

STEPPINGSTONE FOUNDATION, INC.

**FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

The Steppingstone Mission Statement:

Founded in 1990, Steppingstone Foundation, Inc., is a non-profit organization that develops and implements programs, which prepare underserved schoolchildren for educational opportunities that lead to college success. Based on the premise that, regardless of circumstance, most children can achieve at high levels if they are prepared in a focused, demanding academic environment; all Steppingstone programs emphasize rigorous standards and achieve meaningful results.

STEPPINGSTONE FOUNDATION, INC.

Contents
June 30, 2018 and 2017

	<u>Pages</u>
Independent Auditor’s Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Cash Flows	4
Statements of Functional Expenses	5 - 6
Notes to Financial Statements	7 - 17

Independent Auditor's Report

To the Board of Directors of
Steppingstone Foundation, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Steppingstone Foundation, Inc. (a Massachusetts corporation, not for profit), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, cash flows and functional expenses 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

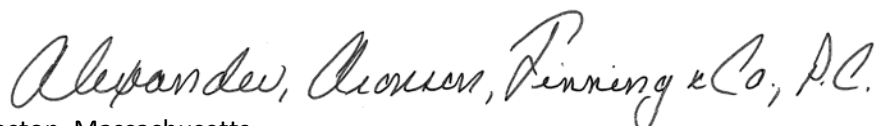
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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 Steppingstone Foundation, Inc. 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.



Boston, Massachusetts
October 18, 2018

STEPPINGSTONE FOUNDATION, INC.

Statements of Financial Position
June 30, 2018 and 2017

Assets	2018				2017		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Total
Current Assets:							
Cash and cash equivalents	\$ 389,115	\$ 941,867	\$ -	\$ 1,330,982	\$ 444,439	\$ 545,108	\$ 989,547
Investments	700,000	-	-	700,000	-	-	-
Current portion of accounts and pledges receivable, net	114,386	438,283	-	552,669	485,242	624,185	1,109,427
Prepaid expenses and other	101,801	-	-	101,801	104,229	-	104,229
Total current assets	1,305,302	1,380,150	-	2,685,452	1,033,910	1,169,293	2,203,203
Investments	830,156	345,897	1,125,000	2,301,053	-	-	-
Pledges Receivable, net	-	237,732	-	237,732	-	586,254	586,254
Property and Equipment, net	109,339	-	-	109,339	99,050	-	99,050
Deposits	90,050	-	-	90,050	109,503	-	109,503
Total assets	<u>\$ 2,334,847</u>	<u>\$ 1,963,779</u>	<u>\$ 1,125,000</u>	<u>\$ 5,423,626</u>	<u>\$ 1,242,463</u>	<u>\$ 1,755,547</u>	<u>\$ 2,998,010</u>
Liabilities and Net Assets							
Current Liabilities:							
Accounts payable, accrued expenses and other	\$ 127,403	\$ -	\$ -	\$ 127,403	\$ 68,583	\$ -	\$ 68,583
Deferred revenue	152,945	-	-	152,945	153,544	-	153,544
Total current liabilities	280,348	-	-	280,348	222,127	-	222,127
Deferred Rent	236,995	-	-	236,995	224,264	-	224,264
Total liabilities	517,343	-	-	517,343	446,391	-	446,391
Net Assets:							
Unrestricted:							
Operating	474,262	-	-	474,262	240,288	-	240,288
Board designated - BJC Fund for Scholars	1,233,903	-	-	1,233,903	456,734	-	456,734
Property and equipment	109,339	-	-	109,339	99,050	-	99,050
Total unrestricted	1,817,504	-	-	1,817,504	796,072	-	796,072
Temporarily restricted	-	1,963,779	-	1,963,779	-	1,755,547	1,755,547
Permanently restricted	-	-	1,125,000	1,125,000	-	-	-
Total net assets	1,817,504	1,963,779	1,125,000	4,906,283	796,072	1,755,547	2,551,619
Total liabilities and net assets	<u>\$ 2,334,847</u>	<u>\$ 1,963,779</u>	<u>\$ 1,125,000</u>	<u>\$ 5,423,626</u>	<u>\$ 1,242,463</u>	<u>\$ 1,755,547</u>	<u>\$ 2,998,010</u>

STEPPINGSTONE FOUNDATION, INC.

Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2018 and 2017

	2018			2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating Revenue and Support:							
Fundraising events	\$ 1,005,609	\$ 496,597	\$ -	\$ 1,502,206	\$ 743,244	\$ 558,293	\$ 1,301,537
Less- cost of direct benefit to donors	(128,141)	-	-	(128,141)	(89,214)	-	(89,214)
Net fundraising event revenue	877,468	496,597	-	1,374,065	654,030	558,293	1,212,323
Contributions and grants	3,284,237	851,714	-	4,135,951	3,114,641	423,872	3,538,513
Conference	284,700	-	-	284,700	306,166	-	306,166
Membership income	134,746	-	-	134,746	116,242	-	116,242
Other income	93,860	-	-	93,860	43,391	-	43,391
Interest and dividend income	11,739	-	-	11,739	-	-	-
In-kind revenue	8,980	-	-	8,980	30,680	-	30,680
Satisfaction of time restrictions-fundraising events	525,686	(525,686)	-	-	566,440	(566,440)	-
Satisfaction of time restrictions-other	401,707	(401,707)	-	-	464,501	(464,501)	-
Satisfaction of purpose restrictions	220,786	(220,786)	-	-	638,566	(638,566)	-
Total operating revenue and support	5,843,909	200,132	-	6,044,041	5,934,657	(687,342)	5,247,315
Operating Expenses:							
Program services							
The Steppingstone Academy	2,197,568	-	-	2,197,568	2,203,263	-	2,203,263
College Success Academy	965,034	-	-	965,034	1,003,352	-	1,003,352
National Partnership for Educational Access	468,741	-	-	468,741	489,103	-	489,103
Replication	15,365	-	-	15,365	18,709	-	18,709
Total program services	3,646,708	-	-	3,646,708	3,714,427	-	3,714,427
Supporting services:							
General and administrative	466,621	-	-	466,621	460,974	-	460,974
Development	742,124	-	-	742,124	777,291	-	777,291
Total supporting services	1,208,745	-	-	1,208,745	1,238,265	-	1,238,265
Total operating expenses	4,855,453	-	-	4,855,453	4,952,692	-	4,952,692
Changes in net assets from operations	988,456	200,132	-	1,188,588	981,965	(687,342)	294,623
Other Revenues (Expenses):							
Endowment contributions	-	-	1,125,000	1,125,000	-	-	-
Capital grant	32,014	-	-	32,014	-	-	-
Investment returns	962	18,100	-	19,062	-	-	-
Cancellation of pledges	-	(10,000)	-	(10,000)	-	(721,000)	(721,000)
Total other revenues (expenses)	32,976	8,100	1,125,000	1,166,076	-	(721,000)	(721,000)
Changes in net assets	1,021,432	208,232	1,125,000	2,354,664	981,965	(1,408,342)	(426,377)
Net Assets:							
Beginning of year	796,072	1,755,547	-	2,551,619	(185,893)	3,163,889	2,977,996
End of year	<u>\$ 1,817,504</u>	<u>\$ 1,963,779</u>	<u>\$ 1,125,000</u>	<u>\$ 4,906,283</u>	<u>\$ 796,072</u>	<u>\$ 1,755,547</u>	<u>\$ 2,551,619</u>

STEPPINGSTONE FOUNDATION, INC.

Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 2,354,664	\$ (426,377)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	21,725	20,761
Endowment contributions	(1,125,000)	-
Unrealized gain on investments	(10,297)	-
Interest - amortization of debt issuance costs	5,151	8,029
Capital grant	(32,014)	-
Cancellation of pledge	10,000	721,000
Bad debt	-	5,115
Changes in operating assets and liabilities:		
Accounts and pledges receivable	895,280	217,917
Prepaid expenses and other	(2,723)	(28,029)
Deposits	19,453	(8,698)
Accounts payable, accrued expenses and other	58,820	(35,390)
Deferred revenue	(599)	54,983
Deferred rent	12,731	26,473
Net cash provided by operating activities	<u>2,207,191</u>	<u>555,784</u>
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(32,014)	(18,451)
Purchase of investments	<u>(2,990,756)</u>	<u>-</u>
Net cash used in investing activities	<u>(3,022,770)</u>	<u>(18,451)</u>
Cash Flows from Financing Activities:		
Endowment contributions	1,125,000	-
Capital grant	32,014	-
Payments of debt issuance costs	<u>-</u>	<u>(8,095)</u>
Net cash provided by (used in) investing activities	<u>1,157,014</u>	<u>(8,095)</u>
Net Change in Cash and Cash Equivalents	341,435	529,238
Cash and Cash Equivalents		
Beginning of year	<u>989,547</u>	<u>460,309</u>
End of year	<u><u>\$ 1,330,982</u></u>	<u><u>\$ 989,547</u></u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u><u>\$ 35</u></u>	<u><u>\$ 13,297</u></u>

STEPPINGSTONE FOUNDATION, INC.

 Statement of Functional Expenses
 For the Year Ended June 30, 2018

	Program Services				Supporting Services			
	The Steppingstone Academy	College Success Academy	National Partnership for Educational Access	Replication	Total Program Services	General and Administrative	Development	Total
Payroll and Related:								
Staff and faculty salaries	\$ 1,252,069	\$ 523,431	\$ 217,619	\$ 10,111	\$ 2,003,230	\$ 251,258	\$ 425,256	\$ 2,679,744
Benefits and taxes	262,672	129,207	44,280	1,495	437,654	55,808	85,859	579,321
Total payroll and related	1,514,741	652,638	261,899	11,606	2,440,884	307,066	511,115	3,259,065
Other:								
Occupancy	305,995	104,888	44,157	1,148	456,188	46,463	73,122	575,773
Professional fees	6,474	13,464	11,288	17	31,243	67,652	56,971	155,866
Scholar and family services	120,888	30,698	-	-	151,586	-	-	151,586
Conference	-	-	127,002	-	127,002	-	-	127,002
Classroom facility	90,921	31,870	-	-	122,791	-	-	122,791
Meetings and travel	11,957	7,114	1,909	421	21,401	25,368	75,473	122,242
Scholar transportation	60,457	61,562	-	-	122,019	-	-	122,019
Office equipment and supplies	24,826	6,768	2,668	71	34,333	3,233	7,094	44,660
Information technology	17,850	5,093	10,461	41	33,445	2,131	5,602	41,178
Program evaluation	482	34,038	-	-	34,520	-	-	34,520
Insurance	13,296	4,828	1,575	41	19,740	8,240	2,608	30,588
Depreciation	12,911	2,633	782	20	16,346	823	4,556	21,725
Books and classroom materials	12,934	3,155	-	-	16,089	-	-	16,089
Miscellaneous	2,514	126	7,000	-	9,640	459	2,443	12,542
Interest expense	-	-	-	-	-	5,186	-	5,186
Contributions	-	-	-	2,000	2,000	-	-	2,000
Recruitment and admission	1,187	454	-	-	1,641	-	-	1,641
Total other	682,692	306,691	206,842	3,759	1,199,984	159,555	227,869	1,587,408
In-Kind	135	5,705	-	-	5,840	-	3,140	8,980
Total expenses	\$ 2,197,568	\$ 965,034	\$ 468,741	\$ 15,365	\$ 3,646,708	\$ 466,621	\$ 742,124	\$ 4,855,453

The accompanying notes are an integral part of these statements.

STEPPINGSTONE FOUNDATION, INC.

Statement of Functional Expenses
For the Year Ended June 30, 2017

	Program Services				Supporting Services			
	The Steppingstone Academy	College Success Academy	National Partnership for Educational Access	Replication	Total Program Services	General and Administrative	Development	Total
Payroll and Related:								
Staff and faculty salaries	\$ 1,310,638	\$ 608,353	\$ 213,661	\$ 12,935	\$ 2,145,587	\$ 237,072	\$ 413,617	\$ 2,796,276
Benefits and taxes	269,579	118,252	39,648	1,899	429,378	52,811	73,189	555,378
Total payroll and related	<u>1,580,217</u>	<u>726,605</u>	<u>253,309</u>	<u>14,834</u>	<u>2,574,965</u>	<u>289,883</u>	<u>486,806</u>	<u>3,351,654</u>
Other:								
Occupancy	284,457	112,914	39,359	1,251	437,981	39,318	60,286	537,585
Professional fees	4,799	9,974	11,409	13	26,195	82,780	79,809	188,784
Scholar and family services	85,550	28,767	-	-	114,317	-	-	114,317
Conference	-	-	163,501	-	163,501	-	-	163,501
Classroom facility	95,635	32,633	-	-	128,268	-	-	128,268
Meetings and travel	6,738	5,341	1,732	426	14,237	13,959	97,978	126,174
Scholar transportation	60,857	60,816	-	-	121,673	-	-	121,673
Office equipment and supplies	26,103	8,210	2,812	84	37,209	3,339	7,229	47,777
Information technology	12,565	5,496	7,884	30	25,975	1,263	2,887	30,125
Insurance	13,312	5,556	1,481	47	20,396	8,064	2,262	30,722
Depreciation	12,238	2,884	741	24	15,887	743	4,131	20,761
Books and classroom materials	10,022	3,043	-	-	13,065	-	-	13,065
Miscellaneous	1,175	169	6,875	-	8,219	299	793	9,311
Interest expense	-	-	-	-	-	21,326	-	21,326
Contributions	-	-	-	2,000	2,000	-	-	2,000
Recruitment and admission	8,952	902	-	-	9,854	-	-	9,854
Bad debt	-	-	-	-	-	-	5,115	5,115
Total other	<u>622,403</u>	<u>276,705</u>	<u>235,794</u>	<u>3,875</u>	<u>1,138,777</u>	<u>171,091</u>	<u>260,490</u>	<u>1,570,358</u>
In-Kind	<u>643</u>	<u>42</u>	<u>-</u>	<u>-</u>	<u>685</u>	<u>-</u>	<u>29,995</u>	<u>30,680</u>
Total expenses	<u>\$ 2,203,263</u>	<u>\$ 1,003,352</u>	<u>\$ 489,103</u>	<u>\$ 18,709</u>	<u>\$ 3,714,427</u>	<u>\$ 460,974</u>	<u>\$ 777,291</u>	<u>\$ 4,952,692</u>

STEPPINGSTONE FOUNDATION, INC.

Notes to Financial Statements
June 30, 2018 and 2017

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF ACTIVITIES

The Steppingstone Foundation, Inc. (the Foundation) is a nonprofit organization that was established and incorporated on May 11, 1990. Its primary purpose is to provide educational opportunities that lead to college success for underserved schoolchildren regardless of their race, gender, or ethnic background. The Steppingstone Academy (TSA) in Boston targets motivated, underserved fourth- and fifth-grade students and provides these students with an intensive fourteen-month after-school and summer academic program designed to assist these students in gaining admission to independent and public exam schools in the sixth- and seventh-grades, respectively. After completing the fourteen-month academic component, support services such as mentoring, counseling, and college guidance are provided to ensure that the students graduate from high school and complete college.

The Scholars Program in Philadelphia was initiated in 1998 and was modeled after The Steppingstone Academy. In 2004, the Scholars Program became a separate corporate entity, Steppingstone Scholars, Inc., with the Foundation as the sole member of the corporation. Effective January 1, 2011, the Foundation resigned as sole member, and Steppingstone Scholars, Inc. continued as an affiliate of the Foundation. In 2006, Hartford Youth Scholars Foundation became an affiliate member. Both affiliate members have licensed The Steppingstone Academy, which is based on the Boston Program model. Through its Replication program, the Foundation provides management and program support to both Steppingstone Scholars, Inc. and Hartford Youth Scholars Foundation as outlined in its Affiliate Memorandum of Understanding.

In 2007, the Foundation launched the National Partnership for Educational Access (NPEA), a membership association for programs working in collaboration with college preparatory schools to increase educational opportunities for motivated underserved students. NPEA members include education nonprofits, schools, and colleges and universities located throughout the country. NPEA members share best practices, network, receive professional development, and can access educational services for their students as a benefit of participating in NPEA.

In 2010, the Foundation launched the College Success Academy (CSA), a program that admits hardworking fourth graders in Boston public K-8 schools. The program includes academic, socioemotional, and college readiness services during the summer and after-school during the academic year starting the summer before fifth grade and continuing until eighth grade. When Scholars reach ninth grade, support services such as mentoring, counseling, and college guidance are provided to ensure that the students graduate from high school and complete college.

SIGNIFICANT ACCOUNTING POLICIES

The Foundation prepares its financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these footnotes are to the FASB Accounting Standards Codification (ASC).

STEPPINGSTONE FOUNDATION, INC.

Notes to Financial Statements
June 30, 2018 and 2017

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classification and Reporting of Net Assets

The Foundation has the following net asset classes:

- **Unrestricted net assets** represent the portion of net assets of the Foundation that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. The Foundation has grouped its unrestricted net assets into the following categories:

Operating represents funds available to carry on the operations of the Foundation.

Board designated: Brian J. Conway Fund (BJC Fund) for Scholars represents funds set aside by the Board of Directors to be used for working capital with Board approval.

Property and equipment reflect and account for the activities relating to the Foundation's property and equipment.

- **Temporarily restricted net assets** represent contributions and grants received or committed with donor restrictions which have not yet been expended for their designated purpose (purpose restricted) or amounts for unrestricted use in future years (time restricted). Temporarily restricted net assets also include appreciation on permanently restricted endowment.

Temporarily restricted net assets are restricted for the following at June 30, 2018 and 2017, respectively:

	<u>2018</u>	<u>2017</u>
Time - Annual Fundraising Gala	\$ 569,154	\$ 598,243
Michael P. Danziger Teaching Fellowship	362,607	-
Time - other*	286,567	714,639
Program Evaluation and Strategic Plan	178,656	-
Brian J. Conway Fund for Scholars - Time Scholarship Fund	155,861	-
	100,000	50,000
College Success Academy	91,625	24,939
Steppingstone Academy	89,873	111,801
Visual Thinking Strategies	54,407	68,547
National Partnership for Educational Access	36,000	37,913
Kelly D. Glew Fund	24,250	-
Endowment Investment Income	14,513	-
Uniforms/Dresses	266	266
College Success Academy - East Boston	-	125,974
SIF College Coaching Match Funds	-	23,225
	<u>\$ 1,963,779</u>	<u>\$ 1,755,547</u>

* \$200,000 and \$399,252 of the above time - other amount in the fiscal years ending June 30, 2018 and June 30, 2017, respectively, is restricted for future time periods and was donated by the sponsor of the Berylson Academy @ Steppingstone program.

STEPPINGSTONE FOUNDATION, INC.

Notes to Financial Statements
June 30, 2018 and 2017

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classification and Reporting of Net Assets (Continued)

- **Permanently Restricted Net Assets** include endowment funds accumulated from donor-restricted gifts. Earnings from these gifts may be used for operations, but the principal may not be spent. In accordance with Massachusetts law, all earnings, including interest and dividends, and appreciation of a donor-restricted endowment are temporarily restricted until appropriated by the Board of Directors, and are released to unrestricted net assets based on the Foundation's investment spending policy (see Note 4). The investment return on the permanently restricted net assets is expendable for the support of the Foundation's operations, consistent with its spending policy (see Note 4). There were no permanently restricted net assets at June 30, 2017.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include checking and money market accounts.

Pledges Receivable and Allowance for Doubtful Accounts

Pledges receivable consist of unrestricted and temporarily restricted contributions and grants intended for the current fiscal year and received after year-end, and pledges for contributions expected to be received in future periods. An allowance for doubtful accounts is provided based upon management's judgment of potential defaults, if any. Management determines the allowance by identifying doubtful accounts and by using historical experience applied to an aging of pledges. If a pledge is deemed uncollectible, it is written off. Recoveries of pledges previously written off are recorded as contributions when received. No allowance for doubtful pledges was recorded at June 30, 2018 and 2017.

Investments

The Foundation values its investments at estimated fair value (see Note 4). The investments in limited partnerships are non-marketable investments that are exposed to various risks such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the value of the investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position and statements of activities and changes in net assets. Management has reviewed the risk associated with the investments and determined it to be material to the Foundation's financial statements as of June 30, 2017, and has recorded the investment as fully impaired with a zero value. The investments in limited partnerships were fully liquidated at June 30, 2018 (see Note 3).

Investment income from the unrestricted investments is reported as unrestricted operating revenue and support. Investment income, net of fees, realized gains (losses), and unrealized gains (losses) from the endowment and Board-designated investments is reported as investment return in other revenue.

STEPPINGSTONE FOUNDATION, INC.

Notes to Financial Statements
June 30, 2018 and 2017

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

The Foundation follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Foundation would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Foundation uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Foundation. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.
- Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. All qualifying assets and liabilities are valued using Level 1 inputs, except investment in limited partnerships (see Note 4).

Property and Equipment

Property and equipment consist of office equipment, furniture and capitalized software and are recorded at cost or fair value at the date of donation. Property and equipment are depreciated over the estimated useful lives of the respective assets (three to ten years) using the straight-line method.

Unamortized Debt Issuance Costs

Debt issuance costs of \$8,095 were incurred during fiscal year 2017. These costs were being amortized over the term of the facility line of credit - campaign bridge agreement (see Note 7) using the straight-line method, which approximates the effective interest method. Interest - amortization of debt issuance costs for fiscal year 2018 and 2017 was \$5,151 and \$8,029 (including \$5,085 from prior debt issuance costs), respectively, and is included in interest expense in the accompanying statements of functional expenses. The \$8,095 of debt issuance costs incurred during the year ended June 30, 2017, became fully amortized and were written off in fiscal year 2018. Accumulated amortization at June 30, 2017, was \$2,944.

STEPPINGSTONE FOUNDATION, INC.

Notes to Financial Statements
June 30, 2018 and 2017

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Revenue earned from sponsorship or attendance at fundraising events is recognized at the time of the event. Expenses incurred in connection with an event that provides direct benefit to the donors are charged against the revenue earned from the event.

Contributions and grants, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at 1.5%, which is commensurate with the risk involved (see Note 3). Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Contributions and grants received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class.

The Foundation reports contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, either when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Gifts of items other than cash or investments represent in-kind contributions, which are recorded as received or, if related to a fundraising event, at the time of the event.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire property and equipment with donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Conference revenue is recognized in the period in which the event takes place. Membership income is recognized over each member's membership year. Interest income is recognized as it is earned and dividend income is recorded at the ex-dividend date. All other income is recognized as it is earned.

In-Kind Contributions

The Foundation receives in-kind goods and professional services in support of various aspects of its programs. These goods and services are reflected in the accompanying financial statements based upon the estimated value assigned to them by management and the donors. During the fiscal years ended June 30, 2018 and 2017, respectively, the Foundation received \$9,440 and \$31,159 of in-kind contributions including \$460 and \$479, which is included in fundraising events revenue and cost of direct benefit to donors on the accompanying statements of activities and changes in net assets (see page 12).

STEPPINGSTONE FOUNDATION, INC.

Notes to Financial Statements
June 30, 2018 and 2017

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

In-Kind Contributions (Continued)

In-kind contributions include the following for the fiscal years ended June 30:

	<u>2018</u>	<u>2017</u>
Donated salaries	\$ 5,661	\$ -
Staff experiences	3,140	-
Gala prizes	460	479
Program materials	179	685
Food and beverage	-	20,500
Fundraising expenses	-	9,495
	<u>\$ 9,440</u>	<u>\$ 31,159</u>

The Foundation receives services of many volunteers in various aspects of its programs. The value of these services is not reflected in the accompanying financial statements since it does not meet the recognition criteria in accordance with U.S. GAAP.

Deferred Revenue

Amounts representing the ticket value received in advance of a fundraising event are recorded as deferred revenue until the event is held.

Conference, membership, and other income not yet earned as of June 30, 2018 and 2017, is included in deferred revenue on the accompanying statements of financial position.

Income Tax Status and Tax Positions

The Foundation is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Foundation is also exempt from state income taxes. Donors may deduct contributions made to the Foundation within the requirements of the IRC.

The Foundation accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. The Foundation has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at June 30, 2018 and 2017. The Foundation's information returns are subject to examination by the Federal and state jurisdictions and generally remain open for the most recent three years.

Subsequent Events

The Foundation has evaluated subsequent events through October 18, 2018, when the financial statements were available to be issued. See Notes 7 and 8 for one event that met the criteria for recognition or disclosure in the financial statements.

STEPPINGSTONE FOUNDATION, INC.

Notes to Financial Statements
June 30, 2018 and 2017

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expense Allocation

Expenses related directly to a function are allocated to that function, while other expenses are allocated based upon management's estimate of the percentage attributable to each function.

Statements of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating revenue and support and operating expenses in the accompanying statement of activities and changes in net assets. Other revenue (expense) includes endowment, investment, and capital activity.

2. CONCENTRATIONS

The Foundation maintains its cash balances in two banks in Massachusetts. The Federal Deposit Insurance Corporation (FDIC) insures balances at each bank up to specified amounts. At certain times during the year, cash balances exceeded the insured amounts. The Foundation has not experienced any losses in these accounts. The Foundation believes it is not exposed to any significant credit risk on its cash and cash equivalents.

The following funders represent concentrations in accounts and pledges receivable as of June 30:

<u>Funder</u>	<u>2018</u>	<u>2017</u>
A	10%	- %
B	- %	38%

The following funders represent concentrations in operating revenue and support for the years ended June 30:

<u>Funder</u>	<u>2018</u>	<u>2017</u>
C	21%	- %
D	- %	15%

Pledges from Board members represent approximately 35% and 49% of the outstanding pledges receivable as of June 30, 2018 and 2017, respectively (see Note 3).

3. PLEDGES RECEIVABLE

Unconditional promises to give (pledges) are expected to be collected as follows at June 30:

	<u>2018</u>	<u>2017</u>
Less than one year	\$ 552,669	\$ 1,109,427
One to five years	<u>245,986</u>	<u>588,318</u>
	798,655	1,697,745
Less - unamortized discount	<u>8,254</u>	<u>2,064</u>
	<u>\$ 790,401</u>	<u>\$ 1,695,681</u>

STEPPINGSTONE FOUNDATION, INC.

Notes to Financial Statements
June 30, 2018 and 2017

3. PLEDGES RECEIVABLE (Continued)

During fiscal year 2018 and 2017, the Foundation determined that one and two prior year pledge commitments totaling \$10,000 and \$721,000, respectively, were not collectible. The reduction in pledges receivable is reflected as cancelled pledges in the accompanying statements of activities and changes in net assets for the years ended June 30, 2018 and 2017.

4. INVESTMENTS AND SPENDING POLICY

The Foundation adheres to the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Subject to the intent of a donor, an institution may appropriate for expenditure or accumulate so much of a permanently restricted endowment fund as the institution determines is prudent for the uses, benefits, purposes, and duration for which the permanently restricted endowment fund is established. The assets in a permanently restricted endowment fund are donor-restricted assets until appropriated for expenditure by the Foundation.

The Foundation has adopted investment and spending policies for endowment assets the aim to provide a level of support for the Foundation and its programs, while maintaining or enhancing the purchasing power of the endowment in accordance with UPMIFA. Under the investment policy, the endowment assets are invested to provide a competitive total rate of return commensurate with prudent diversification and moderate risk. Risk and diversification parameters have been established and the endowment is maintained and rebalanced accordingly, if necessary. The Foundation relies on a total rate of return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current income (interest and dividends).

The Foundation has a policy of appropriating for operations each year a percentage of the rolling average of the prior twelve quarter-end fair values ending June of the fiscal year prior to which the distribution is planned. There was no appropriation during fiscal year 2018 as the spending policy allows for an appropriation percentage of 3.5% to commence beginning in fiscal year 2019.

In addition to its permanently restricted net assets, the Foundation applies its investment strategy and spending policy to both the Board designated BJC Fund and the temporarily restricted Michael P. Danziger Teaching Fellowship net assets.

The Foundation had investments in limited partnerships, which liquidated in fiscal year 2018. These assets had been valued using Level III inputs under the fair value framework (see page 10). These inputs were based upon internal statements which were received from the investment manager on a quarterly basis. The investments were determined to be fully impaired at December 31, 2012, and were carried at a zero balance on the accompanying statement of financial position as of June 30, 2017. The liquidation was completed during the year ending June 30, 2018, with a final payout of \$30,132. This amount is included in other income on the accompanying 2018 statement of activities and changes in net assets.

The following is a summary of investments at fair value as of June 30, 2018 (see Note 1):

Mutual Funds:	
Money Market Mutual Fund	\$ 1,956,185
Equity Mutual Fund	1,010,166
Publicly Traded Stocks	34,593
Government Money Market	<u>109</u>
Total investments	<u>\$ 3,001,053</u>

The Foundation did not have investments to report as of June 30, 2017.

STEPPINGSTONE FOUNDATION, INC.

Notes to Financial Statements
June 30, 2018 and 2017

4. INVESTMENTS AND SPENDING POLICY (Continued)

Investments are classified as long-term due to management's intent to hold these investments for long-term purposes, except for Board-designated investments that management expects will be liquidated and used for operations in fiscal year 2019. Investments are not insured and are subject to ongoing market fluctuations.

Investment returns consist of the following for the year ended June 30, 2018:

Net unrealized gains on investments	\$ 10,422
Interest and dividends	<u>8,640</u>
	<u>\$ 19,062</u>

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Furniture	\$ 224,697	\$ 193,888
Office equipment	75,958	75,958
Website	<u>46,076</u>	<u>46,076</u>
	346,731	315,922
Less - accumulated depreciation	<u>237,392</u>	<u>216,872</u>
	<u>\$ 109,339</u>	<u>\$ 99,050</u>

Depreciation expense was \$21,725 and \$20,761 for the fiscal years ended June 30, 2018 and June 30, 2017, respectively.

6. OPERATING LEASES

In June 2014, the Foundation entered into a lease agreement for new office space, which commenced in December 2014. This lease called for free rent through April 2015, at which time monthly rent payments commenced. This lease expires in April 2025. There is an option to extend the term of the lease for an additional ten years. In accordance with ASC Topic, *Leases*, the Foundation records the related rent expense on a straight-line basis over the life of the lease. As of June 30, 2018 and 2017, the Foundation recorded \$236,995 and \$224,264, respectively, of deferred rent in the accompanying statements of financial position. The Foundation also leases parking spaces from the landlord.

Total rent expense under the lease, including parking and other occupancy costs, was \$528,180 and \$501,520 for the years ended June 30, 2018 and 2017, respectively, and is included in occupancy in the accompanying statements of functional expenses.

In addition, the Foundation has operating leases for various office equipment with monthly lease payments totaling \$3,057, expiring through September 2021. Total rent expense for office equipment under these leases was \$29,823 and \$30,863 for the years ended June 30, 2018 and 2017, respectively, and is included in office equipment and supplies in the accompanying statements of functional expenses.

STEPPINGSTONE FOUNDATION, INC.

Notes to Financial Statements
June 30, 2018 and 2017

6. OPERATING LEASES (Continued)

Following is a schedule of future minimum lease payments for the years ending June 30:

	<u>Facility</u>	<u>Equipment</u>
2019	\$ 466,131	\$ 35,613
2020	\$ 479,323	\$ 24,325
2021	\$ 492,515	\$ 2,580
2022	\$ 505,707	\$ 645
2023	\$ 518,899	\$ -
Thereafter	\$ 917,693	\$ -

7. LINE OF CREDIT AGREEMENTS

The Foundation has a campaign bridge facility line of credit agreement with a bank, which allows for borrowings of 33% of the portion of multi-year pledges due within two years, up to \$750,000. Borrowings are payable on demand, bear interest at the U.S. prime rate plus one percent (6.00% and 5.25% at June 30, 2018 and 2017, respectively), and are secured by all assets of the Foundation. This agreement was renewed through January 16, 2018, in an agreement dated February 23, 2017, and extended through July 10, 2018, at which time the Foundation entered into a new agreement (see below). There was no outstanding balance at June 30, 2018 and 2017.

In July 2018, the Foundation entered into a new line of credit agreement which allows for borrowings of 95% of available cash collateral, up to \$750,000. Borrowings are due and payable on June 16, 2019, bear interest at the U.S. prime rate minus one percent, and are secured by all assets of the Foundation. This line of credit is secured by a \$500,000 certificate of deposit in the name of a member of the Board of Directors (see Note 8), which is held at the same bank.

In connection with the above line of credit agreements, the Foundation is required to comply with certain covenants. As of June 30, 2018 and 2017, the Foundation was in compliance with these covenants.

8. RELATED PARTY TRANSACTIONS

A member of the Board of Directors is Head of School at a school where the Foundation leases program space. The lease is negotiated annually with the facilities department of the school. The total cost of the lease was \$74,461 and \$81,864 for the years ended June 30, 2018 and 2017, respectively.

The Foundation's line of credit (see Note 7) is partially secured by a certificate of deposit in the name of a member of the Board of Directors.

9. RETIREMENT PLANS

In 1999, the Foundation established a defined contribution retirement plan and a tax deferred annuity plan covering substantially all employees. Both plans allow employees to make voluntary contributions subject to IRC limits.

STEPPINGSTONE FOUNDATION, INC.

Notes to Financial Statements
June 30, 2018 and 2017

9. RETIREMENT PLANS (Continued)

In March 2014, the Foundation established a new defined contribution retirement plan under Section 403(b) (the Plan). Management is in the process of terminating the two existing plans and rolling the plans' assets into the new plan. The Foundation's contribution to the Plan is equal to the employee's contribution with a limit based on length of service for eligible employees. The Foundation's contributions to the Plan for the years ended June 30, 2018 and 2017, totaled \$81,315 and \$82,137, respectively, and are included in benefits and taxes in the accompanying statements of functional expenses. The plan allows employees to make supplementary voluntary contributions subject to IRC limits.

10. ENDOWMENT

The Foundation's endowment was established in October 2017 and consists of donor-restricted funds established to generate income to be used for general operating purposes.

A reconciliation of endowment activity for the year ended June 30, 2018 is as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment</u>
Total Endowment net assets June 30, 2017	\$ -	\$ -	\$ -
Endowment contributions	-	1,125,000	1,125,000
Investment return:			
Interest and dividends	7,902	-	7,902
Net unrealized gains	<u>6,611</u>	<u>-</u>	<u>6,611</u>
Total investment returns	<u>14,513</u>	<u>-</u>	<u>14,513</u>
Total Endowment net assets, June 30, 2018	<u>\$ 14,513</u>	<u>\$ 1,125,000</u>	<u>\$ 1,139,513</u>

The temporarily restricted portion of the endowment is included in total temporarily restricted net assets at June 30, 2018.