

**FRIENDS OF SCHOOL
OF THE ARTS FOUNDATION
(A California Nonprofit Public Benefit Corporation)**

FINANCIAL STATEMENTS

**For the Year Ended
June 30, 2017**

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55 Mitchell Blvd., Ste. 3
San Rafael, CA 94903
Phone (415) 491-1130 * Fax (415) 524-4167
www.DoranAssociates.net
Member CalCPA and AICPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Friends of School of the Arts Foundation
San Francisco, California

We have audited the accompanying financial statements of Friends of School of the Arts Foundation (a California nonprofit public benefit corporation), which comprise the statement of financial position as of June 30, 2017, 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.

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 Friends of School of the Arts Foundation as of June 30, 2017, 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.

Doran & Associates

May 7, 2018

FRIENDS OF SCHOOL OF THE ARTS FOUNDATION
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION
June 30, 2017

ASSETS

Current assets:	
Cash and cash equivalents (Note 1)	\$ 358,295
Prepaid expenses	<u>9,375</u>
Total assets	<u>\$ 367,670</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Fiscal sponsorship funds (Note 1)	<u>\$ 33,370</u>
Total liabilities	<u>33,370</u>
Unrestricted net assets	<u>334,300</u>
Total net assets	<u>334,300</u>
Total liabilities and net assets	<u>\$ 367,670</u>

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

FRIENDS OF SCHOOL OF THE ARTS FOUNDATION
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES
For the year ended June 30, 2017

UNRESTRICTED NET ASSETS:

SUPPORT AND REVENUE

Public support:

Donations and grants	\$ 596,239
In-kind facilities (Note 2)	<u>54,551</u>

Total public support	<u>650,790</u>
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Revenue:

Interest income	76
Activity fees	62,697
Ticket sales	<u>293,743</u>

Total revenue	<u>356,516</u>
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Total support and revenue	<u>1,007,306</u>
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EXPENSES

Program services	743,982
Management and general	170,481
Fundraising	<u>27,278</u>
Total expenses	<u>941,741</u>

Change in net assets	65,565
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Net assets, beginning of year	<u>268,735</u>
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Net assets, end of year	<u><u>\$ 334,300</u></u>
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The accompanying notes are an integral part of these financial statements.

FRIENDS OF SCHOOL OF THE ARTS FOUNDATION
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2017

	Program	Management and General	Fundraising	Total
Grants and other assistance	\$ 7,350	\$ -	\$ -	\$ 7,350
Salaries	-	78,000	-	78,000
Consultants	488,252	-	14,039	502,291
Advertising and promotion	3,702	-	-	3,702
Office expenses	-	37,930	-	37,930
Occupancy	-	54,551	-	54,551
Supplies	74,382	-	-	74,382
Performance expenses	73,324	-	-	73,324
Field trips	68,825	-	-	68,825
Venue rental	22,416	-	-	22,416
Other expenses	<u>5,731</u>	<u>-</u>	<u>13,239</u>	<u>18,970</u>
Total expenses	<u>\$ 743,982</u>	<u>\$ 170,481</u>	<u>\$ 27,278</u>	<u>\$ 941,741</u>

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

FRIENDS OF SCHOOL OF THE ARTS FOUNDATION
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STATEMENT OF CASH FLOWS
For the year ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ <u>65,565</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Changes in assets and liabilities:	
Prepaid expenses	(9,375)
Fiscal sponsorship funds	<u>9,951</u>
Total adjustments	<u>576</u>
Net cash provided by operating activities	<u>66,141</u>
Net increase in cash and cash equivalents	66,141
Cash and cash equivalents, beginning of year	<u>292,154</u>
Cash and cash equivalents, end of year	<u>\$ 358,295</u>

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

FRIENDS OF SCHOOL OF THE ARTS FOUNDATION
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Friends of School of the Arts Foundation (FoSOTA; the Foundation) is a California nonprofit public benefit corporation founded February 27, 2000. FoSOTA is dedicated to supporting quality arts and academic learning for all students attending Ruth Asawa San Francisco School of the Arts, San Francisco's only public arts high school. Activities include:

- Box office management for performances, events, and exhibitions
- Administration of the Artists-in-Residence program
- Fiscal sponsorship for arts department accounts
- Community outreach

The Foundation's major sources of revenue are donations, grants, activity fees, and ticket sales.

Basis of Presentation - Resources are classified for accounting and reporting purposes into three classes of net assets, according to externally imposed restrictions:

Unrestricted net assets - Net assets that are not subject to any donor-imposed restrictions. This class also includes restricted gifts whose donor-imposed restrictions were met during the fiscal year.

Temporarily restricted net assets - Net assets resulting (a) from contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations, (b) from other asset enhancements and diminishments that are subject to the same kind of stipulations, and (c) from reclassification from (or to) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the Foundation pursuant to those stipulations.

Permanently restricted net assets - Net assets resulting (a) from contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation, (b) from other asset enhancements and diminishments that are subject to the same kinds of stipulations, and c) from reclassification from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

There were no temporarily or permanently restricted net assets as of June 30, 2017.

Method of Accounting - The financial statements of the Foundation are prepared using the accrual basis of accounting, which reflects revenue when earned and expenses as incurred.

Cash and Cash Equivalents - Cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity that the risk of changes in value due to changes in interest rates is negligible. These are generally investments with maturity dates within three months of the acquisition date.

FRIENDS OF SCHOOL OF THE ARTS FOUNDATION
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable - It is the practice of the Foundation to expense uncollectibles only after exhausting all efforts to collect the amounts due. There is no allowance for doubtful accounts and management believe all amounts will be collected in full.

Contributions - Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Furniture and Equipment - The Foundation does not capitalize and depreciate any fixed assets at this time.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes - The Foundation is exempt from federal and state taxes under Section 501(c)(3) of the Internal Revenue Service Code and Section 23701d of the California Revenue and Taxation Code, and is considered by the IRS to be an organization other than a private foundation. In the opinion of management, there is no unrelated business income.

Fiscal Sponsorship Funds - The Foundation acts as fiscal sponsor to assist others in awarding scholarships or covering other program costs. These funds belong to the sponsee and are shown as a liability to FoSOTA until distributed in accordance with the sponsee's instructions. As of June 30, 2017, FoSOTA held \$33,370 in fiscal sponsorship funds.

ASC 740-10, Accounting for Uncertainty in Income Taxes - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Foundation to report information regarding its exposure to various tax positions taken by the Foundation. The Foundation has determined whether any tax positions have met the recognition threshold and have measured the Foundation's exposure to those tax positions. Management believes that the Foundation has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Foundation are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

FRIENDS OF SCHOOL OF THE ARTS FOUNDATION
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Standards, ASU 2014-09, Revenue from Contracts with Customers (Topic 606)- In May 2014, the FASB issued new revenue recognition guidance, which applies to most contracts with customers. The core revenue recognition principle is that revenue should be recognized as the organization transfers goods or services to customers/clients in an amount reflecting the consideration it expects to receive. This new guidance is effective for the Foundation for annual reporting periods beginning after December 15, 2017. In the opinion of management, the implementation of this standard will not materially impact these financial statements.

Accounting Standards, ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)- In August 2016, the FASB issued new financial statement presentation guidance, which applies to most nonprofit financial statements. The new guidance will impact net asset classes, the presentation of investment return, and other changes, and is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The new standard is not expected to have a material impact on the Foundation's financial position, results of operations, or cash flows.

Accounting Standards, ASU No. 2013-06, Not-for-Profit (Topic 958); Services Received from Personnel of an Affiliate: For fiscal years beginning after June 15, 2014, nonprofit organizations must recognize all services received from personnel of an affiliate if the recipient nonprofit organization directly benefits from those services, and for which the affiliate does not charge the recipient organization. Under the Standard, applicable services are measured at the cost recognized by the affiliate for the personnel providing those services, unless measurement at cost will significantly overstate or understate the value of services received. In the opinion of management, the implementation of this new Standard did not materially impact these financial statements.

Accounting Standards, ASU 2016-02, Leases - In February 2016, the FASB issued amendments to the way lessees record lease transactions. Upon implementation, lessees will be required to recognize at commencement the right-of-use asset and a lease liability representing the lessee's obligation to make lease payments arising from the lease, as discounted, for all leases except short-term leases. This Standard is effective for annual financial statements issued for fiscal years beginning after December 15, 2019, and early adoption is permitted. Management is currently evaluating the impact the amendments to this ASU will have on the financial statements of the Foundation.

Accounting Standards Update, ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash - In response to divergence in the way restricted cash is classified and presented in financial statements, FASB issued an amendment requiring that a statement of cash flows explain the change during a reporting period of the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. The amendment is effective for fiscal years beginning after December 31, 2018. The new standard is expected to have an impact on the Foundation's statement of cash flows.

Subsequent Events - Subsequent events have been evaluated through May 7, 2018, which is the date the financial statements were available to be issued.

FRIENDS OF SCHOOL OF THE ARTS FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 2 IN-KIND FACILITIES

The Foundation receives the benefit of in-kind services that either (a) create or enhance a nonfinancial asset or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased by the organization if they had not been provided by contribution. Services requiring specialized skills are provided by accountants, architects, carpenters, doctors, electricians, lawyers, nurses, plumbers, teachers, and other professionals and craftspeople.

The following are the major categories of in-kind contributions measured at fair value using the market approach on a non-recurring basis during the year ended June 30, 2017, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

<u>Description</u>	Fair Value Measurements Using			<u>Total</u>
	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Facilities use, Ruth Asawa San Francisco School of the Arts	\$ -	\$ 54,551	\$ -	\$ 54,551

NOTE 3 RELATED PARTY TRANSACTIONS

During the year ended June 30, 2017, the Foundation made the following payments to related parties:

- The Executive Director is also a voting member of the board of directors. The member received \$78,000 in compensation for Executive Director services during the year ended June 30, 2017.
- A member of the board of directors also serves as an artist-in-residence (AIR), providing instructions to students. The member's compensation for AIR services was \$20,100 during the year ended June 30, 2017.
- Another member of the board of directors also serves as an artist-in-residence, providing instruction to students. The member's compensation was \$14,180 for AIR services during the year ended June 30, 2017.

FRIENDS OF SCHOOL OF THE ARTS FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

NOTE 4 RISKS, UNCERTAINTIES AND CONCENTRATIONS

The Foundation relies on a significant amount of funding received in the form of donations and grants from individuals and foundations to support its operations. The current global financial markets may have an impact on the level of funding provided by these funding sources. While it is impracticable to determine the impact of these events, management is taking steps to address potential changes in funding levels and reduce the Foundation's exposure to impact from these events.

As of June 30, 2017, the Foundation had exceeded the Federal Depository Insurance Corporation cash limit of \$250,000 on its depository accounts. At June 30, 2017, the Foundation had approximately \$113,000 on deposit in excess of federally insured limits.

NOTE 5 SUBSEQUENT EVENTS

Effective January 23, 2018, the Board of Directors voted to change the name of the organization to the "Friends of Ruth Asawa San Francisco School of the Arts".