

STEPPINGSTONE FOUNDATION, INC.

**FINANCIAL STATEMENTS
JUNE 30, 2016**

The Steppingstone Mission Statement:

Founded in 1990, the Steppingstone Foundation 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.

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June 30, 2016

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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 statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, cash flows and functional expenses for the eighteen months ended June 30, 2016, 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 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 Steppingstone Foundation, Inc. as of June 30, 2016, and the changes in its net assets and its cash flows for the eighteen months ended June 30, 2016, in accordance with accounting principles generally accepted in the United States of America.



Boston, Massachusetts
October 20, 2016

THE STEPPINGSTONE FOUNDATION, INC.

Statement of Financial Position
June 30, 2016

Assets

Current Assets:

Cash and cash equivalents	\$ 460,309
Current portion of accounts and pledges receivable	1,176,596
Other receivables	6,951
Prepaid expenses	71,049

Total current assets 1,714,905

Pledges Receivable, net of current portion and discount 1,456,166

Property and Equipment, net 101,360

Financing Fees, net 5,085

Deposits 100,805

Total assets \$ 3,378,321

Liabilities and Net Assets

Current Liabilities:

Accounts payable, accrued expenses and other	\$ 103,973
Deferred revenue	98,561

Total current liabilities 202,534

Deferred Rent 197,791

Total liabilities 400,325

Net Assets:

Unrestricted	(185,893)
Temporarily restricted	3,163,889

Total net assets 2,977,996

Total liabilities and net assets \$ 3,378,321

THE STEPPINGSTONE FOUNDATION, INC.Statement of Activities and Changes in Net Assets
For the Eighteen Months Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Operating Revenue and Support:			
Fundraising events	\$ 1,775,198	\$ 566,440	\$ 2,341,638
Less - cost of direct benefit to donors	(96,108)	-	(96,108)
Net fundraising event revenue	1,679,090	566,440	2,245,530
Contributions and grants	3,204,810	824,074	4,028,884
Conferences	411,029	-	411,029
Membership	152,554	-	152,554
Other	100,759	-	100,759
In-kind revenue	16,318	-	16,318
Net assets released from restrictions:			
Satisfaction of purpose restrictions	789,978	(789,978)	-
Satisfaction of time restrictions	1,313,494	(1,313,494)	-
Total operating revenue and support	<u>7,668,032</u>	<u>(712,958)</u>	<u>6,955,074</u>
Operating Expenses:			
Program services:			
The Steppingstone Academy	3,271,185	-	3,271,185
College Success Academy	1,585,067	-	1,585,067
National Partnership for Educational Access	756,257	-	756,257
Replication	84,417	-	84,417
Total program services	<u>5,696,926</u>	<u>-</u>	<u>5,696,926</u>
Supporting services:			
General and administrative	750,796	-	750,796
Development	1,710,324	-	1,710,324
Total support services	<u>2,461,120</u>	<u>-</u>	<u>2,461,120</u>
Total operating expenses	<u>8,158,046</u>	<u>-</u>	<u>8,158,046</u>
Changes in net assets	(490,014)	(712,958)	(1,202,972)
Net Assets:			
Beginning of period	<u>304,121</u>	<u>3,876,847</u>	<u>4,180,968</u>
End of period	<u>\$ (185,893)</u>	<u>\$ 3,163,889</u>	<u>\$ 2,977,996</u>

THE STEPPINGSTONE FOUNDATION, INC.Statement of Cash Flows
For the Eighteen Months Ended June 30, 2016

Cash Flows from Operating Activities:	
Changes in net assets	\$ (1,202,972)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Bad debt	55,385
Change in unamortized discount on pledges	1,805
Depreciation and amortization	31,655
Changes in operating assets and liabilities:	
Accounts and pledges receivable	1,605,029
Other receivables	(3,953)
Prepaid expenses	(56,489)
Deposits	26,986
Accounts payable, accrued expenses and other	22,709
Deferred revenue	23,098
Deferred rent	160,910
	<hr/>
Net cash provided by operating activities	664,163
	<hr/>
Cash Flows from Investing Activities:	
Acquisition of property and equipment	(19,471)
	<hr/>
Cash Flows from Financing Activities:	
Net payments of facility line of credit - campaign bridge	(538,000)
Payments of note payable	(400,000)
Cash paid for financing fees	(11,095)
	<hr/>
Net cash used in investing activities	(949,095)
	<hr/>
Net Change in Cash and Cash Equivalents	(304,403)
	<hr/>
Cash and Cash Equivalents:	
Beginning of period	764,712
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End of period	\$ 460,309
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Supplemental Disclosure of Cash Flow Information:	
Cash paid for interest	\$ 23,960
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THE STEPPINGSTONE FOUNDATION, INC.

Statement of Functional Expenses
For the Eighteen Months Ended June 30, 2016

	Program Services				Total Program Services	General and Adminis- trative	Development	Total
	The Steppingstone Academy	College Success Academy	National Partnership for Educational Access	Replication				
Payroll and Related:								
Staff and faculty salaries	\$ 1,957,028	\$ 937,944	\$ 302,379	\$ 53,292	\$ 3,250,643	\$ 413,626	\$ 888,528	\$ 4,552,797
Benefits and taxes	405,730	165,741	55,181	8,230	634,882	81,211	103,198	819,291
Total payroll and related	<u>2,362,758</u>	<u>1,103,685</u>	<u>357,560</u>	<u>61,522</u>	<u>3,885,525</u>	<u>494,837</u>	<u>991,726</u>	<u>5,372,088</u>
Other:								
Occupancy	424,629	179,949	56,988	13,525	675,091	78,560	103,364	857,015
Professional fees	10,054	15,013	7,957	163	33,187	104,254	330,135	467,576
Conference	-	-	292,002	-	292,002	-	-	292,002
Meetings and travel	15,447	7,680	6,436	4,083	33,646	16,741	185,641	236,028
Scholar transportation	71,456	147,770	-	-	219,226	-	-	219,226
Scholar and family services	145,093	40,587	-	867	186,547	-	-	186,547
Classroom facility	98,632	41,772	-	-	140,404	-	-	140,404
Office equipment and supplies	46,926	14,322	4,310	928	66,486	6,676	12,177	85,339
Information technology	22,397	7,771	17,737	440	48,345	2,242	8,094	58,681
Bad debt	-	-	-	-	-	-	55,385	55,385
Insurance	20,522	9,128	2,113	509	32,272	11,951	3,796	48,019
Depreciation and amortization	10,289	4,330	1,390	337	16,346	12,814	2,495	31,655
Recruitment and admission	24,152	1,097	-	-	25,249	-	-	25,249
Books and classroom materials	13,473	10,344	-	-	23,817	-	-	23,817
Interest expense	-	-	-	-	-	21,438	-	21,438
Miscellaneous	3,634	735	9,630	-	13,999	1,084	2,676	17,759
Contributions	-	-	-	2,000	2,000	-	1,500	3,500
Total other	<u>906,704</u>	<u>480,498</u>	<u>398,563</u>	<u>22,852</u>	<u>1,808,617</u>	<u>255,760</u>	<u>705,263</u>	<u>2,769,640</u>
In-Kind	<u>1,723</u>	<u>884</u>	<u>134</u>	<u>43</u>	<u>2,784</u>	<u>199</u>	<u>13,335</u>	<u>16,318</u>
Total expenses	<u>\$ 3,271,185</u>	<u>\$ 1,585,067</u>	<u>\$ 756,257</u>	<u>\$ 84,417</u>	<u>\$ 5,696,926</u>	<u>\$ 750,796</u>	<u>\$ 1,710,324</u>	<u>\$ 8,158,046</u>

STEPPINGSTONE FOUNDATION, INC.

Notes to Financial Statements
June 30, 2016

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 TSA. In 2004, the Scholars Program became a separate corporate entity, Steppingstone Scholars, Inc. (Steppingstone Scholars), with the Foundation as the sole member of the corporation. Effective January 1, 2011, the Foundation resigned as sole member, and Steppingstone Scholars continued as an affiliate of the Foundation. In 2006, Hartford Youth Scholars Foundation became an affiliate member. Both affiliate members have licensed TSA, which is based on the Boston Program model. Through its Replication program, the Foundation provides management and program support to both Steppingstone Scholars 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 organization 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 notes are to the FASB Accounting Standards Codification (ASC).

STEPPINGSTONE FOUNDATION, INC.

Notes to Financial Statements
June 30, 2016

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Change in Fiscal Year

In January 2016, the Board of Directors voted to approve a change in the Foundation's fiscal year end from December 31 to June 30 for the year beginning on January 1, 2016. The change was initiated to better reflect a natural business year and to allow management to develop its annual operating and capital budgets accordingly.

As a result of this change, the Foundation is presenting the accompanying financial statements to reflect the results for the eighteen months ended June 30, 2016. Such presentation will not be comparable to previously audited statements for prior fiscal years that ended on December 31. Beginning in fiscal year 2017, the financial statements will be presented on a twelve month basis.

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.
- **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 are restricted for the following at June 30, 2016:

Time – other	\$ 723,977
Berylson Scholars @ The Steppingstone Academy	595,524
Time – 2016 Gala (for fiscal year 2017)	586,440
SIF College Coaching Match Funds	508,586
College Success Academy - East Boston	385,615
The Steppingstone Academy	133,328
College Success Academy	83,317
Visual Thinking Strategies	82,024
National Partnership for Educational Access	44,813
Curriculum	20,000
Uniforms/Dresses	<u>265</u>
	<u>\$ 3,163,889</u>

STEPPINGSTONE FOUNDATION, INC.

Notes to Financial Statements
June 30, 2016

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2016.

Investments

The investments in limited partnerships are carried at estimated fair value. 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 statement of financial position and statement of activities and changes in net assets. Management has reviewed the risk associated with the investments and has determined it is material to the Foundation's financial statements as of June 30, 2016, and has recorded the investment as fully impaired with a zero value (see Note 4).

Investment income and realized and unrealized losses are reflected in the statement of activities and changes in net assets. Investment income from the unrestricted investments is reported as unrestricted revenue.

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.

STEPPINGSTONE FOUNDATION, INC.

Notes to Financial Statements
June 30, 2016

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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, except investments (see Note 4), are valued using Level 1 inputs.

Property and Equipment

Property and equipment consist of office equipment, furniture, capitalized software, and website costs 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.

Financing Fees

Financing fees of \$11,095 were incurred during the eighteen months ended June 30, 2016. These fees are being amortized over the term of the facility line of credit - campaign bridge agreement (see Note 7). The \$8,495 of fees incurred in fiscal year 2014 became fully amortized and were written off during the eighteen months ended June 30, 2016. Amortization expense for the eighteen months ended June 30, 2016, was \$10,965 (includes \$4,955 from prior financing fees), and accumulated amortization at June 30, 2016, was \$6,010. Amortization expense is expected to be \$5,085 in fiscal year 2017.

STEPPINGSTONE FOUNDATION, INC.

Notes to Financial Statements
June 30, 2016

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

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 0.25%, 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 statement 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 revenue is recognized over each member's membership year. All other income is recognized as it is earned.

Conference, membership, and other income not yet earned as of June 30, 2016, is reflected as deferred revenue on the accompanying statements of financial position.

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 eighteen months ended June 30, 2016, the Foundation received \$18,818 of in-kind contributions (see page 11), including \$2,500 which is included in fundraising events revenue.

STEPPINGSTONE FOUNDATION, INC.

Notes to Financial Statements
June 30, 2016

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 eighteen months ended June 30, 2016:

Fundraising expenses	\$ 13,100
Food and beverage	2,922
Gala prizes	2,500
Program materials	<u>296</u>
	<u>\$ 18,818</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.

Fundraising Events

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

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, 2016. The Foundation's information returns are subject to examination by the Federal and state jurisdictions.

Subsequent Events

The Foundation has evaluated subsequent events through October 20, 2016, when the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

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.

STEPPINGSTONE FOUNDATION, INC.

Notes to Financial Statements
June 30, 2016

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 operating revenue and support and pledges receivable (see Note 3) as of and for the eighteen months ended June 30, 2016:

<u>Funder</u>	<u>Accounts and Pledges Receivable</u>	<u>Operating Revenue and Support</u>
A	25%	- %
B	25%	16%
C	- %	10%

Pledges from Board members represent approximately 82% of pledges receivable as of June 30, 2016.

3. PLEDGES RECEIVABLE

Unconditional promises to give (pledges) are expected to be collected as follows at June 30, 2016:

Less than one year	\$ 1,176,596
One to five years	1,297,663
Six to seven years	<u>171,000</u>
	2,645,259
Less - unamortized discount (see Note 1)	<u>12,497</u>
	<u>\$ 2,632,762</u>

4. INVESTMENTS

The Foundation has investments in limited partnerships, which are currently in liquidation status. These assets have been valued using Level 3 inputs under the fair value framework (see page 9). These inputs are based upon internal statements which are received from the investment manager on a quarterly basis. The investments were determined to be fully impaired at December 31, 2012, and are being carried at a zero balance in the accompanying statement of financial position as of June 30, 2016.

STEPPINGSTONE FOUNDATION, INC.Notes to Financial Statements
June 30, 2016

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30, 2016:

Office equipment	\$ 75,958
Furniture	193,888
Capitalized software	74,319
Website	<u>9,000</u>
	353,165
Less - accumulated depreciation	<u>251,805</u>
	<u>\$ 101,360</u>

Depreciation expense was \$20,690 for the eighteen months ended June 30, 2016.

6. OPERATING LEASES

In June 2014, the Foundation entered into a lease agreement for office space, which commenced in December 2014. This lease provided 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 the ASC standard, *Leases*, the Foundation records the related rent expense on a straight-line basis over the life of the lease. As of June 30, 2016, the Foundation recorded \$197,791 of deferred rent in the accompanying statement 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 \$768,055 for the eighteen months ended June 30, 2016, and is included in occupancy in the accompanying statement of functional expenses.

In addition, the Foundation has operating leases for various office equipment with monthly lease payments totaling \$2,347, expiring through March 2021. Total rent expense for office equipment under these leases was \$46,713 for the eighteen months ended June 30, 2016, and is included in office equipment and supplies in the accompanying statement of functional expenses.

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

<u>Fiscal Year</u>	<u>Facility</u>	<u>Equipment</u>
2017	\$ 439,747	\$ 28,159
2018	\$ 452,939	\$ 24,469
2019	\$ 466,131	\$ 23,359
2020	\$ 479,323	\$ 23,359
2021	\$ 492,515	\$ 17,519
Thereafter	\$ 1,967,325	\$ -

STEPPINGSTONE FOUNDATION, INC.

Notes to Financial Statements
June 30, 2016

7. LINE OF CREDIT AGREEMENTS

In May 2013, the Foundation entered into a campaign bridge facility line of credit agreement with a bank, which allowed for borrowings of 70% of the current portion of multi-year pledges (see Note 3) up to \$750,000, and expired in December 2015. In December 2015, the Foundation renewed and amended this agreement to allow for borrowings of 33% of the portion of multi-year pledges due within two years, up to \$750,000. The payments on these pledges during the eighteen months ended June 30, 2016, were used to repay the outstanding line of credit balance. Borrowings are payable on demand, bear interest at the U.S. prime rate plus one percent (4.5% at June 30, 2016), and are secured by all assets of the Foundation. This agreement expires on January 16, 2017. There was no outstanding balance at June 30, 2016.

In connection with the campaign bridge facility line of credit agreement, the Foundation is required to comply with certain covenants. As of June 30, 2016, the Foundation was in compliance with these covenants.

8. RELATED PARTY TRANSACTION

The Foundation entered into a \$500,000 note payable agreement with a member of the Board of Directors in July 2013, which was repaid in full as of June 30, 2016. This agreement was approved by the remaining independent members of the Board of Directors.

Another 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 lease was \$89,339 for the eighteen months ended June 30, 2016.

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.

In March 2014, the Foundation established a new defined contribution retirement plan. Management is in the process of terminating the two previously existing retirement plans and rolling the plans' assets into the new plan. The Foundation's contribution to the defined contribution retirement 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 defined contribution retirement plan for the eighteen months ended June 30, 2016, totaled \$125,921, and are included in benefits and taxes in the accompanying statement of functional expenses. The plan allows employees to make supplementary voluntary contributions subject to IRC limits.

10. CONDITIONAL GRANT

An individual has awarded the Foundation a \$750,000 gift, which is contingent upon meeting certain revenue goals in calendar year 2016. Since this gift is conditional upon the Foundation meeting certain benchmarks, which have not been met as of June 30, 2016, it is not reflected in the accompanying financial statements as of and for the eighteen months ended June 30, 2016.