Polk Bros. Foundation, Inc.

Financial Report
August 31, 2016

Contents

Plante & Moran, PLLC
10 South Riverside Plaza
9th floor
Chicago, IL 60606
Tel: 312.207.1040
Fax: 312.207.1066
plantemoran.com

Independent Auditor's Report

To the Board of Directors
Polk Bros. Foundation, Inc.

We have audited the accompanying financial statements of Polk Bros. Foundation, Inc. (the "Foundation"), which comprise the statement of financial position as of August 31, 2016 and 2015 and the related statements of activities and changes in net assets 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 audits 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 Polk Bros. Foundation, Inc. as of August 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.

To the Board of Directors
Polk Bros. Foundation, Inc.

Emphasis of Matter

As disclosed in Note 2, the financial statements include investments valued at net asset value of $315.2 million (74 percent of net assets) at August 31, 2016 and of $323.7 million (72 percent of net assets) at August 31, 2015, whose fair value has been estimated in the absence of observable inputs used to determine the market value. Management's estimates are based on information provided by the investment managers. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

November 8, 2016

Polk Bros. Foundation, Inc.

Statement of Financial Position

	August 31, 2016	August 31, 2015
Assets		
Cash and cash equivalents	$ 4,467,764	$ 4,287,507
Investments	420,828,857	442,302,249
Other assets:		
Prepaid expenses	-	179,316
Refundable taxes	60,000	245,993
Total assets	**$ 425,356,621**	**$ 447,015,065**
Liabilities and Net Assets		
Current Liabilities - Deferred excise tax	$ 954,700	$ 1,044,649
Net Assets - Unrestricted	424,401,921	445,970,416
Total liabilities and net assets	**$ 425,356,621**	**$ 447,015,065**

See Notes to Financial Statements.

Polk Bros. Foundation, Inc.

Statement of Activities and Changes in Net Assets

	Year Ended August 31, 2016	Year Ended August 31, 2015
Revenue, Gains, and Other Support		
Dividends from investments other than partnerships	$ 1,759,057	$ 1,946,709
Interest from investments other than partnerships	9,864	6,592
Net realized (losses) gains from partnerships	(1,006,341)	6,419,518
Net realized gains (losses) from sales of securities other than partnerships	1,256,725	(1,646,520)
Unrealized gains (losses) from investments	3,889,064	(11,284,449)
Capital gain dividends	3,440,418	7,259,382
Miscellaneous income	(130,142)	8,863
Total revenue, gains, and other support	9,218,645	2,710,095
Grants and Other Expenses		
Grants	26,647,519	27,220,578
Support services:		
Administrative expenses	2,552,352	2,411,136
Investment expenses	960,502	235,804
Deferred excise tax income	(89,949)	(1,639,431)
Provision for excise and income taxes	716,716	496,809
Total grants and other expenses	30,787,140	28,724,896
Decrease in Net Assets	(21,568,495)	(26,014,801)
Net Assets - Beginning of year	445,970,416	471,985,217
Net Assets - End of year	**$ 424,401,921**	**$ 445,970,416**

Polk Bros. Foundation, Inc.

Statement of Cash Flows

	Year Ended August 31, 2016	Year Ended August 31, 2015
Cash Flows from Operating Activities		
Decrease in net assets	$ (21,568,495)	$ (26,014,801)
Adjustments to reconcile decrease in net assets to net cash from operating activities:		
Net realized losses (gains) from partnerships	1,006,341	(6,419,518)
Net realized (gains) losses from sales of securities	(1,256,725)	1,646,520
Change in unrealized (gains) losses on investments	(3,889,064)	11,284,449
Investments reedemed for fees	723,002	-
Prepaid excise and income taxes	185,993	(102,993)
Prepaid expenses	179,316	2,103
Dividends receivable	(12,404)	-
Deferred excise tax	(89,949)	(1,639,431)
Net cash used in operating activities	(24,721,985)	(21,243,671)
Cash Flows from Investing Activities		
Proceeds from sales of securities	31,916,030	42,174,682
Purchases of securities	(41,238,964)	(23,786,000)
Purchases of partnership interests	(28,735,053)	(58,115,752)
Liquidating distributions and return of capital from partnerships	62,960,229	57,635,707
Net cash provided by investing activities	24,902,242	17,908,637
Net Increase (Decrease) in Cash and Cash Equivalents	180,257	(3,335,034)
Cash and Cash Equivalents - Beginning of year	4,287,507	7,622,541
Cash and Cash Equivalents - End of year	**$ 4,467,764**	**$ 4,287,507**
Supplemental Disclosure of Cash Flow Information - Cash paid for taxes	**$ 529,913**	**$ 599,802**

Note 1 - Nature of Business and Significant Accounting Policies

Organization Purpose - Polk Bros. Foundation, Inc. (the "Foundation") is a private foundation that provides funds to not-for-profit organizations that seek to improve the quality of life in the Chicago area. Grants are primarily made for activities in the areas of building strong communities and strong families and providing quality education, preventive and primary health care, access to the arts, and systems and policies that support individual and community growth.

Classification of Net Assets - Net assets are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristic of donor-imposed restrictions. The Foundation's net assets consisted only of unrestricted net assets as of August 31, 2016 and 2015.

Cash Equivalents - The Foundation considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The Foundation maintains its cash equivalents in bank deposit accounts, which exceed federally insured limits. Substantially all of the Foundation's cash equivalents are held at Northern Trust. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant credit risk on cash equivalents.

Investments - Investments are reported at fair value. Investment income or loss (including realized gains and losses on investments, changes in unrealized holding gains and losses, interest, and dividends) on investments is included in the statement of activities and changes in net assets and is recorded on the accrual basis of accounting. Gains and losses on securities transactions are accounted for using the specific identification method.

Net realized gains and losses from sales of securities and from the sale of shares distributed by certain limited partnership investments are separately presented in the statement of activities and changes in net assets.

The Foundation's investments are exposed to various risks such as interest rate, credit, and overall market volatility. Due to these risk factors, it is reasonably possible that changes in the value of investments will occur in the near term and could materially affect the amounts reported in the financial statements.

Furniture and Equipment - Purchases of furniture, equipment, and leasehold improvements are charged to expense rather than capitalized. As a result, depreciation expense is not reflected in the financial statements. This policy does not have a material effect on the financial statements as a whole.

Deferred Excise Taxes - The Foundation provides for deferred excise taxes, which represent taxes provided on the net unrealized appreciation of investments using a 1 percent rate for the years ended August 31, 2016 and 2015.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Tax Status - The Foundation is exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code. As a private foundation, the Foundation is subject to an excise tax of 2 percent on net investment income or 1 percent if the Foundation meets certain specified distribution requirements. In addition, the Foundation is subject to unrelated business income taxes on a portion of the income provided by certain investment partnerships. Total current federal excise tax expense for the years ended August 31, 2016 and 2015 was $145,110 and $304,551, respectively. Total deferred federal excise tax income for the years ended August 31, 2016 and 2015 was $89,949 and $1,639,431, respectively.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and recognize a tax liability if the Foundation has taken an uncertain position that more likely than not would be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Foundation and has concluded that as of August 31, 2016 and 2015, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

Upcoming Accounting Changes - The Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* in August 2016. ASU 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes, net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Foundation, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Foundation's year ending August 31, 2019 and thereafter and must be applied on a retrospective basis. The Foundation is currently evaluating the impact this standard will have on the financial statements.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

In February 2016, the Financial Accounting Standards Board issued ASU 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Foundation's year ending August 31, 2021 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The Foundation is currently evaluating the impact this standard will have on the financial statements.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including November 8, 2016, which is the date the financial statements were available to be issued.

Note 2 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Foundation's assets measured at fair value on a recurring basis at August 31, 2016 and 2015 and the valuation techniques used by the Foundation to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Foundation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

Note 2 - Fair Value Measurements (Continued)

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

As of August 31, 2016, the Foundation implemented new guidance that changes the required disclosures for investments valued at net asset value (NAV) per share (or its equivalent) as a practical expedient. Previously, investments measured at fair value using the NAV practical expedient were classified in the fair value hierarchy based on the redemption features associated with the investment. Under the new guidance, investments measured at fair value using net asset value per share (or its equivalent) as a practical expedient are no longer classified in the fair value hierarchy above and the information for 2015 has been adjusted to conform to the new disclosure requirements.

Note 2 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at August 31, 2016

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at August 31, 2016
Common stock funds	$ 78,814,503	$ -	$ -	$ 78,814,503
Fixed-income partnerships and funds	26,770,875	-	-	26,770,875
Total common stock and fixed-income partnerships and funds	105,585,378	-	-	105,585,378
Alternative investments - Measured at NAV:				
Private equity partnerships and funds	-	-	-	49,325,774
Hedged equity partnerships and funds	-	-	-	66,745,668
Absolute return partnerships and funds	-	-	-	61,288,950
Real estate partnerships and funds	-	-	-	23,216,708
Commodity partnerships and funds	-	-	-	28,150,212
Fixed-income partnerships and funds	-	-	-	25,579,816
Domestic and international equity partnerships and funds	-	-	-	60,936,351
Total alternative investments - Measured at NAV	-	-	-	315,243,479
Total assets	$ 105,585,378	$ -	$ -	$ 420,828,857

Note 2 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at August 31, 2015

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at August 31, 2015
Common stock funds	$ 96,904,272	$ -	$ -	$ 96,904,272
Fixed-income partnerships and funds	21,724,118	-	-	21,724,118
Total common stock and fixed-income partnerships and funds	118,628,390	-	-	118,628,390
Alternative investments - Measured at NAV:				
Private equity partnerships and funds	-	-	-	64,669,483
Hedged equity partnerships and funds	-	-	-	73,481,871
Absolute return equity partnerships and funds	-	-	-	64,311,250
Real estate partnerships and funds	-	-	-	27,216,152
Commodity partnerships and funds	-	-	-	29,136,457
Fixed-income partnerships and funds	-	-	-	24,971,436
Domestic and international equity partnerships and funds	-	-	-	39,887,210
Total alternative investments - Measured at NAV	-	-	-	323,673,859
Total assets	$ 118,628,390	$ -	$ -	$ 442,302,249

Level 1 Inputs - Estimated fair values for the Foundation's common stock funds and a portion of the fixed-income funds and partnerships are based on quoted market prices in active markets.

Investments in Partnerships and Funds that Calculate Net Asset Value Per Share

The Foundation holds shares or interests in investment companies at year end whereby the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment company.

Note 2 - Fair Value Measurements (Continued)

At year end, the fair value, unfunded commitments, and redemption rules for investments held at NAV investments are as follows:

Investments Held at August 31, 2016

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Private equity partnerships and funds (a)	$ 49,325,774	$ 37,491,890	N/A	N/A
Hedged equity partnerships and funds (b)	66,745,668	-	Monthly, quarterly, semiannually, annually	30-90 days
Absolute return partnerships and funds (c)	61,288,950	-	Quarterly, annually	45-100 days
Real estate partnerships and funds (a)	23,216,708	9,242,925	N/A	N/A
Commodity partnerships and funds (a)	28,150,212	12,215,378	N/A	N/A
Fixed-income partnerships and funds (d)	25,579,816	-	Quarterly	90 days
Domestic and international equity partnerships and funds (e)	60,936,351	-	Monthly, quarterly	5-90 days
Total	$ 315,243,479	$ 58,950,193		

Investments Held at August 31, 2015

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Private equity partnerships and funds (a)	$ 64,669,483	$ 42,448,267	N/A	N/A
Hedged equity partnerships and funds (b)	73,481,871	-	Monthly, quarterly, semiannually, annually	30-90 days
Absolute return equity partnerships and funds (c)	64,311,250	-	Quarterly, semianually, annually	45-100 days
Real estate partnerships and funds (a)	27,216,152	7,176,919	N/A	N/A
Commodity partnerships and funds (a)	29,136,457	16,019,837	N/A	N/A
Fixed-income partnerships and funds (d)	24,971,436	-	Quarterly	N/A
Domestic and international equity partnerships and funds (e)	39,887,210	-	Monthly, quarterly	5-90 days
Total	$ 323,673,859	$ 65,645,023		

(a) This category includes private equity, real estate, and commodities partnerships and funds. These investments are not redeemable. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets in the funds. The remaining terms of these investments range up to in excess of 10 years. The fair values of the investments in this category have been estimated using net asset value as the practical expedient provided by the investment managers.

Note 2 - Fair Value Measurements (Continued)

(b) This category includes investments in hedge funds and partnerships, which invest both long and short, primarily in publicly traded securities. The fair values of the investments in this category have been estimated using the net asset value of the investments. As of August 31, 2016, all of the investments in this category have passed their initial lock-up periods. Some of the investments in this category include less liquid assets, which may be restricted from redemption until the asset is realized.

(c) This category includes absolute return partnerships and funds, which invest in a variety of strategies and securities with the objective of achieving an absolute level of return. The fair values of the investments in this category have been estimated using the net asset value of the investments. As of August 31, 2016, all of the investments in this category have passed their initial lock-up periods. Some of the investments in this category include less liquid assets, which may be restricted from immediate redemption until the asset is realized.

(d) This category includes investments in fixed-income partnerships and funds, which focus on global fixed-income arbitrage opportunities overlaying specified benchmarks, including the S&P 500 index and T-bills. The fair values of the investments in this category have been estimated using the net asset value of the investments. As of August 31, 2016, up to one-third of the investments in this category can be redeemed annually.

(e) This category includes investments in partnerships and funds, which focus primarily on long-only investments in domestic and international equity securities, as well as investments in international fixed-income securities. The fair values of the investments in this category have been estimated using the net asset value of the investments. As of August 31, 2016, all of the investments in this category can be redeemed with no restrictions.

Note 3 - Investments

Investments consisted of the following at August 31:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Common stock funds	$ 65,112,606	$ 78,814,503	$ 85,065,473	$ 96,904,272
Fixed-income partnerships and funds	45,262,139	52,350,691	40,418,872	46,695,554
Private equity partnerships and funds	32,663,519	49,325,774	35,714,038	64,669,483
Hedged equity partnerships and funds	32,602,909	66,745,668	37,625,905	73,481,871
Absolute return equity partnerships and funds	45,863,767	61,288,950	47,863,343	64,311,250
Real estate partnerships and funds	20,772,628	23,216,708	24,928,464	27,216,152
Commodity partnerships and funds	28,782,537	28,150,212	27,950,711	29,136,457
Domestic and international equity partnerships and funds	54,037,047	60,936,351	38,270,535	39,887,210
Total	$ 325,097,152	$ 420,828,857	$ 337,837,341	$ 442,302,249

Note 4 - Income from Partnerships/Gain from All Investments

A summary of the composition of the Foundation's income from partnerships from their individual tax returns is included below, along with a reconciliation to total gains from all investments:

	2015	2014
Partnerships		
Realized (losses) gains from partnerships	$ (1,006,341)	$ 6,419,518
Other sources of income from tax returns that are part of the Foundation's unrealized gains	12,622,269	18,454,622
Total income from tax returns	11,615,928	24,874,140
Additional change in unrealized losses	(12,704,355)	(20,189,100)
Total (loss) income from partnerships	(1,088,427)	4,685,040
Net realized gain (loss) from sales of securities other than partnerships	1,256,725	(1,646,520)
Capital gain dividends	3,440,418	7,259,382
Change in unrealized gain (loss) from investments other than partnerships	3,971,150	(9,549,970)
Total gain on investments	$ 7,579,866	$ 747,932

Note 5 - Lease Commitments

The Foundation is obligated under an operating lease for its office space in Chicago through June 30, 2017. Subsequent to year end, the Foundation extended its lease through June 30, 2027.

The future minimum lease payments are as follows:

Years Ending August 31	Amount
2017	$ 133,033
2018	148,333
2019	151,300
2020	154,329
2021	157,479
Thereafter	983,128
Total	$ 1,727,602

Occupancy expense for 2016 and 2015 was $230,693 and $233,379, respectively.

Note 6 - Grants Approved but Not Paid

The Foundation has conditionally approved future grant commitments of $15,700,000 and $20,210,000 for the years ended August 31, 2016 and 2015, respectively. These amounts have not been recorded as liabilities because all grants are formally awarded on a year-by-year basis. In addition, the Foundation reserves the right to cancel a grant at any time if it determines that the organization receiving the grant is not administering the project and grant funds in accordance with the proposal approved by the Foundation's board.

Note 7 - Retirement Plan

The Foundation sponsors a defined contribution 401(k) plan for all eligible employees, as defined. The employees may make elective contributions to the 401(k) plan in accordance with IRS regulations. The Foundation made contributions to the 401(k) plan equal to between 10 and 12 percent of the eligible participants' compensation for 2016 and 2015.

Retirement expense for the years ended August 31, 2016 and 2015 amounted to $149,620 and $143,317, respectively.