



**FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**THE SECOND STEP, INC.**

Contents  
June 30, 2018 and 2017

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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, 2018 and 2017, 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***

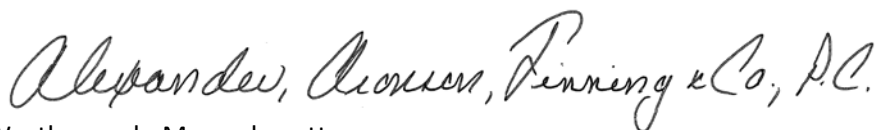
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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, 2018 and 2017, 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.



Westborough, Massachusetts  
October 29, 2018

THE SECOND STEP, INC.

Statements of Financial Position  
June 30, 2018 and 2017

Assets	2018				2017			
	Unrestricted		Temporarily Restricted	Total	Unrestricted		Temporarily Restricted	Total
	Operating	Property and Equipment			Operating	Property and Equipment		
Current Assets:								
Cash and cash equivalents	\$ 1,003,475	\$ -	\$ 123,357	\$ 1,126,832	\$ 874,371	\$ -	\$ 118,165	\$ 992,536
Restricted cash	-	-	211,006	211,006	-	-	192,463	192,463
Certificates of deposit	102,835	-	-	102,835	152,950	-	51,778	204,728
Accounts receivable	193,639	-	-	193,639	126,530	-	-	126,530
Current portion of pledges receivable	-	-	171,441	171,441	-	-	119,960	119,960
Prepaid expenses and deposit	22,368	-	-	22,368	21,363	-	-	21,363
Total current assets	1,322,317	-	505,804	1,828,121	1,175,214	-	482,366	1,657,580
Pledges Receivable, net of current portion and discount	-	-	202,816	202,816	-	-	20,000	20,000
Property and Equipment, net	-	1,573,334	-	1,573,334	-	1,623,178	-	1,623,178
Total assets	\$ 1,322,317	\$ 1,573,334	\$ 708,620	\$ 3,604,271	\$ 1,175,214	\$ 1,623,178	\$ 502,366	\$ 3,300,758
<b>Liabilities and Net Assets</b>								
Current Liabilities:								
Accounts payable	\$ 38,411	\$ -	\$ -	\$ 38,411	\$ 22,475	\$ -	\$ -	\$ 22,475
Accrued expenses	56,476	-	-	56,476	58,448	-	-	58,448
Deferred revenue	-	-	-	-	1,750	-	-	1,750
Total current liabilities	94,887	-	-	94,887	82,673	-	-	82,673
Contingent Loans	-	1,301,850	-	1,301,850	-	1,301,850	-	1,301,850
Total liabilities	94,887	1,301,850	-	1,396,737	82,673	1,301,850	-	1,384,523
Net Assets:								
Unrestricted:								
Operating	711,469	-	-	711,469	586,429	-	-	586,429
Property and equipment	-	271,484	-	271,484	-	321,328	-	321,328
Board designated:								
Operating reserve	317,594	-	-	317,594	310,205	-	-	310,205
Capital asset reserve	57,254	-	-	57,254	56,544	-	-	56,544
Program reserve	141,113	-	-	141,113	139,363	-	-	139,363
Total unrestricted	1,227,430	271,484	-	1,498,914	1,092,541	321,328	-	1,413,869
Temporarily restricted:								
Donor restricted	-	-	497,614	497,614	-	-	258,125	258,125
Ailene R. Giglio Fund	-	-	211,006	211,006	-	-	244,241	244,241
Total temporarily restricted	-	-	708,620	708,620	-	-	502,366	502,366
Total net assets	1,227,430	271,484	708,620	2,207,534	1,092,541	321,328	502,366	1,916,235
Total liabilities and net assets	\$ 1,322,317	\$ 1,573,334	\$ 708,620	\$ 3,604,271	\$ 1,175,214	\$ 1,623,178	\$ 502,366	\$ 3,300,758

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, 2018 and 2017

	2018					2017				
	Unrestricted		Total Unrestricted	Temporarily Restricted	Total	Unrestricted		Total Unrestricted	Temporarily Restricted	Total
	Operating	Property and Equipment				Operating	Property and Equipment			
<b>Operating Revenues and Support:</b>										
Gifts, grants and contributions	\$ 373,651	\$ -	\$ 373,651	\$ 557,113	\$ 930,764	\$ 393,512	\$ -	\$ 393,512	\$ 159,275	\$ 552,787
Contracts	850,344	-	850,344	-	850,344	676,526	-	676,526	-	676,526
Special events	350,637	-	350,637	-	350,637	452,716	-	452,716	-	452,716
Donated goods and services	139,388	-	139,388	-	139,388	37,720	-	37,720	-	37,720
Investment and other income	7,331	-	7,331	-	7,331	6,137	-	6,137	420	6,557
Program fees	6,304	-	6,304	-	6,304	11,306	-	11,306	-	11,306
Net assets released from restrictions	350,859	-	350,859	(350,859)	-	288,953	-	288,953	(288,953)	-
Total operating revenues and support	2,078,514	-	2,078,514	206,254	2,284,768	1,866,870	-	1,866,870	(129,258)	1,737,612
<b>Operating Expenses:</b>										
Program services:										
Residential	545,102	66,056	611,158	-	611,158	583,299	65,883	649,182	-	649,182
Children's Services	228,175	1,527	229,702	-	229,702	202,111	-	202,111	-	202,111
Community Programs	586,883	-	586,883	-	586,883	365,190	-	365,190	-	365,190
Outreach and Education	79,578	-	79,578	-	79,578	70,488	-	70,488	-	70,488
Total program services	1,439,738	67,583	1,507,321	-	1,507,321	1,221,088	65,883	1,286,971	-	1,286,971
Supporting services:										
General and Administrative	171,692	556	172,248	-	172,248	180,328	556	180,884	-	180,884
Institutional Advancement	313,900	-	313,900	-	313,900	339,886	-	339,886	-	339,886
Total supporting services	485,592	556	486,148	-	486,148	520,214	556	520,770	-	520,770
Total operating expenses	1,925,330	68,139	1,993,469	-	1,993,469	1,741,302	66,439	1,807,741	-	1,807,741
Changes in net assets from operations	153,184	(68,139)	85,045	206,254	291,299	125,568	(66,439)	59,129	(129,258)	(70,129)
<b>Non-Operating Activity:</b>										
Write-off of uncollectible pledge	-	-	-	-	-	-	-	-	(7,500)	(7,500)
Changes in net assets	153,184	(68,139)	85,045	206,254	291,299	125,568	(66,439)	59,129	(136,758)	(77,629)
<b>Net Assets, beginning of year</b>	1,092,541	321,328	1,413,869	502,366	1,916,235	985,582	369,158	1,354,740	639,124	1,993,864
Transfers	(18,295)	18,295	-	-	-	(18,609)	18,609	-	-	-
<b>Net Assets, end of year</b>	<u>\$ 1,227,430</u>	<u>\$ 271,484</u>	<u>\$ 1,498,914</u>	<u>\$ 708,620</u>	<u>\$ 2,207,534</u>	<u>\$ 1,092,541</u>	<u>\$ 321,328</u>	<u>\$ 1,413,869</u>	<u>\$ 502,366</u>	<u>\$ 1,916,235</u>

**THE SECOND STEP, INC.**Statements of Cash Flows  
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Cash Flows from Operating Activities:</b>		
Changes in net assets	\$ 291,299	\$ (77,629)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	68,139	66,439
Discount on pledges receivable	12,184	-
Uncollectible pledges written off	-	7,500
Changes in operating assets and liabilities:		
Accounts receivable	(67,109)	(17,939)
Pledges receivable	(246,481)	156,299
Prepaid expenses and deposit	(1,005)	13,195
Accounts payable	15,936	(2,404)
Accrued expenses	(1,972)	(5,339)
Deferred revenue	(1,750)	(23,750)
	<u>69,241</u>	<u>116,372</u>
Net cash provided by operating activities		
<b>Cash Flows from Investing Activities:</b>		
Change in restricted cash	(18,543)	29,816
Change in certificates of deposit	101,893	(1,741)
Acquisition of property and equipment	(18,295)	(18,609)
	<u>65,055</u>	<u>9,466</u>
Net cash provided by investing activities		
<b>Net Change in Cash and Cash Equivalents</b>	134,296	125,838
<b>Cash and Cash Equivalents:</b>		
Beginning of year	<u>992,536</u>	<u>866,698</u>
End of year	<u>\$ 1,126,832</u>	<u>\$ 992,536</u>

**THE SECOND STEP, INC.**

Statement of Functional Expenses

For the Year Ended June 30, 2018

(With Summarized Comparative Totals for the Year Ended June 30, 2017)

	2018							2017	
	Program Services				Supporting Services			Total	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	\$ 303,177	\$ 129,939	\$ 299,329	\$ 53,669	\$ 786,114	\$ 83,550	\$ 142,851	\$ 1,012,515	\$ 972,288
Employee benefits	19,518	15,436	29,070	-	64,024	10,360	13,580	87,964	76,241
Payroll taxes	21,967	12,019	26,030	-	60,016	7,403	14,750	82,169	81,572
Donated salaries	-	-	-	-	-	6,500	-	6,500	9,330
Total salaries and related	<u>344,662</u>	<u>157,394</u>	<u>354,429</u>	<u>53,669</u>	<u>910,154</u>	<u>107,813</u>	<u>171,181</u>	<u>1,189,148</u>	<u>1,139,431</u>
Program costs:									
Transitional assistance and other program expenses	27,178	34,128	32,463	318	94,087	-	25	94,112	85,348
Vehicle expense	2,505	1,672	-	-	4,177	-	-	4,177	13,572
Total program costs	<u>29,683</u>	<u>35,800</u>	<u>32,463</u>	<u>318</u>	<u>98,264</u>	<u>-</u>	<u>25</u>	<u>98,289</u>	<u>98,920</u>
Occupancy:									
Rent	57,236	9,928	32,037	-	99,201	12,055	20,508	131,764	131,664
Depreciation	66,056	1,527	-	-	67,583	556	-	68,139	66,439
Utilities	49,443	3,621	-	-	53,064	-	-	53,064	50,386
Repairs and maintenance	32,003	1,101	1,047	-	34,151	310	544	35,005	31,554
Donated utilities	-	-	-	-	-	-	-	-	2,500
Total occupancy	<u>204,738</u>	<u>16,177</u>	<u>33,084</u>	<u>-</u>	<u>253,999</u>	<u>12,921</u>	<u>21,052</u>	<u>287,972</u>	<u>282,543</u>
Other costs:									
Donated legal services	-	-	132,888	-	132,888	-	-	132,888	25,890
Professional services	6,317	13,333	8,755	-	28,405	31,350	41,888	101,643	85,238
Fundraising and community events	-	-	-	19,724	19,724	-	53,303	73,027	85,012
Insurance	10,083	4,185	3,056	-	17,324	5,061	3,208	25,593	22,958
Printing and postage	110	21	1,877	5,098	7,106	777	15,230	23,113	20,996
Telecommunications	10,303	1,124	6,422	-	17,849	1,411	2,706	21,966	18,506
Miscellaneous	1,343	268	9,663	769	12,043	7,484	1,247	20,774	17,923
Office expenses	2,304	613	1,481	-	4,398	4,695	4,025	13,118	7,955
Training and education	939	697	2,089	-	3,725	710	35	4,470	1,049
Advertising	676	90	676	-	1,442	26	-	1,468	1,320
Total other costs	<u>32,075</u>	<u>20,331</u>	<u>166,907</u>	<u>25,591</u>	<u>244,904</u>	<u>51,514</u>	<u>121,642</u>	<u>418,060</u>	<u>286,847</u>
Total operating expenses before general and administrative allocation	611,158	229,702	586,883	79,578	1,507,321	172,248	313,900	1,993,469	1,807,741
General and administrative allocation	<u>57,803</u>	<u>21,725</u>	<u>55,506</u>	<u>7,526</u>	<u>142,560</u>	<u>(172,248)</u>	<u>29,688</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>\$ 668,961</u>	<u>\$ 251,427</u>	<u>\$ 642,389</u>	<u>\$ 87,104</u>	<u>\$ 1,649,881</u>	<u>\$ -</u>	<u>\$ 343,588</u>	<u>\$ 1,993,469</u>	<u>\$ 1,807,741</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, 2017

	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	\$ 334,553	\$ 123,156	\$ 224,392	\$ 43,282	\$ 725,383	\$ 93,200	\$ 153,705	\$ 972,288
Employee benefits	21,165	13,380	17,036	-	51,581	8,381	16,279	76,241
Payroll taxes	27,292	11,209	19,911	2,733	61,145	9,561	10,866	81,572
Donated salaries	-	-	-	-	-	9,330	-	9,330
Total salaries and related	<u>383,010</u>	<u>147,745</u>	<u>261,339</u>	<u>46,015</u>	<u>838,109</u>	<u>120,472</u>	<u>180,850</u>	<u>1,139,431</u>
Program costs:								
Transitional assistance and other program expenses	29,346	30,103	25,899	-	85,348	-	-	85,348
Vehicle expense	11,151	1,203	1,218	-	13,572	-	-	13,572
Total program costs	<u>40,497</u>	<u>31,306</u>	<u>27,117</u>	<u>-</u>	<u>98,920</u>	<u>-</u>	<u>-</u>	<u>98,920</u>
Occupancy:								
Rent	56,554	10,610	31,605	-	98,769	12,255	20,640	131,664
Depreciation	65,883	-	-	-	65,883	556	-	66,439
Utilities	43,593	6,793	-	-	50,386	-	-	50,386
Repairs and maintenance	26,594	-	1,649	-	28,243	2,545	766	31,554
Donated utilities	2,500	-	-	-	2,500	-	-	2,500
Total occupancy	<u>195,124</u>	<u>17,403</u>	<u>33,254</u>	<u>-</u>	<u>245,781</u>	<u>15,356</u>	<u>21,406</u>	<u>282,543</u>
Other costs:								
Donated legal services	-	-	25,890	-	25,890	-	-	25,890
Professional services	8,317	208	3,405	-	11,930	26,583	46,725	85,238
Fundraising and community events	-	-	-	20,248	20,248	1,070	63,694	85,012
Insurance	8,920	3,681	3,056	-	15,657	4,092	3,209	22,958
Printing and postage	190	-	720	4,225	5,135	763	15,098	20,996
Telecommunications	8,557	1,333	4,732	-	14,622	1,447	2,437	18,506
Miscellaneous	2,803	75	4,306	-	7,184	9,420	1,319	17,923
Office expenses	1,350	-	736	-	2,086	1,681	4,188	7,955
Training and education	324	270	455	-	1,049	-	-	1,049
Advertising	90	90	180	-	360	-	960	1,320
Total other costs	<u>30,551</u>	<u>5,657</u>	<u>43,480</u>	<u>24,473</u>	<u>104,161</u>	<u>45,056</u>	<u>137,630</u>	<u>286,847</u>
Total operating expenses before general and administrative allocation	649,182	202,111	365,190	70,488	1,286,971	180,884	339,886	1,807,741
General and administrative allocation	<u>72,180</u>	<u>22,472</u>	<u>40,604</u>	<u>7,837</u>	<u>143,093</u>	<u>(180,884)</u>	<u>37,791</u>	<u>-</u>
Total operating expenses	<u>\$ 721,362</u>	<u>\$ 224,583</u>	<u>\$ 405,794</u>	<u>\$ 78,325</u>	<u>\$ 1,430,064</u>	<u>\$ -</u>	<u>\$ 377,677</u>	<u>\$ 1,807,741</u>

The accompanying notes are an integral part of these statements.



## THE SECOND STEP, INC.

Notes to Financial Statements  
June 30, 2018 and 2017

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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 (U.S. GAAP) 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.

#### 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.

#### 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 \$139,388 and \$37,720 for the years ended June 30, 2018 and 2017, respectively, and was for salaries, legal services and utilities.

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.

## THE SECOND STEP, INC.

Notes to Financial Statements  
June 30, 2018 and 2017

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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>2018</u>	<u>2017</u>
Contributions and support	\$ 326,787	\$ 432,780
Event revenue	<u>23,850</u>	<u>19,936</u>
Total revenue	<u>350,637</u>	<u>452,716</u>
Direct expenses	23,850	19,936
Fundraising expenses	<u>47,772</u>	<u>61,990</u>
Total expenses	<u>71,622</u>	<u>81,926</u>
Total special events, net	<u>\$ 279,015</u>	<u>\$ 370,790</u>

##### 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.

## THE SECOND STEP, INC.

Notes to Financial Statements  
June 30, 2018 and 2017

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

#### SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Fair Value Measurements (Continued)

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 two and four CDs as of June 30, 2018 and 2017, respectively. As of June 30, 2018, CDs mature at various dates through December 2018. As of June 30, 2017, CDs matured at various dates through April 2018. The CDs are classified in the accompanying statements of financial position based upon maturity dates.

##### Accounts Receivable and Allowance for Uncollectible Accounts

Accounts receivable are recorded at the invoiced amounts and do not bear interest. Management records an allowance for uncollectible accounts receivable based on an analysis of specific accounts and their estimate of amounts that may become uncollectible. There was no allowance recorded as of June 30, 2018 and 2017.

##### 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. The discount applied to the long-term pledges receivable as of June 30, 2018, was computed using a rate of 3%. There was no discount applied to long-term pledges receivable as of June 30, 2017 (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, 2018 and 2017, there were no allowances for uncollectible pledges.

##### 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.

## THE SECOND STEP, INC.

Notes to Financial Statements  
June 30, 2018 and 2017

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

#### SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Funding Concentrations

TSS earned approximately 13% and 21% of its operating revenues and support from the U.S. Department of Housing and Urban Development (HUD) and approximately 12% and 7% from the Commonwealth of Massachusetts Department of Public Health during the years ended June 30, 2018 and 2017, respectively.

As of June 30, 2018, four agencies comprised 88% of accounts receivable. As of June 30, 2017, three agencies comprised 91% of accounts receivable.

These funds 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, 2018 and 2017, or on its results of operations for the years then ended.

##### 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.

##### Advertising

TSS expenses advertising costs as they are incurred.

##### 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 as of June 30, 2018 and 2017. TSS's informational returns are subject to examination by the Federal and state jurisdictions.

##### 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.

##### Subsequent Events

Subsequent events were evaluated through October 29, 2018, 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.

## THE SECOND STEP, INC.

Notes to Financial Statements  
June 30, 2018 and 2017

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### 2. PLEDGES RECEIVABLE

Pledges receivable consisted of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Due within one year	\$ 171,441	\$ 119,960
Due in one to five years	<u>215,000</u>	<u>20,000</u>
	386,441	139,960
Less - discount	12,184	-
Less - current portion	<u>171,441</u>	<u>119,960</u>
Long-term pledges receivable, net	<u>\$ 202,816</u>	<u>\$ 20,000</u>

Approximately 91% and 82% of the pledges receivable were due from two donors and three donors as of June 30, 2018 and 2017, 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 years ended June 30, 2018 and 2017, TSS did not deposit or withdraw any funds from the above Board designated reserves.

#### 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, 2018 and 2017

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### 3. NET ASSETS (Continued)

#### Temporarily Restricted Net Assets (Continued)

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

	<u>2018</u>	<u>2017</u>
Time	\$ 390,760	\$ 93,259
Ailene R. Giglio Fund	211,006	244,241
Purpose	<u>106,854</u>	<u>164,866</u>
	<u>\$ 708,620</u>	<u>\$ 502,366</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 reported as restricted cash in the accompanying statements of financial position as of June 30, 2018 and 2017.

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 2018 and 2017, approximately \$33,000 and \$30,000, respectively, were withdrawn from the Fund.

### 4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2018</u>	<u>2017</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	182,805
Vehicles	87,710	69,415
Office equipment	<u>48,897</u>	<u>48,897</u>
	3,239,891	3,221,596
Less - accumulated depreciation	<u>1,666,557</u>	<u>1,598,418</u>
Net property and equipment	<u>\$ 1,573,334</u>	<u>\$ 1,623,178</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, 2018 and 2017

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### 5. LEASES

TSS leases its administrative space under a five-year agreement that expires on May 31, 2022. The monthly rent escalates from \$5,375 to \$5,775 over the term of the lease and requires TSS to maintain certain insurance coverage and pay for its proportionate share of real estate taxes and operating expenses. The effect of recording rent expense using the straight-line method would be insignificant to these financial statements.

TSS also rents space for its programs under an agreement that expires on June 30, 2020. The monthly rent was \$5,597 for the years ended June 30, 2018 and 2017.

Rent expense was \$131,764 and \$131,664 for the years ended June 30, 2018 and 2017, respectively. Remaining future minimum lease payments are as follows for the years ended June 30:

<u>Year</u>	<u>Amount</u>
2019	\$ 132,964
2020	\$ 134,164
2021	\$ 68,200
2022	\$ 63,525

### 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, 2018 and 2017. 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 SECOND STEP, INC.

Notes to Financial Statements  
June 30, 2018 and 2017

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### 6. CONTINGENT LOANS (Continued)

- The Newton Community Development Authority (NCDA) has provided TSS with 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, 2018. 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 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, 2018 and 2017.

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 \$346,500 and \$325,000 as of June 30, 2018 and 2017, respectively.

The outstanding balances of the contingent loans are as follows at June 30 2018 and 2017:

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 2018 or 2017.

### 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.