Polk Bros. Foundation, Inc.

Financial Report
August 31, 2013

Polk Bros. Foundation, Inc.

Contents

plante moran

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, 2013 and 2012 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 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 Polk Bros. Foundation, Inc. as of August 31, 2013 and 2012 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Emphasis of Matters

As disclosed in Note 2, the financial statements include investments valued at $135.5 million (31 percent of net assets) at August 31, 2013 and at $119.2 million (32 percent of net assets) at August 31, 2012, whose fair value has been estimated in the absences of observable inputs used to determine the market value. Management's estimates are based on information provided by the investment managers.

In 2013, the Foundation revised its method for estimating the fair market valuation for certain investments, as described in Note 8. This revision increased the fair market value for these investments by $34.9 million in 2013.

Plante & Moran, PLLC

November 19, 2013

Polk Bros. Foundation, Inc.

Statement of Financial Position

	August 31, 2013	August 31, 2012
Assets		
Cash and cash equivalents	$ 6,852,465	$ 6,299,431
Investments	427,166,017	369,100,382
Other assets:		
Prepaid expenses	187,596	191,048
Prepaid excise and income taxes	-	105,000
Total assets	**$ 434,206,078**	**$ 375,695,861**
Liabilities and Net Assets		
Accrued grant commitments	$ -	$ 800,000
Accrued liabilities and other:		
Deferred excise tax	1,894,977	799,960
Accrued excise and income taxes	732,000	-
Total liabilities	2,626,977	1,599,960
Net Assets - Unrestricted	431,579,101	374,095,901
Total liabilities and net assets	**$ 434,206,078**	**$ 375,695,861**

See Notes to Financial Statements.

Polk Bros. Foundation, Inc.

Statement of Activities and Changes in Net Assets

	Year Ended August 31, 2013	Year Ended August 31, 2012
Revenue, Gains, and Other Support		
Dividends from investments other than partnerships	$ 2,583,612	$ 2,184,720
Interest from investments other than partnerships	18,654	16,611
Net realized gains from partnerships	4,196,120	7,261,899
Net realized gains from sales of securities other than partnerships	491,704	507,326
Unrealized gains from investments	70,274,666	20,003,218
Capital gain dividends	4,461,603	1,345,007
Miscellaneous income	8,629	14,681
Total revenue, gains, and other support	82,034,988	31,333,462
Grants and Other Expenses		
Grants	20,022,465	20,200,942
Support services:		
Administrative expenses	2,346,668	2,386,448
Investment expenses	364,724	361,499
Deferred excise taxes	1,095,017	128,359
Provision for excise and income taxes	722,914	355,366
Total expenses	24,551,788	23,432,614
Increase in Net Assets	57,483,200	7,900,848
Net Assets - Beginning of year	374,095,901	366,195,053
Net Assets - End of year	**$ 431,579,101**	**$ 374,095,901**

See Notes to Financial Statements.

Statement of Cash Flows

	Year Ended August 31, 2013	Year Ended August 31, 2012
Cash Flows from Operating Activities		
Increase in net assets	$ 57,483,200	$ 7,900,848
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Noncash income from partnerships	(4,347,664)	(290,304)
Net realized gains from sales of securities	(491,704)	(507,326)
Change in unrealized gains on investments	(70,274,666)	(20,003,218)
Prepaid excise and income taxes	105,000	(105,000)
Other assets	3,452	3,934
Accrued grant commitments	(800,000)	(725,000)
Accrued excise and income taxes	732,000	(164,000)
Deferred excise tax	1,095,017	128,359
Net cash used in operating activities	(16,495,365)	(13,761,707)
Cash Flows from Investing Activities		
Proceeds from sales of securities	12,710,088	13,628,046
Purchases of securities	(12,000,000)	(44,622,151)
Purchases of partnership interests	(35,028,486)	(15,800,594)
Liquidating distributions and return of capital from partnerships	51,366,797	60,038,602
Net cash provided by investing activities	17,048,399	13,243,903
Net Increase (Decrease) in Cash and Cash Equivalents	553,034	(517,804)
Cash and Cash Equivalents - Beginning of year	6,299,431	6,817,235
Cash and Cash Equivalents - End of year	**$ 6,852,465**	**$ 6,299,431**
Supplemental Disclosure Cash Flow Information - Cash paid for taxes	**$ 106,916**	**$ 700,000**

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 social service, arts and culture, education, and health care, with the primary focus of serving populations in need.

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, 2013 and 2012.

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 exceeds 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 statements 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.

Financial Instruments - A summary of the methods and significant assumptions used to estimate the fair values of the significant financial instruments is as follows:

Short-term Financial Instruments - The fair values of cash and cash equivalents approximate the carrying amounts in the accompanying financial statements due to the short maturity of such instruments.

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

Investments - Investments are recorded at fair value in the accompanying financial statements. Fair value is determined based on the fair value measurement principles described in Note 2.

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 2 percent tax rate.

Use of Estimates - The preparation of financial statements in conformity with accepted 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 and net realized taxable gains on security transactions 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. Payments for federal excise taxes for the years ended August 31, 2012 and 2012 were $100,000 and $431,000, 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, 2013 and 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions; there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2010.

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

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including November 19, 2013, 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, 2013 and 2012, 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.

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.

Note 2 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at August 31, 2013

	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, 2013
Common stock funds:				
International	$ 20,856,988	$ -	$ -	$ 20,856,988
Large cap	41,125,617	-	-	41,125,617
Micro cap	36,039,169	-	-	36,039,169
Total common stock funds	98,021,774	-	-	98,021,774
Alternative investments:				
Private equity partnerships	-	-	68,648,655	68,648,655
Hedged equity partnerships	-	70,425,253	-	70,425,253
Absolute return equity partnerships	-	47,732,505	-	47,732,505
Real estate partnerships	-	-	29,226,283	29,226,283
Commodity partnerships	-	-	37,589,253	37,589,253
Fixed income funds and partnerships	21,645,121	18,276,658	-	39,921,779
Domestic and international equity partnerships	-	35,600,515	-	35,600,515
Total alternative investments	21,645,121	172,034,931	135,464,191	329,144,243
Total assets	$ 119,666,895	$ 172,034,931	$ 135,464,191	$ 427,166,017

Note 2 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at August 31, 2012

	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, 2012
Common stock funds:				
International	$ 17,424,336	$ -	$ -	$ 17,424,336
Large cap	37,682,237	-	-	37,682,237
Micro cap	30,811,405	-	-	30,811,405
Total common stock funds	85,917,978	-	-	85,917,978
Alternative investments:				
Private equity partnerships	-	-	52,096,522	52,096,522
Hedged equity partnerships	-	64,600,780	-	64,600,780
Absolute return equity partnerships	-	48,312,753	-	48,312,753
Real estate partnerships	-	-	22,020,569	22,020,569
Commodity partnerships	-	-	27,754,588	27,754,588
Fixed income funds and partnerships	21,965,833	-	17,311,146	39,276,979
Domestic and international equity partnerships	-	29,120,213	-	29,120,213
Total alternative investments	21,965,833	142,033,746	119,182,825	283,182,404
Total assets	$ 107,883,811	$ 142,033,746	$ 119,182,825	$ 369,100,382

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.

Level 2 Inputs - Alternative investments include investments in limited partnerships and offshore funds that invest in: 1) hedge equity funds, 2) absolute return funds, and 3) domestic and international equity income securities. The fair value of the investments were based on net asset values, which are based on the value of the underlying assets and liabilities of the funds. Those estimated fair values might differ significantly from the values that would have been used had a ready market for those securities existed.

Level 3 Inputs - Alternative investments include investments in limited partnerships and offshore funds that invest in: 1) independently managed private equity funds, 2) real estate partnerships, 3) commodity partnerships, and 4) fixed-income partnerships. The fair values of these investments were based on net asset values, which are based on the value of the underlying assets and liabilities of the funds. See Note 8 for additional disclosures.

Note 2 - Fair Value Measurements (Continued)

The following table sets forth a summary of the changes in the fair value of the Level 3 assets for the year ended August 31, 2013 and 2012.

Fair Value Measurments Using Significant Unobservable Inputs (Level 3) at Aust 31, 2013

	Fair Value at September 1, 2012	Total Gains or Losses (Realized and Unrealized) Included in Change in Net Assets	Purchases	Settlements	Net Transfers Into (Out of) Level 3	Fair Value at August 31, 2013
Private equity partnerships	$ 52,096,522	$ 28,256,170	$ 5,922,724	$ (17,626,761)	$ -	$ 68,648,655
Real estate partnerships	22,020,569	9,722,836	3,010,562	(5,527,684)	-	29,226,283
Commodity partnerships	27,754,588	13,260,594	4,544,276	(7,970,205)	-	37,589,253
Fixed-income partnerships	17,311,146	-	-	-	(17,311,146)	-
Total Level 3 assets at fair value	$ 119,182,825	$ 51,239,600	$ 13,477,562	$ (31,124,650)	$ (17,311,146)	$ 135,464,191

Fair Value Measurments Using Significant Unobservable Inputs (Level 3) at Aust 31, 2012

	Fair Value at September 1, 2011	Total Gains or Losses (Realized and Unrealized) Included in Change in Net Assets	Purchases	Settlements	Net Transfers Into (Out of) Level 3	Fair Value at August 31, 2012
Private equity partnerships	$ 52,433,244	$ 6,411,490	$ 10,158,833	$ (16,907,045)	$ -	$ 52,096,522
Real estate partnerships	21,905,689	837,925	1,725,626	(2,448,671)	-	22,020,569
Commodity Partnerships	26,378,024	6,666,682	5,095,926	(10,386,044)	-	27,754,588
Fixed-income partnerships	16,517,106	822,040	-	(28,000)	-	17,311,146
Total Level 3 assets at fair value	$ 117,234,063	$ 14,738,137	$ 16,980,385	$ (29,769,760)	$ -	$ 119,182,825

Transfers between Level 3 and Level 2 are based on changes in redemption rules for the respective investment for the year ended August 31, 2013 and are recognized at the beginning of the year.

Realized and unrealized gains and losses of $51,419,765 and $5,095,778 for the years ended August 31, 2013 and 2012, respectively, are reported in the statement of activities and changes in net assets relating to assets still held as of the reporting date.

Note 2 - Fair Value Measurements (Continued)

Investments in Partnerships 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 the net asset value per share (or its equivalent) of the investment company.

At year end, the fair value, unfunded commitments, and redemption rules for Level II and Level III investments is as follows:

Investments Held at August 31, 2013

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Private equity partnerships (a)	$ 68,648,655	$ 28,118,473	n/a	n/a
Hedged equity partnerships (b)	70,425,253	-	quarterly, annually	30-90 days
Absolute return equity partnerships (c)	47,732,505	-	quarterly, annually	30-100 days
Real estate partnerships (a)	29,226,283	9,853,173	n/a	n/a
Commodity partnerships (a)	37,589,253	17,687,940	n/a	n/a
Fixed income funds and partnerships (d)	18,276,658	-	annually	n/a
Domestic and international equity partnerships (e)	35,600,515	-	daily, monthly	0-30 days
Total	$ 307,499,122	$ 55,659,586		

Investments Held at August 31, 2012

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Private equity partnerships (a)	$ 52,096,522	$ 32,600,000	N/A	N/A
Hedged equity partnerships (b)	64,600,780	-	quarterly, annually	30-90 days
Absolute return equity partnerships (c)	48,312,753	-	quarterly, annually	30-100 days
Real estate partnerships (a)	22,020,569	12,500,000	N/A	N/A
Commodity partnerships (a)	27,754,588	12,300,000	N/A	N/A
Fixed income funds and partnerships (d)	17,311,146	-	annually	N/A
Domestic and international equity partnerships (e)	29,120,213	-	daily, monthly	0-30 days
Total	$ 261,216,571	$ 57,400,000		

(a) This category includes private equity (focusing on buyout, growth equity, and/or distressed debt), real estate, and commodities 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 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 that invest both long and short primarily in U.S. common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stakes, and from a net long position to a net short position. The fair values of the investments in this category have been estimated using the net asset value of the investments. As of August 31, 2013, 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.

(c) This category includes absolute return investments focused on analyzing the probability-adjusted returns of individual securities and assets and capturing the alpha in mispriced assets/securities across conventional and alternative financial strategies. Management initiates long and short positions targeting solid absolute risk-adjusted returns. The fair values of the investments in this category have been estimated using the net asset value of the investments. As of August 31, 2013, 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 funds that focus on long-only domestic bonds. The underlying assets are liquid and the fund's managers provide details of those assets. The fair values of the investments in this category have been estimated using the net asset value of the investments. As of August 31, 2013, up to 1/3 of the investments in the category can be redeemed annually.

(e) This category includes investments in funds that focus on long-only domestic and international equities. The underlying assets are liquid and the fund's managers provide details of those assets. The fair values of the investments in this category have been estimated using the net asset value of the investments. As of August 31, 2013, all of the investments in the category can be redeemed with no restrictions.

Note 3 - Investments

Investments consisted of the following at August 31:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Common stock funds	$ 87,804,954	$ 98,021,773	$ 86,606,241	$ 85,917,978
Private equity partnerships	50,041,148	68,648,656	50,993,362	52,096,522
Hedged equity partnerships	30,681,316	70,425,253	29,532,263	64,600,780
Absolute return equity partnerships	35,578,027	47,732,505	41,090,735	48,312,753
Real estate partnerships	29,947,246	29,226,283	30,857,973	22,020,569
Commodity partnerships	27,327,109	37,589,253	26,555,871	27,754,588
Fixed-income funds and partnerships	35,440,052	39,921,779	29,673,634	39,276,979
Domestic and international equity partnerships	35,597,296	35,600,515	29,704,077	29,120,213
Total	$ 332,417,148	$ 427,166,017	$ 325,014,156	$ 369,100,382

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 reconciliation to total gains from all investments.

	2013	2012
Partnerships		
Realized gains	$ 4,196,120	$ 7,261,899
Interest, dividends, and capital gain dividends	-	-
Net investment income from partnerships	4,196,120	7,261,899
Other sources of income from tax returns that are part of the Foundation's unrealized gains	19,612,023	13,806,447
Total income from tax returns	23,808,143	21,068,346
Additional change in unrealized gains	34,868,337	4,053,116
Total income from partnerships	58,676,478	25,121,462
Reconciliation total gain from investments	-	-
Net realized gain from sales of securities other than partnerships	491,704	507,326
Capital gain dividends	4,461,603	1,345,007
Change in unrealized gain from investments, other than partnerships	15,794,306	2,143,655
Total gain on investments	$ 79,424,093	$ 29,117,450

Note 5 - Lease Commitments

The future minimum lease payments are as follows:

Years Ending August 31	Amount
2014	$ 122,978
2015	125,438
2016	127,948
2017	108,390
Total	$ 484,754

Occupancy expense for 2013 and 2012 was $225,309 and $222,241, respectively.

Note 6 - Grants Approved but Not Paid

The Foundation has conditionally approved future grant commitments of $2,350,000 and $3,800,000 for the years ended August 31, 2013 and 2012, 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 percent and 12 percent of the participants' compensation for 2013 and 2012.

Retirement expense for the years ended August 31, 2013 and 2012 amounted to $115,897 and $139,080, respectively.

Note 8 - Change in Estimate

In prior years, the Foundation's method for estimating the fair market valuation for its Level 3 investments included a factor reflecting what the Foundation would expect to receive if the partnerships were sold in a secondary market. In 2013, the Foundation evaluated the factor and determined that it was no longer appropriate, as it does not expect that it will need to sell these partnership investments in a secondary market. The result of this change of method increased the fair market value for these investments by $34.9 million, which is included in the change in unrealized gain from investments in the statement of activities and changes in net assets.