



**FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

THE SECOND STEP, INC.

Contents
June 30, 2015 and 2014

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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, 2015 and 2014, 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, 2015 and 2014, 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, Brown, Penning & Co., P.C.

Wellesley, Massachusetts
November 4, 2015

THE SECOND STEP, INC.

Statements of Financial Position
June 30, 2015 and 2014

Assets	2015				2014			
	Unrestricted		Temporarily Restricted	Total	Unrestricted		Temporarily Restricted	Total
	Operating	Property and Equipment			Operating	Property and Equipment		
Current Assets:								
Cash and cash equivalents	\$ 820,392	\$ -	\$ 106,648	\$ 927,040	\$ 744,306	\$ -	\$ 24,418	\$ 768,724
Restricted certificate of deposit	-	-	51,375	51,375	-	-	51,144	51,144
Restricted cash	-	-	256,817	256,817	-	-	256,173	256,173
Current portion of certificates of deposit	100,468	-	-	100,468	-	-	-	-
Accounts receivable	80,552	-	-	80,552	116,280	-	-	116,280
Current portion of pledges receivable	8,130	-	223,258	231,388	-	-	114,775	114,775
Prepaid expenses and deposit	23,348	-	-	23,348	20,137	-	-	20,137
Total current assets	1,032,890	-	638,098	1,670,988	880,723	-	446,510	1,327,233
Certificates of Deposit, net of current portion	-	-	-	-	50,000	-	-	50,000
Pledges Receivable, net of current portion and allowance	-	-	215,834	215,834	-	-	40,225	40,225
Property and Equipment, net	-	1,730,937	-	1,730,937	-	1,756,546	-	1,756,546
Total assets	\$ 1,032,890	\$ 1,730,937	\$ 853,932	\$ 3,617,759	\$ 930,723	\$ 1,756,546	\$ 486,735	\$ 3,174,004
Liabilities and Net Assets								
Current Liabilities:								
Accounts payable	\$ 28,339	\$ -	\$ -	\$ 28,339	\$ 33,593	\$ -	\$ -	\$ 33,593
Accrued expenses	50,077	-	-	50,077	39,419	-	-	39,419
Total current liabilities	78,416	-	-	78,416	73,012	-	-	73,012
Contingent Loans	-	1,301,850	-	1,301,850	-	1,280,000	-	1,280,000
Total liabilities	78,416	1,301,850	-	1,380,266	73,012	1,280,000	-	1,353,012
Net Assets:								
Unrestricted:								
Operating	230,856	-	-	230,856	275,810	-	-	275,810
Property and equipment	-	429,087	-	429,087	-	476,546	-	476,546
Board designated:								
Opportunity fund	32,094	-	-	32,094	32,094	-	-	32,094
Operating reserve	497,076	-	-	497,076	355,359	-	-	355,359
Capital asset reserve	56,123	-	-	56,123	56,123	-	-	56,123
Program reserve	138,325	-	-	138,325	138,325	-	-	138,325
Total unrestricted	954,474	429,087	-	1,383,561	857,711	476,546	-	1,334,257
Temporarily restricted:								
Donor restricted	-	-	545,740	545,740	-	-	179,418	179,418
Ailene R. Giglio Fund	-	-	308,192	308,192	-	-	307,317	307,317
Total temporarily restricted	-	-	853,932	853,932	-	-	486,735	486,735
Total net assets	954,474	429,087	853,932	2,237,493	857,711	476,546	486,735	1,820,992
Total liabilities and net assets	\$ 1,032,890	\$ 1,730,937	\$ 853,932	\$ 3,617,759	\$ 930,723	\$ 1,756,546	\$ 486,735	\$ 3,174,004

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, 2015 and 2014

	2015					2014				
	Unrestricted		Total Unrestricted	Temporarily Restricted	Total	Unrestricted		Total Unrestricted	Temporarily Restricted	Total
	Operating	Property and Equipment				Operating	Property and Equipment			
Operating Revenues and Support:										
Gifts, grants and contributions	\$ 438,319	\$ -	\$ 438,319	\$ 556,834	\$ 995,153	\$ 392,213	\$ -	\$ 392,213	\$ 115,278	\$ 507,491
Contracts	748,856	-	748,856	-	748,856	745,059	-	745,059	-	745,059
Special events	453,608	-	453,608	-	453,608	418,155	-	418,155	-	418,155
Donated goods and services	24,591	-	24,591	-	24,591	24,877	-	24,877	-	24,877
Investment and other income	22,280	-	22,280	875	23,155	6,691	-	6,691	1,170	7,861
Program fees	8,274	-	8,274	-	8,274	9,843	-	9,843	-	9,843
Net assets released from restrictions	190,512	-	190,512	(190,512)	-	182,443	-	182,443	(182,443)	-
Total operating revenues and support	1,886,440	-	1,886,440	367,197	2,253,637	1,779,281	-	1,779,281	(65,995)	1,713,286
Operating Expenses:										
Program services:										
Residential	556,997	62,302	619,299	-	619,299	568,756	61,844	630,600	-	630,600
Children's Services	182,615	836	183,451	-	183,451	165,934	1,616	167,550	-	167,550
Community Programs	431,783	-	431,783	-	431,783	349,777	-	349,777	-	349,777
Outreach and Education	87,090	-	87,090	-	87,090	72,620	-	72,620	-	72,620
Total program services	1,258,485	63,138	1,321,623	-	1,321,623	1,157,087	63,460	1,220,547	-	1,220,547
Supporting services:										
General and Administrative	191,179	556	191,735	-	191,735	208,551	552	209,103	-	209,103
Institutional Advancement	320,013	-	320,013	-	320,013	310,086	-	310,086	-	310,086
Total supporting services	511,192	556	511,748	-	511,748	518,637	552	519,189	-	519,189
Total operating expenses	1,769,677	63,694	1,833,371	-	1,833,371	1,675,724	64,012	1,739,736	-	1,739,736
Changes in net assets from operations	116,763	(63,694)	53,069	367,197	420,266	103,557	(64,012)	39,545	(65,995)	(26,450)
Non-Operating Revenues:										
Donated property and equipment	-	16,235	16,235	-	16,235	-	6,723	6,723	-	6,723
Write off of uncollectible pledge	(20,000)	-	(20,000)	-	(20,000)	-	-	-	-	-
Net unrealized and realized gains on investments	-	-	-	-	-	2,124	-	2,124	-	2,124
Total non-operating revenues	(20,000)	16,235	(3,765)	-	(3,765)	2,124	6,723	8,847	-	8,847
Changes in net assets	96,763	(47,459)	49,304	367,197	416,501	105,681	(57,289)	48,392	(65,995)	(17,603)
Net Assets, beginning of year	857,711	476,546	1,334,257	486,735	1,820,992	762,295	523,570	1,285,865	552,730	1,838,595
Transfers	-	-	-	-	-	(10,265)	10,265	-	-	-
Net Assets, end of year	\$ 954,474	\$ 429,087	\$ 1,383,561	\$ 853,932	\$ 2,237,493	\$ 857,711	\$ 476,546	\$ 1,334,257	\$ 486,735	\$ 1,820,992

The accompanying notes are an integral part of these statements.

THE SECOND STEP, INC.Statements of Cash Flows
For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 416,501	\$ (17,603)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	63,694	64,012
Write off of uncollectible pledge	20,000	-
Donated property and equipment	(16,235)	(6,723)
Reinvested investment income	-	(3,835)
Realized and unrealized gain on investments	-	(2,124)
Changes in operating assets and liabilities:		
Accounts receivable	35,728	(31,424)
Pledges receivable	(312,222)	23,550
Prepaid expenses and deposit	(3,211)	(2,093)
Accounts payable	(5,254)	3,946
Accrued expenses	10,658	3,558
	<u>209,659</u>	<u>31,264</u>
Cash Flows from Investing Activities:		
(Increase) decrease in restricted cash	(644)	19,251
Purchases of certificates of deposit, including accrued interest	(50,699)	(50,501)
Purchase of property and equipment	(21,850)	(10,265)
Proceeds from sale of investments	-	499,143
	<u>(73,193)</u>	<u>457,628</u>
Cash Flows from Financing Activities:		
Proceeds from contingent loans	21,850	-
Net Change in Cash and Cash Equivalents	<u>158,316</u>	<u>488,892</u>
Cash and Cash Equivalents:		
Beginning of year	<u>768,724</u>	<u>279,832</u>
End of year	<u>\$ 927,040</u>	<u>\$ 768,724</u>
Supplemental Disclosure of Non-Cash Transactions:		
Donated property and equipment	<u>\$ 16,235</u>	<u>\$ 6,723</u>
Unrealized gains	<u>\$ -</u>	<u>\$ 8,083</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, 2015

(With Summarized Comparative Totals for the Year Ended June 30, 2014)

	2015							2014	
	Program Services				Supporting Services			Total	Total
	Residential	Children's Services	Community Programs	Outreach and Education	Total Program Services	General and Administrative	Institutional Advancement		
Expenses:									
Salaries and related:									
Salaries	\$ 287,730	\$ 106,125	\$ 258,380	\$ 47,799	\$ 700,034	\$ 105,828	\$ 159,223	\$ 965,085	\$ 930,488
Payroll taxes	25,310	9,364	22,591	-	57,265	10,097	17,499	84,861	86,042
Employee benefits	17,457	6,572	9,078	-	33,107	10,596	13,709	57,412	47,439
Donated salaries	-	-	-	-	-	11,920	-	11,920	9,520
Total salaries and related	<u>330,497</u>	<u>122,061</u>	<u>290,049</u>	<u>47,799</u>	<u>790,406</u>	<u>138,441</u>	<u>190,431</u>	<u>1,119,278</u>	<u>1,073,489</u>
Program costs:									
Transitional assistance and other program expenses	38,172	27,318	49,416	-	114,906	-	-	114,906	101,160
Vehicle expense	9,903	1,284	1,179	-	12,366	-	-	12,366	10,245
Total program costs	<u>48,075</u>	<u>28,602</u>	<u>50,595</u>	<u>-</u>	<u>127,272</u>	<u>-</u>	<u>-</u>	<u>127,272</u>	<u>111,405</u>
Occupancy:									
Rent	57,562	9,602	27,855	-	95,019	10,801	18,192	124,012	124,012
Depreciation	62,302	836	-	-	63,138	556	-	63,694	64,012
Utilities	47,766	7,721	-	-	55,487	-	-	55,487	58,232
Repairs and maintenance	33,374	4,274	1,112	-	38,760	429	906	40,095	46,169
Donated utilities	3,371	-	-	-	3,371	-	-	3,371	3,359
Total occupancy	<u>204,375</u>	<u>22,433</u>	<u>28,967</u>	<u>-</u>	<u>255,775</u>	<u>11,786</u>	<u>19,098</u>	<u>286,659</u>	<u>295,784</u>
Other costs:									
Fundraising	-	-	-	21,206	21,206	-	67,675	88,881	57,440
Professional services	12,222	3,710	35,538	-	51,470	24,967	5,936	82,373	75,674
Printing and postage	386	51	1,116	17,258	18,811	720	13,855	33,386	32,852
Miscellaneous	2,575	317	4,792	757	8,441	5,071	14,403	27,915	24,282
Insurance	7,915	2,764	2,843	-	13,522	3,473	3,039	20,034	18,531
Telephone	7,681	1,446	4,578	-	13,705	1,306	2,201	17,212	18,793
Office expenses	4,838	1,862	1,796	70	8,566	2,666	3,275	14,507	14,648
Donated legal services	-	-	9,300	-	9,300	-	-	9,300	11,998
Training and education	655	75	2,129	-	2,859	3,225	-	6,084	4,595
Advertising	80	130	80	-	290	80	100	470	245
Total other costs	<u>36,352</u>	<u>10,355</u>	<u>62,172</u>	<u>39,291</u>	<u>148,170</u>	<u>41,508</u>	<u>110,484</u>	<u>300,162</u>	<u>259,058</u>
Total operating expenses before general and administrative allocation	619,299	183,451	431,783	87,090	1,321,623	191,735	320,013	1,833,371	1,739,736
General and administrative allocation	<u>72,331</u>	<u>21,426</u>	<u>50,430</u>	<u>10,172</u>	<u>154,359</u>	<u>(191,735)</u>	<u>37,376</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>\$ 691,630</u>	<u>\$ 204,877</u>	<u>\$ 482,213</u>	<u>\$ 97,262</u>	<u>\$ 1,475,982</u>	<u>\$ -</u>	<u>\$ 357,389</u>	<u>\$ 1,833,371</u>	<u>\$ 1,739,736</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

	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	\$ 296,442	\$ 97,779	\$ 200,059	\$ 46,455	\$ 640,735	\$ 107,445	\$ 182,308	\$ 930,488
Payroll taxes	26,567	8,545	17,507	4,181	56,800	13,408	15,834	86,042
Employee benefits	15,614	5,734	6,009	-	27,357	10,346	9,736	47,439
Donated salaries	-	-	-	-	-	9,520	-	9,520
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>
Program costs:								
Transitional assistance and other program expenses	36,626	16,895	47,639	-	101,160	-	-	101,160
Vehicle expense	7,652	2,262	331	-	10,245	-	-	10,245
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>
Occupancy:								
Rent	57,463	9,702	27,855	-	95,020	10,801	18,191	124,012
Depreciation	61,844	1,616	-	-	63,460	552	-	64,012
Utilities	49,915	8,317	-	-	58,232	-	-	58,232
Repairs and maintenance	37,146	6,505	1,142	-	44,793	450	926	46,169
Donated utilities	3,359	-	-	-	3,359	-	-	3,359
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>
Other costs:								
Fundraising	-	-	-	13,592	13,592	-	43,848	57,440
Professional services	12,948	3,275	21,999	-	38,222	37,225	227	75,674
Printing and postage	248	-	843	6,796	7,887	864	24,101	32,852
Miscellaneous	2,558	271	3,509	1,523	7,861	10,951	5,470	24,282
Insurance	6,945	2,604	2,508	-	12,057	3,615	2,859	18,531
Telephone	8,659	1,839	4,818	-	15,316	1,291	2,186	18,793
Office expenses	5,187	1,538	1,964	73	8,762	2,099	3,787	14,648
Donated legal services	-	-	11,998	-	11,998	-	-	11,998
Training and education	1,402	518	1,526	-	3,446	536	613	4,595
Advertising	25	150	70	-	245	-	-	245
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>
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
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>
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>

The accompanying notes are an integral part of these statements.

THE SECOND STEP, INC.

Notes to Financial Statements
June 30, 2015 and 2014

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 notes 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, 2015 and 2014

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

TSS follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that TSS would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

TSS uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of TSS. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels 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. All qualifying assets and liabilities are valued using Level 1 inputs.

Cash and Cash Equivalents

Cash and cash equivalents consist of checking, savings and money market accounts. For the purpose of the statements of cash flows, management considers all highly liquid cash equivalents with an initial maturity of three months or less and no restrictions to be cash and cash equivalents.

Certificates of Deposit

Certificates of deposit (CDs) consist of three and two certificates of deposit as of June 30, 2015 and 2014, respectively. At June 30, 2015, CDs mature at various dates through April 3, 2016. At June 30, 2014, CDs mature at various dates through December 3, 2015. The certificates of deposit are classified in the accompanying statements of financial position based upon maturity dates.

THE SECOND STEP, INC.

Notes to Financial Statements
June 30, 2015 and 2014

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>2015</u>	<u>2014</u>
Contributions and support	\$ 433,914	\$ 400,605
Event revenue	<u>19,694</u>	<u>17,550</u>
Total revenue	453,608	418,155
Direct expenses	19,694	17,550
Fundraising expenses	<u>64,456</u>	<u>49,884</u>
Total expenses	<u>84,150</u>	<u>67,434</u>
Total special events, net	<u>\$ 369,458</u>	<u>\$ 350,721</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 \$24,591 and \$24,877 for the years ended June 30, 2015 and 2014, respectively, and was for salaries, utilities and legal services.

During fiscal year 2015, TSS received donated de-leading work of \$16,235 to one of the buildings. During fiscal year 2014, TSS purchased a vehicle at a discount of \$6,723 below market value. These amounts have been recorded as donated property and equipment in the accompanying statements of activities and changes in net assets for the years ended June 30, 2015 and 2014.

TSS receives a significant amount of other volunteer services 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, 2015, there was a \$20,000 allowance for an uncollectible account. As of June 30, 2014, there was no allowance for uncollectible accounts.

THE SECOND STEP, INC.

Notes to Financial Statements
June 30, 2015 and 2014

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Funding

TSS received approximately \$453,000 and \$435,000 of its operating revenues and support from the U.S. Department of Housing and Urban Development (HUD) during the years ended June 30, 2015 and 2014, respectively.

TSS also received approximately \$145,000 and \$166,000 of its operating revenues and support from the Commonwealth of Massachusetts, Department of Children and Families during the years ended June 30, 2015 and 2014, 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, 2015 and 2014, 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 4, 2015 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, 2015 and 2014. TSS's information returns are subject to examination by the Federal and state jurisdictions and generally remain open for the most recent three years.

2. PLEDGES RECEIVABLE

Pledges receivable consisted of the following as of June 30:

	<u>2015</u>	<u>2014</u>
Due within one year	\$ 231,388	\$ 114,775
Due in one to five years	<u>235,834</u>	<u>40,225</u>
	467,222	155,000
Less - allowance for uncollectible accounts	<u>20,000</u>	-
	447,222	155,000
Less - current portion	<u>231,388</u>	<u>114,775</u>
	\$ 215,834	\$ 40,225
Long-term pledges receivable, net	<u>\$ 215,834</u>	<u>\$ 40,225</u>

THE SECOND STEP, INC.

Notes to Financial Statements
June 30, 2015 and 2014

2. PLEDGES RECEIVABLE (Continued)

The pledges due beyond one year have been discounted to present value. The amount of discount is immaterial to the accompanying financial statements for the years ended June 30, 2015 and 2014, and has not been recorded.

Approximately 68% and 45% of the pledges receivable were due from two donors at June 30, 2015 and 2014, 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, 2015, TSS withdrew \$50,000 from the operating reserve, which was used to purchase a certificate of deposit. 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.

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.

THE SECOND STEP, INC.

Notes to Financial Statements
June 30, 2015 and 2014

3. NET ASSETS (Continued)

Temporarily Restricted Net Assets (Continued)

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

	<u>2015</u>	<u>2014</u>
Time	\$ 319,329	\$ 85,000
Ailene R. Giglio Fund	308,192	307,317
Purpose	<u>226,411</u>	<u>94,418</u>
	<u>\$ 853,932</u>	<u>\$ 486,735</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, 2015 and 2014.

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. During fiscal year 2015, no amounts were withdrawn from the Fund. During fiscal year 2014, approximately \$20,000 was withdrawn from the Fund.

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Land	\$ 130,000	\$ 130,000
Building and building improvements	2,258,397	2,220,312
Leasehold improvements	532,082	532,082
Furniture and fixtures	181,297	181,297
Vehicles	50,806	50,806
Office equipment	<u>48,897</u>	<u>48,897</u>
	3,201,479	3,163,394
Less - accumulated depreciation	<u>1,470,542</u>	<u>1,406,848</u>
Net property and equipment	<u>\$ 1,730,937</u>	<u>\$ 1,756,546</u>

Property and equipment are pledged as security for the contingent loans described in Note 6.

THE SECOND STEP, INC.

Notes to Financial Statements
June 30, 2015 and 2014

5. LEASES

TSS leases its administrative space under an agreement that expires on May 31, 2016. The monthly rent was \$4,737 at June 30, 2015 and 2014. 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, 2015 and 2014.

Rent expense was \$124,012 for the years ended June 30, 2015 and 2014. Remaining future minimum lease payments for fiscal year 2016 are \$119,271.

6. 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, 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, 2015 and 2014. 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, 2015. 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 SECOND STEP, INC.

Notes to Financial Statements
June 30, 2015 and 2014

6. CONTINGENT LOANS (Continued)

- 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 the obligation at any time, the total amount of principal and interest, as determined at the bank's discretion, becomes due on demand.
- NCDA has provided TSS with a loan in the amount of \$21,850 for de-leading and for performing all lead inspections on one of TSS's program residences. TSS is required to maintain the program residence as housing for income eligible households. This loan does not bear interest and is due upon sale or transfer of the program residence. This loan is secured by a mortgage on the program residence.

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, 2015 and 2014.

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 \$283,500 and \$262,500 as of June 30, 2015 and 2014, respectively.

The outstanding balances of the contingent loans are as follows at June 30:

	<u>2015</u>	<u>2014</u>
CEDAC	\$ 500,000	\$ 500,000
DHCD	400,000	400,000
NCDA	321,850	300,000
FHLB	<u>80,000</u>	<u>80,000</u>
	<u>\$ 1,301,850</u>	<u>\$ 1,280,000</u>

7. 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 2015 or 2014.

8. CONCENTRATION OF CREDIT RISK

TSS maintains its cash and CD 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 and CD 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.

9. RECLASSIFICATION

Certain amounts in the fiscal year 2014 financial statements have been reclassified to conform with the fiscal year 2015 presentation.