Polk Bros. Foundation, Inc.

Financial Report
August 31, 2019

Contents

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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, 2019 and 2018 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, 2019 and 2018 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 2 to the financial statements, the Foundation adopted the provisions of Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of September 1, 2018, applied retroactively to all years presented, except for the liquidity disclosures, as allowed by the standard. Our opinion is not modified with respect to this matter.

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

As described in Note 3, the financial statements include investments valued at net asset value of $105.9 million (26 percent of net assets) at August 31, 2019 and $112.1 million (26 percent of net assets) at August 31, 2018, 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

October 30, 2019

Statement of Financial Position

August 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	$ 3,779,019	$ 4,261,350
Investments	408,579,696	428,662,957
Other assets - Prepaid excise and income taxes	95,000	-
Total assets	**$ 412,453,715**	**$ 432,924,307**
Liabilities and Net Assets		
Liabilities		
Deferred excise tax	$ 805,000	$ 1,030,000
Income taxes payable	-	58,000
Total liabilities	805,000	1,088,000
Net Assets - Without donor restrictions	411,648,715	431,836,307
Total liabilities and net assets	**$ 412,453,715**	**$ 432,924,307**

See notes to financial statements.

Polk Bros. Foundation, Inc.

Statement of Activities and Changes in Net Assets

Years Ended August 31, 2019 and 2018

	2019	2018
Changes in Net Assets without Donor Restrictions		
Revenue, gains, and other support:		
Dividends from investments other than partnerships - Net of fees	$ 1,455,181	$ 471,871
Interest from investments other than partnerships	179,690	77,851
Net realized gains from partnerships	7,797,887	24,550,837
Net realized gains from sales of securities other than partnerships	10,046,944	4,290,725
Unrealized losses from investments	(10,781,035)	(2,892,918)
Capital gain dividends	1,887,444	2,831,806
Miscellaneous income	18,026	2,519
Total revenue, gains, and other support	10,604,137	29,332,691
Grants and other expenses:		
Grants	27,575,192	27,932,834
Expenses:		
Administrative and operating expenses	3,114,237	3,089,118
Deferred excise tax income	(225,000)	(132,000)
Provision for excise and income taxes	327,300	433,126
Total grants and other expenses	30,791,729	31,323,078
Decrease in Net Assets	(20,187,592)	(1,990,387)
Net Assets - Beginning of year	431,836,307	433,826,694
Net Assets - End of year	**$ 411,648,715**	**$ 431,836,307**

See notes to financial statements.

Statement of Cash Flows

Years Ended August 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Decrease in net assets	$ (20,187,592)	$ (1,990,387)
Adjustments to reconcile decrease in net assets to net cash and cash equivalents from operating activities:		
Net realized gains from partnerships	(7,797,887)	(24,550,837)
Net realized gains from sales of securities	(10,046,944)	(4,290,725)
Change in unrealized losses on investments	10,781,035	2,892,918
Investments redeemed for fees	784,443	953,595
Prepaid excise and income taxes	(95,000)	106,000
Dividends receivable	(260,384)	(45,041)
Deferred excise tax	(225,000)	(132,000)
Excise and income taxes payable	(58,000)	58,000
Net cash and cash equivalents used in operating activities	(27,105,329)	(26,998,477)
Cash Flows from Investing Activities		
Proceeds from sales of securities	43,433,091	24,212,226
Purchases of securities	(5,000,000)	(32,524,903)
Purchases of partnership interests	(74,105,781)	(35,035,200)
Liquidating distributions and return of capital from partnerships	62,295,688	70,529,560
Net cash and cash equivalents provided by investing activities	26,622,998	27,181,683
Net (Decrease) Increase in Cash and Cash Equivalents	(482,331)	183,206
Cash and Cash Equivalents - Beginning of year	4,261,350	4,078,144
Cash and Cash Equivalents - End of year	**$ 3,779,019**	**$ 4,261,350**
Supplemental Disclosure of Cash Flow Information - Cash paid for taxes	**$ 480,300**	**$ 270,326**

See notes to financial statements.

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, 2019 and 2018.

Cash and 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 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.

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 percent rate for the years ended August 31, 2019 and 2018.

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 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, 2019 and 2018 was $333,718 and $429,719, respectively. Total deferred federal excise tax income was $225,000 and $132,000 for the years ended August 31, 2019 and 2018, respectively.

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 required 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 programs 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.

Adoption of Accounting Policy

As of September 1, 2018, the Foundation adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This standard requires net assets to be classified in two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. This standard also requires changes in the way certain information is aggregated and reported by the Foundation, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. As a result of the adoption of this standard, the financial information for the year ended August 31, 2018 has been restated as follows: investment management fees of $1,253,595 have been reported net with revenue and were previously included in expenses. The standard also clarifies the definition of management and general and prohibits certain expenses from being allocated out of management and general. As a result of the clarified definition, program services expense has increased and support services expense has decreased by approximately $1,986,000, as only grants were previously included in program services expense. Additionally, disclosures about the liquidity and availability of resources have been included in Note 7. The disclosures about the liquidity and availability of resources are presented only for the current year, as allowed by the standard.

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

The FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in 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, 2022 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.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Foundation's year ending August 31, 2020 and will be applied on a modified prospective basis. The Foundation has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including October 30, 2019, 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.

The following tables present information about the Foundation's assets measured at fair value on a recurring basis at August 31, 2019 and 2018 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.

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

Note 3 - 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.

	Assets Measured at Fair Value on a Recurring Basis at August 31, 2019			
	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, 2019
Common stock funds	$ 48,696,498	$ -	$ -	$ 48,696,498
Fixed-income partnerships and funds	23,563,562	-	-	23,563,562
Total	$ 72,260,060	$ -	$ -	72,260,060
Alternative investments - Measured at NAV:				
Private equity partnerships and funds				71,311,297
Hedged equity partnerships and funds				57,606,532
Absolute return partnerships and funds				57,073,836
Real estate partnerships and funds				14,616,576
Commodity partnerships and funds				19,933,461
Domestic and international equity partnerships and funds				115,777,934
Total alternative investments - Measured at NAV				336,319,636
Total assets				$ 408,579,696

Note 3 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at August 31, 2018			
	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, 2018
Common stock funds	$ 84,087,728	$ -	$ -	$ 84,087,728
Fixed-income partnerships and funds	28,374,514	-	-	28,374,514
Total	$ 112,462,242	$ -	$ -	112,462,242
Alternative investments - Measured at NAV:				
Private equity partnerships and funds				62,197,543
Hedged equity partnerships and funds				70,896,309
Absolute return partnerships and funds				55,108,980
Real estate partnerships and funds				15,424,752
Commodity partnerships and funds				23,665,564
Fixed-income partnerships and funds				10,804,334
Domestic and international equity partnerships and funds				78,103,233
Total alternative investments - Measured at NAV				316,200,715
Total assets				$ 428,662,957

As of August 31, 2019 and 2018, investments valued at NAV of $105.9 million and $112.1 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 whereby the fair value of the investment held is estimated based on net asset value per share (or its equivalent) of the investment company.

Note 3 - Fair Value Measurements (Continued)

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

	August 31, 2019	August 31, 2018	August 31, 2019		
	Fair Value	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Private equity partnerships and funds (a)	$ 71,311,297	$ 62,197,543	$ 38,877,138	N/A	N/A
Hedged equity partnerships and funds (b)	57,606,532	70,896,309	-	Monthly, quarterly, semiannually	30-90 days
Absolute return partnerships and funds (c)	57,073,836	55,108,980	-	Monthly, quarterly, semiannually	45-65 days
Real estate partnerships and funds (a)	14,616,576	15,424,752	7,419,786	N/A	N/A
Commodity partnerships and funds (a)	19,933,461	23,665,564	10,438,247	N/A	N/A
Fixed-income partnerships and funds (d)	-	10,804,334	-	Annually	90 days
Domestic and international equity partnerships and funds (e)	115,777,934	78,103,233	-	Daily, weekly, monthly, quarterly, bi-annually	5-30 days
Total	$ 336,319,636	$ 316,200,715	$ 56,735,171		

(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, 2019, all of the investments in this category have passed their initial lockup periods, but two (with a combined net asset value of $10,277,624) remain in a soft lockup, requiring a 3 or 4 percent fee for redemption. 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, 2019, 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 fixed-income partnerships and funds, which focus on global fixed-income arbitrage opportunities overlaying specified benchmarks, including the S&P 500 index and Treasury bills. The fair values of the investments in this category have been estimated using net asset value of the investments. As of August 31, 2019, all of the investments in this category have been redeemed.

(e) 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, 2019, all of the investments in this category except one (with a net asset value of $11,370,143) have passed their initial lockup periods. As of August 31, 2019, all of the investments in this category can be redeemed daily, weekly, monthly, quarterly or biannually.

Note 4 - Investments

Investments consisted of the following at August 31, 2019:

	Cost	Fair Value
Investments:		
Common stock funds	$ 50,065,764	$ 48,696,498
Fixed-income partnerships and funds	23,608,745	23,563,562
Private equity partnerships and funds	48,707,998	71,311,297
Hedged equity partnerships and funds	21,813,652	57,606,532
Absolute return partnerships and funds	46,594,815	57,073,836
Real estate partnerships and funds	12,208,202	14,616,576
Commodity partnerships and funds	26,361,116	19,933,461
Domestic and international equity partnerships and funds	98,730,898	115,777,934
Total	$ 328,091,190	$ 408,579,696

Investments consisted of the following at August 31, 2018:

	Cost	Fair Value
Investments:		
Common stock funds	$ 69,802,316	$ 84,087,728
Fixed-income partnerships and funds	35,452,284	39,178,848
Private equity partnerships and funds	43,944,344	62,197,543
Hedged equity partnerships and funds	32,332,367	70,896,309
Absolute return partnerships and funds	46,119,613	55,108,980
Real estate partnerships and funds	11,664,587	15,424,752
Commodity partnerships and funds	26,268,989	23,665,564
Domestic and international equity partnerships and funds	60,070,225	78,103,233
Total	$ 325,654,725	$ 428,662,957

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:

	2019	2018
Partnerships:		
Realized gains from partnerships	$ 7,797,887	$ 24,550,837
Other sources of income from tax returns that are part of the Foundation's unrealized gains	11,738,692	10,256,258
Total income from tax returns	19,536,579	34,807,095
Additional change in unrealized losses	(7,587,543)	(10,006,097)
Total income from partnerships	11,949,036	24,800,998
Net realized gain from sales of securities other than partnerships	10,046,944	4,290,725
Capital gain dividends	1,887,444	2,831,806
Change in unrealized loss from investments other than partnerships	(14,932,184)	(3,143,079)
Total gain on investments	$ 8,951,240	$ 28,780,450

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
2020	$ 154,329
2021	157,479
2022	160,871
2023	163,784
2024	167,059
Thereafter	491,414
Total	$ 1,294,936

Occupancy expense for 2019 and 2018 was $270,954 and $144,839, respectively.

Note 7 - Liquidity and Availability of Resources

The Foundation has $284.6 million of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditure, which consist of cash of $3.8 million and short-term investments of $280.8 million at August 31, 2019. 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 $3.9 million at August 31, 2019. 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 $7,195,000 and $9,297,500 for the years ended August 31, 2019 and 2018, 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 2019 and 2018.

Retirement plan expense for the years ended August 31, 2019 and 2018 amounted to $170,864 and $190,977, respectively.

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:

	2019	2018
Program services:		
Grants	$ 27,575,192	$ 27,932,834
Compensation	1,763,702	1,672,162
Occupancy	216,466	116,842
Professional fees	27,597	13,977
Administrative expenses	193,097	183,048
Total program services	29,776,054	29,918,863
Support services:		
Compensation	645,934	813,546
Occupancy	57,541	31,059
Professional fees	87,693	101,536
Administrative expenses	122,207	156,948
Federal and state taxes	327,300	433,126
Total support services	1,240,675	1,536,215
Total	$ 31,016,729	$ 31,455,078