

NEW SCHOOLS FUND DBA  
NEWSCHOOLS VENTURE FUND

AUGUST 31, 2007

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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 Fund)** as of August 31, 2007, 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 2006 financial statements whose report dated November 15, 2006 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, 2007, 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*

June 24, 2008

*Consultants and*

*Business Advisors*

*100 First Street*

*14th Floor*

*San Francisco*

*CA 94105*

*415.781.0793*

*fax 415.421.2976*

*San Francisco*

*San Jose*

*Redwood Shores*



**New Schools Fund dba  
NewSchools Venture Fund**

**Consolidated Statement of Financial Position**

<i>August 31,</i>	2007	2006
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 8,177,363	\$ 8,947,402
Assets of support organization	531,936	505,564
Contributions receivable	19,975,033	9,281,806
Investments	5,935,432	2,930,785
Other current assets	8,285	8,307
Total current assets	34,628,049	21,673,864
<b>Property and Equipment, net</b>	110,818	110,938
<b>Contributions Receivable, noncurrent portion, net</b>	15,080,400	4,012,498
<b>Investments, noncurrent portion</b>	3,428,909	1,876,467
<b>Program Related Investments</b>	1,180,548	1,480,547
<b>Other Assets</b>	14,213	11,367
Total assets	\$ 54,442,937	\$ 29,165,681
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 226,525	\$ 50,978
Grants payable	600,000	
Accrued compensation	430,933	391,810
Total current liabilities	1,257,458	442,788
<b>Net Assets:</b>		
Unrestricted	2,391,931	3,706,999
Temporarily restricted	50,793,548	25,015,894
Total net assets	53,185,479	28,722,893
Total liabilities and net assets	\$ 54,442,937	\$ 29,165,681

**New Schools Fund dba  
NewSchools Venture Fund**

**Consolidated Statement of Activities**

*Year Ended August 31, 2007 (with summarized information for 2006)*

	2007			2006 Total
	Unrestricted	Temporarily Restricted	Total	
<b>Revenue, Gains, and Other Support:</b>				
Contributions	\$ 2,251,277	\$ 39,852,304	\$ 42,103,581	\$ 21,212,189
Government grants	907,601		907,601	2,232,640
Interest income	176,419	580,224	756,643	846,560
Other income	86,251		86,251	69,900
Net assets released from restrictions	14,654,874	(14,654,874)	-	
<b>Total revenue gains and other support</b>	<b>18,076,422</b>	<b>25,777,654</b>	<b>43,854,076</b>	<b>24,361,289</b>
<b>Expenses:</b>				
Grants	13,730,494		13,730,494	18,155,647
Program services	4,256,639		4,256,639	4,300,106
Supporting services	1,404,357		1,404,357	1,375,405
<b>Total expenses</b>	<b>19,391,490</b>		<b>19,391,490</b>	<b>23,831,158</b>
<b>Increase (Decrease) in Net Assets</b>	<b>(1,315,068)</b>	<b>25,777,654</b>	<b>24,462,586</b>	<b>530,131</b>
<b>Net Assets - beginning of year</b>	<b>3,706,999</b>	<b>25,015,894</b>	<b>28,722,893</b>	<b>28,192,762</b>
<b>Net Assets - end of year</b>	<b>\$ 2,391,931</b>	<b>\$ 50,793,548</b>	<b>\$ 53,185,479</b>	<b>\$ 28,722,893</b>

**New Schools Fund dba  
NewSchools Venture Fund**

**Consolidated Statement of Cash Flows**

<i>Years Ended August 31,</i>	2007	2006
<b>Cash Flows from Operating Activities:</b>		
Increase in net assets	\$ 24,462,586	\$ 530,131
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	85,287	91,000
Net realized and unrealized loss (gain) on investments	6,261	(4,584)
Conversion of program related investment to grant expense	500,000	1,000,000
Changes in operating assets and liabilities:		
Contribution receivable	(21,761,129)	(11,333,219)
Interest in net assets of support organization	(26,372)	948,732
Other current assets	22	109,334
Other assets	(2,846)	
Accounts payable	175,547	(52,285)
Grants payable	600,000	(1,785,000)
Accrued compensation	39,123	(70,561)
<b>Net cash provided (used) by operating activities</b>	<b>4,078,479</b>	<b>(10,566,452)</b>
<b>Cash Flows from Investing Activities:</b>		
Purchases of property and equipment	(85,167)	(28,272)
Purchases of investments	(9,613,286)	(4,818,231)
Proceeds from sale/maturity of investments	5,049,936	15,563
Purchases of program related investments	(200,001)	
<b>Net cash used by investing activities</b>	<b>(4,848,518)</b>	<b>(4,830,940)</b>
<b>Net Decrease in Cash and Equivalents</b>	<b>(770,039)</b>	<b>(15,397,392)</b>
<b>Cash and Equivalents, Beginning of year</b>	<b>8,947,402</b>	<b>24,344,794</b>
<b>Cash and Equivalents, End of year</b>	<b>\$ 8,177,363</b>	<b>\$ 8,947,402</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 (NewSchools) was founded in 1998 under the laws of the State of California. NewSchools' mission is to improve public education by identifying and supporting the most promising education ventures in the country and by creating a nationwide network of education entrepreneurs, educators, leaders and others committed to improving schools. In furtherance of these goals, 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, 2007 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**

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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, 2007, 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**

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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. 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 \$250,213 on efforts to raise contributions in the fiscal year ended August 31, 2007.

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.

**New Schools Fund dba  
NewSchools Venture Fund**

**Notes to Consolidated Financial Statements**

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).

l. 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, 2006, from which summarized information was derived.

**Note 3 - Contributions Receivable:**

Contributions receivable as of August 31, 2007 consists of the following:

Receivable due in less than one year	\$ 19,975,033
Receivable due in one to two years	15,767,968
	<hr/>
Total contributions receivable	35,743,001
Less: Amount representing discount at 3.82% - 3.84% for receivables due in one to two years	(687,568)
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Net contributions receivable	\$ 35,055,433

The Fund received conditional promises from one foundation amounting to \$2.68 million, which have not been recorded at August 31, 2007. The grant will be awarded to the Fund based on the acceptability of the projects proposed by the Fund to the foundation.

**New Schools Fund dba  
NewSchools Venture Fund**

**Notes to Consolidated Financial Statements**

**Note 4 - Investments:**

The fair value of investments at August 31, 2007 is as follows:

Corporate obligations		\$ 5,430,484
U.S. government and federal agency obligations		3,933,857
		\$ 9,364,341

**Note 5 - Property and Equipment:**

Property and equipment as of August 31, 2007 and 2006 are as follows:

	2007	2006
Computer equipment	\$ 150,281	\$ 142,298
Software	91,463	66,163
Printers	30,681	30,681
Furniture and fixtures	140,042	105,692
		412,467
Accumulated depreciation	(301,649)	(233,896)
		\$ 110,818
Property and equipment, net of depreciation	\$ 110,818	\$ 110,938

**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.

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NewSchools Venture Fund**

**Notes to Consolidated Financial Statements**

Program related investments as of August 31, 2007 and 2006 were as follows:

	2007	2006
Note receivable from a foundation, bearing interest at 3%, due on December 31, 2008	\$ 750,000	\$ 750,000
Note receivable from a 501(c)(3) organization, bearing no interest, due on January 31, 2012		500,000
<b>Total notes receivable</b>	<b>750,000</b>	<b>1,250,000</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	86,816
Investment in educational enterprise, 100,842 shares of preferred stock	200,001	
<b>Total investment securities</b>	<b>430,548</b>	<b>230,547</b>
<b>Total program related investments</b>	<b>\$ 1,180,548</b>	<b>\$ 1,480,547</b>

**Note 7 - Grants Payable:**

Grants of \$13,020,005 at August 31, 2007 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:

2008		203,298
2009		188,900
2010		194,881
2011		200,883
2012		84,746
<b>Total</b>		<b>\$ 872,708</b>

**New Schools Fund dba  
NewSchools Venture Fund**

**Notes to Consolidated Financial Statements**

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Rental expense for all operating leases totaled \$188,890 for the fiscal year ended August 31, 2007.

**Note 9 - Related Party Transactions:**

During the year ended August 31, 2007, the Fund recognized total contribution revenue of \$2.2 million from four members of the Board of Directors of the Fund. 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.

**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, 2007, the Fund regularly held cash deposits in excess of federally insured limits.

The Fund received approximately \$33.3 million from three Foundations and \$17.6 million from two Foundations in contributions during the years ended August 31, 2007 and 2006, respectively, in addition to the contributions received from board members described above.

**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 2007, the Fund matched one hundred percent of employee contributions up to 4% of each employee's eligible compensation. The Fund's contribution was \$99,378 and \$64,268 for the plan years ended August 31, 2007 and 2006, respectively.