

THE NEXT STEP PUBLIC CHARTER SCHOOL

WASHINGTON, DC

COMPARATIVE FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

KENDALL, PREBOLA AND JONES

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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, 2018 and 2017, 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Next Step Public Charter School, as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the financial statements. In addition, the accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is 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 December 3, 2018, 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 on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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
December 3, 2018

THE NEXT STEP PUBLIC CHARTER SCHOOL
COMPARATIVE STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$ 12,997,572	\$ 11,570,819
Certificates of Deposit	250,562	250,436
Grants and Accounts Receivable	131,553	132,643
Promises Receivable	2,740	-
Prepaid Expenses	<u>128,090</u>	<u>80,108</u>
Total Current Assets	<u>\$ 13,510,517</u>	<u>\$ 12,034,006</u>
<u>Fixed Assets:</u>		
Fixed Assets, Net of Accumulated Depreciation	<u>\$ 8,438,845</u>	<u>\$ 8,717,435</u>
Total Fixed Assets	<u>\$ 8,438,845</u>	<u>\$ 8,717,435</u>
<u>Other Assets:</u>		
Deposits	\$ 56,165	\$ 70,110
Interest Rate Swap	<u>29,744</u>	<u>-</u>
Total Other Assets	<u>\$ 85,909</u>	<u>\$ 70,110</u>
TOTAL ASSETS	<u>\$ 22,035,271</u>	<u>\$ 20,821,551</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities:</u>		
Accounts Payable	\$ 167,323	\$ 122,628
Accrued Interest Payable	24,704	21,275
Income Taxes Payable	2,529	-
Accrued Unemployment Claims	2,740	8,221
Accrued Salary and Vacation	303,226	212,780
Payroll Withholdings and Related Liabilities	23,405	18,607
Deferred Rental Income	-	51,091
Security Deposit Payable	45,187	70,285
Current Portion of Long-Term Liabilities	<u>181,296</u>	<u>173,502</u>
Total Current Liabilities	<u>\$ 750,410</u>	<u>\$ 678,389</u>
<u>Long-Term Liabilities:</u>		
Notes Payable	\$ 6,907,929	\$ 7,081,432
Less: Current Portion	(181,296)	(173,502)
Interest Rate Swap	<u>-</u>	<u>144,814</u>
Total Long-Term Liabilities	<u>\$ 6,726,633</u>	<u>\$ 7,052,744</u>
Total Liabilities	<u>\$ 7,477,043</u>	<u>\$ 7,731,133</u>
<u>Net Assets:</u>		
Unrestricted	\$ 14,074,279	\$ 12,693,216
Board Designated	263,484	332,202
Temporarily Restricted	<u>220,465</u>	<u>65,000</u>
Total Net Assets	<u>\$ 14,558,228</u>	<u>\$ 13,090,418</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 22,035,271</u>	<u>\$ 20,821,551</u>

(See Accompanying Notes and Auditor's Report)

THE NEXT STEP PUBLIC CHARTER SCHOOL
COMPARATIVE STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	June 30, 2018			June 30, 2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<u>Revenues, Gains, and Other Support:</u>						
Per Pupil Funding Allocation	\$ 7,643,267	\$ -	\$ 7,643,267	\$ 6,673,589	\$ -	\$ 6,673,589
Per Pupil Funding - Facilities Allowance	1,334,560	-	1,334,560	1,227,732	-	1,227,732
Federal Entitlements and Grants	786,682	-	786,682	614,079	-	614,079
State Grants	40,624	-	40,624	56,907	-	56,907
Private Grants and Contributions	6,074	200,140	206,214	3,525	78,850	82,375
Donated Services and Materials	100	-	100	153,341	-	153,341
Interest Income	26,055	-	26,055	25,454	-	25,454
Loss on Disposal of Fixed Assets	(2,489)	-	(2,489)	-	-	-
Rental Revenue	\$ 73,009	\$ -	\$ 73,009	\$ 629,851	\$ -	\$ 629,851
Less: Rental Expenses	(69,377)	-	(69,377)	(499,267)	-	(499,267)
Net Rental Income/(Loss)	<u>\$ 3,632</u>	<u>\$ -</u>	<u>\$ 3,632</u>	<u>\$ 130,584</u>	<u>\$ -</u>	<u>\$ 130,584</u>
Net Assets Released from Restrictions - Satisfaction of Program Restrictions	<u>44,675</u>	<u>(44,675)</u>	<u>-</u>	<u>13,850</u>	<u>(13,850)</u>	<u>-</u>
Total Revenues, Gains and Other Support	<u>\$ 9,883,180</u>	<u>\$ 155,465</u>	<u>\$ 10,038,645</u>	<u>\$ 8,899,061</u>	<u>\$ 65,000</u>	<u>\$ 8,964,061</u>
<u>Expenses:</u>						
Program Services	\$ 7,775,844	\$ -	\$ 7,775,844	\$ 6,533,143	\$ -	\$ 6,533,143
General and Administrative	938,888	-	938,888	538,479	-	538,479
Fundraising	30,661	-	30,661	2,008	-	2,008
Total Expenses	<u>\$ 8,745,393</u>	<u>\$ -</u>	<u>\$ 8,745,393</u>	<u>\$ 7,073,630</u>	<u>\$ -</u>	<u>\$ 7,073,630</u>
Change in Net Assets before Change in Fair Value of Interest Rate Swap	\$ 1,137,787	\$ 155,465	\$ 1,293,252	\$ 1,825,431	\$ 65,000	\$ 1,890,431
Change in Fair Value of Interest Rate Swap	<u>174,558</u>	<u>-</u>	<u>174,558</u>	<u>273,248</u>	<u>-</u>	<u>273,248</u>
Change in Net Assets	\$ 1,312,345	\$ 155,465	\$ 1,467,810	\$ 2,098,679	\$ 65,000	\$ 2,163,679
Net Assets, Beginning 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>
Net Assets, End of Year	<u>\$ 14,337,763</u>	<u>\$ 220,465</u>	<u>\$ 14,558,228</u>	<u>\$ 13,025,418</u>	<u>\$ 65,000</u>	<u>\$ 13,090,418</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, 2018 AND 2017

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<u>Cash Flows from Operating Activities:</u>		
Changes in Net Assets	\$ 1,467,810	\$ 2,163,679
Adjustments to Reconcile Changes in Net Assets to Net Cash Flows from Operating Activities:		
Depreciation Expense	429,703	486,114
Debt Issuance Costs - Interest	44,980	44,980
Change in Value of Interest Rate Swap	(174,558)	(273,248)
Loss on Disposal of Fixed Assets	2,489	-
Grants and Accounts Receivable - (Increase)/Decrease	1,090	(3,423)
Promises Receivable - (Increase)/Decrease	(2,740)	-
Prepaid Expenses - (Increase)/Decrease	(47,982)	(14,423)
Deposits - (Increase)/Decrease	13,945	(999)
Accounts Payable - Increase/(Decrease)	44,695	(19,986)
Accrued Interest Payable - Increase/(Decrease)	3,429	(617)
Income Taxes Payable - Increase/(Decrease)	2,529	-
Accrued Unemployment Claims - Increase/(Decrease)	(5,481)	(5,481)
Accrued Salary and Vacation - Increase/(Decrease)	90,446	30,324
Payroll Withholdings and Related Liabilities - Increase/(Decrease)	4,798	2,340
Deferred Rental Income - Increase/(Decrease)	(51,091)	51,091
Security Deposit Payable - Increase/(Decrease)	<u>(25,098)</u>	<u>14</u>
Net Cash Flows from Operating Activities	<u>\$ 1,798,964</u>	<u>\$ 2,460,365</u>
<u>Cash Flows from Investing Activities:</u>		
Purchase of Fixed Assets	\$ (155,352)	\$ (105,221)
Proceeds on Sale of Fixed Assets	1,750	-
Purchase of Certificates of Deposit	(250,562)	(250,436)
Proceeds on Sale of Certificates of Deposit	<u>250,436</u>	<u>250,311</u>
Net Cash Flows from Investing Activities	<u>\$ (153,728)</u>	<u>\$ (105,346)</u>
<u>Cash Flows from Financing Activities:</u>		
Repayment on Notes Payable	<u>\$ (218,483)</u>	<u>\$ (210,958)</u>
Net Cash Flows from Financing Activities	<u>\$ (218,483)</u>	<u>\$ (210,958)</u>
Net Increase in Cash and Cash Equivalents	\$ 1,426,753	\$ 2,144,061
Cash and Cash Equivalents at Beginning of Year	<u>11,570,819</u>	<u>9,426,758</u>
Cash and Cash Equivalents at End of Year	<u>\$ 12,997,572</u>	<u>\$ 11,570,819</u>

Supplemental Disclosures:

- a) Cash paid for interest for the years ended June 30, 2018 and 2017 was \$274,466 and \$262,939, respectively.
- b) No income taxes were paid during the years ended June 30, 2018 and 2017.

(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.

For over 20 years, The Next Step Public Charter School has sought to fulfill its vision in meaningful, innovative, sustainable and replicable ways, for opportunity youth (ages 16-24): “We envision a world in which all youth receive an excellent education and the support they need to realize their full potential as human beings and contributing members of society.” Attention to student aspirations, as described in students’ individualized life plans, commit the entire school community to assisting achievement in academic, personal, and career domains.

This school “provides students who face extraordinary challenges and who are not supported in traditional high schools with the opportunity to continue their education,” as declared in the mission statement. In practice, The Next Step PCS offers three academic programs for opportunity youth: English as a Second Language (ESL), GED English and GED Español. Students experience comprehensive and holistic resources to ensure success, as facilitated by the Division of Student Support and Engagement - case management, childcare, transportation resources, food and diaper resources, career and life skills advising, as well as mental health services.

Students at The Next Step PCS are exposed to their career aspirations, as well as college. Through dual enrollment, and the forthcoming early college, students at The Next Step PCS receive the support necessary to achieve their academic goals, while also successfully pursuing postsecondary education.

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. 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. 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). Under IRC Section 512(a)(7), certain transportation benefits are subject to unrelated business income tax. As of June 30, 2018, the Charter School recognized \$1,770 of income tax expense related to the filing of the 2017 990-T tax return. In addition, \$759 of income tax expense due to the District of Columbia has been reflected in the financial statements related to income tax on transportation benefits.

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:

Foundation Grants

Grant revenues from foundations are recognized as increases in unrestricted net assets unless use of related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expiration of temporary restrictions (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) is reported as net assets released from restrictions between the applicable classes of net assets.

Government Grants

The Charter School receives grants from federal and state governmental agencies for various purposes in the form of exchange transactions. Receivables related to grant awards are recorded to the extent unreimbursed expenses have been incurred for the purposes specified by an approved grant award. Funds received in advance for these types of grants and those that are unexpended as of year-end are reflected as a deferred revenue.

(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

Unrestricted net assets are defined as 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 \$263,484 and \$332,202, respectively, were designated by the Board of Directors during the years ended June 30, 2018 and 2017, for two separate purposes. Net assets in the amount of \$240,000 were designated during the years ended June 30, 2018 and 2017, to be expended for building repairs. In addition, net assets in the amount of \$23,484 and \$92,202 were designated to be expended for scholarships during the years ended June 30, 2018 and 2017, respectively.

Temporarily Restricted Net Assets

Temporarily restricted net assets are defined as 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 programs:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Breakthrough Schools DC	\$ 215,325	\$ 65,000
English as a Second Language	<u>5,140</u>	<u>-</u>
Total Available	<u>\$ 220,465</u>	<u>\$ 65,000</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, 2018</u>	<u>June 30, 2017</u>
Breakthrough Schools DC	\$ 24,675	\$ 10,000
Dual Enrollment	20,000	-
Scholarships	<u>-</u>	<u>3,850</u>
Total Released	<u>\$ 44,675</u>	<u>\$ 13,850</u>

Permanently Restricted Net Assets

Permanently restricted net assets are defined as 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, 2018 or 2017.

(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, 2018</u>	<u>June 30, 2017</u>
School Supplies	\$ 100	\$ -
Strategic Planning - Consulting	-	151,200
Legal Services	-	2,141
	-	2,141
Total	\$ 100	\$ 153,341

(g) Basic Programs:

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.

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.

THE NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(g) Basic Programs: (Continued)

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.

(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, 2018, 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, 2018, the statute of limitations for tax years 2014 through 2016 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, 2018, 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, 2018</u>	<u>June 30, 2017</u>
Checking Accounts - Interest Bearing	\$ 12,652,079	\$ 11,200,424
Money Market Savings Accounts	<u>345,493</u>	<u>370,395</u>
Total	<u>\$ 12,997,572</u>	<u>\$ 11,570,819</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, 2018</u>	<u>June 30, 2017</u>
Certificates of Deposit	<u>\$ 250,562</u>	<u>\$ 250,436</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, 2018 and 2017, \$13,022,515 and \$11,572,441, 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 NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

4. FAIR VALUE MEASUREMENT: (Continued)

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 rate 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 assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2018.

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 assets and liabilities measured at fair value as of June 30, 2018 and 2017.

<u>June 30, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Asset</u>				
Interest Rate Swap	\$ -	\$ 29,744	\$ -	\$ 29,744
Total	<u>\$ -</u>	<u>\$ 29,744</u>	<u>\$ -</u>	<u>\$ 29,744</u>

THE NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

4. FAIR VALUE MEASUREMENT: (Continued)

<u>June 30, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Liability</u>				
Interest Rate Swap	\$ -	\$ (144,814)	\$ -	\$ (144,814)
Total	<u>\$ -</u>	<u>\$ (144,814)</u>	<u>\$ -</u>	<u>\$ (144,814)</u>

5. ACCOUNTS, GRANTS AND PROMISES RECEIVABLE:

Accounts and Grants Receivable

Accounts and grants receivable are current and considered to be fully collectible by management. Balances as of June 30, 2018 and 2017 consisted of the following:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<u>Accounts Receivable</u>		
Reimbursable Expenses	\$ 14,685	\$ 13,767
Employee Receivable	8,208	-
Interest Receivable	387	55
PayPal	<u>97</u>	<u>-</u>
Total Accounts Receivable	<u>\$ 23,377</u>	<u>\$ 13,822</u>
<u>Grants Receivable</u>		
DC School Choice Incentive (SOAR)	\$ 29,717	\$ 60,273
Elementary and Secondary Education, Title I	29,118	265
E-Rate (USAC)	17,819	24,991
Individuals with Disabilities Education Act	9,520	7,031
National School Lunch and Breakfast Program	8,403	4,201
Elementary and Secondary Education, Title II	5,296	7,941
Elementary and Secondary Education, Title III	3,846	12,461
Child and Adult Care Food Program	2,496	1,339
Elementary and Secondary Education, Title IV	1,285	-
Healthy Schools Act	<u>676</u>	<u>319</u>
Total Grants Receivable	<u>\$ 108,176</u>	<u>\$ 118,821</u>
Total Accounts and Grants Receivable	<u>\$ 131,553</u>	<u>\$ 132,643</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.

THE NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

5. ACCOUNTS, GRANTS AND PROMISES RECEIVABLE: (Continued)

Accounts and Grants Receivable (Continued)

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, 2018 and 2017.

Promises Receivable

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Promises to give represent amounts committed by donors that have not been received by the Charter School. The Charter School uses the allowance method to determine uncollectible promises to give. Promises receivable at year end consisted of:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
General - Unrestricted	\$ <u>2,740</u>	\$ _____ -
Total Promises Receivable	\$ <u>2,740</u>	\$ _____ -

The above promises receivable is due to be received in less than one year.

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. 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, 2018 and 2017 was \$429,703 and \$486,114, 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, 2018

	<u>Depreciable Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Building and Improvements	15-30 Years	\$ 8,983,689	\$ 1,803,237	\$ 7,180,452
Land	-	1,027,230	-	1,027,230
Computer and Office Equipment	3-5 Years	<u>987,093</u>	<u>755,930</u>	<u>231,163</u>
Total		<u>\$ 10,998,012</u>	<u>\$ 2,559,167</u>	<u>\$ 8,438,845</u>

THE NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

6. FIXED ASSETS: (Continued)

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>

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. Effective January 1, 2018, corporate tax rates lowered from 35% to 21%. Pursuant to the terms of the interest rate swap agreement, SunTrust Bank adjusted the interest rate to account for the effects of the lower income tax rate resulting in an after-tax yield equivalent to the yield earned prior to the income tax rate change. This adjustment resulted in approximately eighteen percent (18%) of the outstanding loan balance being subject to a variable interest rate. On August 1, 2018, the Charter School made a lump-sum principal payment on the loan which resulted in the entire loan being fully hedged at a fixed 3.51% interest rate. Interest expense related to the interest rate swap for the years ended June 30, 2018 and 2017 was \$49,234 and \$92,401, respectively. At June 30, 2018 and 2017, the fair value of the interest rate swap was \$29,744 and \$(144,814), respectively, and has been reflected as an asset and liability, respectively, 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 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.

THE NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

8. LOANS PAYABLE: (Continued)

SunTrust Bank (Continued)

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 \$5,175,015. 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 loan 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. Effective January 1, 2018, the loan bears interest on a variable basis at two-and-fifty-five percentage points (2.55%) above eight-five percent (85%) 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 as more fully described in Note 7. 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, 2018 and 2017, prior to netting debt issuance costs, was \$7,054,986 and \$7,273,469, respectively. Interest expense related to this loan for the years ended June 30, 2018 and 2017 was \$277,895 And \$262,322, respectively.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Loan Acquisition Cost Interest</u>
2019	\$ 226,276	\$ 44,980
2020	234,347	44,980
2021	242,706	44,980
2022	<u>6,351,657</u>	<u>12,117</u>
Total	<u>\$ 7,054,986</u>	<u>\$ 147,057</u>

The Charter School made a lump-sum principal payment on the loan balance of \$1,243,670 on August 1, 2018.

Debt Issuance Costs

The Charter School adopted the requirements of FASB ASC 835-30 to present debt issuance costs as a reduction of the carrying amount of the related debt. 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, 2018 and 2017 consisted of the following:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Notes Payable	\$ 7,054,986	\$ 7,273,469
Less: Unamortized Debt Issuance Costs	<u>(147,057)</u>	<u>(192,037)</u>
Subtotal	\$ 6,907,929	\$ 7,081,432
Less: Current Portion - Principal	(226,276)	(218,482)
Less: Current Portion - Debt Issuance Amortization	<u>44,980</u>	<u>44,980</u>
Total Long-Term Debt, Less Current Portion	<u>\$ 6,726,633</u>	<u>\$ 6,907,930</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 expired on August 11, 2017. Quarterly rental payments were required. 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 required 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 was 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, 2018 and 2017 was \$58,591 and \$611,726, respectively.

There was also \$14,418 and \$18,125 of revenue received for parking and space rentals on a month-to-month basis for the years ended June 30, 2018 and 2017, respectively. Total rental revenue for the years ended June 30, 2018 and 2017 was \$73,009 and \$629,851, respectively. Rental expenses related to these leases were \$69,377 and \$499,267 for the years ended June 30, 2018 and 2017, 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 Charter 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 (.9% for the 17/18 school year) 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, 2018 and 2017, the Charter School incurred \$88,246 and \$85,723, 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, 2018, was not permitted to be greater than 500 students. Audit enrollment for the 2017/2018 year was 418 students and enrollment for the 2016/2017 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, 2018, the per-student rate was \$14,770 for the alternative educational allotment and \$3,193 for the facility allotment. 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. Additional allotments were made for Special Education Services and English as a Second Language. Per-pupil funding for the years ended June 30, 2018 and 2017 was as follows:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Alternative Education	\$ 6,173,893	\$ 5,479,237
Facilities Allowance	1,334,560	1,227,732
English as a Second Language	1,266,534	1,043,720
Teachers Collective Bargaining	139,923	-
Special Education	<u>62,917</u>	<u>150,632</u>
Total	<u>\$ 8,977,827</u>	<u>\$ 7,901,321</u>

THE NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

12. FEDERAL ENTITLEMENTS AND GRANTS:

During the years ended June 30, 2018 and 2017, the Charter School participated in the following federal award programs:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
DC School Choice Incentive (SOAR)	\$ 400,889	\$ 350,734
Elementary and Secondary Education, Title I	181,777	90,795
Elementary and Secondary Education, Title III	59,428	56,332
Individuals with Disabilities Education Act	41,548	43,153
National School Lunch and Breakfast Program	35,071	29,727
Elementary and Secondary Education, Title II	34,873	18,445
Child and Adult Care Food Program	25,092	19,794
Elementary and Secondary Education, Title IV	8,004	-
NSLP Equipment Assistance	<u>-</u>	<u>5,099</u>
Total	<u>\$ 786,682</u>	<u>\$ 614,079</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 called for a yearly escalation of 3% effective on the first day of August. CentroNia did not exercise its option to renew this lease. This lease ended August 31, 2017. 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, 2018 and 2017 was \$29,503 and \$176,590, respectively.

THE NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

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, 2018 and 2017, eighty-nine percent (89%) and ninety percent (90%), respectively, of total support, excluding donated services, 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 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.

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.

THE NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

16. CONTINGENCIES: (Continued)

The Charter School receives funding from various federal and state grant reimbursement programs, which are governed by various rules and regulations of the respective grantor agencies. To the extent that the Charter School has not complied with the rules and regulations governing the grants, refunds of any money received may be required. 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. Therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

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, 2018 and 2017, the accrued unemployment claims of \$2,740 and \$8,221, 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.

Litigation

From time to time, the Charter School is involved in routine litigation that arises in the ordinary course of business. There are no pending significant legal proceedings to which the Charter School is a party for which management believes the ultimate outcome would have a material adverse effect on the Charter School's financial position.

17. SUBSEQUENT EVENTS:

Financial Statement Preparation

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through December 3, 2018, 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.

Loan Prepayment

On August 1, 2018, the Charter School made a loan prepayment to SunTrust Bank for the reduction of principal in the amount of \$1,243,669. The purpose of this prepayment was to adjust for the effects of changes in the corporate tax rates to the interest rate swap agreement.

THE NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

18. FUNDRAISING:

During the years ended June 30, 2018 and 2017, expenses incurred for the purpose of fundraising were \$30,661 and \$2,008, 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 \$46,553 and \$24,613 were incurred during the years ended June 30, 2018 and 2017, 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, 2018 and 2017 was \$159,654 and \$142,890, respectively.

21. EMPLOYEE BENEFITS:

The cost of fringe benefits incurred for the years ended June 30, 2018 and 2017, consisted of the following:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Social Security/Medicare	\$ 368,076	\$ 299,945
Health and Dental Insurance	343,240	299,083
Disability Insurance	20,531	19,621
Retirement	159,654	142,890
Unemployment	27,490	19,533
Workers Compensation	24,377	26,408
Life Insurance	5,005	5,446
Plan Administration Fees	1,035	1,791
Benefits Allocated to Rental Expense	<u>(3,709)</u>	<u>(26,864)</u>
Total	<u>\$ 945,699</u>	<u>\$ 787,853</u>

THE NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

21. EMPLOYEE BENEFITS: (Continued)

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, 2018 and 2017, consisted of the following:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Rent	\$ 29,503	\$ 176,590
Depreciation	311,002	309,451
Interest Expense	322,875	307,302
Insurance - Building	12,885	13,592
Contracted Building Services/Supplies	43,931	31,982
Maintenance and Repairs	41,199	43,045
Utilities	80,137	74,984
Security	5,787	22,696
Trash Removal	6,847	6,465
Pest Control	2,790	2,569
Facilities Consulting	-	4,690
Occupancy Costs Allocated to Rental Expense	<u>(39,123)</u>	<u>(308,719)</u>
Total	<u>\$ 817,833</u>	<u>\$ 684,647</u>

THE NEXT STEP PUBLIC CHARTER SCHOOL
COMPARATIVE SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	June 30, 2018				June 30, 2017			
	Total	Educational Services	General and Administrative	Fundraising	Total	Educational Services	General and Administrative	Fundraising
<u>Personnel, Salaries and Benefits:</u>								
Administration Salaries	\$ 631,341	\$ 301,815	\$ 316,448	\$ 13,078	\$ 419,894	\$ 224,458	\$ 194,113	\$ 1,323
Teachers' Salaries	1,892,158	1,892,158	-	-	1,471,983	1,471,983	-	-
Teachers' Aides/Support Salaries	863,560	863,560	-	-	696,062	696,062	-	-
Student Support Service Salaries	952,000	934,205	17,795	-	857,877	844,071	13,806	-
Clerical Salaries	151,249	151,249	-	-	171,830	171,830	-	-
Maintenance/Operation Salaries	429,519	253,514	176,005	-	251,971	223,143	28,828	-
Security Salaries	127,154	127,154	-	-	62,832	62,832	-	-
Employee Benefits	551,678	494,474	55,775	1,429	478,909	449,916	28,832	161
Payroll Taxes	394,021	353,165	39,836	1,020	308,944	290,240	18,600	104
Contracted Staff	16,060	16,060	-	-	80,817	77,545	3,272	-
Staff Development	215,882	194,294	21,588	-	75,291	70,774	4,517	-
Other Staff Related Expenses	38,631	34,768	3,863	-	31,119	29,252	1,867	-
Total Personnel, Salaries and Benefits	\$ 6,263,253	\$ 5,616,416	\$ 631,310	\$ 15,527	\$ 4,907,529	\$ 4,612,106	\$ 293,835	\$ 1,588
<u>Direct Student Costs:</u>								
Student Supplies and Materials	\$ 25,533	\$ 25,533	\$ -	\$ -	\$ 25,918	\$ 25,918	\$ -	\$ -
Food Service	154,745	154,745	-	-	154,356	154,356	-	-
Student Recruiting	46,553	46,553	-	-	24,613	24,613	-	-
Student Travel/Field Trips	6,232	6,232	-	-	22,002	22,002	-	-
Contracted Student Services	78,557	78,557	-	-	82,291	82,291	-	-
Transportation	13,444	13,444	-	-	24,623	24,623	-	-
Student Assessment Materials	25,194	25,194	-	-	4,177	4,177	-	-
Student Uniforms	8,467	8,467	-	-	2,918	2,918	-	-
Textbooks	82,290	82,290	-	-	96,125	96,125	-	-
Scholarships	92,067	92,067	-	-	28,119	28,119	-	-
Translation Services	16,922	16,922	-	-	17,133	17,133	-	-
Other Student Costs	52,520	52,520	-	-	21,582	21,582	-	-
Total Direct Student Costs	\$ 602,524	\$ 602,524	\$ -	\$ -	\$ 503,857	\$ 503,857	\$ -	\$ -
<u>Occupancy Costs:</u>								
Rent	\$ 29,503	\$ 26,444	\$ 2,983	\$ 76	\$ 176,590	\$ 165,900	\$ 10,631	\$ 59
Interest Expense - Building	308,980	236,626	71,670	684	202,373	147,865	54,455	53
Depreciation - Building	295,452	264,816	29,870	766	185,671	174,430	11,179	62
Contracted Building Services/Supplies	49,884	44,712	5,043	129	34,349	32,269	2,068	12
Utilities	82,635	74,067	8,354	214	48,869	45,911	2,942	16
Building Maintenance and Repairs	39,138	35,081	3,956	101	25,827	24,264	1,554	9
Building Insurance	12,241	10,971	1,238	32	8,154	7,661	490	3
Facilities Consulting	-	-	-	-	2,814	2,644	169	1
Total Occupancy Costs	\$ 817,833	\$ 692,717	\$ 123,114	\$ 2,002	\$ 684,647	\$ 600,944	\$ 83,488	\$ 215

(See Accompanying Notes and Auditor's Report)

THE NEXT STEP PUBLIC CHARTER SCHOOL
COMPARATIVE SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>June 30, 2018</u>				<u>June 30, 2017</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	\$ 121,825	\$ 105,963	\$ 11,952	\$ 3,910	\$ 84,212	\$ 79,114	\$ 5,070	\$ 28
Equipment Rental and Maintenance	26,330	23,600	2,662	68	21,769	20,451	1,311	7
Telecommunications	128,354	115,044	12,977	333	91,611	86,065	5,515	31
Travel	39,154	35,239	3,915	-	21,749	20,444	1,305	-
Printing and Copying	344	308	35	1	-	-	-	-
Postage and Shipping	1,029	922	104	3	715	672	43	-
Computer Support	62,767	56,258	6,346	163	37,856	35,564	2,279	13
Membership and Subscriptions	12,297	11,022	1,243	32	20,885	19,621	1,257	7
Other Expenses	<u>8,402</u>	<u>7,530</u>	<u>850</u>	<u>22</u>	<u>3,036</u>	<u>2,851</u>	<u>184</u>	<u>1</u>
Total Office Expenses	<u>\$ 400,502</u>	<u>\$ 355,886</u>	<u>\$ 40,084</u>	<u>\$ 4,532</u>	<u>\$ 281,833</u>	<u>\$ 264,782</u>	<u>\$ 16,964</u>	<u>\$ 87</u>
<u>General Expenses:</u>								
Insurance	\$ 23,128	\$ 20,730	\$ 2,338	\$ 60	\$ 24,351	\$ 22,877	\$ 1,466	\$ 8
Accounting, Auditing and Payroll Services	124,398	111,499	12,577	322	102,987	96,752	6,200	35
Legal Services	53,055	-	53,055	-	24,794	-	24,794	-
Authorizer Fee	88,246	79,421	8,825	-	85,723	80,580	5,143	-
Depreciation and Amortization	118,701	106,392	12,001	308	176,662	165,967	10,636	59
Strategic Planning Consulting	-	-	-	-	151,200	128,520	22,680	-
Income Taxes	2,529	-	2,529	-	-	-	-	-
Other Professional Fees	<u>251,224</u>	<u>190,259</u>	<u>53,055</u>	<u>7,910</u>	<u>130,047</u>	<u>56,758</u>	<u>73,273</u>	<u>16</u>
Total General Expenses	<u>\$ 661,281</u>	<u>\$ 508,301</u>	<u>\$ 144,380</u>	<u>\$ 8,600</u>	<u>\$ 695,764</u>	<u>\$ 551,454</u>	<u>\$ 144,192</u>	<u>\$ 118</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 8,745,393</u>	<u>\$ 7,775,844</u>	<u>\$ 938,888</u>	<u>\$ 30,661</u>	<u>\$ 7,073,630</u>	<u>\$ 6,533,143</u>	<u>\$ 538,479</u>	<u>\$ 2,008</u>

(See Accompanying Notes and Auditor's Report)

THE NEXT STEP PUBLIC CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

<u>Federal Grantor/Pass Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Program or Award Amount</u>	<u>Period of Award</u>	<u>Grant Receivable at 7/1/17</u>	<u>Refundable Advance at 7/1/17</u>	<u>Current Year Activity</u>		<u>Grant Receivable at 6/30/18</u>	<u>Refundable Advance at 6/30/18</u>
							<u>Receipts</u>	<u>Disbursements Expenditures</u>		
<u>U.S. Department of Education:</u>										
Passed Through the District of Columbia:										
Title I, Part A, Grants to Local Educational Agencies	84.010A	82010A	\$ 226,733	07/01/17 to 09/30/18	\$ -	\$ -	\$ 152,350	\$ 181,468	\$ 29,118	\$ -
Title I, Part A, Grants to Local Educational Agencies	84.010A	72010A	\$ 91,103	07/01/16 to 09/30/17	265	-	574	309	-	-
Special Education - IDEA 611, Grants to States	84.027A	82027A	\$ 41,495	07/01/17 to 09/30/18	-	-	31,975	41,495	9,520	-
Special Education - IDEA 611, Grants to States	84.027A	72027A	\$ 43,206	07/01/16 to 09/30/17	7,031	-	7,084	53	-	-
Title III, Part A, English Language Acquisition State Grants	84.365A	82365A	\$ 31,019	07/01/17 to 09/30/18	-	-	21,193	25,039	3,846	-
Title III, Part A, English Language Acquisition State Grants	84.365A	72365A	\$ 35,233	07/01/16 to 09/30/17	12,461	-	46,850	34,389	-	-
Title II, Part A, Improving Teacher Quality State Grants	84.367A	82367A	\$ 41,235	07/01/17 to 09/30/18	-	-	27,707	33,003	5,296	-
Title II, Part A, Improving Teacher Quality State Grants	84.367A	72637A	\$ 17,009	07/01/16 to 09/30/17	7,941	-	9,811	1,870	-	-
DC School Choice Incentive Program	84.370C	U370C180001	\$ 93,281	05/25/18 to 09/30/18	-	-	-	11,112	11,112	-
DC School Choice Incentive Program	84.370C	U370C170001	\$ 79,387	08/04/17 to 08/03/18	-	-	61,107	79,387	18,280	-
DC School Choice Incentive Program	84.370C	U370C150002	\$ 375,000	08/12/16 to 08/12/18	18,866	-	328,931	310,390	325	-
DC School Choice Incentive Program	84.370C	U370C140001	\$ 500,000	07/10/15 to 07/10/17	41,407	-	41,407	-	-	-
Title IV, Student Support and Academic Enrichment Program	84.424A	84424A	\$ 10,000	07/01/17 to 09/30/18	-	-	6,719	8,004	1,285	-
Total U.S. Department of Education					\$ 87,971	\$ -	\$ 735,708	\$ 726,519	\$ 78,782	\$ -
<u>U.S. Department of Agriculture:</u>										
Passed Through the District of Columbia:										
Child and Adult Care Food Program	10.558	N/A	N/A	07/01/17 to 06/30/18	\$ -	\$ -	\$ 22,596	\$ 25,092	\$ 2,496	\$ -
Child and Adult Care Food Program	10.558	N/A	N/A	07/01/16 to 06/30/17	1,339	-	1,339	-	-	-
Child Nutrition Cluster:										
National School Lunch Program	10.555	N/A	N/A	07/01/17 to 06/30/18	\$ -	\$ -	\$ 17,359	\$ 23,319	\$ 5,960	\$ -
National School Lunch Program	10.555	N/A	N/A	07/01/16 to 06/30/17	2,619	-	2,619	-	-	-
School Breakfast Program	10.553	N/A	N/A	07/01/17 to 06/30/18	-	-	9,309	11,752	2,443	-
School Breakfast Program	10.553	N/A	N/A	07/01/16 to 06/30/17	1,582	-	1,582	-	-	-
Total Child Nutrition Cluster					\$ 4,201	\$ -	\$ 30,869	\$ 35,071	\$ 8,403	\$ -
Total U.S. Department of Agriculture					\$ 5,540	\$ -	\$ 54,804	\$ 60,163	\$ 10,899	\$ -
Total Federal Awards					\$ 93,511	\$ -	\$ 790,512	\$ 786,682	\$ 89,681	\$ -

(See Accompanying Notes and Auditor's Report)

THE NEXT STEP PUBLIC CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Summary by CFDA

<u>Program</u>	<u>CFDA Number</u>	<u>Amount of Expenditures</u>
Title I, Part A, Grants to Local Educational Agencies	84.010A	\$ 181,777
Special Education - IDEA 611, Grants to States	84.027A	41,548
Title III, Part A, English Language Acquisition State Grants	84.365A	59,428
Title II, Part A, Improving Teacher Quality State Grants	84.367A	34,873
DC School Choice Incentive Program	84.370C	400,889
Title IV, Student Support and Academic Enrichment Program	84.424A	8,004
Child and Adult Care Food Program	10.558	25,092
National School Lunch Program	10.555	23,319
School Breakfast Program	10.553	<u>11,752</u>
Total Federal Awards		<u>\$ 786,682</u>

(See Accompanying Notes and Auditor's Report)

THE NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Note 1 - Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Charter School under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Charter School, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Charter School.

Note 2 - Summary of Significant Accounting Policies:

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Charter School has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 - Pass-Through Funds:

The Charter School did not pass through any federal funds to subrecipients.

Note 4 - Major Program Selection:

The major Federal Award Program selected for testing is as follows:

U.S. Department of Education

- DC School Choice Incentive Program

The requirements of the Office of Management and Budget Uniform Guidance prescribe that all major programs as determined by the auditor on a risk-based approach and/or at least 40% (20% for low risk auditees) of all federal awards be subject to specific control and compliance testing. For The Next Step Public Charter School, the program subject to these requirements is as listed above. The total expenditures of this program represents 50.96% of the total federal expenditures.

THE NEXT STEP PUBLIC CHARTER SCHOOL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Note 4 - Major Program Selection: (Continued)

<u>Programs</u>	<u>CFDA #</u>	<u>Amount of Expenditures</u>
Title I, Part A, Grants to Local Educational Agencies	84.010A	\$ 181,777
Special Education - IDEA 611, Grants to States	84.027A	41,548
Title III, Part A, English Language Acquisition State Grants	84.365A	59,428
Title II, Part A, Improving Teacher Quality State Grants	84.367A	34,873
DC School Choice Incentive Program	84.370C	400,889 *
Title IV, Student Support and Academic Enrichment Program	84.424A	8,004
Child and Adult Care Food Program	10.558	25,092
National School Lunch Program	10.555	23,319
School Breakfast Program	10.553	<u>11,752</u>
Total Federal Awards		<u>\$ 786,682</u>

* Denotes Major Program

Note 5 - Major Program Disclosure:

I. U.S. Department of Education

1) DC School Choice Incentive Program

To provide low-income parents residing in the District of Columbia (District) with expanded options for the education of their children.

This program is part of a broader school improvement effort in the District that is founded on the belief that all education sectors (public schools, public charter schools, and nonpublic schools) can offer quality education experiences for the District's students, and that those students who are the most economically disadvantaged have the least access to such experiences.

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, 2018, 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 December 3, 2018.

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 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 Charter School'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 Charter School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Kendall, Prebola and Jones
Certified Public Accountants

Bedford, Pennsylvania
December 3, 2018

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 COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Report on Compliance for Each Major Federal Program

We have audited The Next Step Public Charter School's (a nonprofit organization) compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of The Next Step Public Charter School's major federal programs for the year ended June 30, 2018. The Next Step Public Charter School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs and in the notes to the schedule of expenditures of federal awards.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of The Next Step Public Charter School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Next Step Public Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of The Next Step Public Charter School's compliance.

Opinion on Each Major Federal Award Program

In our opinion, The Next Step Public Charter School, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of The Next Step Public Charter School is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered The Next Step Public Charter School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Next Step Public Charter School's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Kendall, Prebola and Jones
Certified Public Accountants

Bedford, Pennsylvania
December 3, 2018

THE NEXT STEP PUBLIC CHARTER SCHOOL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

There were no findings reported in the prior year.

THE NEXT STEP PUBLIC CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

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.
- d. No significant deficiencies relating to the audit of the major federal award program have been reported.
- e. The auditor's report on compliance for the major federal award program for The Next Step Public Charter School expresses an unmodified opinion.
- f. There are no audit findings that are required to be reported in accordance with 2 CFR Section 200.516 (a) of the Uniform Guidance in the schedule of findings and questioned costs.
- g. The major program of The Next Step Public Charter School was as follows:

<u>Program</u>	<u>CFDA #</u>
DC School Choice Incentive Program	84.370C

- h. The threshold used for distinguishing between Type A and Type B programs was \$750,000.
- i. The Next Step Public Charter School was determined to be a high-risk auditee.

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.

III. Findings relating to federal awards, which are required to be reported in accordance with the *Uniform Guidance*

There were no findings in the current year.