



**FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**THE SECOND STEP, INC.**

Contents  
June 30, 2016 and 2015

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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, 2016 and 2015, 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, 2016 and 2015, 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, Fenning & Co., P.C.*

Wellesley, Massachusetts  
November 9, 2016

**THE SECOND STEP, INC.**

Statements of Financial Position  
June 30, 2016 and 2015

Assets	2016				2015			
	Unrestricted		Temporarily Restricted	Total	Unrestricted		Temporarily Restricted	Total
	Operating	Property and Equipment			Operating	Property and Equipment		
Current Assets:								
Cash and cash equivalents	\$ 785,210	\$ -	\$ 81,488	\$ 866,698	\$ 820,392	\$ -	\$ 106,648	\$ 927,040
Restricted cash	-	-	222,279	222,279	-	-	256,817	256,817
Current portion of certificates of deposit	101,053	-	51,598	152,651	100,468	-	51,375	151,843
Accounts receivable	108,591	-	-	108,591	80,552	-	-	80,552
Current portion of pledges receivable	20,000	-	198,759	218,759	8,130	-	223,258	231,388
Prepaid expenses and deposit	34,558	-	-	34,558	23,348	-	-	23,348
Total current assets	<u>1,049,412</u>	<u>-</u>	<u>554,124</u>	<u>1,603,536</u>	<u>1,032,890</u>	<u>-</u>	<u>638,098</u>	<u>1,670,988</u>
Certificates of Deposit, net of current portion	50,336	-	-	50,336	-	-	-	-
Pledges Receivable, net of current portion and allowance	-	-	85,000	85,000	-	-	215,834	215,834
Property and Equipment, net	-	1,671,008	-	1,671,008	-	1,730,937	-	1,730,937
Total assets	<u>\$ 1,099,748</u>	<u>\$ 1,671,008</u>	<u>\$ 639,124</u>	<u>\$ 3,409,880</u>	<u>\$ 1,032,890</u>	<u>\$ 1,730,937</u>	<u>\$ 853,932</u>	<u>\$ 3,617,759</u>
<b>Liabilities and Net Assets</b>								
Current Liabilities:								
Accounts payable	\$ 24,879	\$ -	\$ -	\$ 24,879	\$ 28,339	\$ -	\$ -	\$ 28,339
Accrued expenses	63,787	-	-	63,787	50,077	-	-	50,077
Deferred revenue	25,500	-	-	25,500	-	-	-	-
Total current liabilities	<u>114,166</u>	<u>-</u>	<u>-</u>	<u>114,166</u>	<u>78,416</u>	<u>-</u>	<u>-</u>	<u>78,416</u>
Contingent Loans	-	1,301,850	-	1,301,850	-	1,301,850	-	1,301,850
Total liabilities	<u>114,166</u>	<u>1,301,850</u>	<u>-</u>	<u>1,416,016</u>	<u>78,416</u>	<u>1,301,850</u>	<u>-</u>	<u>1,380,266</u>
Net Assets:								
Unrestricted:								
Operating	482,684	-	-	482,684	457,419	-	-	457,419
Property and equipment	-	369,158	-	369,158	-	429,087	-	429,087
Board designated:								
Operating reserve	307,880	-	-	307,880	302,607	-	-	302,607
Capital asset reserve	56,288	-	-	56,288	56,123	-	-	56,123
Program reserve	138,730	-	-	138,730	138,325	-	-	138,325
Total unrestricted	<u>985,582</u>	<u>369,158</u>	<u>-</u>	<u>1,354,740</u>	<u>954,474</u>	<u>429,087</u>	<u>-</u>	<u>1,383,561</u>
Temporarily restricted:								
Donor restricted	-	-	365,247	365,247	-	-	545,740	545,740
Ailene R. Giglio Fund	-	-	273,877	273,877	-	-	308,192	308,192
Total temporarily restricted	<u>-</u>	<u>-</u>	<u>639,124</u>	<u>639,124</u>	<u>-</u>	<u>-</u>	<u>853,932</u>	<u>853,932</u>
Total net assets	<u>985,582</u>	<u>369,158</u>	<u>639,124</u>	<u>1,993,864</u>	<u>954,474</u>	<u>429,087</u>	<u>853,932</u>	<u>2,237,493</u>
Total liabilities and net assets	<u>\$ 1,099,748</u>	<u>\$ 1,671,008</u>	<u>\$ 639,124</u>	<u>\$ 3,409,880</u>	<u>\$ 1,032,890</u>	<u>\$ 1,730,937</u>	<u>\$ 853,932</u>	<u>\$ 3,617,759</u>

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, 2016 and 2015

	2016					2015				
	Unrestricted					Unrestricted				
	Operating	Property and Equipment	Total Unrestricted	Temporarily Restricted	Total	Operating	Property and Equipment	Total Unrestricted	Temporarily Restricted	Total
<b>Operating Revenues and Support:</b>										
Contracts	\$ 670,177	\$ -	\$ 670,177	\$ -	\$ 670,177	\$ 748,856	\$ -	\$ 748,856	\$ -	\$ 748,856
Gifts, grants and contributions	363,914	-	363,914	115,944	479,858	438,319	-	438,319	556,834	995,153
Special events	405,409	-	405,409	-	405,409	453,608	-	453,608	-	453,608
Donated goods and services	20,790	-	20,790	-	20,790	24,591	-	24,591	-	24,591
Program fees	10,437	-	10,437	-	10,437	8,274	-	8,274	-	8,274
Investment and other income	2,436	-	2,436	820	3,256	22,280	-	22,280	875	23,155
Net assets released from restrictions	331,572	-	331,572	(331,572)	-	190,512	-	190,512	(190,512)	-
<b>Total operating revenues and support</b>	<b>1,804,735</b>	<b>-</b>	<b>1,804,735</b>	<b>(214,808)</b>	<b>1,589,927</b>	<b>1,886,440</b>	<b>-</b>	<b>1,886,440</b>	<b>367,197</b>	<b>2,253,637</b>
<b>Operating Expenses:</b>										
Program services:										
Residential	557,734	64,052	621,786	-	621,786	556,997	62,302	619,299	-	619,299
Children's Services	189,769	-	189,769	-	189,769	182,615	836	183,451	-	183,451
Community Programs	456,403	-	456,403	-	456,403	431,783	-	431,783	-	431,783
Outreach and Education	91,266	-	91,266	-	91,266	87,090	-	87,090	-	87,090
<b>Total program services</b>	<b>1,295,172</b>	<b>64,052</b>	<b>1,359,224</b>	<b>-</b>	<b>1,359,224</b>	<b>1,258,485</b>	<b>63,138</b>	<b>1,321,623</b>	<b>-</b>	<b>1,321,623</b>
Supporting services:										
General and Administrative	204,122	556	204,678	-	204,678	191,179	556	191,735	-	191,735
Institutional Advancement	264,501	-	264,501	-	264,501	320,013	-	320,013	-	320,013
<b>Total supporting services</b>	<b>468,623</b>	<b>556</b>	<b>469,179</b>	<b>-</b>	<b>469,179</b>	<b>511,192</b>	<b>556</b>	<b>511,748</b>	<b>-</b>	<b>511,748</b>
<b>Total operating expenses</b>	<b>1,763,795</b>	<b>64,608</b>	<b>1,828,403</b>	<b>-</b>	<b>1,828,403</b>	<b>1,769,677</b>	<b>63,694</b>	<b>1,833,371</b>	<b>-</b>	<b>1,833,371</b>
<b>Changes in net assets from operations</b>	<b>40,940</b>	<b>(64,608)</b>	<b>(23,668)</b>	<b>(214,808)</b>	<b>(238,476)</b>	<b>116,763</b>	<b>(63,694)</b>	<b>53,069</b>	<b>367,197</b>	<b>420,266</b>
<b>Non-Operating Revenues (Expenses):</b>										
Donated property and equipment	-	-	-	-	-	-	16,235	16,235	-	16,235
Write off of uncollectible pledge	-	-	-	-	-	(20,000)	-	(20,000)	-	(20,000)
Loss on disposal of property and equipment	-	(5,153)	(5,153)	-	(5,153)	-	-	-	-	-
<b>Total non-operating revenues (expenses)</b>	<b>-</b>	<b>(5,153)</b>	<b>(5,153)</b>	<b>-</b>	<b>(5,153)</b>	<b>(20,000)</b>	<b>16,235</b>	<b>(3,765)</b>	<b>-</b>	<b>(3,765)</b>
<b>Changes in net assets</b>	<b>40,940</b>	<b>(69,761)</b>	<b>(28,821)</b>	<b>(214,808)</b>	<b>(243,629)</b>	<b>96,763</b>	<b>(47,459)</b>	<b>49,304</b>	<b>367,197</b>	<b>416,501</b>
<b>Net Assets, beginning of year</b>	<b>954,474</b>	<b>429,087</b>	<b>1,383,561</b>	<b>853,932</b>	<b>2,237,493</b>	<b>857,711</b>	<b>476,546</b>	<b>1,334,257</b>	<b>486,735</b>	<b>1,820,992</b>
Transfers	(9,832)	9,832	-	-	-	-	-	-	-	-
<b>Net Assets, end of year</b>	<b>\$ 985,582</b>	<b>\$ 369,158</b>	<b>\$ 1,354,740</b>	<b>\$ 639,124</b>	<b>\$ 1,993,864</b>	<b>\$ 954,474</b>	<b>\$ 429,087</b>	<b>\$ 1,383,561</b>	<b>\$ 853,932</b>	<b>\$ 2,237,493</b>

The accompanying notes are an integral part of these statements.

**THE SECOND STEP, INC.**Statements of Cash Flows  
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Operating Activities:</b>		
Changes in net assets	\$ (243,629)	\$ 416,501
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	64,608	63,694
Loss on disposal of property and equipment	5,153	-
Write off of uncollectible pledge	-	20,000
Donated property and equipment	-	(16,235)
Changes in operating assets and liabilities:		
Accounts receivable	(28,039)	35,728
Pledges receivable	143,463	(312,222)
Prepaid expenses and deposit	(11,210)	(3,211)
Accounts payable	(3,460)	(5,254)
Accrued expenses	13,710	10,658
Deferred revenue	25,500	-
	<u>(33,904)</u>	<u>209,659</u>
<b>Net cash provided by (used in) operating activities</b>		
	<u>(33,904)</u>	<u>209,659</u>
<b>Cash Flows from Investing Activities:</b>		
Increase in restricted cash	34,538	(644)
Purchases of certificates of deposit, including accrued interest	(51,144)	(50,699)
Purchase of property and equipment	(9,832)	(21,850)
	<u>(26,438)</u>	<u>(73,193)</u>
<b>Net cash used in investing activities</b>		
	<u>(26,438)</u>	<u>(73,193)</u>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from contingent loans	-	21,850
	<u>-</u>	<u>21,850</u>
<b>Net Change in Cash and Cash Equivalents</b>	(60,342)	158,316
<b>Cash and Cash Equivalents:</b>		
Beginning of year	<u>927,040</u>	<u>768,724</u>
End of year	<u>\$ 866,698</u>	<u>\$ 927,040</u>
<b>Supplemental Disclosure of Non-Cash Transactions:</b>		
Donated property and equipment	<u>\$ -</u>	<u>\$ 16,235</u>

**THE SECOND STEP, INC.**

Statement of Functional Expenses  
 For the Year Ended June 30, 2016  
 (With Summarized Comparative Totals for the Year Ended June 30, 2015)

	2016							2015	
	Program Services				Supporting Services			Total	
	Residential	Children's Services	Community Programs	Outreach and Education	Total Program Services	General and Administrative	Institutional Advancement		
<b>Expenses:</b>									
Salaries and related:									
Salaries	\$ 312,445	\$ 121,662	\$ 289,515	\$ 49,943	\$ 773,565	\$ 108,155	\$ 135,909	\$ 1,017,629	\$ 965,085
Payroll taxes	26,940	10,142	25,994	4,294	67,370	12,166	6,098	85,634	84,861
Employee benefits	19,914	13,634	18,172	-	51,720	10,503	12,147	74,370	57,412
Donated salaries	-	-	-	-	-	9,240	-	9,240	11,920
Total salaries and related	<u>359,299</u>	<u>145,438</u>	<u>333,681</u>	<u>54,237</u>	<u>892,655</u>	<u>140,064</u>	<u>154,154</u>	<u>1,186,873</u>	<u>1,119,278</u>
Program costs:									
Transitional assistance and other program expenses	22,830	22,954	44,847	-	90,631	688	-	91,319	114,906
Vehicle expense	11,277	392	1,538	-	13,207	-	-	13,207	12,366
Total program costs	<u>34,107</u>	<u>23,346</u>	<u>46,385</u>	<u>-</u>	<u>103,838</u>	<u>688</u>	<u>-</u>	<u>104,526</u>	<u>127,272</u>
Occupancy:									
Rent	57,183	9,981	29,428	-	96,592	11,043	17,652	125,287	124,012
Depreciation	64,052	-	-	-	64,052	556	-	64,608	63,694
Utilities	41,855	2,477	-	-	44,332	-	-	44,332	55,487
Repairs and maintenance	35,485	1,854	1,051	-	38,390	408	866	39,664	40,095
Donated utilities	-	-	-	-	-	-	-	-	3,371
Total occupancy	<u>198,575</u>	<u>14,312</u>	<u>30,479</u>	<u>-</u>	<u>243,366</u>	<u>12,007</u>	<u>18,518</u>	<u>273,891</u>	<u>286,659</u>
Other costs:									
Fundraising	-	-	-	20,714	20,714	-	60,559	81,273	88,881
Professional services	8,025	1,650	11,686	-	21,361	23,200	3,735	48,296	82,373
Printing and postage	199	42	934	14,236	15,411	919	17,735	34,065	33,386
Miscellaneous	1,663	295	6,848	2,079	10,885	19,280	1,476	31,641	27,915
Insurance	7,868	2,986	2,766	-	13,620	4,186	2,903	20,709	20,034
Telecommunications	7,971	991	4,860	-	13,822	1,351	2,298	17,471	17,212
Donated legal services	-	-	11,550	-	11,550	-	-	11,550	9,300
Office expenses	2,292	369	3,065	-	5,726	1,912	2,424	10,062	14,507
Training and education	1,238	340	4,069	-	5,647	1,071	-	6,718	6,084
Advertising	549	-	80	-	629	-	699	1,328	470
Total other costs	<u>29,805</u>	<u>6,673</u>	<u>45,858</u>	<u>37,029</u>	<u>119,365</u>	<u>51,919</u>	<u>91,829</u>	<u>263,113</u>	<u>300,162</u>
Total operating expenses before general and administrative allocation	621,786	189,769	456,403	91,266	1,359,224	204,678	264,501	1,828,403	1,833,371
General and administrative allocation	<u>78,379</u>	<u>23,921</u>	<u>57,532</u>	<u>11,504</u>	<u>171,336</u>	<u>(204,678)</u>	<u>33,342</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>\$ 700,165</u>	<u>\$ 213,690</u>	<u>\$ 513,935</u>	<u>\$102,770</u>	<u>\$ 1,530,560</u>	<u>\$ -</u>	<u>\$ 297,843</u>	<u>\$ 1,828,403</u>	<u>\$ 1,833,371</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

	Program Services				Supporting Services			
	Residential	Children's Services	Community Programs	Outreach and Education	Total Program Services	General and Administrative	Institutional Advancement	Total
<b>Expenses:</b>								
Salaries and related:								
Salaries	\$ 287,730	\$ 106,125	\$ 258,380	\$ 47,799	\$ 700,034	\$ 105,828	\$ 159,223	\$ 965,085
Payroll taxes	25,310	9,364	22,591	-	57,265	10,097	17,499	84,861
Employee benefits	17,457	6,572	9,078	-	33,107	10,596	13,709	57,412
Donated salaries	-	-	-	-	-	11,920	-	11,920
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>
Program costs:								
Transitional assistance and other program expenses	38,172	27,318	49,416	-	114,906	-	-	114,906
Vehicle expense	9,903	1,284	1,179	-	12,366	-	-	12,366
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>
Occupancy:								
Rent	57,562	9,602	27,855	-	95,019	10,801	18,192	124,012
Depreciation	62,302	836	-	-	63,138	556	-	63,694
Utilities	47,766	7,721	-	-	55,487	-	-	55,487
Repairs and maintenance	33,374	4,274	1,112	-	38,760	429	906	40,095
Donated utilities	3,371	-	-	-	3,371	-	-	3,371
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>
Other costs:								
Fundraising	-	-	-	21,206	21,206	-	67,675	88,881
Professional services	12,222	3,710	35,538	-	51,470	24,967	5,936	82,373
Printing and postage	386	51	1,116	17,258	18,811	720	13,855	33,386
Miscellaneous	2,575	317	4,792	757	8,441	5,071	14,403	27,915
Insurance	7,915	2,764	2,843	-	13,522	3,473	3,039	20,034
Telecommunications	7,681	1,446	4,578	-	13,705	1,306	2,201	17,212
Donated legal services	-	-	9,300	-	9,300	-	-	9,300
Office expenses	4,838	1,862	1,796	70	8,566	2,666	3,275	14,507
Training and education	655	75	2,129	-	2,859	3,225	-	6,084
Advertising	80	130	80	-	290	80	100	470
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>
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
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>
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>

The accompanying notes are an integral part of these statements.



## THE SECOND STEP, INC.

Notes to Financial Statements  
June 30, 2016 and 2015

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### 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. Special events income received in advance of the event is recorded as deferred revenue. 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

Land is not depreciated.

#### 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, 2016 and 2015

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### 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 four and three CDs as of June 30, 2016 and 2015, respectively. At June 30, 2016, CDs mature at various dates through October 24, 2017. At June 30, 2015, CDs matured at various dates through April 22, 2016. The CDs are classified in the accompanying statements of financial position based upon maturity dates.

## THE SECOND STEP, INC.

Notes to Financial Statements  
June 30, 2016 and 2015

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### 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>2016</u>	<u>2015</u>
Contributions and support	\$ 380,824	\$ 433,914
Event revenue	<u>24,585</u>	<u>19,694</u>
Total revenue	<u>405,409</u>	<u>453,608</u>
Direct expenses	24,585	19,694
Fundraising expenses	<u>57,718</u>	<u>64,456</u>
Total expenses	<u>82,303</u>	<u>84,150</u>
Total special events, net	<u>\$ 323,106</u>	<u>\$ 369,458</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 \$20,790 and \$24,591 for the years ended June 30, 2016 and 2015, respectively, and was for salaries and legal services and utilities.

During fiscal year 2015, TSS received donated de-leading work of \$16,235 to one of the buildings. 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, 2015.

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, 2016, there was no allowance for uncollectible accounts. As of June 30, 2015, there was a \$20,000 allowance for an uncollectible account.

## THE SECOND STEP, INC.

Notes to Financial Statements  
June 30, 2016 and 2015

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

#### SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Funding

TSS received approximately \$391,000 and \$453,000 of its operating revenues and support from the U.S. Department of Housing and Urban Development (HUD) during the years ended June 30, 2016 and 2015, respectively.

TSS also received approximately \$123,000 and \$145,000 of its operating revenues and support from the Commonwealth of Massachusetts, Department of Children and Families during the years ended June 30, 2016 and 2015, 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, 2016 and 2015, 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 9, 2016, 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, 2016 and 2015.

##### Statements of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major or central to the provision of program services are reported as operating revenues and support and operating expenses in the accompanying statements of activities and changes in net assets. Non-operating revenues (expenses) include capital activity and write-off of uncollectible pledges.

## THE SECOND STEP, INC.

Notes to Financial Statements  
June 30, 2016 and 2015

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### 2. PLEDGES RECEIVABLE

Pledges receivable consisted of the following as of June 30:

	<u>2016</u>	<u>2015</u>
Due within one year	\$ 218,759	\$ 231,388
Due in one to five years	<u>85,000</u>	<u>235,834</u>
	303,759	467,222
Less - allowance for uncollectible accounts	<u>-</u>	<u>20,000</u>
	303,759	447,222
Less - current portion	<u>218,759</u>	<u>231,388</u>
Long-term pledges receivable, net	<u>\$ 85,000</u>	<u>\$ 215,834</u>

The amount of discount on pledges due beyond one year is immaterial to the accompanying financial statements for the years ended June 30, 2016 and 2015, and has not been recorded.

Approximately 60% and 68% of the pledges receivable were due from two donors at June 30, 2016 and 2015, 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 - Operating Reserve** - represent funds set aside by the Board of Directors 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 of Directors for property and equipment maintenance and acquisition.

**Board Designated - Program Reserve** - represent funds set aside by the Board of Directors 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, 2016, TSS did not deposit or withdraw any funds from the above Board designated reserves. During fiscal year 2015, TSS invested \$50,000 from the Operating Reserve in a certificate of deposit.

## THE SECOND STEP, INC.

Notes to Financial Statements  
June 30, 2016 and 2015

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### 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>2016</u>	<u>2015</u>
Time	\$ 217,840	\$ 319,329
Ailene R. Giglio Fund	273,877	308,192
Purpose	<u>147,407</u>	<u>226,411</u>
	<u>\$ 639,124</u>	<u>\$ 853,932</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 certificates of deposit in the accompanying statements of financial position as of June 30, 2016 and 2015.

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 years 2016 and 2015, no amounts were withdrawn from the Fund.

### 4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Land	\$ 130,000	\$ 130,000
Building and building improvements	2,258,397	2,258,397
Leasehold improvements	532,082	532,082
Furniture and fixtures	182,805	181,297
Vehicles	50,806	50,806
Office equipment	<u>48,897</u>	<u>48,897</u>
	3,202,987	3,201,479
Less - accumulated depreciation	<u>1,531,979</u>	<u>1,470,542</u>
Net property and equipment	<u>\$ 1,671,008</u>	<u>\$ 1,730,937</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, 2016 and 2015

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### 5. LEASES

TSS leases its administrative space under an agreement that expires on May 31, 2017. The monthly rent was \$5,375 and \$4,737 at June 30, 2016 and 2015, respectively. 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 in June 30, 2018. The monthly rent was \$5,597 at June 30, 2016 and 2015.

Rent expense was \$125,287 and \$124,012 for the years ended June 30, 2016 and 2015, respectively. Remaining future minimum lease payments are as follows for the years ended June 30:

<u>Year</u>	<u>Amount</u>
2017	\$ 126,290
2018	\$ 67,165

### 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, 2016 and 2015. 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 (DHCD) Affordable Housing Trust Fund, 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, 2016. 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, 2016 and 2015

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### 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, 2016 and 2015.

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 \$304,500 and \$283,500 as of June 30, 2016 and 2015, respectively.

The outstanding balances of the contingent loans are as follows at June 30 2016 and 2015:

CEDAC	\$ 500,000
DHCD	400,000
NCDA	321,850
FHLB	<u>80,000</u>
	<u>\$ 1,301,850</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 2016 or 2015.

### 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 2015 financial statements have been reclassified to conform with the fiscal year 2016 presentation.