The Chicago Public Education Fund

Financial Report
December 31, 2012

Contents

McGladrey

Independent Auditor's Report

To the Board of Directors
The Chicago Public Education Fund
Chicago, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of The Chicago Public Education Fund (The Fund) which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year then ended and the related notes to the financial statements.

Prior Year Report on the Financial Statements

The financial statements of The Fund as of and for the year ended December 31, 2011, were audited by other auditors whose report, dated May 8, 2012, expressed an unqualified opinion on those statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements referred to above present fairly, in all material respects, the financial position of The Chicago Public Education Fund as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

McGladrey LLP

Chicago, Illinois
April 4, 2013

The Chicago Public Education Fund

Statements of Financial Position
December 31, 2012 and 2011

	2012	2011
Assets		
Cash	**$ 456,633**	$ 1,797,890
Prepaid expenses	**7,873**	9,637
Unconditional promises to give	**219,086**	1,832,513
Amounts held for deferred compensation	**-**	69,081
Investments	**7,080,307**	7,492,393
Property and equipment, net	**28,160**	73,932
Deposits	**4,596**	4,596
	$ 7,796,655	$ 11,280,042
Liabilities and Net Assets		
Liabilities		
Accounts payable	**$ 12,333**	$ 67,805
Grants payable	**-**	31,000
Accrued expenses	**30,161**	10,000
Deferred rent obligation	**10,795**	82,843
Amounts held for others as fiscal agent	**544,000**	-
Deferred compensation	**-**	69,081
	597,289	260,729
Net Assets		
Unrestricted	**7,000,123**	9,874,298
Temporarily restricted	**199,243**	1,145,015
	7,199,366	11,019,313
	$ 7,796,655	$ 11,280,042

The accompanying notes are an integral part of the financial statements.

The Chicago Public Education Fund

Statements of Activities
Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Contributions	$ 439,199	$ -	$ 439,199
Investment income	8,481	-	8,481
Net assets released from restrictions	945,772	(945,772)	-
	1,393,452	(945,772)	447,680
Expenses:			
Program investments and services:			
Educational leadership	3,724,713	-	3,724,713
Supporting services:			
Management and general	478,674	-	478,674
Fundraising	64,240	-	64,240
	4,267,627	-	4,267,627
Decrease in net assets	(2,874,175)	(945,772)	(3,819,947)
Net assets:			
Beginning of year	9,874,298	1,145,015	11,019,313
End of year	$ 7,000,123	$ 199,243	$ 7,199,366

The accompanying notes are an integral part of the financial statements.

The Chicago Public Education Fund

Statements of Activities (Continued)
Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Contributions	$ 399,493	$ 6,631	$ 406,124
In-kind contributions	294,000	-	294,000
Investment income	8,764	-	8,764
Net assets released from restrictions	3,842,255	(3,842,255)	-
	4,544,512	(3,835,624)	708,888
Expenses:			
Program investments and services:			
Educational leadership	3,217,439	-	3,217,439
Supporting services:			
Management and general	260,815	-	260,815
Fundraising	114,703	-	114,703
	3,592,957	-	3,592,957
Change in net assets	951,555	(3,835,624)	(2,884,069)
Net assets:			
Beginning of year	8,922,743	4,980,639	13,903,382
End of year	$ 9,874,298	$ 1,145,015	$ 11,019,313

The accompanying notes are an integral part of the financial statements.

The Chicago Public Education Fund

Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Change in net assets	**$ (3,819,947)**	$ (2,884,069)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	**56,913**	83,281
Stock donations received	**(280,762)**	(84,709)
Realized and unrealized (gains) losses on investments, net	**(2,652)**	547
Change in operating assets and liabilities:		
Prepaid expenses	**1,764**	1,477
Unconditional promises to give	**1,613,427**	3,223,148
Amounts held for deferred compensation	**69,081**	(7,648)
Accounts payable	**(55,472)**	26,214
Grants payable	**(31,000)**	31,000
Amounts held for others as fiscal agent	**544,000**	-
Accrued expenses	**20,161**	(2,200)
Deferred rent obligation	**(72,048)**	(56,064)
Deferred compensation	**(69,081)**	7,648
Net cash (used in) provided by operating activities	**(2,025,616)**	338,625
Cash Flows from Investing Activities		
Purchases of property and equipment	**(11,141)**	(18,782)
Purchases of investments	**(16,258,614)**	(13,697,416)
Proceeds from sale of securities and matured certificates of deposit	**16,954,114**	14,299,920
Net cash provided by investing activities	**684,359**	583,722
Cash Flows from Financing Activities		
Payments on capital lease obligation	**-**	(3,991)
Net cash used in financing activities	**-**	(3,991)
Net (decrease) increase in cash	**(1,341,257)**	918,356
Cash:		
Beginning of year	**1,797,890**	879,534
Ending of year	**$ 456,633**	$ 1,797,890

The accompanying notes are an integral part of the financial statements.

Note 1. Nature of Activities and Significant Accounting Policies

The Chicago Public Education Fund (The Fund) is a non-profit organization incorporated in the State of Illinois in 1999. The Fund accelerates student achievement in Chicago's public schools by building high-performing teams of principals and teachers, improving evaluation and accountability systems, and reinventing classrooms with the innovative use of time, technology, and talent.

The Fund's supporters represent a broad cross section of Chicago's business, civic, and philanthropic leaders. They have committed $50,000,000 to The Fund since 2000, enabling the organization to identify high-quality programs and outstanding management teams in which to invest financial capital and strategic support. The Fund invests significant capital, provides strategic and operational management assistance, and leverages the business acumen of its directors and management team to have a positive impact on students and schools. The Fund tracks the performance of its investments, both in terms of their impact on the quality of talent in the system and in terms of the impact of those leaders on student learning. Building on a strong track record of success in Funds I, II, and III, The Fund is considering a launch of Fund IV in 2013. Meanwhile, The Fund is spending down the monies raised in support of Fund III, and it is expected that grants to The Fund's portfolio programs from the remaining monies raised in support of Fund III will be paid out in 2013, and possibly thereafter.

Significant accounting policies are as follows:

Basis of accounting: The financial statements of The Fund have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Accounting policies: The Fund follows accounting standards established by the Financial Accounting Standards Board (FASB) to ensure consistent reporting of financial position, results of activities, and cash flows. References to generally accepted accounting principles in these footnotes are to the FASB Accounting Standards Codification, sometimes referred to as the Codification or ASC.

Use of estimates: In preparing financial statements in conformity with generally accepted accounting principles, management makes estimates and assumptions affecting the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Classification of net assets: Net assets and related activities are classified as unrestricted, temporarily restricted and permanently restricted based on the nature and existence or absence of donor imposed restrictions.

Unrestricted: Net assets available for support of The Fund's operations that are not subject to donor-imposed restrictions.

Temporarily Restricted: Net assets subject to donor-imposed restrictions that may or will be met either by actions of The Fund or the passage of time. Temporarily restricted net assets are released and reclassified to unrestricted net assets when the restrictions are met or have expired. Restricted amounts received in the same period in which the restrictions are satisfied are recorded in unrestricted net assets.

Permanently Restricted: Net assets subject to donor-imposed restrictions requiring that all contributed assets be invested and maintained in perpetuity by The Fund. There are no permanently restricted net assets.

Support and revenues: The Fund receives a significant portion of its operating funds from grants and contributions. Contributions are recognized when the donor makes a promise to give to The Fund that is, in substance, unconditional.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Investment income and realized and unrealized gains/losses resulting from contributions are reported as unrestricted or temporarily restricted net assets, as provided by the donor.

Investments: Investments are recorded at fair value. Investment return includes realized gains and losses and any unrealized appreciation or depreciation of the investments. Investment return is reported in operating income of unrestricted net assets unless the income is restricted by donor or law. Donated securities are recorded at market value on the date received.

Unconditional promises to give: Unconditional promises to give are recognized as revenue or gains in the period received and as assets, decreases in liabilities or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Unconditional promises to give or pledges made which have not been collected by year-end are recorded as an increase in temporarily restricted net assets as a time restriction until the point in time that collections are due or received from the donor.

Based on management's assessment of the collectability of specific promises to give and the aging of the promises to give, no provision has been made for uncollectible amounts as of December 31, 2012 or 2011.

Property and equipment: The Fund capitalizes property, equipment and leasehold improvements with a cost of $1,000 or more. The cost of property and equipment is depreciated over the estimated lives of the respective assets using the straight-line method. Property and equipment are depreciated over an estimated useful life of three years. Leasehold improvements are amortized using the straight-line method over the remaining life of the lease term as of the date placed in service.

Functional allocation of expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Amounts held for others as fiscal agent: Amounts held for others are recorded as a liability concurrently with its recognition of those assets received from the donor on the statement of financial position until the conditions for the payout are met.

Deferred rent: The Fund has entered into an operating lease for its office facility that contains a provision for periods in which rent payments are abated or reduced. Accordingly, The Fund records monthly rent expense on a straight line basis in an amount equal to the total of the payments due over the lease term, divided by the number of months of the lease term. The difference between rent expense recorded and the amount paid is charged to deferred rent obligation.

Income taxes: The Fund is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and similar statutes of Illinois law. In addition, The Fund qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

The accounting standard on accounting for uncertainty in income taxes addressed the determination of whether tax benefits claimed on a tax return should be recorded in the financial statements. Under this guidance, The Fund may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of The Fund and the various positions related to the potential sources of unrelated business taxable income (UBTI).

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

The tax benefits recognized in the financial statement from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement.

The Fund does not believe that there are any unrecognized tax benefits or tax liabilities that should be recorded for the reporting periods presented in these financial statements.

The Fund is generally no longer subject to examination by the Internal Revenue Service for years before 2009.

Subsequent events: The Fund has evaluated subsequent events for potential recognition and/or disclosures through April 4, 2013, the date the financial statements were available to be issued.

Note 2. Program Services

The Fund services include leveraging financial resources, time, and influence of staff and board members to:

- **Advocate for high standards and aligned accountability systems**, supporting Chicago Public Schools (CPS) in the creation and implementation of rigorous and effective school, principal, and teacher evaluation systems. This included helping to launch REACH, the new CPS teacher evaluation system, working with the district to modify the existing principal evaluation system, and assisting in the design of a new school accountability framework.

- **Champion great teachers and principals as critical to school success**, supporting recruitment, training, retention, and recognition efforts for great teachers and principals. This included ensuring that the Chicago Executive Leadership Academy, a pioneering effort to create in Chicago the nation's first district-based academy for schools chiefs, was adopted as a priority for CPS. This program now allows for the recruitment, development and mentoring of new chiefs, deputy chiefs, and principals within Chicago Public Schools.

- **Partner with schools to prove that much better academic outcomes can be achieved in individual classrooms and schools**. This included bringing New Classrooms, an innovative middle school mathematics model, to two schools in the school system. It also included strategic time investments to help a set of schools extend their school day in advance of universal Full School Day adoption.

- **Support city-wide efforts to grow a world-class system of public schools.** This included investments in the creation of an Office of Strategic Management at Chicago Public Schools and in strategic communication support for the district.

Note 3. Fair Value of Financial Instruments

As described in Note 1, The Fund records its investments at fair value. The Fair Value Measurements and Disclosures Topic of the Codification defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under the Topic as assumptions market participants would use in pricing an asset or liability.

Note 3. Fair Value of Financial Instruments (Continued)

The three levels of the fair value hierarchy under the Topic are described below:

Level 1. Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2. Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3. Inputs that are unobservable for the asset or liability and which include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Fund's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investments.

The Fund assesses the levels of the investments at each measurement date and transfers between levels are recognized on the actual date of the event or change in circumstance that caused the transfer in accordance with The Fund's accounting policy regarding recognition of transfers between levels of the fair value hierarchy. There were no such transfers for the years ended December 31, 2012 and 2011.

As of December 31, 2012 and 2011, The Fund's investments in fixed income money market funds were classified as Level 1.

Note 4. Investments

Investments at December 31, 2012 and 2011, consist of:

	2012	2011
UBS money market fund	$ 1,118,382	$ 7,492,393
UBS certificates of deposit	5,961,925	-
Total	$ 7,080,307	$ 7,492,393

Certificates of deposit at December 31, 2012 consist of instruments that are held to maturity with a range of dates between January 7, 2013 and June 5, 2013, and that bear yields between 0.2% and .5%. All securities are held to maturity and interest is payable upon maturity. Unrealized depreciation on UBS certificates of deposit as of December 31, 2012 was $1,925.

Investments on The Fund's statement of financial position of $7,080,307 as of December 31, 2012 included the amount held for others of $544,000. There were no amounts held for others as of December 31, 2011.

Note 4. Investments (Continued)

Investment income for the years ended December 31, 2012 and 2011 included the following:

	2012	2011
Interest and dividend income	$ 5,829	$ 9,311
Net realized and unrealized gains (losses)	2,652	(547)
Total investment return	$ 8,481	$ 8,764

Note 5. Unconditional Promises to Give

Unconditional promises to give are discounted based upon payment terms using discount rates tied to U.S. Treasury Bonds. The discount rates range between 0.9% and 2.1%.

Unconditional promises to give at December 31 consist of the following:

	2012	2011
Receivable in less than one year	$ 19,843	$ 1,673,725
Receivable in one to five years	203,333	165,833
	223,176	1,839,558
Less unamortized discount	(4,090)	(7,045)
	$ 219,086	$ 1,832,513

Note 6. Property and Equipment

Property and equipment at December 31 consist of the following:

	2012	2011
Furniture and fixtures	$ 73,214	$ 73,214
Leasehold improvements	121,341	121,341
Equipment	178,033	166,892
	372,588	361,447
Less accumulated depreciation	(344,428)	(287,515)
	$ 28,160	$ 73,932

Note 7. Amounts Held for Others as Fiscal Agent

The Fund is acting as a fiscal agent for Chicago Public Schools (CPS) in connection with the CPS principal bonus plan which began in 2012. Under this agreement, The Fund has agreed to accept payment of pledges from various donors secured by CPS, and to process payments to school principals, as directed by CPS, for each of the four calendar years from 2012 through 2015. During 2012, $1,114,000 in pledge payments was collected and recorded to the statement of financial position as a liability. A total of $570,000 was disbursed during 2012 for principal bonus payments, reducing the recorded liability and leaving a remaining balance of $544,000 to be disbursed under this agreement in future years.

Note 8. Contributed Services

During 2011, The Fund received contributed services from an independent third party to assist in strategic planning related to The Fund's program investments. These services were valued at their estimated fair value of $294,000 and were recorded in the statement of activities as revenue (in-kind contributions) and related program investment and services expense. There were no in-kind contributed services received during 2012.

Note 9. Grants to Others

The maximum amount payable under any grant is approved by the Board of Directors. Grant payments to programs were $2,343,975 and $763,962 in 2012 and 2011, respectively. Grants payable were $0 and $31,000 at December 31, 2012 and 2011, respectively. Grant payments to programs are included in educational leadership program expenses on the statements of activities.

Grants authorized but unpaid at year-end are reported as liabilities. Conditional grant commitments are recorded as liabilities when the conditions on which they depend are substantially met. As of December 31, 2012, grants that have not met all of the conditions for payment established at the time of the grant approval by The Fund's Board of Directors totaled $249,500, all of which is scheduled to be paid in less than one year.

Note 10. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes and periods as of December 31:

	2012	2011
Subsequent years' operations - contributions receivable	$ 199,243	$ 1,145,015

Net assets released from donor restrictions by satisfying the restricted purposes specified by donors for 2012 and 2011 were $945,775 and $3,842,555, respectively.

Note 11. Operating Leases

The Fund leases its office facility under an operating lease that expires at the end of February 2013, and which has been renewed in February 2013 for a four year term beginning March 1, 2013, under terms substantially the same as the existing lease. Monthly base rentals range from 10,542 to 11,420.50. In addition, The Fund is required to share building operating and maintenance costs and taxes. The Fund also leases certain equipment under operating leases. Annual future minimum rental payments under these lease agreements are as follows:

2013	$	141,965
2014		129,434
2015		132,950
2016		136,466
2017		22,842
	$	563,657

Total rent expense and share of building operating, maintenance and taxes paid under the leases was $206,444 in 2012 and $204,303 in 2011.

Note 12. Retirement Plan

The Fund has a 401(k) plan. Employees who meet age and length of service requirements may elect to make contributions to the plan through a salary reduction arrangement not to exceed the lesser of $17,000 or 60% of their annual compensation. The Fund makes a contribution for all eligible employees up to a maximum of 4% of their annual compensation. The Fund’s contribution to the plan was $40,562 and $58,657 for the years ended December 31, 2012 and 2011, respectively.

Note 13. Nonqualified Deferred Compensation Plans

The deferred compensation liability at December 31, 2011, of $69,081 consisted of balances due under two non-qualified plans to benefit the former founding president and chief executive officer of The Fund. To ensure funds were available to meet these obligations, management maintained a separate investment account in an amount equal to the outstanding liability. The founding President left her employment with The Fund effective at the end of July 2011, and these deferred compensation benefits were distributed to her in January 2012.