NEW SCHOOLS FUND DBA
NEWSCHOOLS VENTURE FUND

DECEMBER 31, 2013

INDEPENDENT AUDITORS' REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

New Schools Fund dba NewSchools Venture Fund

Independent Auditors' Report and
Consolidated Financial Statements

HOOD & STRONG LLP
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the **NEW SCHOOLS FUND dba NEWSCHOOLS VENTURE FUND (the Organization)** which comprise the consolidated statement of financial position as of December 31, 2013, and the related consolidated statement of activities, and cash flows for the year then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of New Schools Fund dba NewSchools Venture Fund and its supporting organizations as of December 31, 2013, 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 United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's December 31, 2012 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated February 15, 2014. In our opinion, the summarized comparative information presented herein as of and for year ended December 31, 2012 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Hood & Strong LLP

San Francisco, California
June 26, 2014

New Schools Fund dba NewSchools Venture Fund

Consolidated Statement of Financial Position

December 31, 2013 (with comparative totals for 2012)	2013	2012
Assets		
Current Assets:		
Cash and cash equivalents	$ 6,646,882	$ 10,114,710
Assets of support organization	434,948	434,645
Receivables:		
Contributions receivable, current portion	6,083,594	1,837,833
Investment in transit	-	53,239
Other receivable	41,410	73,250
Investments	20,957,017	18,342,378
Total current assets	34,163,851	30,856,055
Property and Equipment, net	125,471	108,235
Contributions Receivable, noncurrent portion, net	3,163,355	2,984,505
Mission Related Investments	11,440,911	8,231,668
Other Assets	139,440	52,212
Total assets	$ 49,033,028	$ 42,232,675
Liabilities and Net Assets		
Liabilities:		
Current Liabilities:		
Accounts payable	$ 599,435	$ 589,505
Grants payable	1,782,000	1,787,062
Accrued compensation	751,570	263,189
Total current liabilities	3,133,005	2,639,756
Net Assets:		
Unrestricted	26,539,621	19,700,305
Temporarily restricted	19,360,402	19,892,614
Total net assets	45,900,023	39,592,919
Total liabilities and net assets	$ 49,033,028	$ 42,232,675

The accompanying notes are an integral part of this statement.

New Schools Fund dba NewSchools Venture Fund

Consolidated Statement of Activities

Year Ended December 31, 2013 (with comparative totals for the year ended December 31, 2012)

	2013			
	Unrestricted	Temporarily Restricted	Total	2012 Total
Revenue, Gains, and Other Support:				
Contributions	$ 8,825,221	$ 21,197,804	$ 30,023,025	$ 23,160,446
Investment income	3,274		3,274	64,051
Mission related investments income	115,334		115,334	46,328
Other income	828,400		828,400	701,070
Gifts in-kind	110,463		110,463	95,877
Net assets released from restrictions	21,730,016	(21,730,016)	-	-
Total revenue, gains and other support	31,612,708	(532,212)	31,080,496	24,067,772
Expenses:				
Program services:				
Investing:				
Grants	14,840,300		14,840,300	18,233,453
Venture building	5,624,824		5,624,824	4,277,831
	20,465,124		20,465,124	22,511,284
Field building	2,330,431		2,330,431	3,169,293
Total program services	22,795,555		22,795,555	25,680,577
Supporting services	1,977,837		1,977,837	2,219,272
Total expenses	24,773,392		24,773,392	27,899,849
Increase (Decrease) in Net Assets	6,839,316	(532,212)	6,307,104	(3,832,077)
Net Assets - beginning of year	19,700,305	19,892,614	39,592,919	43,424,996
Net Assets - end of year	$ 26,539,621	$ 19,360,402	$ 45,900,023	$ 39,592,919

The accompanying notes are an integral part of this statement.

New Schools Fund dba NewSchools Venture Fund

Consolidated Statement of Cash Flows

Year Ended December 31, 2013 (with comparative totals for the year ended December 31, 2012)

	2013	2012
Cash Flows from Operating Activities:		
Increase (Decrease) in net assets	$ 6,307,104	$ (3,832,077)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	53,532	63,637
Net realized and unrealized loss on investments	46,843	42,780
Accrued interest on mission related investments	(115,334)	(35,554)
Changes in operating assets and liabilities:		
Contributions receivable	(4,424,611)	(1,195,804)
Investment in transit	53,239	1,460,005
Other receivable	31,840	681,494
Interest in net assets of support organization	(303)	-
Other assets	(87,228)	37,826
Accounts payable	9,930	308,058
Agency funds payable	-	(2,475)
Grants payable	(5,062)	(1,897,318)
Accrued compensation	488,381	12,308
Net cash provided by (used in) operating activities	2,358,331	(4,357,120)
Cash Flows from Investing Activities:		
Purchases of property and equipment	(70,768)	(47,852)
Purchases of investments	(30,477,927)	(24,734,505)
Proceeds from sale/maturity of investments	27,816,445	31,225,577
Proceeds from collection on note receivable - mission related investments	79,828	-
Purchases of mission related investments	(3,173,737)	(1,817,524)
Net cash (used in) provided by investing activities	(5,826,159)	4,625,696
Net Change in Cash and Cash Equivalents	(3,467,828)	268,576
Cash and Cash Equivalents, Beginning of year	10,114,710	9,846,134
Cash and Cash Equivalents, End of year	$ 6,646,882	$ 10,114,710

The accompanying notes are an integral part of this statement.

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 in and loans to 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 in accordance with U.S. generally accepted accounting principles and reflect the consolidated financial statements of NewSchools and the Support Organization (collectively, the Organization). All material intercompany transactions and balances have been eliminated. The consolidated 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 Organization. The Organization does not have any permanently restricted net assets as of December 31, 2013.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time. When a donor-stipulated time restriction ends or the Organization satisfies a purpose restriction, the Organization reclassifies temporarily restricted net assets to unrestricted net assets and reports such in the Consolidated Statement of Activities as net assets released from restrictions.

At December 31, 2013, temporarily restricted net assets, including contributions receivable, were restricted for program purpose and time purposes of approximately $16,299,229 and $3,061,173, 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, 2013 include $20,891,559 of program restrictions met and $838,457 of time restrictions met.

At December 31, 2012, temporarily restricted net assets, including contributions receivable, were restricted for program purpose and time purposes of approximately $17,805,172 and $2,087,442, 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, 2012 include $26,937,595 of program restrictions met and $1,889,374 of time restrictions met.

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

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 Organization 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 Organization recognizes contributions, including unconditional promises to give, as revenues in the year received. The Organization recognizes conditional promises only when they become unconditional, that is, when the Organization satisfies the conditions on which they depend. The Organization records contributions of assets other than cash at their estimated fair value. The Organization 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 of 3.25% as listed in the *Wall Street Journal*. The Organization records the amortization of the discount as additional contribution revenue over the payment period.

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

c. Contributed Services

The Organization 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 years ending December 31, 2013 and 2012, there were $110,463 and $95,877, respectively, in contributed services meeting the requirements for recognition in the consolidated financial statements.

d. 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.

e. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and money market accounts.

f. Assets of Support Organization

Contributions to the Support Organization are recognized as revenue of the Organization. The portion not yet received by the Organization is recorded in net assets of support organization in the Consolidated Statement of Financial Position. The Organization 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 year 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.

h. Mission Related Investments

Mission related investments classified as non marketable equity securities 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 year in which the decline in value occurs.

i. Fair Value Measurements

The Organization 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 Organization 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.

Other Financial Instruments

Financial instruments, which are included in the Organization's Consolidated Statement of Financial Position as of December 31, 2013 but not required to be measured at fair value on a recurring basis, consist of cash and cash equivalents, assets of the supporting organization, contributions receivable, investment in transit receivable, other receivables, mission related investments and accounts payable. Their carrying amounts represent a reasonable estimate of the corresponding fair values.

j. 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. Purchases of property and equipment over $1,000 are capitalized. Renewals and betterments that extend the economic useful lives of the related assets are capitalized. The Organization expenses, as incurred, other expenditures for repairs and maintenance.

k. Fundraising

The Organization receives support from contributions from private foundations and individuals whose interests are focused on improving public education. The Organization spent approximately $977,051 and $1,103,300 on efforts to generate this support in the year ended December 31, 2013 and 2012, respectively.

l. 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

m. Tax-Exempt Status

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

The Organization's 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 consolidated financial statements and the amount of the loss can be reasonably estimated. Management evaluated the Organization's tax positions and concluded that the Organization had maintained its tax exempt status and had taken no uncertain tax positions that require adjustment to the consolidated financial statements. Therefore, no provision or liability for income taxes has been included in the consolidated financial statements. The Organization is no longer subject to income tax examinations by Federal and State tax authorities for tax years before 2010 and 2009, respectively.

n. Comparative Totals

The consolidated 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 Organization's consolidated financial statements for the year ended December 31, 2012, from which summarized information was derived.

o. Functional Expense Allocations

The costs of providing various programs and activities have been summarized on a functional basis in the Consolidated Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services based on management's estimates.

p. <u>New Accounting Pronouncements</u>

In October 2012, the Financial Accounting Standards Board issued the Accounting Standards Update No. 2012-05 – Statement of Cash Flows (Topic 230) Not-for-Profit Entities – Classifications of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows. The update requires a not-for-profit entity to classify sale proceeds of donated financial assets consistent with cash donations as an operating activity, if such assets were converted nearly immediately into cash, unless the donor restricted the use of the proceeds to long-term purposes, in which case those cash receipts should be classified as a financing activity. If those assets were not immediately converted to cash, the proceeds upon sale should be classified as an investing activity. This guidance is effective prospectively for annual periods, beginning after June 15, 2013. The Organization is currently evaluating the effect of adoption on its financial statements.

q. <u>Subsequent Events</u>

The Organization has evaluated subsequent events through June 26, 2014, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure.

Note 3 - Contributions Receivable:

Contributions receivable as of December 31, 2013 and 2012 consists of the following:

	2013	2012
Receivables due in less than one year	$ 6,083,594	$ 1,837,833
Receivables due in one to two years	1,965,001	1,302,775
Receivables due in two to three years	956,667	1,115,001
Receivables due in three to four years	466,666	656,667
Receivables due in four to five years	-	166,666
Total contributions receivable	9,471,928	5,078,942
Less: Amount representing discount for receivables due in one to five years	(224,979)	(256,604)
Net contributions receivable	$ 9,246,949	$ 4,822,338

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

The Organization received the following conditional promises to give that are not recognized as assets in the Consolidated Statement of Financial Position as of December 31, 2013 and 2012:

	2013	2012
Conditional promise to give subject to matching requirements	$ 2,474,149	$ 4,000,885
Conditional promise to give subject to completing milestones per grant agreements	12,710,787	2,807,500
Total conditional promises to give	$ 15,184,936	$ 6,808,385

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

Note 4 - Investments and Fair Value Measurements:

Investments as of December 31, 2013 and 2012 are as follows:

	2013	2012
Federal Home Loan Bank obligations	$ 2,999,690	$ 500,000
Federal Farm Credit Bank obligations	-	599,971
Federal Agricultural Mortgage Corp obligations	-	350,000
Federal National Mortgage Association obligations	999,850	
Certificates of Deposit	16,957,477	16,892,407
	$ 20,957,017	$ 18,342,378

Investments represent all financial assets measured at fair value on a recurring basis at December 31, 2013 and 2012. The Organization has determined that its investments are classified as level 2.

Note 5 - Property and Equipment

Property and equipment as of December 31, 2013 and 2012 are as follows:

	2013	2012
Hardware	$ 278,937	$ 219,848
Software	372,457	372,457
Furniture, fixtures and equipment	174,570	168,717
Leasehold improvements	14,598	10,993
	840,562	772,015
Accumulated depreciation	(715,091)	(663,780)
Property and equipment, net of depreciation	$ 125,471	$ 108,235

Note 6 - Mission Related Investments:

The Organization has created a pool of capital used to make uncollateralized loans 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 the Organization 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.

The Organization held twenty one notes at December 31, 2013 and nine notes at December 31, 2012, totaling $3,140,033 and $1,473,686, respectively. The average face and carrying amount of the loans is $149,525 and $163,743 at December 31, 2013 and 2012, respectively. Interest rates on the loans range from 0% to 8%. The loans mature at varying times between 2014 and 2015.

The Organization has equity investments in nineteen entities at December 31, 2013 and thirteen entities at December 31, 2012, totaling $5,800,878 and $4,257,982, respectively.

No impairments in value have been recorded for the existing loans or investments.

The Organization entered into an agreement with an educational software firm (the Firm) and a charter management organization to develop a formative assessment tool, in which the Organization retains partial intellectual property rights. The Organization had invested $2,500,000 as of December 31, 2013 and 2012.

The Organization is engaged in discussions with the Firm with respect to the original agreement that has resulted in a proposal to amend and terminate certain provisions of the original agreement and to memorialize other agreements. The proposed changes include relieving the Organization of its commitments to pay an additional $500,000 to the Firm and modification to the terms under which the Organization will be paid by the Firm. Subsequent to December 31, 2013, the draft of the proposal continues to be reviewed by both parties.

Note 7 - Grants Payable and Commitments:

Grants payable as of December 31, 2013 of $1,782,000 are scheduled to be paid in 2014.

At December 31, 2013, grant payments of $6,733,928 are contingent upon grantees meeting specific conditions in the future and have not been recorded.

Note 8 - Lease Commitments:

The Organization leases offices under non-cancelable operating lease agreements. Approximate future minimum lease payments under these leases are:

Year Ended December 31,	
2014	$ 438,000
2015	419,000
2016	432,000
2017	301,000
2018	241,000
Total	$ 1,831,000

Rental expense for all operating leases totaled $385,680 and $352,373 for the years ended December 31, 2013 and 2012, respectively.

For the year ended December 31, 2013, the total amount of sub-rental revenue received was $73,628. The total amount of minimum rentals to be received in the future under noncancelable subleases are approximately $24,000 in 2014.

Note 9 - Related Party Transactions:

During the years ended December 31, 2013 and December 31, 2012, the Organization recognized total contribution revenue of $8.8 million and $8.7 million, respectively from five members of the Board of Directors of the Organization. At December 31, 2013, there was contributions receivable of $1.75 million from two members of the Board of Directors of the Organization.

For the years ended December 31, 2013 and 2012, the organization paid approximately $39,600 and $600,000, respectively, to an Organization affiliated with a member of the Board of Directors.

Note 10 - Concentrations of Risk:

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

During the years ended December 31, 2013 and 2012, the Organization regularly held cash deposits in excess of federally insured limits.

The Organization received approximately $2,652,000, or 9% of its total revenue, from one foundation in 2013. No other individual donor, other than board members described in Note 9 above, contributed more than 7% of total revenue in 2013. The Organization received approximately $2,875,000, or 12% of its total revenue, from one foundation in 2012. No other individual donor, other than board members described in Note 9 above, contributed more than 7% of total revenue in 2012.

Note 11 - Retirement Plan:

The Organization participates in a 401(k) Plan which allows for the Organization to make discretionary contributions of up to 4% of each employee’s eligible compensation. The Organization’s contribution was $106,523 and $110,177 for the years ended December 31, 2013 and 2012, respectively.