

THE NEXT STEP PUBLIC CHARTER SCHOOL

WASHINGTON, D.C.

-----  
COMPARATIVE AUDIT REPORT

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

**KENDALL, PREBOLA AND JONES**

Certified Public Accountants

PO BOX 259

BEDFORD, PENNSYLVANIA 15522-0259

(814) 623-1880

FAX (814) 623-7548

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# Kendall, Prebola and Jones, LLC

Certified Public Accountants

The Board of Directors  
The Next Step Public Charter School  
3047 15th Street, NW  
Washington, DC 20009

## INDEPENDENT AUDITOR'S REPORT

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the Next Step Public Charter School, (a nonprofit organization) which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and cash flows 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 Next Step Public Charter School, as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses and schedules of average cost per student are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2015, on our consideration of the Next Step Public Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Next Step Public Charter School's internal control over financial reporting and compliance.



Kendall, Prebola and Jones  
Certified Public Accountants

Bedford, Pennsylvania  
October 30, 2015



THE NEXT STEP PUBLIC CHARTER SCHOOL  
COMPARATIVE STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2015 AND 2014

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$ 7,039,250	\$ 4,580,304
Certificates of Deposit	250,000	-
Grants and Accounts Receivable, Net of Allowance for Doubtful Accounts	325,242	381,454
Prepaid Expenses	<u>77,626</u>	<u>24,588</u>
Total Current Assets	<u>\$ 7,692,118</u>	<u>\$ 4,986,346</u>
<u>Fixed Assets:</u>		
Fixed Assets, Net of Accumulated Depreciation	<u>\$ 9,188,143</u>	<u>\$ 9,526,427</u>
Total Fixed Assets	<u>\$ 9,188,143</u>	<u>\$ 9,526,427</u>
<u>Other Assets:</u>		
Deferred Financing Costs, Net of Amortization	\$ 281,996	\$ 18,000
Deposits	<u>44,808</u>	<u>-</u>
Total Other Assets	<u>\$ 326,804</u>	<u>\$ 18,000</u>
TOTAL ASSETS	<u>\$ 17,207,065</u>	<u>\$ 14,530,773</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities:</u>		
Accounts Payable	\$ 129,873	\$ 103,346
Accrued Interest Payable	21,738	28,579
Accrued Unemployment Claims	16,642	21,120
Accrued Salary and Vacation	132,936	158,541
Payroll Withholdings and Related Liabilities	34,802	9,956
Deferred Revenues	-	342,240
Current Portion of Long-Term Liabilities	<u>204,288</u>	<u>225,552</u>
Total Current Liabilities	<u>\$ 540,279</u>	<u>\$ 889,334</u>
<u>Long-Term Liabilities:</u>		
Notes Payable	\$ 7,688,118	\$ 7,694,124
Less: Current Portion	(204,288)	(225,552)
Security Deposit Payable	70,000	70,000
Interest Rate Swap	<u>213,743</u>	<u>-</u>
Total Long-Term Liabilities	<u>\$ 7,767,573</u>	<u>\$ 7,538,572</u>
Total Liabilities	<u>\$ 8,307,852</u>	<u>\$ 8,427,906</u>
<u>Net Assets:</u>		
Unrestricted	\$ 8,684,529	\$ 6,090,568
Board Designated	208,017	-
Temporarily Restricted	<u>6,667</u>	<u>12,299</u>
Total Net Assets	<u>\$ 8,899,213</u>	<u>\$ 6,102,867</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,207,065</u>	<u>\$ 14,530,773</u>

(See Accompanying Notes and Auditor's Report)

THE NEXT STEP PUBLIC CHARTER SCHOOL  
COMPARATIVE STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>June 30, 2015</u>				<u>June 30, 2014</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Revenues, Gains, and Other Support:</u>								
Per Pupil Funding Allocation	\$ 7,701,351	\$ -	\$ -	\$ 7,701,351	\$ 5,728,549	\$ -	\$ -	\$ 5,728,549
Federal Entitlements and Grants	236,436	-	-	236,436	279,854	-	-	279,854
State Grants	31,069	-	-	31,069	115,763	-	-	115,763
Private Grants and Contributions	3,490	49,712	-	53,202	110	47,950	-	48,060
Donated Services and Materials	44,267	-	-	44,267	5,350	-	-	5,350
Interest Income	7,430	-	-	7,430	-	-	-	-
 Rental Revenue	\$ 634,155	\$ -	\$ -	\$ 634,155	\$ 440,935	\$ -	\$ -	\$ 440,935
Less: Rental Expenses	(552,437)	-	-	(552,437)	(519,217)	-	-	(519,217)
 Net Rental Income/(Loss)	\$ 81,718	\$ -	\$ -	\$ 81,718	\$ (78,282)	\$ -	\$ -	\$ (78,282)
 Net Assets Released from Restrictions - Satisfaction of Program Restrictions	55,344	(55,344)	-	-	35,651	(35,651)	-	-
 Total Revenues, Gains and Other Support	\$ 8,161,105	\$ (5,632)	\$ -	\$ 8,155,473	\$ 6,086,995	\$ 12,299	\$ -	\$ 6,099,294
<u>Expenses:</u>								
Program Services	\$ 4,397,201	\$ -	\$ -	\$ 4,397,201	\$ 3,450,499	\$ -	\$ -	\$ 3,450,499
General and Administrative	746,328	-	-	746,328	720,229	-	-	720,229
Fundraising	1,855	-	-	1,855	2,764	-	-	2,764
 Total Expenses	\$ 5,145,384	\$ -	\$ -	\$ 5,145,384	\$ 4,173,492	\$ -	\$ -	\$ 4,173,492
 Changes in Net Assets before Change in Fair Value of Interest Rate Swap	\$ 3,015,721	\$ (5,632)	\$ -	\$ 3,010,089	\$ 1,913,503	\$ 12,299	\$ -	\$ 1,925,802
 Changes in Fair Value of Interest Rate Swap	\$ (213,743)	\$ -	\$ -	\$ (213,743)	\$ -	\$ -	\$ -	\$ -
 Change in Net Assets	\$ 2,801,978	\$ (5,632)	\$ -	\$ 2,796,346	\$ 1,913,503	\$ 12,299	\$ -	\$ 1,925,802
 Net Assets at Beginning of Year as Previously Reported	\$ 6,090,568	\$ 12,299	\$ -	\$ 6,102,867	\$ 4,179,579	\$ -	\$ -	\$ 4,179,579
 Adjusted for Restatement of Net Assets Beginning Balance (Note 1(l))	-	-	-	-	(2,514)	-	-	(2,514)
 Net Assets, Beginning of Year, as Restated	\$ 6,090,568	\$ 12,299	\$ -	\$ 6,102,867	\$ 4,177,065	\$ -	\$ -	\$ 4,177,065
 Net Assets, End of Year	\$ 8,892,546	\$ 6,667	\$ -	\$ 8,899,213	\$ 6,090,568	\$ 12,299	\$ -	\$ 6,102,867

(See Accompanying Notes and Auditor's Report)

THE NEXT STEP PUBLIC CHARTER SCHOOL  
COMPARATIVE STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<u>Cash Flows from Operating Activities:</u>		
Changes in Net Assets	\$ 2,796,346	\$ 1,925,802
Adjustments to Reconcile Changes in Net Assets to Net Cash Flows from Operating Activities:		
Depreciation and Amortization Expense	477,499	405,013
Amortization of Bond Issuance Costs	32,861	-
Unrealized Loss/(Gain) on Interest Rate Swap	213,743	-
Grants and Accounts Receivable - (Increase)/Decrease	56,212	47,972
Prepaid Expenses - (Increase)/Decrease	(53,038)	(4,626)
Deposits - (Increase)/Decrease	(44,808)	-
Accounts Payable - Increase/(Decrease)	26,527	(94,359)
Accrued Interest Payable - Increase/(Decrease)	(6,841)	(673)
Accrued Unemployment Claims - Increase/(Decrease)	(4,478)	(630)
Accrued Salary and Vacation - Increase/(Decrease)	(25,605)	43,221
Payroll Withholdings and Related Liabilities - Increase/(Decrease)	24,846	9,956
Deferred Revenues - Increase/(Decrease)	(342,240)	119,479
Security Deposit Payable - Increase/(Decrease)	<u>-</u>	<u>70,000</u>
Net Cash Flows from Operating Activities	<u>\$ 3,151,024</u>	<u>\$ 2,521,155</u>
<u>Cash Flows from Investing Activities:</u>		
Purchase of Fixed Assets	\$ (139,215)	\$ (244,188)
Purchase of Certificates of Deposit	<u>(250,000)</u>	<u>-</u>
Net Cash Flows from Investing Activities	<u>\$ (389,215)</u>	<u>\$ (244,188)</u>
<u>Cash Flows from Financing Activities:</u>		
Repayment on Notes Payable	\$ (7,826,006)	\$ (182,949)
Payments for Loan Financing Costs	(296,857)	(18,000)
Proceeds on Notes Payable	<u>7,820,000</u>	<u>-</u>
Net Cash Flows from Financing Activities	<u>\$ (302,863)</u>	<u>\$ (200,949)</u>
Net Increase in Cash and Cash Equivalents	\$ 2,458,946	\$ 2,076,018
Cash and Cash Equivalents at Beginning of Year	<u>4,580,304</u>	<u>2,504,286</u>
Cash and Cash Equivalents at End of Year	<u>\$ 7,039,250</u>	<u>\$ 4,580,304</u>

Noncash Investing and Financing Activities:

- a) During the year ended June 30, 2014, donated computer equipment of \$5,350 was received.

Supplemental Disclosures:

- a) Cash paid for interest for the years ended June 30, 2015 and 2014 was \$308,569 and \$378,991, respectively.
- b) No income taxes were paid during the years ended June 30, 2015 and 2014.

(See Accompanying Notes and Auditor's Report)

THE NEXT STEP PUBLIC CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

The Next Step Public Charter School (The Charter School), a District of Columbia Not-for-Profit Corporation was incorporated in March 1998, exclusively for educational purposes. The Public Charter School operates as part of the District of Columbia Public School System. The mission of the Next Step/El Próximo Paso Public Charter School is to provide students who face extraordinary challenges and who are not supported in traditional high schools the opportunity to continue their education.

The Charter School originated in a program for young parents developed by the Latin American Youth Center. The Teen Parent Program provided pregnant and parenting teens with an alternative educational option that would enable them to increase their academic level, prevent future pregnancies, improve parenting skills, and increase self-esteem. When the District of Columbia began permitting charter schools in 1996, the Charter School became one of the first schools to earn a charter from the Board of Education.

Since its early days, the Charter School has expanded its enrollment and opened its doors to all out-of-school youth in the city. Today the school serves 350 youth between the ages of 16 and 24 who are working to pass the GED in English and/or Spanish, learn English, go to college or trade school, and prepare for a career. The Middle States Association of Colleges and Schools accredited the Charter School in 2004 and reaccredited the school in 2009 and 2014. In 2011, the Public Charter School Board reauthorized the Charter School to operate for 15 more years, the first charter in D.C. to successfully complete this review process.

The Charter School continues to grow, although it intentionally commits to maintaining a small, family atmosphere where every student is known personally. In August 2012, the Charter School relocated from its long-time location on Columbia Road, Washington, DC, to a larger space at 3047 15th St., NW, Washington, DC.

The Charter School's primary sources of support are local appropriations for Charter Schools from the District of Columbia Government. The Charter School also receives federal entitlement funding through the Office of the State Superintendent of Education.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies of the Charter School are summarized below:

(a) Basis of Accounting and Presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting, which presents financial position, activities, functional expenses, and cash flows in accordance with accounting principles generally accepted in the United States of America.

(b) Revenue Recognition:

**Contributions**

The Charter School has adopted Financial Accounting Standards Board ASC No. 958-605-25 (formerly SFAS No. 116), *Accounting for Contributions Received and Contributions Made*. As such, contributions are recognized as revenue when they are received or unconditionally pledged.

THE NEXT STEP PUBLIC CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(b) Revenue Recognition: (Continued)

**Contributions** (Continued)

All contributions are available for unrestricted use unless specifically restricted by the donor. Contributions and promises to give with donor imposed conditions are recognized as unrestricted support when the conditions on which they depend are substantially met. Contributions and promises to give with donor imposed restrictions are reported as temporarily restricted support. Unconditional promises to give due in the next year are recorded at their net realizable value. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history and type of contribution.

The Charter School reports gifts of equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. The Charter School reports expirations of donor restrictions when the donated or acquired assets are placed in service.

**Federal and Charter School Funding**

The Charter School receives a student allocation from the District of Columbia as well as federal funding to cover the cost of academic expenses. The student allocation is on a per pupil basis and includes the academic year funding, special education funding, and a facilities allotment. The Next Step Public Charter School recognizes this funding in the year in which the school term is conducted. Per Pupil funding received in advance of the school term is recorded as a refundable advance.

Federal entitlements are recognized based on the allowable costs incurred.

(c) Corporate Taxes:

**Federal and State Income Taxes**

The Next Step Public Charter School is exempt from federal and state income taxes (other than unrelated business income) under the provisions of Section 501(c)(3) of the Internal Revenue Code and similar state income tax laws. Exemption from District of Columbia franchise and income taxes was granted to the Charter School effective July 10, 2000. Accordingly, no provisions for income taxes have been provided for in the accompanying financial statements. The organization has been classified as other than a private foundation under Section 509(a)(1) of the Internal Revenue Code and accordingly contributions qualify as a charitable tax deduction by the contributor under Section 170(b)(i)(A)(ii). The Charter School did not have any net unrelated business income for the year ended June 30, 2015.

**District of Columbia Real Estate Taxes and Sales Tax**

Pursuant to District of Columbia Code, effective January 1, 2012, the Next Step Public Charter School campus is exempt from real property taxation. In addition, the Next Step Public Charter School was granted sales tax exemption on July 15, 2000.

THE NEXT STEP PUBLIC CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(d) Grants:

Grant revenues are received primarily from Federal agencies and the District of Columbia Government. These grants are subject to financial and compliance audits by the grantor agencies. Such audits could result in a request for reimbursement by the agency for expenditures disallowed under the terms and conditions of the appropriate grantor. No provision for possible adjustment has been made in the accompanying financial statements because, in the opinion of management, such adjustment, if any, would not have a material effect on the financial statements.

Cash receipts in excess of costs incurred for grants are reflected as refundable advances until they are expended for the purpose of the grant, at which time they are recognized as unrestricted support. Costs incurred in excess of cash received are reflected as grants receivable.

(e) Net Assets:

The Charter School has adopted Financial Accounting Standards Board ASC No. 958-205-05 (formerly SFAS No. 117), *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC No. 958-205-05, the Charter School is required to report information regarding its financial position and activities according to three classes of net assets.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Charter School and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions and over which the Board of Directors has discretionary control. This classification includes net assets subject to donor-imposed conditions, which have been met in the current year and net assets subject to donor-imposed restrictions that have been released from restrictions. Net assets in the total amount of \$208,017 were designated by the board of directors during the year ended June 30, 2015. Of this amount, \$180,000 was designated for the purpose of building repairs and \$28,017 was designated for scholarships.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Charter School and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Temporarily restricted net assets were available at year end for the following program:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Teen Parent Support Program	\$ 6,667	\$ 12,299
Total Available	<u>\$ 6,667</u>	<u>\$ 12,299</u>

THE NEXT STEP PUBLIC CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(e) Net Assets: (Continued)

Temporarily Restricted Net Assets - (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of events specified by donors for the following activities:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Transitions	\$ 9,300	\$ 7,950
Teen Parent Support Program	45,632	27,701
Scholarships	<u>412</u>	<u>-</u>
Total Released	<u>\$ 55,344</u>	<u>\$ 35,651</u>

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that requires the net assets be maintained permanently by the Charter School. Generally, the donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes. The Charter School did not have any permanently restricted net assets as of June 30, 2015 or 2014.

(f) Donated Services and Materials:

Donated services and material are recognized as contributions in accordance with FASB ASC 958, *Accounting for Contributions Received and Contributions Made*, if the services received create or enhance nonfinancial assets or require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services and promises to give services that do not meet the above criteria are not recognized. The time contributed by the Charter School's Board of Directors is uncompensated and is not reflected as donated services. In-kind contributions are recorded in the Statement of Activities at estimated fair value and recognized as revenue and expense (or an asset) in the period they are received.

The estimated value of donated services and materials has been recorded in the financial statements as follows:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Legal Services	\$ 44,267	\$ -
Fixed Assets	<u>-</u>	<u>5,350</u>
Total	<u>\$ 44,267</u>	<u>\$ 5,350</u>

THE NEXT STEP PUBLIC CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(g) Basic Programs:

The Charter School offers students the support, knowledge and skills they need to succeed academically and professionally. The Charter School offers Adult Basic Education and GED preparation in English and Spanish as well as English for Speakers of Other Languages (ESOL) to District youth between the ages of 16 and 24. The Charter School offers a full-time day program and a part-time night program, which runs from September through August, enrolling three times each year. With a bilingual staff (English and Spanish) and wrap-around case management, TNSPCS provides a safe and nurturing environment that supports students and their families.

The Charter School's curriculum is based on the Common Core Standards and GED skills. Teachers individualize instruction to help students achieve their academic goals at their own pace. The Charter School places students by skill level, rather than age or grade, and promotes students according to their progress. When students complete their program of study, the Charter School transition program assists students and alumni with continued education and career planning.

**SERVICES**

**ADULT BASIC EDUCATION** - TNSPCS offers literacy, numeracy and other academic content at all levels of ability to students, in both English and Spanish, with placement based upon pre-tests.

**GED PREPARATION** - The Charter School offers students who test above the 8<sup>th</sup> grade level the preparation, guidance and support necessary to pass the exam to attain the General Education Development (GED) certificate in English or Spanish. Students in day and night school study GED content and skills in their classes, and must pass a preliminary practice test before they take the official exam. The Charter School offers financial assistance to those students who pass the practice test when they register for the official GED.

**ENGLISH LANGUAGE LEARNERS** - The Charter School offers ESOL classes to English Language Learners (ELLs) in day and night school. Students learn the language skills that will enable them to navigate effectively within their school, their community, and the wider world.

**LIFE SKILLS** - The Charter School offers interactive workshops addressing sexual health education, substance abuse, financial literacy, immigration and cultural adaptation, and community involvement. Teachers encourage students to develop their abilities in such academic life skills as goal-setting, organization, initiative and self-advocacy, independent work and collaboration within each class.

**TRANSITIONS** - The transitions program is designed to help Charter School students and alumni make and implement short and long-term plans for post-secondary and vocational paths. Two full-time transitions specialists provide workshops on job readiness skills (resume-writing, interviewing, etc.), manage the dual enrollment program whereby students take courses at two local colleges while enrolled at TNSPCS and offer guidance on college, employment and vocations, as well as help students access financial resources to continue their education.



THE NEXT STEP PUBLIC CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(g) Basic Programs: (Continued)

**SERVICES** (Continued)

CASE MANAGEMENT - Case managers complete an in-depth needs assessment of each student to evaluate what social, physical and emotional supports will enable the student to grow academically. Case managers counsel students and help them access appropriate social services.

YOUNG PARENT PROGRAM - The Charter School, in partnership with the Student Support Center's *New Heights* Program, supports expecting and parenting students through academic and extracurricular programs as well as pregnancy support and parenting classes. The aim of the program is to increase academic success, improve graduation rates and prevent subsequent unplanned pregnancies.

TUTORING PROGRAM/VOLUNTEERS - Volunteers are an essential part of the Charter School program, and their involvement allows individualized instruction for students, enabling students to progress at their own pace. Volunteers work during the day and night school as classroom aides, or as one-on-one tutors with students in the following subjects: ESOL, Reading and Language Arts, and Math. Bilingual tutors are also available.

FOOD PROGRAM - The Charter School provides a free breakfast, lunch and dinner program in accordance with Federal Law and the U.S. Department of Agriculture (USDA) policy.

**VISION**

At the Next Step Public Charter School, we envision a school for students where their past does not dictate their future. We envision students empowered to be independent self-advocates, who speak up for themselves and their families with clarity and knowledge. We envision students who are confident and self-disciplined in pursuing their own goals. We envision students who can work independently yet collaborate with diverse groups of people. We envision students who are not just recipients of instruction, but rather active participants in their education.

We envision the Next Step Public Charter School as a community of students, teachers, staff, and parents who agree to listen to each other, to support each other, to hold each other to high expectations, to speak truth with confidence, and to view differences as a catalyst for creativity. We envision a school where kindness and structure go hand in hand. We envision a school that maintains its delicate balance of high expectations for our students and relentless support in meeting those expectations.

We envision a world where all students, regardless of background, race, or status have the opportunity to further their education and to plan for future accomplishment rather than be marginalized by past failure. We envision a world where students who face extraordinary challenges are regarded as indispensable and inspiring members of society.

THE NEXT STEP PUBLIC CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(h) Functional Expense Allocation Policies and Procedures:

Management has elected to prepare a schedule of functional expenses that is presented as supplemental information to the financial statements. The schedule of functional expenses presents an allocation of each expense category between program services, general and administrative, and fundraising activities. Program service costs pertain to educating students. General and administrative costs pertain to supporting activities. Fundraising costs relate to fundraising activities such as special events, fundraisers and the soliciting of contributions.

Management has established functional expense allocation policies and procedures based on a reasonable analysis of cost drivers and reasonable allocation estimates based on financial results and industry standards.

Direct costs, where identifiable, are allocated in whole to the appropriate functional category. Direct student expenses (textbooks, materials, instructional supplies, assessment material, contract educational services, and field trips) are allocated entirely to program services.

Personnel expenses for salaries, payroll taxes and employee benefit plans are allocated based on job descriptions and management estimates of time spent on particular activities. Personnel expenses for salaries are divided into employee categories (executive, teachers, other educational staff, etc.) and then a percentage of time spent on program services, general and administrative activities, and fundraising activities is applied. All other personnel expenses (employee benefits, payroll taxes, staff development) are allocated based on the weighted average allocation of the direct salaries.

For other expenses where it would not be appropriate to designate 100 percent as a program service cost, general and administrative cost, or fundraising cost, the allocation formula for personnel expenses is utilized for cost allocation purposes.

(i) Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of support and revenues and expenses during the reporting period. Actual results could differ from those estimates.

(j) Fundraising:

During the years ended June 30, 2015 and 2014, expenses incurred for the purpose of fundraising were \$1,855 and \$2,764, respectively.

(k) Recognition of Salary Expense:

Salary expense is recognized in the year the service is rendered, which coincides with the academic year. Salaries unpaid at June 30 are recognized as expense and accrued salaries.

THE NEXT STEP PUBLIC CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(1) Prior Period Adjustments (June 30, 2014):

Per-Pupil Funding Receivable - The Next Step Public Charter School was provided per pupil funding in the amount of \$197,761 for summer school enhancement held in July and August of 2013. The full amount of \$197,761 was reflected as deferred revenue as of June 30, 2013, because the full amount of funds was received as of that date. In addition to this deferral, an additional amount of \$49,440, which represents 25% of the \$197,761, was recorded as being receivable from the Office of State Superintendent of Education (OSSE). As a result, the per-pupil funding was overstated by \$49,440 during the year ended June 30, 2013. Accordingly, an adjustment of \$49,440 was made to decrease previously reported net assets and a respective decrease was made to previously reported accounts receivable.

NCLB Grants Receivable - As of June 30, 2013, a total amount of \$35,094 was receivable from the Office of the State Superintendent of Education (OSSE) related to Title I and Title II No Child Left Behind (NCLB) entitlement funds. This amount represents expenses that were incurred during the period of April 1, 2013 through June 30, 2013, however they were not recorded as federal grants receivable as of June 30, 2013. Payment related to this grant was made on August 2, 2013, in the amount of \$28,565, and the remaining balance of \$6,529 was made on March 14, 2014. Accordingly, an adjustment of \$35,094 was made to increase previously reported net assets and a respective increase was made to previously reported grants receivable.

Grants Receivable - Grants receivable in the amount of \$27,766 and \$22,582 were being carried as a receivable as of June 30, 2012 and June 30, 2013, respectively. The total amount of \$50,348 was reflected as being reimbursable under the E-Rate Program. Under the E-rate program vendors are typically paid directly from the UCC for the telecommunication services provided. In addition to the E-Rate Program, an amount of \$13,088 was reflected as a grant receivable under the Office of the State Superintendent of Education Quality Zone Academy Bonds (QZAB) program. This amount was recorded as receivable during 2011, however this program lapsed in December 2011 and an invoice was never submitted for reimbursement. The effect for both programs was an overstatement of grants receivable in the amount of \$63,436. Accordingly, an adjustment of \$63,436 was made to decrease to previously reported net assets and a respective decrease was made to previously reported grants receivable.

Fixed Assets - Assets purchased requiring capitalization are entered on a manually maintained fixed asset schedule. During the year ended June 30, 2013, three separate assets were disposed of, however the disposal of these assets was duplicated in the accounting records of the Next Step Public Charter School. The disposal of these assets resulted in a loss on disposal in the total amount of \$3,077. Accordingly, an adjustment of \$3,077 was made to increase previously reported net assets and a respective increase was made to the furniture and equipment fixed asset account.

Accumulated Depreciation - During the year ended June 30, 2013, all of the assets that were placed into service in that fiscal year were calculated utilizing a full year of depreciation expense rather than basing depreciation on the date the asset was placed into service. As a result of utilizing a full years' worth of depreciation, the expense was overstated by an amount of \$46,129. Accordingly, the in service dates were appropriately corrected and an adjustment of \$46,129 was made to increase previously reported net assets and a respective decrease was made to the accumulated depreciation accounts.

THE NEXT STEP PUBLIC CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(l) Prior Period Adjustments (June 30, 2014): (Continued)

Accumulated Depreciation - On December 19, 2011, the Next Step Public Charter School purchased a school building for use during its 12/13 school year. This building was placed in service on May 30, 2012, and an estimated useful life of thirty (30) years was assigned to this building. In an effort to accommodate the needs of the school, renovations were made to the existing structure during the year ended June 30, 2013, that resulted in a total cost of \$887,684. The estimated useful life assigned to the renovations to the existing structure was assigned a useful life of fifteen (15) years. Because the building is owned by Next Step, and because the renovations became a physical component of the structure, the estimated useful life has been determined to be thirty (30) years. Accordingly, an adjustment of \$55,831 was made to increase previously reported net assets and a respective decrease was made to the accumulated depreciation account.

Accounts Payable - As of June 30, 2013, an amount of \$24,483 was recorded as a liability for real estate taxes on the school building that was owned by the Next Step Public Charter School. By letter dated September 12, 2012, the school was notified by the Office of the Chief Financial Officer of its exemption from real property taxation pursuant to D.C. Official Code, which exempts schools from the assessment of property tax. Accordingly, an adjustment of \$24,483 was recorded as an increase to previously reported net assets and a respective decrease was made to accounts payable.

Accrued Interest Payable - Interest expense in the amount of \$29,252 representing the amount of interest payable as of June 30, 2013, on the Building Hope, Office of the State Superintendent of Education (OSSE), and M & T Bank loans was not accrued on the outstanding debt balance at June 30, 2013. As a result, accrued interest payable and the related interest expense were understated by this amount. Accordingly, an adjustment of \$29,252 was made to decrease previously reported net assets and a respective increase was made to accrued interest payable.

Deferred Revenues - The Next Step Public Charter School entered into a noncancelable operating lease for the rental of office space located at 3047 15th Street, NW, Washington, D.C. to the Latin American Youth Center Career Academy Public Charter School. This operating lease commenced on August 1, 2012, for successive one year periods. Total rental payments of \$300,000 were received by the school as of June 30, 2013, representing the lease period of August 1, 2012 through July 31, 2013. Of the amount received by the school, \$25,000 related to rental fees for the month of July 2013. Accordingly, an adjustment of \$25,000 was made to decrease previously reported net assets and a respective increase was made to deferred revenues.

(m) Fair Value of Certain Financial Instruments:

Some of the Charter School's financial instruments are not measured at fair value on a recurring basis but nevertheless are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such accounts include cash, accounts receivable, prepaid expenses, accounts payable, and accrued expenses.

THE NEXT STEP PUBLIC CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(n) Certificates of Deposit:

Certificates of deposit are other investments with original maturities greater than three months and are carried at cost. The certificates of deposit do not qualify as securities as defined in Financial Accounting Standard Board ("FASB") Accounting Standards Codification ("ASC") 320, *Investments - Debt and Equity Securities*, thus the fair value disclosures required by ASC 820, Fair Value Measurements and Disclosures, are not provided.

(o) Advertising Costs:

Advertising and marketing costs are expensed when incurred. Marketing activities were conducted for the purpose of staff recruitment, promoting open enrollment and recruiting to the Charter School and to provide outreach to the community. Marketing expenses in the amount of \$60,706 and \$26,756 were incurred during the years ended June 30, 2015 and 2014, respectively.

2. ACCOUNTING FOR UNCERTAIN TAX POSITIONS:

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB ASC No. 740-10 [formerly Interpretation No. 48 (FIN 48)], *Accounting for Uncertainty in Income Taxes*, which is an interpretation of ASC 740's (formerly SFAS No. 109), *Accounting for Income Taxes*. FASB ASC No. 740-10 clarifies the accounting for uncertainty in income taxes recognized in the Next Step Public Charter School's financial statements in accordance with ASC 740's and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB ASC No. 740-10 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Next Step Public Charter School's tax return to determine whether the tax positions have a "more-likely-than-not" probability of being sustained by the applicable tax authority.

The Next Step Public Charter School performed an evaluation of uncertain tax positions for the year ended June 30, 2015, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of June 30, 2015, the statute of limitations for tax years 2011 through 2013 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the organization files tax returns. It is the Charter School's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of June 30, 2015, the School had no accruals for interest and/or penalties.

3. CASH, CASH EQUIVALENTS AND CERTIFICATES OF DEPOSIT:

Cash and Cash Equivalents:

Cash and cash equivalents at year end consisted of the following:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Checking Accounts - Non Interest Bearing	\$ -	\$ 4,580,304
Checking Account - Interest Bearing	<u>7,039,250</u>	<u>-</u>
Total	<u>\$ 7,039,250</u>	<u>\$ 4,580,304</u>

THE NEXT STEP PUBLIC CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

3. CASH, CASH EQUIVALENTS AND CERTIFICATES OF DEPOSIT: (Continued)

Certificates of Deposit:

Certificates of Deposit are valued at original cost. Balances at year end consisted of the following:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Certificates of Deposit	\$ 250,000	\$ -

For purposes of the cash flow statement and financial statement presentation, cash and cash equivalents are short term, highly liquid investments with maturities of three months or less.

The Charter School maintains its operating funds in one financial institution in the form of interest and non-interest bearing business checking accounts. These accounts are covered under the Federal Deposit Insurance Corporation (FDIC) Program. Federal Deposit Insurance Corporation Insurance coverage is \$250,000 per account category. Deposits held in non-interest-bearing transaction accounts are aggregated with any interest-bearing deposits and the combined total insured up to \$250,000.

As of June 30, 2015 and 2014, \$7,062,458 and \$4,333,229, respectively, of the bank balance was deposited in excess of Federal Deposit Insurance Corporation limits. Due to increased cash flows at certain times during the year, the amount of funds at risk may have been greater than at year end. The Charter School was at risk for the funds held in excess of the insured amounts. The Charter School has not experienced any losses related to these accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

4. FAIR VALUE MEASUREMENTS:

Financial Accounting Standards Board ASC Topic No. 820-10, *Fair Value Measurements*, formerly FASB Statement No. 157, establishes a framework for measuring fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC No. 820-10 are described as follows:

Level 1 - Valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets that the organization has the ability to access.

Level 2 - Valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability (such as interest note and yield curves);
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

THE NEXT STEP PUBLIC CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

4. FAIR VALUE MEASUREMENTS: (Continued)

Level 3 - Inputs to the valuation methodology are unobservable (Supported by little or no market activity) and not corroborated by market data. Unobservable inputs reflect the organizations estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2015.

*Interest Rate Swaps:* Valued based on several market inputs such as interest rates, swap spreads and yield curves.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The following table sets forth by level, within the fair value hierarchy, the organization's liabilities measured at fair value as of June 30, 2015.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Interest Rate Swap	\$ -	\$ 213,743	\$ -	\$ 213,743
Total	\$ -	\$ 213,743	\$ -	\$ 213,743

5. ACCOUNTS AND GRANTS RECEIVABLE:

Accounts and grants receivable are current and considered to be fully collectible as presented. Balances as of June 30, 2015 and 2014, consisted of the following:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<u>Accounts Receivable</u>		
Rent Receivable	\$ 205,441	\$ -
Per Pupil Funding	11,232	164,864
Reimbursable Expenses	16,178	-
Employees - Reimbursable Expenses	841	11,125
Interest Receivable	<u>220</u>	<u>-</u>
Total Accounts Receivable	<u>\$ 233,912</u>	<u>\$ 175,989</u>

THE NEXT STEP PUBLIC CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

5. ACCOUNTS AND GRANTS RECEIVABLE: (Continued)

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<u>Grants Receivable</u>		
E-rate	\$ 9,384	\$ 96,837
Addressing Special Populations	-	50,000
National School Lunch Program	8,780	16,349
Increasing Academic Quality	33,570	20,260
Education Technology	15,538	13,850
Elementary and Secondary Education, Title I	17,331	6,613
Elementary and Secondary Education, Title II	4,058	1,643
Elementary and Secondary Education, Title III	1,951	1,316
Healthy School Act	479	2,747
Child and Adult Care Food Program	239	651
Less: Allowance for Doubtful Accounts	<u>-</u>	<u>(4,801)</u>
Total Grants Receivable	<u>\$ 91,330</u>	<u>\$ 205,465</u>
Total Accounts and Grants Receivable	<u>\$ 325,242</u>	<u>\$ 381,454</u>

The Charter School's accounts and grants receivable consists of unsecured amounts due from funding sources whose ability to pay is subject to changes in general economic conditions. Because the Charter School does not require collateral, it is at credit risk for the amounts owed to it through the year and at year end.

Accounts and grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectable amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts or grants receivable.

6. FIXED ASSETS:

Furniture and equipment are recorded at cost, or in the case of contributed property at the fair market value at the date of contribution. If an expenditure in excess of \$500 results in an asset having an estimated useful life which extends substantially beyond the year of acquisition, the expenditure is capitalized at cost and depreciated over the estimated useful lives of the assets. When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts and other resulting gain or loss is reflected in income for the period. Depreciation has been provided on the straight-line method over the estimated useful lives of the assets. Depreciation expense for the years ended June 30, 2015 and 2014 was \$477,499 and \$405,013, respectively. Maintenance and repairs are charged to expenses as incurred.



THE NEXT STEP PUBLIC CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

6. FIXED ASSETS: (Continued)

Major classifications of fixed assets and their estimated useful lives are as summarized below:

June 30, 2015:

	<u>Depreciable Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Building and Improvements	15-30 Years	\$ 8,702,587	\$ 879,129	\$ 7,823,458
Land	-	1,027,230	-	1,027,230
Computer and Office Equipment	3-5 Years	879,135	547,080	332,055
Construction in Progress	-	<u>5,400</u>	<u>-</u>	<u>5,400</u>
Total		<u>\$ 10,614,352</u>	<u>\$ 1,426,209</u>	<u>\$ 9,188,143</u>

June 30, 2014:

	<u>Depreciable Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Building and Improvements	15-30 Years	\$ 8,695,366	\$ 579,409	\$ 8,115,957
Land	-	1,027,230	-	1,027,230
Computer and Office Equipment	3-5 Years	<u>752,540</u>	<u>369,300</u>	<u>383,240</u>
Total		<u>\$ 10,475,136</u>	<u>\$ 948,709</u>	<u>\$ 9,526,427</u>

7. OTHER ASSETS - FINANCING COSTS:

Loan origination fees and other expenses incurred to acquire loans are capitalized and amortized on a straight-line basis over the life of the loan. During May 2014, the Next Step Public Charter School incurred fees related to refinancing and consolidating all existing loans into a single loan with SunTrust Bank. In October 2014, the Charter School incurred an additional \$296,857 of loan costs. The loan with SunTrust bank was finalized on October 9, 2014. Amortization expense related to these loan fees for the years ended June 30, 2015 and 2014 was \$32,861 and \$0-, respectively.

<u>Description</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Book Value</u>	<u>Period</u>
Loan Refinance	\$ 314,857	\$ 32,861	\$ 281,996	7 Years
Totals	<u>\$ 314,857</u>	<u>\$ 32,861</u>	<u>\$ 281,996</u>	

8. DEFERRED REVENUES:

Deferred revenues at June 30, 2014, consisted of \$308,490 of per pupil summer school enrichment funding received for the summer school program to be operated subsequent to June 30, 2014 and \$33,750 of rental fees received for July 2014 rent.

THE NEXT STEP PUBLIC CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

9. INTEREST RATE SWAP:

On October 9, 2014, the Charter School entered into an interest rate swap agreement with SunTrust Bank for a notational amount equal to the obligation under the loan payable whereby a portion of the floating rate was swapped into a fixed rate. Under the agreement, the Charter School pays the bank interest at a fixed rate of 3.51% on the principal loan balance through the termination date of the sweep agreement, which is October 1, 2021. The swap mechanism is intended to allow the School to realize the potential benefit of a lower fixed rate by reducing the impact of market changes in the variable interest rate. Interest expense related to the interest rate swap for the year ended June 30, 2015 was \$90,516. At June 30, 2015, the fair value of the interest rate swap was \$213,743 and has been reflected as a liability in the Statements of Financial Position.

10. LOANS PAYABLE:

Building Hope:

On December 19, 2011, the School entered into a loan agreement with Building Hope for the amount of \$1,000,000 to purchase the property located at 3047 15<sup>th</sup> Street, NW, Washington, DC. The loan had a maturity date of December 19, 2014. The interest rate was 6% per annum. Quarterly payments of principal and interest of \$19,329 were required. Building Hope's security interest was recorded in the third deed of trust. The balance of this loan at June 30, 2015 and 2014, was \$-0- and \$953,419, respectively. This loan was refinanced with SunTrust Bank on October 9, 2014.

Office of the State Superintendent of Education for the District of Columbia:

On December 19, 2011, the School entered into a loan agreement with the Office of the State Superintendent of Education for the District of Columbia (OSSE) in the amount of \$1,000,000 to purchase the property located at 3047 15<sup>th</sup> Street, NW, Washington, DC. The original term was through December 19, 2014, with a balloon payment of \$954,572 due on that maturity date. Quarterly principal and interest payments of \$16,709 began on March 19, 2012. The interest rate was 4.5% per annum. The Office of the State Superintendent of Education for the District of Columbia's security interest was recorded in the second deed of trust. The balance of this loan at June 30, 2015 and 2014, was \$-0- and \$942,565, respectively. This loan was refinanced with SunTrust Bank on October 9, 2014.

Manufacturers and Traders Bank:

On December 19, 2011, the School entered into a term loan with the Manufacturers and Traders Bank (M & T Bank) in the amount of \$6,150,000. This note was for the purpose of acquiring the building and land located at 3047 15<sup>th</sup> Street, NW, Washington, DC. This note called for consecutive quarterly installments of principal and interest each payable over a three-year (3) period based on a twenty-five (25) year amortization. Principal and interest payments in the amount of \$104,447 were to be made on a quarterly basis. A balloon payment of any remaining outstanding principal and unpaid interest was required at the maturity date of December 1, 2014. This note bears interest at a fixed rate of 4.66%.

This loan was secured by the property located at 3047 15<sup>th</sup> Street, NW, Washington, DC, together with a security interest in the organization's assets. M & T Bank's security interest was recorded as the first deed of trust. As a condition of this loan, the School was required to maintain a debt service fund with M & T bank equal to fifteen months of principal and interest payments.

THE NEXT STEP PUBLIC CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

10. LOANS PAYABLE: (Continued)

Manufacturers and Traders Bank: (Continued)

As required by this loan, the America's Charter School Finance Corporation, an affiliate of Building Hope, a Charter Schools Facility Fund, has provided a limited guarantee in the amount of \$250,000. The term of the guarantee was for a three-year (3) period or until the guaranteed obligations was reduced to zero.

As required by this loan, the Office of Public Charter School Financing and Support, has provided a limited guarantee up to the amount of \$500,000. The term of the guarantee was for a five-year (5) period or until the LAYC Career Academy Public Charter School had achieved two consecutive years of minimum annual lease payments and minimum enrollment of 180 students.

The balance of this loan at June 30, 2015 and 2014, was \$-0- and \$5,798,140, respectively. This loan was refinanced with SunTrust Bank on October 9, 2014.

SunTrust Bank:

On October 1, 2014, the District of Columbia issued and sold revenue bonds (The Next Step Public Charter School, Inc. Project, Series 2014) totaling \$7,820,000 to SunTrust Bank, the proceeds of which were loaned to the Charter School for the purpose of consolidating and refinancing all existing debt as it related to the purchase and renovation of the building and land located at 3047 15th Street, NW, Washington DC. The proceeds were utilized to extinguish debt with the Office of the State Superintendent of Education (OSSE), Building Hope and Manufacturers and Traders Bank (M & T Bank) in the total amount of \$7,723,975, as well as to assist in the financing of a portion of the related loan acquisition and closing costs in the amount of \$96,025. This note calls for consecutive monthly installments of principal and interest each payable over a seven (7) year period based on a twenty-five (25) year amortization.

Maturity on this mortgage is scheduled for October 1, 2021, at which point there is a balloon payment of any remaining outstanding principal and unpaid interest currently scheduled to be in the amount of \$6,289,640. Payments are to be made on a monthly basis. The initial monthly principal installment was due on November 1, 2014, in the amount of \$33,854. This bond bears interest on a variable basis at two-and-fifty-five percentage points (2.55%) above seventy percent (70%) of the sum of one-month LIBOR rate.

The School entered into an interest rate swap agreement with SunTrust Bank to hedge floating rate exposure. The seven (7) year swap rate that was fixed at settlement was 3.51%. This loan is secured by the property located at 3047 15th Street, NW, Washington, DC, together with a security interest in the organization's assets. SunTrust Bank's security interest was recorded as the first deed of trust. As a condition of this loan, the Charter School must maintain a debt service ratio no less than 1.25 to 1.00 as well as unrestricted liquidity no less than \$1,500,000.

The balance of this loan at June 30, 2015, was \$7,688,118.

THE NEXT STEP PUBLIC CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

10. LOANS PAYABLE: (Continued)

SunTrust Bank: (Continued)

Future minimum required payments of principal and interest on this loan for the next five years are as follows:

<u>Year Ending June 30,</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 474,734	\$ 204,288	\$ 270,446
2017	473,896	211,574	262,322
2018	473,792	219,121	254,671
2019	473,684	226,938	246,746
2020	<u>474,223</u>	<u>235,033</u>	<u>239,190</u>
Total	<u>\$ 2,370,329</u>	<u>\$ 1,096,954</u>	<u>\$ 1,273,375</u>

11. RENTAL REVENUE:

LAYC Career Academy Public Charter School:

On December 19, 2011, the Next Step Public Charter School entered into a noncancelable operating lease to rent space to the Latin American Youth Center Career Academy Public Charter School for space located at 3047 15<sup>th</sup> Street, NW, Washington, DC. This lease commenced on August 1, 2012, and expires on August 1, 2017. Quarterly rental payments are required to be made. Rent payments at the time of the original lease signing were to be 100% of the per pupil facilities allotment received by the Latin American Youth Center Career Academy Public Charter School from the District of Columbia. The lease requires a minimum base rent of \$270,000 for year one, \$405,000 for year two, and \$540,000 for each remaining year of the lease. This lease required a security deposit of \$70,000. Upon execution of a loan payable with SunTrust Bank on October 9, 2014, required rental payments amended to be fifty percent (50%) of debt service payments plus forty percent (40%) of building operating expenses.

As of June 30, 2014, \$33,750 was paid in advance and is recognized in the Statement of Financial Position as deferred revenues. Rental revenue recognized related to this lease for the years ended June 30, 2015 and 2014 was \$611,515 and \$396,250, respectively.

The District Church:

On August 1, 2013, the Next Step Public Charter School entered into a noncancelable operating lease to rent space to the District Church for space located at 3047 15<sup>th</sup> Street, NW, Washington, DC. This lease commenced on August 1, 2013, and expired on June 30, 2014. This lease was renewed through June 30, 2015. Monthly rental fees as of June 30, 2015 and 2014 were \$1,000 and \$3,000, respectively. The District Church also committed to reimbursing the Next Step Public Charter School \$300 per month for security services. Total rental revenue under this lease for the years ending June 30, 2015 and 2014 was \$16,950 and \$36,000, respectively.

There was also \$5,690 and \$8,685 of revenue received for parking and space rentals on a month-to-month basis for the years ended June 30, 2015 and 2014. Total rental revenue for the years ended June 30, 2015 and 2014 was \$634,155 and \$440,935, respectively. Rental expenses related to these leases were \$552,437 and \$519,217 for the years ended June 30, 2015 and 2014, respectively.

THE NEXT STEP PUBLIC CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

12. DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD CONTRACT:

The Charter School was approved by the District of Columbia Public Charter School Board to operate a charter school in the District of Columbia. The District of Columbia Public Charter School Board (DCPCSB) is responsible for the ongoing oversight of the Schools fiscal management and academic acceptability. The contract dated July 1, 2011, provides for a 15-year charter unless sooner terminated in accordance with the contract. The charter contract may be renewed for successive 15-year periods if the DCPCSB deems that the Next Step Public Charter School is in compliance with its charter contract and District statutory provisions. In addition, in accordance with the Charter School Act, the DCPCSB is required to review the Next Step Public Charter School's charter every five years, which occurred during 2011. The DCPCSB may revoke (or not renew) a charter school contract if a school violates applicable law, materially violates the charter contract or fails to meet the student academic achievement expectations set forth in the charter contract. Consequently, management does not anticipate non-renewal or revocation of its charter.

As part of the agreement with the DCPCSB, the Charter School may be charged a public charter school fee, which is not to exceed one percent of the total revenues (less philanthropic and investment revenues) within the annual budget to cover the costs of undertaking the ongoing administrative responsibilities of the Board. For the year ended June 30, 2015, the Charter School incurred \$76,176 in administrative fees.

The charter contract provides that the Next Step Public Charter School may educate up to a predetermined number of students. However, this enrollment limit may be raised upon notification to and acceptance by the DCPCSB. The School enrollment ceiling for the year ended June 30, 2015, was not permitted to be greater than 350 students. Audit enrollment for the 2014/2015 year was 363 students and enrollment for the 2013/2014 year was 316 students.

13. PER-PUPIL FUNDING ALLOCATION:

The School receives local funding from the District of Columbia in the form of per-pupil educational allotments and facility allotments. This funding is based on the equivalent number of full-time students and is determined annually. For the year ended June 30, 2015, the per-student rate was \$13,668 for the alternative educational allotment and \$3,072 for the facility allotment. For the year ended June 30, 2014, the per-student rate was \$10,888 for the alternative educational allotment and \$3,000 for the facility allotment. Additional allotments were made for Special Education Services and English as a Second Language. Per-pupil funding for the years ended June 30, 2015 and 2014 was as follows:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Alternative Education	\$ 4,783,968	\$ 3,440,755
Special Education	287,117	265,231
Summer School Enrichment	610,897	362,625
English as a Second Language	944,169	711,938
Facilities Allowance	<u>1,075,200</u>	<u>948,000</u>
Total	<u>\$ 7,701,351</u>	<u>\$ 5,728,549</u>

THE NEXT STEP PUBLIC CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

14. FEDERAL ENTITLEMENTS AND GRANTS:

During the years ended June 30, 2015 and 2014, the Next Step Public Charter School participated in the following federal award programs:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
City Build Grant	\$ -	\$ 24,950
Increasing Academic Quality	64,685	20,260
Addressing Special Populations	-	50,000
Elementary and Secondary Education Act (Title I)	100,835	95,025
Elementary and Secondary Education Act (Title II)	23,612	23,084
Elementary and Secondary Education Act (Title III)	11,354	15,790
National School Lunch Program	31,354	46,586
Child and Adult Care Food Program	<u>4,596</u>	<u>4,159</u>
Total	<u>\$ 236,436</u>	<u>\$ 279,854</u>

Federal formula grants are allocations of money to States or their subdivisions in accordance with distribution formulas prescribed by law or administrative regulation, for activities of a continuing nature not confined to a specific project. The School receives federal formula grants under the provisions of the No Child Left Behind Act (NCLB) of 2001, P.L 107-110. NCLB funds are not intended to replace state or local educational funding. NCLB funds provide additional support to states, LEAs, and schools for specific purposes. Grants are provided by the U.S. Department of Education and passed through the District of Columbia Office of State Superintendent of Education.

The National School Lunch Program and School Breakfast Program are part of the child nutrition cluster of programs operated by the U.S. Department of Agriculture. The objectives of the child nutrition cluster programs are to: (1) assist States in administering food services that provide healthful, nutritious meals to eligible children in public and non-profit private schools, residential childcare institutions, and summer recreation programs; and (2) encourage the domestic consumption of nutritious agricultural commodities.

15. RELATED PARTY TRANSACTIONS:

Guarantee of Indebtedness:

The Charter School utilizes credit cards issued by SunTrust Bank for purchases related to the organization's activity. The credit cards are issued in the name of the School with a total credit limit of \$105,000, however the debt is guaranteed by employees of the School. These transactions were conducted on an arm's length basis and there is no quid pro quo.

Board of Directors:

One of the directors appointed to serve on the board of directors is a parent of students attending the Next Step Public Charter School. Parent trustees are elected by a majority vote of the board members from a list of qualified individuals submitted to the board by an advisory committee. A staff representative and alumnus representative is also appointed to the board.

THE NEXT STEP PUBLIC CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

15. RELATED PARTY TRANSACTIONS: (Continued)

Contributions:

Board members of the Next Step Public Charter School and organizations for which they are affiliated, provided professional services to the organization in the amount of \$31,950 during the year ended June 30, 2015.

These transactions were conducted on an arm's length basis and there is no quid pro quo.

16. CONCENTRATIONS:

Revenues:

The Charter School receives public funds from the DC government based on the number of students they enroll according to the Uniform Per Student Funding Formula developed by the Mayor and City Council. This per pupil allocation is supplemented with extra funds for students with special needs. During the years ended June 30, 2015 and 2014, ninety-four percent (94%) of total support was received from the District of Columbia in the form of per pupil funding. In addition to the revenue received through the Uniform Per Student Funding, the Charter School receives state and federal foundation grants awarded under the auspices of the U.S. Department of Education (No Child Left Behind and special education) as well as the U.S. Department of Agriculture (Child Nutrition). The Charter School is entitled to receive these funds by virtue of its recognition as a Local Education Agency by the District of Columbia Public Charter School Board (DC PCSB).

The Charter School is limited to enrolling students that are residents of the District of Columbia. As a DC Public Charter School, the School must compete for students against the DC Public School system as well as other DC Public Charter Schools.

17. CONTINGENCIES:

The Charter School was granted its initial charter by the District of Columbia Board of Education and then later reaffirmed by the District of Columbia Public Charter School Board, authorized under the District of Columbia School Reform Act of 1995, Public Law 104-134, as amended. The Charter School has no reason to believe that this relationship will be discontinued in the foreseeable future. However, any interruption of this relationship (i.e., the failure to continue this charter authorization or withholding funds) could adversely affect the Charter School's ability to finance ongoing operations.

The School depends on per pupil allocations, grants, and contributions for a significant portion of its revenues. The ability of the sources of revenues to continue giving amounts comparable with prior years may be dependent upon future economic conditions and continued deductibility for income tax purposes of grants and contributions to the School. While the School's board of directors and management believes the School has the resources to continue its programs, its ability to do so, and the extent to which it continues, may be dependent on the above factors.

Laws and regulations governing charter schools are complex and subject to interpretation. The Charter School believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing.

THE NEXT STEP PUBLIC CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

17. CONTINGENCIES: (Continued)

The viability of public charter schools and funding for these schools is dependent on the consensus of current and future administration of the District of Columbia Government. Any future change in dynamics could adversely affect the operations of public charter schools.

Accrual for Unemployment Claims:

The Charter School had originally elected to be self-insured against potential unemployment compensation claims. Under this arrangement, benefits paid by the DC Department of Employment Services to employees eligible for unemployment benefits are reimbursed by the Charter School to the Department, rather than paying contributions at a predetermined rate. At June 30, 2015 and 2014, the accrued unemployment claims of \$16,642 and \$21,120, respectively, in the statement of financial position, represent the School's best estimate of the probable costs of claims. It is reasonably possible that the School's estimate of the accrued liability will change in the near term. The School changed from self-insured to the contributory method effective January 1, 2014.

18. SUBSEQUENT EVENTS:

Financial Statement Preparation:

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through October 30, 2015, the date the financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements.

Enrollment:

Enrollment for the 2015/2016 school year is projected to be approximately three hundred and seventy-seven (377) students. These enrollment numbers are up from the current enrollment number of three hundred and fifty (350) students during the 2014/2015 school year.

19. RETIREMENT PLAN:

403(b) Plan:

The Charter School provides pension benefits for its employees through a defined contribution 403(b) retirement plan which is currently administered by TIAA-CREF. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Provisions of the plan allow for the employees to contribute up to the statutory limits set by the Internal Revenue Code. The Charter School is required to make employer non-elective safe harbor contributions of three percent (3%) of annual employee compensation for employees with one or more years of employment. For the year ended June 30, 2015, the Charter School contributed a dollar for dollar match up to four and a half percent (4.5%) of an employee's gross salary. The Charter School contributed a dollar for dollar match up to two percent (2%) of an employee's gross salary for the year ended June 30, 2014. The employer expense for the years ending June 30, 2015 and 2014 was \$80,273 and \$44,252, respectively.



THE NEXT STEP PUBLIC CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

20. EMPLOYEE BENEFITS:

The cost of fringe benefits incurred for the years ended June 30, 2015 and 2014, consisted of the following:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Social Security/Medicare	\$ 210,034	\$ 176,557
Health Insurance	225,371	157,120
Disability Insurance	16,722	12,670
Retirement	80,273	44,252
Unemployment	22,943	16,019
Workers Compensation	22,454	17,182
De Minimus	35,462	18,430
Life Insurance	3,993	3,411
Plan Administration Fees	1,500	2,366
Benefits Allocated to Rental Expense	<u>(22,538)</u>	<u>(11,302)</u>
Total	<u>\$ 596,214</u>	<u>\$ 436,705</u>

Flexible Benefits Plan:

The Next Step Public Charter School adopted a Section 125 Flexible Benefits Plan (Cafeteria Plan). Under this plan, employees are permitted to use pre-tax benefit dollars through payroll deduction to pay for health and dental insurance premiums.

21. OCCUPANCY COST:

The cost of occupancy for the years ended June 30, 2015 and 2014, consisted of the following:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Depreciation	\$ 345,531	\$ 298,528
Interest Expense	301,728	378,318
Insurance - Building	12,924	10,201
Contracted Building Services/Supplies	97,018	93,890
Maintenance and Repairs	35,173	29,563
Utilities	82,632	81,303
Security	4,400	2,029
Trash Removal	7,015	7,020
Pest Control	2,476	2,500
Occupancy Costs Allocated to Rental Expense	<u>(385,730)</u>	<u>(446,664)</u>
Total	<u>\$ 503,167</u>	<u>\$ 456,688</u>

THE NEXT STEP PUBLIC CHARTER SCHOOL  
COMPARATIVE SCHEDULES OF FUNCTIONAL EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	June 30, 2015				June 30, 2014			
	Total	Educational Services	General and Administrative	Fundraising	Total	Educational Services	General and Administrative	Fundraising
<u>Personnel, Salaries and Benefits:</u>								
Administration Salaries	\$ 327,272	\$ 124,254	\$ 202,005	\$ 1,013	\$ 395,611	\$ 132,640	\$ 261,872	\$ 1,099
Teachers' Salaries	1,085,934	1,085,934	-	-	952,914	948,659	4,255	-
Teachers' Aides/Support Salaries	371,471	334,135	37,336	-	281,046	276,751	4,295	-
Student Support Service Salaries	481,447	468,960	12,487	-	499,260	480,475	18,785	-
Clerical Salaries	213,510	129,078	84,432	-	77,177	-	77,177	-
Maintenance/Operation Salaries	163,109	132,667	30,442	-	147,666	109,109	38,557	-
Security Salaries	33,417	33,417	-	-	13,053	13,053	-	-
Employee Benefits	371,785	320,700	50,944	141	248,987	206,270	42,601	116
Payroll Taxes	224,429	193,592	30,752	85	187,718	155,513	32,118	87
Contracted Staff	36,472	34,472	2,000	-	94,991	82,117	12,874	-
Staff Development	77,141	66,567	10,574	-	37,749	31,287	6,462	-
Other Staff Related Expenses	6,552	5,654	898	-	2,744	2,274	470	-
Total Personnel, Salaries and Benefits	\$ 3,392,539	\$ 2,929,430	\$ 461,870	\$ 1,239	\$ 2,938,916	\$ 2,438,148	\$ 499,466	\$ 1,302
<u>Direct Student Costs:</u>								
Student Supplies and Materials	\$ 99,844	\$ 99,844	\$ -	\$ -	\$ 108,474	\$ 108,474	\$ -	\$ -
Food Service	129,191	129,191	-	-	78,210	78,210	-	-
Student Recruiting	60,706	60,706	-	-	26,756	26,756	-	-
Student Travel/Field Trips	14,930	14,930	-	-	18,736	18,736	-	-
Contracted Student Services	29,150	29,150	-	-	11,642	11,642	-	-
Transportation	62,942	62,942	-	-	8,055	8,055	-	-
Student Assessment Materials	12,177	12,177	-	-	7,250	7,250	-	-
Student Uniforms	4,042	4,042	-	-	2,892	2,892	-	-
Textbooks	113,414	113,414	-	-	2,592	2,592	-	-
Scholarships	8,980	8,980	-	-	-	-	-	-
Other Student Costs	51,741	51,741	-	-	36,361	36,361	-	-
Total Direct Student Costs	\$ 587,117	\$ 587,117	\$ -	\$ -	\$ 300,968	\$ 300,968	\$ -	\$ -
<u>Occupancy Costs:</u>								
Interest Expense - Building	\$ 150,864	\$ 130,135	\$ 20,672	\$ 57	\$ 191,283	\$ 158,466	\$ 32,728	\$ 89
Depreciation - Building	207,319	178,833	28,408	78	150,940	125,045	25,825	70
Contracted Building Services/Supplies	60,851	52,490	8,338	23	47,472	39,328	8,122	22
Utilities	55,274	47,679	7,574	21	46,888	38,844	8,022	22
Building Maintenance and Repairs	21,104	18,204	2,892	8	14,947	12,383	2,557	7
Building Insurance	7,755	6,688	1,063	4	5,158	4,272	883	3
Total Occupancy Costs	\$ 503,167	\$ 434,029	\$ 68,947	\$ 191	\$ 456,688	\$ 378,338	\$ 78,137	\$ 213

(See Accompanying Notes and Auditor's Report)

THE NEXT STEP PUBLIC CHARTER SCHOOL  
COMPARATIVE SCHEDULES OF FUNCTIONAL EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>June 30, 2015</u>				<u>June 30, 2014</u>			
	<u>Total</u>	<u>Educational Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>	<u>Educational Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>
<u>Office Expenses:</u>								
Office Supplies and Materials	\$ 33,620	\$ 29,126	\$ 4,227	\$ 267	\$ 28,728	\$ 23,145	\$ 4,497	\$ 1,086
Equipment Rental and Maintenance	18,587	16,033	2,547	7	10,230	8,475	1,750	5
Telecommunications	103,841	89,573	14,229	39	153,759	127,380	26,308	71
Travel	19,177	16,722	2,455	-	20,218	16,757	3,461	-
Printing and Copying	783	675	107	1	581	482	99	-
Postage and Shipping	549	473	75	1	478	396	82	-
Computer Support	53,714	46,334	7,360	20	37,418	30,999	6,402	17
Membership and Subscriptions	19,176	16,541	2,628	7	21,354	17,691	3,653	10
Meeting Expenses	1,767	1,525	242	-	1,204	998	206	-
Moving Costs	-	-	-	-	1,954	-	1,954	-
Total Office Expenses	<u>\$ 251,214</u>	<u>\$ 217,002</u>	<u>\$ 33,870</u>	<u>\$ 342</u>	<u>\$ 275,924</u>	<u>\$ 226,323</u>	<u>\$ 48,412</u>	<u>\$ 1,189</u>
<u>General Expenses:</u>								
Insurance	\$ 11,762	\$ 10,146	\$ 1,612	\$ 4	\$ 18,825	\$ 15,595	\$ 3,221	\$ 9
Accounting and Payroll Services	79,321	50,898	28,401	22	17,613	2,911	14,700	2
Legal Services	56,267	38,199	18,068	-	-	-	-	-
Authorizer Fee	76,176	-	76,176	-	35,766	-	35,766	-
Depreciation and Amortization	164,829	113,835	50,944	50	106,485	88,216	18,220	49
Early Loan Payoff Penalty	19,180	16,545	2,628	7	-	-	-	-
Loan Guaranty Fees	1,250	-	1,250	-	6,000	-	6,000	-
Bad Debt Expense	2,562	-	2,562	-	16,307	-	16,307	-
Total General Expenses	<u>\$ 411,347</u>	<u>\$ 229,623</u>	<u>\$ 181,641</u>	<u>\$ 83</u>	<u>\$ 200,996</u>	<u>\$ 106,722</u>	<u>\$ 94,214</u>	<u>\$ 60</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 5,145,384</u>	<u>\$ 4,397,201</u>	<u>\$ 746,328</u>	<u>\$ 1,855</u>	<u>\$ 4,173,492</u>	<u>\$ 3,450,499</u>	<u>\$ 720,229</u>	<u>\$ 2,764</u>

(See Accompanying Notes and Auditor's Report)

THE NEXT STEP PUBLIC CHARTER SCHOOL  
COMPARATIVE SCHEDULES OF AVERAGE COST PER STUDENT  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

June 30, 2015

	<u>Total Cost</u>	<u>Average Cost Per Student</u>
Instructional	\$ 3,963,172	\$ 10,918
Occupancy Cost	503,167	1,386
General and Administrative	677,381	1,866
Fundraising	<u>1,664</u>	<u>5</u>
Total	<u>\$ 5,145,384</u>	<u>\$ 14,175</u>

The above is the average per student cost for the year ended June 30, 2015, and is based on a full time equivalent (FTE) audit enrollment of 363 students. (The enrollment ceiling is 350 students.)

June 30, 2014

	<u>Total Cost</u>	<u>Average Cost Per Student</u>
Instructional	\$ 3,072,161	\$ 9,722
Occupancy Cost	456,688	1,445
General and Administrative	642,092	2,032
Fundraising	<u>2,551</u>	<u>8</u>
Total	<u>\$ 4,173,492</u>	<u>\$ 13,207</u>

The above is the average per student cost for the year ended June 30, 2014, and is based on a full time equivalent (FTE) enrollment of 316 students.

(See Accompanying Notes and Auditor's Report)

# Kendall, Prebola and Jones, LLC

Certified Public Accountants

The Board of Directors  
The Next Step Public Charter School  
3047 15th Street, NW  
Washington, DC 20009

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Next Step Public Charter School (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2015.

### ***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Next Step Public Charter School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Next Step Public Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Next Step Public Charter School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Next Step Public Charter School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item 2015-001.

***The Next Step Public Charter School's Response to Findings***

The Next Step Public Charter School's response to the findings identified in our audit is described in the accompanying schedule of findings. The Next Step Public Charter School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Kendall, Prebola and Jones  
Certified Public Accountants

Bedford, Pennsylvania  
October 30, 2015

THE NEXT STEP PUBLIC CHARTER SCHOOL  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2015

FINDINGS - FINANCIAL STATEMENT AUDIT

There were no audit findings in the prior year.

THE NEXT STEP PUBLIC CHARTER SCHOOL  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2015

I. Summary of Audit Results

- a. The auditor's report expresses an unmodified opinion on the financial statements of The Next Step Public Charter School.
- b. No significant deficiencies relating to the audit of the financial statements have been reported.
- c. One instance of noncompliance material to the financial statements of the Next Step Public Charter School was disclosed during the audit. (Item 2015-001)

II. Findings relating to the financial statements which are required to be reported in accordance with Government Auditing Standards

2015-001     Condition: The Next Step Public Charter School maintains a qualified 403(b) retirement plan which offers both employee elective deferrals as well as employer safe harbor and matching contributions. Employee deferrals are withheld on a per-pay basis and remitted to the plan's individual accounts. During the year ended June 30, 2015, the retirement withholding remittances were not made in what is considered to be a timely basis.

Criteria: In accordance with the regulations adopted and published through the 75 *Federal Register* 2068 on January 14, 2010, the U.S. Department of Labor established a 7-business day "safe harbor period" for employers with less than 100 participants to deposit employee contributions. Employers making their deposits during this safe harbor period will be treated as having timely remitted the employee contributions.

Cause: During the year ended June 30 2015, there was employee turnover within the Human Resource function at the Next Step Public Charter School. Upon termination of the employee who was designated to calculate and remit the retirement withholdings, other employees of the charter school were utilized to temporarily fill the role of the Human Resource director. During this interim period, timely filing of the retirement withholdings was overlooked.

Effect: When an employer does not make timely deposits, according to the Department of Labor this failure may constitute an operational mistake, giving rise to plan disqualification. A correction to this operational mistake may be made through the Employee Plans Compliance Resolution System (EPCRS).

Recommendation: We recommend that Next Step take corrective action through the Employee Plans Compliance Resolution System. This "self-correction" program is available for operational mistakes and does not require a fee from the charter school to utilize. Under this program, the school will have to determine which deposits made during the fiscal year ended June 30, 2015 and beyond were late and then calculate the lost earnings necessary to correct. These calculations are prepared through the utilization of a canned software program on the U.S. Department of Labor's website. In addition, the Next Step Public Charter School must remit any additional missed elective deferrals, together with lost earnings into the plans trust account. Finally, procedures should be reviewed to correct the deficiency that led to the late deposit.



NEXT STEP PUBLIC CHARTER SCHOOL  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2015

II. Findings relating to the financial statements which are required to be reported in accordance with Government Auditing Standards (Continued)

2015-001 (Continued)

Views of Responsible Officials:

We are in agreement with the issue as presented above and we have since taken steps to institute internal controls to ensure timely filing of retirement remittances. Since June 30, 2015, Next Step Public Charter School has outsourced its human resource function, including benefits management to an experienced firm. In addition, the School has employed a more seasoned in-house Human Resource staff member which is now a part of the Business Manager position. We have developed and instituted a series of actions that will now be taken each payroll, including a review of the retirement match computation and subsequent approval of the amount by both the outsourced human resource firm and internally assigned employees of the School. We have also instituted an electronic reminder system to ensure that all remittances are made within the safe-harbor time requirement of seven days. The School is also going to conduct its own internal audit of the retirement plan for the year ended June 30, 2015, through current date to ensure that all eligible employees are included.