

**A Stepping Stone Foundation, Inc.**

**Financial Statements**

**Year Ended June 30, 2019  
(With Comparative Totals for 2018)**

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## Independent Auditors' Report

To the Board of Directors of  
A Stepping Stone Foundation, Inc.  
Phoenix, Arizona

We have audited the accompanying financial statements of A Stepping Stone Foundation, Inc. (the Foundation, a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, 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 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 auditors' 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 Foundation'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 Foundation'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 Foundation as of June 30, 2019, 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.

## ***Emphasis of Matters***

As discussed in Note 1 to the financial statements, in the year ended June 30, 2019, the Foundation adopted new accounting guidance Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*, which requires various presentation changes to not-for-profit financial statements. Our opinion is not modified with respect to this matter.

## **Report on Summarized Comparative Information**

We have previously audited the Foundation's 2018 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated February 7, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Fester & Chapman, PLLC*

February 20, 2020

A Stepping Stone Foundation, Inc.

STATEMENT OF FINANCIAL POSITION

June 30, 2019

(with comparative financial information as of June 30, 2018)

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets:		
Cash	\$ 327,441	\$ 183,082
Certificate of deposit	67,105	47,942
Pledges receivable, net	49,237	50,000
Prepaid expenses	<u>3,325</u>	<u>4,128</u>
Total current assets	447,108	285,152
Investments held by ACF	326,762	381,938
Pledges receivable, noncurrent portion, net	<u>          </u>	<u>47,722</u>
Total assets	<u>\$ 773,870</u>	<u>\$ 714,812</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 71,945	\$ 86,605
Accrued liabilities	<u>162</u>	<u>157</u>
Total current liabilities	72,107	86,762
Net assets:		
Without donor restrictions	437,382	306,681
With donor restrictions	<u>264,381</u>	<u>321,369</u>
Total net assets	<u>701,763</u>	<u>628,050</u>
Total liabilities and net assets	<u>\$ 773,870</u>	<u>\$ 714,812</u>

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

A Stepping Stone Foundation, Inc.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2019

(with comparative financial information for the year ended June 30, 2018)

	Without Donor Restrictions	With Donor Restrictions	<u>Totals</u>	
			<u>2019</u>	<u>2018</u>
Support, revenue, and gains:				
Corporate and foundation contributions	\$ 182,773	\$ 5,801	\$ 188,574	\$ 64,374
Individual donations	217,752		217,752	118,380
In-kind	56,289		56,289	52,326
Special events, net of direct benefits to donors of \$44,747 and \$25,335, respectively	50,144		50,144	51,204
Net investment income	7,528		7,528	19,859
Net assets released from restrictions	<u>62,789</u>	<u>(62,789)</u>		
Total support, revenue, and gains	<u>577,275</u>	<u>(56,988)</u>	<u>520,287</u>	<u>306,143</u>
Expenses:				
Preschool and family literacy programs	340,225		340,225	361,843
General and administrative	49,198		49,198	60,005
Fundraising	<u>57,151</u>		<u>57,151</u>	<u>42,538</u>
Total expenses	<u>446,574</u>		<u>446,574</u>	<u>464,386</u>
Change in net assets	130,701	(56,988)	73,713	(158,243)
Net assets, beginning of the year	<u>306,681</u>	<u>321,369</u>	<u>628,050</u>	<u>786,293</u>
Net assets, end of the year	<u>\$ 437,382</u>	<u>\$ 264,381</u>	<u>\$ 701,763</u>	<u>\$ 628,050</u>

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

A Stepping Stone Foundation, Inc.  
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2019  
(with comparative financial information for the year ended June 30, 2018)

	Preschool and Family Literacy Programs	Supporting Services		Totals	
		General and Administrative	Fundraising	2019	2018
Staff salaries	\$ 37,498	\$ 16,250	\$ 16,250	\$ 69,998	\$ 71,528
Classroom staffing	220,519			220,519	213,540
Employee benefits and payroll taxes	6,303	3,152	3,152	12,607	13,717
Contractual services	4,562			4,562	4,380
Supplies and equipment	939	1,472		2,411	2,757
Insurance		2,382		2,382	2,181
Marketing and promotion	12,189			12,189	25,256
Child care	22,613			22,613	29,846
Printing and copying		1,305		1,305	793
Postage and shipping		999		999	1,020
Telephone		1,395		1,395	1,377
Other expenses	2,541	22,243	37,749	62,533	45,891
Scholarships	13,139			13,139	31,310
Rent	19,922			19,922	20,790
Total expenses	<u>\$ 340,225</u>	<u>\$ 49,198</u>	<u>\$ 57,151</u>	<u>\$ 446,574</u>	<u>\$ 464,386</u>

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

A Stepping Stone Foundation, Inc.  
STATEMENT OF CASH FLOWS

Year Ended June 30, 2019  
(with comparative financial information for the year ended June 30, 2018)

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 73,713	\$ (158,243)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Net gains on restricted investments	(7,528)	(19,859)
Changes in:		
Pledges receivable, net	48,485	49,925
Prepaid expenses	803	330
Accounts payable	(14,660)	(791)
Accrued liabilities	5	(1,091)
Deferred revenue	(1,500)	(1,500)
Net cash (used) by operating activities	100,818	(131,229)
Cash flows from investing activities:		
Net amount withdrawn from investments held by ACF	62,704	
Net purchases of certificates of deposit	(19,163)	(11,957)
Net cash provided (used) by investing activities	43,541	(11,957)
Net increase (decrease) in cash	144,359	(143,186)
Cash, beginning of year	183,082	326,268
Cash, end of year	\$ 327,441	\$ 183,082

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

A Stepping Stone Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

(with comparative financial information as of and for the year ended June 30, 2018)

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities: A Stepping Stone Foundation, Inc. (the Foundation) is an Arizona nonprofit organization incorporated in April 1989. The Foundation derives the majority of its financial support from the public, including various individuals, businesses, and nonprofit entities.

The Foundation provides funding for preschools for 100 "at risk" children, in a collaborative effort with Alhambra School District, located in Phoenix, Arizona. The Foundation also provides free child care and free adult education classes for parents of the preschool students.

The Foundation has net assets with donor restrictions for the purpose of awarding scholarships to children who complete the preschool program and go on to graduate from high school. During the years ended June 30, 2019 and 2018, scholarships were awarded totaling \$13,139 and \$31,310, respectively.

The significant accounting policies of the Foundation follow:

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) topic of *Not-for-Profit Entities*. The Foundation is required to report information regarding its financial position and activities according to two classes of net assets:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

*Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the restricted stipulated purpose for which the resource was restricted has been fulfilled, or both.

Use of Estimates: Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certificate of Deposit: The Foundation's certificate of deposit is stated at face value plus accrued interest, which approximates fair value.

A Stepping Stone Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

(with comparative financial information as of and for the year ended June 30, 2018)

Pledges Receivable: Pledges receivable are stated at net present value of expected cash flows, less an allowance for doubtful accounts, as deemed necessary, and are recognized as contribution revenue in the year the unconditional promise to give is made. The Foundation provides for losses on receivables using the allowance method. The allowance is based on experience, knowledge of the donor or grantor, the industry and other circumstances which may affect the ability of donors or grantors to meet their obligations. It is the Foundation's policy to charge off uncollectible pledges receivable when management determines the receivable will not be collected.

Property and Equipment: Property and equipment are carried at cost or, if donated, at the estimated fair value at the date of donation. The Foundation capitalizes and depreciates all property and equipment purchases or donations over \$500. Depreciation is provided on the straight-line method over five years, which represents the estimated useful lives of the respective assets. As of June 30, 2019 and 2018, all capitalized property and equipment was fully depreciated.

Contributions: Foundation follows the FASB ASC subtopic of Revenue Recognition for *Not-for-Profit Entities*. Contributions received are recorded as net assets without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. All donor restricted support is reported as an increase in net assets with donor restrictions depending on the nature of the restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Donated goods and services are recorded as contributions at their estimated fair value at the date of donation, and shown as revenues and expenses in the financial statements. Donated services are recorded when the following criteria are met:

- i) The services require specialized skills, the services are provided by individuals possessing those skills, and the services would typically need to be purchased if not donated; or
- ii) The services enhance or create an asset.

Income Taxes: The Foundation is exempt from federal and state income taxes as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code and similar state provisions.

Expense Allocation: The costs of providing various programs and other activities have been allocated on a functional basis in the Statement of Functional Expenses. Directly identifiable expenses are charged to programs and supporting services. Certain costs have been allocated among the programs and support services based upon the employees' time spent on each activity.

Reclassifications: Certain reclassifications were made to the 2018 financial statements in order to conform to the 2019 presentation.

A Stepping Stone Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

(with comparative financial information as of and for the year ended June 30, 2018)

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -  
CONTINUED

Comparative Financial Information: The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting standards generally accepted in the United States of America. Accordingly, such information should only be read in conjunction with the Foundation's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Change in Accounting Principle: On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment returns. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity has also been added (Note 2).

A Stepping Stone Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

(with comparative financial information as of and for the year ended June 30, 2018)

NOTE 2 - LIQUIDITY AND AVAILABILITY

The Foundation monitors its liquidity so that it is able to meet its operating needs and other contractual commitments. The Foundation has the following financial assets that could readily be made available within one year of each fiscal year end to fund expenses without limitations:

	<u>2019</u>	<u>2018</u>
Financial assets included in current assets:		
Cash	\$ 327,441	\$ 183,082
Certificate of deposit	67,105	47,942
Pledges receivable, net	49,237	50,000
Investments held by ACF	<u>326,762</u>	<u>381,938</u>
Total financial assets	770,545	662,962
Less amounts unavailable for general expenditure within one year:		
Donor restricted for purpose and time	<u>264,381</u>	<u>321,369</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 506,164</u>	<u>\$ 341,593</u>

In addition to financial assets available to meet general expenditures over the year, the Foundation operates with a balanced budget and anticipates covering its general expenditures by collecting contributions, grants and other revenues; and by utilizing donor-restricted resources from current and prior year gifts.

A Stepping Stone Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

(with comparative financial information as of and for the year ended June 30, 2018)

NOTE 3 - CONCENTRATION OF CREDIT RISK

The Foundation maintains cash and investments at several financial institutions which are insured by the Federal Deposit Insurance Corporation (FDIC) or covered by Securities Investor Protection Corporation (SIPC). At times, such balances may be in excess of FDIC insurance limits or SIPC-covered amounts. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant risks.

NOTE 4 - INVESTMENTS HELD BY ACF

Investments held by ACF consisted of a scholarship fund restricted and unrestricted balances established with the Arizona Community Foundation (ACF). The Billie Gannaway Memorial Scholarship fund was created to provide scholarships for previously supported students who are going on to college.

Investment income (losses) and related expenses consisted of the following for the year ended June 30:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 9,134	\$ 7,575
Gains	5,565	22,535
Losses	(3,884)	(6,955)
Fees	<u>(3,287)</u>	<u>(3,296)</u>
Total investment income (losses)	<u>\$ 7,528</u>	<u>\$ 19,859</u>

NOTE 5 - PLEDGES RECEIVABLE

During 2017, the Nina Mason Pulliam Charitable Trust agreed to provide the Foundation with \$150,000 in support for the Foundation. Under the terms of this agreement, preschool and parent education programs are scheduled to receive the funds in three equal annual payments of \$50,000. The Foundation's pledge receivable balance is due as follows at June 30, 2019 and 2018.

	<u>2019</u>	<u>2018</u>
Receivable in less than one year	\$ 50,000	\$ 50,000
Receivable in one to two years	<u>50,000</u>	<u>50,000</u>
	50,000	100,000
Less:		
Discount to net present value	<u>763</u>	<u>2,278</u>
	<u>\$ 49,237</u>	<u>\$ 97,722</u>

A Stepping Stone Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

(with comparative financial information as of and for the year ended June 30, 2018)

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were restricted for the following purposes at June 30:

	<u>2019</u>	<u>2018</u>
Gannaway scholarship	\$ 213,052	\$ 220,891
Stepping into college	120	120
Christmas angel fund	131	795
Westwood supplies	1,841	1,841
Time restricted pledges (Preschool and parent education programs)	<u>49,237</u>	<u>97,722</u>
	<u>\$ 264,381</u>	<u>\$ 321,369</u>

NOTE 7 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from restrictions as follows by the Foundation incurring expenses satisfying the donor restricted purposes, or by occurrence of other events specified by the donors.

	<u>2019</u>	<u>2018</u>
Purpose restrictions accomplished:		
Gannaway scholarship	\$ 13,139	\$ 31,311
Christmas angel fund	865	355
Field trips		228
Westwood supplies		589
Release from time restriction	<u>48,785</u>	<u>49,626</u>
	<u>\$ 62,789</u>	<u>\$ 82,109</u>

NOTE 8 - IN-KIND CONTRIBUTIONS

The Foundation receives donated rent and services from various sources. In-kind contributions consisted of the following for the years ended June 30,

	<u>2019</u>	<u>2018</u>
Rent	\$ 21,713	\$ 20,790
Accounting services	7,500	7,000
Other professional services	12,303	24,536
Silent auction	<u>14,773</u>	<u>          </u>
	<u>\$ 56,289</u>	<u>\$ 52,326</u>

A Stepping Stone Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

(with comparative financial information as of and for the year ended June 30, 2018)

NOTE 9 - FAIR VALUE MEASUREMENTS

Generally accepted accounting principles establishes 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 and liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs - A quoted price in an active market for an identical asset or liability is considered to be the most reliable evidence of fair value. The Foundation currently does not have any financial instruments it values based on Level 1 inputs.

Level 2 inputs - These are observable inputs, either directly or indirectly, other than quoted prices included within Level 1.

Level 3 inputs - These inputs are unobservable and are used to measure fair value only when observable inputs are not available. The Foundation currently does not have any financial instruments it values based on Level 3 inputs.

The level of the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value of assets measured on a recurring basis at June 30, 2019, was as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment pool - ACF	\$ 326,762	\$	\$ 326,762	\$
Certificates of deposit	<u>67,105</u>	<u></u>	<u>67,105</u>	<u></u>
	<u>\$ 393,867</u>	<u>\$</u>	<u>\$ 393,867</u>	<u>\$</u>

Fair value of assets measured on a recurring basis at June 30, 2018, was as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment pool - ACF	\$ 381,938	\$	\$ 381,938	\$
Certificates of deposit	<u>47,942</u>	<u></u>	<u>47,942</u>	<u></u>
	<u>\$ 429,880</u>	<u>\$</u>	<u>\$ 429,880</u>	<u>\$</u>

NOTE 10 - SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through February 20, 2020, the date which the financial statements were available to be issued, and has concluded that no events have occurred since the year ended June 30, 2019 that would require an adjustment to or disclosure in the financial statements.