



**FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

THE SECOND STEP, INC.

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JUNE 30, 2014 AND 2013**

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& BUSINESS ADVISORS

Where Every Client Is A Valued Client

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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) which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Alexander, Aronson, Finning & Co., P.C.

Wellesley, Massachusetts
November 5, 2014

THE SECOND STEP, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

ASSETS	2014				2013			
	UNRESTRICTED		TEMPORARILY RESTRICTED	TOTAL	UNRESTRICTED		TEMPORARILY RESTRICTED	TOTAL
	OPERATING	PROPERTY AND EQUIPMENT			OPERATING	PROPERTY AND EQUIPMENT		
CURRENT ASSETS:								
Cash and cash equivalents	\$ 744,306	\$ -	\$ 24,418	\$ 768,724	\$ 225,169	\$ -	\$ 54,663	\$ 279,832
Restricted certificate of deposit	-	-	51,144	51,144	-	-	50,643	50,643
Restricted cash	-	-	256,173	256,173	-	-	275,424	275,424
Accounts receivable	116,280	-	-	116,280	84,856	-	-	84,856
Current portion of pledges receivable	-	-	114,775	114,775	6,550	-	97,000	103,550
Prepaid expenses and deposit	20,137	-	-	20,137	18,044	-	-	18,044
Total current assets	880,723	-	446,510	1,327,233	334,619	-	477,730	812,349
CERTIFICATE OF DEPOSIT	50,000	-	-	50,000	-	-	-	-
PLEDGES RECEIVABLE , net of current portion	-	-	40,225	40,225	-	-	75,000	75,000
INVESTMENTS	-	-	-	-	493,184	-	-	493,184
PROPERTY AND EQUIPMENT , net	-	1,756,546	-	1,756,546	-	1,803,570	-	1,803,570
Total assets	\$ 930,723	\$ 1,756,546	\$ 486,735	\$ 3,174,004	\$ 827,803	\$ 1,803,570	\$ 552,730	\$ 3,184,103
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES:								
Accounts payable	\$ 33,593	\$ -	\$ -	\$ 33,593	\$ 29,647	\$ -	\$ -	\$ 29,647
Accrued expenses	39,419	-	-	39,419	35,861	-	-	35,861
Total current liabilities	73,012	-	-	73,012	65,508	-	-	65,508
CONTINGENT LOANS	-	1,280,000	-	1,280,000	-	1,280,000	-	1,280,000
Total liabilities	73,012	1,280,000	-	1,353,012	65,508	1,280,000	-	1,345,508
NET ASSETS:								
Unrestricted:								
Operating	275,810	-	-	275,810	200,948	-	-	200,948
Property and equipment	-	476,546	-	476,546	-	523,570	-	523,570
Board designated:								
Opportunity fund	32,094	-	-	32,094	32,080	-	-	32,080
Operating reserve	355,359	-	-	355,359	40,380	-	-	40,380
Capital asset reserve	56,123	-	-	56,123	154,367	-	-	154,367
Program reserve	138,325	-	-	138,325	334,520	-	-	334,520
Total unrestricted	857,711	476,546	-	1,334,257	762,295	523,570	-	1,285,865
Temporarily restricted:								
Donor restricted	-	-	179,418	179,418	-	-	226,663	226,663
Ailene R. Giglio Fund	-	-	307,317	307,317	-	-	326,067	326,067
Total temporarily restricted	-	-	486,735	486,735	-	-	552,730	552,730
Total net assets	857,711	476,546	486,735	1,820,992	762,295	523,570	552,730	1,838,595
Total liabilities and net assets	\$ 930,723	\$ 1,756,546	\$ 486,735	\$ 3,174,004	\$ 827,803	\$ 1,803,570	\$ 552,730	\$ 3,184,103

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, 2014 AND 2013

	2014					2013				
	UNRESTRICTED					UNRESTRICTED				
	OPERATING	PROPERTY AND EQUIPMENT	TOTAL UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	OPERATING	PROPERTY AND EQUIPMENT	TOTAL UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
OPERATING REVENUES AND SUPPORT:										
Contracts	\$ 745,059	\$ -	\$ 745,059	\$ -	\$ 745,059	\$ 693,038	\$ -	\$ 693,038	\$ -	\$ 693,038
Gifts, grants and contributions	392,213	-	392,213	115,278	507,491	335,692	-	335,692	75,359	411,051
Special events	418,155	-	418,155	-	418,155	315,877	-	315,877	-	315,877
Donated goods and services	24,877	-	24,877	-	24,877	18,945	-	18,945	-	18,945
Program fees	9,843	-	9,843	-	9,843	9,614	-	9,614	-	9,614
Investment and other income	6,691	-	6,691	1,170	7,861	17,301	-	17,301	1,315	18,616
Net assets released from restrictions	182,443	-	182,443	(182,443)	-	202,370	-	202,370	(202,370)	-
Total operating revenues and support	1,779,281	-	1,779,281	(65,995)	1,713,286	1,592,837	-	1,592,837	(125,696)	1,467,141
OPERATING EXPENSES:										
Program services:										
Residential	568,756	61,844	630,600	-	630,600	661,463	60,835	722,298	-	722,298
Children's Services	165,934	1,616	167,550	-	167,550	180,112	2,661	182,773	-	182,773
Community Programs	349,777	-	349,777	-	349,777	326,973	-	326,973	-	326,973
Outreach and Education	72,620	-	72,620	-	72,620	50,624	-	50,624	-	50,624
Total program services	1,157,087	63,460	1,220,547	-	1,220,547	1,219,172	63,496	1,282,668	-	1,282,668
Supporting services:										
General and Administrative	208,551	552	209,103	-	209,103	282,364	556	282,920	-	282,920
Institutional Advancement	310,086	-	310,086	-	310,086	310,859	-	310,859	-	310,859
Total supporting services	518,637	552	519,189	-	519,189	593,223	556	593,779	-	593,779
Total operating expenses	1,675,724	64,012	1,739,736	-	1,739,736	1,812,395	64,052	1,876,447	-	1,876,447
Changes in net assets from operations	103,557	(64,012)	39,545	(65,995)	(26,450)	(219,558)	(64,052)	(283,610)	(125,696)	(409,306)
NON-OPERATING REVENUES (EXPENSES):										
Donated property and equipment	-	6,723	6,723	-	6,723	-	-	-	-	-
Net unrealized and realized gains (losses) on investments	2,124	-	2,124	-	2,124	(25,856)	-	(25,856)	-	(25,856)
Forgiveness of contingent loan	-	-	-	-	-	-	2,236	2,236	-	2,236
Net assets released from capital restrictions	-	-	-	-	-	-	30,937	30,937	(30,937)	-
Total non-operating revenues (expenses)	2,124	6,723	8,847	-	8,847	(25,856)	33,173	7,317	(30,937)	(23,620)
Changes in net assets	105,681	(57,289)	48,392	(65,995)	(17,603)	(245,414)	(30,879)	(276,293)	(156,633)	(432,926)
NET ASSETS, beginning of year	762,295	523,570	1,285,865	552,730	1,838,595	1,007,709	554,449	1,562,158	709,363	2,271,521
Transfers	(10,265)	10,265	-	-	-	-	-	-	-	-
NET ASSETS, end of year	<u>\$ 857,711</u>	<u>\$ 476,546</u>	<u>\$ 1,334,257</u>	<u>\$ 486,735</u>	<u>\$ 1,820,992</u>	<u>\$ 762,295</u>	<u>\$ 523,570</u>	<u>\$ 1,285,865</u>	<u>\$ 552,730</u>	<u>\$ 1,838,595</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, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (17,603)	\$ (432,926)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	64,012	64,052
Reinvested investment income	(3,835)	(16,812)
Donated property and equipment	(6,723)	-
Realized and unrealized (gain) loss on investments	(2,124)	25,856
Forgiveness of contingent loan	-	(2,236)
Donated stock	-	(1,000)
Changes in operating assets and liabilities:		
Accounts receivable	(31,424)	(21,851)
Pledges receivable	23,550	100,450
Prepaid expenses and deposit	(2,093)	3,586
Accounts payable	3,946	(21,803)
Accrued expenses	3,558	(10,938)
Deferred revenue	-	(7,988)
	<u>31,264</u>	<u>(321,610)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in restricted cash	19,251	(27,934)
Redemptions (purchases) of certificates of deposit, including accrued interest	(50,501)	49,512
Purchase of property and equipment	(10,265)	(30,937)
Proceeds from sale of investments	499,143	-
	<u>457,628</u>	<u>(9,359)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	488,892	(330,969)
CASH AND CASH EQUIVALENTS, beginning of year	<u>279,832</u>	<u>610,801</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 768,724</u>	<u>\$ 279,832</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:		
Donated property and equipment	<u>\$ 6,723</u>	<u>\$ -</u>
Unrealized gains (losses)	<u>\$ 8,083</u>	<u>\$ (25,856)</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, 2014
(With Summarized Comparative Totals for the Year Ended June 30, 2013)

	2014					2013			
	PROGRAM SERVICES				SUPPORTING SERVICES				
	RESIDENTIAL	CHILDREN'S SERVICES	COMMUNITY PROGRAMS	OUTREACH AND EDUCATION	TOTAL PROGRAM SERVICES	GENERAL AND ADMINISTRATIVE	INSTITUTIONAL ADVANCEMENT	TOTAL	TOTAL
EXPENSES:									
Salaries and related:									
Salaries	\$ 296,442	\$ 97,779	\$ 200,059	\$ 46,455	\$ 640,735	\$ 107,445	\$ 182,308	\$ 930,488	\$ 1,012,994
Payroll taxes	26,567	8,545	17,507	4,181	56,800	13,408	15,834	86,042	86,934
Employee benefits	15,614	5,734	6,009	-	27,357	10,346	9,736	47,439	78,401
Donated salaries	-	-	-	-	-	9,520	-	9,520	14,800
Total salaries and related	<u>338,623</u>	<u>112,058</u>	<u>223,575</u>	<u>50,636</u>	<u>724,892</u>	<u>140,719</u>	<u>207,878</u>	<u>1,073,489</u>	<u>1,193,129</u>
Program costs:									
Transitional assistance and other program expenses	36,626	16,895	47,639	-	101,160	-	-	101,160	96,642
Vehicle expense	7,652	2,262	331	-	10,245	-	-	10,245	9,803
Total program costs	<u>44,278</u>	<u>19,157</u>	<u>47,970</u>	<u>-</u>	<u>111,405</u>	<u>-</u>	<u>-</u>	<u>111,405</u>	<u>106,445</u>
Occupancy:									
Rent	57,463	9,702	27,855	-	95,020	10,801	18,191	124,012	124,012
Depreciation	61,844	1,616	-	-	63,460	552	-	64,012	64,052
Utilities	49,915	8,317	-	-	58,232	-	-	58,232	49,229
Repairs and maintenance	37,146	6,505	1,142	-	44,793	450	926	46,169	43,780
Donated utilities	3,359	-	-	-	3,359	-	-	3,359	4,145
Total occupancy	<u>209,727</u>	<u>26,140</u>	<u>28,997</u>	<u>-</u>	<u>264,864</u>	<u>11,803</u>	<u>19,117</u>	<u>295,784</u>	<u>285,218</u>
Other costs:									
Professional services	12,948	3,275	21,999	-	38,222	37,225	227	75,674	138,428
Fundraising	-	-	-	13,592	13,592	-	43,848	57,440	51,992
Printing and postage	248	-	843	6,796	7,887	864	24,101	32,852	24,752
Miscellaneous	2,558	271	3,509	1,523	7,861	10,951	5,470	24,282	24,649
Telephone	8,659	1,839	4,818	-	15,316	1,291	2,186	18,793	19,104
Insurance	6,945	2,604	2,508	-	12,057	3,615	2,859	18,531	19,388
Office expenses	5,187	1,538	1,964	73	8,762	2,099	3,787	14,648	11,779
Donated legal services	-	-	11,998	-	11,998	-	-	11,998	-
Training and education	1,402	518	1,526	-	3,446	536	613	4,595	1,353
Advertising	25	150	70	-	245	-	-	245	210
Total other costs	<u>37,972</u>	<u>10,195</u>	<u>49,235</u>	<u>21,984</u>	<u>119,386</u>	<u>56,581</u>	<u>83,091</u>	<u>259,058</u>	<u>291,655</u>
Total operating expenses before general and administrative allocation	630,600	167,550	349,777	72,620	1,220,547	209,103	310,086	1,739,736	1,876,447
General and administrative allocation	<u>86,147</u>	<u>22,889</u>	<u>47,784</u>	<u>9,921</u>	<u>166,741</u>	<u>(209,103)</u>	<u>42,362</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>\$ 716,747</u>	<u>\$ 190,439</u>	<u>\$ 397,561</u>	<u>\$ 82,541</u>	<u>\$ 1,387,288</u>	<u>\$ -</u>	<u>\$ 352,448</u>	<u>\$ 1,739,736</u>	<u>\$ 1,876,447</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, 2013

	PROGRAM SERVICES					SUPPORTING SERVICES		
	RESIDENTIAL	CHILDREN'S SERVICES	COMMUNITY PROGRAMS	OUTREACH AND EDUCATION	TOTAL PROGRAM SERVICES	GENERAL AND ADMINISTRATIVE	INSTITUTIONAL ADVANCEMENT	TOTAL
EXPENSES:								
Salaries and related:								
Salaries	\$ 369,641	\$ 114,046	\$ 202,414	\$ 16,257	\$ 702,358	\$ 122,659	\$ 187,977	\$ 1,012,994
Payroll taxes	30,693	9,801	17,855	1,219	59,568	10,291	17,075	86,934
Employee benefits	26,949	10,200	16,438	1,219	54,806	8,316	15,279	78,401
Donated salaries	14,800	-	-	-	14,800	-	-	14,800
Total salaries and related	<u>442,083</u>	<u>134,047</u>	<u>236,707</u>	<u>18,695</u>	<u>831,532</u>	<u>141,266</u>	<u>220,331</u>	<u>1,193,129</u>
Program costs:								
Transitional assistance and other program expenses	35,148	13,247	38,030	-	86,425	10,217	-	96,642
Vehicle expense	6,479	3,191	133	-	9,803	-	-	9,803
Total program costs	<u>41,627</u>	<u>16,438</u>	<u>38,163</u>	<u>-</u>	<u>96,228</u>	<u>10,217</u>	<u>-</u>	<u>106,445</u>
Occupancy:								
Rent	57,263	9,902	23,274	-	90,439	16,787	16,786	124,012
Depreciation	60,835	2,661	-	-	63,496	556	-	64,052
Utilities	45,906	3,323	-	-	49,229	-	-	49,229
Repairs and maintenance	36,340	4,241	1,037	-	41,618	991	1,171	43,780
Donated utilities	4,145	-	-	-	4,145	-	-	4,145
Total occupancy	<u>204,489</u>	<u>20,127</u>	<u>24,311</u>	<u>-</u>	<u>248,927</u>	<u>18,334</u>	<u>17,957</u>	<u>285,218</u>
Other costs:								
Professional services	10,983	4,892	13,666	-	29,541	95,012	13,875	138,428
Fundraising	-	-	-	15,690	15,690	454	35,848	51,992
Printing and postage	374	39	1,483	16,239	18,135	670	5,947	24,752
Miscellaneous	6,143	711	4,944	-	11,798	8,903	3,948	24,649
Telephone	7,675	1,693	3,943	-	13,311	2,242	3,551	19,104
Insurance	6,520	3,884	2,723	-	13,127	3,399	2,862	19,388
Office expenses	1,802	341	973	-	3,116	2,423	6,240	11,779
Training and education	462	531	60	-	1,053	-	300	1,353
Advertising	140	70	-	-	210	-	-	210
Total other costs	<u>34,099</u>	<u>12,161</u>	<u>27,792</u>	<u>31,929</u>	<u>105,981</u>	<u>113,103</u>	<u>72,571</u>	<u>291,655</u>
Total operating expenses before general and administrative allocation	722,298	182,773	326,973	50,624	1,282,668	282,920	310,859	1,876,447
General and administrative allocation	<u>128,239</u>	<u>32,450</u>	<u>58,052</u>	<u>8,988</u>	<u>227,729</u>	<u>(282,920)</u>	<u>55,191</u>	<u>-</u>
Total operating expenses	<u>\$ 850,537</u>	<u>\$ 215,223</u>	<u>\$ 385,025</u>	<u>\$ 59,612</u>	<u>\$ 1,510,397</u>	<u>\$ -</u>	<u>\$ 366,050</u>	<u>\$ 1,876,447</u>

The accompanying notes are an integral part of these statements.

THE SECOND STEP, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 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 (ASC).

Revenue Recognition

Contract revenue is recorded over the contract period as services are provided. Program fees 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

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, 2014 AND 2013
(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

ASC Topic, *Fair Value Measurements*, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The standards establish a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value.

The three levels of the fair value hierarchy are as follows:

- Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. Instruments which are generally included in this category include equity and debt securities publicly traded on an exchange.
- Level 2 – Inputs other than quoted prices in active markets that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 – Inputs that are unobservable and which require significant judgment or estimation.

An 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 1 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

Certificates of deposit (CD) consist of two certificates of deposit. At June 30, 2014, certificates of deposit mature at various dates through December 3, 2015. At June 30, 2013, certificates of deposit mature on April 3, 2014. The certificates of deposit are classified in the accompanying statements of financial position based upon maturity dates.

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, 2014 AND 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>2014</u>	<u>2013</u>
Contributions and support	\$400,605	\$301,472
Event revenue	\$17,550	\$14,405
Less - direct expenses	<u>17,550</u>	<u>14,405</u>
Fundraising expenses	<u>49,884</u>	<u>44,939</u>
Total special events, net	<u>\$350,721</u>	<u>\$256,533</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.

Donated Goods and Services

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 \$24,877 and \$18,945 for the years ended June 30, 2014 and 2013, respectively, and was for salaries, utilities and legal services.

During fiscal year 2014, TSS purchased a vehicle at a discount of \$6,723 below market value. This amount has been recorded as donated property and equipment in the accompanying statement of activities and changes in net assets for the year ended June 30, 2014.

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, 2014 and 2013, there was no allowance for uncollectible accounts.

THE SECOND STEP, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Funding

TSS received approximately \$435,000 and \$424,000 of its total operating revenues and support from the U.S. Department of Housing and Urban Development (HUD) during the years ended June 30, 2014 and 2013, respectively.

TSS also received approximately \$166,000 and \$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, 2014 and 2013, 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, 2014 and 2013, 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 5, 2014, 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 accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. TSS has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at June 30, 2014 and 2013. TSS's information returns are subject to examination by the Federal and state jurisdictions and generally remain open for the most recent three years.

THE SECOND STEP, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(2) **PLEDGES RECEIVABLE**

Pledges receivable consisted of the following as of June 30:

	<u>2014</u>	<u>2013</u>
Due within one year	\$114,775	\$103,550
Due in two to five years	<u>40,225</u>	<u>75,000</u>
	155,000	178,550
Less - current portion	<u>114,775</u>	<u>103,550</u>
Long-term pledges receivable, net	<u>\$ 40,225</u>	<u>\$ 75,000</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 45% and 85% of the pledges receivable were due from two donors at June 30, 2014 and 2013, 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.

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 fiscal year June 30, 2014, TSS withdrew approximately \$100,000 from the Capital Asset Reserve, which was transferred to the Operating Reserve, and withdrew approximately \$200,000 from the Program Reserve, which was transferred to the Operating Reserve. During fiscal year June 30, 2013, TSS withdrew approximately \$265,000 from the Operating Reserve, which was transferred to operating net assets.

THE SECOND STEP, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

(3) NET ASSETS (Continued)

Temporarily Restricted Net Assets

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

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

	<u>2014</u>	<u>2013</u>
Ailene R. Giglio Fund	\$307,317	\$326,067
Purpose	94,418	54,663
Time	<u>85,000</u>	<u>172,000</u>
	<u>\$486,735</u>	<u>\$552,730</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. The Fund is included in restricted cash and restricted certificate of deposit in the accompanying statements of financial position as of June 30, 2014 and 2013.

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) PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Land	\$ 130,000	\$ 130,000
Building and building improvements	2,220,047	2,220,047
Leasehold improvements	532,082	532,082
Furniture and fixtures	181,297	181,297
Vehicles	51,071	58,302
Office equipment	<u>48,897</u>	<u>48,897</u>
	3,163,394	3,170,625
Less - accumulated depreciation	<u>1,406,848</u>	<u>1,367,055</u>
Net property and equipment	<u>\$1,756,546</u>	<u>\$1,803,570</u>

Property and equipment are pledged as security for the contingent loans described in Note 7.

THE SECOND STEP, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

(Continued)

(5) INVESTMENTS

During fiscal year 2014, the Board of Directors voted to liquidate the investments and transfer the proceeds to money market and cash accounts. The fair value of the money market and cash accounts is \$531,990 at June 30, 2014, which is included in cash and cash equivalents on the accompanying statement of financial position. During fiscal year 2014, TSS has an unrealized gain of \$8,083 and net realized losses of \$(5,959).

	<u>2013</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</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 gain on investments				<u>\$(25,856)</u>

Investments were not insured and are subject to ongoing market fluctuations. Investments were 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, 2016. The monthly rent was \$4,737 at June 30, 2014 and 2013. 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, 2014 and 2013.

Rent expense was \$124,012 for the years ended June 30, 2014 and 2013.

Remaining future minimum lease payments are as follows:

2015	\$124,013
2016	\$119,276

THE SECOND STEP, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 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, 2014 and 2013. 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, 2014. 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.
- Effective April 28, 2014, the City of Newton has provided TSS with a loan in the amount of \$39,085 for de-leading and for performing all lead inspections on one of TSS's program residence. TSS is required to maintain the program residence as housing for income eligible households. The deferred payment loan is due upon sale or transfer of its program residence. As of June 30, 2014, there were no amounts drawn down on this balance as the de-leading project was not started until subsequent to year-end.

THE SECOND STEP, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 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, 2014 and 2013.

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 \$262,500 and \$241,000 as of June 30, 2014 and 2013, respectively.

The outstanding balances of the contingent loans at June 30, 2014 and 2013, are as follows:

CEDAC	\$ 500,000
DHCD	400,000
NCDA	300,000
FHLB	<u>80,000</u>
	<u>\$1,280,000</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 2014 or 2013.

(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 to 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) RECLASSIFICATION

Certain amounts in the fiscal year 2013 financial statements have been reclassified to conform with the fiscal year 2014 presentation.