

New Schools Fund

dba NewSchools Venture Fund

Financial Statements

December 31, 2016

(With Comparative Totals for 2015)



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
New Schools Fund
dba NewSchools Venture Fund
Oakland, California

We have audited the accompanying financial statements of New Schools Fund dba NewSchools Venture Fund (a California nonprofit public benefit corporation) ("NewSchools"), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (the "U.S."); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the U.S. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Schools Fund dba NewSchools Venture Fund as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the U.S.

Report on Summarized Comparative Information

We have previously audited New Schools Fund dba NewSchools Venture Fund's 2015 financial statements, and our report dated April 4, 2016 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Francisco, California

March 27, 2017

New Schools Fund
 dba NewSchools Venture Fund
 Statement of Financial Position
 December 31, 2016
 (With Comparative Totals for 2015)

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 5,431,927	\$ 12,626,997
Assets of support organization	-	435,296
Contributions receivable	333,667	2,109,580
Other current assets	80,342	119,477
Investments	<u>19,755,929</u>	<u>9,796,674</u>
Total current assets	<u>25,601,865</u>	<u>25,088,024</u>
Other assets		
Property and equipment, net	471,575	68,004
Contributions receivable, net of current portion	-	1,153,649
Mission related investments	1,872,073	11,996,497
Investment in NewSchools Seed, LP	11,621,094	-
Other assets	<u>72,750</u>	<u>88,710</u>
Total other assets	<u>14,037,492</u>	<u>13,306,860</u>
Total assets	<u>\$ 39,639,357</u>	<u>\$ 38,394,884</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 119,814	\$ 265,180
Grants payable	1,988,699	358,667
Accrued salaries and wages	<u>244,657</u>	<u>248,835</u>
Total current liabilities	2,353,170	872,682
Deferred rent	<u>18,479</u>	<u>20,268</u>
Total liabilities	<u>2,371,649</u>	<u>892,950</u>
Net assets		
Unrestricted	26,639,471	24,824,482
Temporarily restricted	<u>10,628,237</u>	<u>12,677,452</u>
Total net assets	<u>37,267,708</u>	<u>37,501,934</u>
Total liabilities and net assets	<u>\$ 39,639,357</u>	<u>\$ 38,394,884</u>

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

New Schools Fund
 dba NewSchools Venture Fund
 Statement of Activities
 For the Year Ended December 31, 2016
 (With Comparative Totals for 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
Revenues, gains and other support				
Contributions	\$ 5,449,853	\$ 27,618,659	\$ 33,068,512	\$ 30,019,035
Contributions for fiscal sponsorships	-	61,488,210	61,488,210	25,415,000
Investment gain (loss)	(13,400)	-	(13,400)	(119,815)
Other income	502,559	-	502,559	629,670
Gifts in-kind	29,496	-	29,496	116,805
Net assets released from restriction	<u>85,132,764</u>	<u>(85,132,764)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>91,101,272</u>	<u>3,974,105</u>	<u>95,075,377</u>	<u>56,060,695</u>
Expenses				
Program services				
Grants	21,323,195	-	21,323,195	18,047,280
Grants under fiscal sponsorships	60,527,926	-	60,527,926	25,157,650
Other program personnel and expenses	<u>5,933,491</u>	<u>-</u>	<u>5,933,491</u>	<u>7,223,228</u>
Total program services	<u>87,784,612</u>	<u>-</u>	<u>87,784,612</u>	<u>50,428,158</u>
Supporting services				
Supporting services	<u>3,780,202</u>	<u>-</u>	<u>3,780,202</u>	<u>4,251,401</u>
Total supporting services	<u>3,780,202</u>	<u>-</u>	<u>3,780,202</u>	<u>4,251,401</u>
Total expenses	<u>91,564,814</u>	<u>-</u>	<u>91,564,814</u>	<u>54,679,559</u>
Change in net assets from operations	<u>(463,542)</u>	<u>3,974,105</u>	<u>3,510,563</u>	<u>1,381,136</u>
Other non-operating activities				
Net asset transfer (Note 13)	(1,000,968)	(6,023,320)	(7,024,288)	(2,020,596)
Gain (loss) on mission related investments	(997,855)	-	(997,855)	188,111
Gain (loss) on equity investment in NewSchools Seed LP	<u>4,277,354</u>	<u>-</u>	<u>4,277,354</u>	<u>-</u>
Total other non-operating activities	<u>2,278,531</u>	<u>(6,023,320)</u>	<u>(3,744,789)</u>	<u>(1,832,485)</u>
Change in net assets	1,814,989	(2,049,215)	(234,226)	(451,349)
Net assets, beginning of year	<u>24,824,482</u>	<u>12,677,452</u>	<u>37,501,934</u>	<u>37,953,282</u>
Net assets, end of year	<u>\$ 26,639,471</u>	<u>\$ 10,628,237</u>	<u>\$ 37,267,708</u>	<u>\$ 37,501,933</u>

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

New Schools Fund
 dba NewSchools Venture Fund
 Statement of Cash Flows
 For the Year Ended December 31, 2016
 (With Comparative Totals for 2015)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ (234,226)	\$ (451,349)
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	77,423	54,765
Net realized and unrealized (gain)/loss on investments	170,731	50,118
Accrued interest on mission related investments	(104,297)	(221,687)
Net (gain)/loss on mission related investments	1,320,037	33,305
Net (gain)/loss on equity investment in NewSchools Seed LP	(4,277,354)	-
Loss on disposal of property and equipment	5,429	12,601
Changes in operating assets and liabilities		
Contributions receivable	2,929,562	5,967,394
Other current assets	29,965	(46,808)
Assets of support organization	435,296	(112)
Other assets	15,960	(31,873)
Accounts payable	(145,366)	(211,411)
Grants payable	1,630,032	(2,578,528)
Accrued salaries and wages	(4,178)	(441,497)
Deferred rent	(1,789)	(29,492)
Net cash provided by operating activities	<u>1,847,225</u>	<u>2,105,426</u>
Cash flows from investing activities		
Purchases of property and equipment	(486,422)	(15,122)
Proceeds from sale of property and equipment	-	15,710
Purchases of investments	(29,767,088)	(8,361,362)
Proceeds from sale of investments	19,637,103	12,649,740
Purchases of mission related investments	-	(985,561)
Proceeds from collection on note receivable - mission related investments	-	74,340
Proceeds from sale of mission related investments	184,362	1,440,719
Proceeds from sale of equity investment in NewSchools Seed	1,389,750	-
Net cash provided by (used in) investing activities	<u>(9,042,295)</u>	<u>4,818,464</u>
Net increase (decrease) in cash and cash equivalents	(7,195,070)	6,923,890
Cash and cash equivalents, beginning of year	<u>12,626,997</u>	<u>5,703,107</u>
Cash and cash equivalents, end of year	<u>\$ 5,431,927</u>	<u>\$ 12,626,997</u>

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

New Schools Fund
dba NewSchools Venture Fund
Notes to Financial Statements
December 31, 2016

1. 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 transform public education through powerful ideas and passionate entrepreneurs so that all children – especially those in underserved communities – have the opportunity to succeed. NewSchools provides grants to teams of educators and organizations that are improving public education. NewSchools also provides management assistance to those ventures and builds the field of visionary leaders in education by organizing events and knowledge-sharing opportunities. NewSchools is supported through donor contributions.

New Schools 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 Board of Directors of NewSchools. The Support Organization was dissolved effective April 28, 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

Basis of presentation

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:

- *Unrestricted net assets* - Net assets not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that will be met by actions of NewSchools and/or the passage of time. When a donor-stipulated time restriction ends or NewSchools satisfies a purpose restriction, NewSchools reclassifies temporarily restricted net assets to unrestricted net assets and reports such releases in the consolidated statement of activities as net assets released from restrictions.
- *Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that they be maintained permanently by NewSchools. NewSchools does not have any permanently restricted net assets as of December 31, 2016.

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Notes to Financial Statements
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of presentation (continued)

At December 31, 2016, temporarily restricted net assets, including contributions receivable, were restricted for program and time purposes totaling \$10,294,570 and \$333,667, respectively. Program restrictions include both project based and geographic restrictions. Certain donors require unexpended funds to be held in interest bearing accounts. Releases of restriction for the year ended December 31, 2016 include \$84,549,764 of program restrictions met and \$583,000 of time restrictions met, respectively.

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. NewSchools 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).

Contributions

NewSchools recognizes contributions, including unconditional promises to give, as revenues in the year they are unconditionally promised. NewSchools recognizes conditional promises only when they become unconditional, that is, when NewSchools satisfies the conditions on which they depend. NewSchools records contributions of assets other than cash at their estimated fair value. NewSchools discounts non-current contributions receivable at an appropriate discount rate commensurate with the risks involved. The discounts on contributions receivable are computed using the prime rate as listed in the Wall Street Journal on the date of the gift. NewSchools records the amortization of the discount as additional contribution revenue over the payment period.

NewSchools considers all contributions to be available for the general programs of NewSchools unless the donor stipulates specific restrictions.

Contributed services

NewSchools 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. For the year ending December 31, 2016 there was \$29,496 in contributed services meeting the requirement for recognition in the financial statements.

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Notes to Financial Statements
December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts and money market funds included in a brokerage account.

Investments

Investments in common stock and certificates of deposit are reported at fair value, with realized and unrealized gains and losses, interest and dividends recorded in the Statement of Activities.

Mission related investments

Mission related investments consist of non-marketable debt and equity securities and are reported at historical cost, unless it can reasonably be expected that NewSchools will suffer a loss on the disposition of an investment, in which case a provision for the loss is made in the year in which the decline in value occurs.

Fair value measurements

NewSchools 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 paying to transfer a liability in an orderly transaction among market participants at the measurement date. NewSchools 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.
- *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.

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Notes to Financial Statements
December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial instruments, which are included in NewSchools' consolidated statement of financial position as of December 31, 2016 but not required to be measured at fair value on a recurring basis, consist of cash and cash equivalents, contributions receivable, other receivables and assets and accounts payable. The carrying amounts of these assets and liabilities approximate fair value.

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 seven years. Leasehold improvements are depreciated over the shorter of their estimated useful life or seven years. Purchases of property and equipment over \$5,000 are capitalized. Renewals and betterments that extend the economic useful lives of the related assets are capitalized. NewSchools expenses, as incurred, other expenditures for repairs and maintenance.

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.

Income tax status

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

NewSchools' 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 NewSchools' tax positions and concluded that NewSchools 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. NewSchools is no longer subject to income tax examinations by Federal and State tax authorities for tax years before 2012.

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 Notes to Financial Statements
 December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 NewSchools' financial statements for the year ended December 31, 2015, from which summarized information was derived.

Functional expenses

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.

Subsequent events

NewSchools has evaluated subsequent events through March 27, 2017, the date these financial statements were available to be issued (See Note 14).

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following:

Receivables due in less than one year	\$ <u>333,667</u>
	\$ <u><u>333,667</u></u>

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

Conditional promises to give that are not recognized as assets in the consolidated statement of financial position are as follows:

Conditional promise to give subject to matching requirements	\$ 233,333
Conditional promise to give subject to completing milestones per grant agreements	\$ <u>31,318,536</u>
	\$ <u><u>31,551,869</u></u>

The funds will be paid to NewSchools based on NewSchools satisfying the conditions as set by the donors.

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 Notes to Financial Statements
 December 31, 2016

4. FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, NewSchools' assets at fair value as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Investments				
Certificates of deposit	\$ -	\$ 16,784,422	\$ -	\$ 16,784,422
Common stock	<u>2,971,507</u>	<u>-</u>	<u>-</u>	<u>2,971,507</u>
Total investments	<u>\$ 2,971,507</u>	<u>\$ 16,784,422</u>	<u>\$ -</u>	<u>\$ 19,755,929</u>

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Hardware	\$ 166,755
Software	59,288
Furniture and fixtures	267,354
Leasehold improvements	<u>132,059</u>
	625,456
Accumulated depreciation	<u>(153,881)</u>
	<u>\$ 471,575</u>

6. MISSION RELATED INVESTMENTS

NewSchools has created a pool of capital used to make uncollateralized loans and equity investments to nonprofit and for-profit organizations engaged in working to improve public education; and to invest in for-profit businesses with a strong potential to improve public education. Investments without readily determinable fair values are reported at historical cost and evaluated for impairment, unless it can reasonably be expected that NewSchools will suffer a loss on the disposition of an investment, in which case a provision for the loss is made in the year in which the decline in value occurs.

NewSchools held three notes at December 31, 2016 with a total carrying value of \$1,200,383. Interest rates on the loans are 2%. The loans mature in 2018. During the year ended December 31, 2016, two additional loans were deemed to be fully impaired and NewSchools recognized an impairment loss of \$708,616 on these loans.

NewSchools has equity investments in two entities at December 31, 2016 with a total carrying value of \$670,690.

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 Notes to Financial Statements
 December 31, 2016

7. EQUITY INVESTMENT IN NEWSCHOOLS SEED, LP

NewSchools is the sole Limited Partner in NewSchools Seed, LP (NewSchools Seed), with an unrelated third party as General Partner. NewSchools Seed was established to acquire and hold venture capital investments in the entities that were previously part of NewSchools mission related investment portfolio, and make a limited number of new investments. NewSchools investment in NewSchools Seed is accounted for as an equity method investment in the Statement of Financial Position. On March 8, 2016, NewSchools contributed its right, title and interest in certain mission related investments to NewSchools Seed at fair value of \$9,160,521. Between March 8, 2016 and June 30, 2016, NewSchools contributed an additional interest at a fair value of \$1,948,827, for total contributions to NewSchools Seed of \$11,109,348. NewSchools recognized a gain on the transfers of \$2,375,878 which represents the difference between the cost basis of the mission related investments and the fair value at the date of transfer.

8. GRANTS PAYABLE

Grants payable as of December 31, 2016 of \$1,988,699 are scheduled to be paid in 2017.

At December 31, 2016, grant payments of \$4,691,501 are contingent upon grantees meeting specific conditions in the future and have not been recorded.

9. LEASE COMMITMENTS

NewSchools leases offices under non-cancelable operating lease agreements through 2021 with payments ranging from approximately \$10,000 to \$33,000 a month.

The scheduled minimum lease payments under the lease terms are as follows:

Year ending December 31,

2017	\$ 380,000
2018	360,000
2019	370,000
2020	381,000
2021	<u>293,000</u>
	<u>\$ 1,784,000</u>

Rental expense for all operating leases totaled \$316,502 for the year ended December 31, 2016.

For the year ended December 31, 2016, the total amount of sub-rental revenue received was \$16,751.

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Notes to Financial Statements
December 31, 2016

10. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2016, NewSchools recognized total contribution revenue of approximately \$5,312,126 from four members of the Board of Directors of NewSchools. At December 31, 2016, there were contributions receivable of \$333,667 from one member of the Board of Directors of NewSchools.

NewSchools is a 50% owner of NewSchools Capital, LLC (NewSchools Capital) with an unrelated third party. NewSchools Capital was established as a for-profit management company for new venture funds that invest in the education technology market, as well as to serve as a management company for NewSchools' Seed Fund Portfolio of mission related equity investments. The initial capital contribution is included in other assets on the statement of financial position. NewSchools paid management fees to NewSchools Capital, LLC in the amount of \$198,927 for the year ended December 31, 2016.

11. CONCENTRATIONS OF RISK

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

During the year ended December 31, 2016, NewSchools regularly held cash deposits in excess of federally insured limits. NewSchools does not believe it is exposed to any custodial credit risk on excess deposits.

NewSchools received \$9,933,013 or 30% of its total contribution revenue (excluding fiscal sponsorships) from one foundation and one individual donor during the year ended December 31, 2016.

12. RETIREMENT PLAN

NewSchools participates in a 401(k) Plan which allows for NewSchools to make discretionary contributions of up to 4% of each employee's eligible compensation. NewSchools' contribution was \$117,915 for the year ended December 31, 2016.

13. NET ASSET TRANSFER

On June 10, 2016, NewSchools entered into an Asset Transfer Agreement (the Agreement) to transfer the net assets held for Education Forward DC, a newly formed District of Columbia Nonprofit Corporation seeking exemption from taxation under Code Section 501(c)(3) of the Internal Revenue Code. The closing date of the Agreement was June 30, 2016. The value of the net assets transferred on the closing date totaled \$(7,024,289) and is reflected as a net asset transfer in the statement of activities.

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Notes to Financial Statements
December 31, 2016

14. SUBSEQUENT EVENTS

On January 11, 2017, NewSchools entered into a lease termination agreement for its Oakland office with an effective date of March 31, 2017. There was no termination fee associated with the agreement.