

Return of Private Foundation
 or Section 4947(a)(1) Nonexempt Charitable Trust
 Treated as a Private Foundation

2006

Department of the Treasury
 Internal Revenue Service

Note: The foundation may be able to use a copy of this return to satisfy state reporting requirements

For calendar year **2006**, or tax year beginning _____, and ending _____

G Check all that apply Initial return Final return Amended return Address change Name change

Use the IRS label. Otherwise, print or type See Specific Instructions.	Name of foundation THE STEPPING STONES FOUNDATION Number and street (or P O box number if mail is not delivered to street address) Room/suite PO BOX 452 City or town, state, and ZIP code BEDFORD HILLS, NY 10507	A Employer identification number 13-3031164 B Telephone number 914-232-4822 C If exemption application is pending, check here <input type="checkbox"/> D 1. Foreign organizations, check here <input type="checkbox"/> 2. Foreign organizations meeting the 85% test, check here and attach computation <input type="checkbox"/> E If private foundation status was terminated under section 507(b)(1)(A), check here <input type="checkbox"/> F If the foundation is in a 60-month termination under section 507(b)(1)(B), check here <input type="checkbox"/>
H Check type of organization <input checked="" type="checkbox"/> Section 501(c)(3) exempt private foundation <input type="checkbox"/> Section 4947(a)(1) nonexempt charitable trust <input type="checkbox"/> Other taxable private foundation		
I Fair market value of all assets at end of year (from Part II, col (c), line 16) ▶ \$ 7,840,660. (Part I, column (d) must be on cash basis)		
J Accounting method <input type="checkbox"/> Cash <input checked="" type="checkbox"/> Accrual <input type="checkbox"/> Other (specify) _____		

Part I Analysis of Revenue and Expenses <small>(The total of amounts in columns (b), (c), and (d) may not necessarily equal the amounts in column (a))</small>	(a) Revenue and expenses per books	(b) Net investment income	(c) Adjusted net income	(d) Disbursements for charitable purposes (cash basis only)
1 Contributions, gifts, grants, etc. received	67,145.			
2 Check <input checked="" type="checkbox"/> if the foundation is not required to attach Sch. B				
3 Interest on savings and temporary cash investments				
4 Dividends and interest from securities	251,642.	251,642.	251,642.	Statement 1
5a Gross rents				
b Net rental income or (loss)				
6a Net gain or (loss) from sale of assets not on line 10	182,922.			
b Gross sales price for all assets on line 6a	2,469,705.			
7 Capital gain net income (from Part IV, line 2)		182,922.		
8 Net short-term capital gain			0.	
9 Income modifications				
10a Gross sales less returns and allowances				
b Less Cost of goods sold				
c Gross profit or (loss)				
11 Other income	26,960.	0.	26,960.	Statement 2
12 Total. Add lines 1 through 11	528,669.	434,564.	278,602.	
13 Compensation of officers, directors, trustees, etc	75,000.	0.	0.	75,000.
14 Other employee salaries and wages	27,403.	0.	0.	27,403.
15 Pension plans, employee benefits	14,600.	0.	0.	12,100.
16a Legal fees				
b Accounting fees Stmt 3	6,700.	3,350.	3,350.	0.
c Other professional fees Stmt 4	43,027.	42,267.	42,267.	760.
17 Interest				
18 Taxes Stmt 5	4,250.	0.	0.	6,250.
19 Depreciation and depletion	4,685.	0.	0.	
20 Occupancy	13,791.	0.	0.	13,073.
21 Travel, conferences, and meetings	1,358.	0.	0.	1,358.
22 Printing and publications	5,176.	0.	0.	5,176.
23 Other expenses Stmt 6	126,104.	214.	214.	127,605.
24 Total operating and administrative expenses. Add lines 13 through 23	322,094.	45,831.	45,831.	268,725.
25 Contributions, gifts, grants paid				
26 Total expenses and disbursements. Add lines 24 and 25	322,094.	45,831.	45,831.	268,725.
27 Subtract line 26 from line 12				
a Excess of revenue over expenses and disbursements	206,575.			
b Net investment income (if negative, enter -0-)		388,733.		
c Adjusted net income (if negative, enter -0-)			232,771.	

LHA For Privacy Act and Paperwork Reduction Act Notice, see the instructions.

Form **990-PF** (2006)

SCANNED NOV 29 2007

Part II Balance Sheets		Attached schedules and amounts in the description column should be for end-of-year amounts only		Beginning of year	End of year	
		(a) Book Value	(b) Book Value	(c) Fair Market Value		
Assets	1	Cash - non-interest-bearing		32,942.	93,243.	93,243.
	2	Savings and temporary cash investments		25,816.	27,627.	27,627.
	3	Accounts receivable ▶	37,151.			
		Less allowance for doubtful accounts ▶		31,524.	37,151.	31,151.
	4	Pledges receivable ▶				
		Less allowance for doubtful accounts ▶				
	5	Grants receivable				
	6	Receivables due from officers, directors, trustees, and other disqualified persons				
	7	Other notes and loans receivable ▶				
		Less allowance for doubtful accounts ▶				
	8	Inventories for sale or use		8,589.	10,869.	10,869.
	9	Prepaid expenses and deferred charges		14,472.	16,950.	16,950.
	10a	Investments - U S and state government obligations Stmt 7		507,548.	414,366.	414,366.
	b	Investments - corporate stock Stmt 8		3,707,852.	4,410,841.	4,410,841.
	c	Investments - corporate bonds Stmt 9		1,558,459.	1,397,059.	1,397,059.
	11	Investments - land, buildings, and equipment basis ▶				
	Less accumulated depreciation ▶					
12	Investments - mortgage loans					
13	Investments - other					
14	Land, buildings, and equipment basis ▶	1,558,429.				
	Less accumulated depreciation Stmt 10 ▶	119,875.	1,443,239.	1,438,554.	1,438,554.	
15	Other assets (describe ▶)					
16	Total assets (to be completed by all filers)		7,330,441.	7,846,660.	7,840,660.	
Liabilities	17	Accounts payable and accrued expenses		14,719.	25,616.	
	18	Grants payable			12,953.	
	19	Deferred revenue				
	20	Loans from officers, directors, trustees, and other disqualified persons				
	21	Mortgages and other notes payable				
	22	Other liabilities (describe ▶)				
23	Total liabilities (add lines 17 through 22)		14,719.	38,569.		
Net Assets or Fund Balances	Foundations that follow SFAS 117, check here ▶ <input checked="" type="checkbox"/>					
	and complete lines 24 through 26 and lines 30 and 31.					
	24	Unrestricted		7,302,262.	7,782,426.	
	25	Temporarily restricted		13,460.	25,665.	
	26	Permanently restricted				
	Foundations that do not follow SFAS 117, check here ▶ <input type="checkbox"/>					
	and complete lines 27 through 31.					
	27	Capital stock, trust principal, or current funds				
28	Paid-in or capital surplus, or land, bldg, and equipment fund					
29	Retained earnings, accumulated income, endowment, or other funds					
30	Total net assets or fund balances		7,315,722.	7,808,091.		
31	Total liabilities and net assets/fund balances		7,330,441.	7,846,660.		

Part III Analysis of Changes in Net Assets or Fund Balances

1	Total net assets or fund balances at beginning of year - Part II, column (a), line 30 (must agree with end-of-year figure reported on prior year's return)	1	7,315,722.
2	Enter amount from Part I, line 27a	2	206,575.
3	Other increases not included in line 2 (itemize) ▶ CHANGE IN UNREALIZED APPRECIATION	3	285,794.
4	Add lines 1, 2, and 3	4	7,808,091.
5	Decreases not included in line 2 (itemize) ▶	5	0.
6	Total net assets or fund balances at end of year (line 4 minus line 5) - Part II, column (b), line 30	6	7,808,091.

Part IV Capital Gains and Losses for Tax on Investment Income

(a) List and describe the kind(s) of property sold (e.g., real estate, 2-story brick warehouse, or common stock, 200 shs MLC Co)	(b) How acquired P - Purchase D - Donation	(c) Date acquired (mo, day, yr)	(d) Date sold (mo, day, yr)
1a PUBLICLY TRADED SECURITIES	P		
b PUBLICLY TRADED SECURITIES	P		
c PERSHING CLASS ACTION	P		
d			
e			

(e) Gross sales price	(f) Depreciation allowed (or allowable)	(g) Cost or other basis plus expense of sale	(h) Gain or (loss) (e) plus (f) minus (g)
a 1,066,008.		1,118,565.	-52,557.
b 1,401,829.		1,168,218.	233,611.
c 1,868.			1,868.
d			
e			

Complete only for assets showing gain in column (h) and owned by the foundation on 12/31/69			(l) Gains (Col (h) gain minus col (k), but not less than -0-) or Losses (from col (h))
(i) FMV as of 12/31/69	(j) Adjusted basis as of 12/31/69	(k) Excess of col (i) over col (j), if any	
a			-52,557.
b			233,611.
c			1,868.
d			
e			

2 Capital gain net income or (net capital loss) (If gain, also enter in Part I, line 7 If (loss), enter -0- in Part I, line 7)	2	182,922.
3 Net short-term capital gain or (loss) as defined in sections 1222(5) and (6) If gain, also enter in Part I, line 8, column (c) If (loss), enter -0- in Part I, line 8	3	-52,557.

Part V Qualification Under Section 4940(e) for Reduced Tax on Net Investment Income

(For optional use by domestic private foundations subject to the section 4940(a) tax on net investment income)

If section 4940(d)(2) applies, leave this part blank

Was the foundation liable for the section 4942 tax on the distributable amount of any year in the base period?

Yes No

If "Yes," the foundation does not qualify under section 4940(e) Do not complete this part

1 Enter the appropriate amount in each column for each year, see instructions before making any entries

(a) Base period years Calendar year (or tax year beginning in)	(b) Adjusted qualifying distributions	(c) Net value of noncharitable-use assets	(d) Distribution ratio (col (b) divided by col (c))
2005	257,284.	5,705,648.	.045093
2004	232,779.	5,506,914.	.042270
2003	228,801.	5,032,704.	.045463
2002	233,247.	5,207,596.	.044790
2001	200,890.	5,538,113.	.036274

2 Total of line 1, column (d)	2	.213890
3 Average distribution ratio for the 5-year base period - divide the total on line 2 by 5, or by the number of years the foundation has been in existence if less than 5 years	3	.042778
4 Enter the net value of noncharitable-use assets for 2006 from Part X, line 5	4	5,956,423.
5 Multiply line 4 by line 3	5	254,804.
6 Enter 1% of net investment income (1% of Part I, line 27b)	6	3,887.
7 Add lines 5 and 6	7	258,691.
8 Enter qualifying distributions from Part XII, line 4	8	268,725.

If line 8 is equal to or greater than line 7, check the box in Part VI, line 1b, and complete that part using a 1% tax rate
See the Part VI instructions

Part VI Excise Tax Based on Investment Income (Section 4940(a), 4940(b), 4940(e), or 4948 - see instructions)

1a	Exempt operating foundations described in section 4940(d)(2), check here <input type="checkbox"/> and enter "N/A" on line 1 Date of ruling letter _____ (attach copy of ruling letter if necessary-see instructions)		
b	Domestic foundations that meet the section 4940(e) requirements in Part V, check here <input checked="" type="checkbox"/> and enter 1% of Part I, line 27b	1	3,887.
c	All other domestic foundations enter 2% of line 27b Exempt foreign organizations enter 4% of Part I, line 12, col (b)		
2	Tax under section 511 (domestic section 4947(a)(1) trusts and taxable foundations only Others enter -0-)	2	0.
3	Add lines 1 and 2	3	3,887.
4	Subtitle A (income) tax (domestic section 4947(a)(1) trusts and taxable foundations only Others enter -0-)	4	0.
5	Tax based on investment income. Subtract line 4 from line 3 If zero or less, enter -0-	5	3,887.
6	Credits/Payments		
a	2006 estimated tax payments and 2005 overpayment credited to 2006	6a	5,975.
b	Exempt foreign organizations - tax withheld at source	6b	
c	Tax paid with application for extension of time to file (Form 8868)	6c	
d	Backup withholding erroneously withheld	6d	
7	Total credits and payments Add lines 6a through 6d	7	5,975.
8	Enter any penalty for underpayment of estimated tax Check here <input checked="" type="checkbox"/> if Form 2220 is attached	8	
9	Tax due. If the total of lines 5 and 8 is more than line 7, enter amount owed	9	
10	Overpayment. If line 7 is more than the total of lines 5 and 8, enter the amount overpaid	10	2,088.
11	Enter the amount of line 10 to be Credited to 2007 estimated tax	11	2,088. Refunded

Part VII-A Statements Regarding Activities

	Yes	No
1a		X
1b		X
If the answer is "Yes" to 1a or 1b, attach a detailed description of the activities and copies of any materials published or distributed by the foundation in connection with the activities.		
1c		X
d		
(1) On the foundation \$ 0. (2) On foundation managers \$ 0.		
e		
Enter the reimbursement (if any) paid by the foundation during the year for political expenditure tax imposed on foundation managers \$ 0.		
2		X
If "Yes," attach a detailed description of the activities.		
3		X
If "Yes," attach a conformed copy of the changes		
4a		X
4b		
N/A		
5		X
If "Yes," attach the statement required by General Instruction T.		
6	X	
7	X	
If "Yes," complete Part II, col. (c), and Part XV		
8a		
Enter the states to which the foundation reports or with which it is registered (see instructions) NY		
8b	X	
If the answer is "Yes" to line 7, has the foundation furnished a copy of Form 990-PF to the Attorney General (or designate) of each state as required by General Instruction G? If "No," attach explanation		
9	X	
Is the foundation claiming status as a private operating foundation within the meaning of section 4942(j)(3) or 4942(j)(5) for calendar year 2006 or the taxable year beginning in 2006 (see instructions for Part XIV)? If "Yes," complete Part XIV		
10		X
Did any persons become substantial contributors during the tax year? If "Yes," attach a schedule listing their names and addresses		

Part VII-A Statements Regarding Activities *Continued*

11a	At any time during the year, did the foundation, directly or indirectly, own a controlled entity within the meaning of section 512(b)(13)? If "Yes," attach schedule (see instructions)			X
11b	If "Yes," did the foundation have a binding written contract in effect on August 17, 2006, covering the interest, rents, royalties, and annuities described in the attachment for line 11a?	N/A		
12	Did the foundation acquire a direct or indirect interest in any applicable insurance contract?			X
13	Did the foundation comply with the public inspection requirements for its annual returns and exemption application? Web site address WWW.STEPPINGSTONES.ORG		X	
14	The books are in care of The Foundation Telephone no 914-232-4822 Located at PO BOX 452, BEDFORD HILLS, NY ZIP+4 10507			
15	Section 4947(a)(1) nonexempt charitable trusts filing Form 990-PF in lieu of Form 1041 - Check here <input type="checkbox"/> and enter the amount of tax-exempt interest received or accrued during the year 15 N/A			

Part VII-B Statements Regarding Activities for Which Form 4720 May Be Required

File Form 4720 if any item is checked in the "Yes" column, unless an exception applies.

		Yes	No
1a	During the year did the foundation (either directly or indirectly)		
(1)	Engage in the sale or exchange, or leasing of property with a disqualified person? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
(2)	Borrow money from, lend money to, or otherwise extend credit to (or accept it from) a disqualified person? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
(3)	Furnish goods, services, or facilities to (or accept them from) a disqualified person? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
(4)	Pay compensation to, or pay or reimburse the expenses of, a disqualified person? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No		
(5)	Transfer any income or assets to a disqualified person (or make any of either available for the benefit or use of a disqualified person)? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
(6)	Agree to pay money or property to a government official? (Exception. Check "No" if the foundation agreed to make a grant to or to employ the official for a period after termination of government service, if terminating within 90 days.) <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
b	If any answer is "Yes" to 1a(1)-(6), did any of the acts fail to qualify under the exceptions described in Regulations section 53.4941(d)-3 or in a current notice regarding disaster assistance (see page 22 of the instructions)? Organizations relying on a current notice regarding disaster assistance check here <input type="checkbox"/>	1b	X
c	Did the foundation engage in a prior year in any of the acts described in 1a, other than excepted acts, that were not corrected before the first day of the tax year beginning in 2006?	1c	X
2	Taxes on failure to distribute income (section 4942) (does not apply for years the foundation was a private operating foundation defined in section 4942(j)(3) or 4942(j)(5))		
a	At the end of tax year 2006, did the foundation have any undistributed income (lines 6d and 6e, Part XIII) for tax year(s) beginning before 2006? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If "Yes," list the years <input type="checkbox"/>		
b	Are there any years listed in 2a for which the foundation is not applying the provisions of section 4942(a)(2) (relating to incorrect valuation of assets) to the year's undistributed income? (If applying section 4942(a)(2) to all years listed, answer "No" and attach statement - see instructions.) N/A	2b	
c	If the provisions of section 4942(a)(2) are being applied to any of the years listed in 2a, list the years here <input type="checkbox"/>		
3a	Did the foundation hold more than a 2% direct or indirect interest in any business enterprise at any time during the year? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
b	If "Yes," did it have excess business holdings in 2006 as a result of (1) any purchase by the foundation or disqualified persons after May 26, 1969, (2) the lapse of the 5-year period (or longer period approved by the Commissioner under section 4943(c)(7)) to dispose of holdings acquired by gift or bequest, or (3) the lapse of the 10-, 15-, or 20-year first phase holding period? (Use Schedule C, Form 4720, to determine if the foundation had excess business holdings in 2006.) N/A	3b	
4a	Did the foundation invest during the year any amount in a manner that would jeopardize its charitable purposes?	4a	X
b	Did the foundation make any investment in a prior year (but after December 31, 1969) that could jeopardize its charitable purpose that had not been removed from jeopardy before the first day of the tax year beginning in 2006?	4b	X

Part VII-B Statements Regarding Activities for Which Form 4720 May Be Required *Continued*

5a During the year did the foundation pay or incur any amount to

(1) Carry on propaganda, or otherwise attempt to influence legislation (section 4945(e))? Yes No

(2) Influence the outcome of any specific public election (see section 4955), or to carry on, directly or indirectly, any voter registration drive? Yes No

(3) Provide a grant to an individual for travel, study, or other similar purposes? Yes No

(4) Provide a grant to an organization other than a charitable, etc., organization described in section 509(a)(1), (2), or (3), or section 4940(d)(2)? Yes No

(5) Provide for any purpose other than religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals? Yes No

b If any answer is "Yes" to 5a(1)-(5), did any of the transactions fail to qualify under the exceptions described in Regulations section 53.4945 or in a current notice regarding disaster assistance (see instructions)? Yes No
 Organizations relying on a current notice regarding disaster assistance check here N/A

c If the answer is "Yes" to question 5a(4), does the foundation claim exemption from the tax because it maintained expenditure responsibility for the grant? Yes No
 If "Yes," attach the statement required by Regulations section 53.4945-5(d). N/A

6a Did the foundation, during the year, receive any funds, directly or indirectly, to pay premiums on a personal benefit contract? Yes No

b Did the foundation, during the year, pay premiums, directly or indirectly, on a personal benefit contract? Yes No
 If you answered "Yes" to 6b, also file Form 8870.

7a At any time during the tax year, was the foundation a party to a prohibited tax shelter transaction? Yes No

b If yes, did the foundation receive any proceeds or have any net income attributable to the transaction? Yes No

Part VIII Information About Officers, Directors, Trustees, Foundation Managers, Highly Paid Employees, and Contractors

1 List all officers, directors, trustees, foundation managers and their compensation.

(a) Name and address	(b) Title, and average hours per week devoted to position	(c) Compensation (If not paid, enter -0-)	(d) Contributions to employee benefit plans and deferred compensation	(e) Expense account, other allowances
See Statement 11		75,000.	6,510.	0.

2 Compensation of five highest-paid employees (other than those included on line 1). If none, enter "NONE."

(a) Name and address of each employee paid more than \$50,000	(b) Title and average hours per week devoted to position	(c) Compensation	(d) Contributions to employee benefit plans and deferred compensation	(e) Expense account, other allowances
None				

Total number of other employees paid over \$50,000 0

Part VIII Information About Officers, Directors, Trustees, Foundation Managers, Highly Paid Employees, and Contractors *Continued*

3 Five highest-paid independent contractors for professional services. If none, enter "NONE."

(a) Name and address of each person paid more than \$50,000	(b) Type of service	(c) Compensation
None		

Total number of others receiving over \$50,000 for professional services ▶ 0

Part IX-A Summary of Direct Charitable Activities

List the foundation's four largest direct charitable activities during the tax year. Include relevant statistical information such as the number of organizations and other beneficiaries served, conferences convened, research papers produced, etc	Expenses
1 N/A	
2	
3	
4	

Part IX-B Summary of Program-Related Investments

Describe the two largest program-related investments made by the foundation during the tax year on lines 1 and 2	Amount
1 N/A	
2	
3 All other program-related investments. See instructions	
Total. Add lines 1 through 3 ▶ 0.	

Part X Minimum Investment Return (All domestic foundations must complete this part. Foreign foundations, see instructions.)

1	Fair market value of assets not used (or held for use) directly in carrying out charitable, etc., purposes		
a	Average monthly fair market value of securities	1a	5,960,645.
b	Average of monthly cash balances	1b	52,147.
c	Fair market value of all other assets	1c	34,338.
d	Total (add lines 1a, b, and c)	1d	6,047,130.
e	Reduction claimed for blockage or other factors reported on lines 1a and 1c (attach detailed explanation)	1e	0.
2	Acquisition indebtedness applicable to line 1 assets	2	0.
3	Subtract line 2 from line 1d	3	6,047,130.
4	Cash deemed held for charitable activities. Enter 1 1/2% of line 3 (for greater amount, see instructions)	4	90,707.
5	Net value of noncharitable-use assets. Subtract line 4 from line 3. Enter here and on Part V, line 4	5	5,956,423.
6	Minimum investment return. Enter 5% of line 5	6	297,821.

Part XI Distributable Amount (see instructions) (Section 4942(j)(3) and (j)(5) private operating foundations and certain foreign organizations check here and do not complete this part)

1	Minimum investment return from Part X, line 6	1	
2a	Tax on investment income for 2006 from Part VI, line 5	2a	
b	Income tax for 2006 (This does not include the tax from Part VI)	2b	
c	Add lines 2a and 2b	2c	
3	Distributable amount before adjustments. Subtract line 2c from line 1	3	
4	Recoveries of amounts treated as qualifying distributions	4	
5	Add lines 3 and 4	5	
6	Deduction from distributable amount (see instructions)	6	
7	Distributable amount as adjusted. Subtract line 6 from line 5. Enter here and on Part XIII, line 1	7	

Part XII Qualifying Distributions (see instructions)

1	Amounts paid (including administrative expenses) to accomplish charitable, etc., purposes		
a	Expenses, contributions, gifts, etc. - total from Part I, column (d), line 26	1a	268,725.
b	Program-related investments - total from Part IX-B	1b	0.
2	Amounts paid to acquire assets used (or held for use) directly in carrying out charitable, etc., purposes	2	
3	Amounts set aside for specific charitable projects that satisfy the		
a	Suitability test (prior IRS approval required)	3a	
b	Cash distribution test (attach the required schedule)	3b	
4	Qualifying distributions. Add lines 1a through 3b. Enter here and on Part V, line 8, and Part XIII, line 4	4	268,725.
5	Foundations that qualify under section 4940(e) for the reduced rate of tax on net investment income. Enter 1% of Part I, line 27b	5	3,887.
6	Adjusted qualifying distributions. Subtract line 5 from line 4	6	264,838.

Note: The amount on line 6 will be used in Part V, column (b), in subsequent years when calculating whether the foundation qualifies for the section 4940(e) reduction of tax in those years

Part XIII Undistributed Income (see instructions)

	(a) Corpus	(b) Years prior to 2005	(c) 2005	(d) 2006
1 Distributable amount for 2006 from Part XI, line 7				0.
2 Undistributed income, if any, as of the end of 2005				
a Enter amount for 2005 only			0.	
b Total for prior years		0.		
3 Excess distributions carryover, if any, to 2006				
a From 2001				
b From 2002				
c From 2003				
d From 2004				
e From 2005				
f Total of lines 3a through e	0.			
4 Qualifying distributions for 2006 from Part XII, line 4 ▶ \$ N/A				
a Applied to 2005, but not more than line 2a			0.	
b Applied to undistributed income of prior years (Election required - see instructions)		0.		
c Treated as distributions out of corpus (Election required - see instructions)	0.			
d Applied to 2006 distributable amount				0.
e Remaining amount distributed out of corpus	0.			
5 Excess distributions carryover applied to 2006 (If an amount appears in column (d), the same amount must be shown in column (a))	0.			0.
6 Enter the net total of each column as indicated below:	0.			
a Corpus Add lines 3f, 4c, and 4e Subtract line 5	0.			
b Prior years' undistributed income Subtract line 4b from line 2b		0.		
c Enter the amount of prior years' undistributed income for which a notice of deficiency has been issued, or on which the section 4942(a) tax has been previously assessed		0.		
d Subtract line 6c from line 6b Taxable amount - see instructions		0.		
e Undistributed income for 2005 Subtract line 4a from line 2a Taxable amount - see instr			0.	
f Undistributed income for 2006 Subtract lines 4d and 5 from line 1 This amount must be distributed in 2007				0.
7 Amounts treated as distributions out of corpus to satisfy requirements imposed by section 170(b)(1)(E) or 4942(g)(3)	0.			
8 Excess distributions carryover from 2001 not applied on line 5 or line 7	0.			
9 Excess distributions carryover to 2007. Subtract lines 7 and 8 from line 6a	0.			
10 Analysis of line 9				
a Excess from 2002				
b Excess from 2003				
c Excess from 2004				
d Excess from 2005				
e Excess from 2006				

Part XIV Private Operating Foundations (see instructions and Part VII-A, question 9)

1 a If the foundation has received a ruling or determination letter that it is a private operating foundation, and the ruling is effective for 2006, enter the date of the ruling ▶ 09/15/91

b Check box to indicate whether the foundation is a private operating foundation described in section 4942(j)(3) or 4942(j)(5)

	Tax year				(e) Total
	(a) 2006	(b) 2005	(c) 2004	(d) 2003	
2 a Enter the lesser of the adjusted net income from Part I or the minimum investment return from Part X for each year listed	232,771.	192,208.	163,438.	223,987.	812,404.
b 85% of line 2a	197,855.	163,377.	138,922.	190,389.	690,543.
c Qualifying distributions from Part XII, line 4 for each year listed	268,725.	260,761.	234,669.	230,653.	994,808.
d Amounts included in line 2c not used directly for active conduct of exempt activities	0.	0.	0.	0.	0.
e Qualifying distributions made directly for active conduct of exempt activities Subtract line 2d from line 2c	268,725.	260,761.	234,669.	230,653.	994,808.
3 Complete 3a, b, or c for the alternative test relied upon					
a "Assets" alternative test - enter					
(1) Value of all assets					0.
(2) Value of assets qualifying under section 4942(j)(3)(B)(i)					0.
b "Endowment" alternative test - enter 2/3 of minimum investment return shown in Part X, line 6 for each year listed	198,547.	190,188.	183,564.	167,757.	740,056.
c "Support" alternative test - enter					
(1) Total support other than gross investment income (interest, dividends, rents, payments on securities loans (section 512(a)(5)), or royalties)					0.
(2) Support from general public and 5 or more exempt organizations as provided in section 4942(j)(3)(B)(iii)					0.
(3) Largest amount of support from an exempt organization					0.
(4) Gross investment income					0.

Part XV Supplementary Information (Complete this part only if the foundation had \$5,000 or more in assets at any time during the year-see page 28 of the instructions.)

1 Information Regarding Foundation Managers:

a List any managers of the foundation who have contributed more than 2% of the total contributions received by the foundation before the close of any tax year (but only if they have contributed more than \$5,000) (See section 507(d)(2))

None

b List any managers of the foundation who own 10% or more of the stock of a corporation (or an equally large portion of the ownership of a partnership or other entity) of which the foundation has a 10% or greater interest

None

2 Information Regarding Contribution, Grant, Gift, Loan, Scholarship, etc., Programs:

Check here if the foundation only makes contributions to preselected charitable organizations and does not accept unsolicited requests for funds. If the foundation makes gifts, grants, etc. (see instructions) to individuals or organizations under other conditions, complete items 2a, b, c, and d

a The name, address, and telephone number of the person to whom applications should be addressed

ANNAH PERCH, EXECUTIVE DIRECTOR, 914-232-4822
C/O THE STEPPING STONES FOUNDATION, BEDFORD HILLS, NY 10507

b The form in which applications should be submitted and information and materials they should include

THERE ARE NO FORMAL GUIDELINES FOR GRANT APPLICATIONS.

c Any submission deadlines

NONE

d Any restrictions or limitations on awards, such as by geographical areas, charitable fields, kinds of institutions, or other factors

STEPPING STONES IS AN OPERATING FOUNDATION, SO FUNDS FOR GRANTS ARE LIMITED.

Part XV Supplementary Information (continued)

3 Grants and Contributions Paid During the Year or Approved for Future Payment

Recipient Name and address (home or business)	If recipient is an individual, show any relationship to any foundation manager or substantial contributor	Foundation status of recipient	Purpose of grant or contribution	Amount
<p>a <i>Paid during the year</i></p> <p style="text-align: center;">None</p>				
Total				▶ 3a 0.
<p>b <i>Approved for future payment</i></p> <p style="text-align: center;">None</p>				
Total				▶ 3b 0.

Part XVII Information Regarding Transfers To and Transactions and Relationships With Noncharitable Exempt Organizations

- 1 Did the organization directly or indirectly engage in any of the following with any other organization described in section 501(c) of the Code... a Transfers from the reporting foundation to a noncharitable exempt organization of (1) Cash (2) Other assets b Other transactions (1) Sales of assets to a noncharitable exempt organization (2) Purchases of assets from a noncharitable exempt organization (3) Rental of facilities, equipment, or other assets (4) Reimbursement arrangements (5) Loans or loan guarantees (6) Performance of services or membership or fundraising solicitations c Sharing of facilities, equipment, mailing lists, other assets, or paid employees d If the answer to any of the above is "Yes," complete the following schedule...

Table with 4 columns: (a) Line no, (b) Amount involved, (c) Name of noncharitable exempt organization, (d) Description of transfers, transactions, and sharing arrangements. Row 1 contains 'N/A'.

2a Is the foundation directly or indirectly affiliated with, or related to, one or more tax-exempt organizations described in section 501(c) of the Code (other than section 501(c)(3)) or in section 527? [] Yes [X] No

Table with 3 columns: (a) Name of organization, (b) Type of organization, (c) Description of relationship. Row 1 contains 'N/A'.

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer or fiduciary) is based on all information of which preparer has any knowledge.

Signature of officer or trustee: [Signature], Date: 11/13/07, Title: Executive Director. Preparer's signature: [Signature], Date: NOV 13 2007, Firm's name: Owen J Flanagan & Co, 60 East 42nd Street, New York, NY 10165. Phone no: 212-682-2783.

2006 DEPRECIATION AND AMORTIZATION REPORT Form 990-PF Page 1

990-PF

Asset No	Description	Date Acquired	Method	Life	Line No	Unadjusted Cost Or Basis	Bus % Excl	* Reduction In Basis	Basis For Depreciation	Accumulated Depreciation	Current Sec 179	Current Year Deduction
1	LAND & BUILDINGS	100588L				1400000.			1400000.			0.
2	BUILDING IMPROVEMENTS	VariesSL		27.50	17	90,147.			90,147.	47,501.		4,435.
3	DRIVEWAY	VariesSL		20.00	17	5,000.			5,000.	3,250.		250.
4	HEATING SYSTEM	VariesSL		7.00	17	8,100.			8,100.	9,257.		0.
5	EQUIPMENT	VariesSL		7.00	17	18,364.			18,364.	18,364.		0.
6	EQUIPMENT	VariesSL		5.00	17	32,429.			32,429.	32,429.		0.
7	EQUIPMENT	010197SL		5.00	17	4,389.			4,389.	4,389.		0.
	* Total 990-PF Pg 1 Depr					1558429.		0.	1558429.	115,190.	0.	4,685.

* ITC, Section 179, Salvage, Bonus, Commercial Revitalization Deduction, GO Zone

(D) - Asset disposed

Form 990-PF	Dividends and Interest from Securities	Statement	1
Source	Gross Amount	Capital Gains Dividends	Column (A) Amount
DIVIDENDS & INTEREST ON SECURITIES	251,642.	0.	251,642.
Total to Fm 990-PF, Part I, ln 4	251,642.	0.	251,642.

Form 990-PF	Other Income		Statement	2
Description	(a) Revenue Per Books	(b) Net Investment Income	(c) Adjusted Net Income	
ROYALTIES ON BOOK	7,189.	0.	7,189.	
PRODUCT SALES	19,771.	0.	19,771.	
Total to Form 990-PF, Part I, line 11	26,960.	0.	26,960.	

Form 990-PF	Accounting Fees			Statement	3
Description	(a) Expenses Per Books	(b) Net Investment Income	(c) Adjusted Net Income	(d) Charitable Purposes	
OWEN J FLANAGAN & CO - ACCOUNTING & TAX	6,700.	3,350.	3,350.	0.	
To Form 990-PF, Pg 1, ln 16b	6,700.	3,350.	3,350.	0.	

Form 990-PF	Other Professional Fees			Statement	4
Description	(a) Expenses Per Books	(b) Net Investment Income	(c) Adjusted Net Income	(d) Charitable Purposes	
MORSE WILLIAMS - INV. ADVISORY	42,267.	42,267.	42,267.	0.	
JOANN LINDSTRUM	510.	0.	0.	510.	
ANNE ACKERSON	250.	0.	0.	250.	
To Form 990-PF, Pg 1, ln 16c	43,027.	42,267.	42,267.	760.	

Form 990-PF	Taxes			Statement	5
Description	(a) Expenses Per Books	(b) Net Invest- ment Income	(c) Adjusted Net Income	(d) Charitable Purposes	
NYS FILING	250.	0.	0.	250.	
EXCISE	4,000.	0.	0.	6,000.	
To Form 990-PF, Pg 1, ln 18	4,250.	0.	0.	6,250.	

Form 990-PF	Other Expenses			Statement	6
Description	(a) Expenses Per Books	(b) Net Invest- ment Income	(c) Adjusted Net Income	(d) Charitable Purposes	
REPAIRS & MAINTENANCE	39,892.	0.	0.	41,837.	
ARCHIVES	1,734.	0.	0.	1,734.	
ANNUAL PICNIC	2,127.	0.	0.	2,127.	
INSURANCE	14,767.	0.	0.	3,437.	
OFFICE	15,209.	0.	0.	14,428.	
BANK FEES	214.	214.	214.	0.	
WEB SITE	918.	0.	0.	918.	
PRODUCTS	14,884.	0.	0.	14,884.	
BOARD	1,225.	0.	0.	1,298.	
VISITORS & COMMUNITY RELATIONS	2,929.	0.	0.	2,929.	
MARKETING SURVEY	3,752.	0.	0.	3,752.	
STAFF DEVELOPMENT	1,017.	0.	0.	1,017.	
HISTORIC PRESERVATION COSTS	23,984.	0.	0.	23,984.	
OTHER	3,452.	0.	0.	3,452.	
BILL W AND DR. BOB	0.	0.	0.	11,808.	
To Form 990-PF, Pg 1, ln 23	126,104.	214.	214.	127,605.	

Form 990-PF U.S. and State/City Government Obligations Statement 7

Description	U.S. Gov't	Other Gov't	Book Value	Fair Market Value
US GOVERNMENT BONDS #12	X		414,366.	414,366.
Total U.S. Government Obligations			414,366.	414,366.
Total State and Municipal Government Obligations				
Total to Form 990-PF, Part II, line 10a			414,366.	414,366.

Form 990-PF Corporate Stock Statement 8

Description	Book Value	Fair Market Value
CORPORATE STOCK STMT #12	4,410,841.	4,410,841.
Total to Form 990-PF, Part II, line 10b	4,410,841.	4,410,841.

Form 990-PF Corporate Bonds Statement 9

Description	Book Value	Fair Market Value
CORPORATE BONDS STMT #12	1,397,059.	1,397,059.
Total to Form 990-PF, Part II, line 10c	1,397,059.	1,397,059.

Form 990-PF Depreciation of Assets Not Held for Investment Statement 10

Description	Cost or Other Basis	Accumulated Depreciation	Book Value
LAND & BUILDINGS	1,400,000.	0.	1,400,000.
BUILDING IMPROVEMENTS	90,147.	51,936.	38,211.
DRIVEWAY	5,000.	3,500.	1,500.
HEATING SYSTEM	8,100.	9,257.	-1,157.
EQUIPMENT	18,364.	18,364.	0.
EQUIPMENT	32,429.	32,429.	0.
EQUIPMENT	4,389.	4,389.	0.
Total To Fm 990-PF, Part II, ln 14	1,558,429.	119,875.	1,438,554.

Form 990-PF Part VIII - List of Officers, Directors Trustees and Foundation Managers Statement 11

Name and Address	Title and Avrg Hrs/Wk	Compensation	Employee Ben Plan Contrib	Expense Account
MAUREEN SULLIVAN NEW YORK, NY 10014	VICE PRESIDENT 1.00	0.	0.	0.
MICHAEL KELLY SHARON, CT 06069	PRESIDENT 1.00	0.	0.	0.
JEAN HEINRICH NEW YORK, NY 10021	TRUSTEE 1.00	0.	0.	0.
ROBERT HOGUET NEW YORK, NY 10021	TRUSTEE 1.00	0.	0.	0.
JOHN KOSTER NEW YORK, NY 10021	TRUSTEE 1.00	0.	0.	0.
JOHNNY W. ALLEM WASHINGTON, DC 20045	TRUSTEE 1.00	0.	0.	0.
DON HARRELL NEW YORK, NY 10028	TREASURER 1.00	0.	0.	0.
ANNAH PERCH BEDFORD HILLS, NY 10507	EXECUTIVE DIRECTOR 40.00	75,000.	6,510.	0.
Totals included on 990-PF, Page 6, Part VIII		75,000.	6,510.	0.

Morse, Williams & Company
 PORTFOLIO SUMMARY

THE STEPPING STONES FOUNDATION

R2514

December 31, 2006

Security Type	Total Cost	Market Value	Pct. Assets	Cur. Yield	Est. Annual Income
Cash & Equiv.					
CASH EQUIV	27,626.52	27,626.52	0.4	4.5	1,243.19
	27,626.52	27,626.52	0.4	4.5	1,243.19
Fixed Income					
GOVT BONDS	388,847.94	414,366.19	6.6	5.8	24,138.75
CORPORATE BONDS	1,120,929.51	1,129,783.75	18.0	6.5	73,900.00
FOREIGN BONDS	98,397.50	116,150.00	1.8	6.5	7,500.00
PREFERRED STOCK	142,756.42	152,996.00	2.4	6.8	10,431.70
Accrued Interest		30,403.74	0.5		
	1,750,931.37	1,843,699.68	29.3	6.4	115,970.45
Equities					
CONVERTIBLE BND	150,531.50	151,125.00	2.4	5.7	8,593.75
CONVERTIBLE PFD	175,042.20	226,550.00	3.6	5.2	11,738.00
COMMON STOCK					
Basic Materials	255,152.80	309,877.00	4.9	2.5	7,632.80
Capital Goods	369,736.73	456,598.00	7.3	1.9	8,675.48
Consumer Cyclical	384,316.62	477,908.00	7.6	1.4	6,560.00
Consumer Staples	256,064.30	341,546.00	5.4	1.4	4,740.00
Energy	205,813.74	402,500.00	6.4	2.3	9,181.00
Financial	387,165.41	502,021.50	8.0	4.0	20,261.00
Services	215,815.89	187,150.42	3.0	0.8	1,403.80
Technology	490,672.97	637,048.00	10.1	0.9	5,751.50
Transportation	152,932.31	190,893.00	3.0	2.7	5,069.00
Utilities	136,384.12	171,375.00	2.7	4.0	6,890.00
Diversified	37,605.00	38,965.00	0.6	2.4	920.00
Real Estate	75,241.00	88,207.50	1.4	5.4	4,722.00
Conglomerates	23,007.00	23,015.00	0.4	2.2	500.00
COMMON STOCK	2,989,907.88	3,827,104.42	60.9	2.2	82,306.58
MUTUAL FUNDS	172,805.33	204,190.64	3.2	2.6	5,222.69
WARRANTS	0.00	0.00	0.0	0.0	0.00
Accrued Interest		6,747.05	0.1		
	3,488,286.91	4,415,717.11	70.2	2.4	107,861.02
TOTAL PORTFOLIO	5,266,844.81	6,287,943.31	100.0	3.6	225,074.66

STMT #12

Morse, Williams & Company
PORTFOLIO APPRAISAL
THE STEPPING STONES FOUNDATION

R2514
 December 31, 2006

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
CASH EQUIV.								
	CASH ACCOUNT		27,626.52		27,626.52	0.4	1,243.19	4.5
GOVT BONDS								
40,000.00	FED FARM CR BK 6.050% Due 06-05-07	100.00	40,000.00	99.94	39,975.00	0.6	2,420.00	6.1
75,000.00	US TSY NTS 6.125% Due 08-15-07	99.09	74,326.31	100.63	75,474.75	1.2	4,593.75	6.1
100,000.00	FED HOME LOAN BK 5.375% Due 10-11-11	99.97	99,974.50	99.72	99,718.75	1.6	5,375.00	5.4
75,000.00	FED HOME LN BK 5.250% Due 02-17-15	100.00	75,000.00	97.91	73,429.69	1.2	3,937.50	5.4
50,000.00	US TSY BDS 7.500% Due 11-15-16	98.73	49,365.63	121.52	60,758.00	1.0	3,750.00	6.2
50,000.00	US TSY BDS 8.125% Due 08-15-19	100.37	50,187.50	130.02	65,010.00	1.0	4,062.50	6.2
	Accrued Interest				6,591.34	0.1		
			388,847.94		420,957.53	6.7	24,138.75	5.8
CORPORATE BONDS								
100,000.00	GTE CALLF INC 7.650% Due 03-15-07	99.75	99,750.00	100.35	100,355.00	1.6	7,650.00	7.6
50,000.00	AMGEN INC 6.500% Due 12-01-07	97.50	48,750.00	100.67	50,233.00	0.8	3,250.00	6.5
100,000.00	BANKBOSTON NA 6.375% Due 03-25-08	100.94	100,938.00	101.19	101,187.50	1.6	6,375.00	6.3
100,000.00	AT&T CORP 6.000% Due 03-15-09	96.25	96,250.00	101.38	101,380.00	1.6	6,000.00	5.9
150,000.00	FORD MTR CR CO 7.375% Due 10-28-09	100.02	150,030.00	100.21	150,319.50	2.4	11,062.50	7.4
50,000.00	HOUSEHOLD FIN 4.500% Due 09-15-10	100.00	50,000.00	96.76	48,381.00	0.8	2,250.00	4.7
200,000.00	MOTOROLA INC 7.625% Due 11-15-10	97.97	195,937.50	107.67	215,346.00	3.4	15,250.00	7.1
125,000.00	BOEING CAP CORP 6.100% Due 03-01-11	103.44	129,306.25	103.31	129,138.75	2.1	7,625.00	5.9
50,000.00	CATERPILLAR FINL 5.000% Due 11-15-12	100.00	50,000.00	96.17	48,083.00	0.8	2,500.00	5.2
100,000.00	CB HARRIS CORP 5.000% Due 10-01-15	96.97	96,967.76	94.04	94,043.00	1.5	5,000.00	5.3
50,000.00	GE CAP CORP MULTI STEP-UP 5.000% Due 12-18-18	99.00	49,500.00	95.43	47,717.00	0.8	2,500.00	5.2

Morse, Williams & Company
PORTFOLIO APPRAISAL
THE STEPPING STONES FOUNDATION

R2514

December 31, 2006

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
50,000.00	FORD MTR CO DEL 8.875% Due 01-15-22 Accrued Interest	107.00	53,500.00	87.00	43,500.00	0.7	4,437.50	10.2
			1,120,929.51		21,937.40	0.3		
					1,151,721.15	18.3	73,900.00	6.5
FOREIGN BONDS								
100,000.00	HYDRO-QUEBEC 7.500% Due 04-01-16 Accrued Interest	98.40	98,397.50	116.15	116,150.00	1.8	7,500.00	6.5
			98,397.50		1,875.00	0.0		
					118,025.00	1.9	7,500.00	6.5
PREFERRED STOCK								
1,800.00	AEON NV PERP CAP SECS	25.19	45,345.17	25.97	46,746.00	0.7	2,869.20	6.1
2,000.00	BARCLAYS BK PLC	25.00	50,000.00	26.60	53,200.00	0.8	3,312.50	6.2
5,000.00	PMA CAP CORP	9.48	47,411.25	10.61	53,050.00	0.8	4,250.00	8.0
			142,756.42		152,996.00	2.4	10,431.70	6.8
CONVERTIBLE BND								
75,000.00	VEECO INSTRUMENTS 4.125% Due 12-21-08	89.79	67,344.00	97.00	72,750.00	1.2	3,093.75	4.3
100,000.00	SPACEHAB INC 5.500% Due 10-15-10 Accrued Interest	83.19	83,187.50	78.37	78,375.00	1.2	5,500.00	7.0
			150,531.50		6,747.05	0.1		
					157,872.05	2.5	8,593.75	5.7
CONVERTIBLE PFD								
1,200.00	INTL SHIPHOLDING	49.53	59,437.00	43.25	51,900.00	0.8	3,600.00	6.9
2,000.00	METLIFE INC 6.375% SER B	28.85	57,704.00	30.58	61,160.00	1.0	3,188.00	5.2
1,800.00	TXI CAP TR 1 TR PFD	32.17	57,901.20	63.05	113,490.00	1.8	4,950.00	4.4
			175,042.20		236,550.00	3.6	11,738.00	5.2
COMMON STOCK								
Basic Materials								
700.00	AIK PROD & CHEM	60.87	42,606.00	70.28	49,196.00	0.8	952.00	1.9
1,000.00	BHP BILLITON LTD	27.46	27,462.00	39.75	39,750.00	0.6	720.00	1.8
500.00	COMMERCL METALS	8.55	4,273.75	25.80	12,900.00	0.2	180.00	1.4
700.00	DOW CHEM CO	44.33	31,031.72	39.94	27,958.00	0.4	1,050.00	3.8
500.00	FREEMONT-MCMORAN	56.22	28,108.64	55.73	27,865.00	0.4	625.00	2.2
700.00	INTL PAPER CO	34.33	24,031.72	34.10	23,870.00	0.4	700.00	2.9
1,200.00	LYONDELL CHEM	26.28	31,532.00	25.57	30,684.00	0.5	1,080.00	3.5
600.00	POSCO SPONS ADR	48.31	28,983.25	82.67	49,602.00	0.8	1,045.80	2.1
1,600.00	RPM INTL INC	13.64	21,822.00	20.89	33,424.00	0.5	1,120.00	3.4

Morse, Williams & Company
PORTFOLIO APPRAISAL
THE STEPPING STONES FOUNDATION

R2514

December 31, 2006

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
200.00	US STL CORP	76.51	15,301.72	73.14	14,628.00	0.2	160.00	1.1
			255,152.80		309,877.00	4.9	7,632.80	2.5
Capital Goods								
1,200.00	ABB LTD	14.54	17,450.98	17.98	21,576.00	0.3	96.00	0.4
1,500.00	APPLIED MATLS	17.85	26,773.08	18.45	27,675.00	0.4	300.00	1.1
400.00	BOEING CO	52.90	21,158.71	88.84	35,536.00	0.6	480.00	2.4
800.00	CATERPILLAR INC	34.12	27,300.00	61.33	49,064.00	0.8	960.00	2.0
200.00	CUMMINS INC	90.03	18,007.00	118.18	23,636.00	0.4	288.00	1.2
400.00	EATON CORP	61.31	24,524.00	75.14	30,056.00	0.5	624.00	2.1
1,000.00	EMERSON ELEPC CO	34.96	34,957.52	44.09	44,090.00	0.7	2,100.00	4.8
800.00	GENERAL ELECTRIC	37.99	30,393.00	37.21	29,768.00	0.5	896.00	3.0
700.00	KB HOME	42.10	29,473.00	51.28	35,896.00	0.6	700.00	2.0
400.00	KENNAMETAL INC	61.05	24,419.98	58.85	23,540.00	0.4	336.00	1.4
300.00	LAM RESEARCH	50.06	15,018.04	50.62	15,186.00	0.2	0.00	0.0
500.00	LOCKHEED MARTIN	61.62	30,809.86	92.07	46,035.00	0.7	700.00	1.5
700.00	PULTE HOMES INC	32.69	22,881.68	33.12	23,184.00	0.4	112.00	0.5
500.00	RYLAND GRP	50.09	25,046.00	54.62	27,310.00	0.4	240.00	0.9
2,200.00	TAIWAN SEMICON	9.78	21,523.88	10.93	24,046.00	0.4	843.48	3.5
			369,736.73		456,598.00	7.3	8,675.48	1.9
Consumer Cyclical								
600.00	ABERCROMBIE	57.88	34,728.00	69.63	41,778.00	0.7	420.00	1.0
600.00	BARNES & NOBLE	38.97	23,385.00	39.71	23,826.00	0.4	360.00	1.5
500.00	BED BATH & BYND	35.11	17,553.15	38.10	19,050.00	0.3	0.00	0.0
500.00	BEST BUY CO	49.21	24,604.90	49.19	24,595.00	0.4	200.00	0.8
1,000.00	DARDEN REST	31.29	31,294.69	40.17	40,170.00	0.6	460.00	1.1
1,000.00	HOME DEPOT INC	35.41	35,405.50	40.16	40,160.00	0.6	900.00	2.2
800.00	JAKKS PACIFIC, INC.	22.79	18,232.00	21.84	17,472.00	0.3	0.00	0.0
500.00	JC PENNEY CO	59.20	29,598.08	77.36	38,680.00	0.6	360.00	0.9
1,000.00	KROGER CO	22.73	22,729.85	23.07	23,070.00	0.4	269.00	1.1
400.00	LAS VEGAS SANDS	66.26	26,503.33	89.48	35,792.00	0.6	0.00	0.0
1,000.00	MAJTEL INC	21.46	21,459.21	22.66	22,660.00	0.4	560.00	2.2
1,000.00	MCDONALDS CORP	30.24	30,238.20	44.33	44,330.00	0.7	1,000.00	2.3
1,000.00	SYSCO CORP	27.07	27,070.70	36.76	36,760.00	0.6	760.00	2.1
500.00	TARGET CORP	44.77	22,387.00	57.05	28,525.00	0.5	240.00	0.8
500.00	V F CORP	38.25	19,127.00	82.08	41,040.00	0.7	1,100.00	2.7
			384,316.62		477,908.00	7.6	6,560.00	1.4
Consumer Staples								
300.00	ABBOTT LABS	46.50	13,949.00	48.71	14,613.00	0.2	354.00	2.4
500.00	AMGEN INC	55.17	27,587.00	68.31	34,155.00	0.5	0.00	0.0
500.00	GENERAL MILLS	47.94	23,968.08	57.60	28,800.00	0.5	740.00	2.6

Morse, Williams & Company
PORTFOLIO APPRAISAL
THE STEPPING STONES FOUNDATION

R2514

December 31, 2006

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
300.00	GENZYME CORP	53.99	16,197.68	61.58	18,474.00	0.3	0.00	0.0
1,000.00	GILEAD SCIENCES	38.25	38,245.44	64.93	64,930.00	1.0	0.00	0.0
700.00	JOHNSON & JOHN	53.35	37,347.75	66.02	46,214.00	0.7	1,050.00	2.3
500.00	KELLOGG CO	46.78	23,391.11	50.06	25,030.00	0.4	582.00	2.3
800.00	MERCK & CO	28.25	22,601.00	43.60	34,880.00	0.6	1,216.00	3.5
800.00	Pfizer Inc	25.62	20,494.40	25.90	20,720.00	0.3	768.00	3.7
1,000.00	UNITEDHEALTH GRP	32.28	32,281.83	53.73	53,730.00	0.9	30.00	0.1
			256,064.30		341,546.00	5.4	4,740.00	1.4
	Energy							
5,000.00	CDN SUPERIOR ENG	2.11	10,534.16	2.00	10,000.00	0.2	0.00	0.0
1,000.00	CHEVRON CORP	41.84	41,837.00	73.53	73,530.00	1.2	2,080.00	2.8
500.00	CONOCOPHILLIPS	62.18	31,089.00	71.95	35,975.00	0.6	720.00	2.0
1,000.00	CROSS TIMBERS	26.12	26,124.50	50.61	50,610.00	0.8	2,701.00	5.3
1,000.00	EXXON MOBIL	41.00	41,002.60	76.63	76,630.00	1.2	1,280.00	1.7
1,500.00	MARATHON OIL	25.31	37,966.17	92.50	138,750.00	2.2	2,400.00	1.7
500.00	SUNTECH PWR	34.52	17,260.31	34.01	17,005.00	0.3	0.00	0.0
			205,813.74		402,500.00	6.4	9,181.00	2.3
	Financial							
300.00	ALLIANCE DATA SYS	63.34	19,002.97	62.47	18,741.00	0.3	0.00	0.0
1,000.00	BP PRUDHOE BAY RYLTY TST	50.70	50,698.57	76.98	76,980.00	1.2	8,048.00	10.5
800.00	CIT GRP INC	40.69	32,549.85	55.77	44,616.00	0.7	640.00	1.4
600.00	CITIGROUP INC	51.68	31,008.68	55.70	33,420.00	0.5	1,296.00	3.9
1,000.00	FIDELITY NTL FNL	22.49	22,492.00	23.88	23,880.00	0.4	1,200.00	5.0
450.00	FIRST MARBLEHEAD	30.50	13,725.97	54.65	24,592.50	0.4	324.00	1.3
200.00	GOLDMAN SACHS	144.24	28,849.00	199.35	39,870.00	0.6	280.00	0.7
300.00	HSBC HLDGS PLC	82.09	24,626.00	91.65	27,495.00	0.4	1,035.00	3.8
600.00	LOEWS CORP	24.15	14,492.00	41.47	24,882.00	0.4	150.00	0.6
1,000.00	OHIO CASUALTY	30.27	30,271.19	29.81	29,810.00	0.5	360.00	1.2
2,000.00	US BANCORP	21.08	42,158.18	36.19	72,380.00	1.2	3,200.00	4.4
700.00	WACHOVIA CORP	53.33	37,334.00	56.95	39,865.00	0.6	1,568.00	3.9
1,000.00	WASH MUTUAL	39.96	39,957.00	45.49	45,490.00	0.7	2,160.00	4.7
			387,165.41		502,021.50	8.0	20,261.00	4.0
	Services							
600.00	CINTAS CORP	33.20	19,923.00	39.71	23,826.00	0.4	234.00	1.0
42,289.00	ELOT INC DEL	1.90	80,500.00	0.78	32,985.42	0.5	0.00	0.0
300.00	FACTSET RESEARCH	44.11	13,233.97	56.48	16,944.00	0.3	720.00	0.4
500.00	FOCUS MEDIA	69.20	34,597.87	66.59	33,195.00	0.5	0.00	0.0
50.00	GOOGLE INC	435.76	21,787.85	460.48	23,024.00	0.4	0.00	0.0
300.00	MCGRAW-HILL CD	52.10	15,631.20	68.02	20,406.00	0.3	217.80	1.1

Morse, Williams & Company
PORTFOLIO APPRAISAL
THE STEPPING STONES FOUNDATION

R2514

December 31, 2006

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
1,000.00	WASTE MGMT	30.14	30,142.00	36.77	36,770.00	0.6	880.00	2.4
			215,815.89		187,150.42	3.0	1,403.80	0.8
Technology								
300.00	ADOBE SYS	30.99	9,297.52	41.12	12,336.00	0.2	0.00	0.0
1,200.00	AMERICA MOVIL	17.17	20,604.66	45.22	54,264.00	0.9	336.00	0.6
1,000.00	ANALOG DEVICES	31.35	31,346.40	32.87	32,870.00	0.5	640.00	1.9
300.00	APPLE COMPUTER	67.55	20,266.00	84.84	25,452.00	0.4	0.00	0.0
1,600.00	ATHEROS COMM	18.19	29,097.72	21.32	34,112.00	0.5	0.00	0.0
1,500.00	CHINA MOBILE HK	28.42	42,628.06	43.22	64,830.00	1.0	985.50	1.5
1,000.00	CISCO SYS INC	21.52	21,524.00	27.33	27,330.00	0.4	0.00	0.0
500.00	EMBARQ CORP	49.32	24,661.97	52.56	26,280.00	0.4	1,000.00	3.8
1,200.00	INTEL CORP	18.10	21,725.00	20.25	24,300.00	0.4	480.00	2.0
1,000.00	MEMC ELEC MAT	20.87	20,873.92	39.14	39,140.00	0.6	0.00	0.0
1,500.00	MICRON TECH	15.21	22,821.00	13.96	20,940.00	0.3	0.00	0.0
1,400.00	MICROSOFT CORP	26.01	36,416.00	29.86	41,804.00	0.7	560.00	1.3
1,000.00	MOTOROLA INC	21.94	21,943.00	20.56	20,560.00	0.3	200.00	1.0
1,000.00	NETWORK APPL	32.28	32,280.90	39.28	39,280.00	0.6	0.00	0.0
1,200.00	ORACLE CORP	15.56	18,668.88	17.14	20,568.00	0.3	0.00	0.0
800.00	QUALCOMM INC	24.49	19,591.00	37.79	30,232.00	0.5	384.00	1.3
500.00	SAP SPONS ADR	48.95	24,473.00	53.10	26,550.00	0.4	180.00	0.7
2,000.00	SEAGATE TECH	18.61	37,223.94	26.50	53,000.00	0.8	746.00	1.4
1,500.00	TEXAS INSTR	23.49	35,228.00	28.80	43,200.00	0.7	240.00	0.6
			490,672.97		637,048.00	10.1	5,751.50	0.9
Transportation								
300.00	BURLINGTON NTHRN	52.07	15,622.29	73.81	22,143.00	0.4	300.00	1.4
1,800.00	DIANA SHIPPING	15.19	27,342.17	15.81	28,458.00	0.5	2,817.00	9.9
1,000.00	DRYSHIPS INC	11.98	11,980.22	18.01	18,010.00	0.3	800.00	4.4
400.00	FEDEX CORP	74.97	29,989.60	108.62	43,448.00	0.7	144.00	0.3
900.00	PACCAR INC	50.92	45,824.05	64.90	58,410.00	0.9	720.00	1.2
400.00	RYDER SYS	55.43	22,173.98	51.06	20,424.00	0.3	288.00	1.4
			152,932.31		190,893.00	3.0	5,069.00	2.7
Utilities								
1,500.00	AT & T INC	24.41	36,609.66	35.75	53,625.00	0.9	2,130.00	4.0
2,200.00	DUKE ENERGY	28.46	62,612.66	33.21	73,062.00	1.2	2,816.00	3.9
1,200.00	VERIZON COMM	30.97	37,161.80	37.24	44,688.00	0.7	1,944.00	4.4
			136,384.12		171,375.00	2.7	6,890.00	4.0
Diversified								
500.00	3M CO	75.21	37,605.00	77.93	38,965.00	0.6	920.00	2.4

Morse, Williams & Company
PORTFOLIO APPRAISAL
THE STEPPING STONES FOUNDATION

R2514

December 31, 2006

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
Real Estate								
1,050.00	RAYONIER INC	32.67	34,304.00	41.05	43,102.50	0.7	1,974.00	4.6
1,500.00	W P CAREY & CO	27.29	40,937.00	30.07	45,103.00	0.7	2,748.00	6.1
			75,241.00		88,207.50	1.4	4,722.00	5.4
Conglomerates								
500.00	TEMPLE INLAND	46.01	23,007.00	46.03	23,015.00	0.4	500.00	2.2
			2,989,907.88		3,827,104.42	60.9	82,306.58	2.2
MUTUAL FUNDS								
2,000.000	H&Q HEALTHCARE FD	18.49	36,972.80	16.47	32,940.00	0.5	2,960.00	9.0
1,700.000	H&Q LIFE SCIENCES INVS	14.66	24,929.88	13.48	22,916.00	0.4	2,244.00	9.8
1,437.608	TOCQUEVILLE GOLD	35.34	50,811.40	51.43	73,936.18	1.2	18.69	0.0
8,473.629	WALL STREET FUND	7.09	60,091.25	8.78	74,398.46	1.2	0.00	0.0
			172,805.33		204,190.64	3.2	5,222.69	2.6
WARRANTS								
8,229	WTS ELOT INC	0.00	0.00	0.00	0.00	0.0	0.00	0.0
TOTAL PORTFOLIO								
			5,266,844.81		6,287,043.31	100.0	225,074.66	3.6

Accrued int 37,150.79
6,249,892.72

Valuation 983,047.91

STMT #12

Underpayment of Estimated Tax by Corporations

Department of the Treasury
Internal Revenue Service

▶ See separate instructions.
▶ Attach to the corporation's tax return.

Form **990-PF**

2006

Name THE STEPPING STONES FOUNDATION	Employer identification number 13-3031164
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Note. Generally, the corporation is not required to file Form 2220 (see Part II below for exceptions) because the IRS will figure any penalty owed and bill the corporation. However, the corporation may still use Form 2220 to figure the penalty. If so, enter the amount from page 2, line 34 on the estimated tax penalty line of the corporation's income tax return, but do not attach Form 2220.

Part I Required Annual Payment

1 Total tax (see instructions)		1	3,887.
2 a Personal holding company tax (Schedule PH (Form 1120), line 26) included on line 1	2a		
b Look-back interest included on line 1 under section 460(b)(2) for completed long-term contracts or of section 167(g) for depreciation under the income forecast method	2b		
c Credit for Federal tax paid on fuels (see instructions)	2c		
d Total. Add lines 2a through 2c		2d	
3 Subtract line 2d from line 1. If the result is less than \$500, do not complete or file this form. The corporation does not owe the penalty.		3	3,887.
4 Enter the tax shown on the corporation's 2005 income tax return (see instructions). Caution: If the tax is zero or the tax year was for less than 12 months, skip this line and enter the amount from line 3 on line 5.		4	3,477.
5 Required annual payment. Enter the smaller of line 3 or line 4. If the corporation is required to skip line 4, enter the amount from line 3.		5	3,477.

Part II Reasons for Filing - Check the boxes below that apply. If any boxes are checked, the corporation must file Form 2220 even if it does not owe a penalty (see instructions).

- 6 The corporation is using the adjusted seasonal installment method
- 7 The corporation is using the annualized income installment method
- 8 The corporation is a "large corporation" figuring its first required installment based on the prior year's tax

Part III Figuring the Underpayment

	(a)	(b)	(c)	(d)	
9 Installment due dates. Enter in columns (a) through (d) the 15th day of the 4th (Form 990-PF filers. Use 5th month), 6th, 9th, and 12th months of the corporation's tax year	g	05/15/06	06/15/06	09/15/06	12/15/06
10 Required installments. If the box on line 6 and/or line 7 above is checked, enter the amounts from Sch A, line 38. If the box on line 8 (but not 6 or 7) is checked, see instructions for the amounts to enter. If none of these boxes are checked, enter 25% of line 5 above in each col. Special rules apply to corporations with assets of \$1 billion or more (see instr)	10	869.	870.	869.	869.
11 Estimated tax paid or credited for each period (see instructions). For column (a) only, enter the amount from line 11 on line 15. Complete lines 12 through 18 of one column before going to the next column.	11	1,975.		4,000.	
12 Enter amount, if any, from line 18 of the preceding column	12		1,106.	236.	3,367.
13 Add lines 11 and 12	13		1,106.	4,236.	3,367.
14 Add amounts on lines 16 and 17 of the preceding column	14				
15 Subtract line 14 from line 13. If zero or less, enter -0-	15	1,975.	1,106.	4,236.	3,367.
16 If the amount on line 15 is zero, subtract line 13 from line 14. Otherwise, enter -0-	16		0.	0.	
17 Underpayment. If line 15 is less than or equal to line 10, subtract line 15 from line 10. Then go to line 12 of the next column. Otherwise, go to line 18.	17				
18 Overpayment. If line 10 is less than line 15, subtract line 10 from line 15. Then go to line 12 of the next column.	18	1,106.	236.	3,367.	

Go to Part IV on page 2 to figure the penalty. Do not go to Part IV if there are no entries on line 17 - no penalty is owed.

Part IV Figuring the Penalty

	(a)	(b)	(c)	(d)
19 Enter the date of payment or the 15th day of the 3rd month after the close of the tax year, whichever is earlier (see instructions) (Form 990-PF and Form 990-T filers: Use 5th month instead of 3rd month)				
20 Number of days from due date of installment on line 9 to the date shown on line 19				
21 Number of days on line 20 after 4/15/2006 and before 7/1/2006				
22 Underpayment on line 17 x $\frac{\text{Number of days on line 21} \times 7\%}{365}$	\$	\$	\$	\$
23 Number of days on line 20 after 6/30/2006 and before 4/1/2007				
24 Underpayment on line 17 x $\frac{\text{Number of days on line 23} \times 8\%}{365}$	\$	\$	\$	\$
25 Number of days on line 20 after 3/31/2007 and before 7/1/2007				
26 Underpayment on line 17 x $\frac{\text{Number of days on line 25} \times \%}{365}$	\$	\$	\$	\$
27 Number of days on line 20 after 6/30/2007 and before 10/1/2007				
28 Underpayment on line 17 x $\frac{\text{Number of days on line 27} \times \%}{365}$	\$	\$	\$	\$
29 Number of days on line 20 after 9/30/2007 and before 1/1/2008				
30 Underpayment on line 17 x $\frac{\text{Number of days on line 29} \times \%}{365}$	\$	\$	\$	\$
31 Number of days on line 20 after 12/31/2007 and before 2/16/2008				
32 Underpayment on line 17 x $\frac{\text{Number of days on line 31} \times \%}{366}$	\$	\$	\$	\$
33 Add lines 22, 24, 26, 28, 30, and 32	\$	\$	\$	\$
34 Penalty. Add columns (a) through (d), of line 33. Enter the total here and on Form 1120, line 33, Form 1120-A, line 29, or the comparable line for other income tax returns				\$ 0.

* For underpayments paid after March 31, 2007: For lines 26, 28, 30, and 32, use the penalty interest rate for each calendar quarter, which the IRS will determine during the first month in the preceding quarter. These rates are published quarterly in an IRS News Release and in a revenue ruling in the Internal Revenue Bulletin. To obtain this information on the Internet, access the IRS website at www.irs.gov. You can also call 1-800-829-4933 to get interest rate information.

- If you are filing for an **Additional (not automatic) 3-Month Extension**, complete only **Part II** and check this box **X**
- Note.** Only complete Part II if you have already been granted an automatic 3-month extension on a previously filed Form 8868.
- If you are filing for an **Automatic 3-Month Extension**, complete only **Part I** (on page 1).

Part II Additional (not automatic) 3-Month Extension of Time. You must file original and one copy.		
Type or print	Name of Exempt Organization THE STEPPING STONES FOUNDATION	Employer identification number 13-3031164
File by the extended due date for filing the return See instructions	Number, street, and room or suite no. If a P.O. box, see instructions. PO BOX 452	For IRS use only
	City, town or post office, state, and ZIP code For a foreign address, see instructions. BEDFORD HILLS, NY 10507	

Check type of return to be filed (File a separate application for each return):

<input type="checkbox"/> Form 990	<input type="checkbox"/> Form 990-EZ	<input type="checkbox"/> Form 990-T (sec. 401(a) or 408(a) trust)	<input type="checkbox"/> Form 1041-A	<input type="checkbox"/> Form 5227	<input type="checkbox"/> Form 8870
<input type="checkbox"/> Form 990-BL	<input checked="" type="checkbox"/> Form 990-PF	<input type="checkbox"/> Form 990-T (trust other than above)	<input type="checkbox"/> Form 4720	<input type="checkbox"/> Form 6069	

STOP! Do not complete Part II if you were not already granted an automatic 3-month extension on a previously filed Form 8868.

- The books are in the care of **The Foundation**
Telephone No. **914-232-4822** FAX No. _____
- If the organization does not have an office or place of business in the United States, check this box
- If this is for a Group Return, enter the organization's four digit Group Exemption Number (GEN) _____. If this is for the whole group, check this box . If it is for part of the group, check this box and attach a list with the names and EINs of all members the extension is for.

4 I request an additional 3-month extension of time until **November 15, 2007.**

5 For calendar year **2006**, or other tax year beginning _____, and ending _____.

6 If this tax year is for less than 12 months, check reason: Initial return Final return Change in accounting period

7 State in detail why you need the extension
The taxpayer is still gathering information to file a complete and accurate return.

8a If this application is for Form 990-BL, 990-PF, 990-T, 4720, or 6069, enter the tentative tax, less any nonrefundable credits. See instructions	8a	\$	3,900.
b If this application is for Form 990-PF, 990-T, 4720, or 6069, enter any refundable credits and estimated tax payments made. Include any prior year overpayment allowed as a credit and any amount paid previously with Form 8868.	8b	\$	5,975.
c Balance Due. Subtract line 8b from line 8a. Include your payment with this form, or, if required, deposit with FTD coupon or, if required, by using EFTPS (Electronic Federal Tax Payment System) See instructions.	8c	\$	0.

Signature and Verification

Under penalties of perjury, I declare that I have examined this form, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete, and that I am authorized to prepare this form

Signature _____ Title _____ Date _____

Notice to Applicant. (To Be Completed by the IRS)

- We **have** approved this application. Please attach this form to the organization's return
- We **have not** approved this application. However, we have granted a 10-day grace period from the later of the date shown below or the due date of the organization's return (including any prior extensions) This grace period is considered to be a valid extension of time for elections otherwise required to be made on a timely return Please attach this form to the organization's return.
- We **have not** approved this application. After considering the reasons stated in item 7, we cannot grant your request for an extension of time to file. We are not granting a 10-day grace period.
- We **cannot consider** this application because it was filed after the extended due date of the return for which an extension was requested.
- Other _____

Director _____ By _____ Date _____

Alternate Mailing Address. Enter the address if you want the copy of this application for an additional 3-month extension returned to an address different than the one entered above.

Type or print	Name Owen J Flanagan & Co
	Number and street (include suite, room, or apt. no.) or a P.O. box number 60 East 42nd Street
	City or town, province or state, and country (including postal or ZIP code) New York, NY 10165

623832
02-07-07