The Chicago Public Education Fund

Financial Report
December 31, 2013

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 statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial 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 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 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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

McGladrey LLP

Chicago, Illinois
April 17, 2014

The Chicago Public Education Fund

Statements of Financial Position
December 31, 2013 and 2012

	2013	2012
Assets		
Cash	**$ 1,113,186**	$ 456,633
Prepaid expenses	**11,643**	7,873
Unconditional promises to give, net	**3,292,065**	219,086
Investments	**4,062,415**	6,536,307
Investments held for others as fiscal agent	**159,000**	544,000
Property and equipment, net	**200,533**	28,160
Deposits	**4,596**	4,596
	$ 8,843,438	$ 7,796,655
Liabilities and Net Assets		
Liabilities		
Accounts payable	**$ 23,690**	$ 12,333
Accrued expenses	**16,749**	30,161
Deferred rent obligation	**208,897**	10,795
Amounts held for others as fiscal agent	**159,000**	544,000
	408,336	597,289
Net Assets		
Unrestricted	**4,521,194**	7,000,123
Temporarily restricted	**3,913,908**	199,243
	8,435,102	7,199,366
	$ 8,843,438	$ 7,796,655

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

The Chicago Public Education Fund

Statements of Activities
Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Contributions	$ 67,632	$ 3,813,908	$ 3,881,540
Investment income	10,467	-	10,467
Net assets released from restrictions	99,243	(99,243)	-
	177,342	3,714,665	3,892,007
Expenses:			
Program investments and services:			
Educational leadership	1,878,687	-	1,878,687
Supporting services:			
Management and general	463,697	-	463,697
Fundraising	313,887	-	313,887
	2,656,271	-	2,656,271
Change in net assets	(2,478,929)	3,714,665	1,235,736
Net assets:			
Beginning of year	7,000,123	199,243	7,199,366
End of year	$ 4,521,194	$ 3,913,908	$ 8,435,102

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

The Chicago Public Education Fund

Statements of Activities (Continued)
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
Change 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 Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	**$ 1,235,736**	$ (3,819,947)
Adjustments to reconcile net assets to net cash used in operating activities:		
Depreciation	**51,108**	56,913
Stock donations received	**(30,640)**	(280,762)
Realized and unrealized (gains) losses on investments, net	**1,856**	(2,652)
Change in operating assets and liabilities:		
Prepaid expenses	**(3,770)**	1,764
Unconditional promises to give	**(3,072,979)**	1,613,427
Amounts held for deferred compensation	**-**	69,081
Accounts payable	**11,357**	(55,472)
Grants payable	**-**	(31,000)
Amounts held for others as fiscal agent	**(385,000)**	544,000
Accrued expenses	**(13,412)**	20,161
Deferred rent obligation	**198,102**	(72,048)
Deferred compensation	**-**	(69,081)
Net cash used in operating activities	**(2,007,642)**	(2,025,616)
Cash Flows from Investing Activities		
Purchases of property and equipment	**(223,481)**	(11,141)
Purchases of investments	**(20,082,612)**	(16,258,614)
Proceeds from sale of securities and matured certificates of deposit	**22,970,288**	16,954,114
Net cash provided by investing activities	**2,664,195**	684,359
Net increase (decrease) in cash	**656,553**	(1,341,257)
Cash:		
Beginning of year	**456,633**	1,797,890
End of year	**$ 1,113,186**	$ 456,633

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 nonprofit organization incorporated in the State of Illinois in 1999. The Fund works to build a critical mass of great public schools in Chicago by investing in talented principals and enabling effective educator teams to reinvent classroom learning. The Fund serves as a catalyst for accelerating positive learning and life outcomes for students in all of Chicago's charter and district public schools. The Fund is a longstanding leader in identifying and scaling what works for teachers and principals, as well as for the students they serve.

The Fund was founded by civic, business and philanthropic leaders committed to the vision of world-class public schools in Chicago. By working in partnership with Chicago Public Schools (CPS), the charter school community, the Mayor's Office and the nonprofit community, The Fund's investments have catalyzed improvement in schools across the city, positively impacting educational outcomes for more than 90,000 students.

The Fund raises a pre-established amount of money every four to five years and then invests the bulk of those funds in interventions designed to improve student outcomes. The Board of Directors approves allocation of funds for broad categories of program investments. Specific investments for new programs within these allocation categories are vetted and approved by Working Committees of the Board of Directors in conjunction with staff. In December 2013, The Fund announced that they will launch Fund 4 in 2014, and plan to invest more than $20 million to promote principal quality in Chicago over the next five years, which will improve educational outcomes for one in three students in public schools across the City of Chicago.

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.

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

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.

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 fair 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, 2013 or 2012.

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 assuming the remaining lease term is less than the useful life of the asset.

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. These amounts are held within the Fund's investment portfolio and classified separately within assets on the statements of financial position.

Deferred rent: Rent expense is recognized on a straight-line basis over the lease term. Deferred rent is recorded for the difference between cash paid and straight-line rent expense. Improvements funded by the landlord as a rental incentive are capitalized as leasehold improvements, with an equivalent amount included in the deferred rent obligation; each is amortized over the term of the lease, and included in rent expense.

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

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).

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 2010.

Subsequent events: The Fund has evaluated subsequent events for potential recognition and/or disclosures through April 17, 2014, the date the financial statements were available to be issued.

Note 2. Program Services

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

- **Dramatically improve principal quality at scale**. Develop a best-in-class principal leadership development system that grows high-performing and high-potential principals from 150 to at least 350 through both early-career and in-role supports.
- **Enable principal-led school transformation**. Enable principal-led teams to prove what's possible with personalized learning public school models; transforming their schools from good to great by leveraging innovative models and practices in ways that improve teacher practice and accelerate student learning.
- **Create the conditions for principal success**. Increase the dollars controlled at the school level, while improving the quality of educator evaluation and school accountability systems citywide.

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.

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, 2013 and 2012.

As of December 31, 2013 and 2012, The Fund's investments in fixed income money market funds and certificates of deposit were classified as Level 1.

Note 4. Investments

Investments at December 31, 2013 and 2012, consist of:

	2013	2012
UBS money market fund	$ 1,862,194	$ 1,118,382
UBS certificates of deposit	2,359,221	5,961,925
	$ 4,221,415	$ 7,080,307

Certificates of deposit at December 31, 2013 consist of instruments that are held to maturity with a range of dates between January 13, 2014 and May 21, 2014, and that bear yields between 0.2% and 0.4%. All securities are held to maturity and interest is payable upon maturity. Unrealized depreciation on UBS certificates of deposit as of December 31, 2013 and 2012 was $779 and $1,925, respectively.

Note 4. Investments (Continued)

Investment income for the years ended December 31 consists of the following:

	2013	2012
Interest and dividend income	$ 12,323	$ 5,829
Net realized and unrealized gains (losses)	(1,856)	2,652
	$ 10,467	$ 8,481

Note 5. Unconditional Promises to Give

Unconditional promises to give are discounted based upon payment terms using present value discount rates tied to U.S. Treasury Bond rates. The discount rates range between 0.38% and 1.75% in 2013 and between 0.9% and 2.1% in 2012.

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

	2013	2012
Receivable in less than one year	$ 1,182,857	$ 19,843
Receivable in one to five years	2,220,324	203,333
	3,403,181	223,176
Less discount	(111,116)	(4,090)
	$ 3,292,065	$ 219,086

Note 6. Property and Equipment

Property and equipment at December 31 consist of the following:

	2013	2012
Furniture and fixtures	$ 108,192	$ 73,214
Leasehold improvements	176,475	121,341
Equipment	190,061	178,033
	474,728	372,588
Less accumulated depreciation	(274,195)	(344,428)
	$ 200,533	$ 28,160

Note 7. Operating Leases

The Fund leases its office facility under an operating lease that renewed for a four-year term beginning March 1, 2013. The lease provides for a total rental abatement of $52,417 and lease incentives for build-out of the space, including $176,475 of leasehold improvements and $34,978 of furniture and fixtures. The rent abatement and lease incentives were recorded as deferred rent obligations and are being recognized on a straight-line basis over the term of the lease as a reduction to rent expense. Fully amortized leasehold improvements of $121,341 in connection with the previous lease were written off during 2013.

Monthly base rentals on the lease range from $10,542 to $11,421. In addition, The Fund is required to share building operating and maintenance costs and taxes. Total rent expense and share of building operating, maintenance and taxes paid under the office lease was $155,268 in 2013 and $206,444 in 2012.

The Fund also leases certain equipment under operating leases. Annual future minimum rental payments under the office and equipment lease agreements are as follows:

2014	$ 141,435
2015	144,949
2016	148,463
2017	34,845
2018	12,003
	$ 481,695

Note 8. Amounts Held for Others as Fiscal Agent

The Fund is acting as a fiscal agent for 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 the years ended 2013 and 2012, pledge payments in the amounts of $750,000 and $1,114,000, respectively, were collected and recorded to the statement of financial position as a liability. In 2013 and 2012, $1,135,000 and $570,000, respectively, were disbursed for principal bonus payments, leaving a remaining liability at December 31, 2013 of $159,000 to be disbursed under this agreement in future years.

Note 9. Grants to Others

The maximum amount payable under any grant is approved by the Board of Directors. Grant payments made by the Fund under various program initiatives totaled $575,935 and $2,343,975 in 2013 and 2012, respectively. These grant payments 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, 2013, 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 $120,320, 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:

	2013	2012
Promises to give due in future years	$ 3,277,193	$ 199,243
Gifts received restricted by donor to support Fund 4	636,715	-
	$ 3,913,908	$ 199,243

Net assets released from donor restrictions by satisfying the restricted purposes specified by donors for 2013 and 2012 were $99,243 and $945,772, respectively.

Note 11. 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 $17,500 or 60 percent of their annual compensation. The Fund makes a contribution for all eligible employees up to a maximum of 4 percent of their annual compensation. The Fund's contribution to the plan was $41,262 and $40,562 for the years ended December 31, 2013 and 2012, respectively.