
JUNE 30, 2013  
TOGETHER WITH  
INDEPENDENT AUDITOR'S REPORT**

**THE SECOND STEP, INC.**

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JUNE 30, 2013**

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CERTIFIED PUBLIC ACCOUNTANTS  
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**Alexander, Aronson, Finning & Co., P. C.**

21 East Main Street, Westborough, MA 01581-1461 (508) 366-9100  
Boston, MA (617) 205-9100 Wellesley, MA (781) 965-9100  
www.aafcpa.com FAX (508) 366-9789 info@aafcpa.com

**UNMODIFIED OPINION ON FINANCIAL STATEMENTS ACCOMPANIED BY OTHER  
INFORMATION – NOT-FOR-PROFIT ENTITY**

Independent Auditor's Report

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of The Second Step, Inc. (a Massachusetts corporation, not for profit) (TSS), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, cash flows and functional expenses 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 The Second Step, Inc. as of June 30, 2013, 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.

***Other Matters***

Report on Summarized Comparative Information

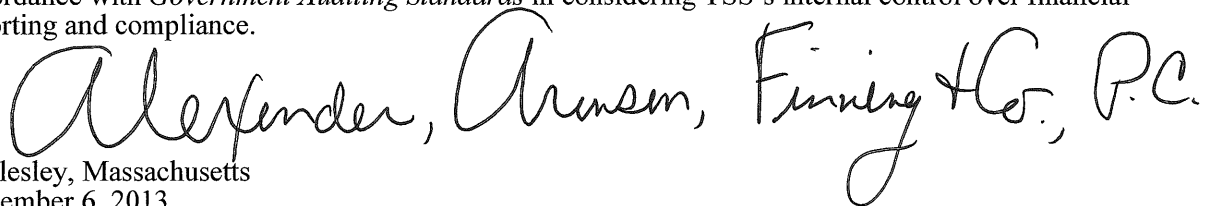
We have previously audited TSS's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 5, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards for the year ended June 30, 2013, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2013 on our consideration of TSS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TSS's internal control over financial reporting and compliance.



Wellesley, Massachusetts  
November 6, 2013

ORGANIZATION : The Second Step, Inc.

FEIN: 222868513

STATEMENT OF FINANCIAL POSITION AS OF  
(BALANCE SHEET)

06/30/2013

WITH COMPARATIVE TOTALS AS OF

6/30/2012

	CURRENT OPERATIONS	PLANT	ENDOWMENT	CUSTODIAN	TOTAL THIS YEAR	TOTAL LAST YEAR
<b>ASSETS</b>						
1 Cash and Cash Equivalents	279,832				279,832	610,801
2 Accounts Receivable, Program Services	84,856				84,856	63,005
3 Allowance for Doubtful Accounts						
4 Net Accounts Receivable, Program Services	84,856				84,856	63,005
5 Contributions Receivable	103,550				103,550	134,000
6 Notes Receivable						
7 Prepaid Expenses	18,044				18,044	21,630
8 Other Accounts Receivable						
9 Other Current Assets	275,424				275,424	247,490
10 Short-Term Investments	50,643				50,643	50,063
11 <b>TOTAL CURRENT ASSETS</b>	<b>812,349</b>				<b>812,349</b>	<b>1,126,989</b>
12 Land, Buildings, and Equipment		3,170,625			3,170,625	3,139,688
13 Accumulated Depreciation		(1,367,055)			(1,367,055)	(1,303,003)
14 Net Land, Buildings and Equipment		1,803,570			1,803,570	1,836,685
15 Long-Term Investments	493,184				493,184	551,320
16 Other Assets	75,000				75,000	145,000
17 Due From Other Funds						
18 <b>TOTAL ASSETS</b>	<b>1,380,533</b>	<b>1,803,570</b>			<b>3,184,103</b>	<b>3,659,994</b>
<b>LIABILITIES AND NET ASSETS</b>						
19 Accounts Payable	29,647				29,647	51,450
20 Subcontract Payable						
21 Accrued Expenses	35,861				35,861	46,799
22 Current Notes Payable						
23 Current Portion Long-Term Debt						
24 Deferred Revenue						7,988
25 Other Current Liabilities						
26 <b>TOTAL CURRENT LIABILITIES</b>	<b>65,508</b>				<b>65,508</b>	<b>106,237</b>
27 Long-Term Notes & Mortgage Payable						
28 Other Liabilities		1,280,000			1,280,000	1,282,236
29 Due to Other Funds						
30 <b>TOTAL LIABILITIES</b>	<b>65,508</b>	<b>1,280,000</b>			<b>1,345,508</b>	<b>1,388,473</b>
<b>NET ASSETS</b>						
31 Unrestricted	762,295	523,570			1,285,865	1,562,158
32 Temporarily Restricted	552,730				552,730	709,363
33 Permanently Restricted						
34 <b>TOTAL NET ASSETS</b>	<b>1,315,025</b>	<b>523,570</b>			<b>1,838,595</b>	<b>2,271,521</b>
35 <b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>1,380,533</b>	<b>1,803,570</b>			<b>3,184,103</b>	<b>3,659,994</b>

See Accompanying Notes to the Financial Statements

ORGANIZATION : The Second Step, Inc.

FEIN: 222868513

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED

06/30/2013

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED

06/30/2012

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL THIS YEAR	TOTAL LAST YEAR
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>					
1 Contributions, Gifts, Legacies, Bequests & Special Events	651,569	75,359		726,928	837,766
2 In-Kind Contributions	18,945			18,945	15,767
3 Grants					
4 Program Service Fees	702,652			702,652	651,384
5 Federated Fundraising Organization Allocation					
6 Investment Revenue	(8,555)	1,315		(7,240)	30,846
7 Revenue from Commercial Products & Services					
8 Other	2,236			2,236	2,236
9 Net Assets Released From Restrictions:					
10 Satisfaction of Program Restrictions	202,370	(202,370)			
11 Satisfaction of Equipment Acquisition Restrictions	30,937	(30,937)			
12 Expiration of Time Restrictions					
13 <b>TOTAL REVENUE, GAINS, AND OTHER SUPPORT</b>	<b>1,600,154</b>	<b>(156,633)</b>		<b>1,443,521</b>	<b>1,537,999</b>
<b>EXPENSES AND LOSSES</b>					
14 Administration (Management & General)	282,920			282,920	236,197
15 Fundraising	310,859			310,859	386,797
16 Total Program Services	1,282,668			1,282,668	1,283,343
17 <b>TOTAL EXPENSES</b>	<b>1,876,447</b>			<b>1,876,447</b>	<b>1,906,337</b>
18 Losses					
19 <b>TOTAL EXPENSES AND LOSSES</b>	<b>1,876,447</b>			<b>1,876,447</b>	<b>1,906,337</b>
<b>CHANGES IN NET ASSETS:</b>					
20 Property & Equipment Acquisitions from Unrestricted Funds					
21 Transfer of Realized Endowment Fund Appreciation					
22 Return to Donor					
23 Other Increases (Decreases)					
24 <b>TOTAL CHANGES IN NET ASSETS</b>	<b>(276,293)</b>	<b>(156,633)</b>		<b>(432,926)</b>	<b>(368,338)</b>
25 <b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>1,562,158</b>	<b>709,363</b>		<b>2,271,521</b>	<b>2,639,859</b>
26 <b>NET ASSETS AT END OF YEAR</b>	<b>1,285,865</b>	<b>552,730</b>		<b>1,838,595</b>	<b>2,271,521</b>

See Accompanying Notes to Financial Statements

ORGANIZATION : The Second Step, Inc.FEIN: 222868513

## STATEMENT OF CASH FLOWS for the YEAR ENDED

06/30/2013

## INDIRECT METHOD

	<b>TOTAL</b>
<b>Cash Flows from Operating Activities:</b>	
1 Changes in Net Assets	(432,926)
Adjustments to Reconcile Change In Net Assets to Net	
Cash provided by/(used in) Operating Activities:	
2 Depreciation	64,052
3 Losses	
4 Increase/Decrease in Net Accounts Receivable	(21,851)
5 Increase/Decrease in Prepaid Expenses	3,586
6 Increase/Decrease in Contributions Receivable	100,450
7 Increase/Decrease in Accounts Payable	(21,803)
8 Increase/Decrease in Accrued Expenses	(10,938)
9 Increase/Decrease in Deferred Revenue	(7,988)
10 Increase/Decrease in Subcontract Payable	
11 Contributions Restricted for Long-Term Investment	
12 Net Unrealized and Realized Gains on Long-Term Investments	25,856
13 Other Cash Used in/Provided by Operating Activities	(20,048)
14 Net Cash Provided by/(used in) Operating Activities	(321,610)
<b>Cash Flows from Investing Activities:</b>	
15 Insurance Proceeds	
16 Purchase(s) of Capital Assets (Land, Bldgs. & Equip.)	(30,937)
17 Proceeds from Sale(s) of Investments	
18 Purchase(s) of Investments	
19 Purchase(s) of Assets Restricted To Long-Term Investment	
20 Other Investing Activities	21,578
21 Net Cash Provided by/(used in) Investing Activities	(9,359)
<b>Cash from Financing Activities:</b>	
Proceeds from Contributions Restricted For:	
22 Investment in Endowment	
23 Investment in Term Endowment	
24 Investment in Plant (Land Bldgs. & Equip.)	
Other Financing Activities:	
25 Contributions Restricted for Long-Term Investment	
26 Interest and Dividends Restricted for Reinvestment	
27 Payments on Notes Payable	
28 Payments on Long-Term Debt	
29 Other Finance Payments/Receipts	
30 Net Cash Provided by/(used in) Financing Activities	

See Accompanying Notes to the Financial Statements

ORGANIZATION : The Second Step, Inc.FEIN: 222868513

## STATEMENT OF CASH FLOWS for the YEAR ENDED

06/30/2013

## INDIRECT METHOD

31	Net Increase/(Decrease) in Cash and Cash Equivalents	(330,969)
32	Cash and Cash Equivalents at Beginning of Year	610,801
33	Cash and Cash Equivalents at End of Year	<u>279,832</u>

## Supplemental Disclosure of Cash Flow Information:

34	Cash Paid During the Year for Interest	
35	Cash Paid During the Year for Taxes/Other	

## Supplemental Data for Noncash Investing and Financing Activities:

36	Gifts of Equipment	
37	Other Noncash Investing and Financing Activities	
38	Forgiveness of contingent loan	2,236
39	Unrealized loss on investments	25,856
40		

See Accompanying Notes to the Financial Statements

ORGANIZATION : The Second Step, Inc.FEIN: 222868513**Statement of Functional Expenses for the Year Ended:** 06/30/2013

	TOTALS	SUPPORTING SERVICES		PROGRAM SERVICES
		ADMINISTRATION (MNGT. & GEN.)	FUND RAISING	TOTAL ALL PROGRAMS
1. Employee Compensation & Related Expenses	1,193,129	141,266	220,331	831,532
2. Occupancy	234,781	19,412	20,819	194,550
3. Other Program / Operating Expense	101,589		300	101,289
4. Subcontract Expense				
5. Direct Administrative Expense	272,679	111,469	69,409	91,801
6. Other Expenses	10,217	10,217		
7. Depreciation of Buildings and Equipment	64,052	556		63,496
<b>8. TOTAL EXPENSES</b>	<b>1,876,447</b>	<b>282,920</b>	<b>310,859</b>	<b>1,282,668</b>

See Accompanying Notes to Financial Statements

\*

ORGANIZATION : The Second Step, Inc. FEIN: 222868513

**Statement of Functional Expenses for the Year Ended:** 06/30/13

	PROGRAM #	PROGRAM #	PROGRAM #	PROGRAM #	PROGRAM #
	<u>01A</u>	<u>2</u>			
1. Employee Compensation & Related Expenses	<u>442,083</u>	<u>389,449</u>			
2. Occupancy	<u>148,571</u>	<u>45,979</u>			
3. Other Program / Operating Expense	<u>43,692</u>	<u>57,597</u>			
4. Subcontract Expense					
5. Direct Administrative Expense	<u>27,117</u>	<u>64,684</u>			
6. Other Expenses					
7. Depreciation of Buildings and Equipment	<u>60,835</u>	<u>2,661</u>			
<b>8. TOTAL EXPENSES</b>	<u>722,298</u>	<u>560,370</u>			

See Accompanying Notes to Financial Statements

THE SECOND STEP, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

(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 (IRC). TSS is also exempt from state income taxes. Donors may deduct contributions made to TSS within the IRC 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.

**Prior Year Summarized Comparative Information**

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 U.S. GAAP. Accordingly, such information should be read in conjunction with the TSS's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

**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 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

THE SECOND STEP, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

(Continued)

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

**SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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.

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 as investment income when earned. Gains and losses are recognized as incurred or based on fair value changes during the period.

Certificates of Deposit

TSS opened two certificates of deposit (CD) for \$50,000 each on March 22, 2012, and April 3, 2012. The interest rates for these accounts are 0.50% and 1.10% per annum, respectively, and interest is compounded monthly. One CD had a maturity of one year and matured on March 22, 2013. Upon maturity, the proceeds were deposited into a money market account. The other CD has a maturity of two years and will mature on April 3, 2014.

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 and cash equivalents.

THE SECOND STEP, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013  
(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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>2013</u>	<u>2012</u>
Contributions and support	\$301,472	\$347,211
Event revenue	\$14,405	\$19,110
Less - direct expenses	<u>14,405</u>	<u>19,110</u>
Fundraising expenses	<u>44,939</u>	<u>52,054</u>
Total special events, net	<u>\$256,533</u>	<u>\$295,157</u>

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.

In Kind Contributions

Volunteers and other organizations contribute goods and 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 goods and services was \$18,945 and \$15,767 for the years ended June 30, 2013 and 2012, 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.

Contributions Receivable

Contributions 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, 2013 and 2012, there was no allowance for uncollectible accounts.

**THE SECOND STEP, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**  
(Continued)

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

**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Funding

TSS received approximately \$424,000 and \$427,000 of its total operating revenues and support from the U.S. Department of Housing and Urban Development (HUD) during the years ended June 30, 2013 and 2012, respectively.

TSS also received approximately \$151,000 of its total operating revenues and support from the Commonwealth of Massachusetts, Department of Children and Families during the years ended June 30, 2013 and 2012.

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, 2013 and 2012, or on its results of operations for the years then ended.

Advertising

TSS expenses advertising costs as they are incurred.

Subsequent Events

Subsequent events were evaluated through November 6, 2013, 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, 2013 and 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) CONTRIBUTIONS RECEIVABLE**

Contributions receivable consisted of the following as of June 30:

	<u>2013</u>	<u>2012</u>
Due within one year	\$103,550	\$134,000
Due in two to five years	<u>75,000</u>	<u>145,000</u>
	178,550	279,000
Less - current portion	<u>103,550</u>	<u>134,000</u>
Long-term pledges receivable, net	<u>\$ 75,000</u>	<u>\$145,000</u>

THE SECOND STEP, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013  
(Continued)

(2) CONTRIBUTIONS RECEIVABLE (Continued)

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 84% and 75% of the pledges receivable were due from two donors at June 30, 2013 and 2012, respectively.

(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.

**Plant** - 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 fiscal years 2013 and 2012, TSS withdrew \$265,000 and \$140,000, respectively, from the Operating Reserve, which was transferred to operating net assets. All Board Designated net asset balances are included in operating net assets in the accompanying statement of financial position.

Temporarily Restricted Net Assets

Temporarily restricted net assets include donor-restricted funds designated for a 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.

**THE SECOND STEP, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2013**

(Continued)

**(3) NET ASSETS (Continued)**

Temporarily Restricted Net Assets (Continued)

Temporarily restricted net assets are restricted for the following purposes as of June 30:

	<u>2013</u>	<u>2012</u>
Ailene R. Giglio Fund	\$326,067	\$347,645
Purpose	50,600	68,718
Time	172,000	258,000
Capital	<u>4,063</u>	<u>35,000</u>
	<u>\$552,730</u>	<u>\$709,363</u>

The Ailene R. Giglio Fund represents net proceeds from a bequest required by the donor to be maintained in a separate restricted fund (the Fund). The income and principal of the Fund may be expended to provide maintenance, repair, renovation, or expansion of a property that houses survivors of domestic violence (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.

**(4) LAND, BUILDINGS AND EQUIPMENT**

Land, buildings and equipment consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Land	\$ 130,000	\$ 130,000
Building and building improvements	2,220,047	2,206,734
Leasehold improvements	532,082	532,082
Furniture and fixtures	181,297	163,673
Vehicles	58,302	58,302
Office equipment	<u>48,897</u>	<u>48,897</u>
	3,170,625	3,139,688
Less - accumulated depreciation	<u>1,367,055</u>	<u>1,303,003</u>
Net land, buildings and equipment	<u>\$1,803,570</u>	<u>\$1,836,685</u>

Land, buildings and equipment are pledged as security for the contingent loans described in Note 7.

**THE SECOND STEP, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2013**

(Continued)

**(5) INVESTMENTS**

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

	<u>2013</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Government bonds		\$497,743	\$488,887	\$ (8,856)
Stocks		<u>3,524</u>	<u>4,297</u>	<u>773</u>
		<u>\$501,267</u>	<u>\$493,184</u>	(8,083)
Unrealized appreciation at June 30, 2012				<u>17,773</u>
Net unrealized loss on investments				<u>\$(25,856)</u>
	<u>2012</u>	<u>Cost</u>	<u>Fair 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>

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.

**(6) LEASES**

TSS leases its administrative space under an agreement that expires on May 31, 2014. The monthly rent was \$4,737 at June 30, 2013 and 2012. 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 that expires on June 30, 2016. The monthly rent was \$5,597 at June 30, 2013 and 2012.

Rent expense was \$124,012 for the years ended June 30, 2013 and 2012.

Remaining future minimum lease payments are as follows:

2014	\$119,276
2015	\$ 67,165
2016	\$ 67,165

THE SECOND STEP, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

(Continued)

(7) 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. No amounts were due as of June 30, 2013 and 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 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, 2013. 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 and interest, as determined by the bank's discretion, 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. This loan was forgiven in its entirety as of June 30, 2013.

**THE SECOND STEP, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013  
(Continued)**

**(7) CONTINGENT LOANS (Continued)**

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, 2013 and 2012.

In the opinion of management, the conditions in the agreements will be met; accordingly, no accrued interest or currently due amounts have been recorded in the accompanying financial statements. Accrued interest due upon the default of the agreements would be approximately \$241,000 and \$220,000 as of June 30, 2013 and 2012, respectively.

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

	<u>2013</u>	<u>2012</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
	<u>\$1,280,000</u>	<u>\$1,282,236</u>

**(8) RETIREMENT PLAN**

TSS maintains a retirement plan under IRC Section 403(b), covering all employees. TSS did not make any contributions to the plan in fiscal year 2013 or 2012.

**(9) 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 exceeded 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.

**(10) SURPLUS REVENUE RETENTION**

A nonprofit provider is allowed to retain an annual net surplus of up to 5% of gross revenues derived from delivering services to clients of the Commonwealth of Massachusetts. The cumulative amount retained may not exceed 20% of the prior year's gross revenues from Commonwealth of Massachusetts purchasing agencies, and must be segregated as surplus revenue retention net assets.

A current year surplus which exceeds the 5% level or a cumulative surplus exceeding the 20% amount may be: 1) reinvested in program services as stipulated by the purchasing agencies; 2) recouped or; 3) used by the Commonwealth to reduce the price of future contracts.

Following are the revenue retention deficit amounts of TSS as of June 30, 2013:

Revenue retention deficit, June 30, 2012	\$(514,211)
Plus – current year deficit revenue retention	(111,739)
Revenue retention deficit, June 30, 2013	<u>\$(625,950)</u>

**THE SECOND STEP, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

<u>FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>AGENCY OR PASS-THROUGH NUMBER</u>	<u>FEDERAL EXPEN- DITURES</u>
<b><u>U.S. Department of Health and Human Services</u></b>			
<b>Passed-Through Commonwealth of Massachusetts, Department of Social Services:</b>			
Social Services Block Grant	93.667	INTF09950720017	\$ 4,869
<b><u>U.S. Department of Education</u></b>			
<b>Passed-Through City of Newton:</b>			
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	-	4,455
<b><u>U.S. Department of Housing and Urban Development</u></b>			
<b>Direct Program:</b>			
Supportive Housing Program	14.235	-	424,435
<b>Passed-Through City of Newton:</b>			
Community Development Block Grants/ Entitlement Grants	14.218*	-	300,000
Emergency Solutions Grant Program	14.231	-	41,400
<b><u>U.S. Department of Housing and Urban Development</u></b>			
Passed-Through Federal Home Loan Bank	14.XXX	-	80,000
<b><u>U.S. Department of Justice - Violence Against Women Office</u></b>			
<b>Direct Program:</b>			
Transitional Housing Assistance for Victims Of Domestic Violence, Dating Violence Stalking, or Sexual Assault	16.736	-	<u>56,628</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u>\$911,787</u></b>

\*CDBG Entitlement Grants Cluster

**THE SECOND STEP, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

(Continued)

**NOTE 1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal assistance activity of TSS and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**NOTE 2. LOANS OUTSTANDING**

The U.S. Department of Housing and Urban Development expenditures passed-through Federal Home Loan Bank listed above consists of a loan outstanding at June 30, 2013.

The Community Development Block Grants/Entitlement Grants expenditures listed above includes a loan balance outstanding of \$300,000 at June 30, 2013.



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21 East Main Street, Westborough, MA 01581-1461 (508) 366-9100  
Boston, MA (617) 205-9100 Wellesley, MA (781) 965-9100  
www.aafcpa.com FAX (508) 366-9789 info@aafcpa.com

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Second Step, Inc. (TSS), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 6, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered TSS's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of TSS's internal control. Accordingly, we do not express an opinion on the effectiveness of TSS's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of TSS's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

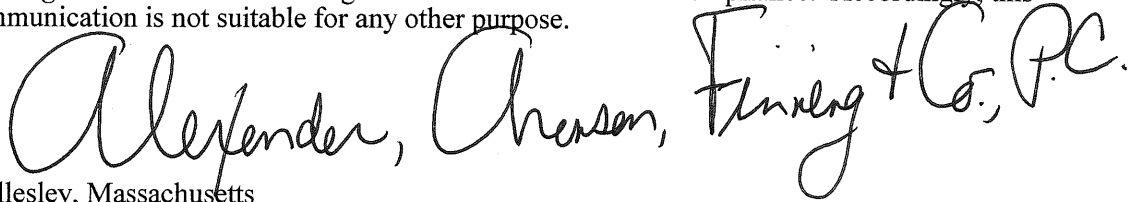
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether TSS's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of TSS's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TSS's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Alexander, Aherson, Finley & Co., P.C." The signature is written in a cursive, flowing style.

Wellesley, Massachusetts  
November 6, 2013

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133**

Independent Auditor's Report

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

**Report on Compliance for Each Major Federal Program**

We have audited The Second Step, Inc.'s (TSS) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on TSS's major Federal program for the year ended June 30, 2013. TSS's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its Federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for TSS's major Federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about TSS's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major Federal program. However, our audit does not provide a legal determination of TSS's compliance.

**Opinion on Each Major Federal Program**

In our opinion, TSS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended June 30, 2013.

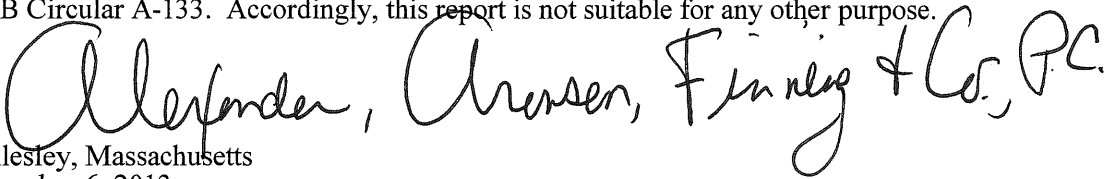
### Report on Internal Control Over Compliance

Management of TSS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered TSS's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of TSS's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

  
Wellesley, Massachusetts  
November 6, 2013

**THE SECOND STEP, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2013**

**I. SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements*

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?               Yes          X   No

Significant deficiency(ies) identified?           Yes          X   None reported

Noncompliance material to financial  
statements noted?                                       Yes          X   No

*Federal Awards*

Internal control over major programs:

Material weakness(es) identified?               Yes          X   No

Significant deficiency(ies) identified?           Yes          X   None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are  
required to be reported in accordance with  
section 510(a) of OMB Circular A-133?           Yes          X   No

Identification of major programs:

<u>Program or Cluster Title</u>	<u>Federal CFDA Number</u>
Community Development Block Grants/Entitlement Grants	14.218

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?      X   Yes               No

**THE SECOND STEP, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2013  
(Continued)**

**II. FINANCIAL STATEMENT FINDINGS**

None

**III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None