Noah Ho
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NEW SCHOOLS FUND DBA NEWSCHOOLS VENTURE FUND

AUGUST 31, 2009

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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HOOD & STRONG LLP

CERTIFIED PUBLIC ACCOUNTANTS

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, 2009, 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 2008 financial statements whose report dated July 14, 2009 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, 2009, 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

May 18, 2010

Consultants and

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CELEBRATING 12345 67890 YEARS AND STILL COUNTING

New Schools Fund dba
NewSchools Venture Fund

Consolidated Statement of Financial Position

August 31,	2009	2008
Assets		
Current Assets:		
Cash and cash equivalents	$ 6,374,806	$ 5,193,868
Assets of support organization	454,825	551,523
Contributions receivable	15,902,270	15,140,711
Investments	23,609,918	21,758,089
Other current assets	41,785	79,171
Total current assets	46,383,604	42,723,362
Property and Equipment, net	277,218	281,445
Contributions Receivable, noncurrent portion, net	3,389,344	7,066,983
Program Related Investments	2,536,626	1,475,380
Other Assets	31,807	14,213
Total assets	$ 52,618,599	$ 51,561,383
Liabilities and Net Assets		
Liabilities:		
Current Liabilities:		
Accounts payable	$ 103,727	$ 389,431
Agency funds payable	130,273	261,856
Contract payable	1,000,000	
Grants payable	39,951	
Accrued compensation	559,101	536,127
Total current liabilities	1,833,052	1,187,414
Net Assets:		
Unrestricted	3,664,267	3,258,453
Temporarily restricted	47,121,280	47,115,516
Total net assets	50,785,547	50,373,969
Total liabilities and net assets	$ 52,618,599	$ 51,561,383

The accompanying notes are an integral part of this statement.

New Schools Fund dba
NewSchools Venture Fund

Consolidated Statement of Activities

Year Ended August 31, 2009 (with summarized information for 2008)

	2009			
	Unrestricted	Temporarily Restricted	Total	2008 Total
Revenue, Gains, and Other Support:				
Contributions	$ 4,184,446	$ 15,914,396	$ 20,098,842	$ 15,721,678
Bad debt loss				(100,000)
Net investment income	179,667	262,006	441,673	749,082
Net realized loss on program related investment	(74,662)		(74,662)	
Other income	123,374		123,374	262,010
Net assets released from restrictions	16,170,638	(16,170,638)		
Total revenue, gains and other support	20,583,463	5,764	20,589,227	16,632,770
Expenses:				
Grants	12,732,740		12,732,740	12,493,436
Program services	5,815,140		5,815,140	5,707,684
Supporting services	1,629,769		1,629,769	1,243,160
Total expenses	20,177,649		20,177,649	19,444,280
Increase (Decrease) in Net Assets	405,814	5,764	411,578	(2,811,510)
Net Assets - beginning of year	3,258,453	47,115,516	50,373,969	53,185,479
Net Assets - end of year	$ 3,664,267	$ 47,121,280	$ 50,785,547	$ 50,373,969

The accompanying notes are an integral part of this statement.

New Schools Fund dba
NewSchools Venture Fund

Consolidated Statement of Cash Flows

Years Ended August 31,	2009	2008
Cash Flows from Operating Activities:		
Increase (decrease) in net assets	$ 411,578	$ (2,811,510)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	140,962	96,097
Net realized and unrealized (gain) loss on investments	(55,116)	13,609
Net realized loss on program related investments	74,662	
Loss on sale of assets	389	
Changes in operating assets and liabilities:		
Contribution receivable	2,916,080	12,847,739
Interest in net assets of support organization	96,698	(19,587)
Other current assets	49,621	(70,886)
Other assets	(17,594)	
Accounts payable	(285,704)	143,697
Agency funds payable	(131,583)	245,865
Grants payable	39,951	(600,000)
Accrued compensation	22,974	105,194
Net cash provided by operating activities	3,262,918	9,950,218
Cash Flows from Investing Activities:		
Purchases of property and equipment	(138,124)	(231,524)
Purchases of investments	(32,704,106)	(30,499,756)
Purchases of program related investments	(245,688)	(425,001)
Proceeds from sale of assets	1,000	
Proceeds from sale/maturity of investments	30,907,312	18,092,399
Proceeds from collection on note receiveable - program related investments	97,626	130,169
Net cash used by investing activities	(2,081,980)	(12,933,713)
Net Increase (Decrease) in Cash and Cash Equivalents	1,180,938	(2,983,495)
Cash and Cash Equivalents, Beginning of year	5,193,868	8,177,363
Cash and Cash Equivalents, End of year	$ 6,374,806	$ 5,193,868

Supplemental Cash Flow Disclosure:

Noncash transactions:

Contract payable on program related investment $ 1,000,000

The accompanying notes are an integral part of this statement.

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, NewSchools 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, exclusively, the operation of NewSchools. The members of the Board of the Support Organization are the members of the Executive Committee of the Board of Directors of NewSchools. The financials of the Support Organization are consolidated with the financial statements of NewSchools presented herein.

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 the Fund satisfies a purpose restriction, the Fund reclassifies temporarily restricted net assets to unrestricted net assets and reports such in the statement of activities as net assets released from restrictions. At August 31, 2009 temporarily restricted net assets, including contributions receivable, were restricted for program purposes. Purpose restrictions include both project based and geographic restrictions. Certain donors require unexpended funds to be held in interest bearing accounts.

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

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. The Fund reports as reclassifications between the applicable classes of net assets expirations of temporary restrictions in net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed).

b. Contributions

The Fund recognizes contributions, including unconditional promises to give, as revenues in the period received. The Fund recognizes conditional promises only when they become unconditional—that is, when the Fund satisfies the conditions on which they depend. The Fund records contributions of assets other than cash at their estimated fair value. The Fund discounts non-current contributions receivable at an appropriate discount rate commensurate with the risks involved. The discounts on contributions receivable prior to September 1, 2008 are computed using risk free rates applicable as of the fiscal year end in which those promises were made ranging from 1.67% to 1.81%. The discounts on contributions receivable recorded after August 31, 2008 are computed using the risk adjusted rates of .62% to 1.98%. The Fund records the amortization of the discount as additional contribution revenue over the payment period.

The Fund considers all contributions to be available for the general programs of the Fund unless the donor stipulates specific restrictions. The Fund reports contributions of cash and other assets as restricted support if the donor makes such contributions with stipulations as to the specific use of donated assets. The Fund records donor-restricted contributions in the temporarily restricted net asset class and then reclassifies these to the unrestricted class as the Fund satisfies these restrictions.

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, 2009, 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.

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 Fund invests all assets of the Support Organization 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. Fair Value Measurements

Investments

The Fund reports investments in marketable securities at fair value, with current period recognition of increases or decreases in fair value. Effective September 1, 2008, the Fund adopted Statement No. 157, *Fair Value Measurements*, (SFAS 157) which provides a framework for measuring fair value under generally accepted accounting principles. SFAS 157 applies to all financial instruments that are being measured and reported on a fair value basis. SFAS 157 has been applied prospectively as of the beginning of the year.

SFAS 157 defines fair value as the price that one would receive by selling an asset or pay to transfer a liability in an orderly transaction among market participants at the measurement date. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

- *Level 1*—Inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date. Valuations are based on assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources (e.g., *Wall Street Journal*, *Financial Times*, or finance.yahoo.com) for market transactions involving identical assets or liabilities.
- *Level 2*—Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly. Valuations are based on assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.
- *Level 3*—Inputs are unobservable and are not corroborated by market data. Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Other Financial Instruments

Financial instruments, which are included in the Fund's Statement of Financial Position as of August 31, 2009 but not required to be measured at fair value on a recurring basis, consist of cash and cash equivalents, contributions receivable, assets of supporting organization and program related investments. Their carrying amounts represent a reasonable estimate of the corresponding fair values.

i. 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—in the range of three to five years. Renewals and betterments that amend the economic useful lives of the related assets are capitalized. The Fund expenses, as incurred, other expenditures for repairs and maintenance.

j. Fundraising

The Fund received support from contributions from private foundations and individuals whose interests are focused on improving public education. The Fund expended approximately $498,807 on efforts to raise contributions in the fiscal year ended August 31, 2009.

k. 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.

l. 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).

m. 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, 2008, from which summarized information was derived.

n. Subsequent Events

In May 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 165 "Subsequent Events" (SFAS No. 165). SFAS No. 165 is intended to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. SFAS No. 165 is effective for interim and annual periods ending after June 15, 2009. The Fund adopted the provisions of SFAS No. 165 effective as of the fiscal year ending August 31, 2009. Management has evaluated events and transactions through February 25, 2010, the date the financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor subsequent events have occurred, the nature of which would require disclosure.

o. New Accounting Pronouncements

FIN No. 48, Accounting for Uncertainty in Income Taxes: In June 2006, the Financial Accounting Standards Board ("FASB") issued Financial Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes" – an interpretation of FASB Statement No. 109. In December 2008, a FASB Staff Position deferred the effective date for exempt organizations, permitting adoption for years beginning after December 15, 2008. The Fund has elected to defer the application of FIN 48. The Fund presently recognizes income tax positions based on management's estimate of whether it is reasonably possible that a liability has been incurred. Management does not expect that the adoption of FIN 48 will have an effect on its financial statements.

SFAS No. 168, The FASB Accounting Standards Codification: The FASB has issued FASB Statement No. 168, The "FASB Accounting Standards Codification™" and the Hierarchy of Generally Accepted Accounting Principles. Statement 168 establishes the FASB Accounting Standards Codification™ (Codification) as the single source of authoritative U.S. generally accepted accounting principles (U.S. GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. Statement 168 and the Codification are effective for financial statements issued for interim and annual periods ending after September 15, 2009.

Note 3 - Contributions Receivable:

Contributions receivable as of August 31, 2009 consists of the following:

Receivable due in less than one year	$ 15,902,270
Receivable due in one to two years	2,872,295
Receivable due in two to three years	602,500
Total contributions receivable	19,377,065
Less: Amount representing discount for receivables due in one to three years	(85,451)
Net contributions receivable	$ 19,291,614

The Fund received conditional promises from one foundation amounting to $237,350 that it did not record at August 31, 2009. The grant will be awarded to the Fund based on the acceptability of the projects proposed by the Fund to the foundation.

Management has deemed all receivables to be fully collectible and therefore no allowance for doubtful accounts has been provided for.

Note 4 - Investments:

Investments as of August 31, 2009 and 2008 are as follows:

	2009	2008
Corporate obligations	$ 7,142,146	$ 1,885,180
Federal Home Loan Bank obligations	6,262,295	15,634,965
Federal Farm Credit Bank obligations	1,224,251	3,939,684
Fannie Mae and Freddie Mac obligations	4,462,222	298,260
Federal National Mortgage Association obligations	4,519,004	
	$ 23,609,918	$ 21,758,089

Investments represent all assets measured at fair value on a recurring basis at August 31, 2009. The Fund has determined that its investments are classified as level 2.

Note 5 - Property and Equipment:

Property and equipment as of August 31, 2009 and 2008 are as follows:

	2009	2008
Computer equipment	$ 145,649	$ 167,536
Software	400,827	334,132
Printers	30,681	30,681
Furniture and fixtures	158,041	146,842
	735,198	679,191
Accumulated depreciation	(457,980)	(397,746)
Property and equipment, net of depreciation	$ 277,218	$ 281,445

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 which are reported at historical cost.

Investments without readily determinable fair values are reported at historical cost, unless it can be reasonably be expected that the Fund 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.

Program related investments as of August 31, 2009 and 2008 were as follows:

	2009	2008
Note receivable from a foundation, bearing interest at 3%, due on December 31, 2010	$ 522,205	$ 619,831
Convertible note receivable from an educational enterprise, bearing interest at 1%, due on June 1, 2011	200,000	
Total notes receivable	722,205	619,831
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 at August 31, 2008		86,816
Investment in educational enterprise, 135,473 shares of preferred stock	325,002	325,002
Investment in educational enterprise, 80,711 shares of preferred stock at August 31, 2009	345,688	300,000
Total investment securities	814,421	855,549
Intellectual property intangible	1,000,000	
Total program related investments	$ 2,536,626	$ 1,475,380

The intangible is the result of the Fund entering into an agreement with an educational software firm and a charter management organization to develop a formative assessment tool in which the Fund retains partial intellectual property rights. The Fund is committed to a minimum of $1,000,000 and a maximum of $3,000,000 under this agreement during the fiscal years through August 31, 2011 based on initial phase results and a mutual decision among the parties to the agreement to move forward with the project.

Note 7 - Grants Payable:

Grants of $10,109,060 and program-related loans of $250,000 at August 31, 2009 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:

Year Ended August 31,		
2010	$	274,647
2011		282,819
2012		98,795
Total	$	656,261

Rental expense for all operating leases totaled $250,576 and $229,658 for the fiscal years ended August 31, 2009 and 2008, respectively.

Note 9 - Related Party Transactions:

During the year ended August 31, 2009, the Fund recognized total contribution revenue of $4.6 million from four members of the Board of Directors of the Fund. 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.

Note 10 - Concentrations of Risk:

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

During the year ended August 31, 2009, the Fund regularly held cash deposits in excess of federally insured limits.

The Fund received approximately $12.8 million from five foundations and $9.2 million from one foundation in contributions during the years ended August 31, 2009 and 2008, respectively, in addition to the contributions received from board members described above.

Note 11 - Retirement Plan:

The Fund adopted a 401(k) Plan which allows for the Fund to make discretionary contributions. In 2009, the Fund matched one hundred percent of employee contributions up to 4% of each employee's eligible compensation. The Fund's contribution was $121,959 and $96,602 for the plan years ended August 31, 2009 and 2008, respectively.