

THE NEXT STEP PUBLIC CHARTER SCHOOL
WASHINGTON, D.C.

COMPARATIVE FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

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Kendall, Prebola and Jones, LLC

Certified Public Accountants

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, 2017 and 2016, 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, 2017 and 2016, 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.

Report on Supplementary Information

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 27, 2017, 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 solely 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 27, 2017

THE NEXT STEP PUBLIC CHARTER SCHOOL
COMPARATIVE STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$ 11,570,819	\$ 9,426,758
Certificates of Deposit	250,436	250,311
Grants and Accounts Receivable	132,643	129,220
Prepaid Expenses	<u>80,108</u>	<u>65,685</u>
Total Current Assets	<u>\$ 12,034,006</u>	<u>\$ 9,871,974</u>
<u>Fixed Assets:</u>		
Fixed Assets, Net of Accumulated Depreciation	<u>\$ 8,717,435</u>	<u>\$ 9,098,328</u>
Total Fixed Assets	<u>\$ 8,717,435</u>	<u>\$ 9,098,328</u>
<u>Other Assets:</u>		
Deposits	<u>\$ 70,110</u>	<u>\$ 69,111</u>
Total Other Assets	<u>\$ 70,110</u>	<u>\$ 69,111</u>
TOTAL ASSETS	<u>\$ 20,821,551</u>	<u>\$ 19,039,413</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities:</u>		
Accounts Payable	\$ 122,628	\$ 142,614
Accrued Interest Payable	21,275	21,892
Accrued Unemployment Claims	8,221	13,702
Accrued Salary and Vacation	212,780	182,456
Payroll Withholdings and Related Liabilities	18,607	16,267
Deferred Rental Income	51,091	-
Security Deposit Payable	70,285	-
Current Portion of Long-Term Liabilities	<u>173,502</u>	<u>166,594</u>
Total Current Liabilities	<u>\$ 678,389</u>	<u>\$ 543,525</u>
<u>Long-Term Liabilities:</u>		
Notes Payable	\$ 7,081,432	\$ 7,247,410
Less: Current Portion	(173,502)	(166,594)
Security Deposit Payable	-	70,271
Interest Rate Swap	<u>144,814</u>	<u>418,062</u>
Total Long-Term Liabilities	<u>\$ 7,052,744</u>	<u>\$ 7,569,149</u>
Total Liabilities	<u>\$ 7,731,133</u>	<u>\$ 8,112,674</u>
<u>Net Assets:</u>		
Unrestricted	\$ 12,693,216	\$ 10,638,268
Board Designated	332,202	288,471
Temporarily Restricted	<u>65,000</u>	<u>-</u>
Total Net Assets	<u>\$ 13,090,418</u>	<u>\$ 10,926,739</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 20,821,551</u>	<u>\$ 19,039,413</u>

(See Accompanying Notes and Auditor's Report)

THE NEXT STEP PUBLIC CHARTER SCHOOL
COMPARATIVE STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	June 30, 2017			June 30, 2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<u>Revenues, Gains, and Other Support:</u>						
Per Pupil Funding Allocation	\$ 6,673,589	\$ -	\$ 6,673,589	\$ 6,563,930	\$ -	\$ 6,563,930
Per Pupil Funding - Facilities Allowance	1,227,732	-	1,227,732	1,227,732	-	1,227,732
Federal Entitlements and Grants	614,079	-	614,079	441,947	-	441,947
State Grants	56,907	-	56,907	154,482	-	154,482
Private Grants and Contributions	3,525	78,850	82,375	7,984	15,337	23,321
Donated Services and Materials	153,341	-	153,341	293,910	-	293,910
Interest Income	25,454	-	25,454	21,997	-	21,997
Student Activity Fees	-	-	-	733	-	733
Rental Revenue	\$ 629,851	\$ -	\$ 629,851	\$ 579,278	\$ -	\$ 579,278
Less: Rental Expenses	(499,267)	-	(499,267)	(504,099)	-	(504,099)
Net Rental Income/(Loss)	<u>\$ 130,584</u>	<u>\$ -</u>	<u>\$ 130,584</u>	<u>\$ 75,179</u>	<u>\$ -</u>	<u>\$ 75,179</u>
Net Assets Released from Restrictions - Satisfaction of Program Restrictions	<u>13,850</u>	<u>(13,850)</u>	<u>-</u>	<u>22,004</u>	<u>(22,004)</u>	<u>-</u>
Total Revenues, Gains and Other Support	<u>\$ 8,899,061</u>	<u>\$ 65,000</u>	<u>\$ 8,964,061</u>	<u>\$ 8,809,898</u>	<u>\$ (6,667)</u>	<u>\$ 8,803,231</u>
<u>Expenses:</u>						
Program Services	\$ 6,533,143	\$ -	\$ 6,533,143	\$ 5,976,825	\$ -	\$ 5,976,825
General and Administrative	538,479	-	538,479	592,626	-	592,626
Fundraising	2,008	-	2,008	1,934	-	1,934
Total Expenses	<u>\$ 7,073,630</u>	<u>\$ -</u>	<u>\$ 7,073,630</u>	<u>\$ 6,571,385</u>	<u>\$ -</u>	<u>\$ 6,571,385</u>
Change in Net Assets before Change in Fair Value of Interest Rate Swap	\$ 1,825,431	\$ 65,000	\$ 1,890,431	\$ 2,238,513	\$ (6,667)	\$ 2,231,846
Change in Fair Value of Interest Rate Swap	<u>273,248</u>	<u>-</u>	<u>273,248</u>	<u>(204,320)</u>	<u>-</u>	<u>(204,320)</u>
Change in Net Assets	\$ 2,098,679	\$ 65,000	\$ 2,163,679	\$ 2,034,193	\$ (6,667)	\$ 2,027,526
Net Assets, Beginning of Year	<u>10,926,739</u>	<u>-</u>	<u>10,926,739</u>	<u>8,892,546</u>	<u>6,667</u>	<u>8,899,213</u>
Net Assets, End of Year	<u>\$ 13,025,418</u>	<u>\$ 65,000</u>	<u>\$ 13,090,418</u>	<u>\$ 10,926,739</u>	<u>\$ -</u>	<u>\$ 10,926,739</u>

(See Accompanying Notes and Auditor's Report)

THE NEXT STEP PUBLIC CHARTER SCHOOL
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<u>Cash Flows from Operating Activities:</u>		
Changes in Net Assets	\$ 2,163,679	\$ 2,027,526
Adjustments to Reconcile Changes in Net Assets to Net Cash Flows from Operating Activities:		
Depreciation Expense	486,114	477,560
Debt Issuance Costs - Interest	44,980	44,980
Unrealized Loss/(Gain) on Interest Rate Swap	(273,248)	204,320
Grants and Accounts Receivable - (Increase)/Decrease	(3,423)	196,022
Prepaid Expenses - (Increase)/Decrease	(14,423)	11,941
Deposits - (Increase)/Decrease	(999)	(24,303)
Accounts Payable - Increase/(Decrease)	(19,986)	12,740
Accrued Interest Payable - Increase/(Decrease)	(617)	154
Accrued Unemployment Claims - Increase/(Decrease)	(5,481)	(2,940)
Accrued Salary and Vacation - Increase/(Decrease)	30,324	49,520
Payroll Withholdings and Related Liabilities - Increase/(Decrease)	2,340	(18,535)
Deferred Rental Income - Increase/(Decrease)	51,091	-
Security Deposit Payable - Increase/(Decrease)	<u>14</u>	<u>271</u>
Net Cash Flows from Operating Activities	<u>\$ 2,460,365</u>	<u>\$ 2,979,256</u>
<u>Cash Flows from Investing Activities:</u>		
Purchase of Fixed Assets	\$ (105,221)	\$ (387,745)
Purchase of Certificates of Deposit	(250,436)	(250,311)
Proceeds on Sale of Certificates of Deposit	<u>250,311</u>	<u>250,000</u>
Net Cash Flows from Investing Activities	<u>\$ (105,346)</u>	<u>\$ (388,056)</u>
<u>Cash Flows from Financing Activities:</u>		
Repayment on Notes Payable	<u>\$ (210,958)</u>	<u>\$ (203,692)</u>
Net Cash Flows from Financing Activities	<u>\$ (210,958)</u>	<u>\$ (203,692)</u>
Net Increase in Cash and Cash Equivalents	\$ 2,144,061	\$ 2,387,508
Cash and Cash Equivalents at Beginning of Year	<u>9,426,758</u>	<u>7,039,250</u>
Cash and Cash Equivalents at End of Year	<u>\$ 11,570,819</u>	<u>\$ 9,426,758</u>

Supplemental Disclosures:

- a) Cash paid for interest for the years ended June 30, 2017 and 2016 was \$262,939 and \$270,593, respectively.
- b) No income taxes were paid during the years ended June 30, 2017 and 2016.

(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 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 as 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 chartering 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 “disconnected” youth in the city, ages 16-24. Today the school serves 400 youth 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 DC to successfully complete this review process.

The Charter School continues to grow, although it intentionally commits to maintaining an intimate atmosphere based upon strong staff-student relationships and restorative practices. In 2011, TNSPCS added an evening program and 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, allowing for significant growth.

The Charter School’s primary sources of support are local appropriations for Charter Schools from the District of Columbia. 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, *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 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 deferred revenue.

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 on 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 Charter School has been classified as other than a private foundation under Section 509(a)(3) 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 years ended June 30, 2017 and 2016.

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 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. 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, *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 \$332,202 and \$288,471, respectively, were designated by the Board of Directors during the years ended June 30, 2017 and 2016, for two separate purposes. Net assets in the amount of \$240,000 were designated during the years ended June 30, 2017 and 2016, to be expended for building repairs. In addition, net assets in the amount of \$92,202 and \$48,471 were designated to be expended for scholarships during the years ended June 30, 2017 and 2016, respectively.

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.

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)

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

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Breakthrough Schools DC	\$ 65,000	\$ -
Total Available	<u>\$ 65,000</u>	<u>\$ -</u>

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

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Breakthrough Schools DC	\$ 10,000	\$ -
Scholarships	3,850	200
Transitions	-	13,000
Teen Parent Support Program	-	6,667
Professional Development	<u>-</u>	<u>2,137</u>
Total Released	<u>\$ 13,850</u>	<u>\$ 22,004</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, 2017 or 2016.

(f) Donated Services and Materials:

Donated services and materials 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 NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(f) Donated Services and Materials: (Continued)

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

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Strategic Planning - Consulting	\$ 151,200	\$ 154,400
Legal Services	2,141	115,903
Software	<u>-</u>	<u>23,607</u>
Total	<u>\$ 153,341</u>	<u>\$ 293,910</u>

(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. The Charter School has a robust Student Support Service department and Career and Life Skills program to complement the academic program. TNSPCS provides a safe and nurturing environment that supports students and their families and uses Restorative Practices from classroom to principal's office.

The Charter School's curriculum is based on the Common Core Standards. 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 College and Career Readiness 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 8th 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.

THE NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(g) Basic Programs: (Continued)

Services (Continued)

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.

COLLEGE AND CAREER READINESS - The CCR 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 CCR 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.

STUDENT SUPPORT SERVICES - 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. Every student is assigned a case manager when they enroll at The Next Step. The department is made up of social workers, case managers, attendance and transportation coordinators and a resource and enrichment coordinator. Each of these service providers works with students individually and collectively to identify any areas of their psychosocial functioning that require support.

TUTORING PROGRAM/VOLUNTEERS - Both paid and volunteer tutors 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. Tutors 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.

THE NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(g) Basic Programs: (Continued)

Vision (Continued)

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.

(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 materials, contracted student services, and field trips) are allocated entirely to program services.

Personnel expenses for salaries are allocated based on job descriptions and management estimates of time spent on particular activities. Personnel expenses for salaries are divided into employee categories (administration, 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.

THE NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(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) 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.

(k) 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.

(l) 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.

(m) Reclassifications:

Certain accounts in prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications had no effect on the change in the net assets or to total net assets from the prior years.

2. ACCOUNTING FOR UNCERTAIN TAX POSITIONS:

Accounting principles generally accepted in the United States of America provide consistent guidance for the accounting for uncertainty in income taxes recognized in the Charter School's financial statements and prescribe a threshold of "more likely than not" for recognition of tax positions taken or expected to be taken in a tax return. The Next Step Public Charter School performed an evaluation of uncertain tax positions for the year ended June 30, 2017, 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, 2017, the statute of limitations for tax years 2013 through 2015 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Charter School 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, 2017, the Charter School had no accruals for interest and/or penalties.

THE NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

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, 2017</u>	<u>June 30, 2016</u>
Checking Accounts - Interest Bearing	\$ 11,200,424	\$ 8,883,200
Money Market Savings Accounts	370,395	310,278
Checks on Hand	<u>-</u>	<u>233,280</u>
Total	<u>\$ 11,570,819</u>	<u>\$ 9,426,758</u>

Certificates of Deposit

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

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Certificates of Deposit	<u>\$ 250,436</u>	<u>\$ 250,311</u>

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 bearing business checking accounts and money market savings 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 interest-bearing deposits and the combined total insured up to \$250,000.

As of June 30, 2017 and 2016, \$11,572,441 and \$9,194,931, 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 MEASUREMENT:

Financial Accounting Standards Board ASC Topic No. 820-10, *Fair Value Measurement*, 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:

THE NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

4. FAIR VALUE MEASUREMENT: (Continued)

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.

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 organization's 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, 2017.

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 Charter School 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 Charter School's liabilities measured at fair value as of June 30, 2017 and 2016.

<u>June 30, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Interest Rate Swap	\$ -	\$ 144,814	\$ -	\$ 144,814
Total	<u>\$ -</u>	<u>\$ 144,814</u>	<u>\$ -</u>	<u>\$ 144,814</u>
<u>June 30, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Interest Rate Swap	\$ -	\$ 418,062	\$ -	\$ 418,062
Total	<u>\$ -</u>	<u>\$ 418,062</u>	<u>\$ -</u>	<u>\$ 418,062</u>

THE NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

5. ACCOUNTS AND GRANTS RECEIVABLE:

Accounts and grants receivable are current and considered to be fully collectible by management. Balances as of June 30, 2017 and 2016, consisted of the following:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<u>Accounts Receivable</u>		
Reimbursable Expenses	\$ 13,767	\$ 3,073
Interest Receivable	55	52
Rent Receivable	-	7,784
Per Pupil Funding	<u>-</u>	<u>1,643</u>
Total Accounts Receivable	<u>\$ 13,822</u>	<u>\$ 12,552</u>
<u>Grants Receivable</u>		
DC School Choice Incentive (SOAR)	\$ 60,273	\$ 22,124
E-Rate (USAC)	24,991	74,430
Elementary and Secondary Education, Title III	12,461	2,154
Elementary and Secondary Education, Title II	7,941	2,404
Individuals with Disabilities Education Act	7,031	-
National School Lunch and Breakfast Program	4,201	4,673
Child and Adult Care Food Program	1,339	1,128
Healthy Schools Act	319	374
Elementary and Secondary Education, Title I	<u>265</u>	<u>9,381</u>
Total Grants Receivable	<u>\$ 118,821</u>	<u>\$ 116,668</u>
Total Accounts and Grants Receivable	<u>\$ 132,643</u>	<u>\$ 129,220</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 throughout 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. Management believes that an allowance was not required based on its evaluation of collectability of receivables for the years ended June 30, 2017 and 2016.

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 \$1,000 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 any resulting gain or loss is reflected in income for the period.

THE NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

6. FIXED ASSETS: (Continued)

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, 2017 and 2016 was \$486,114 and \$477,560, respectively. Maintenance and repairs are charged to expenses as incurred. Major classifications of fixed assets and their estimated useful lives are as summarized below:

June 30, 2017

	<u>Depreciable Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Building and Improvements	15-30 Years	\$ 8,970,554	\$ 1,492,234	\$ 7,478,320
Land	-	1,027,230	-	1,027,230
Computer and Office Equipment	3-5 Years	<u>916,257</u>	<u>704,372</u>	<u>211,885</u>
Total		<u>\$ 10,914,041</u>	<u>\$ 2,196,606</u>	<u>\$ 8,717,435</u>

June 30, 2016

	<u>Depreciable Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Building and Improvements	15-30 Years	\$ 8,941,013	\$ 1,182,782	\$ 7,758,231
Land	-	1,027,230	-	1,027,230
Computer and Office Equipment	3-5 Years	<u>984,970</u>	<u>672,103</u>	<u>312,867</u>
Total		<u>\$ 10,953,213</u>	<u>\$ 1,854,885</u>	<u>\$ 9,098,328</u>

7. INTEREST RATE SWAP:

On October 9, 2014, the Charter School entered into an interest rate swap agreement with SunTrust Bank for a notional 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 swap agreement, which is October 1, 2021. The swap mechanism is intended to allow the Charter 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 years ended June 30, 2017 and 2016 was \$92,401 and \$116,563, respectively. At June 30, 2017 and 2016, the fair value of the interest rate swap was \$144,814 and \$418,062, respectively, and has been reflected as a liability in the statements of financial position.

8. LOANS PAYABLE:

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 NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

8. LOANS PAYABLE: (Continued)

SunTrust Bank (Continued)

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 Charter 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, 2017 and 2016, prior to netting debt issuance costs, was \$7,273,469 and \$7,484,426, respectively. Interest expense related to this loan for the years ended June 30, 2017 and 2016 was \$262,322 and \$270,747, respectively.

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

Year Ending <u>June 30,</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Loan Acquisition Cost Interest</u>
2018	\$ 473,792	\$ 218,482	\$ 255,310	\$ 44,980
2019	473,684	226,276	247,408	44,980
2020	474,223	234,347	239,876	44,980
2021	473,456	242,706	230,750	44,980
2022	<u>6,426,842</u>	<u>6,351,658</u>	<u>75,184</u>	<u>12,117</u>
Total	<u>\$ 8,321,997</u>	<u>\$ 7,273,469</u>	<u>\$ 1,048,528</u>	<u>\$ 192,037</u>

Debt Issuance Costs

During the year ended June 30, 2017, the Charter School retroactively adopted the requirements in FASB ASC 835-30 to present debt issuance costs as a reduction of the carrying amount of the related debt rather than as an asset. Long-term debt as of June 30, 2017, was previously reported on the statement of financial position as \$7,484,426 with the associated \$237,016 unamortized debt issuance costs included in other assets. Amortization of the debt issuance costs is reported as interest expense in the schedules of functional expenses.

THE NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

8. LOANS PAYABLE: (Continued)

Debt Issuance Costs (Continued)

Long-term debt at June 30, 2017 and 2016 consisted of the following:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Notes Payable	\$ 7,273,469	\$ 7,484,426
Less: Unamortized Debt Issuance Costs	<u>(192,037)</u>	<u>(237,016)</u>
Subtotal	\$ 7,081,432	\$ 7,247,410
Less: Current Portion - Principal	(218,482)	(211,574)
Less: Current Portion - Debt Issuance Amortization	<u>44,980</u>	<u>44,980</u>
Total Long-Term Debt, Less Current Portion	<u>\$ 6,907,930</u>	<u>\$ 7,080,816</u>

9. 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 15th Street, NW, Washington, DC. This lease commenced on August 1, 2012, and expires on August 11, 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, which is maintained in a separate interest bearing savings account.

During the year ended June 30, 2017, a first amendment to the lease was signed which renegotiated the monthly rental payments required for the period August 1, 2016, through August 11, 2017. The new rate was a 2.75% increase over the prior year amount. This lease ended on August 11, 2017.

Rental revenue recognized related to this lease for the years ended June 30, 2017 and 2016 was \$611,726 and \$561,875, 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 15th Street, NW, Washington, DC. This lease commenced on August 1, 2013, and expired on June 30, 2014. This lease was renewed on a month-to-month basis. Total rental revenue under this lease for the years ending June 30, 2017 and 2016 was \$8,780 and \$12,000, respectively.

There was also \$9,345 and \$5,403 of revenue received for parking and space rentals on a month-to-month basis for the years ended June 30, 2017 and 2016, respectively. Total rental revenue for the years ended June 30, 2017 and 2016 was \$629,851 and \$579,278, respectively. Rental expenses related to these leases were \$499,267 and \$504,099 for the years ended June 30, 2017 and 2016, respectively.

THE NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

10. 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 School's 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 2016. 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 years ended June 30, 2017 and 2016, the Charter School incurred \$85,723 and \$83,888, respectively, 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 Charter School enrollment ceiling for the year ended June 30, 2017, was not permitted to be greater than 450 students. Audit enrollment for the 2016/2017 year was 393 students and enrollment for the 2015/2016 year was 393 students.

11. PER-PUPIL FUNDING ALLOCATION:

The Charter 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, 2017, the per-student rate was \$13,942 for the alternative educational allotment and \$3,124 for the facility allotment. For the year ended June 30, 2016, the per-student rate was \$13,668 for the alternative educational allotment and \$3,124 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, 2017 and 2016 was as follows:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Alternative Education	\$ 5,479,237	\$ 5,371,713
Special Education	150,632	131,771
English as a Second Language	1,043,720	1,060,446
Facilities Allowance	<u>1,227,732</u>	<u>1,227,732</u>
Total	<u>\$ 7,901,321</u>	<u>\$ 7,791,662</u>

THE NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

12. FEDERAL ENTITLEMENTS AND GRANTS:

During the years ended June 30, 2017 and 2016, the Charter School participated in the following federal award programs:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
DC School Choice Incentive (SOAR)	\$ 350,734	\$ 236,214
Elementary and Secondary Education, Title I	90,795	101,279
Elementary and Secondary Education, Title III	56,332	29,295
Individuals with Disabilities Education Act	43,153	-
National School Lunch and Breakfast Program	29,727	33,455
Child and Adult Care Food Program	19,794	16,031
Elementary and Secondary Education, Title II	18,445	25,673
NSLP Equipment Assistance	<u>5,099</u>	<u>-</u>
 Total	 <u>\$ 614,079</u>	 <u>\$ 441,947</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 Charter 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.

13. COMMITMENTS:

Building Lease

The Next Step Public Charter School entered into a lease agreement with CentroNia, effective for a two-year period commencing on August 1, 2015, and ending on July 31, 2017, for the rental of the third floor of a building located at 1420 Columbia Road, NW, Washington, DC. Monthly lease payments of \$14,322 began on August 1, 2015. The lease calls for a yearly escalation of 3% effective on the first day of August. CentroNia did not exercise its option to renew this lease. As an additional requirement of this lease agreement, a rental security deposit in the amount of \$28,644 was required. Rental expense for the years ended June 30, 2017 and 2016 was \$176,590 and \$157,542, respectively.

THE NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

13. COMMITMENTS: (Continued)

Building Lease (Continued)

Future required minimum lease payment at June 30, 2017, is as follows:

<u>Year Ended June 30,</u>	
2018	\$ <u>14,752</u>
Total	\$ <u>14,752</u>

14. 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 Charter School with a total credit limit of \$105,000, however the debt is guaranteed by employees of the Charter School.

Board of Directors

One of the directors appointed to serve on the board of directors is an alumnus representative. A staff representative is also appointed to the board.

15. 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, 2017 and 2016, ninety percent (90%) and eighty-nine percent (89%), respectively, 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 Charter School must compete for students against the DC Public School system as well as other DC Public Charter Schools.

THE NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

16. 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 of funds) could adversely affect the Charter School's ability to finance ongoing operations.

The Charter 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 Charter School. While the Charter School's board of directors and management believes the Charter 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 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, 2017 and 2016, the accrued unemployment claims of \$8,221 and \$13,702, respectively, as reflected in the statement of financial position, represent the Charter School's best estimate of the probable costs of claims. It is reasonably possible that the Charter School's estimate of the accrued liability will change in the near term. The Charter School changed from self-insured to the contributory method effective January 1, 2014.

17. SUBSEQUENT EVENTS:

Financial Statement Preparation

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through October 27, 2017, 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.

THE NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

17. SUBSEQUENT EVENTS: (Continued)

Additional Funding - Washington Teacher's Union Contract

On October 1, 2017, the City Council approved the Washington Teacher's Union Contract. This contract will result in additional funds to both DC Public Schools and DC Public Charter Schools through an increase in the Uniform per Student Funding Formula. These additional funds result in a 5.9% increase above the original per pupil funding amounts. The Charter School will receive an additional one-time payment during the year ended June 30, 2018, to reflect the increase to the FY 17 per pupil funding base rate. The amount paid to the Charter School will be calculated based on the final enrollment audit count, supplemental payments and extended school year funding for the year ended June 30, 2017. The 2017 fiscal year base rate will increase by an amount of \$203 over the original base rate of \$9,682 to a revised base rate of \$9,885.

18. FUNDRAISING:

During the years ended June 30, 2017 and 2016, expenses incurred for the purpose of fundraising were \$2,008 and \$1,934, respectively.

19. ADVERTISING:

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 \$24,613 and \$27,842 were incurred during the years ended June 30, 2017 and 2016, respectively.

20. 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. The Charter School contributed a dollar for dollar match up to two percent (2%) of an employee's gross salary for individuals employed for one to two years. The Charter School contributed a dollar for dollar match up to four and a half percent (4.5%) of an employee's gross salary for employees with three or more years of employment. The employer expense for the years ending June 30, 2017 and 2016 was \$142,890 and \$119,646, respectively.

THE NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

21. EMPLOYEE BENEFITS:

The cost of fringe benefits incurred for the years ended June 30, 2017 and 2016, consisted of the following:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Social Security/Medicare	\$ 299,945	\$ 268,690
Health and Dental Insurance	299,083	257,423
Disability Insurance	19,621	17,288
Retirement	142,890	119,646
Unemployment	19,533	22,971
Workers Compensation	26,408	8,544
Life Insurance	5,446	4,000
Plan Administration Fees	1,791	1,800
De Minimus	-	3,088
Benefits Allocated to Rental Expense	<u>(26,864)</u>	<u>(23,953)</u>
Total	<u>\$ 787,853</u>	<u>\$ 679,497</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.

22. OCCUPANCY COST:

The cost of occupancy for the years ended June 30, 2017 and 2016, consisted of the following:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Rent	\$ 176,590	\$ 157,542
Depreciation	309,451	303,654
Interest Expense	262,322	270,747
Insurance - Building	13,592	15,309
Contracted Building Services/Supplies	31,982	27,225
Maintenance and Repairs	43,045	57,881
Utilities	74,984	81,462
Security	22,696	5,221
Trash Removal	6,465	6,515
Pest Control	2,569	4,401
Facilities Consulting	4,690	-
Occupancy Costs Allocated to Rental Expense	<u>(308,719)</u>	<u>(308,967)</u>
Total	<u>\$ 639,667</u>	<u>\$ 620,990</u>

THE NEXT STEP PUBLIC CHARTER SCHOOL
COMPARATIVE SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	June 30, 2017				June 30, 2016			
	Total	Educational Services	General and Administrative	Fundraising	Total	Educational Services	General and Administrative	Fundraising
<u>Personnel, Salaries and Benefits:</u>								
Administration Salaries	\$ 419,894	\$ 224,458	\$ 194,113	\$ 1,323	\$ 351,999	\$ 193,769	\$ 156,974	\$ 1,256
Teachers' Salaries	1,471,983	1,471,983	-	-	1,349,691	1,349,691	-	-
Teachers' Aides/Support Salaries	696,062	696,062	-	-	621,205	608,730	12,475	-
Student Support Service Salaries	857,877	844,071	13,806	-	752,896	740,236	12,660	-
Clerical Salaries	171,830	171,830	-	-	155,173	129,073	26,100	-
Maintenance/Operation Salaries	251,971	223,143	28,828	-	232,937	186,771	46,166	-
Security Salaries	62,832	62,832	-	-	55,000	55,000	-	-
Employee Benefits	478,909	449,916	28,832	161	397,766	368,870	28,754	142
Payroll Taxes	308,944	290,240	18,600	104	281,731	261,264	20,366	101
Contracted Staff	80,817	77,545	3,272	-	70,024	66,485	3,539	-
Staff Development	75,291	70,774	4,517	-	46,505	43,250	3,255	-
Other Staff Related Expenses	31,119	29,252	1,867	-	5,648	5,253	395	-
Total Personnel, Salaries and Benefits	\$ 4,907,529	\$ 4,612,106	\$ 293,835	\$ 1,588	\$ 4,320,575	\$ 4,008,392	\$ 310,684	\$ 1,499
<u>Direct Student Costs:</u>								
Student Supplies and Materials	\$ 25,918	\$ 25,918	\$ -	\$ -	\$ 106,382	\$ 106,382	\$ -	\$ -
Food Service	154,356	154,356	-	-	141,492	141,492	-	-
Student Recruiting	24,613	24,613	-	-	27,842	27,842	-	-
Student Travel/Field Trips	22,002	22,002	-	-	17,177	17,177	-	-
Contracted Student Services	82,291	82,291	-	-	43,068	43,068	-	-
Transportation	24,623	24,623	-	-	49,577	49,577	-	-
Student Assessment Materials	4,177	4,177	-	-	11,050	11,050	-	-
Student Uniforms	2,918	2,918	-	-	46,523	46,523	-	-
Textbooks	96,125	96,125	-	-	125,374	125,374	-	-
Scholarships	28,119	28,119	-	-	5,979	5,979	-	-
Translation Services	17,133	17,133	-	-	12,324	12,324	-	-
Other Student Costs	21,582	21,582	-	-	19,992	19,992	-	-
Total Direct Student Costs	\$ 503,857	\$ 503,857	\$ -	\$ -	\$ 606,780	\$ 606,780	\$ -	\$ -
<u>Occupancy Costs:</u>								
Rent	\$ 176,590	\$ 165,900	\$ 10,631	\$ 59	\$ 157,542	\$ 146,097	\$ 11,389	\$ 56
Interest Expense - Building	157,393	147,865	9,475	53	162,448	150,647	11,743	58
Depreciation - Building	185,671	174,430	11,179	62	182,192	168,957	13,170	65
Contracted Building Services/Supplies	34,349	32,269	2,068	12	22,108	20,502	1,598	8
Utilities	48,869	45,911	2,942	16	52,786	48,951	3,816	19
Building Maintenance and Repairs	25,827	24,264	1,554	9	34,729	32,206	2,511	12
Building Insurance	8,154	7,661	490	3	9,185	8,518	664	3
Facilities Consulting	2,814	2,644	169	1	-	-	-	-
Total Occupancy Costs	\$ 639,667	\$ 600,944	\$ 38,508	\$ 215	\$ 620,990	\$ 575,878	\$ 44,891	\$ 221

(See Accompanying Notes and Auditor's Report)

THE NEXT STEP PUBLIC CHARTER SCHOOL
COMPARATIVE SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>June 30, 2017</u>				<u>June 30, 2016</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	\$ 84,212	\$ 79,114	\$ 5,070	\$ 28	\$ 51,522	\$ 47,780	\$ 3,724	\$ 18
Equipment Rental and Maintenance	21,769	20,451	1,311	7	21,737	20,158	1,571	8
Telecommunications	91,611	86,065	5,515	31	135,157	125,339	9,770	48
Travel	21,749	20,444	1,305	-	22,251	20,693	1,558	-
Printing and Copying	-	-	-	-	38	35	3	-
Postage and Shipping	715	672	43	-	436	404	32	-
Computer Support	37,856	35,564	2,279	13	29,366	27,233	2,123	10
Membership and Subscriptions	20,885	19,621	1,257	7	16,564	15,361	1,197	6
Other Expenses	<u>3,036</u>	<u>2,851</u>	<u>184</u>	<u>1</u>	<u>9,463</u>	<u>8,775</u>	<u>685</u>	<u>3</u>
Total Office Expenses	<u>\$ 281,833</u>	<u>\$ 264,782</u>	<u>\$ 16,964</u>	<u>\$ 87</u>	<u>\$ 286,534</u>	<u>\$ 265,778</u>	<u>\$ 20,663</u>	<u>\$ 93</u>
<u>General Expenses:</u>								
Insurance	\$ 24,351	\$ 22,877	\$ 1,466	\$ 8	\$ 20,957	\$ 19,434	\$ 1,515	\$ 8
Accounting, Auditing and Payroll Services	102,987	96,752	6,200	35	87,242	80,904	6,307	31
Legal Services	24,794	-	24,794	-	118,153	-	118,153	-
Authorizer Fee	85,723	80,580	5,143	-	83,888	78,016	5,872	-
Depreciation and Amortization	221,642	165,967	55,616	59	218,886	161,273	57,551	62
Strategic Planning Consulting	151,200	128,520	22,680	-	154,400	131,240	23,160	-
Other Professional Fees	<u>130,047</u>	<u>56,758</u>	<u>73,273</u>	<u>16</u>	<u>52,980</u>	<u>49,130</u>	<u>3,830</u>	<u>20</u>
Total General Expenses	<u>\$ 740,744</u>	<u>\$ 551,454</u>	<u>\$ 189,172</u>	<u>\$ 118</u>	<u>\$ 736,506</u>	<u>\$ 519,997</u>	<u>\$ 216,388</u>	<u>\$ 121</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 7,073,630</u>	<u>\$ 6,533,143</u>	<u>\$ 538,479</u>	<u>\$ 2,008</u>	<u>\$ 6,571,385</u>	<u>\$ 5,976,825</u>	<u>\$ 592,626</u>	<u>\$ 1,934</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, 2017 AND 2016

June 30, 2017

	<u>Total Cost</u>	<u>Average Cost Per Student</u>
Instructional	\$ 5,932,199	\$ 15,095
Occupancy Cost	639,667	1,628
General and Administrative	499,971	1,272
Fundraising	<u>1,793</u>	<u>4</u>
Total	<u>\$ 7,073,630</u>	<u>\$ 17,999</u>

The above is the average per student cost for the year ended June 30, 2017, and is based on a full time equivalent (FTE) audit enrollment of 393 students.

June 30, 2016

	<u>Total Cost</u>	<u>Average Cost Per Student</u>
Instructional	\$ 5,400,947	\$ 13,742
Occupancy Cost	620,990	1,580
General and Administrative	547,735	1,394
Fundraising	<u>1,713</u>	<u>4</u>
Total	<u>\$ 6,571,385</u>	<u>\$ 16,720</u>

The above is the average per student cost for the year ended June 30, 2016, and is based on a full time equivalent (FTE) audit enrollment of 393 students.

(See Accompanying Notes and Auditor's Report)

Kendall, Prebola and Jones, LLC
Certified Public Accountants

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, 2017, 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 27, 2017.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 27, 2017

THE NEXT STEP PUBLIC CHARTER SCHOOL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

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, 2017

I. Summary of Audit Results

- a. The auditor's report expresses an unmodified opinion on whether the financial statements of The Next Step Public Charter School were prepared in accordance with generally accepted accounting principles.
- b. No significant deficiencies relating to the audit of the financial statements have been reported.
- c. No instances of noncompliance material to the financial statements of The Next Step Public Charter School, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

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

There were no findings in the current year.