
Polk Bros. Foundation, Inc.

Financial Report
August 31, 2021

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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, 2021 and 2020 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, 2021 and 2020 and the change 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.

Emphasis of Matter

As described in Note 3, the financial statements include investments valued at net asset value of \$155.3 million (31 percent of net assets) at August 31, 2021 and \$108.7 million (26 percent of net assets) at August 31, 2020 whose fair values have 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.

A handwritten signature in black ink that reads "Plante & Moran, PLLC".

November 16, 2021

Statement of Financial Position

August 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents	\$ 12,537,962	\$ 3,571,226
Investments	484,467,318	415,236,603
Pending trade receivable	1,590,665	-
Other assets - Prepaid excise and income taxes	<u>164,000</u>	<u>7,000</u>
Total assets	<u>\$ 498,759,945</u>	<u>\$ 418,814,829</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 761,000	\$ -
Other liabilities	28,730	10,248
Deferred excise tax	<u>2,350,000</u>	<u>1,506,000</u>
Total liabilities	3,139,730	1,516,248
Net Assets - Without donor restrictions	<u>495,620,215</u>	<u>417,298,581</u>
Total liabilities and net assets	<u>\$ 498,759,945</u>	<u>\$ 418,814,829</u>

Statement of Activities and Changes in Net Assets

Years Ended August 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Changes in Net Assets without Donor Restrictions		
Revenue, gains, and other support:		
Dividends from investments other than partnerships - Net of fees	\$ 1,060,243	\$ 1,731,475
Interest from investments other than partnerships	99,708	126,934
Net realized gains from partnerships	42,466,128	95,174
Net realized losses from sales of securities other than partnerships	(947,377)	(3,368,802)
Unrealized gains from investments	73,252,098	35,270,344
Capital gain dividends	7,966	451,568
Miscellaneous income	254,091	7,793
Total revenue, gains, and other support	<u>116,192,857</u>	<u>34,314,486</u>
Grants and other expenses:		
Grants	33,081,203	24,470,225
Expenses:		
Administrative and operating expenses	3,428,194	3,309,874
Deferred excise tax loss	844,000	701,000
Provision for excise and income taxes	517,826	183,521
Total grants and other expenses	<u>37,871,223</u>	<u>28,664,620</u>
Increase in Net Assets	78,321,634	5,649,866
Net Assets - Beginning of year	<u>417,298,581</u>	<u>411,648,715</u>
Net Assets - End of year	<u><u>\$ 495,620,215</u></u>	<u><u>\$ 417,298,581</u></u>

Statement of Cash Flows

Years Ended August 31, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Increase in net assets	\$ 78,321,634	\$ 5,649,866
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Net realized gains from partnerships	(42,466,128)	(95,174)
Net realized losses from sales of securities other than partnerships	947,377	3,368,802
Change in unrealized gains on investments	(73,252,098)	(35,270,344)
Investments redeemed for fees	630,158	547,892
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Pending trade receivable	(1,590,665)	-
Dividends receivable	(1,400,149)	(210,595)
Prepaid excise and income taxes	(157,000)	88,000
Other assets	-	7,161
Accounts payable and deferred compensation	779,482	-
Deferred excise tax	844,000	701,000
Net cash and cash equivalents used in operating activities	(37,343,389)	(25,213,392)
Cash Flows from Investing Activities		
Proceeds from sales of securities	45,996,014	17,269,208
Purchases of securities	(100,684,636)	(15,781,057)
Purchases of partnership interests	(33,231,300)	(38,217,889)
Liquidating distributions and return of capital from partnership	134,230,047	61,735,337
Net cash and cash equivalents provided by investing activities	46,310,125	25,005,599
Net Increase (Decrease) in Cash and Cash Equivalents	8,966,736	(207,793)
Cash and Cash Equivalents - Beginning of year	3,571,226	3,779,019
Cash and Cash Equivalents - End of year	\$ 12,537,962	\$ 3,571,226
Supplemental Disclosure of Cash Flow Information - Cash paid for taxes	\$ 674,826	\$ 95,521

August 31, 2021 and 2020

Note 1 - Nature of Business

Polk Bros. Foundation, Inc. (the "Foundation") is a private independent foundation dedicated to building and strengthening Chicago's families and communities, especially those most affected by poverty. The Foundation focuses its work at the intersection of Chicago's most pressing issues to address the complex roots and devastating effects of poverty, challenge inequity, and ensure that all Chicagoans have the opportunity to reach their full potential. Since its founding in 1988, the Foundation has partnered with more than 3,000 Chicago nonprofits to build strong communities and families, increase access to quality education and the arts, improve health, and strengthen organizations and the sectors in which they work.

Note 2 - Significant Accounting Policies

Basis of Presentation

The financial statements of the Foundation have been prepared on the basis of generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from those estimates.

Classification of Net Assets

Net assets of the Foundation are classified based on the presence or absence of donor-imposed restrictions. The Foundation's net assets consisted only of net assets without donor restrictions as of August 31, 2021 and 2020.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. The Foundation maintains its cash equivalents in bank deposit accounts that exceed federally insured limits. Substantially all of the Foundation's cash equivalents are held at Morgan Stanley Bank N.A. 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) 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 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.

August 31, 2021 and 2020

Note 2 - Significant Accounting Policies (Continued)

Deferred Excise Taxes

The Foundation provides for deferred excise taxes, which represent taxes on the net unrealized appreciation of investments using a 1.39 percent rate for the years ended August 31, 2021 and 2020.

Income Taxes

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 1.39 percent for the year ended August 31, 2021 and 2.0 percent for the year ended August 31, 2020. 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, 2021 and 2020 was \$517,826 and \$183,521, respectively. Total deferred federal excise tax loss was \$844,000 for the year ended August 31, 2021 and \$701,000 for the year ended August 31, 2020.

Functional Allocation of Expenses

Costs of providing program and support services have been reported on a functional basis, as disclosed in Note 10. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Salaries and related expenses are allocated on the basis of time and effort. Expenses deemed to be indirect to employee work, such as professional services, insurance, and maintenance and repairs, are considered to be management and general expenses. Other expenses utilized by all employees, such as rent, utilities, and office supplies, are also allocated on the basis of time and effort. Costs have been allocated between the various program and support services based on estimates determined by management. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Upcoming Accounting Pronouncement

The Financial Accounting Standards Board issued Accounting Standards Update No. 2016-02, *Leases*, which will supersede the current lease requirements in Accounting Standards Codification (ASC) 840. The ASU requires lessees to recognize a right-to-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, 2023 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The change will not have a material impact on the financial statements of the Foundation.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including November 16, 2021, which is the date the financial statements were available to be issued.

Note 3 - 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.

Notes to Financial Statements

August 31, 2021 and 2020

Note 3 - Fair Value Measurements (Continued)

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.

Net asset value inputs include interests in investment companies at year end where the fair value of the investment held is estimated based on net asset value per share (NAV) (or its equivalent) of the investment company.

In instances where 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.

The following tables present information about the Foundation's assets measured at fair value on a recurring basis at August 31, 2021 and 2020 and the valuation techniques used by the Foundation to determine those fair values:

Assets Measured at Fair Value on a Recurring Basis at August 31, 2021				
	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, 2021
Common stock funds	\$ 122,863,521	\$ -	\$ -	\$ 122,863,521
Fixed-income partnerships and funds	29,243,906	-	-	29,243,906
Total	\$ 152,107,427	\$ -	\$ -	152,107,427
Alternative investments - Measured at NAV:				
Private equity partnerships and funds				121,239,870
Hedged equity partnerships and funds				64,958,159
Absolute return partnerships and funds				18,058,935
Real estate partnerships and funds				16,343,067
Commodity partnerships and funds				17,715,246
Domestic and international equity partnerships and funds				94,044,614
Total investments measured at NAV				332,359,891
Total assets				\$ 484,467,318

Notes to Financial Statements

August 31, 2021 and 2020

Note 3 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at August 31, 2020			Balance at August 31, 2020
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Common stock funds	\$ 46,516,590	\$ -	\$ -	\$ 46,516,590
Fixed-income partnerships and funds	25,339,228	-	-	25,339,228
Total	\$ 71,855,818	\$ -	\$ -	71,855,818
Alternative investments - Measured at NAV:				
Private equity partnerships and funds				81,302,985
Hedged equity partnerships and funds				63,128,025
Absolute return partnerships and funds				43,218,204
Real estate partnerships and funds				14,182,264
Commodity partnerships and funds				13,251,424
Domestic and international equity partnerships and funds				<u>128,297,883</u>
Total investments measured at NAV				<u>343,380,785</u>
Total assets				<u>\$ 415,236,603</u>

As of August 31, 2021 and 2020, investments valued at NAV of \$155.3 million and \$108.7 million, respectively, were valued in the absence of observable inputs used to determine market value.

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

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

Notes to Financial Statements

August 31, 2021 and 2020

Note 3 - Fair Value Measurements (Continued)

At year end, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	August 31, 2021	August 31, 2020	August 31, 2021		
	Fair Value	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Private equity partnerships and funds (a)	\$ 121,239,870	\$ 81,302,985	\$ 38,152,891	N/A	N/A
Hedged equity partnerships and funds (b)	64,958,159	63,128,025	-	Monthly, quarterly, semiannually	45-90 days
Absolute return partnerships and funds (c)	18,058,935	43,218,204	-	Monthly, quarterly, semiannually	60-65 days
Real estate partnerships and funds (a)	16,343,067	14,182,264	6,243,673	N/A	N/A
Commodity partnerships and funds (a)	17,715,246	13,251,424	7,864,658	N/A	N/A
Domestic and international equity partnerships and funds (d)	94,044,614	128,297,883	-	Weekly, monthly, quarterly, biannually, triannually	5-150 days
Total	\$ 332,359,891	\$ 343,380,785	\$ 52,261,222		

(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.

(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 net asset value of the investments. As of August 31, 2021, all of the investments in this category have passed their initial lockup periods. Some of the investments in this category include fewer 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 net asset value of the investments. As of August 31, 2021, all of the investments in this category have passed their initial lockup periods. Some of the investments in this category include fewer liquid assets, which may be restricted from redemption until the asset is realized.

(d) This category includes investments in partnerships and funds that 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 net asset value of the investments. As of August 31, 2021, all of the investments in this category except two (with a net asset value of \$25,380,888) have passed their initial lockup periods. As of August 31, 2021, all of the investments in this category can be redeemed daily, weekly, monthly, quarterly, biannually, or triannually.

August 31, 2021 and 2020

Note 4 - Investments

Investments consisted of the following at August 31, 2021:

	Cost	Fair Value
Investments:		
Common stock funds	\$ 97,574,925	\$ 122,863,521
Fixed-income partnerships and funds	29,448,909	29,243,906
Private equity partnerships and funds	52,459,128	121,239,870
Hedged equity partnerships and funds	25,775,428	64,958,159
Absolute return partnerships and funds	14,896,382	18,058,935
Real estate partnerships and funds	12,105,912	16,343,067
Commodity partnerships and funds	26,006,734	17,715,246
Domestic and international equity partnerships and funds	56,846,134	94,044,614
Total	<u>\$ 315,113,552</u>	<u>\$ 484,467,318</u>

Investments consisted of the following at August 31, 2020:

	Cost	Fair Value
Investments:		
Common stock funds	\$ 40,656,746	\$ 46,516,590
Fixed-income partnerships and funds	25,058,265	25,339,228
Private equity partnerships and funds	56,871,734	81,302,985
Hedged equity partnerships and funds	18,693,895	63,128,025
Absolute return partnerships and funds	37,491,124	43,218,204
Real estate partnerships and funds	11,133,395	14,182,264
Commodity partnerships and funds	26,796,152	13,251,424
Domestic and international equity partnerships and funds	89,602,452	128,297,883
Total	<u>\$ 306,303,763</u>	<u>\$ 415,236,603</u>

Note 5 - 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:

	2021	2020
Partnerships:		
Realized gains from partnerships	\$ 42,466,128	\$ 95,174
Other sources of income from tax returns that are part of the Foundation's unrealized gains	12,831,171	6,826,011
Total income from tax returns	55,297,299	6,921,185
Additional change in unrealized gains	41,478,144	20,889,077
Total income from partnerships	96,775,443	27,810,262
Net realized loss from sales of securities other than partnerships	(947,377)	(3,368,802)
Capital gain dividends	7,966	451,568
Change in unrealized gain from investments other than partnerships	18,942,783	7,555,256
Total gain on investments	<u>\$ 114,778,815</u>	<u>\$ 32,448,284</u>

Note 6 - Lease Commitments

The Foundation is obligated under an operating lease for its office space in Chicago through June 30, 2027.

The future minimum lease payments are as follows:

Years Ending August 31	Amount
2022	\$ 160,871
2023	163,784
2024	167,059
2025	170,396
2026	173,794
Thereafter	<u>147,224</u>
Total	<u>\$ 983,128</u>

Occupancy expense for 2021 and 2020 was \$293,782 and \$280,712, respectively.

Note 7 - Liquidity and Availability of Resources

The Foundation has \$316.3 million of financial assets available within one year of August 31, 2021 to meet cash needs for general expenditure, which consist of cash of \$12.5 million and short-term investments of \$303.8 million. At August 31, 2020, the Foundation had \$299.6 million of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditure, which consisted of cash of \$3.6 million and short-term investments of \$296 million. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

The Foundation has a goal to maintain financial assets, consisting of cash and short-term investments, on hand to meet 45 days of normal operating expenses, which are, on average, approximately \$4.6 million at August 31, 2021 and \$3.4 million at August 31, 2020. The Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Foundation invests cash in excess of daily requirements in a mutual fund composed of high-quality money market instruments.

Note 8 - Grants Approved but Not Paid

The Foundation has conditionally approved future grant commitments of \$10,775,000 and \$5,160,000 for the years ended August 31, 2021 and 2020, 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.

Note 9 - 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 Internal Revenue Service regulations. The Foundation made contributions to the 401(k) plan equal to between 10 and 12 percent of the eligible participants' compensation for 2021 and 2020.

Retirement plan expense for the years ended August 31, 2021 and 2020 amounted to \$221,390 and \$198,958, respectively.

Notes to Financial Statements

August 31, 2021 and 2020

Note 10 - Functional Expenses

The Foundation provides various services to its members. Expenses related to providing these services are as follows as of August 31:

	<u>2021</u>	<u>2020</u>
Program services:		
Grants	\$ 33,081,203	\$ 24,470,225
Compensation	2,062,734	1,943,453
Occupancy	234,753	223,541
Professional fees	31,057	20,652
Administrative expenses	111,165	148,047
	<u>35,520,912</u>	<u>26,805,918</u>
Total program services		
Support services:		
Compensation	751,710	690,904
Occupancy	62,403	59,422
Professional fees	64,068	111,149
Administrative expenses	110,304	112,706
Excise taxes	844,000	701,000
Federal and state taxes	517,826	183,521
	<u>2,350,311</u>	<u>1,858,702</u>
Total support services		
Total	<u>\$ 37,871,223</u>	<u>\$ 28,664,620</u>