

NEW SCHOOLS FUND DBA  
NEWSCHOOLS VENTURE FUND

AUGUST 31, 2004

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CONSOLIDATED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

**New Schools Fund dba  
NewSchools Venture Fund**

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

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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, 2004, 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 2003 financial statements which were audited by other auditors whose report dated November 21, 2003 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, 2004, 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*

December 9, 2004

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**New Schools Fund dba  
NewSchools Venture Fund**

**Consolidated Statement of Financial Position**

<i>August 31,</i>	2004	2003
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 19,604,950	\$ 5,978,827
Assets of support organization	2,901,101	1,000,000
Contributions receivable	5,443,816	15,262,000
Other current assets	23,487	
Total current assets	27,973,354	22,240,827
<b>Property and Equipment, net</b>	153,721	51,848
<b>Contributions Receivable, noncurrent portion, net</b>	1,476,150	6,854,041
<b>Program Related Investments</b>	2,730,547	1,417,581
<b>Other Assets</b>	10,593	12,263
Total assets	\$ 32,344,365	\$ 30,576,560
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 74,959	\$ 42,847
Grants payable	400,000	483,000
Accrued compensation	372,414	207,129
Total current liabilities	847,373	732,976
<b>Net Assets:</b>		
Unrestricted	6,943,347	4,365,607
Temporarily restricted	24,553,645	25,477,977
Total net assets	31,496,992	29,843,584
Total liabilities and net assets	\$ 32,344,365	\$ 30,576,560

**New Schools Fund dba  
NewSchools Venture Fund**

**Consolidated Statement of Activities**

*Year Ended August 31, 2004 (with summarized information for 2003)*

	2004			2003 Total
	Unrestricted	Temporarily Restricted	Total	
<b>Revenue, Gains, and Other Support:</b>				
Contributions	\$ 5,027,362	\$ 6,071,843	\$ 11,099,205	\$ 29,170,867
Government grants	1,328,589		1,328,589	
Interest income	68,444	123,923	192,367	91,252
Gains (losses) on program related investments	(262,034)		(262,034)	34,982
Other income	39,146		39,146	119,732
Net assets released from restrictions	7,120,098	(7,120,098)		
Total revenue gains and other support	13,321,605	(924,332)	12,397,273	29,416,833
<b>Expenses:</b>				
Grants	7,448,833		7,448,833	3,100,842
Program services	2,609,380		2,609,380	1,950,167
Supporting services	685,652		685,652	455,181
Total expenses	10,743,865		10,743,865	5,506,190
<b>Increase (Decrease) in Net Assets</b>	2,577,740	(924,332)	1,653,408	23,910,643
<b>Net Assets - beginning of year</b>	4,365,607	25,477,977	29,843,584	5,932,941
<b>Net Assets - end of year</b>	\$ 6,943,347	\$ 24,553,645	\$ 31,496,992	\$ 29,843,584

**New Schools Fund dba  
NewSchools Venture Fund**

**Consolidated Statement of Cash Flows**

<i>Years Ended August 31,</i>	2004	2003
<b>Cash Flows from Operating Activities:</b>		
Increase in net assets	\$ 1,653,408	\$ 23,910,643
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	41,679	26,161
Net realized and unrealized (gain) loss on investments	262,034	(34,982)
Changes in operating assets and liabilities:		
Contribution receivable	15,196,075	(22,116,041)
Interest in net assets of support organization	(1,901,101)	(1,000,000)
Other current assets	(23,487)	10,472
Other assets	1,670	
Accounts payable	32,112	2,880
Grants payable	(83,000)	483,000
Accrued compensation	165,285	160,605
<b>Net cash provided by operating activities</b>	<b>15,344,675</b>	<b>1,442,738</b>
<b>Cash Flows from Investing Activities:</b>		
Purchases of property and equipment	(143,552)	(34,507)
Purchases of securities - program related investments	(75,000)	(84,691)
Investment through note receivable - program related investments	(1,500,000)	
Purchases of short-term investments		(1,691,619)
Proceeds from sale of short-term investments		1,179,099
Proceeds from maturity of short-term investments		2,390,363
<b>Net cash (used) provided by investing activities</b>	<b>(1,718,552)</b>	<b>1,758,645</b>
<b>Net Increase in Cash and Equivalents</b>	<b>13,626,123</b>	<b>3,201,383</b>
<b>Cash and Equivalents, Beginning of year</b>	<b>5,978,827</b>	<b>2,777,444</b>
<b>Cash and Equivalents, End of year</b>	<b>\$ 19,604,950</b>	<b>\$ 5,978,827</b>

**New Schools Fund dba  
NewSchools Venture Fund**

**Notes to Consolidated Financial Statements**

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

New Schools Fund dba NewSchools Venture Fund (the Fund) was founded in 1998 under the laws of the State of California. The Fund's 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. The Fund also provides technical assistance to both nonprofit entities and for-profit enterprises, working to improve public education. The Fund is supported through donor contributions.

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

**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 the Fund and the Support 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 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, 2004 temporarily restricted net assets 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

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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. 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, 2004, there were no contributed services meeting the requirements for recognition in the financial statements. Contributed services reported for the year ended August 31, 2003 amounted to \$29,826.

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**

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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. Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Investments without readily determinable fair values 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. Unrealized gains and losses are included in the change in net assets in the period such gains and losses are incurred.

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 \$189,000 on efforts to raise contributions in the fiscal year ended August 31, 2004.

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.

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).

**New Schools Fund dba  
NewSchools Venture Fund**

**Notes to Consolidated Financial Statements**

1. Reclassification

Certain reclassifications have been made in the 2003 financial statements to conform to the presentation used in the 2004 financial statements.

**Note 3 - Contributions Receivable:**

Contributions receivable as of August 31, 2004 consists of the following:

Receivable due in less than one year	\$ 5,443,816
Receivable due in one to two years	1,500,000
Total contributions receivable	6,943,816
Less:	
Amount representing discount at 1.59 for receivables due in one to two years	(23,850)
Net contributions receivable	\$ 6,919,966

The Fund received conditional promises from two foundations amounting to \$6.51 million. Both grants will be awarded to the Fund based on the acceptability of the projects proposed by the Fund to the foundations.

**Note 4 - Property and Equipment:**

Property and equipment as of August 31, 2004 and 2003 are as follows:

	2004	2003
Computer equipment	\$ 186,615	\$ 64,637
Printers	11,020	7,978
Furniture and fixtures	57,502	38,969
Accumulated depreciation	255,137 (101,416)	111,584 (59,736)
Property and equipment, net of depreciation	\$ 153,721	\$ 51,848

**New Schools Fund dba  
NewSchools Venture Fund**

**Notes to Consolidated Financial Statements**

**Note 5 - 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 investments as of August 31, 2004 and 2003 were as follows:

	2004	2003
Note receivable from a foundation, bearing interest at 3%, due on September 21, 2004	\$ 1,000,000	\$ 1,000,000
Note receivable from a 501(c)(3) organization, bearing no interest, due on September 26, 2005	1,500,000	
<b>Total notes receivable</b>	<b>2,500,000</b>	<b>1,000,000</b>
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	
Investment in educational enterprise, 166,667 shares of preferred stock		125,000
Investment in educational enterprise, 198,467 shares of preferred stock		148,850
<b>Total investment securities</b>	<b>230,547</b>	<b>417,581</b>
<b>Total Program Related Investments</b>	<b>\$ 2,730,547</b>	<b>\$ 1,417,581</b>

**Note 6 - Grants Payable:**

Grants payable which totaled \$400,000 at August 31, 2004 is expected to be paid in the following fiscal year. Grants of \$4,011,000 at August 31, 2004 are contingent upon grantees meeting specific conditions in the future and have not been recorded.

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**Notes to Consolidated Financial Statements**

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**Note 7 - Lease Commitments:**

The Fund leases an office under a noncancelable lease agreement expiring July 7, 2007. Future minimum lease payments under this lease are:

2005	\$	95,845
2006		99,811
2007		85,930
<hr/>		
Total	\$	281,586

Rental expense for all operating leases totaled \$95,987 for the fiscal year ended August 31, 2004.

**Note 8 - Related Party Transactions:**

During the year ended August 31, 2004, the Fund recognized contribution revenue of \$3.4 million from a member of the Board of Directors of the Fund, through the Support Organization. During the year ended August 31, 2003, the Fund recognized contribution revenue of \$2.0 million from a member of the Board of Directors of the Fund, through the Support Organization. The portion of the contribution not yet received by the Fund of \$2.9 million has been recorded under assets of support organization on the Statement of Financial Position as of August 31, 2004.

During the fiscal year ended August 31, 2003, the Fund received legal services contributed by a law firm, which amounted to \$29,826 and was reported as an unrestricted contribution for the year ended August 31, 2003. One of the partners of the law firm serves as a member of the Board of Directors of the Fund.

**Note 9 - Concentrations of Risk:**

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

At August 31, 2004, the Fund regularly held cash deposits in excess of federally insured limits.