

THE NEXT STEP FUND, INC.

**Financial Statements For The Years Ended
December 31, 2015 and 2014
And
Independent Auditors' Report**

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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, 2015, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Next Step Fund, Inc. as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The 2014 financial statements were reviewed by us and we stated that we were not aware of any material modifications that should be made to those statements in order for them to be in conformity with accounting principles generally accepted in the United States of America in our report dated June 4, 2015, but we have not performed any procedures in connection with that review engagement since that date.

November __, 2016

McCarthy, Hargrave & Co.

THE NEXT STEP FUND, INC.

Statements of Financial Position

	December 31,	
	2015	2014
Assets		
Current Assets:		
Cash	\$ 40,885	29,090
Pledges Receivable	46,937	10,003
Prepaid Payroll	10,507	11,508
Total Current Assets	98,329	50,601
Investments	55,433	97,500
Non-Current Assets:		
Equipment and Leashold Improvements	89,029	89,029
Accumulated Depreciation	(14,889)	(6,112)
Total Non-Current Assets	74,140	82,917
Total Assets	\$ 227,902	\$ 231,018
Liabilities and Net Assets		
Current Liabilities:		
Accounts Payable and Accrued Expenses	21,390	9,429
Total Liabilities	21,390	9,429
Net Assets:		
Unrestricted	206,512	221,589
Total Net Assets	206,512	221,589
Total Liabilities and Net Assets	\$ 227,902	\$ 231,018

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,	
	2015	2014
Revenue and Support:		
Grants and Contributions	\$ 368,330	\$ 284,401
Program Revenue	87,469	68,533
Special Events Revenue Less Expenses of \$ 23,173 and \$ 38,590, respectively	113,277	116,415
Unrealized Loss on Investments	(7,747)	-
Interest and Dividends	5,681	95
Release From Restrictions	-	129,500
Total Revenue and Support	567,010	598,944
Expenses:		
Support and Educational Programs	439,041	397,034
Management and General	67,907	74,297
Fundraising	75,139	49,508
Total Expenses	582,087	520,839
Change in Unrestricted Net Assets	(15,077)	78,105
Change in Temporarily Restricted Net Assets	-	(129,500)
Change in Unrestricted Net Assets	(15,077)	(51,395)
Net Assets at Beginning of Year	221,589	272,984
Net Assets at End of Year	\$ 206,512	\$ 221,589

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
Bank Service Charges	134	4,247	36	4,417
	\$ 439,041	\$ 67,907	\$ 75,139	\$ 582,087

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, 2014

	Support And Educational Programs	Management And General	Fundraising	Total
Salaries and Wages	\$ 217,304	\$ 48,561	\$ 36,608	\$ 302,473
Consulting Staff	36,132			36,132
Program Facility Rental	33,401			33,401
Rent and Parking	18,518	2,291	2,039	22,848
Marketing	286	991	782	2,059
Travel and Meetings Expense	46,299	1,866	555	48,720
Program Supplies	10,853			10,853
Office Supplies	1,249	6,180	2,694	10,123
Payroll Taxes	17,936	4,301	3,295	25,532
Employee Benefits	2,508	1,475	52	4,035
Professional Fees		5,282	3,363	8,645
Telephone and Postage	2,726	1,737	120	4,583
Depreciation	4,620			4,620
Liability Insurance	5,202	172		5,374
Bank Service Charges		1,441		1,441
	\$ 397,034	\$ 74,297	\$ 49,508	\$ 520,839

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

THE NEXT STEP FUND, INC.

Statements of Cash Flows

	<u>2015</u>	<u>2014</u>
Cash Flow From Operating Activities:		
Change in Net Assets	\$ (15,077)	\$ (51,395)
Adjustments To Reconcile The Change In Net Assets To Net Cash Provided (Used) by Operating Activities:		
Depreciation	8,777	4,620
Unrealized Loss on Investments	7,747	-
Pledges Receivable	(36,934)	4,782
Prepaid Payroll	1,001	(11,508)
Accounts Payable and Accrued Expenses	11,961	4,336
Cash Flow Used By Operating Activities	<u>(22,525)</u>	<u>(49,165)</u>
Cash Flow From Investing Activities:		
Proceeds from Sales of Investments	34,320	-
Purchases of Investments	-	(97,500)
Expenditures for Equipment and Leashold Improvements	-	(86,249)
Cash Flow Provided (Used) By Investing Activities	<u>34,320</u>	<u>(183,749)</u>
Net Increase (Decrease) in Cash	11,795	(232,914)
Cash, Beginning of Year	<u>29,090</u>	<u>262,004</u>
Cash, End of Year	<u>\$ 40,885</u>	<u>\$ 29,090</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, 2015 and 2014

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, 2015 and 2014

(Continued)

A. Summary of Significant Accounting Policies (continued):

Investments – Investments are recorded at fair value. Unrestricted, temporarily restricted, and permanently restricted assets are invested together and managed by an investment advisor. All investments are 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, 2015		December 31, 2014	
	Cost	Fair Value	Cost	Fair Value
Level 1				
Equity Mutual Funds	\$ 55,752	\$ 48,005	\$ -	\$ -
Money Market Funds	7,428	7,428	97,500	97,500
	<u>\$ 63,180</u>	<u>\$ 55,433</u>	<u>\$ 97,500</u>	<u>\$ 97,500</u>

The investments had unrealized losses of \$ 7,747 as of December 31, 2015 and \$ 0 as of December 31, 2014.

All investments are unrestricted assets for both December 31, 2015 and 2014.

THE NEXT STEP FUND, INC.

Notes To The Financial Statements

For The Years Ended December 31, 2015 and 2014

(Continued)

C. Pledges Receivable:

Pledges receivable represent unconditional promises to give by donors and are expected to be collected during the next year. 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 the option to extend the lease for an additional three years. Rent expense for the years ended December 31, 2015 and 2014 was \$ 25,290 and \$ 21,288, respectively. Future minimum lease payments for 2016 are \$ 26,695.

F. Temporarily Restricted Net Assets:

Assets released from temporarily restricted net assets were as follows:

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Leasehold Improvements	\$ -	\$ 67,019
Programs	-	43,251
Equipment	-	19,230
Total	<u>\$ -</u>	<u>\$ 129,500</u>

G. Related Party Transaction:

The Executive Director's sister provides music therapy services. For the years ended December 31, 2015 and 2014, the Organization paid this individual \$ 2,100 and \$ 2,800, respectively. As of December 31, 2015 and 2014 there was nothing owed to the key employee's sister.

THE NEXT STEP FUND, INC.

Notes To The Financial Statements

For The Years Ended December 31, 2015 and 2014

(Continued)

H. Special Events Revenues and Expenses:

	December 31,	
	2015	2014
Block Party Event		
Revenues	56,523	59,798
Expenses	(19,164)	(21,740)
	<u>37,359</u>	<u>38,058</u>
Other Smaller Events		
Revenues	79,927	95,207
Expenses	(4,009)	(16,850)
	<u>75,918</u>	<u>78,357</u>
Net Special Events Revenue	<u>113,277</u>	<u>116,415</u>

I. Reclassification:

A reclassification of \$ 97,500 was made on the statement of financial position as of December 31, 2014 increasing investments and decreasing cash for an investment account. The overall total assets did not change and there was no effect on the statement of activities.

J. Date Through Which Subsequent Events Have Been Evaluated:

The Organization has evaluated all material subsequent events from the end of the calendar year through November __, 2016, the date the financial statements were available to be issued. No material subsequent events have occurred since December 31, 2015 that required recognition or disclosure in these financial statements.