



**FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

THE SECOND STEP, INC.

Contents
June 30, 2021 and 2020

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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, 2021 and 2020, 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, 2021 and 2020, 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.

AAFCPAs, Inc.

Westborough, Massachusetts
November 9, 2021

THE SECOND STEP, INC.

Statements of Financial Position
June 30, 2021 and 2020

Assets	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Assets						
Current Assets:						
Cash and cash equivalents	\$ 1,722,722	\$ 41,474	\$ 1,764,196	\$ 1,447,820	\$ 108,850	\$ 1,556,670
Restricted cash	-	145,538	145,538	74,997	178,627	253,624
Current portion of certificates of deposit	54,394	-	54,394	104,781	-	104,781
Accounts receivable	288,669	-	288,669	266,295	-	266,295
Pledges receivable	-	-	-	9,600	52,050	61,650
Prepaid expenses and deposit	27,908	-	27,908	30,470	-	30,470
Total current assets	2,093,693	187,012	2,280,705	1,933,963	339,527	2,273,490
Certificates of Deposit, net of current portion	104,944	-	104,944	54,123	-	54,123
Property and Equipment, net	1,476,301	-	1,476,301	1,431,999	-	1,431,999
Total assets	\$ 3,674,938	\$ 187,012	\$ 3,861,950	\$ 3,420,085	\$ 339,527	\$ 3,759,612
Liabilities and Net Assets						
Current Liabilities:						
Accounts payable	\$ 69,712	\$ -	\$ 69,712	\$ 43,541	\$ -	\$ 43,541
Accrued expenses	86,977	-	86,977	106,843	-	106,843
Deferred revenue	-	-	-	121,401	-	121,401
Total current liabilities	156,689	-	156,689	271,785	-	271,785
Paycheck Protection Program Loan	240,900	-	240,900	240,900	-	240,900
Contingent Loans	1,301,850	-	1,301,850	1,301,850	-	1,301,850
Total liabilities	1,699,439	-	1,699,439	1,814,535	-	1,814,535
Net Assets:						
Without donor restrictions:						
Operating	1,258,308	-	1,258,308	933,101	-	933,101
Property and equipment	174,451	-	174,451	130,149	-	130,149
Board designated:						
Operating reserve	337,111	-	337,111	336,742	-	336,742
Capital asset reserve	59,350	-	59,350	59,330	-	59,330
Program reserve	146,279	-	146,279	146,228	-	146,228
Total without donor restrictions	1,975,499	-	1,975,499	1,605,550	-	1,605,550
With donor restrictions:						
Other donor restricted	-	41,474	41,474	-	160,900	160,900
Ailene R. Giglio Fund	-	145,538	145,538	-	178,627	178,627
Total with donor restrictions	-	187,012	187,012	-	339,527	339,527
Total net assets	1,975,499	187,012	2,162,511	1,605,550	339,527	1,945,077
Total liabilities and net assets	\$ 3,674,938	\$ 187,012	\$ 3,861,950	\$ 3,420,085	\$ 339,527	\$ 3,759,612

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, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues and Support:						
Contracts	\$ 1,275,021	\$ -	\$ 1,275,021	\$ 1,089,385	\$ -	\$ 1,089,385
Gifts, grants and contributions	792,019	15,000	807,019	521,993	130,938	652,931
Special events	205,332	-	205,332	147,856	-	147,856
Investment and other income	2,830	-	2,830	10,256	-	10,256
Donated goods and services	-	-	-	27,375	-	27,375
Net assets released from restrictions	117,599	(117,599)	-	278,146	(278,146)	-
Total operating revenues and support	2,392,801	(102,599)	2,290,202	2,075,011	(147,208)	1,927,803
Operating Expenses:						
Program services:						
Residential	620,334	-	620,334	574,335	-	574,335
Children's Services	89,384	-	89,384	249,509	-	249,509
Community Programs	426,567	-	426,567	458,775	-	458,775
Legal Services	241,637	-	241,637	185,899	-	185,899
Outreach and Education	53,767	-	53,767	50,706	-	50,706
Total program services	1,431,689	-	1,431,689	1,519,224	-	1,519,224
Supporting services:						
General and administrative	267,921	-	267,921	267,824	-	267,824
Institutional Advancement	374,663	-	374,663	294,715	-	294,715
Total supporting services	642,584	-	642,584	562,539	-	562,539
Total operating expenses	2,074,273	-	2,074,273	2,081,763	-	2,081,763
Changes in net assets from operations	318,528	(102,599)	215,929	(6,752)	(147,208)	(153,960)
Non-Operating Activity:						
Gain on vehicle swap	1,505	-	1,505	-	-	-
Capital grant	-	-	-	-	-	-
Net assets released from capital restrictions	49,916	(49,916)	-	-	-	-
Total non-operating activity	51,421	(49,916)	1,505	-	-	-
Changes in net assets	369,949	(152,515)	217,434	(6,752)	(147,208)	(153,960)
Net Assets:						
Beginning of year	1,605,550	339,527	1,945,077	1,612,302	486,735	2,099,037
End of year	\$ 1,975,499	\$ 187,012	\$ 2,162,511	\$ 1,605,550	\$ 339,527	\$ 1,945,077

The accompanying notes are an integral part of these statements.

THE SECOND STEP, INC.Statements of Cash Flows
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 217,434	\$ (153,960)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	66,313	65,650
Gain on vehicle swap	(1,505)	-
Capital grant	-	-
Changes in operating assets and liabilities:		
Accounts receivable	(22,374)	(35,513)
Pledges receivable	61,650	150,760
Prepaid expenses and deposit	2,562	(10,589)
Accounts payable	26,171	(17,540)
Accrued expenses	(19,866)	32,389
Deferred revenue	(121,401)	121,401
	<u>208,984</u>	<u>152,598</u>
Cash Flows from Investing Activities:		
Change in certificates of deposit	(434)	(2,801)
Purchases of fixed assets	(109,110)	-
	<u>(109,544)</u>	<u>(2,801)</u>
Cash Flows from Financing Activities:		
Capital grant	-	-
Proceeds from Paycheck Protection Program loan	-	240,900
	<u>-</u>	<u>240,900</u>
Net Change in Cash, Cash Equivalents and Restricted Cash	99,440	390,697
Cash, Cash Equivalents and Restricted Cash:		
Beginning of year	<u>1,810,294</u>	<u>1,419,597</u>
End of year	<u>\$ 1,909,734</u>	<u>\$ 1,810,294</u>
Reconciliation of Cash, Cash Equivalents and Restricted Cash Reported Within the Statements of Financial Position:		
Cash and cash equivalents	\$ 1,764,196	\$ 1,556,670
Restricted cash	<u>145,538</u>	<u>253,624</u>
Total cash, cash equivalents and restricted cash	<u>\$ 1,909,734</u>	<u>\$ 1,810,294</u>

The accompanying notes are an integral part of these statements.

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THE SECOND STEP, INC.

Statement of Functional Expenses

For the Year Ended June 30, 2021

(With Summarized Comparative Totals for the Year Ended June 30, 2020)

	2021								2020	
	Program Services					Supporting Services			Total	
	Residential	Children's Services	Community Programs	Legal Services	Outreach and Education	Total Program Services	General and Administrative	Institutional Advancement		
Expenses:										
Salaries and related:										
Salaries	\$ 223,004	\$ 70,896	\$ 211,042	\$ 192,532	\$ 38,764	\$ 736,238	\$ 138,871	\$ 254,249	\$ 1,129,358	\$ 1,198,136
Payroll taxes	41,356	3,910	21,877	11,800	3,489	82,432	11,283	22,748	116,463	109,226
Employee benefits	21,857	4,716	18,656	4,340	1,004	50,573	4,070	16,203	70,846	112,912
Total salaries and related	<u>286,217</u>	<u>79,522</u>	<u>251,575</u>	<u>208,672</u>	<u>43,257</u>	<u>869,243</u>	<u>154,224</u>	<u>293,200</u>	<u>1,316,667</u>	<u>1,420,274</u>
Program costs:										
Transitional assistance and other program expenses	42,525	4,151	104,723	2,069	-	153,468	-	-	153,468	119,106
Vehicle expense	1,039	325	-	-	-	1,364	-	-	1,364	1,901
Total program costs	<u>43,564</u>	<u>4,476</u>	<u>104,723</u>	<u>2,069</u>	<u>-</u>	<u>154,832</u>	<u>-</u>	<u>-</u>	<u>154,832</u>	<u>121,007</u>
Occupancy:										
Rent	69,180	-	29,913	16,908	-	116,001	7,176	14,203	137,380	134,264
Depreciation	63,927	1,830	-	-	-	65,757	556	-	66,313	65,650
Repairs and maintenance	57,447	-	1,047	45	-	58,539	946	417	59,902	36,191
Utilities	50,024	-	-	-	-	50,024	-	-	50,024	56,065
Total occupancy	<u>240,578</u>	<u>1,830</u>	<u>30,960</u>	<u>16,953</u>	<u>-</u>	<u>290,321</u>	<u>8,678</u>	<u>14,620</u>	<u>313,619</u>	<u>292,170</u>
Other costs:										
Professional services	10,795	700	20,050	-	-	31,545	57,955	6,489	95,989	79,477
Office expenses	15,200	-	2,885	3,549	-	21,634	18,976	6,835	47,445	28,666
Telecommunications	14,021	259	6,115	2,578	-	22,973	3,469	3,589	30,031	24,767
Insurance	4,519	2,557	6,409	2,947	-	16,432	8,494	4,686	29,612	23,417
Miscellaneous	5,107	-	238	2,095	4,877	12,317	9,752	4,804	26,873	25,456
Fundraising and community events	-	-	-	-	5,633	5,633	-	18,912	24,545	12,257
Training and education	209	40	2,385	2,636	-	5,270	5,765	6,485	17,520	3,823
Printing and postage	124	-	281	138	-	543	537	15,043	16,123	19,633
Advertising	-	-	946	-	-	946	71	-	1,017	3,441
Donated legal services	-	-	-	-	-	-	-	-	-	27,375
Total other costs	<u>49,975</u>	<u>3,556</u>	<u>39,309</u>	<u>13,943</u>	<u>10,510</u>	<u>117,293</u>	<u>105,019</u>	<u>66,843</u>	<u>289,155</u>	<u>248,312</u>
Total operating expenses before general and administrative allocation	620,334	89,384	426,567	241,637	53,767	1,431,689	267,921	374,663	2,074,273	2,081,763
General and administrative allocation	92,009	13,258	63,269	35,840	7,975	212,350	(267,921)	55,571	-	-
Total operating expenses	<u>\$ 712,343</u>	<u>\$ 102,642</u>	<u>\$ 489,836</u>	<u>\$ 277,477</u>	<u>\$ 61,742</u>	<u>\$ 1,644,039</u>	<u>\$ -</u>	<u>\$ 430,234</u>	<u>\$ 2,074,273</u>	<u>\$ 2,081,763</u>

THE SECOND STEP, INC.

Statement of Functional Expenses
For the Year Ended June 30, 2020

	Program Services					Supporting Services			
	Residential	Children's Services	Community Programs	Legal Services	Outreach and Education	Total Program Services	General and Administrative	Institutional Advancement	Total
Expenses:									
Salaries and related:									
Salaries	\$ 256,439	\$ 154,977	\$ 273,279	\$ 134,182	\$ 44,612	\$ 863,489	\$ 154,990	\$ 179,657	\$ 1,198,136
Payroll taxes	30,917	10,688	21,510	13,593	-	\$ 76,708	12,253	20,265	109,226
Employee benefits	25,945	15,260	25,638	12,489	1,093	\$ 80,425	19,751	12,736	112,912
Total salaries and related	<u>313,301</u>	<u>180,925</u>	<u>320,427</u>	<u>160,264</u>	<u>45,705</u>	<u>1,020,622</u>	<u>186,994</u>	<u>212,658</u>	<u>1,420,274</u>
Program costs:									
Transitional assistance and other program expenses	21,053	29,011	67,294	1,650	98	119,106	-	-	119,106
Vehicle expense	657	1,244	-	-	-	1,901	-	-	1,901
Total program costs	<u>21,710</u>	<u>30,255</u>	<u>67,294</u>	<u>1,650</u>	<u>98</u>	<u>121,007</u>	<u>-</u>	<u>-</u>	<u>121,007</u>
Occupancy:									
Rent	57,053	10,111	19,866	15,790	-	102,820	11,587	19,857	134,264
Depreciation	63,265	1,829	-	-	-	65,094	556	-	65,650
Repairs and maintenance	32,556	1,864	960	-	-	35,380	314	497	36,191
Utilities	51,280	4,785	-	-	-	56,065	-	-	56,065
Total occupancy	<u>204,154</u>	<u>18,589</u>	<u>20,826</u>	<u>15,790</u>	<u>-</u>	<u>259,359</u>	<u>12,457</u>	<u>20,354</u>	<u>292,170</u>
Other costs:									
Professional services	4,525	9,309	11,042	-	-	24,876	30,663	23,938	79,477
Office expenses	9,014	175	1,625	1,177	-	11,991	10,142	6,533	28,666
Telecommunications	10,732	1,710	5,073	2,136	-	19,651	1,990	3,126	24,767
Insurance	7,858	5,314	3,061	1,013	-	17,246	3,972	2,199	23,417
Miscellaneous	2,246	593	480	2,843	271	6,433	18,493	530	25,456
Fundraising and community events	-	-	-	-	2,476	2,476	122	9,659	12,257
Training and education	422	2,639	-	683	-	3,744	79	-	3,823
Printing and postage	73	-	768	343	2,156	3,340	685	15,608	19,633
Advertising	300	-	804	-	-	1,104	2,227	110	3,441
Donated legal services	-	-	27,375	-	-	27,375	-	-	27,375
Total other costs	<u>35,170</u>	<u>19,740</u>	<u>50,228</u>	<u>8,195</u>	<u>4,903</u>	<u>118,236</u>	<u>68,373</u>	<u>61,703</u>	<u>248,312</u>
Total operating expenses before general and administrative allocation	574,335	249,509	458,775	185,899	50,706	1,519,224	267,824	294,715	2,081,763
General and administrative allocation	<u>84,799</u>	<u>36,839</u>	<u>67,737</u>	<u>27,448</u>	<u>7,487</u>	<u>224,310</u>	<u>(267,824)</u>	<u>43,514</u>	<u>-</u>
Total operating expenses	<u>\$ 659,134</u>	<u>\$ 286,348</u>	<u>\$ 526,512</u>	<u>\$ 213,347</u>	<u>\$ 58,193</u>	<u>\$ 1,743,534</u>	<u>\$ -</u>	<u>\$ 338,229</u>	<u>\$ 2,081,763</u>

The accompanying notes are an integral part of these statements.

THE SECOND STEP, INC.

Notes to Financial Statements
June 30, 2021 and 2020

1. 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 provides services to adults, youth, and children in the Greater Boston and MetroWest areas of Massachusetts.

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.

2. 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

In accordance with *Not-for-Profit Entities, Topic 958* (Topic 958), TSS must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists (see Note 12). Indicators of a barrier include a measurable performance-related barrier or other measurable barriers, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement. Topic 958 prescribes that TSS should not consider probability of compliance with the barrier when determining if such awards are conditional and should be reported as conditional grant advance liabilities until such conditions are met.

A portion of TSS's revenue is derived from cost-reimbursable and unit-rate contracts (contracts), from Federal and State agencies, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts are recognized as revenue when TSS has incurred expenditures in compliance with specific contract provisions. These contracts are considered nonreciprocal transactions because TSS's community and customers receive the benefit as a result of the assets transferred.

Gifts, grants and contributions without donor restrictions are recorded as revenue when unconditionally received or pledged. Revenues from donor restricted grants and contributions are recorded as revenue and net assets with donor restrictions when TSS receives a commitment. Net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statements of activities and changes in net assets as net assets released from restrictions as costs are incurred or time or program restrictions have lapsed.

THE SECOND STEP, INC.

Notes to Financial Statements
June 30, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Special events revenue is from TSS's fundraising events and revenues are recognized at the time the event takes place. Special event income consists of both contributions and sales. The contribution portion of the special event income is recognized as revenue when unconditionally committed or received. The sales portion of the special event income is derived from various components, including sponsorships and program ads, in which the transaction price is determined annually. Fees collected in advance of the special events are initially recorded as deferred revenue (contract liabilities) and are only recognized in the accompanying statements of activities and changes in net assets after the special event has occurred and the performance obligation has been met. There was no deferred revenue as of June 30, 2021. Deferred revenue as of June 30, 2020, was \$121,401 as fees were collected in advance of the event set to occur in fiscal year 2021, which had a right of return.

All other income is recorded when earned.

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 \$27,375 for the year ended June 30, 2020, and consisted of legal services. There were no donated goods and services for the year ended June 30, 2021.

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.

Special Events

Special events are shown in the accompanying financial statements and the following is a summary for the years ended June 30:

	<u>2021</u>	<u>2020</u>
Contributions and support	\$ 205,332	\$ 147,856
Fundraising expenses	<u>24,317</u>	<u>8,486</u>
Total special events, net	<u>\$ 181,015</u>	<u>\$ 139,370</u>

Fundraising expenses are included with fundraising and community events in the accompanying statements of functional expenses.

THE SECOND STEP, INC.

Notes to Financial Statements
June 30, 2021 and 2020

2. 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 and Restricted Cash

Cash and cash equivalents and restricted cash 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 to be cash and cash equivalents. On the statements of cash flows, cash includes cash and cash equivalents and restricted cash.

The restricted cash balance includes the funding with donor restrictions in perpetuity received by TSS as of June 30, 2021 and 2020. As of June 30, 2020, restricted cash also includes unspent Paycheck Protection Program loan proceeds (see Note 8).

Certificates of Deposit

Certificates of deposit (CDs) consist of three CDs as June 30, 2021 and 2020. As of June 30, 2021, the CDs mature at various dates through October 2022. 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, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 deemed necessary as of June 30, 2021 and 2020.

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. There was no discount applied as of June 30, 2020, as all the amounts were due within a year.

An allowance for uncollectible pledges receivable is recorded based on management's analysis of specific accounts and collection history. As of June 30, 2020, there were no allowance 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.

Funding Concentrations

A significant portion of TSS's contract revenue is derived through various departments of the Commonwealth of Massachusetts and the United States Department of Housing and Urban Development (HUD). The following represents agencies which provided 10% or more of operating support.

	<u>2021</u>	<u>2020</u>
Massachusetts Department of Victim and Witness Assistance	21%	20%
Massachusetts Department of Public Health	16%	11%
HUD passed through Massachusetts Department of Housing and Community Development	10%	19%

As of June 30, 2021 and 2020, four agencies comprised 88% and 97% 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, 2021 and 2020, or on its results of operations for the years then ended.

THE SECOND STEP, INC.

Notes to Financial Statements
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses allocated are salaries and related, which are allocated on the basis of estimates of time and effort; occupancy costs, which are allocated on a square footage basis; and office expenses and telecommunications, which are allocated based on usage studies conducted annually.

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, 2021 and 2020. 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. Non-operating revenue consists of capital activity.

Subsequent Events

Subsequent events were evaluated through November 9, 2021, which is the date the financial statements were available to be issued. See Note 8 for an event that met the criteria for disclosure in the financial statements.

3. PLEDGES RECEIVABLE

Pledges receivable as of June 30, 2020, were due within one year and reflected as current on the accompanying statement of financial position.

Approximately 93% of pledges receivable were due from two donors as of June 30, 2020. As of June 30, 2021, there were no pledges receivable.

THE SECOND STEP, INC.

Notes to Financial Statements
June 30, 2021 and 2020

4. NET ASSETS

Net Assets Without Donor Restrictions

Net assets without donor restrictions are those net resources that bear no external restriction and are generally available for use by TSS. TSS has grouped its net assets without donor restrictions 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, 2021 and 2020, TSS did not deposit or withdraw any funds from the Board designated reserves. Interest earned on the invested funds is added to the reserve.

Net Assets With Donor Restrictions

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

Net assets with donor restrictions are restricted for the following purposes as of June 30:

	<u>2021</u>	<u>2020</u>
Ailene R. Giglio Fund	\$ 145,538	\$ 178,627
Purpose	41,474	41,474
Time (one to three years)	-	69,510
Capital	-	49,916
	<u>\$ 187,012</u>	<u>\$ 339,527</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 with donor restrictions in the accompanying statements of financial position as of June 30, 2021 and 2020.

THE SECOND STEP, INC.

Notes to Financial Statements
June 30, 2021 and 2020

4. NET ASSETS (Continued)

Net Assets With Donor Restrictions (Continued)

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 2021 and 2020, approximately \$33,000 and \$10,000, respectively, were withdrawn from the Fund.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2021</u>	<u>2020</u>
Land	\$ 130,000	\$ 130,000
Building and building improvements	2,269,086	2,258,397
Leasehold improvements	532,082	532,082
Furniture and fixtures	259,563	182,805
Vehicles	84,540	70,987
Office equipment	<u>48,897</u>	<u>48,897</u>
	3,324,168	3,223,168
Less - accumulated depreciation	<u>1,847,867</u>	<u>1,791,169</u>
Property and equipment, net	<u>\$ 1,476,301</u>	<u>\$ 1,431,999</u>

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

6. 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 the accompanying financial statements. TSS also rents space for its programs under an agreement that expires on June 30, 2022.

Rent expense was \$137,380 and \$134,264 for the years ended June 30, 2021 and 2020, respectively. Remaining future minimum lease payments are \$132,705 for fiscal year 2022.

THE SECOND STEP, INC.

Notes to Financial Statements
June 30, 2021 and 2020

7. CONTINGENT LOANS

TSS has the following contingent loans:

- The Community Economic Development Assistance Corporation (CEDAC) has provided 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, 2021 and 2020. 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 provided 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 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, 2021. 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, 2021 and 2020.

THE SECOND STEP, INC.

Notes to Financial Statements
June 30, 2021 and 2020

7. CONTINGENT LOANS (Continued)

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 \$409,500 and \$388,500 as of June 30, 2021 and 2020, respectively.

The outstanding balances of the contingent loans are as follows at June 30, 2021 and 2020:

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

8. PAYCHECK PROTECTION PROGRAM LOAN

TSS applied for and was awarded a forgivable loan of \$240,900 through the Paycheck Protection Program (PPP) established by the Coronavirus Aid, Relief and Economic Security Act (CARES Act) through a bank. The funds were used to pay certain payroll costs, including benefits during the covered period as defined in the CARES Act. A portion of these funds may be forgiven, as defined in the loan agreement, upon the decision by the lender following the submission of a forgiveness application, and the remainder of the funds will be due over a two-year period with interest at 1%. Any repayment will be deferred until the Small Business Administration (SBA) notifies the lender of the amount of the loan that will be forgiven. The balance of the loan which was not forgiven, plus interest, will be due in equal monthly payments through the maturity date as defined by the bank. There are no covenants with which to comply and the note is not secured by any collateral as of June 30, 2021. In October 2021, TSS received full forgiveness of the PPP loan.

There was no accrued interest on the note payable as of June 30, 2021, as it would be immaterial to the overall financial statements and was forgiven subsequent to year end.

9. RETIREMENT PLAN

TSS maintains a retirement plan under IRC Section 403(b) covering all employees. TSS contributed \$5,519 and \$4,903 to the plan in fiscal years 2021 and 2020, respectively, which is included in employee benefits in the accompanying statements of functional expenses.

10. 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.

THE SECOND STEP, INC.

Notes to Financial Statements
June 30, 2021 and 2020

11. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Financial assets available for TSS for general operating expenses within one year from the statements of financial position date as of June 30, 2021 and 2020, are as follows.

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents and restricted cash	\$ 1,909,734	\$ 1,810,294
Current portion of certificates of deposit	54,394	104,781
Accounts receivable	288,669	266,295
Current portion of pledges receivable	-	61,650
	<u>2,252,797</u>	<u>2,243,020</u>
Donor-imposed restrictions	(187,012)	(270,017)
Board designated	<u>(542,740)</u>	<u>(542,300)</u>
Total financial assets available	<u>\$ 1,523,045</u>	<u>\$ 1,430,703</u>

TSS has a policy to structure its financial assets to be available and liquid as its obligations become due. As of June 30, 2021 and 2020, TSS has financial assets equal to approximately nine months of operating costs. Occasionally, the Board designates a portion of any operating surplus to its operating reserve, which was \$337,111 and \$336,742 as of June 30, 2021 and 2020, respectively. This is a fund established by the governing board that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities.

12. CONTRACTS – CONDITIONAL

During fiscal year 2021 and 2020, TSS received government contracts and related totaling \$1,859,117 and \$1,805,751, respectively, that contained conditions that represent a barrier that must be overcome, as well as a right of return of assets or release from obligations. TSS recognizes these contracts when conditions are met. During the year ended June 30, 2021 and 2020, TSS recognized \$1,275,021 and \$1,089,385 of contracts, respectively. Conditional promises received by TSS at June 30, 2021 and 2020, consist of unit-rate and cost-reimbursable contracts totaling \$584,096 and \$716,366, respectively.

13. CONTINGENCIES

The COVID-19 pandemic in the United States has caused business disruption and a reduction in economic activity. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. While TSS expects this matter to negatively impact its operating results, the related financial impact and duration cannot be reasonably estimated at this time.

14. RECLASSIFICATIONS

Certain amounts in 2020 financial statements have been reclassified to conform with the 2021 presentation.