THE CHICAGO PUBLIC EDUCATION FUND
Chicago, Illinois

FINANCIAL STATEMENTS
December 31, 2010 and 2009

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Independent Auditor's Report

Board of Directors
The Chicago Public Education Fund
Chicago, Illinois

We have audited the accompanying statements of financial position of The Chicago Public Education Fund (The Fund) as of December 31, 2010 and 2009, and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Fund as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Clifton Gunderson LLP

Oak Brook, Illinois
May 2, 2011

THE CHICAGO PUBLIC EDUCATION FUND
STATEMENTS OF FINANCIAL POSITION
December 31, 2010 and 2009

ASSETS

	2010	2009
Cash	$ 879,534	$ 325,486
Prepaid expenses	11,114	8,556
Unconditional promises to give	5,055,661	9,082,192
Amounts held for deferred compensation	61,433	43,392
Investments	8,010,735	5,942,329
Property and equipment, net	138,431	190,091
Deposits	4,596	4,596
TOTAL ASSETS	$ 14,161,504	$ 15,596,642

LIABILITIES AND NET ASSETS

	2010	2009
LIABILITIES		
Accounts payable	$ 41,591	$ 49,085
Grants payable	-	55,808
Accrued expenses	12,200	-
Capital lease obligation	3,991	10,728
Deferred rent obligation	138,907	187,665
Deferred compensation	61,433	43,392
Total liabilities	258,122	346,678
NET ASSETS		
Unrestricted	8,847,721	6,167,772
Temporarily restricted	5,055,661	9,082,192
Total net assets	13,903,382	15,249,964
TOTAL LIABILITIES AND NET ASSETS	$ 14,161,504	$ 15,596,642

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

THE CHICAGO PUBLIC EDUCATION FUND
STATEMENT OF ACTIVITIES
Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Contributions	$ 1,226,535	$ 857,056	$ 2,083,591
In-kind contributions	4,500	-	4,500
Investment return	22,034	-	22,034
Net assets released from restrictions:			
Expiration of time restrictions	4,883,587	(4,883,587)	-
Total support and revenue	6,136,656	(4,026,531)	2,110,125
EXPENSES			
Program investment and services:			
Educational leadership	3,054,025	-	3,054,025
Supporting services:			
Management and general	295,101	-	295,101
Fundraising	107,581	-	107,581
Total expenses	3,456,707	-	3,456,707
CHANGE IN NET ASSETS	2,679,949	(4,026,531)	(1,346,582)
NET ASSETS, BEGINNING OF YEAR	6,167,772	9,082,192	15,249,964
NET ASSETS, END OF YEAR	$ 8,847,721	$ 5,055,661	$ 13,903,382

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

THE CHICAGO PUBLIC EDUCATION FUND
STATEMENT OF ACTIVITIES
Year Ended December 31, 2009

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Contributions	$ 708,951	$ -	$ 708,951
In-kind contributions	224,000	-	224,000
Investment return	74,027	-	74,027
Net assets released from restrictions:			
Expiration of time restrictions	4,731,218	(4,731,218)	-
Total support and revenue	5,738,196	(4,731,218)	1,006,978
EXPENSES			
Program investment and services:			
Educational leadership	4,440,091	-	4,440,091
Supporting services:			
Management and general	364,261	-	364,261
Fundraising	140,559	-	140,559
Total expenses	4,944,911	-	4,944,911
CHANGE IN NET ASSETS	793,285	(4,731,218)	(3,937,933)
NET ASSETS, BEGINNING OF YEAR	5,374,487	13,813,410	19,187,897
NET ASSETS, END OF YEAR	$ 6,167,772	$ 9,082,192	$ 15,249,964

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

THE CHICAGO PUBLIC EDUCATION FUND
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (1,346,582)	$ (3,937,933)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	92,107	76,640
Stock donations received	(546,410)	(178,505)
Reinvestment of investment income	(40,970)	(127,781)
Realized and unrealized losses on investments, net	18,936	48,481
Effects of changes in operating assets and liabilities:		
Prepaid expenses	(2,558)	483
Accrued interest receivable	-	10,286
Unconditional promises to give	4,026,531	4,731,218
Amounts held for deferred compensation	(18,041)	(3,360)
Deposits	-	(120)
Accounts payable	(7,494)	6,116
Grants payable	(55,808)	(847,400)
Accrued expenses	12,200	-
Amounts held for others as fiscal agent	-	112,500
Deferred rent obligation	(48,758)	(32,874)
Deferred compensation	18,041	3,360
Net cash provided by (used in) operating activities	2,101,194	(138,889)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(40,447)	(65,705)
Liquidation of money market funds	400,000	2,350,000
Purchases of investments	(15,619,542)	(16,790,654)
Proceeds from sale of securities and matured certificates of deposit	13,719,580	14,242,904
Net cash used in investing activities	(1,540,409)	(263,455)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligation	(6,737)	(6,590)
NET INCREASE (DECREASE) IN CASH	554,048	(408,934)
CASH, BEGINNING OF YEAR	325,486	734,420
CASH, END OF YEAR	$ 879,534	$ 325,486

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Chicago Public Education Fund (The Fund) is a not-for-profit organization incorporated in the State of Illinois on January 29, 1999. The Fund seeks to accelerate achievement for all Chicago public school students, especially the neediest, by building talented teams of principals and teachers. Using an innovative venture capital model, The Fund serves as a catalyst and strategic investment partner to businesses, foundations, civic and community leaders, and the Chicago Public Schools (CPS) in supporting high-impact programs that improve school leadership and student achievement district wide. The Fund makes significant financial contributions to the programs it supports, and it also provides considerable strategic, operational and management assistance, often helping programs create strategic and/or marketing plans, hire management teams, recruit board members, and identify additional sources of financial support, often redirecting public funds to sustain programs and reform efforts.

The Fund launched its third fund (Fund III) in 2008. Fundraising activities for Fund III began prior to its launch and are expected to be completed during 2011. Grants to the Fund's portfolio programs from the monies raised in support of Fund III will be paid out in 2011, 2012 and possibly thereafter.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

The financial statements of The Fund have been prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred.

Financial Statement Presentation

The Fund prepares its financial statements under provisions of FASB Accounting Standards Codification (ASC) No. 958-205, *Not-for-Profit Entities - Presentation of Financial Statements*. Under ASC No. 958-205, The Fund is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Support and Revenues

The Fund receives a significant portion of its operating funds from grants and contributions.

The Fund records contributions in accordance with FASB Accounting Standards Codification (ASC) No. 958-605, *Not-for-Profit Entities - Revenue Recognition.* Contributions are classified as unrestricted, temporarily restricted, or permanently restricted based on the existence or nature of any donor restrictions. There are no permanently restricted net assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Support and Revenues (continued)

Contributions are recognized when the donor makes a promise to give to The Fund that is, in substance, unconditional. Contributions that are restricted by the donor are reported as an increase to unrestricted net assets during the period in which the restriction expires. 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. Investment income and realized and unrealized gains/losses resulting from contributions are reported as unrestricted or temporarily restricted net assets, as designated by the donor.

Cash Equivalents

The Fund considers all liquid investments with maturity of three months or less when purchased, to be cash equivalents. Cash equivalents that are maintained within an individual investment portfolio are classified as investments in the Statements of Financial Position.

Investments

The Fund accounts for investments in accordance with FASB Accounting Standards Codification (ASC) No. 958-320, *Not-for-Profit Entities - Investments - Debt and Equity Securities.* ASC No. 958-320 requires that investments in equity securities with readily determinable fair values and investments in debt securities be reported at fair value in the Statements of Financial Position. Unrealized gains and losses are included in the change in net assets.

Donated securities are recorded at market value on the date received or at nominal value when the market value is not readily available.

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.

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, 2010 and 2009.

Property and Equipment

The Fund capitalizes property, equipment and leasehold improvements with a cost of $1,000 or more. Lesser amounts are expensed.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment (continued)

The cost of property and equipment is depreciated over the estimated lives of the respective assets on a straight-line basis. Property and equipment are depreciated over an estimated useful life of three years. Leasehold improvements are depreciated over the remaining life of the lease term as of the date placed in service.

Impairment of Long-Lived Assets

Management evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or the fair value, less cost to sell. Management is of the opinion that the carrying amount of its long-lived assets does not exceed their estimated recoverable amount.

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 programs and supporting services benefited.

Deferred Rent Obligation

The Fund has entered into an operating lease for its office facility which contains a provision for periods in which rent payments are abated or reduced. In accordance with generally accepted accounting principles, The Fund records monthly rent expense 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 Fund has no obligation for unrelated business income tax at December 31, 2010 and 2009.

The federal returns of The Fund for tax years 2007, 2008, and 2009 are subject to examination by the Internal Revenue Service generally for three years after they were filed.

Reclassifications

Certain reclassifications were made to the 2009 statements to conform to the 2010 presentation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in Accounting Principles

Effective January 1, 2010, the Fund adopted FASB Accounting Standards Codification No. 820-10-65-4, *Fair Value Measurements and Disclosures*. This standard does the following:

- Defines factors that should be used to determine whether there has been a significant decrease in the volume and level of activity when compared with normal market activity,
- Establishes guidance to determine if a transaction is orderly,
- Increases input and fair value valuation technique disclosures,
- Requires reporting entities to define major categories for equity and debt securities as major security types as defined in ASC 320, *Investments*.

NOTE 2 - PROGRAM SERVICES

A description of The Fund's programs is as follows:

Hire

The Fund identified and recommended improvements to the district's hiring process and is leading the effort to determine the predictive power of teacher applicant data. The Fund also seeded and led the customization for CPS' first online fit assessment for teacher applicants, which will allow CPS to identify those most likely to be successful in Chicago's urban teaching environment.

Evaluate

The Fund began developing a framework for teacher evaluation that includes student achievement, as well as teacher practice and other indicators as factors. This framework will ultimately improve how teachers are assessed and aid CPS in meeting new State mandates for rigorous teacher evaluation. Additionally, with the National Board for Professional Teaching Standards (NBPTS), The Fund is developing National Board Certification for Educational Leaders (NBCEL), an objective way to identify and reward master principals and ultimately encourage them to take on additional roles. Finally, in 2010, The Fund led the successful Teacher Incentive Fund (TIF) application process. As a result, CPS received a $34.1 million dollar grant to pilot teacher performance evaluation and performance-based compensation in the district.

NOTE 2 - PROGRAM SERVICES (continued)

Extended Learning Time

The Fund is leading the exploration of opportunities to use innovative instructional technology to expand student learning time. Fund staff is providing extensive strategic and operational management assistance to CPS and other partners to execute one of the nation's largest pilots that uses technology to meaningfully expand learning time during the school day. The Fund is also developing a long-term strategic plan for ELT in Chicago.

Human Capital Strategy

The Fund partnered with a management consultancy to develop a long-term human capital strategic plan for CPS, spanning all aspects of the human capital continuum – preparation, sourcing, hiring and placement, induction and professional development, evaluation and compensation.

Leadership Capacity

The Fund assisted CPS in redefining some of the district's senior leadership positions, led national searches and provided on-boarding services for select new CPS executives.

NOTE 3 - FAIR VALUE OF FINANCIAL INSTRUMENTS

In determining fair value, The Fund uses various valuation approaches within the ASC No. 820-10, *Fair Value Measurement,* framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

ASC No. 820-10 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizing the use of unobservable inputs by requiring that the most observable inputs be used when available. ASC No. 820-10 defines levels within the hierarchy based on the reliability of inputs as follows:

- Level 1 - Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 - Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and
- Level 3 - Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer, or broker-traded transactions.

NOTE 3 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following is a summary of investment assets at fair value by level within the fair value hierarchy as of December 31, 2010 and 2009:

	2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Money market funds	$ 534,509	$ -	$ -	$ 534,509
Domestic equities	152,126	-	-	152,126
Mutual funds	2,554,026	-	-	2,554,026
Certificates of deposit	4,770,074	-	-	4,770,074
Total	$ 8,010,735	$ -	$ -	$ 8,010,735

	2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Money market funds	$ 241,671	$ -	$ -	$ 241,671
Domestic equities	52,420	-	-	52,420
Mutual funds	1,212,732	-	-	1,212,732
Corporate bonds	1,012,755	-	-	1,012,755
Certificates of deposit	3,422,751	-	-	3,422,751
Total	$ 5,942,329	$ -	$ -	$ 5,942,329

NOTE 4 - UNCONDITIONAL PROMISES TO GIVE

The unconditional promises to give are discounted based upon payment terms using discount rates tied to U.S. Treasury Bonds. The discount rates range between 2.1% and 4.0%.

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

	2010	**2009**
Receivable in less than one year	$ 3,967,217	$ 5,134,773
Receivable in one to five years	1,151,000	4,223,863
Total unconditional promises to give	5,118,217	9,358,636
Less unamortized discount	(62,556)	(276,444)
Net unconditional promises to give	$ 5,055,661	$ 9,082,192

NOTE 5 - INVESTMENTS

Investments are stated at fair value. Fair values and unrealized appreciation (depreciation) at December 31 are summarized as follows:

	2010		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
UBS Select treasury fund	$ 2,554,026	$ 2,554,026	$ -
UBS Certificates of deposit	4,770,000	4,770,074	74
E-Trade Financial cash and equivalents	534,509	534,509	-
Domestic common stock	152,100	152,126	26
Total	$ 8,010,635	$ 8,010,735	$ 100

	2009		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
UBS RMA money market fund	$ 1,212,732	$ 1,212,732	$ -
UBS Corporate bonds	1,043,694	1,012,755	(30,939)
UBS Certificates of deposit	3,422,751	3,422,751	-
E-Trade Financial cash and equivalents	294,091	294,091	-
Total	$ 5,973,268	$ 5,942,329	$ (30,939)

Certificates of deposit at December 31, 2010, consist of instruments that are held to maturity with due dates that range between January 10, 2011 and June 30, 2011, and bearing yields between 0.15% and 1.25%. Certificates of deposit at December 31, 2009, consisted of instruments maturing between January 19, 2010 and March 23, 2011, and bearing yields between 0.35% and 2.20%. All securities are held to maturity and interest is payable upon maturity.

NOTE 5 - INVESTMENTS (continued)

The following schedules summarize the investment return, which includes interest on cash and cash equivalents and investments, and its classification in the Statements of Activities:

	2010		
	Unrestricted	**Restricted**	**Total**
Interest and dividend income	$ 40,970	$ -	$ 40,970
Net realized and unrealized losses	(18,936)	-	(18,936)
Total investment return	$ 22,034	$ -	$ 22,034

	2009		
	Unrestricted	**Restricted**	**Total**
Interest and dividend income	$ 122,508	$ -	$ 122,508
Net realized and unrealized gains	(48,481)	-	(48,481)
Total investment return	$ 74,027	$ -	$ 74,027

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2010	2009
Furniture and fixtures	$ 73,214	$ 70,363
Leasehold improvements	121,341	121,341
Equipment	148,109	110,513
Total, at cost	342,664	302,217
Less accumulated depreciation	(204,233)	(112,126)
Property and equipment, net	$ 138,431	$ 190,091

NOTE 7 - CAPITAL LEASE OBLIGATION

At December 31, 2010, equipment includes office telephone equipment with a cost of $20,021 under a capital lease which expires in July 2011.

Accumulated depreciation for equipment under the capital lease was $15,403 and $9,454 at December 31, 2010 and 2009, respectively.

Future minimum lease payments under The Fund's capital lease are as follows:

2011	$ 4,025
Less amount representing interest	(34)
Total	$ 3,991

NOTE 8 - CONTRIBUTED SERVICES

During the year ended December 31, 2009, The Fund received contributed services from an independent third party to assist in management of The Fund's program investment portfolio. During 2010, $4,500 of such contributed services was recognized as revenues and related expenses.

During the year ended December 31, 2009, The Fund received contributed services from an independent third party to design a streamlined reporting environment to result in increased efficiencies related to management of The Fund's program investment portfolio. During 2009, $224,000 of such contributed services was recognized as revenues and related expenses.

NOTE 9 - GRANTS TO OTHERS

The maximum amount of a particular grant is approved by the Board of Directors. Grant payments to programs were $891,709 and $1,873,688 in 2010 and 2009, respectively. Grants payable were $0 and $55,808 at December 31, 2010 and 2009, respectively.

NOTE 9 - GRANTS TO OTHERS (continued)

Grants authorized but unpaid at year-end are reported as liabilities in accordance with FASB Accounting Standards Codification (ASC) No. 958-605, *Not-for-Profit Entities - Revenue Recognition*. Conditional grant commitments are recognized when the conditions on which they depend are met. The following is a summary of conditional grants authorized but unpaid at December 31, 2010. These grants are dependent on the recipient organization's ability to meet the conditions established at the time of the grant approval by The Fund's board:

To be paid in less than one year	$ 890,000
To be paid in one to five years	300,000
Gross grants authorized but unpaid	$ 1,190,000

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

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

	2010	**2009**
Time:		
Subsequent years' operations - unconditional promises to give	$ 5,055,661	$ 9,082,192

NOTE 11 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by satisfying the restricted purposes specified by donors as of December 31 as follows:

	2010	**2009**
Expiration of time restrictions	$ 4,883,587	$ 4,731,218

NOTE 12 - OPERATING LEASES

The Fund leases its office facility under an operating lease expiring in February 2013. Under this lease, The Fund is required to share building operating and maintenance costs and taxes. The Fund also leases certain equipment under operating leases. Future minimum rental payments under existing lease agreements for the years ended December 31 are summarized as follows:

2011	$ 237,186
2012	243,272
2013	38,281
Totals	$ 518,739

Total rent expense and share of building operating, maintenance and taxes under operating leases was $211,635 in 2010 and $198,460 in 2009, respectively.

NOTE 13 - 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 $16,500 or 60% of their annual compensation for 2010. The Fund makes a contribution for all participating employees up to a maximum of 4% of their annual compensation. The Fund's contribution to the plan was $56,035 and $51,633 for the years ended December 31, 2010 and 2009, respectively.

NOTE 14 - CASH FLOW DISCLOSURES

Cash paid for interest was $152 in 2010 and $299 in 2009, respectively.

During the years ended December 31, 2010 and 2009, The Fund had no non-cash investing and financing transactions.

NOTE 15 - SIGNIFICANT ESTIMATES AND CONCENTRATIONS

Generally accepted accounting principles require disclosure of information about current vulnerabilities due to certain concentrations. These matters include the following:

Major Donors

Unconditional promises to give from The Fund's seven largest donors totaled $2.6 million and $5.4 million at December 31, 2010 and 2009, respectively.

NOTE 16 - NON-QUALIFIED DEFERRED COMPENSATION PLANS

The deferred compensation liability at December 31, 2010 and 2009, of $61,433 and $43,392, respectively, consists of balances due under two non-qualified plans to benefit the Founding President and CEO of The Fund. To insure funds are available to meet the obligations, management chose to invest an amount equal to the liability on December 22, 2009 and December 22, 2010.

NOTE 17 - SUBSEQUENT EVENTS

Management evaluated subsequent events through May 2, 2011, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2010, but prior to May 2, 2011 that provided additional evidence about conditions that existed at December 31, 2010, have been recognized in the financial statements for the year ended December 31, 2010. Events or transactions that provided evidence about conditions that did not exist at December 31, 2010, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended December 31, 2010.