

NEW SCHOOLS FUND DBA
NEWSCHOOLS VENTURE FUND

AUGUST 31, 2010

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, 2010, 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 2009 financial statements whose report dated May 18, 2010 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, 2010, 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

August 12, 2011

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New Schools Fund dba NewSchools Venture Fund

Consolidated Statement of Financial Position

<i>August 31, 2010 (with comparative totals for 2009)</i>	2010	2009
Assets		
Current Assets:		
Cash and cash equivalents	\$ 7,996,151	\$ 6,374,806
Assets of support organization	434,783	454,825
Contributions receivable	10,128,824	15,902,270
Investments	26,720,285	23,609,918
Other current assets	16,521	41,785
Total current assets	45,296,564	46,383,604
Property and Equipment, net	197,523	277,218
Contributions Receivable, noncurrent portion, net	5,454,775	3,389,344
Program Related Investments	4,964,000	2,536,626
Other Assets	31,807	31,807
Total assets	\$ 55,944,669	\$ 52,618,599
Liabilities and Net Assets		
Liabilities:		
Current Liabilities:		
Accounts payable	\$ 170,127	\$ 103,727
Agency funds payable	99,000	130,273
Contract payable	1,500,000	1,000,000
Grants payable	795,000	39,951
Accrued compensation	539,971	559,101
Total current liabilities	3,104,098	1,833,052
Net Assets:		
Unrestricted	9,052,528	3,664,267
Temporarily restricted	43,788,043	47,121,280
Total net assets	52,840,571	50,785,547
Total liabilities and net assets	\$ 55,944,669	\$ 52,618,599

The accompanying notes are an integral part of this statement.

New Schools Fund dba NewSchools Venture Fund

Consolidated Statement of Activities

Year Ended August 31, 2010 (with comparative totals for 2009)

	2010			2009 Total
	Unrestricted	Temporarily Restricted	Total	
Revenue, Gains, and Other Support:				
Contributions	\$ 8,834,325	\$ 14,227,495	\$ 23,061,820	\$ 20,098,842
Net investment income	32,861	54,098	86,959	441,673
Net realized loss on program related investment	14,283		14,283	(74,662)
Other income	198,853		198,853	123,374
Net assets released from restrictions	17,614,830	(17,614,830)		
<hr/>				
Total revenue, gains and other support	26,695,152	(3,333,237)	23,361,915	20,589,227
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Expenses:				
Program services:				
Investing:				
Grants	13,731,850		13,731,850	12,746,240
Venture building	3,653,002		3,653,002	3,837,034
	17,384,852		17,384,852	16,583,274
Field building	2,185,728		2,185,728	1,964,606
<hr/>				
Total program services	19,570,580		19,570,580	18,547,880
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Supporting services	1,736,311		1,736,311	1,629,769
<hr/>				
Total expenses	21,306,891		21,306,891	20,177,649
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Increase (Decrease) in				
Net Assets	5,388,261	(3,333,237)	2,055,024	411,578
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Net Assets - beginning of year	3,664,267	47,121,280	50,785,547	50,373,969
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Net Assets - end of year	\$ 9,052,528	\$ 43,788,043	\$ 52,840,571	\$ 50,785,547

The accompanying notes are an integral part of this statement.

New Schools Fund dba NewSchools Venture Fund

Consolidated Statement of Cash Flows

<i>Year Ended August 31, 2010 (with comparative totals for 2009)</i>	2010	2009
Cash Flows from Operating Activities:		
Increase in net assets	\$ 2,055,024	\$ 411,578
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	164,428	140,962
Net realized and unrealized loss (gain) on investments	24,022	(55,116)
Net realized loss on program related investments		74,662
Loss on disposal of assets	1,298	389
Changes in operating assets and liabilities:		
Contributions receivable	3,708,015	2,916,080
Interest in net assets of support organization	20,042	96,698
Other assets	25,264	32,027
Accounts payable	66,400	(285,704)
Agency funds payable	(31,273)	(131,583)
Contract payable	(1,000,000)	
Grants payable	755,049	39,951
Accrued compensation	(19,130)	22,974
Net cash provided by operating activities	5,769,139	3,262,918
Cash Flows from Investing Activities:		
Purchases of property and equipment	(86,031)	(138,124)
Purchases of investments	(49,421,306)	(32,704,106)
Purchases of program related investments	(1,025,000)	(245,688)
Proceeds from sale of assets		1,000
Proceeds from sale/maturity of investments	46,286,917	30,907,312
Proceeds from collection on note receivable - program related investments	97,626	97,626
Net cash used by investing activities	(4,147,794)	(2,081,980)
Net Increase in Cash and Cash Equivalents	1,621,345	1,180,938
Cash and Cash Equivalents, Beginning of year	6,374,806	5,193,868
Cash and Cash Equivalents, End of year	\$ 7,996,151	\$ 6,374,806
Supplemental Cash Flow Disclosure:		
Noncash transactions:		
Contract payable on program related investment	\$ 1,500,000	\$ 1,000,000

The accompanying notes are an integral part of this statement.

New Schools Fund dba NewSchools Venture Fund

Notes to Consolidated Financial Statements

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 and loans in 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 "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 the Fund satisfies a purpose restriction, the Fund reclassifies temporarily restricted net assets to unrestricted net assets and reports such in the statement of activities as net assets released from restrictions. At August 31, 2010 temporarily restricted net assets, including contributions receivable, were restricted for program and time purposes of approximately \$39,976,065 and \$3,811,978, respectively. Purpose 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

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 Fund 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. Contributions

The Fund recognizes contributions, including unconditional promises to give, as revenues in the period received. The Fund recognizes conditional promises only when they become unconditional—that is, when the Fund satisfies the conditions on which they depend. The Fund records contributions of assets other than cash at their estimated fair value. The Fund 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 Fund records the amortization of the discount as additional contribution revenue over the payment period.

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

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, 2010, 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.

New Schools Fund dba NewSchools Venture Fund

Notes to Consolidated Financial Statements

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.

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 Fund invests all liquid assets of the Support Organization 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 classified as non marketable equity securities 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. Fair Value Measurements

The Fund 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 Fund 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.

New Schools Fund dba NewSchools Venture Fund

Notes to Consolidated Financial Statements

Other Financial Instruments

Financial instruments, which are included in the Fund's Statement of Financial Position as of August 31, 2010 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, and program related investments. Their carrying amounts represent a reasonable estimate of the corresponding fair values.

i. 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 amend the economic useful lives of the related assets are capitalized. The Fund expenses, as incurred, other expenditures for repairs and maintenance.

j. Fundraising

The Fund received support from contributions from private foundations and individuals whose interests are focused on improving public education. The Fund expended approximately \$609,374 on efforts to generate this support in the fiscal year ended August 31, 2010.

k. 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.

l. 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).

The Financial Accounting Standards Board issued new guidance on accounting for uncertainty in income taxes. The Fund adopted this new guidance for the year ended August 31, 2010. Management evaluated the Fund's tax positions and concluded that the Fund 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.

New Schools Fund dba NewSchools Venture Fund

Notes to Consolidated Financial Statements

m. 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, 2009, from which summarized information was derived.

n. Reclassifications

Certain reclassifications have been made to the prior year financial statements in conformity to the current year presentation. There was no effect on net assets as a result of the reclassifications.

o. Subsequent Events

The Fund has evaluated subsequent events through August 12, 2011, 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.

p. New Accounting Pronouncements

Adopted

In April 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) Topic 820-10-35, 50, and 55 as an amendment to ASC Topic 820, *Fair Value Measurements and Disclosures*. Among other items it defined "*major category*" as related to the disclosure of investments in the fair value hierarchy. The Fund has adopted the disclosure requirements in the financial statements as of August 31, 2010.

In June 2009, the Financial Accounting Standards Board (FASB) issued *The FASB Accounting Standards* (Codification). The Codification is the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities effective for financial statements issued for periods ending after September 15, 2009. The Codification does not change accounting principles generally accepted in the United States of America and had no effect on the Fund's financial position or results of operations.

New Schools Fund dba NewSchools Venture Fund

Notes to Consolidated Financial Statements

Pronouncements effective in the future

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. This update provided amendments that require new disclosures of (a) transfers in and out of Levels 1 and 2 to include reasons for the transfers as well and (b) reconciliation for fair value measurements using significant unobservable inputs (Level 3) should be presented separately on a gross basis, rather than as one net number. This update also provided amendments that clarify existing disclosures such as the level of disaggregation for each class of assets and liabilities as well as disclosures about inputs and valuation techniques. The Fund does not believe that the adoption of this update will have a material impact on its financial statements.

Note 3 - Contributions Receivable:

Contributions receivable as of August 31, 2010 consists of the following:

Receivables due in less than one year	\$ 10,128,824
Receivables due in one to two years	3,102,500
Receivables due in two to three years	2,540,000
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Total contributions receivable	15,771,324
Less: Amount representing discount for receivables due in one to three years	(187,725)
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Net contributions receivable	\$ 15,583,599

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

New Schools Fund dba NewSchools Venture Fund

Notes to Consolidated Financial Statements

Note 4 - Investments:

Investments as of August 31, 2010 and 2009 are as follows:

	2010	2009
Federal Home Loan Bank obligations	\$ 12,519,695	\$ 6,262,295
Federal Farm Credit Bank obligations	2,011,813	1,224,251
Fannie Mae and Freddie Mac obligations	12,188,777	4,462,222
Federal National Mortgage Association obligations		4,519,004
Corporate obligations		7,142,146
	<hr/>	<hr/>
	\$ 26,720,285	\$ 23,609,918

Investments represent all financial assets measured at fair value on a recurring basis at August 31, 2010 and 2009. The Fund has determined that its investments are classified as level 2.

Note 5 - Property and Equipment:

Property and equipment as of August 31, 2010 and 2009 are as follows:

	2010	2009
Hardware	\$ 184,757	\$ 176,330
Software	440,219	400,827
Furniture, fixtures and equipments	140,377	148,334
Leasehold improvements	9,707	9,707
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	775,060	735,198
Accumulated depreciation	(577,537)	(457,980)
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Property and equipment, net of depreciation	\$ 197,523	\$ 277,218

New Schools Fund dba NewSchools Venture Fund

Notes to Consolidated Financial Statements

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.

Investments without readily determinable fair values are reported at historical cost, unless it can be reasonably be expected that the Fund 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.

Program related investments as of August 31, 2010 and 2009 were as follows:

	2010	2009
Notes receivable from a foundation, bearing interest at 3%, due on January 31, 2011 and August 31, 2015	\$ 424,579	\$ 522,205
Convertible notes receivable from an educational enterprise, bearing interest at 1%, due on June 1, 2011 and September 19, 2012	625,000	200,000
Note receivable from an educational enterprise, bearing interest at 1%, due on June 1, 2011	100,000	
Total notes receivable	1,149,579	722,205
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, 135,473 shares of preferred stock	325,002	325,002
Investment in educational enterprise, 80,711 shares of preferred stock	345,688	345,688
Total investment securities	814,421	814,421
Intellectual property - intangible	3,000,000	1,000,000
Total program related investments	\$ 4,964,000	\$ 2,536,626

New Schools Fund dba NewSchools Venture Fund

Notes to Consolidated Financial Statements

The intellectual property is the result of the Fund 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 Fund retains partial intellectual property rights. The Fund has invested \$1,500,000 as of August 31, 2010 of a maximum of \$3,000,000 under this agreement. The remaining contract payable of \$1,500,000 is committed through August 31, 2011 based on initial phase results and a mutual decision among the parties to the agreement to move forward with the project. As part of the agreement, the Fund is entitled to a five year warrant to purchase up to 50,000 shares of the firm's common stock subject to approval by the firm's board of directors. Subsequent to August 31, 2010, the firm's board of directors approved the warrants. Subsequently, the Fund purchase and sold the shares in the firm for proceeds of approximately \$410,000.

Note 7 - Grants Payable:

Grants of \$5,903,243 and program-related loans of \$175,000 at August 31, 2010 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:

Year Ended	
August 31,	
2011	\$ 290,818
2012	98,795
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Total	\$ 389,613
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Rental expense for all operating leases totaled \$287,378 and \$250,576 for the fiscal years ended August 31, 2010 and 2009, respectively.

Note 9 - Related Party Transactions:

During the year ended August 31, 2010, the Fund recognized total contribution revenue of \$3.7 million from five members of the Board of Directors of the Fund. During the year ended August 31, 2009, the Fund recognized total contribution revenue of \$4.6 million from four members of the Board of Directors of the Fund.

New Schools Fund dba NewSchools Venture Fund

Notes to Consolidated Financial Statements

Note 10 - Concentrations of Risk:

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

During the year ended August 31, 2010, the Fund regularly held cash deposits in excess of federally insured limits.

The Fund received approximately \$18 million from four foundations and \$12.8 million from five foundations in contributions during the years ended August 31, 2010 and 2009, respectively, in addition to the contributions received from board members described above.

Note 11 - Retirement Plan:

The Fund adopted a 401(k) Plan which allows for the Fund to make discretionary contributions. In 2010, the Fund matched one hundred percent of employee contributions up to 4% of each employee's eligible compensation. The Fund's contribution was \$116,895 and \$121,959 for the plan years ended August 31, 2010 and 2009, respectively.