

NEW SCHOOLS FUND DBA
NEWSCHOOLS VENTURE FUND

AUGUST 31, 2006

INDEPENDENT AUDITORS' REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

**New Schools Fund dba
NewSchools Venture Fund**

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

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Independent Auditors' Report

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

We have audited the accompanying consolidated statement of financial position of the **NEW SCHOOLS FUND dba NEWSCHOOLS VENTURE FUND (the Fund)** as of August 31, 2006, 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 2005 financial statements whose report dated November 3, 2005 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, 2006, 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

November 15, 2006

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**New Schools Fund dba
NewSchools Venture Fund**

Consolidated Statement of Financial Position

<i>August 31,</i>	2006	2005
Assets		
Current Assets:		
Cash and cash equivalents	\$ 8,947,402	\$ 24,344,794
Assets of support organization	505,564	1,454,296
Contributions receivable	9,281,806	1,710,748
Investments	2,930,785	
Other current assets	8,307	117,641
Total current assets	21,673,864	27,627,479
Property and Equipment, net	110,938	173,666
Contributions Receivable, noncurrent portion, net	4,012,498	250,337
Investments, noncurrent portion	1,876,467	
Program Related Investments	1,480,547	2,480,547
Other Assets	11,367	11,367
Total assets	\$ 29,165,681	\$ 30,543,396
Liabilities and Net Assets		
Liabilities:		
Current Liabilities:		
Accounts payable	\$ 50,978	\$ 103,263
Grants payable		1,785,000
Accrued compensation	391,810	462,371
Total current liabilities	442,788	2,350,634
Net Assets:		
Unrestricted	3,706,999	4,736,384
Temporarily restricted	25,015,894	23,456,378
Total net assets	28,722,893	28,192,762
Total liabilities and net assets	\$ 29,165,681	\$ 30,543,396

**New Schools Fund dba
NewSchools Venture Fund**

Consolidated Statement of Activities

Year Ended August 31, 2006 (with summarized information for 2005)

	2006			2005 Total
	Unrestricted	Temporarily Restricted	Total	
Revenue, Gains, and Other Support:				
Contributions	\$ 2,119,881	\$ 19,092,308	\$ 21,212,189	\$ 8,891,192
Government grants	2,232,640		2,232,640	1,529,070
Interest income	274,763	571,797	846,560	573,265
Other income	69,900		69,900	54,104
Net assets released from restrictions	18,104,589	(18,104,589)		
Total revenue gains and other support	22,801,773	1,559,516	24,361,289	11,047,631
Expenses:				
Grants	18,155,647		18,155,647	10,304,212
Program services	4,300,106		4,300,106	3,076,078
Supporting services	1,375,405		1,375,405	971,571
Total expenses	23,831,158		23,831,158	14,351,861
Increase (Decrease) in Net Assets	(1,029,385)	1,559,516	530,131	(3,304,230)
Net Assets - beginning of year	4,736,384	23,456,378	28,192,762	31,496,992
Net Assets - end of year	\$ 3,706,999	\$ 25,015,894	\$ 28,722,893	\$ 28,192,762

**New Schools Fund dba
NewSchools Venture Fund**

Consolidated Statement of Cash Flows

<i>Years Ended August 31,</i>	2006	2005
Cash Flows from Operating Activities:		
Increase (decrease) in net assets	\$ 530,131	\$ (3,304,230)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	91,000	85,216
Net realized and unrealized (gain) loss on investments	(4,584)	
Conversion of program related investment to grant expense	1,000,000	
Changes in operating assets and liabilities:		
Contribution receivable	(11,333,219)	4,958,881
Interest in net assets of support organization	948,732	1,446,805
Other current assets	109,334	(94,154)
Other assets	0	(774)
Accounts payable	(52,285)	28,304
Grants payable	(1,785,000)	1,385,000
Accrued compensation	(70,561)	89,957
Net cash (used) provided by operating activities	(10,566,452)	4,595,005
Cash Flows from Investing Activities:		
Purchases of property and equipment	(28,272)	(105,161)
Purchases of investments	(4,818,231)	
Proceeds from sale/maturity of investments	15,563	
Proceeds from collection on note receivable - program related investment		250,000
Net cash (used) provided by investing activities	(4,830,940)	144,839
Net (Decrease) Increase in Cash and Equivalents	(15,397,392)	4,739,844
Cash and Equivalents, Beginning of year	24,344,794	19,604,950
Cash and Equivalents, End of year	\$ 8,947,402	\$ 24,344,794

New Schools Fund dba NewSchools Venture Fund

Notes to Consolidated Financial Statements

Note 1 - Organization and Nature of Operations:

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

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

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Presentation

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

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

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Fund and/or the passage of time. When a donor-stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. At August 31, 2006 temporarily restricted net assets, including contributions receivable, were restricted for program purposes.

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

New Schools Fund dba NewSchools Venture Fund

Notes to Consolidated Financial Statements

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

b. Contributions

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

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

c. Contributed Services

The Fund records revenue for voluntary donations of services when those services create or enhance nonfinancial assets or require specialized skills provided by individuals possessing those skills and which would be typically purchased if not provided by donation. During the period ended August 31, 2006, there were no contributed services meeting the requirements for recognition in the financial statements.

d. Grants

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

e. Cash and Cash Equivalents

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

New Schools Fund dba NewSchools Venture Fund

Notes to Consolidated Financial Statements

f. Assets of Support Organization

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

g. Valuation of Investments and Related Investment Income

Investments in marketable securities are reported at fair value, with current period recognition of increases or decreases in fair value. Debt and equity securities listed on a stock exchange are valued at the last reported sales price. Debt and equity securities traded on the over-the-counter market are valued at the last reported bid price. Investments 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.

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 \$258,481 on efforts to raise contributions in the fiscal year ended August 31, 2006.

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
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Notes to Consolidated Financial Statements

1. 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, 2005, from which summarized information was derived.

Note 3 - Contributions Receivable:

Contributions receivable as of August 31, 2006 consists of the following:

Receivable due in less than one year	\$ 9,281,806
Receivable due in one to two years	4,213,923
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Total contributions receivable	13,495,729
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Less:	
Amount representing discount at 4.69% - 4.78% for receivables due in one to two years	(201,425)
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Net contributions receivable	\$ 13,294,304
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The Fund received conditional promises from two foundations amounting to \$21.67 million, which have not been recorded at August 31, 2006. One grant for \$4.25 million will be awarded to the Fund based on the acceptability of the projects proposed by the Fund to the foundation. The other grant for \$17.42 million represents the portion of a grant subject to a matching requirement.

Note 4 - Investments:

The fair value of investments at August 31, 2006 is as follows:

Corporate obligations	\$ 1,876,467
U.S. government and federal agency obligations	2,930,785
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	\$ 4,807,252
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**New Schools Fund dba
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Notes to Consolidated Financial Statements

Note 5 - Property and Equipment:

Property and equipment as of August 31, 2006 and 2005 are as follows:

	2006	2005
Computer equipment	\$ 208,461	\$ 215,644
Printers	30,681	37,823
Furniture and fixtures	105,692	106,830
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	344,834	360,297
Accumulated depreciation	(233,896)	(186,631)
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Property and equipment, net of depreciation	\$ 110,938	\$ 173,666

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.

Program related investments as of August 31, 2006 and 2005 were as follows:

	2006	2005
Note receivable from a foundation, bearing interest at 3%, due on December 31, 2006	\$ 750,000	\$ 750,000
Note receivable from a 501(c)(3) organization, bearing no interest, due on January 31, 2012	500,000	1,500,000
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Total notes receivable	1,250,000	2,250,000
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Investment in educational enterprise, 454,545 shares of preferred stock and 45,455 shares of common stock	143,731	143,731
Investment in educational enterprise, 86,816 shares of preferred stock	86,816	86,816
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Total investment securities	230,547	230,547
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Total program related investments	\$ 1,480,547	\$ 2,480,547

**New Schools Fund dba
NewSchools Venture Fund**

Notes to Consolidated Financial Statements

Note 7 - Grants Payable:

Grants of \$14,622,244 at August 31, 2006 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:

2007	\$ 194,808
2008	204,295
2009	189,897
2010	195,878
2011	201,886
Thereafter	50,848
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Total	\$ 1,037,612

Rental expense for all operating leases totaled \$141,131 for the fiscal year ended August 31, 2006.

Note 9 - Related Party Transactions:

During the year ended August 31, 2006, the Fund recognized contribution revenue of \$2.1 million from a member of the Board of Directors of the Fund. During the year ended August 31, 2005, 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 \$0.5 million has been recorded under assets of support organization on the Statement of Financial Position as of August 31, 2006.

Note 10 - Concentrations of Risk:

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

At August 31, 2006, the Fund regularly held cash deposits in excess of federally insured limits.

The Fund received approximately \$17.6 and \$4.6 million in contribution from two Foundations during the years ended August 31, 2006 and 2005, respectively.

**New Schools Fund dba
NewSchools Venture Fund**

Notes to Consolidated Financial Statements

Note 11 - Retirement Plan:

In fiscal year 2005, the Fund adopted a 401(k) Plan. The plan allows for discretionary contributions by the Fund. In 2006, the Fund matched one hundred percent of employee contributions up to 4% of each employee's eligible compensation. The Fund's contribution for the plan year ended August 31, 2006 was \$64,268.