

NEW SCHOOLS FUND DBA  
NEWSCHOOLS VENTURE FUND

DECEMBER 31, 2011

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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 Organization)** as of December 31, 2011, and the related consolidated statements of activities and cash flows for the sixteen month period then ended. These financial statements are the responsibility of the Organization'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 Organization's 2010 financial statements whose report dated August 12, 2011 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 December 31, 2011, and the changes in its net assets and its cash flows for the sixteen month period then ended in conformity with accounting principles generally accepted in the United States of America.

*Hood & Strong LLP*

San Francisco, California  
December 12, 2012

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# New Schools Fund dba NewSchools Venture Fund

## Consolidated Statement of Financial Position

<i>December 31, 2011 (with comparative totals for August 31, 2010)</i>	2011	2010
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 9,846,134	\$ 7,996,151
Assets of support organization	434,645	434,783
Receivables:		
Contributions receivable	3,414,589	10,128,824
Investment in transit	1,513,244	-
Other receivable	754,744	-
Investments	24,876,230	26,720,285
Other current assets	-	16,521
Total current assets	40,839,586	45,296,564
<b>Property and Equipment, net</b>	124,020	197,523
<b>Contributions Receivable, noncurrent portion, net</b>	211,945	5,454,775
<b>Mission Related Investments</b>	6,378,590	4,964,000
<b>Other Assets</b>	90,038	31,807
Total assets	\$ 47,644,179	\$ 55,944,669
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 281,447	\$ 170,127
Agency funds payable	2,475	99,000
Contract payable	-	1,500,000
Grants payable	3,684,380	795,000
Accrued compensation	250,881	539,971
Total current liabilities	4,219,183	3,104,098
<b>Net Assets:</b>		
Unrestricted	10,319,963	9,052,528
Temporarily restricted	33,105,033	43,788,043
Total net assets	43,424,996	52,840,571
Total liabilities and net assets	\$ 47,644,179	\$ 55,944,669

The accompanying notes are an integral part of this statement.

# New Schools Fund dba NewSchools Venture Fund

## Consolidated Statement of Activities

*Sixteen Months Ended December 31, 2011 (with comparative totals for fiscal year ended August 31, 2010)*

	2011			2010 Total
	Unrestricted	Temporarily Restricted	Total	
<b>Revenue, Gains, and</b>				
<b>Other Support:</b>				
Contributions	\$ 7,319,927	\$ 19,611,538	\$ 26,931,465	\$ 23,061,820
Net investment income	67,065	24,669	91,734	86,959
Net Mission Related				
Investments income	599,461	410,350	1,009,811	14,283
Other income	225,378		225,378	198,853
Gifts in-kind	145,733		145,733	-
Net assets released from restrictions	30,729,567	(30,729,567)	-	-
Total revenue, gains and other support	39,087,131	(10,683,010)	28,404,121	23,361,915
<b>Expenses:</b>				
Program services:				
Investing:				
Grants	27,241,042		27,241,042	13,731,850
Venture building	5,455,461		5,455,461	3,653,002
	32,696,503		32,696,503	17,384,852
Field building	2,702,484		2,702,484	2,185,728
Total program services	35,398,987		35,398,987	19,570,580
Supporting services	2,420,709		2,420,709	1,736,311
Total expenses	37,819,696		37,819,696	21,306,891
<b>Increase (Decrease) in</b>				
Net Assets	1,267,435	(10,683,010)	(9,415,575)	2,055,024
Net Assets - beginning of year	9,052,528	43,788,043	52,840,571	50,785,547
Net Assets - end of year	\$ 10,319,963	\$ 33,105,033	\$ 43,424,996	\$ 52,840,571

The accompanying notes are an integral part of this statement.

# New Schools Fund dba NewSchools Venture Fund

## Consolidated Statement of Cash Flows

*Sixteen Months Ended December 31, 2011 (with comparative totals for fiscal year ended August 31, 2010)*

	2011	2010
<b>Cash Flows from Operating Activities:</b>		
(Decrease) increase in net assets	\$ (9,415,575)	\$ 2,055,024
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	154,806	164,428
Net realized and unrealized loss on investments	332,746	24,022
Net realized gain on Mission Related Investments	(578,851)	
Loss on disposal of assets	465	1,298
Conversion of a Mission Related Investment note receivable to grant expense	100,000	-
Changes in operating assets and liabilities:		
Contributions receivable	11,957,065	3,708,015
Investment in transit	(1,513,244)	-
Other receivable	(71,365)	-
Interest in net assets of support organization	138	20,042
Other assets	(2,507)	25,264
Accounts payable	111,320	66,400
Agency funds payable	(96,525)	(31,273)
Contract payable	(1,000,000)	(1,000,000)
Grants payable	2,889,380	755,049
Accrued compensation	(289,090)	(19,130)
<b>Net cash provided by operating activities</b>	<b>2,578,763</b>	<b>5,769,139</b>
<b>Cash Flows from Investing Activities:</b>		
Purchases of property and equipment	(81,768)	(86,031)
Purchases of investments	(64,876,768)	(49,421,306)
Purchases of Mission Related Investments	(2,226,503)	(1,025,000)
Proceeds from sale/maturity of investments	66,388,077	46,286,917
Proceeds from collection on note receivable - Mission Related Investments	68,182	97,626
<b>Net cash used by investing activities</b>	<b>(728,780)</b>	<b>(4,147,794)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>1,849,983</b>	<b>1,621,345</b>
<b>Cash and Cash Equivalents, Beginning of year</b>	<b>7,996,151</b>	<b>6,374,806</b>
<b>Cash and Cash Equivalents, End of year</b>	<b>\$ 9,846,134</b>	<b>\$ 7,996,151</b>
<b>Supplemental Cash Flow Disclosure:</b>		
Noncash transactions:		
Contract payable on Mission Related Investments	\$ -	\$ 1,500,000
Contract payable on Mission Related Investment adjustment	500,000	-
Proceeds from sale of Mission Related Investments receivable	722,582	-
Conversion of a Mission Related Investment note receivable to grant expense	100,000	-

The accompanying notes are an integral part of this statement.

# New Schools Fund dba NewSchools Venture Fund

## Notes to Consolidated Financial Statements

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### Note 1 - Organization and Nature of Operations:

NewSchools 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 creating a nationwide network of education entrepreneurs committed to closing the achievement gap. NewSchools provides grants and loans to not-for-profit entities as well as investments in and loans to some for-profit businesses that are improving public education. NewSchools also provides management assistance to those ventures and builds the field of education reform-oriented entrepreneurs by organizing events and knowledge-sharing opportunities. 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 Organization). 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 Organization.

*Temporarily Restricted Net Assets* - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time. When a donor-stipulated time restriction ends or the Organization satisfies a purpose restriction, the Organization reclassifies temporarily restricted net assets to unrestricted net assets and reports such in the statement of activities as net assets released from restrictions. At December 31, 2011, temporarily restricted net assets, including contributions receivable, were restricted for program and time purposes of approximately \$31,099,472 and \$2,005,561, respectively. Program 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.

# New Schools Fund dba NewSchools Venture Fund

## Notes to Consolidated Financial Statements

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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 Organization 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. Change in Fiscal Year

The Organization has changed its fiscal year from an August 31 year-end to a December 31 year-end. Consequently, the fiscal period reported in these Consolidated Financial Statements are for a sixteen month period, from September 1, 2010 to December 31, 2011. In 2012, the Organization will have a fiscal year of January 1 to December 31.

c. Contributions

The Organization recognizes contributions, including unconditional promises to give, as revenues in the period received. The Organization recognizes conditional promises only when they become unconditional, that is, when the Organization satisfies the conditions on which they depend. The Organization records contributions of assets other than cash at their estimated fair value. The Organization discounts non-current contributions receivable at an appropriate discount rate commensurate with the risks involved. The discounts on contributions receivable prior to September 1, 2009 are computed using the risk adjusted rate, .62%, applicable as of the fiscal year end in which those promises were made. The discounts on contributions receivable recorded after August 31, 2009 are computed using the prime rate of 3.25% as listed in the *Wall Street Journal*. The Organization records the amortization of the discount as additional contribution revenue over the payment period.

The Organization considers all contributions to be available for the general programs of the Organization unless the donor stipulates specific restrictions. The Organization 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 Organization records donor-restricted contributions in the temporarily restricted net asset class and then reclassifies these to the unrestricted class as the Organization satisfies these restrictions.

d. Contributed Services

The Organization 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 December 31, 2011, there were \$145,733 in contributed services meeting the requirements for recognition in the financial statements.



# New Schools Fund dba NewSchools Venture Fund

## Notes to Consolidated Financial Statements

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e. Grants

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

f. 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.

g. Assets of Support Organization

Contributions to the Support Organization are recognized as revenue of the Organization. The portion not yet received by the Organization is recorded in net assets of support organization in the Statement of Financial Position. The Organization invests all liquid assets of the Support Organization in money market funds.

h. 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 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.

i. Fair Value Measurements

The Organization carries certain assets and liabilities at fair value.

The fair value is defined 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. The Organization classifies its financial assets and liabilities using 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 Quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

# New Schools Fund dba NewSchools Venture Fund

## Notes to Consolidated Financial Statements

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Level 2 Observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly.

Level 3 Unobservable inputs for the asset or liability that are not corroborated by market data.

### *Other Financial Instruments*

Financial instruments, which are included in the Organization's Statement of Financial Position as of December 31, 2011 but not required to be measured at fair value on a recurring basis, consist of cash and cash equivalents, assets of supporting organization, contributions receivable, investment in transit receivable, other receivable, and program related investments. Their carrying amounts represent a reasonable estimate of the corresponding fair values.

#### j. 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 extend the economic useful lives of the related assets are capitalized. The Organization expenses, as incurred, other expenditures for repairs and maintenance.

#### k. Fundraising

The Organization receives support from contributions from private foundations and individuals whose interests are focused on improving public education. The Organization expended approximately \$1,090,101 on efforts to generate this support in the fiscal period ended December 31, 2011.

#### l. 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.

#### m. Tax-Exempt Status

The Organization 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 Organization are deductible for income tax purposes under IRC Section 170(b)(1)(A).

# New Schools Fund dba NewSchools Venture Fund

## Notes to Consolidated Financial Statements

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The Organization's current accounting policy is to evaluate uncertain tax positions. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. Management evaluated the Organization's tax positions and concluded that the Organization had maintained its tax exempt status and had taken no uncertain tax positions that require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements. The Organization is no longer subject to income tax examinations by Federal and State tax authorities for tax years before 2008 and 2007, respectively.

n. 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 Organization's financial statements for the year ended August 31, 2010, from which summarized information was derived.

o. Functional Expense Allocations

The costs of providing various programs and activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services based on management's estimates.

p. New Accounting Pronouncements

*Pronouncements effective in the future*

In May 2011, the FASB issued amendments to existing guidance for fair value measurements. The amendments change the wording used to describe many of the requirements for measuring fair value and for disclosing information about fair value measurements. These additional disclosures are required for the year ended December 31, 2012.

q. Subsequent Events

The Organization has evaluated subsequent events through December 12, 2012, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure, except as disclosed in Note 6 and Note 8.

# New Schools Fund dba NewSchools Venture Fund

## Notes to Consolidated Financial Statements

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### Note 3 - Contributions Receivable:

Contributions receivable as of December 31, 2011 consists of the following:

Receivables due in less than one year	\$ 3,414,589
Receivables due in one to two years	162,500
Receivables due in two to three years	62,500
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Total contributions receivable	3,639,589
Less: Amount representing discount for receivables due in one to three years	(13,055)
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Net contributions receivable	\$ 3,626,534

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

The Organization received conditional promises from four donors amounting to \$4,288,385 which have not been recorded at December 31, 2011. The grants will be awarded to the Organization based on the Organization satisfying the conditions as set by the donors.

### Note 4 - Investments and Fair Value Measurements:

Investments as of December 31, 2011 and August 31, 2010 are as follows:

	2011	2010
Federal Home Loan Bank obligations	\$ 5,677,170	\$ 12,519,695
Federal Farm Credit Bank obligations	2,560,674	2,011,813
Fannie Mae and Freddie Mac obligations		12,188,777
Federal National Mortgage Association obligations	1,714,151	
Certificate of Deposits	14,924,235	
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	\$ 24,876,230	\$ 26,720,285

Investments represent all financial assets measured at fair value on a recurring basis at December 31, 2011 and August 31, 2010. The Organization has determined that its investments are classified as level 2.

# New Schools Fund dba NewSchools Venture Fund

## Notes to Consolidated Financial Statements

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### Note 5 - Property and Equipment:

Property and equipment as of December 31, 2011 and August 31, 2010 are as follows:

	2011	2010
Hardware	\$ 207,474	\$ 184,757
Software	440,219	440,219
Furniture, fixtures and equipments	184,996	140,377
Leasehold improvements	10,993	9,707
	<hr/>	<hr/>
Accumulated depreciation	843,682 (719,662)	775,060 (577,537)
	<hr/>	<hr/>
Property and equipment, net of depreciation	\$ 124,020	\$ 197,523

### Note 6 - Mission Related Investments:

The Organization 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.

Investments without readily determinable fair values 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.

# New Schools Fund dba NewSchools Venture Fund

## Notes to Consolidated Financial Statements

Mission related investments as of December 31, 2011 and August 31, 2010 were as follows:

	2011	2010
Notes receivable from a foundation, bearing interest at 3%, due on January 31, 2011 and August 31, 2015	\$ 356,397	\$ 424,579
Convertible notes receivable from an educational enterprise, bearing interest at 1%, which was converted to equity in 2011		625,000
Note receivable from an educational enterprise, bearing interest at 1% which was approved as a grant in 2011		100,000
Subordinated convertible note receivable from an educational enterprise, bearing interest at 3% due on November 3, 2014	100,000	
Convertible notes receivable from an educational enterprise, bearing interest at 3% due on August 15, 2013	151,504	
<b>Total notes receivable</b>	<b>607,901</b>	<b>1,149,579</b>
Investment in educational enterprise, 454,545 shares of preferred stock and 45,455 shares of common stock		143,731
Investment in educational enterprise, 135,473 shares of preferred stock	325,002	325,002
Investment in educational enterprise, 80,711 shares of preferred stock	345,688	345,688
Investment in educational enterprise, 557,601 shares of preferred stock	1,000,000	
Investment in educational enterprise, 652,608 shares of preferred stock	500,000	
Investment in educational enterprise, 59,527 shares of preferred stock	99,999	
Investment in educational enterprise, 136,413 shares of preferred stock	100,000	
Investment in educational enterprise, 2,454,991 shares of preferred stock	600,000	
Investment in educational enterprise, 600,000 shares of preferred stock	300,000	
<b>Total investment securities</b>	<b>3,270,689</b>	<b>814,421</b>
Intellectual property	2,500,000	3,000,000
<b>Total Mission Related Investments</b>	<b>\$ 6,378,590</b>	<b>\$ 4,964,000</b>

# New Schools Fund dba NewSchools Venture Fund

## Notes to Consolidated Financial Statements

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The intellectual property is the result of the Organization entering into an agreement with an educational software firm (the Firm) and a charter management organization to develop a formative assessment tool in which the Organization retains partial intellectual property rights. The Organization has invested \$2,500,000 as of December 31, 2011.

Subsequent to December 31, 2011, the Organization has had various discussions with the Firm with respect to the original agreement which has resulted in a proposal to amend and terminate certain provisions of the original agreement and to memorialize other agreements. The proposed changes include relieving the Organization of its commitments to pay an additional \$500,000 to the Firm and modification to the terms under which the Organization will be paid by the Firm. The draft of the proposal is being reviewed by both parties.

### Note 7 - Grants Payable and Commitments:

Grants payable as of December 31, 2011 of \$3,684,380 are expected to be paid in the following year.

At December 31, 2011, grant payments of \$4,099,876 are contingent upon grantees meeting specific conditions in the future and have not been recorded.

### Note 8 - Lease Commitments:

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

Year Ended	
December 31,	
2012	\$ 233,000
2013	291,100
2014	207,400
2015	183,300
2016	189,000
2017	73,900
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Total	\$ 1,177,700
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# New Schools Fund dba NewSchools Venture Fund

## Notes to Consolidated Financial Statements

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Subsequent to year end, the Organization signed a new office lease and extended an existing office lease for which the future minimum lease payments are reflected above.

Rental expense for all operating leases totaled \$409,435 and \$287,378 for the fiscal periods ended December 31, 2011 and August 31, 2010, respectively.

### **Note 9 - Related Party Transactions:**

During the fiscal period ended December 31, 2011, the Organization recognized total contribution revenue of \$5.5 million from five members of the Board of Directors of the Organization.

During the year ended August 31, 2010, the Organization recognized total contribution revenue of \$3.7 million from five members of the Board of Directors of the Organization.

For the fiscal periods ended December 31, 2011 and August 31, 2010, the organization paid approximately \$1,169,000 and \$333,000, respectively, to an Organization affiliated with a member of the Board of Directors.

### **Note 10 - Concentrations of Risk:**

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

During the fiscal periods ended December 31, 2011 and August 31, 2010, the Organization regularly held cash deposits in excess of federally insured limits.

The Organization received approximately \$18 million from four foundations in contributions during the fiscal periods ended December 31, 2011 and August 31, 2010, in addition to the contributions received from board members described above.

### **Note 11 - Retirement Plan:**

The Organization participates in a 401(k) Plan which allows for the Organization to make discretionary contributions of up to 4% of each employee's eligible compensation. The Organization's contribution was \$144,318 and \$116,895 for the fiscal periods ended December 31, 2011 and August 31, 2010, respectively.