NEW SCHOOLS FUND DBA
NEWSCHOOLS VENTURE FUND

DECEMBER 31, 2012

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

THE BOARD OF DIRECTORS
NEW SCHOOLS FUND dba
NEWSCHOOLS VENTURE FUND
San Francisco, 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, 2012, and the related consolidated statements 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.

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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, 2012, 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, 2011 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 12, 2012. In our opinion, the summarized comparative information presented herein as of and for the sixteen month period ended December 31, 2011 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Hood & Strong LLP

San Francisco, California
February 15, 2014

New Schools Fund dba NewSchools Venture Fund

Consolidated Statement of Financial Position

December 31, 2012 (with comparative totals for 2011)	2012	2011
Assets		
Current Assets:		
Cash and cash equivalents	$ 10,114,710	$ 9,846,134
Assets of support organization	434,645	434,645
Receivables:		
Contributions receivable	1,837,833	3,414,589
Investment in transit	53,239	1,513,244
Other receivable	73,250	754,744
Investments	18,342,378	24,876,230
Total current assets	30,856,055	40,839,586
Property and Equipment, net	108,235	124,020
Contributions Receivable, noncurrent portion, net	2,984,505	211,945
Mission Related Investments	8,231,668	6,378,590
Other Assets	52,212	90,038
Total assets	$ 42,232,675	$ 47,644,179
Liabilities and Net Assets		
Liabilities:		
Current Liabilities:		
Accounts payable	$ 589,505	$ 281,447
Agency funds payable	-	2,475
Grants payable	1,787,062	3,684,380
Accrued compensation	263,189	250,881
Total current liabilities	2,639,756	4,219,183
Net Assets:		
Unrestricted	19,700,305	10,319,963
Temporarily restricted	19,892,614	33,105,033
Total net assets	39,592,919	43,424,996
Total liabilities and net assets	$ 42,232,675	$ 47,644,179

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, 2012 (with comparative totals for the sixteen months ended December 31, 2011)

	2012			
	Unrestricted	Temporarily Restricted	Total	2011 Total
Revenue, Gains, and Other Support:				
Contributions	$ 7,545,896	$ 15,614,550	$ 23,160,446	$ 26,931,465
Ivestment income	64,051		64,051	91,734
Mission related investments income	46,328		46,328	1,009,811
Other income	701,070		701,070	225,378
Gifts in-kind	95,877		95,877	145,733
Net assets released from restrictions	28,826,969	(28,826,969)	-	-
Total revenue, gains and other support	37,280,191	(13,212,419)	24,067,772	28,404,121
Expenses:				
Program services:				
Investing:				
Grants	18,233,453		18,233,453	27,241,042
Venture building	4,277,831		4,277,831	5,455,461
	22,511,284		22,511,284	32,696,503
Field building	3,169,293		3,169,293	2,702,484
Total program services	25,680,577		25,680,577	35,398,987
Supporting services	2,219,272		2,219,272	2,420,709
Total expenses	27,899,849		27,899,849	37,819,696
Increase (Decrease) in Net Assets	9,380,342	(13,212,419)	(3,832,077)	(9,415,575)
Net Assets - beginning of year	10,319,963	33,105,033	43,424,996	52,840,571
Net Assets - end of year	$ 19,700,305	$ 19,892,614	$ 39,592,919	$ 43,424,996

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, 2012 (with comparative totals for the sixteen months ended December 31, 2011)

	2012	2011
Cash Flows from Operating Activities:		
Decrease in net assets	$ (3,832,077)	$ (9,415,575)
Adjustments to reconcile decrease in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	63,637	154,806
Net realized and unrealized loss on investments	42,780	332,746
Accrued interest on mission related investments	(35,554)	
Net realized gain on mission related investments		(578,851)
Loss on disposal of assets		465
Conversion of a misson related investment note receivable to grant expense		100,000
Changes in operating assets and liabilities:		
Contributions receivable	(1,195,804)	11,957,065
Investment in transit	1,460,005	(1,513,244)
Other receivable	681,494	(71,365)
Interest in net assets of support organization		138
Other assets	37,826	(2,507)
Accounts payable	308,058	111,320
Agency funds payable	(2,475)	(96,525)
Contract payable		(1,000,000)
Grants payable	(1,897,318)	2,889,380
Accrued compensation	12,308	(289,090)
Net cash (used) provided by operating activities	(4,357,120)	2,578,763
Cash Flows from Investing Activities:		
Purchases of property and equipment	(47,852)	(81,768)
Purchases of investments	(24,734,505)	(64,876,768)
Proceeds from sale/maturity of investments	31,225,577	66,388,077
Proceeds from collection on note receivable - mission related investments		68,182
Purchases of mission related investments	(1,817,524)	(2,226,503)
Net cash provided (used) by investing activities	4,625,696	(728,780)
Net Increase in Cash and Cash Equivalents	268,576	1,849,983
Cash and Cash Equivalents, Beginning of year	9,846,134	7,996,151
Cash and Cash Equivalents, End of year	$ 10,114,710	$ 9,846,134

	2012	2011
Supplemental Cash Flow Disclosure:		
Noncash transactions:		
Contract payable on mission related investment adjustment	$ -	$ 500,000
Proceeds from sale of mission related investments receivable	-	722,582
Conversion of a mission related investment note receivable to grant expense	-	100,000

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 (GAAP) 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 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.

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 statement of activities as net assets released from restrictions. 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. Change in Fiscal Year

In 2011, the Organization changed its fiscal year from an August 31 year-end to a December 31 year-end. Consequently, the fiscal period reported in these Consolidated Financial Statements for the year ended December 31, 2011 is for a sixteen month period, from September 1, 2010 to December 31, 2011. The fiscal period reported in these Consolidated Financial Statements for the year ended December 31, 2012 is for a twelve month period, from January 1, 2012 to December 31, 2012.

c. Contributions

The Organization recognizes contributions, including unconditional promises to give, as revenues in the period 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.

d. 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 fiscal periods ending December 31, 2012 and 2011, there were $95,877 and $145,733, respectively, in contributed services meeting the requirements for recognition in the financial statements.

e. 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.

f. 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.

g. 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 Statement of Financial Position. The Organization invests all liquid assets of the Support Organization in money market funds.

h. 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.

i. 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 period in which the decline in value occurs.

j. 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 Statement of Financial Position as of December 31, 2012 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, and mission related investments. Their carrying amounts represent a reasonable estimate of the corresponding fair values.

k. 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.

l. Fundraising

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

m. 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.

n. 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 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 financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements. The Organization is no longer subject to income tax examinations by Federal and State tax authorities for tax years before 2009 and 2008, respectively.

o. 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 Organization's financial statements for the year ended December 31, 2011, from which summarized information was derived.

p. Functional Expense Allocations

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

q. New Accounting Pronouncements

Adopted:

In May 2011, the Financial Accounting Standards Board (FASB) issued additional disclosure requirements for fair value measurements. Under this guidance, the amendments change the wording used to describe many of the requirements for measuring fair value and for disclosing information about fair value measurements. The amendments explain how to measure fair value and do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices. The disclosure is effective for years beginning after December 15, 2011. The Organization has implemented this update as of December 31, 2012.

Pronouncements effective in the future

In October 2012, FASB 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.

r. Subsequent Events

The Organization has evaluated subsequent events through February 15, 2014 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 and Note 8.

Note 3 - Contributions Receivable:

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

Receivables due in less than one year	$ 1,837,833
Receivables due in one to two years	1,302,775
Receivables due in two to three years	1,115,001
Receivables due in three to four years	656,667
Receivables due in four to five years	166,666
Total contributions receivable	5,078,942
Less: Amount representing discount for receivables due in one to five years	(256,604)
Net contributions receivable	$ 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, 2012:

Conditional promise to give subject to matching requirements	$ 4,000,885
Conditional promise to give subject to completing milestones per grant agreements	2,807,500
Total conditional promises to give	$ 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, 2012 and August 31, 2011 are as follows:

	2012	2011
Federal Home Loan Bank obligations	$ 500,000	$ 5,677,170
Federal Farm Credit Bank obligations	599,971	2,560,674
Federal Agricultural Mortgage Corp obligations	350,000	
Federal National Mortgage Association obligations		1,714,151
Certificates of Deposit	16,892,407	14,924,235
	$ 18,342,378	$ 24,876,230

Investments represent all financial assets measured at fair value on a recurring basis at December 31, 2012 and December 31, 2011. The Organization has determined that its investments are classified as level 2.

Note 5 - Property and Equipment

Property and equipment as of December 31, 2012 and December 31, 2011 are as follows:

	2012	2011
Hardware	$ 219,848	$ 207,474
Software	372,457	440,219
Furniture, fixtures and equipment	168,717	184,996
Leasehold improvements	10,993	10,993
	772,015	843,682
Accumulated depreciation	(663,780)	(719,662)
Property and equipment, net of depreciation	$ 108,235	$ 124,020

Note 6 - Mission Related Investments:

The Organization has created a pool of capital used to make 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 period in which the decline in value occurs.

The Organization held nine notes at December 31, 2012 (three at December 31, 2011), totaling $1,473,686 and $607,901, respectively. The average face and carrying amount of the loans is $163,743 and $202,634 at December 31, 2012 and 2011, respectively. Interest rates on the loans range from 3% to 7%. The loans mature at varying times between 2013 and 2015.

The Organization has equity investments in thirteen entities at December 31, 2012, (eight at December 31, 2011), totaling $4,257,982 and $3,270,689, respectively.

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 invested $2,500,000 as of December 31, 2012 and 2011.

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, 2012, the draft of the proposal continues to be reviewed by both parties.

Note 7 - Grants Payable and Commitments:

Grants payable as of December 31, 2012 are scheduled to be paid in the following years:

Year Ended December 31,	
2013	$ 1,537,062
2014	250,000
	$ 1,787,062

At December 31, 2012, grant payments of $8,133,310 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. Future minimum lease payments under these leases are:

Year Ended December 31,	
2013	$ 382,458
2014	217,614
2015	183,265
2016	188,935
2017	73,872
Total	$ 1,046,144

Rental expense for all operating leases totaled $352,373 for the year ended December 31, 2012 and $409,435 for the sixteen month period ended December 31, 2011 (fiscal period).

For the year ended December 31, 2012, the total amount sub-rental revenue received was $66,200. The total amount of minimum rentals to be received in the future under noncancelable subleases are approximately $63,900 in 2013, $32,600 in 2014, and $14,300 in 2015.

The Organization entered into a lease for office space in Palo Alto in November 2013 for an initial term of five years, with an option to renew for one additional term. The initial monthly lease payment is $19,023, plus the Organizations pro rata share of certain operating costs, with annual increases of 3% over the term of the lease. Total payments under the lease are $1,232,766.

Note 9 - Related Party Transactions:

During the fiscal period ended December 31, 2012 and December 31, 2011, the Organization recognized total contribution revenue of $8.7 million and $5.5 million, respectively from five members of the Board of Directors of the Organization. At December 31, 2012, there was contributions receivable of $1,000,000 from one member of the Board of Directors of the Organization.

For the fiscal periods ended December 31, 2012 and December 31, 2011, the organization paid approximately $600,000 and $1,169,000, 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 fiscal periods ended December 31, 2012 and December 31, 2011, the Organization regularly held cash deposits in excess of federally insured limits.

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. In the fiscal period ended December 31, 2011, the Organization received $18 million from four foundations.

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 $110,177 and $144,318 for the fiscal periods ended December 31, 2012 and December 31, 2011, respectively.