The Chicago Public Education Fund

Financial Report
December 31, 2016

Contents

RSM US LLP

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, which comprise the statements of financial position as of December 31, 2016 and 2015, 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 from 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, 2016 and 2015, 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.

RSM US LLP

Chicago, Illinois
April 19, 2017

The Chicago Public Education Fund

Statements of Financial Position
December 31, 2016 and 2015

	2016	2015
Assets		
Cash	$ 1,764,501	$ 1,540,343
Unconditional promises to give, net	3,905,406	5,564,392
Accrued interest receivable	36,135	43,229
Prepaid expenses	42,904	103,048
Investments	5,588,477	5,258,537
Investments held for others as fiscal agent	-	100,000
Deposits	4,596	4,596
Property and equipment, net	46,683	82,218
	$ 11,388,702	$ 12,696,363
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 481,849	$ 396,206
Deferred rent obligation	45,238	76,958
Amounts held for others as fiscal agent	-	100,000
	527,087	573,164
Net assets:		
Unrestricted	6,409,709	6,259,462
Temporarily restricted	4,451,906	5,863,737
	10,861,615	12,123,199
	$ 11,388,702	$ 12,696,363

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

The Chicago Public Education Fund

Statements of Activities
Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Contributions	$ 2,406,243	$ 896,155	$ 3,302,398
In-kind contributions	46,511	-	46,511
Investment income	85,774	-	85,774
Net assets released from restrictions	2,307,986	(2,307,986)	-
	4,846,514	(1,411,831)	3,434,683
Expenses:			
Program investments and services:			
Educational leadership	3,980,537	-	3,980,537
Supporting services:			
Management and general	525,879	-	525,879
Fundraising	189,851	-	189,851
	4,696,267	-	4,696,267
Change in net assets	150,247	(1,411,831)	(1,261,584)
Net assets:			
Beginning of year	6,259,462	5,863,737	12,123,199
End of year	$ 6,409,709	$ 4,451,906	$ 10,861,615

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

The Chicago Public Education Fund

Statements of Activities (Continued)
Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Contributions	$ 1,705,320	$ 675,000	$ 2,380,320
In-kind contributions	100,000	-	100,000
Investment income	28,669	-	28,669
Net assets released from restrictions	2,805,491	(2,805,491)	-
	4,639,480	(2,130,491)	2,508,989
Expenses:			
Program investments and services:			
Educational leadership	3,729,720	-	3,729,720
Supporting services:			
Management and general	505,055	-	505,055
Fundraising	272,723	-	272,723
	4,507,498	-	4,507,498
Change in net assets	131,982	(2,130,491)	(1,998,509)
Net assets:			
Beginning of year	6,127,480	7,994,228	14,121,708
End of year	$ 6,259,462	$ 5,863,737	$ 12,123,199

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

The Chicago Public Education Fund

Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ (1,261,584)	$ (1,998,509)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	72,621	74,872
Stock donations received	(239,024)	(193,307)
Realized and unrealized losses on investments, net	102,868	152,348
Change in operating assets and liabilities:		
Unconditional promises to give	1,658,986	2,343,138
Accrued interest receivable	7,094	(21,321)
Prepaid expenses	60,144	(78,123)
Accounts payable and accrued expenses	85,643	341,061
Deferred rent obligation	(31,720)	(65,972)
Amounts held for others as fiscal agent	(100,000)	(529,000)
Net cash provided by operating activities	355,028	25,187
Cash flows from investing activities:		
Purchases of property and equipment	(37,086)	(7,554)
Purchases of investments	(7,604,340)	(6,087,762)
Proceeds from sale of investments	7,510,556	4,625,843
Net cash used in investing activities	(130,870)	(1,469,473)
Net increase (decrease) in cash	224,158	(1,444,286)
Cash:		
Beginning of year	1,540,343	2,984,629
End of year	$ 1,764,501	$ 1,540,343

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 is committed to building a critical mass of great public schools in Chicago. In particular, The Fund advocates for and invests in organizations and ideas that grow principal quality citywide, and develops and supports programs that enable our best educators to drive student performance to new heights.

Founded by civic, business and philanthropic leaders committed to the vision of world-class public schools in Chicago, The Fund is an active collaborator with leaders in Chicago Public Schools, the City of Chicago, the charter community, and nonprofits who share our commitment to driving long-term, sustainable improvements in public education. Over the past 16 years, The Fund has made more than $55 million in seed and strategic grants to support educator excellence and has served as a convener and catalyst for citywide efforts to improve public schools.

Every four to five years, The Fund engages the broader education and philanthropic communities to identify specific and measurable goals that can be achieved through targeted grants of strategic financial support. The Fund raises a pre-established amount of money and the Board of Directors approves allocation of funds into high-level categories of program investments. Each category is designed to help The Fund pursue the goals associated with the funding cycle. New investments within these categories are vetted and approved by assigned working committees of members of the Board of Directors, in conjunction with staff.

In December 2013, The Fund launched Fund 4, a plan to invest more than $20 million to grow the number of highly effective principals in Chicago's public schools from 150 in 2014 to 350 by 2018. By achieving this goal, The Fund will help 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.

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

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.

In-kind contributions are reported in the financial statements for voluntary donations of services when these services (1) create or enhance nonfinancial assets, or (2) require specialized skills provided by individuals possessing those skills and are services that would typically be purchased if not provided by donation. These contributed services, along with program investments and services expense of the same amount, are recorded at their estimated fair value.

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 as unrestricted revenue 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, 2016 or 2015.

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. Furniture and fixtures 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.

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

Amounts held for others as fiscal agent: Amounts held for others are recorded as a liability concurrently with recognition of those assets received from the funder on the statements of financial position until the conditions for the payout are met. These amounts are held within The Fund's investment portfolio and classified separately 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 amortization expense and rent expense.

Income taxes: The Fund is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and applicable state 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 addresses 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. The tax benefits recognized in the financial statements 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 2013.

Recent accounting pronouncements: In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases.* Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for The Fund's 2020 financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Key elements of the ASU include a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful for assessing liquidity. The new standard will be effective for The Fund's 2018 financial statements; early adoption is allowed.

The Fund is currently evaluating the impact of the adoption of these standards on its financial statements.

Subsequent events: The Fund has evaluated subsequent events for potential recognition and/or disclosures through April 19, 2017, the date the financial statements were available to be issued.

Note 2. Program Investments and Services

The Fund provides program services, which include investments of dollars, time and expertise to support school leaders in transforming and accelerating student learning. To do this, The Fund will:

Offer direct support to principals and their educator teams. Retain top principals by providing opportunities for them to expand their leadership. Improve principal performance by supporting principals and their educator teams as they use innovative models to accelerate student learning.

Provide talent management support and high-quality data to a broad range of partners citywide. Develop a best-in-class database to help support principal quality efforts in Chicago. Coordinate with partners to ensure a robust data set and an ongoing focus on principal quality at every stage of a principal's career.

Foster conditions in which principals thrive. Make Chicago the best city in the country to lead a public school by championing structures that recognize, empower and reward great leaders.

Make principal quality an enduring priority for the city of Chicago. Gather feedback from principals through an annual engagement survey and publish subsequent reports and case studies around issues important to principals.

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 (the 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.

Note 3. Fair Value of Financial Instruments (Continued)

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, 2016 and 2015.

As of December 31, 2016 and 2015, The Fund's investments in money market funds, certificates of deposit, U.S. government agencies securities and corporate bonds are classified as Level 1, while the municipal bonds are classified as Level 2.

Note 4. Investments

Investments at December 31, 2016 and 2015, including $100,000 held for others as fiscal agent as of December 31, 2015, consist of:

	2016	2015
Money market funds	$ 585,327	$ 594,674
Certificates of deposit	451,681	448,180
U.S. government agencies securities	2,471,496	1,798,477
Taxable municipal bonds	382,771	490,427
Corporate bonds	1,697,202	2,026,779
	$ 5,588,477	$ 5,358,537

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

	2016	2015
Interest and dividend income	$ 188,642	$ 181,017
Net realized losses	(67,003)	(23,725)
Net unrealized losses	(35,865)	(128,623)
	$ 85,774	$ 28,669

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 1.47 percent and 1.75 percent in 2016 and between 1.65 percent and 1.75 percent in 2015.

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

	2016	2015
Receivable in less than one year	$ 2,052,556	$ 2,168,716
Receivable in one to five years	1,915,481	3,541,058
	3,968,037	5,709,774
Less present value discount	(62,631)	(145,382)
	$ 3,905,406	$ 5,564,392

Conditional pledges, which are not recognized in the financial statements until conditions are satisfied, totaled $450,000 and $2,035,000 at December 31, 2016 and 2015, respectively.

Note 6. Property and Equipment

Property and equipment at December 31 consist of the following:

	2016	2015
Furniture and fixtures	$ 108,192	$ 108,192
Leasehold improvements	176,475	176,475
Equipment	203,146	221,489
	487,813	506,156
Less accumulated depreciation and amortization	(441,130)	(423,938)
	$ 46,683	$ 82,218

Fully depreciated obsolete computer equipment with an original cost of $55,429 was written off during 2016.

Note 7. Operating Leases

The Fund leases its office facility under an operating lease that expires February 2017. The lease was renewed in June 2016 for a four-year term beginning in March 2017 under terms substantially the same as the existing lease. The lease provides for rental abatement and lease incentives for build-out of the space. 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, including the renewal period, as a reduction to rent expense. Monthly base rentals range from $11,420 to $14,191 over the remaining term of the lease.

In addition to monthly base rentals, The Fund is required to pay allocated building operating and maintenance costs and taxes. Rent expense and share of building operating, maintenance and taxes paid under the office lease totaled $244,022 in 2016 and $224,876 in 2015.

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

2017	$ 113,909
2018	173,413
2019	165,463
2020	169,597
2021	28,381
	$ 650,763

Note 8. Amounts Held for Others as Fiscal Agent

The Fund acted as a fiscal agent for Chicago Public Schools (CPS) in connection with the CPS principal bonus plan that began in 2012. This agreement provided that The Fund would accept payment of pledges from various donors secured by CPS, and would process annual bonus payments to school principals, as directed by CPS. During the year ended 2015, donations in the amount of $276,666 were collected from donors and recorded to the statement of financial position as a liability, and $435,000 was disbursed for principal bonus payments. After the bonus payments to principals were made in 2015, CPS and the donors agreed to terminate this arrangement, and The Fund refunded the remaining $270,666 of unspent funds to the donors.

Additionally, during 2014, The Fund agreed to serve as fiscal agent on behalf of Crown Family Philanthropies (Crown) with respect to the CPS Principal Fellowship Program in partnership with Northwestern University. The Fund received two payments of $200,000, the first in 2015, and the second in 2016. Under the direction of Crown, $100,000 and $300,000 were disbursed during 2016 and 2015, respectively.

Investments held for others as fiscal agent totaling $100,000 at December 31, 2015 are reflected on the statement of financial position in an amount equivalent to the related liability. There are no investments held for others as fiscal agent at December 31, 2016.

Note 9. Grants to Others

The maximum amount payable under any grant is approved by The Fund's Board of Directors. Grant payments made by The Fund under various program initiatives totaled $2,036,029 and $1,752,569 in 2016 and 2015, 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, 2016, grants that have not met all of the conditions for recognition established at the time of the grant approval by The Fund's Board of Directors totaled $1,424,220, all of which is scheduled to be paid in 2017 if all conditions are met. As of December 31, 2015, grants that had not met all of the conditions for recognition established at the time of the grant approval by The Fund's Board of Directors totaled $1,616,490, of which $1,277,900 was paid in 2016 and $338,590 is scheduled to be paid in 2017 if all conditions were met.

Note 10. Temporarily Restricted Net Assets

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

	2016	2015
Promises to give due in future years	$ 3,901,906	$ 5,513,737
Gifts received from donors restricted for use in future periods	250,000	350,000
Restricted gifts received from donors for specific programs	300,000	-
	$ 4,451,906	$ 5,863,737

Net assets released from donor restrictions by satisfying the time restriction or restricted purposes specified by donors are $2,307,986 and $2,805,491 for 2016 and 2015, 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 $18,000 of their annual compensation. The Fund makes a contribution for all eligible employees up to a maximum of four percent of their annual compensation. The Fund's contribution to the plan was $47,239 and $44,863 for the years ended December 31, 2016 and 2015, respectively.

Note 12. Contributed Services

During 2016, The Fund received contributed services from an independent third party to assist in evaluation of principal programs for CPS. During 2015, The Fund received contributed services from an independent third party to assist in development of its Board of Directors. These services were valued at their estimated fair values of $46,511 and $100,000 in 2016 and 2015, respectively, and are recorded in the statement of activities as revenue (in-kind contributions) and related program investments and services expense.