

**SPARK\* SF PUBLIC SCHOOLS**

**FINANCIAL STATEMENTS**

**JUNE 30, 2018 AND 2017**

**SPARK\* SF PUBLIC SCHOOLS**  
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## Independent Auditors' Report

To the Board of Directors  
SPARK\* SF PUBLIC SCHOOLS

We have audited the accompanying financial statements of Spark\* SF Public Schools (the "Organization") which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 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.

TO THE BOARD OF DIRECTORS  
SPARK\* SF PUBLIC SCHOOLS

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script, appearing to read "S. W.", is positioned above the typed text.

San Francisco, California  
January 14, 2019

**SPARK\* SF PUBLIC SCHOOLS**  
**Statements of Financial Position**

	June 30,	
	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,464,348	\$ 434,262
Pledges receivable	3,510,568	147,696
Other receivable	994,196	5,485
Prepaid expenses	2,866	138,077
	<u>9,971,978</u>	<u>725,520</u>
Total current assets		
Total assets	<u>\$ 9,971,978</u>	<u>\$ 725,520</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 29,907	\$ -
Grants payable	8,500,000	55,012
Due to related party, net	1,063,651	15,960
Deferred revenue	-	73,846
	<u>9,593,558</u>	<u>144,818</u>
Total current liabilities		
NET ASSETS		
Unrestricted	246,114	169,640
Temporarily restricted	132,306	411,062
	<u>378,420</u>	<u>580,702</u>
Total net assets		
Total liabilities and net assets	<u>\$ 9,971,978</u>	<u>\$ 725,520</u>

See Notes to Financial Statements

**SPARK\* SF PUBLIC SCHOOLS**  
**Statements of Activities**  
**For the Years Ended June 30, 2018 and 2017**

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUE AND SUPPORT</b>						
Grants	\$ -	\$ 17,016,935	\$ 17,016,935	\$ -	\$ 7,712,663	\$ 7,712,663
Donations	-	37,026	37,026	-	100,145	100,145
Administrative fees revenue	47,497	-	47,497	77,044	-	77,044
Total public support	47,497	17,053,961	17,101,458	77,044	7,812,808	7,889,852
Special events revenue, net:						
Sponsorships and participants	336,765	-	336,765	-	-	-
Less: direct benefit costs	(70,583)	-	(70,583)	-	-	-
Total special events revenue, net	266,182	-	266,182	-	-	-
Net assets released from donor restrictions	17,332,717	(17,332,717)	-	9,840,413	(9,840,413)	-
Total revenue, gains, and other support	17,646,396	(278,756)	17,367,640	9,917,457	(2,027,605)	7,889,852
<b>EXPENSES</b>						
Program services:						
Grants distribution	17,382,188	-	17,382,188	9,945,357	-	9,945,357
Supporting services:						
Management and general	133,610	-	133,610	39,972	-	39,972
Fundraising	54,124	-	54,124	3,109	-	3,109
Total expenses	17,569,922	-	17,569,922	9,988,438	-	9,988,438
CHANGE IN NET ASSETS	76,474	(278,756)	(202,282)	(70,981)	(2,027,605)	(2,098,586)
NET ASSETS, BEGINNING OF YEAR	169,640	411,062	580,702	240,621	2,438,667	2,679,288
NET ASSETS, END OF YEAR	\$ 246,114	\$ 132,306	\$ 378,420	\$ 169,640	\$ 411,062	\$ 580,702

See Notes to Financial Statements

**SPARK\* SF PUBLIC SCHOOLS**  
**Statements of Cash Flows**

	For the Years Ended June 30,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (202,282)	\$ 2,098,586
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Changes in operating assets and liabilities:		
(Increase) decrease in prepaid expenses	135,211	(135,211)
Increase in accounts receivable	(988,711)	(5,485)
(Increase) decrease in pledges receivable	(3,362,872)	1,022,689
Increase (decrease) in accounts payable	29,907	(1,600)
Increase (decrease) in due to related party	1,047,691	(592,150)
Increase in grants payable	8,444,988	55,012
Increase (decrease) in deferred revenue	(73,846)	73,846
Net cash provided by (used in) operating activities	<u>5,030,086</u>	<u>(1,681,485)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	5,030,086	(1,681,485)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>434,262</u>	<u>2,115,747</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 5,464,348</u></u>	<u><u>\$ 434,262</u></u>

See Notes to Financial Statements

**SPARK\* SF PUBLIC SCHOOLS**  
**Statements of Functional Expenses**  
**For the Years Ended June 30, 2018 and 2017**

	2018				2017			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Grants distribution	\$ 17,382,188	\$ -	\$ -	\$ 17,382,188	\$ 9,945,357	\$ -	\$ -	\$ 9,945,357
Administrative services	-	30,000	-	30,000	-	30,000	-	30,000
Insurance	-	6,705	-	6,705	-	6,254	-	6,254
Advertising & marketing	-	-	17,434	17,434	-	-	3,109	3,109
Board development	-	3,310	-	3,310	-	1,693	-	1,693
Consultants	-	91,001	30,000	121,001	-	-	-	-
Miscellaneous	-	2,594	6,690	9,284	-	2,025	-	2,025
<b>Total</b>	<b>\$ 17,382,188</b>	<b>\$ 133,610</b>	<b>\$ 54,124</b>	<b>\$ 17,569,922</b>	<b>\$ 9,945,357</b>	<b>\$ 39,972</b>	<b>\$ 3,109</b>	<b>\$ 9,988,438</b>
% of total expenses	98.93%	0.76%	0.31%	100.00%	99.57%	0.40%	0.03%	100.00%

See Notes to Financial Statements



## SPARK\* SF PUBLIC SCHOOLS

### Notes to Financial Statements

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#### 1. ORGANIZATION

Spark\* SF Public Schools (the "Organization") was incorporated on January 2, 2015, as a nonprofit corporation and operates exclusively for public and charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code ("IRC"). The Organization is dedicated to supporting and augmenting the fundraising activities that benefit the San Francisco Unified School District ("SFUSD") in San Francisco, California. The Organization's mission is to identify, cultivate and engage existing and potential strategic private investors that want to partner with SFUSD to strengthen the outcome of student achievement by aligning themselves with SFUSD's strategic goals.

The Organization facilitates private sector grants to finance programs aimed at improving student achievement within the SFUSD. The Organization provides funding for programs throughout the City's public schools.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

##### ***Basis of Accounting:***

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

##### ***Basis of Presentation:***

The Organization's financial statements are presented on the basis of unrestricted and temporarily restricted net assets.

*Unrestricted net assets* represent unrestricted resources available to support the Organization's operations and temporarily restricted resources which became available for use by the Organization in accordance with the intentions of donors.

*Temporarily restricted net assets* represent contributions that are limited in use by the Organization in accordance with temporary donor-imposed stipulations. These stipulations may expire with time or may be satisfied and removed by the actions of the Organization according to the terms of the contribution. Upon satisfaction of such stipulations, the associated net assets are released from temporarily restricted net assets and recognized as unrestricted net assets. If a restriction is fulfilled in the same fiscal year in which the contribution is received, the Organization classifies the support as unrestricted.

*Permanently restricted net assets* represent contributions to be held as investments in perpetuity as directed by the original donor. The Organization has no permanently restricted net assets.

**SPARK\* SF PUBLIC SCHOOLS**  
**Notes to Financial Statements**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Use of Estimates:***

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

***Cash and Cash Equivalents:***

For purposes of the statements of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

***Revenue Recognition:***

**Contributions**

Contributions are recognized as revenue when they are received or unconditionally promised. Other income is recognized as revenue when it is earned. Special event revenue is recognized when the event is held. Contributions received are recorded as increases in unrestricted, temporarily restricted net assets, depending on the existence or nature of any donor restrictions. The Organization has no permanently restricted net assets.

Generally, all donor-restricted contributions are reported as increases in temporarily restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**Fiscal agency and fiscal sponsorship**

Certain contributions are received by the Organization as a fiscal agent. A fiscal agent is an entity that accepts assets from a donor and agrees to use those assets on behalf of or transfer those assets to a specified beneficiary. The Organization recognizes a liability payable to the specified beneficiary concurrent with its recognition of cash or other financial assets received from the donor. The liability is relieved upon transfer of assets or use on behalf of the donor. No contribution revenue or grant expense is recognized for these transactions.

For the years ended June 30, 2018 and 2017, the Organization received fiscal agency contributions totaling \$1,470,366 and \$25,000, respectively. These funds were paid to SFUSD, the specified beneficiary, during the fiscal years 2019 and 2018, respectively. Remaining payables totaling \$1,036,585 and \$25,000 are included in the due to related party account in the statements of financial position.

**SPARK\* SF PUBLIC SCHOOLS**  
**Notes to Financial Statements**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Revenue Recognition:*** (continued)

The Organization is considered a fiscal sponsor when it is explicitly granted a variance power, meaning that it has the ability to use the assets received to further its own purpose from the date it accepts the assets. When sponsor grants are awarded, the Organization recognizes contribution revenue unless the transfer is revocable, repayable, or reciprocal.

***Administrative fees revenue***

The Organization collects an administrative fee up to 4.32% on certain grants received to cover the Organization's administrative overhead costs. Administrative fees earned for the years ended June 30, 2018 and 2017 amounted to \$47,497 and \$77,044, respectively.

***Special Events:***

Gross receipts from sponsorships and participants are offset by the associated direct benefit costs to obtain the net revenues raised by special fundraising events. The remaining costs of the special events are shown as fundraising events expenses when the events occur. There were no events held during the year ended June 30, 2017. There was one event held during the year ended June 30, 2018. Deferred revenues amounting to \$73,846 were recognized as of the year ended June 30, 2017 related to contributions and sponsorships received during the year for an event held during fiscal year 2018.

***Pledges Receivable:***

The Organization's support comes primarily from individual contributions, foundation grants, and corporations. The Organization uses the allowance method to determine uncollectible pledges receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. As of June 30, 2018 and 2017, there were no allowances provided.

***Functional Allocation of Expenses:***

The costs of providing the various programs, fundraising and other activities have been summarized on a functional basis in the statements of functional expenses.

Percentage of total expenses in the statements of functional expenses was calculated by dividing program services, management and general, and fundraising expenses by the total expenses for the period.

**SPARK\* SF PUBLIC SCHOOLS**  
**Notes to Financial Statements**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Income Taxes:***

The Organization is exempt from federal income taxes under the provisions of IRC Section 501 (c)(3) and similar state provisions, except on net income derived from unrelated business activities. The Organization files United States federal and California tax returns.

U.S. GAAP requires the Organization to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the applicable tax authority. The Organization has reviewed its tax positions for all open tax years and believes that it has appropriate support for the tax positions taken. Therefore, no liability has been recorded.

***Grants:***

Grants are recorded as expenses when they are approved by the Organization's board of directors for payment. Grants scheduled for payment in more than one year are discounted to the expected value of future payments. As of June 30, 2018 and 2017, grants payable amounted to \$0 and \$55,012, respectively.

***Recent Accounting Pronouncements:***

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 (Topic 606), *Revenue from Contracts with Customers* ("ASU 2014-09") to remove inconsistencies and weaknesses in revenue requirements, provide a more robust framework for addressing revenue issues, and improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. The pronouncement is also intended to provide more useful information to users of financial statements through improved disclosure requirements and simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. The amendment in this ASU provides guidance on the revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The core principle of this update provides guidance to identify the performance obligations under the contract(s) with a customer and how to allocate the transaction price to the performance obligations in the contract. It further provides guidance to recognize revenue when (or as) the entity satisfies a performance obligation. This Topic will replace most existing revenue recognition guidance.

## SPARK\* SF PUBLIC SCHOOLS

### Notes to Financial Statements

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#### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### ***Recent Accounting Pronouncements:*** (continued)

Since the issuance of ASU 2014-09, the FASB has issued several amendments which clarify certain points, including ASU 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, ASU 2016-10, *Identifying Performance Obligations and Licensing*, ASU 2016-11, *Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting*, ASU 2016-12, *Narrow-Scope Improvements and Practical Expedients*, and ASU No. 2016-20, *Technical Corrections and Improvements to Topic 606*. Topic 606 allows two methods of adoption: (1) retrospectively to each prior period presented ("full retrospective method"), or (2) retrospectively with the cumulative effect recognized in retained earnings as of the date of adoption ("modified retrospective method"). Topic 606 is effective for the Organization's year ending June 30, 2020 with early adoption permitted. The Organization is currently evaluating the method of adoption and the effect Topic 606 will have on its financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). The update requires timelier recording of credit losses on loans and other financial instruments held. Instead of reserves based on a current probability analysis, the update requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. All organizations will now use forward-looking information to better inform their credit loss estimates. The update requires enhanced disclosures regarding significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. In addition, the update amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 is effective for the Organization's year ending June 30, 2022, with early adoption permitted. Management is currently assessing the impact that this update will have on the Organization's financial statements.

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)* ("ASU 2016-14"). The amendments in ASU 2016-14 require not-for-profit entities to present on the face of the statement of financial position amounts for two classes of net assets: net assets with donor restrictions and net assets without donor restrictions. The update requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in net asset classes, investment return, expenses, liquidity and availability of resources, and presentation of operating cash flows.

**SPARK\* SF PUBLIC SCHOOLS**  
**Notes to Financial Statements**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Recent Accounting Pronouncements:*** (continued)

ASU 2016-14 will also require entities to disclose, among other things, amounts of expenses by both their natural classification and their functional classification and the method(s) used to allocate costs among program and support functions. The update also requires entities to report investment return net of external and direct internal investment expenses but no longer requires disclosure of those netted expenses. ASU 2016-14 is effective for the Organization's year ending year ending June 30, 2019, with early adoption permitted. The Organization is currently evaluating the effects of ASU 2016-14 on its financial statements and disclosures.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958) ("ASU-2018-08"). These amendments clarify and improve the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. ASU 2018-08 is effective for the Organization's year ending June 30, 2020, with early adoption permitted. The Organization is currently evaluating the impact that ASU No. 2018-08 may have on its financial position or results of operations.

**3. CONCENTRATIONS OF CREDIT RISK**

The Organization maintains its cash in accounts at financial institutions which, at times, may exceed federally insured limits. The deposits at financial institutions bear the credit risk associated with institutions. The Organization has not experienced any losses in such accounts, and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

The majority of the Organization's contributions are received from individuals and corporations located in San Francisco, California, and the surrounding communities. As such, the Organization's ability to generate resources via contributions is dependent upon the economic health of that area. An economic downturn could cause a decrease in contribution revenues and related grant expenses.

**SPARK\* SF PUBLIC SCHOOLS**  
**Notes to Financial Statements**

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**4. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are expendable for purposes designated by the donors which is primarily to support projects benefiting the interest and welfare of SFUSD, and to carry on other educational and charitable activities. On occasion, the board of directors will designate certain unrestricted funds towards certain projects for the same purpose. As of June 30, 2018 and 2017, the board-designated funds were fully released.

**5. RELATED PARTY TRANSACTIONS**

The Organization awarded grants to SFUSD amounting to \$17,382,188 and \$9,945,357 for the years ended June 30, 2018 and 2017, respectively. Grants payable to SFUSD as of June 30, 2018 and 2017 totaled \$8,500,000 and \$55,012, respectively.

The Organization entered into a Master Operating Agreement with SFUSD in June 2015. Under this agreement, the Organization will pay SFUSD a fee in exchange for certain administrative services. As of June 30, 2018 and 2017, the Organization incurred \$30,000 each year for the administrative services. During the year ended June 30, 2017, the Organization paid SFUSD \$60,000 and a one-time reimbursement of \$3,110 for costs associated with the establishment of the Organization.

Due to related party (net) reported in the statements of financial position includes contributions received by the Organization as the fiscal agent which has not been released to SFUSD, and other amounts owed to SFUSD payable as of the years ended June 30, 2018 and 2017.

**6. SUBSEQUENT EVENTS**

Management has reviewed subsequent events and transactions that occurred after the statement of financial position dates through January 14, 2019, the date the financial statements were available to be issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with U.S. GAAP. Management has determined that there are no unrecognized subsequent events that require additional disclosure.