

THE NEXT STEP FUND, INC.

**Financial Statements For The Years Ended
December 31, 2016 and 2015
And
Independent Auditors' Report**

THE NEXT STEP FUND, INC.

**Financial Statements
For The Years Ended December 31, 2016 and 2015
And
Independent Auditors' Report**

CONTENTS

	Page
Independent Auditors' Report on Financial Statements.....	1-2
Financial Statements:	
Statements of Financial Position.....	3
Statements of Activities	4
Statements of Functional Expenses.....	5-6
Statements of Cash Flows	7
Notes to Financial Statements.....	8-11



McCarthy, Hargrave & Co.

Certified Public Accountants

Board of Directors

The Next Step Fund, Inc.

Cambridge, Massachusetts

Independent Auditors' Report

We have audited the accompanying statements of The Next Step Fund, Inc. (a not-for-profit organization), which comprise the statement of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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. 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.

207 Main Street, Marlborough, MA 01752
Telephone (508) 481-2211 • Facsimile (508) 481-2897
www.mhandco.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Next Step Fund, Inc. as of December 31, 2016 and 2015, 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.

June 28, 2017

McCarthy, Hargrave & Co.

THE NEXT STEP FUND, INC.

Statements of Financial Position

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Assets		
Current Assets:		
Cash	\$ 34,805	\$ 40,885
Pledges Receivable	154,410	46,937
Prepaid Payroll	-	10,507
Total Current Assets	<u>189,215</u>	<u>98,329</u>
Investments	99,835	55,433
Property and Equipment:		
Equipment and Leashold Improvements	89,029	89,029
Accumulated Depreciation	<u>(23,565)</u>	<u>(14,889)</u>
Total Property and Equipment	<u>65,464</u>	<u>74,140</u>
Total Assets	<u>\$ 354,514</u>	<u>\$ 227,902</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts Payable and Accrued Expenses	<u>\$ 9,487</u>	<u>\$ 21,390</u>
Total Liabilities	9,487	21,390
Net Assets:		
Unrestricted	273,027	206,512
Temporarily Restricted	<u>72,000</u>	<u>-</u>
Total Net Assets	<u>345,027</u>	<u>206,512</u>
Total Liabilities and Net Assets	<u>\$ 354,514</u>	<u>\$ 227,902</u>

The accompanying notes are an integral part of the financial statements.

THE NEXT STEP FUND, INC.

Statements of Activities

	For The Year Ended	
	December 31,	
	2016	2015
Revenue and Support:		
Grants and Contributions	\$ 385,253	\$ 368,330
Program Revenue	74,073	87,469
Special Events Revenue Less Expenses of \$ 95,285 and \$ 23,173, respectively	210,297	113,277
Unrealized Gain (Loss) on Investments	2,194	(7,747)
Interest and Dividends	2,277	5,681
Release From Restriction	4,000	-
Total Revenue and Support	678,094	567,010
Expenses:		
Support and Educational Programs	455,158	439,041
Management and General	76,290	67,907
Fundraising	80,131	75,139
Total Expenses	611,579	582,087
Change in Unrestricted Net Assets	66,515	(15,077)
Unrestricted Net Assets at Beginning of Year	206,512	221,589
Unrestricted Net Assets at End of Year	273,027	206,512
Temporarily Restricted Net Assets at Beginning of Year	-	-
Contributions	76,000	
Release From Restriction	(4,000)	
Temporarily Restricted Net Assets at End of Year	72,000	-
Net Assets at Beginning of Year	206,512	221,589
Change in Net Assets	138,515	(15,077)
Net Assets at End of Year	\$ 345,027	\$ 206,512

The accompanying notes are an integral part of the financial statements.

THE NEXT STEP FUND, INC.

Statement of Functional Expenses

For The Year Ended December 31, 2016

	Support And Educational Programs	Management And General	Fundraising	Total
Salaries and Wages	\$ 220,880	\$ 46,471	\$ 62,237	\$ 329,588
Consulting Staff	66,128		975	67,103
Program Facility Rental	50,245			50,245
Rent and Parking	23,094	2,861	2,456	28,411
Marketing		980	1,704	2,684
Travel and Meetings Expense	38,817	26	2,768	41,611
Program Supplies	11,455			11,455
Office Supplies	3,687	3,960	3,132	10,779
Payroll Taxes	17,925	3,652	5,094	26,671
Employee Benefits	5,200	2,267	937	8,404
Professional Fees		10,660		10,660
Telephone and Postage	3,303	1,311	782	5,396
Depreciation	8,676			8,676
Liability Insurance	5,652	99		5,751
Payroll Service Fees		1,691		1,691
Credit Card Interest		1,363		1,363
Miscellaneous	96	949	46	1,091
	\$ 455,158	\$ 76,290	\$ 80,131	\$ 611,579

The accompanying notes are an integral part of the financial statements.

THE NEXT STEP FUND, INC.

Statement of Functional Expenses

For The Year Ended December 31, 2015

	Support And Educational Programs	Management And General	Fundraising	Total
Salaries and Wages	\$ 229,078	\$ 45,055	\$ 57,226	\$ 331,359
Consulting Staff	55,937		1,225	57,162
Program Facility Rental	38,400			38,400
Rent and Parking	22,792	2,697	2,697	28,186
Marketing		839	3,076	3,915
Travel and Meetings Expense	36,761	1,363	981	39,105
Program Supplies	11,520			11,520
Office Supplies	1,818	2,342	2,422	6,582
Payroll Taxes	18,909	4,074	4,730	27,713
Employee Benefits	6,672	1,739	2,433	10,844
Professional Fees		3,800		3,800
Telephone and Postage	2,640	1,526	313	4,479
Depreciation	8,777			8,777
Liability Insurance	5,603	225		5,828
Payroll Service Fees		1,397		1,397
Credit Card Interest		1,911		1,911
Miscellaneous	134	939	36	1,109
	\$ 439,041	\$ 67,907	\$ 75,139	\$ 582,087

The accompanying notes are an integral part of the financial statements.

THE NEXT STEP FUND, INC.

Statements of Cash Flows

	<u>2016</u>	<u>2015</u>
Cash Flow From Operating Activities:		
Change in Net Assets	\$ 138,515	\$ (15,077)
Adjustments To Reconcile The Change In Net Assets To Net Cash Provided (Used) by Operating Activities:		
Depreciation	8,676	8,777
Unrealized (Gain) Loss on Investments	(2,194)	7,747
Pledges Receivable	(107,473)	(36,934)
Prepaid Payroll	10,507	1,001
Accounts Payable and Accrued Expenses	(11,903)	11,961
Cash Flow Provided (Used) By Operating Activities	<u>36,128</u>	<u>(22,525)</u>
Cash Flow From Investing Activities:		
Proceeds from Sales of Investments	-	97,435
Purchases of Investments	(42,208)	(63,115)
Cash Flow (Used) Provided By Investing Activities	<u>(42,208)</u>	<u>34,320</u>
Net (Decrease) Increase in Cash	(6,080)	11,795
Cash, Beginning of Year	<u>40,885</u>	<u>29,090</u>
Cash, End of Year	<u>\$ 34,805</u>	<u>\$ 40,885</u>

The accompanying notes are an integral part of the financial statements.

THE NEXT STEP FUND, INC.

Notes To The Financial Statements

For The Years Ended December 31, 2016 and 2015

Organization:

The Next Step Fund, Inc. provides support and education programs for teenagers and young adults with chronic illnesses or history of childhood cancer. For teens and young adults with life threatening cancer, blood and genetic illnesses – who often don't get the support they need – Next Step is completely unique and effective at providing the tools for them to:

- Create community for themselves
- Get a new and optimistic outlook in a safe environment
- Learn skills that will allow them to move forward into a healthy and productive life

A. Summary of Significant Accounting Policies:

Basis of Statements - The financial statements have been prepared on the accrual basis. Under this method of accounting, expenses are recorded as incurred and income is recorded when earned.

Unrestricted Net Assets - Included in unrestricted net assets are amounts that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily Restricted Net Assets - Temporarily restricted net assets include amounts resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

Permanently Restricted Net Assets - Permanently restricted net assets are amounts resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization has no such assets.

Accounting Estimates and Assumptions - 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 amount of assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Income Taxes – Donors may deduct contributions made within the Internal Revenue Code regulations. The Organization is exempt from income taxes under Internal Revenue Code Section 501 (c)(3). In addition, there are no unrecognized tax benefits and income tax returns remain subject to examination by major tax jurisdictions for the standard three-year statute of limitations.

Revenue Recognition – Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor imposed restrictions. Contributions that are classified as temporarily restricted are reclassified to unrestricted net assets upon satisfaction of the program restriction or expiration of the time restrictions. The Organization has elected to report restricted contributions whose restrictions are met in the same reporting period as unrestricted support.

THE NEXT STEP FUND, INC.

Notes To The Financial Statements

For The Years Ended December 31, 2016 and 2015

(Continued)

A. Summary of Significant Accounting Policies (continued):

Investments – Investments are recorded at fair value. Unrestricted restricted assets are invested and held by Capitol Securities and Stifel, Nicolaus & Company, Incorporated.

Fair Value Measurements – Fair Value Measurements establishes a framework for measuring fair value. 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).

Level 1 Inputs – Quoted prices for identical assets or liabilities in active markets.

Level 2 Inputs – Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets in inactive markets; or inputs other than quoted prices that are observable, such as models or other valuation methodologies. The Next Step Fund, Inc. does not have any Level 2 Inputs.

Level 3 Inputs – Unobservable inputs for where there is little, if any, market activity. The Next Step Fund, Inc. does not have any Level 3 Inputs.

The asset's or liability's fair value measure 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.

B. Investments:

The following summarizes the cost and fair value of long-term investments:

	December 31, 2016		December 31, 2015	
	Cost	Fair Value	Cost	Fair Value
Level I				
Equity Mutual Funds	\$ 57,900	\$ 52,347	\$ 55,752	\$ 48,005
Money Market Funds	47,488	47,488	7,428	7,428
	\$ 105,388	\$ 99,835	\$ 63,180	\$ 55,433

The investments had unrealized losses of \$ 5,553 as of December 31, 2016 and \$ 7,747 as of December 31, 2015.

All investments are unrestricted assets for both December 31, 2016 and 2015.

THE NEXT STEP FUND, INC.

Notes To The Financial Statements

For The Years Ended December 31, 2016 and 2015

(Continued)

C. Pledges Receivable:

Pledges receivable represent unconditional promises to give by donors and are expected to be collected based on historical transactions. They are recorded at net realizable value.

D. Functional Allocation of Expenses:

The costs of providing program services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

E. Lease Agreement:

The Organization leased office space for seminars and occupational and music therapy commencing January 23, 2014 for three years. The Organization is also responsible for its proportionate share of increases in operating expenses and has optioned to extend the lease until January 23, 2020. Rent expense for the years ended December 31, 2016 and 2015 was \$ 26,695 and \$ 25,290, respectively. Future minimum lease payments for 2017, 2018, 2019, and 2020 are \$ 29,505, \$ 30,910, \$ 32,315 and \$ 2,693, respectively.

F. Temporarily Restricted Net Assets:

Assets released from temporarily restricted net assets were as follows:

	December 31,	
	2016	2015
Program Space Design and Recording Studio	\$ 4,000	\$ -

Temporarily restricted net assets are available for the following purposes:

	December 31,	
	2016	2015
Pilot Program "Have You Ever"	\$ 35,000	\$ -
Music Therapy and Community Engagement	20,000	
Program Space Design and Recording Studio	17,000	
Total	\$ 72,000	\$ -

THE NEXT STEP FUND, INC.

Notes To The Financial Statements

For The Years Ended December 31, 2016 and 2015

(Continued)

G. Related Party Transaction:

The Executive Director's sister provides music therapy services. For the years ended December 31, 2016 and 2015, the Organization paid this individual \$ 2,175 and \$ 2,100, respectively. As of December 31, 2016 and 2015 there was nothing owed to the key employee's sister.

H. Special Events Revenues and Expenses:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Block Party Event		
Revenues	\$ 99,359	\$ 56,523
Expenses	(24,205)	(19,164)
	<u>\$ 75,154</u>	<u>\$ 37,359</u>
Fishers Island Golf Tournament		
Revenues	\$ 135,925	\$ -
Expenses	(61,765)	-
	<u>\$ 74,160</u>	<u>\$ -</u>
Other Smaller Events		
Revenues	\$ 70,298	\$ 79,927
Expenses	(9,315)	(4,009)
	<u>\$ 60,983</u>	<u>\$ 75,918</u>
Net Special Events Revenue	<u>\$ 210,297</u>	<u>\$ 113,277</u>

I. Date Through Which Subsequent Events Have Been Evaluated:

The Organization has evaluated all material subsequent events from the end of the calendar year through June 28, 2017, the date the financial statements were available to be issued. No material subsequent events have occurred since December 31, 2016 that required recognition or disclosure in these financial statements.