



**FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

THE SECOND STEP, INC.

Contents
June 30, 2024 and 2023

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Independent Auditor's Report

To the Board of Directors of
The Second Step, Inc.:

Opinion

We have audited the financial statements of The Second Step, Inc. (a Massachusetts corporation, not-for-profit) (TSS) which comprise the statements of financial position as of June 30, 2024 and 2023, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Second Step, Inc. as of June 30, 2024 and 2023, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of TSS and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, which raise substantial doubt about TSS's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance, and therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 TSS's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, which raise substantial doubt about TSS's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

AAFCPA, Inc.

Westborough, Massachusetts
October 31, 2024

THE SECOND STEP, INC.

Statements of Financial Position
June 30, 2024 and 2023

	2024			2023		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Assets						
Current Assets:						
Cash and cash equivalents	\$ 4,547,974	\$ 34,538	\$ 4,582,512	\$ 2,221,493	\$ 50,412	\$ 2,271,905
Restricted cash	-	82,133	82,133	-	108,112	108,112
Current portion of certificates of deposit	106,274	-	106,274	52,085	-	52,085
Contracts and grants receivable	213,390	-	213,390	249,536	-	249,536
Current portion of pledges receivable	-	70,000	70,000	60,000	-	60,000
Prepaid expenses and deposit	29,354	-	29,354	44,068	-	44,068
Total current assets	4,896,992	186,671	5,083,663	2,627,182	158,524	2,785,706
Certificates of Deposit, net of current portion	54,064	-	54,064	103,787	-	103,787
Pledges Receivable, net of current portion	-	50,000	50,000	-	-	-
Right-of-Use Assets - Operating, net	358,948	-	358,948	437,589	-	437,589
Property and Equipment, net	1,299,946	-	1,299,946	1,330,995	-	1,330,995
Total assets	<u>\$ 6,609,950</u>	<u>\$ 236,671</u>	<u>\$ 6,846,621</u>	<u>\$ 4,499,553</u>	<u>\$ 158,524</u>	<u>\$ 4,658,077</u>
Liabilities and Net Assets						
Current Liabilities:						
Accounts payable	\$ 31,022	\$ -	\$ 31,022	\$ 54,915	\$ -	\$ 54,915
Current portion of operating lease liabilities	82,333	-	82,333	68,514	-	68,514
Accrued expenses	65,528	-	65,528	74,334	-	74,334
Total current liabilities	178,883	-	178,883	197,763	-	197,763
Operating Lease Liabilities, net of current portion	298,483	-	298,483	379,843	-	379,843
Contingent Loans	1,301,850	-	1,301,850	1,301,850	-	1,301,850
Total liabilities	<u>1,779,216</u>	<u>-</u>	<u>1,779,216</u>	<u>1,879,456</u>	<u>-</u>	<u>1,879,456</u>
Net Assets:						
Without donor restrictions:						
Operating	1,007,668	-	1,007,668	2,042,065	-	2,042,065
Property and equipment	(23,772)	-	(23,772)	18,377	-	18,377
Board designated:						
Operating reserve	3,735,048	-	3,735,048	345,916	-	345,916
Capital asset reserve	111,790	-	111,790	61,691	-	61,691
Program reserve	-	-	-	152,048	-	152,048
Total without donor restrictions	<u>4,830,734</u>	<u>-</u>	<u>4,830,734</u>	<u>2,620,097</u>	<u>-</u>	<u>2,620,097</u>
With donor restrictions:						
Other donor restricted	-	154,538	154,538	-	50,412	50,412
Ailene R. Giglio Fund	-	82,133	82,133	-	108,112	108,112
Total with donor restrictions	<u>-</u>	<u>236,671</u>	<u>236,671</u>	<u>-</u>	<u>158,524</u>	<u>158,524</u>
Total net assets	<u>4,830,734</u>	<u>236,671</u>	<u>5,067,405</u>	<u>2,620,097</u>	<u>158,524</u>	<u>2,778,621</u>
Total liabilities and net assets	<u>\$ 6,609,950</u>	<u>\$ 236,671</u>	<u>\$ 6,846,621</u>	<u>\$ 4,499,553</u>	<u>\$ 158,524</u>	<u>\$ 4,658,077</u>

THE SECOND STEP, INC.

Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2024 and 2023

	2024			2023		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues and Support:						
Gifts, grants and contributions	\$ 2,610,254	342,894	\$ 2,953,148	\$ 791,942	\$ 45,000	\$ 836,942
Contracts	1,147,373	-	1,147,373	1,403,316	-	1,403,316
Special events	231,205	-	231,205	236,045	-	236,045
Investment and other income	215,930	-	215,930	37,318	-	37,318
Net assets released from restrictions	264,747	(264,747)	-	80,052	(80,052)	-
Total operating revenues and support	4,469,509	78,147	4,547,656	2,548,673	(35,052)	2,513,621
Operating Expenses:						
Program services:						
Residential	565,963	-	565,963	806,585	-	806,585
Community Programs	446,985	-	446,985	558,627	-	558,627
Legal Services	403,799	-	403,799	313,083	-	313,083
Outreach and Education	9,039	-	9,039	73,760	-	73,760
Total program services	1,425,786	-	1,425,786	1,752,055	-	1,752,055
Supporting services:						
General and administrative	377,854	-	377,854	361,591	-	361,591
Institutional advancement	455,231	-	455,231	291,100	-	291,100
Total supporting services	833,086	-	833,086	652,691	-	652,691
Total operating expenses	2,258,872	-	2,258,872	2,404,746	-	2,404,746
Changes in net assets	2,210,637	78,147	2,288,784	143,927	(35,052)	108,875
Net Assets:						
Beginning of year	2,620,097	158,524	2,778,621	2,476,170	193,576	2,669,746
End of year	\$ 4,830,734	\$ 236,671	\$ 5,067,405	\$ 2,620,097	\$ 158,524	\$ 2,778,621

The accompanying notes are an integral part of these statements.

THE SECOND STEP, INC.

Statements of Cash Flows

For the Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 2,288,784	\$ 108,875
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	73,249	69,969
Loss on asset disposal	-	8,511
Non-cash lease expense	89,563	82,098
Changes in operating assets and liabilities:		
Contracts and grants receivable	36,146	32,022
Pledges receivable	(60,000)	105,000
Prepaid expenses and deposit	14,714	123
Accounts payable	(23,893)	5,142
Operating lease liabilities	(78,463)	(71,330)
Accrued expenses	(8,806)	(11,558)
Net cash provided by operating activities	<u>2,331,294</u>	<u>328,852</u>
Cash Flows from Investing Activities:		
Purchase of certificates of deposit	(56,551)	(50,027)
Redemption of certificates of deposit	52,085	54,572
Purchases of property and equipment	(42,200)	-
Net cash provided by (used in) investing activities	<u>(46,666)</u>	<u>4,545</u>
Net Change in Cash, Cash Equivalents and Restricted Cash	2,284,628	333,397
Cash, Cash Equivalents and Restricted Cash:		
Beginning of year	<u>2,380,017</u>	<u>2,046,620</u>
End of year	<u><u>\$ 4,664,645</u></u>	<u><u>\$ 2,380,017</u></u>
Reconciliation of Cash, Cash Equivalents and Restricted Cash Reported Within the Statements of Financial Position:		
Cash and cash equivalents	\$ 4,582,512	\$ 2,271,905
Restricted cash	<u>82,133</u>	<u>108,112</u>
Total cash, cash equivalents and restricted cash	<u><u>\$ 4,664,645</u></u>	<u><u>\$ 2,380,017</u></u>

THE SECOND STEP, INC.

Statement of Functional Expenses

For the Year Ended June 30, 2024

(With Summarized Comparative Totals for the Year Ended June 30, 2023)

	2024							2023
	Program Services				Supporting Services			
	Residential	Community Programs	Legal Services	Outreach and Education	Total Program Services	General and Administrative	Institutional Advancement	Total
Expenses:								Total
Salaries and related:								
Salaries	\$ 274,110	\$ 253,924	\$ 305,353	\$ -	\$ 833,387	\$ 130,800	\$ 269,120	\$ 1,233,307
Payroll taxes	29,289	20,754	22,409	-	72,452	13,834	23,579	109,865
Employee benefits	8,318	16,094	22,191	-	46,603	39,391	7,631	93,625
Total salaries and related	311,717	290,772	349,953	-	952,442	184,025	300,330	1,436,797
Program costs:								
Transitional assistance and other program expenses	35,946	93,116	3,822	5,329	138,213	29	-	138,242
Vehicle expense	2,031	-	-	-	2,031	-	-	2,031
Total program costs	37,977	93,116	3,822	5,329	140,244	29	-	140,273
Occupancy:								
Rent	17,294	27,613	31,422	-	76,329	13,330	22,852	112,512
Depreciation	73,249	-	-	-	73,249	-	-	73,249
Repairs and maintenance	32,986	-	-	-	32,986	-	-	32,986
Utilities	31,577	-	-	-	31,577	-	-	31,577
Total occupancy	155,106	27,613	31,422	-	214,141	13,330	22,852	250,324
Other costs:								
Professional services	20,592	6,075	200	-	26,867	114,025	25,589	166,481
Fundraising and community events	-	-	-	2,942	2,942	-	62,695	65,637
Miscellaneous	11,970	2,155	4,454	451	19,030	27,342	9,824	56,196
Office expenses	9,100	1,201	1,694	317	12,312	26,720	9,789	48,821
Insurance	10,694	3,059	6,351	-	20,104	5,879	3,059	29,042
Telecommunications	8,259	4,665	4,568	-	17,492	3,133	4,499	25,124
Training and education	68	17,756	802	-	18,626	2,931	445	22,002
Printing and postage	299	573	533	-	1,405	440	14,597	16,442
Advertising	181	-	-	-	181	-	1,552	1,733
Total other costs	61,163	35,484	18,602	3,710	118,959	180,470	132,049	431,478
Total operating expenses before general and administrative allocation	565,963	446,985	403,799	9,039	1,425,786	377,854	455,231	2,258,872
General and administrative allocation	143,585	113,356	52,900	15,114	324,955	(377,854)	52,899	-
Total operating expenses	\$ 709,548	\$ 560,341	\$ 456,699	\$ 24,153	\$ 1,750,741	\$ -	\$ 508,130	\$ 2,258,872
								\$ 2,404,746

The accompanying notes are an integral part of these statements.

THE SECOND STEP, INC.

 Statement of Functional Expenses
 For the Year Ended June 30, 2023

	Program Services					Supporting Services		
		Community Programs	Legal Services	Outreach and Education	Total Program Services	General and Administrative	Institutional Advancement	
	Residential							Total
Expenses:								
Salaries and related:								
Salaries	\$ 404,655	\$ 258,937	\$ 240,649	\$ 51,787	\$ 956,028	\$ 158,387	\$ 178,315	\$ 1,292,730
Payroll taxes	41,753	21,595	17,860	5,179	86,387	14,307	16,469	117,163
Employee benefits	9,137	14,064	12,412	-	35,613	26,775	4,300	66,688
Total salaries and related	455,545	294,596	270,921	56,966	1,078,028	199,469	199,084	1,476,581
Program costs:								
Transitional assistance and other program expenses	20,293	173,308	2,959	-	196,560	-	-	196,560
Vehicle expense	231	-	-	-	231	-	-	231
Total program costs	20,524	173,308	2,959	-	196,791	-	-	196,791
Occupancy:								
Rent	69,718	23,567	21,283	-	114,568	22,329	20,947	157,844
Depreciation	69,413	-	-	-	69,413	556	-	69,969
Repairs and maintenance	64,310	-	-	-	64,310	-	-	64,310
Utilities	65,526	-	-	-	65,526	-	-	65,526
Total occupancy	268,967	23,567	21,283	-	313,817	22,885	20,947	357,649
Other costs:								
Professional services	17,526	8,650	1,775	-	27,951	71,882	-	99,833
Fundraising and community events	-	-	-	14,281	14,281	-	34,497	48,778
Miscellaneous	7,016	809	4,042	627	12,494	17,943	9,343	39,780
Office expenses	7,423	1,880	1,658	75	11,036	30,793	9,433	51,262
Insurance	14,349	2,957	2,957	-	20,263	6,393	2,957	29,613
Telecommunications	14,276	5,267	4,591	-	24,134	3,295	4,254	31,683
Training and education	924	47,022	2,418	-	50,364	8,269	70	58,703
Printing and postage	35	571	479	1,811	2,896	662	10,446	14,004
Advertising	-	-	-	-	-	-	69	69
Total other costs	61,549	67,156	17,920	16,794	163,419	139,237	71,069	373,725
Total operating expenses before general and administrative allocation	806,585	558,627	313,083	73,760	1,752,055	361,591	291,100	2,404,746
General and administrative allocation	137,405	108,477	50,623	14,464	310,968	(361,591)	50,623	-
Total operating expenses	\$ 943,990	\$ 667,104	\$ 363,706	\$ 88,224	\$ 2,063,023	\$ -	\$ 341,723	\$ 2,404,746

The accompanying notes are an integral part of these statements.

THE SECOND STEP, INC.

Notes to Financial Statements
June 30, 2024 and 2023

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).

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.

The restricted cash balance includes the funding with donor restrictions in perpetuity received by TSS as of June 30, 2024 and 2023.

Certificates of Deposit

Certificates of deposit (CDs) consist of three and five CDs as June 30, 2024 and 2023, respectively. As of June 30, 2024, the CDs mature at various dates through fiscal year 2025. CDs are classified in the accompanying statements of financial position based upon maturity dates.

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 SECOND STEP, INC.

Notes to Financial Statements
June 30, 2024 and 2023

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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.

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.

Contracts and Grants Receivable and Allowance for Uncollectible Accounts

Contracts and grants 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, 2024 and 2023.

Pledges Receivable

Pledges receivable are recorded as unconditionally committed and are stated at unpaid balances, less an allowance for doubtful accounts, if any. The allowance for doubtful accounts is recorded based on management's analysis of specific accounts and their estimate of amounts that may be uncollectible, if any. There was no allowance for doubtful accounts as of June 30, 2024 and 2023. Pledges receivable that are promised to be received more than one year after the statement of financial position date are discounted at an appropriate discount rate commensurate with the risks involved. There was no discount applied as of June 30, 2024 and 2023, as discount would be immaterial to the financial statements.

Property and Equipment and Depreciation

Property and equipment with an estimated useful life of greater than one year and a value greater than \$2,500 are recorded at cost, if purchased, or at fair value at the time of donation. Renewals and betterments are capitalized, while repairs and maintenance are expensed as they are incurred.

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, 2024 and 2023

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment and Depreciation (Continued)

TSS accounts for the carrying value of its property and equipment in accordance with the requirements of ASC Topic, *Impairment and Disposal of Long-Lived Assets*. As of June 30, 2024 and 2023, TSS has not recognized any reduction in the carrying value of its property and equipment in consideration of the requirement.

Right-of-Use Assets and Lease Liabilities

TSS determines whether an arrangement is a lease at inception of a contract. A contract is determined to be or contain a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from the use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed. TSS's lease agreements generally do not contain any material residual value guarantees or material restrictive covenants. TSS determines lease classification as operating or finance at the lease commencement date. TSS does not have any contracts where they serve as a lessor.

Leases result in the recognition of right-of-use (ROU) assets and lease obligations on the statement of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease obligation represents the obligation to make lease payments arising from the lease, measured on a discounted basis.

At lease inception, the lease obligation is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease obligation adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. Unless TSS's leases provide an implicit interest rate within the lease contract, TSS uses the practical expedient allowing for the use of the risk-free rate at the commencement date of the lease for determining the present value of lease payments.

In determining lease terms, leases which include options to extend the lease are considered in the determination of the ROU asset and lease obligation when it is reasonably certain that TSS will exercise that option. Lease expense is generally recognized on a straight-line basis over the lease term.

TSS has elected not to record leases with an initial term of twelve months or less on the statements of financial position. Lease expense on such leases is recognized on a straight-line basis over the lease term.

Revenue Recognition

In accordance with Topic 958, *Not-for-Profit Entities (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 9). 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.

THE SECOND STEP, INC.

Notes to Financial Statements
June 30, 2024 and 2023

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

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 clients receive the benefit as a result of the assets transferred. Amounts received prior to incurring qualifying expenditures or providing services are reported as deferred revenue in the accompanying statements of financial position.

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 an unconditional 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.

Special event income consists of both contributions and sales and is from TSS's fundraising events. 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. The sales portion of the special event income is recognized at the time the event takes place. 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, 2024 and 2023, related to special events.

All other income is recorded when earned.

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. There were no donated goods and services for the years ended June 30, 2024 and 2023.

TSS receives a significant amount of other volunteer services and donated goods in various aspects of its programs. Donated services are recognized as a contribution if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by people with these skills, and would otherwise be purchased by TSS. 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 requirements for recognition.

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, 2024 and 2023

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expense Allocations

Expenses related directly to a program are attributed 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, 2024 and 2023. 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 31, 2024, 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.

3. PLEDGES RECEIVABLE

Pledges receivable consisted of the following as of June 30:

	<u>2024</u>	<u>2023</u>
Amounts due in:		
Less than one year	\$ 70,000	\$ 60,000
Within two years	<u>50,000</u>	<u>-</u>
	120,000	60,000
Less - current portion	<u>70,000</u>	<u>60,000</u>
Pledges receivable, net	<u>\$ 50,000</u>	<u>\$ -</u>

As of June 30, 2024 and 2023, the pledges receivable balance was due from one donor and two donors, respectively.

THE SECOND STEP, INC.

Notes to Financial Statements
June 30, 2024 and 2023

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, and ROU asset - operating, net of related lease liabilities.

Board Designated - Operating Reserve - represent funds set aside by the Board of Directors to supplement operating cash flow needs. During fiscal year 2024, TSS added the proceeds from a significant contribution to the reserve. Withdrawals from this reserve require Board notification.

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. During fiscal year 2024, the Board of Directors made a decision to combine this reserve with the Operating Reserve

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, 2024 and 2023, TSS did not withdraw any funds from the Board designated reserves. During fiscal years 2024 and 2023, TSS rebalanced the Board reserves in accordance with change in cash management strategies approved by the Board of Directors.

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>2024</u>	<u>2023</u>
Time	\$ 120,000	\$ -
Ailene R. Giglio Fund	82,133	108,112
Purpose	<u>34,538</u>	<u>50,412</u>
	<u>\$ 236,671</u>	<u>\$ 158,524</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, 2024 and 2023.

THE SECOND STEP, INC.

Notes to Financial Statements
June 30, 2024 and 2023

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 2024 and 2023, approximately \$26,000 and \$23,000, respectively, were withdrawn from the Fund.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2024</u>	<u>2023</u>
Land	\$ 130,000	\$ 130,000
Building and building improvements	2,286,138	2,277,571
Leasehold improvements	-	515,958
Furniture and fixtures	274,405	264,813
Vehicles	32,163	66,265
Office equipment	<u>48,897</u>	<u>48,897</u>
	2,771,603	3,303,504
Less - accumulated depreciation	<u>1,471,657</u>	<u>1,972,509</u>
Property and equipment, net	<u>\$ 1,299,946</u>	<u>\$ 1,330,995</u>

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

6. LEASES

TSS leases its office space under an operating agreement which commenced in August 2022 and expires in September 2028, with monthly lease payments ranging from \$7,600 to \$8,600 over the lease period. The agreement requires TSS to pay all executory costs (property taxes, maintenance and insurance) which are expensed as variable lease costs. TSS used the risk-free rate of 2.64% to discount future lease payments to present value.

Future minimum lease payments for the lease agreement are as follows as of June 30, 2024:

2025	\$ 91,201
2026	91,710
2027	97,315
2028	97,824
2029	<u>24,456</u>
Total future undiscounted lease payments	402,506
Less - present value discount	21,690
Less - current portion	<u>82,333</u>
Lease liability, net of current portion	<u>\$ 298,483</u>

THE SECOND STEP, INC.

Notes to Financial Statements
June 30, 2024 and 2023

6. LEASES (Continued)

TSS previously rented space for its programs under a short-term agreement that expired on September 30, 2023. Following the expiration, the agreement was not renewed and TSS subsequently vacated the space.

The following summarizes the lease expense which is shown as rent expense in the accompanying statements of functional expenses for the years ended June 30:

	<u>2024</u>	<u>2023</u>
Operating lease costs	\$ 89,562	\$ 82,098
Short-term lease costs	17,295	69,180
Variable lease costs	<u>5,655</u>	<u>6,566</u>
Total lease costs	<u>\$ 112,512</u>	<u>\$ 157,844</u>

The following summarizes cash flow information related to leases for the years ended June 30:

	<u>2024</u>	<u>2023</u>
Cash paid for amounts included in the measurement of operating lease liabilities:	<u>\$ 78,463</u>	<u>\$ 71,330</u>
ROU assets obtained in exchange for lease obligations	<u>\$ -</u>	<u>\$ 508,123</u>

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, 2024 and 2023. 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 Executive Office of Housing and Livable Communities (EOHLC), formerly 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 SECOND STEP, INC.

Notes to Financial Statements
June 30, 2024 and 2023

7. 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, 2024. 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, 2024 and 2023.

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 \$472,500 and \$451,500 as of June 30, 2024 and 2023, respectively.

The outstanding balances of the contingent loans are as follows at June 30, 2024 and 2023:

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

8. CONCENTRATION OF FUNDING AND 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.

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 SECOND STEP, INC.

Notes to Financial Statements
June 30, 2024 and 2023

8. CONCENTRATION OF FUNDING AND CREDIT RISK (Continued)

The following represents agencies which provided 10% or more of operating revenues and support:

	<u>2024</u>	<u>2023</u>
Massachusetts Department of Public Health	11%	19%
Massachusetts Department of Victim and Witness Assistance	9%	18%
HUD passed through EOHLC	4%	16%

As of June 30, 2024 and 2023, receivables from two and three organizations comprised 84% and 85%, respectively, of contacts and grants 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 the corresponding 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, 2024 and 2023, or on its results of operations for the years then ended.

Additionally, during fiscal year 2024, TSS received a one-time contribution from one donor that comprised 44% of operating revenues and support.

9. CONDITIONAL FUNDING

During fiscal years 2024 and 2023, TSS received government contracts totaling \$1,610,753 and \$1,647,097, respectively. These contracts include conditions that constitute barriers which have to be met, as well as provisions for the return of assets or release from obligations if those conditions are not satisfied. TSS recognizes these contracts when conditions are met. These commitments are not included in the accompanying financial statements. As of June 30, 2024 and 2023, total amounts committed, but not recognized, were \$476,681 and \$248,436, respectively.

Additionally, TSS has been awarded a conditional grant from a private donor. Payment of this grant is conditional upon availability of funds as defined in the grant agreement. Accordingly, \$80,000 and \$100,000, respectively, representing the remaining balances of this grant, have not been earned or recognized as revenue in the accompanying financial statements as of June 30, 2024 and 2023.

10. CONTINGENCIES

In the ordinary course of business, TSS occasionally becomes involved in various claims. When management determines that a litigation contingency is likely to result in a loss and the amount can be reasonably estimated, the estimated loss is accrued. Management does not expect any adverse financial impact from open claims occurring in the normal course of business as of June 30, 2024 and 2023.

11. RETIREMENT PLAN

TSS maintains a retirement plan under IRC Section 403(b) covering all employees. TSS contributed \$27,254 and \$7,182 to the plan in fiscal years 2024 and 2023, respectively, which is included in employee benefits in the accompanying statements of functional expenses.

THE SECOND STEP, INC.

Notes to Financial Statements
June 30, 2024 and 2023

12. 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, 2024 and 2023, are as follows.

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents and restricted cash	\$ 4,664,645	\$ 2,380,017
Current portion of certificates of deposit	106,274	52,085
Contracts and grants receivable	213,390	249,536
Pledges receivable	<u>70,000</u>	<u>60,000</u>
	5,054,309	2,741,638
Donor-imposed restrictions	(236,671)	(158,524)
Board designated	<u>(3,846,838)</u>	<u>(559,655)</u>
Total financial assets available	<u>\$ 970,800</u>	<u>\$ 2,023,459</u>

TSS has a policy to structure its financial assets to be available and liquid as its obligations become due. As of June 30, 2024 and 2023, TSS has financial assets of about five and ten months, respectively, of operating costs. Occasionally, the Board designates a portion of any operating surplus to its operating reserve, which was \$3,735,048 and \$345,916 as of June 30, 2024 and 2023, 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.

13. RECLASSIFICATIONS

Certain amounts in the fiscal year 2023 financial statements have been reclassified to confirmation with the fiscal year 2024 presentation.