



2015-16
Twenty-Year Charter Review Report

The Next Step/El Próximo Paso
Public Charter School

January 27, 2015

DC Public Charter School Board
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BOARD VOTE AND KEY FINDINGS

The District of Columbia Public Charter School Board (“DC PCSB”) staff has conducted a charter review of The Next Step/ El Próximo Paso Public Charter School (“The Next Step PCS”) according to the standard required by the School Reform Act (“SRA”), D.C. Code §§ 38-1802 *et seq.*¹

The Next Step PCS fully met four of five goals and student academic achievement expectations (“goals”) and partially met its goal regarding English proficiency among English Language Learners. While the school did not meet its annual Generalized Education Development test (“GED”) passage rate target in 2014-15, this was the first school year that an updated version of the GED aligned with Common Core State Standards was released. Across the country, GED passage rates have dropped due to the more rigorous exam. The Next Step PCS’s 2014-15 GED passage rates were among the highest of DC charter schools serving adult students. In fact, one-third of all adult charter students taking the exam were from The Next Step PCS. To account for this shift in standards, the goal was not measured for school year 2014-15. DC PCSB commends The Next Step PCS on its dedication to its students attempting and passing the GED.

The Next Step PCS has neither materially violated the law nor its charter, and is in strong fiscal health. Over the past four years, the school did not adhere to the SRA’s procurement requirements for two contracts. It is important that the school adhere to these requirements moving forward. Based on these findings, the DC PCSB Board voted 6 - 0 to continue the school’s charter without conditions.

CHARTER REVIEW STANDARD

The SRA provides that DC PCSB “shall review [a school’s] charter at least once every [five] years.”² As part of this review, DC PCSB must determine whether:

- (1) The school committed a material violation of applicable laws or a material violation of the conditions, terms, standards, or procedures set forth in its charter, including violations relating to the education of children with disabilities; and/or
- (2) The school failed to meet the goals and student academic achievement expectations set forth in its charter.³

If DC PCSB determines that a school has committed a material violation of applicable law, or has not met its goals and expectations, as described above, it may, at its discretion, grant the school a conditional continuance, or revoke the school’s charter. Additionally, there is a fiscal component to the charter review. DC PCSB is required by the SRA to revoke a school’s charter if DC PCSB determines in

¹ D.C. Code § 38-1802.12(a)(3).

² D.C. Code § 38-1802.12(a)(3).

³ D.C. Code § 38-1802.12(c).

its review that the school (1) has engaged in a pattern of non-adherence to generally accepted accounting principles; (2) has engaged in a pattern of fiscal mismanagement; and/or (3) is no longer economically viable.

BACKGROUND INFORMATION ABOUT SCHOOL

School Overview

The Next Step PCS began operation in 1996 under authorization of the District of Columbia Board of Education (“DC BOE”), and is the oldest charter school operating in Washington, DC. The Next Step PCS originated from the Teen Parent Program operated by The Latin American Youth Center, and the school’s original charter was written to serve pregnant teenagers and teenage mothers. In 2007, after the passage of the Public Education Reform Amendment Act dissolved the DC BOE, DC PCSB became the authorizer of the school.

In 2008, the school amended its charter to more accurately reflect its program and target population. In 2012, the school moved from its long-time location within the Latin American Youth Center to a larger facility in Columbia Heights. Presently, The Next Step PCS provides adult education services to primarily ELL students between the ages of 16 and 24, with 78.7% of students identified as ELLs in 2014-15.⁴ Students are primarily Hispanic, comprising 86.4% of the student body in 2014-15. The mission of the school is:

To provide students who face extraordinary challenges and who are not supported in traditional high schools, including teen parents, with the opportunity to continue their education.⁵

The Next Step PCS operates a full-time day program and part-time night program, both of which focus on students developing academic and life skills. Students enroll in a Spanish or English track, depending on their native language. Native Spanish speakers’ core academic classes are taught in Spanish, and they also participate in English as a Second Language (“ESL”) classes. Students can choose whether to focus on ESL classes, or whether to prepare for the Spanish or English GED.

The Next Step PCS also offers social service support services to its students, offering assistance to students in navigating public transportation, housing, family assistance, and college and career planning. The school employs multiple case workers, social workers, a licensed therapist, two attendance and transportation monitors, and a resource and enrichment coordinator to assist students. The school also provides free childcare for its evening students. The Next Step PCS Staff continue to support Next Step PCS alumni after they complete their course of study with the school.

⁴ The school amended its charter in 2012 to change the starting age of students it serves from 15 to 16; see September 17, 2012 board memorandum attached to this report as Appendix A.

⁵ See 2013-14 Annual report, p. 2, attached to this report as Appendix B.

Information about the school and an overview of its performance data are summarized in this table:

Grade Levels	Ward	Year Opened	2015-16 Enrollment	2010-11 Accountability Plan	2011-12 Accountability Plan	2012-13 Accountability Plan	2013-14 Adult PMF	2014-15 Adult PMF ⁶
Adult	1	1998-99	396	Met 4 of 5 targets	Met 5 of 5 targets	Met 4 of 5 targets	Exceeded 7 of 7 indicator floors	Tier 2

Previous Reviews and Renewals

In 2002-03, the DC BOE conducted a five-year review of The Next Step PCS, finding the school exceeded its literacy and math growth targets.⁷ It was noted that the school was out of compliance with federal special education laws in its first years in operation, but that students’ Individualized Education Plans were compliant by the 2002-3 school year.⁸

The Next Step PCS did not undergo a tenth-year charter review, which should have occurred in the 2007-08 school year. At that time, The Next Step PCS was transitioning from the authorization of the DC BOE to DC PCSB.

On February 1, 2011, The Next Step PCS submitted an application to renew its charter for a second fifteen-year term.⁹ In DC PCSB’s renewal analysis, it is noted that The Next Step PCS had met its academic expectations over the past fifteen years, and that the attendance rate had increased since the previous review.¹⁰ DC PCSB staff found that the school “has a strong record of good finances and compliance performance outcomes.”¹¹ However, some special education violations were noted, including the school not having a certified special education teacher on staff.¹² PCSB staff noted that “the school has put into place, strategic planning initiatives to ensure that the school’s operations center on the mission and vision statements.” Based on the renewal analysis, the DC PCSB Board voted on April 13, 2011 to renew the charter of The Next Step PCS.

⁶ See 2014-15 PMF Scorecard, attached to this report as Appendix C.

⁷ See The Next Step PCS Five-Year Charter Review Report, p. 12, attached to this report as Appendix D.

⁸ See Appendix D, pp. 14-15.

⁹ See The Next Step PCS Charter Renewal Application, attached to this report as Appendix E.

¹⁰ While PCSB noted the school had met the goals and academic expectations from its charter based on an analysis of the school’s performance on its adult accountability plan.

¹¹ See The Next Step PCS renewal memorandum, attached to this report as Appendix F.

¹² See Appendix F.

SECTION ONE: GOALS AND ACADEMIC ACHIEVEMENT EXPECTATIONS

The SRA requires DC PCSB to review whether a school has met its goals and academic expectations at least once every five years. Goals and expectations are only considered as part of the renewal analysis if they were included in a school’s charter, charter amendment, or accountability plans approved by the DC PCSB Board (collectively, the “Charter”).

In November 2014, The Next Step PCS amended its charter to adopt its accountability targets as its goals and academic expectations. The chart below summarizes DC PCSB’s determinations of whether each academic program met their respective goals and academic expectations. These determinations are further detailed in the body of this report.

	Goals and Academic Expectations	Met?
1	Students will show an average increase of at least a grade level equivalent of growth in reading on the Test of Adult Basic Education (“TABE”).	Yes
2	Students will show an average increase of at least a grade level equivalent of growth in mathematics on the TABE.	Yes
3	English language learners will show an average increase of at least a grade level equivalent of growth in English language proficiency on the TABE.	Partially
4	70% of eligible students will pass the General Education Development (“GED”) exam.	Yes
5	On average, enrolled students will attend school 69% of the time.	Yes

1. **Students will show an average increase of at least a grade level equivalent of growth in reading on the TABE.**

Assessment: The Next Step PCS met this goal. It met this target over the past four years (see outcomes in table below).

Year	Target	Target Met?
2011-12	Students will show an average increase of at least a grade level equivalent of growth in reading on the TABE.	Yes. Students achieved an average increase of 1.5 grade levels.
2012-13		Yes. Students achieved an average increase of 2.6 grade levels.
2013-14		Yes. Students achieved an average increase of 1.4 grade levels. (N=59)
2014-15		Yes. Students achieved an average increase of 1.2 grade levels. (N=67)

Of the 363 students enrolled at The Next Step PCS in school year 2014-15, 67 students pre- and post-tested in the TABE assessment and were counted in this measure. Another 30 students only pre-tested and then left the program.

Qualitative Evidence

In May 2015, DC PCSB staff conducted a Qualitative Site Review (“QSR”) of Next Step PCS observing the following:

Teachers mentioned the TABE assessment in several observations and discussed the skills that students will be demonstrating on the assessment. In ESL classes...students engag[ed] in dialogues with classmates to practice speaking in English. Teachers gave students feedback on how to improve their pronunciation and phonics skills.¹³

2. Students will show an average increase of at least a grade level equivalent of growth in mathematics on the TABE.

Assessment: **The Next Step PCS met this goal**, meeting the target in each of the last four years.

Year	Target	Target Met?
2011-12	Students will show an average increase of at least a grade level equivalent of growth in mathematics on the TABE.	Yes. Students achieved an average increase of 1.3 grade levels.
2012-13		Yes. Students achieved an average increase of 2.0 grade levels.
2013-14		Yes. Students achieved an average increase of 1.7 grade levels. (N=59)
2014-15		Yes. Students achieved an average increase of 1.3 grade levels. (N=67)

¹³ See Next Step PCS Qualitative Site Review, p. 3, attached to this report as Appendix F.

3. English language learners will show an average increase of at least a grade level equivalent of growth in English language proficiency on the TABE.

Assessment: **The Next Step PCS partially met this goal**, meeting the related target in two of the past four years.

Year	Target	Target Met?
2011-12	English language learners will show an average increase of at least a grade level equivalent of growth in English language proficiency on the TABE.	Yes. Students achieved an average increase of 1 grade level.
2012-13		No. Students achieved an average increase of 0.73 grade levels.
2013-14		Yes. Students achieved an average gain of 1.3 National Reporting System (“NRS”) levels. N=153
2014-15		No. Students achieved an average increase of 0.93 NRS levels. N=213

Of the 363 students in SY2014-15 enrolled in ESL at The Next Step PCS, 213 students pre- and post-tested and another 81 students only pre-tested and did not complete the program.

In addition to grade level equivalency on the TABE, the PMF also measures ESL performance by educational functioning level (EFL) on the TABE using slightly different business rules. The table below highlights the school’s ESL performance on the TABE by performance level for the past two years as well as a comparison to ESL performance of the charter sector.

Adult Education PMF English as a Second Language (ESL) Performance

	ESL Level 1		ESL Level 2		ESL Level 3		ESL Level 4	
	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15
The Next Step PCS	<u>59.5%</u>	<u>58.0%</u>	<u>93.3%</u>	<u>70.0%</u>	<u>N<10</u>	<u>54.5%</u>	<u>N<10</u>	<u>41.7%</u>
Charter Sector Average	<u>71.3%</u>	<u>71.8%</u>	<u>85.0%</u>	<u>84.4%</u>	<u>76.8%</u>	<u>73.0%</u>	<u>59.4%</u>	<u>60.5%</u>

The percent of ELL students improving at least one level from their pretest level slightly declined for students in ESL Level 1 and declined for students in ESL Level 2. The school’s ESL performance is performing below that of the charter sector in every ESL level except level 1 in school year 2014-15.

Qualitative Evidence

DC PCSB reviewers observed the following in support of this goal:

Teachers used appropriate vocabulary and helped students to decipher words in ESL classes using strategies such as context clues. A couple of teachers modeled ways to approach different problems, and in one class students modeled and explained the content to classmates.¹⁴

4. 70% of eligible students will pass the GED exam.

Assessment: **The Next Step PCS met this goal, meeting the target in three of the past four years (see table below).** While The Next Step PCS did not meet its GED target in 2014-15, this was the first school year that students took an updated version of the GED, newly aligned with Common Core standards. Across the country, GED passage rates have dropped due to the more rigorous exam. The Next Step PCS’s 2014-15 GED passage rates were among the highest of DC charter schools serving adult students.

¹⁴ See Appendix F, p. 8.

Year	Target	Target Met?
2011-12	70% of eligible students will pass the GED exam.	Yes. 74.0% of the students passed.
2012-13		Yes. 74.6% of the students passed.
2013-14		Yes. 74% of eligible students passed. (N=40)
2014-15		N/A 64.7% of eligible students passed the new GED exam. (N=34)

In 2014-15, 34 The Next Step PCS students attempted the GED, more than any other public charter school (along with some adult basic education programs with significantly higher enrollment).

Qualitative Evidence

DC PCSB reviewers observed the following in support of this goal:

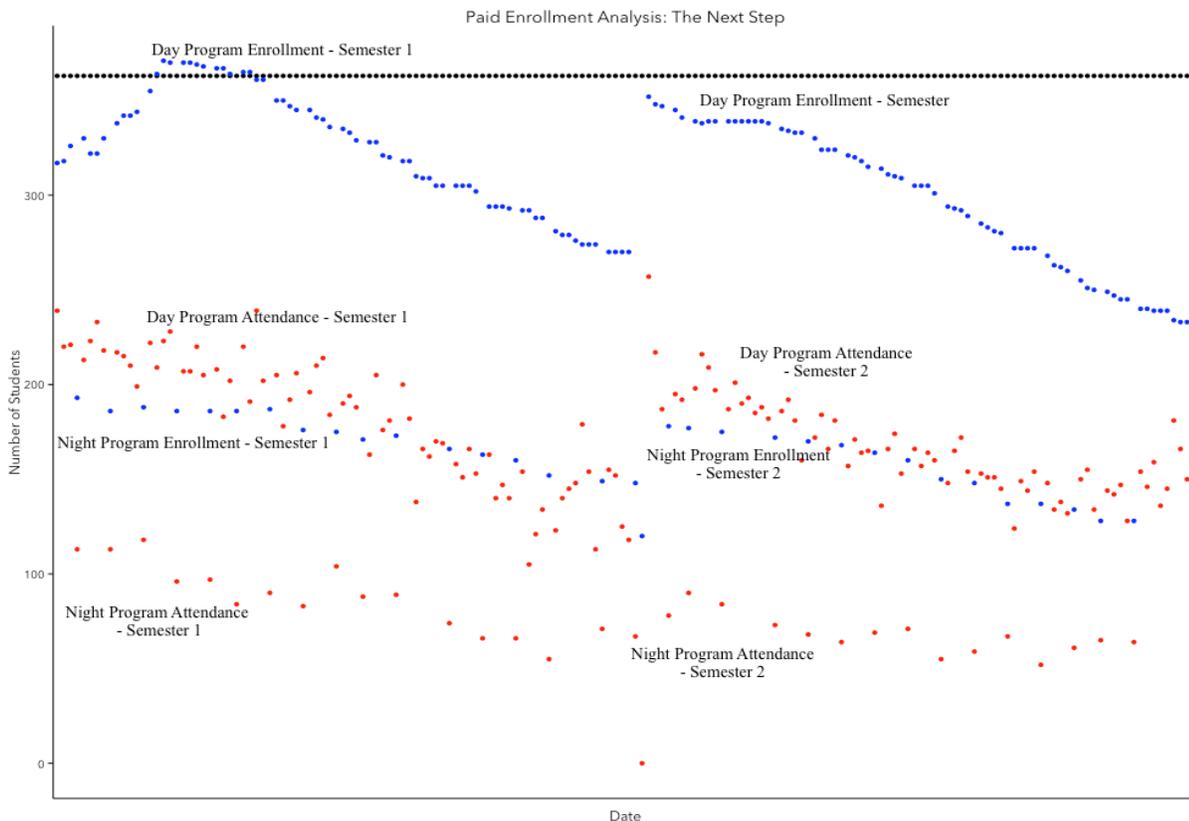
In the GED classes several teachers worked one-on-one with students, providing them with specific and actionable feedback on how to improve their work. One teacher gave the student strategies for how to study learning the states in the United States. Another teacher taught a whole group lesson and then differentiated the practice problems for students at different levels.

5. On average, enrolled students will attend school 69% of the time.

Assessment: **The Next Step PCS met this goal**, meeting this target in each of the past four years. The school’s annual attendance outcomes include students who receive 12 or more hours of service.

Year	Target	Target Met?
2011-12	On average, enrolled students will attend school 69% of the time.	Yes. Students enrolled attended, on average, 81% of the time.
2012-13		Yes. Students enrolled attended, on average, 76.0% of the time.
2013-14		Yes. Students attended, on average, 71% of the time.
2014-15		Yes. Students attended, on average, 71.7% of the time.

The school appears to have initially over-enrolled students to handle the attrition that typically occurs at adult education campuses. Student attendance gradually declined until the middle of the year after a new student enrollment period.



SECTION TWO: COMPLIANCE WITH CHARTER AND APPLICABLE LAWS

The SRA requires DC PCSB to determine at least once every five years whether a school has “committed a material violation of applicable laws or a material violation of the conditions, terms, standards, or procedures set forth in its charter, including violations relating to the education of children with disabilities.”¹⁵ The SRA contains a non-exhaustive list of applicable laws, and DC PCSB also monitors charter schools for compliance with additional laws in annual compliance reviews. The below table discusses the school’s compliance with various requirements from 2011-12 to the time of this report’s publication.

Compliance Item	Description	School’s Compliance Status 2011-12 to present
Fair enrollment process D.C. Code § 38-1802.06	DC charter schools must have a fair and open enrollment process that randomly selects applicants and does not discriminate against students.	Compliant since 2011-12.
Notice and due process for suspensions and expulsions D.C. Code § 38-1802.06(g)	DC charter school discipline policies must afford students due process ¹⁶ and the school must distribute such policies to students and parents.	Compliant since 2011-12.
Student health and safety D.C. Code §§ 38-1802.04(c)(4), 4-1321.02, 38-651	The SRA requires DC charter schools to maintain the health and safety of its students. ¹⁷ To ensure that schools adhere to this clause, PCSB monitors schools for various indicators, including but not limited to whether schools: <ul style="list-style-type: none"> - have qualified staff members that can administer medications; - conduct background checks for all school employees and volunteers; and - have an emergency response plan in place and conduct emergency drills as required by DC code and regulations. 	In 2011-12, the school’s compliance with this indicator was found to be “in progress”, with staff enrolled to attend a training to qualify them to administer medications. ¹⁸ The school has been in compliance since that time.
Equal employment D.C. Code § 38-1802.04(c)(5)	A DC charter school’s employment policies and practices must comply with federal and local employment laws and regulations.	Compliant since 2011-12.

¹⁵ D.C. Code § 38.1802.12(c).

¹⁶ See *Goss v. Lopez*, 419 U.S. 565 (1975).

¹⁷ D.C. Code § 38.1802.04 (c)(4)(A).

¹⁸ See 2012-13 compliance report, attached to this report as Appendix G.

Compliance Item	Description	School's Compliance Status 2011-12 to present
Insurance As required by the school's charter	A DC charter school must be adequately insured.	Compliant since 2011-12.
Facility licenses D.C. Code § 47-2851.03(d); D.C. Mun. Regs., tit. 14, §§ 14-1401 <i>et seq.</i>	A DC charter school must possess all required local licenses.	Compliant since 2011-12.
Highly Qualified Teachers Elementary and Secondary Education Act ("ESEA") 20 U.S.C. § 6301 <i>et seq.</i>	DC charter schools receiving Title I funding must employ "Highly Qualified Teachers" as defined by ESEA.	Compliant since 2011-12.
Proper composition of board of trustees D.C. Code § 38-1802.05	A DC charter school's Board of Trustees must have: an odd number of members that does not exceed 15; a majority of members that are DC residents; and at least two members that are parents of a student attending the school.	Compliant since 2011-12.
Accreditation Status D.C. Code § 38-1802.02(16)	A DC charter school must maintain accreditation from an SRA-approved accrediting body approved by the SRA.	Compliant since 2011-12.

Procurement Contracts

D.C. Code § 38-1802.04(c)(1) requires DC charter schools to utilize a competitive bidding process for any procurement contract valued at \$25,000 or more, and within three days of awarding such a contract, to submit to DC PCSB all bids received, the contractor selected, and the rationale for which contractor was selected. To ensure compliance with this law, DC PCSB requires schools to submit a "Determinations and Findings" form to detail any qualifying procurement contract that the school has executed. The Next Step PCS did not comply with these requirements for two contracts from 2011-12 through 2013-14.

Year	Qualifying contracts executed by school	Corresponding documentation submitted to PCSB
2011-12	5	5
2012-13	6	5
2013-14	4	3
2014-15	4	4

Special Education Compliance

Charter schools are required to comply with all federal and local special education laws, including, among others, the Individuals with Disabilities Education Act¹⁹ (“IDEA”) and the Rehabilitation Act of 1973. The Next Step PCS elected to operate as a “dependent charter” for federal special education purposes, meaning that DC Public Schools works with The Next Step PCS as it would a traditional DCPS school to service the school’s special education students.

Because of its dependent charter status, the school’s special education compliance performance is, for the most part, reported by OSSE as part of DCPS’ overall compliance performance, and compliance data specific to The Next Step PCS students is limited. The following section summarizes The Next Step PCS’ special education compliance from 2011 to the present.

On-Site Monitoring Report

OSSE periodically conducts an on-site assessment of a school’s special education compliance, publishing its findings in an On-Site Monitoring Report. If a school is less than 100% compliant with an indicator, it must implement corrections and report these corrections to OSSE.²⁰ In 2015, OSSE published an on-site Compliance Monitoring Report of The Next Step PCS based on the school’s performance in the 2012-13 school year.²¹ OSSE found the school to be in full compliance in this review.

Student-Level Compliance	
Compliance Area	Number of indicators where corrections were required
Initial Evaluations and Reevaluations	0 of 8
Individualized Education Program	0 of 12
Least Restrictive Environment	0 of 3
Total indicators where corrections were required	0 of 23

¹⁹ 20 USC §1413(a)(5).

²⁰ If OSSE finds that the school is less than 100% compliant with a student-level indicator that was impossible for the school to cure retroactively, OSSE would identify the point of noncompliance as an LEA-level violation.

²¹ See 2012-2013 On-Site Monitoring Report Attachments, attached to this report as Appendix G.

Special Conditions Quarterly Reports

OSSE submits quarterly reports to the U.S. Department of Education’s Office of Special Education Programs detailing District of Columbia LEAs’ compliance in four areas of timeliness: (1) Initial Evaluation; (2) Reevaluation; (3) Early Childhood Transition (for students entering pre-kindergarten at age 2 and turning 3); and (4) Secondary Transition (for students transitioning from high school). Of these, The Next Step PCS is evaluated for its compliance related to timely initial and reevaluation, and secondary transition– its outcomes in these areas are detailed in the tables below. The school has since cured all points of noncompliance, and its compliance in these areas has improved from April 2012 to the time of the U.S. Department of Education’s publication.

Quarterly Findings – April 2012 through March 2013				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Initial Evaluation Timeline	Compliant	Compliant	Compliant	Compliant
Reevaluation	0 of 1 indicators compliant	Compliant	Compliant	0 of 1 indicators compliant
Secondary Transition	7 of 8 indicators compliant	6 of 7 indicators compliant	Compliant	Compliant

Quarterly Findings – April 2013 through March 2014				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Initial Evaluation Timeline	Compliant	Compliant	Compliant	Compliant
Reevaluation	Compliant	Compliant	Compliant	Compliant
Secondary Transition	14 of 15 indicators compliant	Compliant	5 of 8 indicators compliant	Compliant

Quarterly Findings – April 2014 through March 2015				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Initial Evaluation Timeline	Compliant	Compliant	Compliant	TBD
Reevaluation	Compliant	Compliant	Compliant	TBD
Secondary Transition	Compliant	Compliant	Compliant	TBD

Blackman Jones Implementation Review

With compliance requirements pursuant to the Individuals with Disabilities Education Act (IDEA) and the 2006 Blackman Jones Consent Decree, OSSE manages and oversees the Blackman Jones database that tracks each LEAs’ timely implementation of Hearing Officer Determinations (“HODs”) and Settlement Agreements (“SAs”). As of November 2015, The Next Step PCS has no HODs or SAs reported on the Blackman Jones Database.

SECTION THREE: **FISCAL MANAGEMENT AND ECONOMIC VIABILITY**

INTRODUCTION

The SRA requires DC PCSB to revoke a school's charter if DC PCSB determines that the school:

- Has engaged in a pattern of non-adherence to generally accepted accounting principles ("GAAP");
- Has engaged in a pattern of fiscal mismanagement; and/or
- Is no longer economically viable.²²

As part of the charter review process, DC PCSB reviewed The Next Step PCS's financial records regarding these areas. PCSB finds that there are no grounds to revoke the school's charter based on this standard.

SUMMARY OF FINDINGS

The Next Step PCS is economically viable, has complied with GAAP, and has not engaged in a pattern of fiscal mismanagement. The data reviewed as a part of the summary for this review dates back to the 2011 fiscal year ("FY"). The Next Step PCS has been identified as a moderate or high fiscal-performing school by DC PCSB since FY11, indicating the school's financial stability and the quality of its management's decisions regarding its finances. The school does not warrant any concerns regarding economic unviability or fiscal mismanagement based on the information currently available to DC PCSB.

FINANCIAL OVERVIEW

The following table provides an overview of The Next Step PCS's financial information over the past four fiscal years. Enrollment has grown 129% over the last four years from 138 students in FY11 to 316 students in FY14. In December 2011, the school assumed debt of approximately \$8.5M to finance the acquisition of its current facility at 3047 15th Street, NW. The original loans were received from several different lenders. In October 2014, the loans were consolidated and refinanced into a more conventional loan from one lender. The school's loan payment in FY15 was \$0.2M, reflecting low payments indicative of a sustainable debt burden.

²² See D.C. Code § 38-1802.13(b).

	Audit Year			
	2011	2012	2013	2014
Audited Enrollment	138	158	277	316
Total DC Funding Allocation	\$ 2,348,224	\$ 2,761,014	\$ 4,109,293	\$ 5,728,549
Total Federal Entitlements and Funding	\$ 439,799	\$ 185,655	\$ 1,102,497	\$ 279,854
Unrestricted Cash and Cash Equivalents on 6/30/14	\$ 960,234	\$ 803,364	\$ 2,191,156	\$ 4,580,304
Total Assets	\$ 1,629,372	\$ 10,751,011	\$ 12,448,807	\$ 14,530,773
Total Current Assets	\$ 1,420,133	\$ 1,411,426	\$ 2,553,462	\$ 4,986,346
Total Liabilities	\$ 326,617	\$ 8,562,210	\$ 8,269,228	\$ 8,427,906
Total Current Liabilities	\$ 326,617	\$ 688,489	\$ 578,492	\$ 889,334
Net Asset Position	\$ 1,302,755	\$ 2,188,801	\$ 4,179,579	\$ 6,102,867
Total Revenues	\$ 2,799,872	\$ 3,694,393	\$ 5,841,554	\$ 6,099,294
Total Expenses	\$ 2,312,316	\$ 2,808,347	\$ 3,850,776	\$ 4,173,492
Change in Net Assets	\$ 487,556	\$ 886,046	\$ 1,990,778	\$ 1,925,802

SPENDING DECISIONS

The following table provides an overview of the school's spending decisions over the past four years. Spending levels for salaries and benefits as a portion of revenues have decreased to 48% in FY14 from 63% in FY11. Spending in other categories has remained consistent. The Next Step PCS's operating margins have increased significantly from 17% in FY11 to 32% in FY14, which is much higher than the average 6% operating margin for the sector. The margin is driven by the growth in revenues compared to expenses. Revenues have increased 118% over the period while expenses have increased 80%.

	Audit Year			
	2011	2012	2013	2014
Total Personnel Salaries and Benefits	\$ 1,760,989	\$ 1,995,245	\$ 2,449,342	\$ 2,938,916
Total Direct Student Costs	\$ 185,170	\$ 201,084	\$ 184,795	\$ 300,968
Total Occupancy Expenses	\$ 179,943	\$ 335,378	\$ 599,164	\$ 456,688
Total Office Expenses	\$ 95,819	\$ 156,351	\$ 146,946	\$ 275,924
Total General Expenses	\$ 90,397	\$ 120,289	\$ 470,529	\$ 200,996
Operating Surplus/(Deficit)	\$ 487,554	\$ 886,046	\$ 1,990,778	\$ 1,925,802
	as a percent of revenue			
Total Personnel Salaries and Benefits	63%	54%	42%	48%
Total Direct Student Costs	7%	5%	3%	5%
Total Occupancy Expenses	6%	9%	10%	7%
Total Office Expenses	3%	4%	3%	5%
Total General Expenses	3%	3%	8%	3%
Operating Surplus/(Deficit)	17%	24%	34%	32%

ADHERENCE TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Audits of The Next Step PCS establish that the school has adhered to GAAP. The auditor expressed unqualified/unmodified opinions on the school’s financial statements.

	2011	2012	2013	2014
Statement Opinion. Required when auditor finds areas of doubt/questionable matters.	Unqualified	Unqualified	Unqualified	Unmodified
Statement Material Weakness. A deficiency in internal control, indicating a reasonable possibility that a material financial misstatement will not be prevented.	No	No	No	No
Statement Non-Compliance. Auditor tests for compliance with certain provisions of laws, regulations, contracts, and grant agreements.	No	No	No	No
Program Opinion (A133). Review of compliance with federal requirements conducted when school receives \$500K+ in federal funds.	Unqualified	Unqualified	Unqualified	Unmodified
Program Material Weakness (A133). Lack of internal control over compliance with applicable laws, regulations, etc.	No	No	No	No
Findings & Questioned Costs. Findings important enough to merit attention by those charged with governance, with documentation of corrective action plans noting the responsible party.	0	0	0	0
Unresolved Prior Year Findings. Disclosure of prior audit findings that have not been corrected.	0	0	0	0
Going-Concern Issue. Indicates the financial strength of the school is questioned.	No	No	No	No
Debt-Compliance Issue. School was not in compliance with certain debt covenants. A debt-compliance issue may prelude insolvency.	No	No	No	No

FISCAL MANAGEMENT

The school has not engaged in a pattern of fiscal mismanagement. The Next Step PCS is not associated with a management organization. The school employs a full-time finance manager and began contracting with a back office services provider in November 2014. The school’s financial statements are audited by Kendall, Prebola and Jones.

ECONOMIC VIABILITY

The school is economically viable and has built a strong financial position. Audited enrollment increased 129% from FY11 to FY14. Over that time period, revenues increased by 118%, and expenses increased by 80%. Revenue growth outpacing expense growth is a positive indicator and has contributed to the increase in the school’s operating margins. The following sections review the school’s financial results in four key areas: (a); ~~Operating~~ Financial Performance; (b) Liquidity; (c) Debt Burden; and (d) sustainability.

Financial Performance

DC PCSB assesses a school’s financial performance with two key indicators. The first indicator is a school’s “operating result” – how much its total annual revenues exceed its total annual expenditures. In general, DC PCSB recommends that a school’s annual operating results are positive. Another indicator of a school’s financial performance is its earnings before depreciation (“EBAD”)²³, a measure of a school’s operating cash flows. Based on these measures, The Next Step PCS has been consistently maintained operating surpluses and positive operating cash flows.

²³ EBAD is the change in net assets plus amortization and depreciation.

	Indicator of Concern	Audit Year			
		2011	2012	2013	2014
Operating Surplus/(Deficit)	< 0	\$ 487,556	\$ 886,046	\$ 1,990,778	\$ 1,925,802
Earnings Before Depreciation	< 0	\$ 517,000	\$ 951,704	\$ 2,403,942	\$ 2,330,815
Aggregated 3-Year Total Margin	< -1.5%	N/A	N/A	27.3%	30.7%

Liquidity

Liquidity refers to the school’s ability to meet its financial obligations. Too few assets or insufficient cash to pay vendors and/or creditors is a cause for concern and threatens the school’s viability in the short-term. Two indicators of a school’s liquidity are its current ratio²⁴ and its days of cash on hand.²⁵ The current ratio is indicative of a school’s ability to satisfy its immediate financial obligations. When the current ratio is less than one, the school’s ability to meet these obligations is in doubt. The Next Step PCS’s current ratio has varied over the last four years but has always remained above 1.0. At the end of FY14, the current ratio was 5.6, indicating the school’s ability to meet its immediate financial obligations.

Days of cash on hand reflects a school’s ability to continue to satisfy its financial obligations in the event of unexpected cash delays. Typically, 90 days of cash or more is recommended. Less than 30 days of cash is a liquidity concern. The Next Step PCS’s cash balance increased to 395 days in FY14 from 149 days in FY11. The school has sufficient cash to remain financially viable in the short-term.

	Indicator of Concern	Audit Year			
		2011	2012	2013	2014
Current Ratio	< 1.0	4.3	2.1	4.4	5.6
Days of Cash On Hand	< 30	149	103	205	395

Debt Burden

As part of the evaluation of a school’s long-term viability, DC PCSB considers a school’s debt burden. In particular, DC PCSB reviews two debt ratios – the debt ratio²⁶ and the modified debt service²⁷ ratio. The table below shows the school’s debt burden decreasing over the past four years. This is indicative of the school’s ability to grow without taking on new debts.

²⁴ A school’s current ratio is its current assets divided by current liabilities.

²⁵ “Cash on hand” equals unrestricted cash and cash equivalents divided by total expenditures divided by 360 days. It is a measure of the school’s ability to pay debts and claims as they come due.

²⁶ Debt Ratio equals the total debt divided by the total assets.

²⁷ Modified Debt Service Ratio equals the sum of the current portion of long-term debt, interest, and rent divided by the total revenues.

The modified debt service ratio was introduced in FY14 and measures how much of a school’s revenues are dedicated to meeting its debt obligations. This is an indicator of the sustainability of the debt payments. Anything greater than 15% is a cause for concern. The school’s current modified debt service ratio is 6%, well below the threshold for concern. The Next Step PCS’s debt levels and payments are manageable.

	Indicator		Audit Year			
	of Concern	2011	2012	2013	2014	
Debt Ratio	> 0.92	0.20	0.80	0.66	0.58	
Modified Debt Service Ratio	> 15.0%	N/A	N/A	N/A	6%	

Sustainability

A school’s net asset position²⁸ and primary reserve ratio are indicators of its long-term sustainability.²⁹ DC PCSB recommends that schools accrue reserves equal to 25% to 50% of operating expenditures, and DC PCSB would be concerned with net assets reserves below zero. The Next Step PCS’s metrics are reflective of a sustainable school and remained well above 25% for each of the past four years. At the end of FY14, the net asset position was equal to more than one year of operating expenditures.

	Indicator		Audit Year			
	of Concern	2011	2012	2013	2014	
Net Asset Position	< 0	\$ 1,302,755	\$ 2,188,801	\$ 4,179,579	\$ 6,102,867	
Primary Reserve Ratio	< 0.00	0.56	0.78	1.09	1.46	

²⁸ Net Asset Position equals total assets minus total liabilities.

²⁹ Primary Reserve Ratio equals total net assets divided by total annual expenses.