

NEW SCHOOLS FUND DBA
NEWSCHOOLS VENTURE FUND

AUGUST 31, 2008

INDEPENDENT AUDITORS' REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

**New Schools Fund dba
NewSchools Venture Fund**

**Independent Auditors' Report and
Consolidated Financial Statements**

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Independent Auditors' Report

THE BOARD OF DIRECTORS
NEW SCHOOLS FUND dba
NEWSCHOOLS VENTURE FUND
San Francisco, California

We have audited the accompanying consolidated statement of financial position of the **NEW SCHOOLS FUND dba NEWSCHOOLS VENTURE FUND (the Fund)** as of August 31, 2008, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Fund's 2007 financial statements whose report dated June 24, 2008 expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of New Schools Fund dba NewSchools Venture Fund as of August 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Hood & Strong LLP

July 14, 2009

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**New Schools Fund dba
NewSchools Venture Fund**

Consolidated Statement of Financial Position

<i>August 31,</i>	2008	2007
Assets		
Current Assets:		
Cash and cash equivalents	\$ 5,193,868	\$ 8,177,363
Assets of support organization	551,523	531,936
Contributions receivable	15,140,711	19,975,033
Investments	21,758,089	5,935,432
Other current assets	79,171	8,285
Total current assets	42,723,362	34,628,049
Property and Equipment, net	281,445	110,818
Contributions Receivable, noncurrent portion, net	7,066,983	15,080,400
Investments, noncurrent portion		3,428,909
Program Related Investments	1,475,380	1,180,548
Other Assets	14,213	14,213
Total assets	\$ 51,561,383	\$ 54,442,937
Liabilities and Net Assets		
Liabilities:		
Current Liabilities:		
Accounts payable	\$ 389,431	\$ 210,534
Agency funds payable	261,856	15,991
Grants payable		600,000
Accrued compensation	536,127	430,933
Total current liabilities	1,187,414	1,257,458
Net Assets:		
Unrestricted	3,258,453	2,391,931
Temporarily restricted	47,115,516	50,793,548
Total net assets	50,373,969	53,185,479
Total liabilities and net assets	\$ 51,561,383	\$ 54,442,937

**New Schools Fund dba
NewSchools Venture Fund**

Consolidated Statement of Activities

Year Ended August 31, 2008 (with summarized information for 2007)

	2008			2007 Total
	Unrestricted	Temporarily Restricted	Total	
Revenue, Gains, and Other Support:				
Contributions	\$ 3,189,644	\$ 12,532,034	\$ 15,721,678	\$ 42,103,581
Government grants				907,601
Bad debt loss		(100,000)	(100,000)	
Interest income	278,530	470,552	749,082	756,643
Other income	262,010		262,010	86,251
Net assets released from restrictions	16,580,618	(16,580,618)		
Total revenue gains and other support	20,310,802	(3,678,032)	16,632,770	43,854,076
Expenses:				
Grants	12,493,436		12,493,436	13,730,494
Program services	5,707,684		5,707,684	4,256,639
Supporting services	1,243,160		1,243,160	1,404,357
Total expenses	19,444,280		19,444,280	19,391,490
Increase (Decrease) in Net Assets	866,522	(3,678,032)	(2,811,510)	24,462,586
Net Assets - beginning of year	2,391,931	50,793,548	53,185,479	28,722,893
Net Assets - end of year	\$ 3,258,453	\$ 47,115,516	\$ 50,373,969	\$ 53,185,479

**New Schools Fund dba
NewSchools Venture Fund**

Consolidated Statement of Cash Flows

<i>Years Ended August 31,</i>	2008	2007
Cash Flows from Operating Activities:		
(Decrease) increase in net assets	\$ (2,811,510)	\$ 24,462,586
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	96,097	85,287
Net realized and unrealized loss on investments	13,609	6,261
Conversion of program related investment to grant expense		500,000
Changes in operating assets and liabilities:		
Contribution receivable	12,847,739	(21,761,129)
Interest in net assets of support organization	(19,587)	(26,372)
Other current assets	(70,886)	22
Other assets		(2,846)
Accounts payable	143,697	159,556
Agency funds payable	245,865	15,991
Grants payable	(600,000)	600,000
Accrued compensation	105,194	39,123
Net cash provided by operating activities	9,950,218	4,078,479
Cash Flows from Investing Activities:		
Purchases of property and equipment	(231,524)	(85,167)
Purchases of investments	(30,499,756)	(9,613,286)
Proceeds from sale/maturity of investments	18,092,399	5,049,936
Proceeds from collection on note receivable - program related investments	130,169	
Purchases of program related investments	(425,001)	(200,001)
Net cash used by investing activities	(12,933,713)	(4,848,518)
Net Decrease in Cash and Equivalents	(2,983,495)	(770,039)
Cash and Equivalents, Beginning of year	8,177,363	8,947,402
Cash and Equivalents, End of year	\$ 5,193,868	\$ 8,177,363

New Schools Fund dba NewSchools Venture Fund

Notes to Consolidated Financial Statements

Note 1 - Organization and Nature of Operations:

New Schools Fund dba NewSchools Venture Fund (NewSchools) was founded in 1998 under the laws of the State of California. NewSchools' mission is to improve public education by identifying and supporting the most promising education ventures in the country and by creating a nationwide network of education entrepreneurs, educators, leaders and others committed to improving schools. In furtherance of these goals, the Fund makes grants and loans to nonprofit entities engaged in improving public education and makes investments in for-profit businesses engaged in improving public education. NewSchools also provides technical assistance to both nonprofit entities and for-profit enterprises, working to improve public education. NewSchools is supported through donor contributions.

NewSchools Fund Supporting Organization, Inc. (Support Organization) was established to support the operation of NewSchools exclusively. The members of the Board of the Support Organization are the members of the Executive Committee of the Board of Directors of NewSchools. The Support Organization has been consolidated with the financial statements of NewSchools.

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting and reflect the consolidated financial statements of NewSchools and the Support Organization (collectively, the "Fund"). All material intercompany transactions and balances have been eliminated. The financial statements are reported according to the existence or absence of donor-imposed restrictions. Accordingly, balances and transactions are reported in the following classes of net assets:

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Fund.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Fund and/or the passage of time. When a donor-stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. At August 31, 2008 temporarily restricted net assets, including contributions receivable, were restricted for program purposes.

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

New Schools Fund dba NewSchools Venture Fund

Notes to Consolidated Financial Statements

Revenues are reported as increases in unrestricted net assets unless use of related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations or temporary restrictions in net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

b. Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue over the payment period.

All contributions are considered to be available for the general programs of the Fund unless specifically restricted by the donor. The Fund reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of donated assets. Donor-restricted contributions are recorded in the temporarily restricted net asset class and then reclassified to the unrestricted class as the restrictions are met.

c. Contributed Services

The Fund records revenue for voluntary donations of services when those services create or enhance nonfinancial assets or require specialized skills provided by individuals possessing those skills and which would be typically purchased if not provided by donation. During the period ended August 31, 2008, there were no contributed services meeting the requirements for recognition in the financial statements.

d. Grants

Unconditional grants made by the Fund are accrued as expenses and are recognized in the year in which they are approved by the Board of Directors. Conditional grants are not recorded until the conditions are substantially met.

e. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, money market accounts and investments with an original maturity of ninety days or less except those designated for investment purposes.

**New Schools Fund dba
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Notes to Consolidated Financial Statements

f. Assets of Support Organization

Contributions to the Support Organization are recognized as revenue of the Fund. The portion not yet received by the Fund are recorded under interest in net assets of support organization in the Statement of Financial Position. The assets are invested in money market funds.

g. Valuation of Investments and Related Investment Income

Investments in marketable securities are reported at fair value, with current period recognition of increases or decreases in fair value. Debt and equity securities listed on a stock exchange are valued at the last reported sales price. Debt and equity securities traded on the over-the-counter market are valued at the last reported bid price. Investments classified as non marketable equity securities are reported at historical cost, unless it can be reasonably be expected that the organization will suffer a loss on the disposition of an investment, in which case a provision for the loss is made in the period in which the decline in value occurs.

h. Property and Equipment

Property and equipment are stated at cost or fair value if donated, less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets equal to three years. Renewals and betterments that amend the economic useful lives of the related assets are capitalized. Other expenditures for repairs and maintenance are charged to expense as incurred.

i. Fundraising

The Fund is supported by government grants and contributions from private foundations and individuals whose interests are focused on improving public education. The Fund expended approximately \$348,176 on efforts to raise contributions in the fiscal year ended August 31, 2008.

j. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**New Schools Fund dba
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Notes to Consolidated Financial Statements

k. Tax-Exempt Status

The Fund has been granted tax-exempt status by the Internal Revenue Service under Internal Revenue Code (IRC) Section 501(c)(3) and California Revenue and Tax codes and accordingly, is exempt from income taxes on related business income. Contributions to the Fund are deductible for income tax purposes under IRC Section 170(b)(1)(A).

l. Comparative Totals

The financial statements include certain prior-year summarized information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the fund's financial statements for the year ended August 31, 2007, from which summarized information was derived.

m. Recent Accounting Pronouncements

Fair Value Measurements - In September 2006, the FASB issued FAS No. 157, "Fair Value Measurements," which defines fair value, establishes a market-based framework or hierarchy for measuring fair value, and expands disclosures about fair value measurements. FAS 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. FAS 157 does not expand or require any new fair value measures and is effective for fiscal periods beginning after November 15, 2007. The Fund is currently evaluating what effect, if any, the adoption of FAS No. 157 will have on the Fund's financial statements.

In February 2007, FASB issued FAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FASB Statement No. 115", (effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The Fund is currently evaluating what effect, if any, the adoption of SFAS No. 159 will have on the Fund's financial statements.

Accounting for Uncertainty in Income Taxes - In June 2006, the FASB issued FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes" – an interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and provides guidance on the recognition, de-recognition and measurement of benefits related to an entity's uncertain tax position. This guidance will apply to fiscal years beginning after December 15, 2008. The Fund has deferred adoption of FIN 48 and is currently evaluating what effect, if any, the adoption of FIN 48 will have on the Fund's financial statements.

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Notes to Consolidated Financial Statements

Note 3 - Contributions Receivable:

Contributions receivable as of August 31, 2008 consists of the following:

Receivable due in less than one year	\$ 15,140,711
Receivable due in one to two years	7,267,190
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Total contributions receivable	22,407,901
Less: Amount representing discount at 1.67% - 1.81% for receivables due in one to three years	(200,207)
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Net contributions receivable	\$ 22,207,694

The Fund received conditional promises from one foundation amounting to \$1.2 million which have not been recorded at August 31, 2008. The grant will be awarded to the Fund based on the acceptability of the projects proposed by the Fund to the foundation.

Note 4 - Investments:

The fair value of investments at August 31, 2008 is as follows:

Corporate obligations	\$ 1,885,180
Federal Home Loan Bank obligations	15,634,965
Federal Farm Credit Bank obligations	3,939,684
Fannie Mae obligations	298,260
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	\$ 21,758,089

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Notes to Consolidated Financial Statements

Note 5 - Property and Equipment:

Property and equipment as of August 31, 2008 and 2007 are as follows:

	2008	2007
Computer equipment	\$ 167,536	\$ 150,281
Software	334,132	91,463
Printers	30,681	30,681
Furniture and fixtures	146,842	140,042
	<u>679,191</u>	<u>412,467</u>
Accumulated depreciation	(397,746)	(301,649)
	<u>\$ 281,445</u>	<u>\$ 110,818</u>

Note 6 - Program Related Investments:

The Fund has created a pool of capital used to make loans to nonprofits (predominantly, but not exclusively IRC Section 501(c)(3) organizations) engaged in working to improve public education; and to invest in for-profit businesses with a strong potential to improve public education. Certain loans may be converted to a grant if the nonprofit meets specific conditions in future periods. Program-related investment securities are considered non-marketable securities and are recorded at cost basis.

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Program related investments as of August 31, 2008 and 2007 were as follows:

	2008	2007
Note receivable from a foundation, bearing interest at 3%, due on December 31, 2008	\$ 619,831	\$ 750,000
Total notes receivable	619,831	750,000
Investment in educational enterprise, 454,545 shares of preferred stock and 45,455 shares of common stock	143,731	143,731
Investment in educational enterprise, 86,816 shares of preferred stock	86,816	86,816
Investment in educational enterprise, 135,473 shares of preferred stock	325,002	200,001
Investment in educational enterprise, 75,000 shares of preferred stock	300,000	
Total investment securities	855,999	430,548
Total program related investments	\$1,475,380	\$ 1,180,548

Note 7 - Grants Payable:

Grants of \$17,255,000 at August 31, 2008 are contingent upon grantees meeting specific conditions in the future and have not been recorded.

Note 8 - Lease Commitments:

The Fund leases offices under noncancelable operating lease agreements. Future minimum lease payments under these leases are:

2009	\$	214,793
2010		194,881
2011		200,883
2012		84,746
Total	\$	695,303

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Notes to Consolidated Financial Statements

Rental expense for all operating leases totaled \$229,658 for the fiscal year ended August 31, 2008.

Note 9 - Related Party Transactions:

During the year ended August 31, 2008, the Fund recognized total contribution revenue of \$3.1 million from two members of the Board of Directors of the Fund. During the year ended August 31, 2007, the Fund recognized total contribution revenue of \$2.2 million from four members of the Board of Directors of the Fund.

Note 10 - Concentrations of Risk:

The Fund has defined its financial instruments which are potentially subject to credit and market risk as cash and investments.

The Fund regularly held cash deposits in excess of federally insured limits.

The Fund received approximately \$9.4 million from one foundation and \$33.3 million in total from three foundations in contributions during the years ended August 31, 2008 and 2007, respectively, in addition to the contributions received from board members described above.

Note 11 - Retirement Plan:

In fiscal year 2005, the Fund adopted a 401(k) Plan. The plan allows for discretionary contributions by the Fund. In 2007 and 2008, the Fund matched one hundred percent of employee contributions up to 4% of each employee's eligible compensation. The Fund's contribution was \$96,602 and \$99,378 for the plan years ended August 31, 2008 and 2007, respectively.