

CHICAGO PUBLIC LIBRARY FOUNDATION

Chicago, Illinois

FINANCIAL STATEMENTS
Including Independent Auditors' Report

As of and for the years ended December 31, 2017 and 2016

CHICAGO PUBLIC LIBRARY FOUNDATION

TABLE OF CONTENTS

	<u>Page(s)</u>
Independent Auditors' Report	1 - 2
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4 - 5
Statements of Cash Flows	6
Statements of Functional Expenses	7 - 8
Notes to Financial Statements	9 - 20
Supplemental Information	
Changes in Temporarily Restricted Grants and Contracts (Schedule 1)	21
Changes in Temporarily Restricted (Donor Restricted Endowment) and Permanently Restricted (Endowment) Net Assets and Board Designated Unrestricted Net Assets (Schedule 2)	22
Allocation of 4.5% Spending Policy as Designated by the Board (Schedule 3)	23

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Chicago Public Library Foundation
Chicago, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of Chicago Public Library Foundation (the "Foundation"), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses 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.

Auditors' 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 auditors' 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.

To the Board of Directors
Chicago Public Library Foundation

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2017 and 2016, 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.

Other Matters

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information on pages 21-23 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Chicago, Illinois
June 20, 2018

CHICAGO PUBLIC LIBRARY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

As of December 31, 2017 and 2016

ASSETS

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 3,781,245	\$ 613,558
Pledges receivable, net	1,738,930	978,683
Accrued interest/dividends receivable	22,750	6,897
Investments	27,039,742	29,898,188
Prepaid expenses	40,207	52,410
Property, equipment and collections	<u>1</u>	<u>1</u>
TOTAL ASSETS	<u><u>\$ 32,622,875</u></u>	<u><u>\$ 31,549,737</u></u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	<u>\$ 281,208</u>	<u>\$ 357,987</u>
Net Assets		
Unrestricted:		
Available for operations and library programs	13,723,935	13,463,895
Board designated	<u>1,215,750</u>	<u>969,497</u>
Total Unrestricted	<u>14,939,685</u>	<u>14,433,392</u>
Temporarily restricted - grants and contracts	4,557,347	6,515,435
Temporarily restricted - donor restricted endowment funds	<u>4,202,753</u>	<u>1,601,041</u>
Total Restricted	<u>8,760,100</u>	<u>8,116,476</u>
Permanently restricted (endowment)	<u>8,641,882</u>	<u>8,641,882</u>
Total Net Assets	<u>32,341,667</u>	<u>31,191,750</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 32,622,875</u></u>	<u><u>\$ 31,549,737</u></u>

CHICAGO PUBLIC LIBRARY FOUNDATION

STATEMENTS OF ACTIVITIES
For the Year Ended December 31, 2017
with Comparative Totals for the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted Endowment	2017 Total	2016 Total
Operating					
Support and revenue					
Contributions	\$ 579,833	\$ 3,355,363	\$ -	\$ 3,935,196	\$ 3,447,686
Special event revenue, net of expenses	1,079,317	528,500	-	1,607,817	1,249,656
Endowment income	1,341,052	-	-	1,341,052	1,317,812
Other income	9,794	-	-	9,794	11,529
Donated services and materials	264,248	-	-	264,248	373,738
Net assets released from restrictions	5,841,951	(5,841,951)	-	-	-
Total Support and Revenue	<u>9,116,195</u>	<u>(1,958,088)</u>	<u>-</u>	<u>7,158,107</u>	<u>6,400,421</u>
Expenses					
Program Services - Library	7,055,577	-	-	7,055,577	5,788,850
Supporting Services					
Management and general	562,727	-	-	562,727	619,466
Fundraising	1,237,851	-	-	1,237,851	1,322,837
Total Expenses	<u>8,856,155</u>	<u>-</u>	<u>-</u>	<u>8,856,155</u>	<u>7,731,153</u>
Change in Net Assets from Operating Activities	<u>260,040</u>	<u>(1,958,088)</u>	<u>-</u>	<u>(1,698,048)</u>	<u>(1,330,732)</u>
Nonoperating					
Net gains on investments	902,357	2,601,712	-	3,504,069	688,096
Deficit of income earned over withdrawal under spending policy, net of investment expenses	<u>(656,104)</u>	<u>-</u>	<u>-</u>	<u>(656,104)</u>	<u>(797,291)</u>
Change in Net Assets from Nonoperating Activities	<u>246,253</u>	<u>2,601,712</u>	<u>-</u>	<u>2,847,965</u>	<u>(109,195)</u>
Change in Net Assets	506,293	643,624	-	1,149,917	(1,439,927)
Net Assets-Beginning of Year	<u>14,433,392</u>	<u>8,116,476</u>	<u>8,641,882</u>	<u>31,191,750</u>	<u>32,631,677</u>
Net Assets-End of Year	<u>\$ 14,939,685</u>	<u>\$ 8,760,100</u>	<u>\$ 8,641,882</u>	<u>\$ 32,341,667</u>	<u>\$ 31,191,750</u>

CHICAGO PUBLIC LIBRARY FOUNDATION

STATEMENTS OF ACTIVITIES
For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted Endowment	2016 Total
Operating				
Support and revenue				
Contributions	\$ 510,391	2,937,295	\$ -	\$ 3,447,686
Special event revenue, net of expenses	1,032,656	217,000	-	1,249,656
Endowment income	1,317,812	-	-	1,317,812
Other income	11,529	-	-	11,529
Donated services and materials	373,738	-	-	373,738
Net assets released from restrictions	4,204,456	(4,204,456)	-	-
Total Support and Revenue	7,450,582	(1,050,161)	-	6,400,421
Expenses				
Program Services - Library	5,788,850	-	-	5,788,850
Supporting Services				
Management and general	619,466	-	-	619,466
Fundraising	1,322,837	-	-	1,322,837
Total Expenses	7,731,153	-	-	7,731,153
Change in Net Assets from Operating Activities	<u>(280,571)</u>	<u>(1,050,161)</u>	<u>-</u>	<u>(1,330,732)</u>
Nonoperating				
Net gains on investments	688,096	-	-	688,096
Deficit of income earned over withdrawal under spending policy, net of investment expenses	(697,538)	(99,753)	-	(797,291)
Change in Net Assets from Nonoperating Activities	<u>(9,442)</u>	<u>(99,753)</u>	<u>-</u>	<u>(109,195)</u>
Change in Net Assets	(290,013)	(1,149,914)	-	(1,439,927)
Net Assets-Beginning of Year	14,723,405	9,266,390	8,641,882	32,631,677
Net Assets-End of Year	<u>\$ 14,433,392</u>	<u>\$ 8,116,476</u>	<u>\$ 8,641,882</u>	<u>\$ 31,191,750</u>

CHICAGO PUBLIC LIBRARY FOUNDATION

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,149,917	\$ (1,439,927)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Net gains on investments	(3,504,069)	(688,096)
Changes in assets and liabilities		
Accounts receivable	-	16,960
Pledges receivable	(760,247)	2,267,308
Accrued interest/dividends receivable	(15,853)	(3,496)
Prepaid expenses	12,203	170,972
Accounts payable	(76,779)	52,185
Net Cash Flows from Operating Activities	(3,194,828)	375,906
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(5,679,784)	(2,801,674)
Sales of investments	12,042,299	2,433,987
Net Cash Flows from Investing Activities	6,362,515	(367,687)
 Net Change in Cash and Cash Equivalents	3,167,687	8,219
 CASH AND CASH EQUIVALENTS - Beginning of Year	613,558	605,339
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,781,245	\$ 613,558

CHICAGO PUBLIC LIBRARY FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2017 with Comparative Totals for the Year Ended December 31, 2016

	Program Services							Supporting Services		2017 Total	2016 Total	
	Children's Programs	Teen Programs	Technology Access	Workforce, Financial and Civic Literacy	Collections and Cultural Programs	Branch Programs	Other Library Programs	Total Library	Management and General			Fund- Raising
Books, subscriptions and publications	\$ 115,982	\$ -	\$ -	\$ -	\$ 123,806	\$ 3,112	\$ -	\$ 242,900	\$ -	\$ 596	\$ 243,496	\$ 155,248
Computer hardware, software, supplies and amortization	66,750	82,516	67,369	-	-	2,140	3,813	222,588	19,135	31,861	273,584	136,873
Conferences, meetings and training	2,148	2,308	-	-	-	-	3,097	7,553	25	2,517	10,095	10,978
Copier lease and supplies	-	-	-	-	-	-	-	-	2,037	3,999	6,036	7,176
Donated services/materials	34,796	9,983	-	-	4,011	187	-	48,977	5,615	209,656	264,248	373,738
Dues, fees and memberships	-	-	-	-	-	-	-	-	2,859	21,040	23,899	16,078
Honoraria	180,572	76,028	8,864	8,000	62,185	20,311	-	355,960	-	-	355,960	283,555
Insurance	-	-	-	-	-	-	-	-	3,740	6,829	10,569	10,541
Marketing and promotion	42,449	19,535	-	10,506	4,865	-	-	77,355	-	93,133	170,488	389,488
Office supplies	-	-	-	-	-	-	-	-	3,764	11,278	15,042	13,574
Postage, shipping and messengers	-	-	-	-	-	-	-	-	607	11,861	12,468	17,003
Printing and design	83,779	-	4,662	-	22,624	-	-	111,065	-	4,771	115,836	163,841
Professional fees:												
Audit and tax returns	-	-	-	-	-	-	-	-	42,145	-	42,145	43,299
CyberNavigators and YOUmedia staff	-	619,616	1,227,616	-	-	-	-	1,847,232	-	-	1,847,232	1,913,861
Interns & teen book discussion moderators	256,437	-	-	-	-	-	-	256,437	-	-	256,437	283,863
Investment consultants	-	-	-	-	-	-	-	-	20,000	-	20,000	20,000
Legal services	-	-	-	-	-	-	-	-	5,551	-	5,551	25,452
Other services	32,912	16,788	22,690	2,000	145,283	-	374,704	594,377	21,781	73,684	689,842	1,086,741
Thomas Hughes Children's Library	1,847,818	-	-	-	-	-	-	1,847,818	-	-	1,847,818	-
Teachers in the Library	715,217	-	-	-	-	-	-	715,217	-	-	715,217	743,455
Rent, telephone and utilities	-	-	116,815	-	-	-	-	116,815	18,660	32,077	167,552	232,295
Salaries, payroll taxes and benefits	-	-	-	-	-	-	-	-	398,907	690,708	1,089,615	991,798
Special events and program materials	354,369	63,599	26,062	-	4,450	14,179	9,633	472,292	-	24,837	497,129	642,434
Transportation, travel and business	30,839	46,158	1,771	-	14,894	2,391	42,938	138,991	17,901	19,004	175,896	169,862
Total	\$ 3,764,068	\$ 936,531	\$ 1,475,849	\$ 20,506	\$ 382,118	\$ 42,320	\$ 434,185	\$ 7,055,577	\$ 562,727	\$ 1,237,851	\$ 8,856,155	\$ 7,731,153

CHICAGO PUBLIC LIBRARY FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2016

	Program Services							Supporting Services		2016 Total	
	Children's Programs	Teen Programs	Technology Access	Workforce, Financial and Civic Literacy	Collections and Cultural Programs	Branch Programs	Other Library Programs	Total Library	Management and General		Fund- Raising
Books, subscriptions and publications	\$ 15,028	\$ -	\$ -	\$ -	\$ 121,231	\$ 15,919	\$ -	\$ 152,178	\$ 60	\$ 3,010	\$ 155,248
Computer hardware, software, supplies and amortization	14,814	69,061	17,212	-	-	142	-	101,229	10,340	25,304	136,873
Conferences, meetings and training	4,311	5,054	-	-	-	-	240	9,605	37	1,336	10,978
Copier lease and supplies	-	-	-	-	-	-	-	-	2,066	5,110	7,176
Donated services/materials	11,147	14,277	-	-	-	-	-	25,424	2,491	345,823	373,738
Dues, fees and memberships	-	-	-	-	-	-	-	-	2,133	13,945	16,078
Honoraria	147,684	66,784	3,770	11,000	34,390	19,927	-	283,555	-	-	283,555
Insurance	-	-	-	-	-	-	-	-	4,162	6,379	10,541
Marketing and promotion	52,739	8,486	13,276	40,170	37,762	336	90,203	242,972	-	146,516	389,488
Office supplies	-	-	-	-	-	-	-	-	4,525	9,049	13,574
Postage, shipping and messengers	-	-	373	-	-	-	-	373	494	16,136	17,003
Printing and design	125,743	907	-	2,884	23,894	-	3,354	156,782	-	7,059	163,841
Professional fees:											
Audit and tax returns	-	-	-	-	-	-	-	-	43,299	-	43,299
CyberNavigators and YOUMedia staff	-	606,638	1,208,029	99,194	-	-	-	1,913,861	-	-	1,913,861
Interns & teen book discussion moderators	283,863	-	-	-	-	-	-	283,863	-	-	283,863
Investment consultants	-	-	-	-	-	-	-	-	20,000	-	20,000
Legal services	-	-	-	-	-	-	-	-	25,452	-	25,452
Other services	64,514	72,844	119,100	149,520	145,925	-	393,714	945,617	83,583	57,541	1,086,741
Teachers in the Library	743,455	-	-	-	-	-	-	743,455	-	-	743,455
Rent, telephone and utilities	-	-	181,855	-	-	-	115	181,970	18,721	31,604	232,295
Salaries, payroll taxes and benefits	-	-	-	-	-	-	-	-	382,829	608,969	991,798
Special events and program materials	487,563	62,479	17,613	4,620	22,506	19,318	2,290	616,389	-	26,045	642,434
Transportation, travel and business	44,267	44,635	3,288	7,738	18,571	1,265	11,813	131,577	19,274	19,011	169,862
Total	\$ 1,995,128	\$ 951,165	\$ 1,564,516	\$ 315,126	\$ 404,279	\$ 56,907	\$ 501,729	\$ 5,788,850	\$ 619,466	\$ 1,322,837	\$ 7,731,153

CHICAGO PUBLIC LIBRARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 1 – Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities - The Chicago Public Library Foundation (“Foundation” or “CPLF”) was created in 1986 by visionary civic leaders who shared a conviction that private resources are essential to keeping the outstanding Chicago Public Library (“Library” or “CPL”) truly world-class. Established in the spirit of a true public/private partnership with the City of Chicago, the Foundation is an independent, non-profit organization. As a publicly-supported entity, gifts to the Foundation are tax-deductible to the extent permitted by law. The Foundation’s mission is to support collection development, programs and technology initiatives that connect Library users to their community and to the world and ensure that all Chicagoans have the freedom to read, to learn and to discover at the Chicago Public Library.

Tax-Exempt Status - The Foundation has received notification that it qualifies as a tax-exempt organization under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding provisions of State law and, accordingly, is not subject to federal or state income taxes.

The Foundation follows the accounting standards for contingencies in evaluating uncertain tax positions. The guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the Foundation for uncertain tax positions as of December 31, 2017 and 2016. The Foundation’s tax returns are subject to review and examination by federal and state authorities.

Cash and Cash Equivalents - The Foundation considers all highly-liquid, short-term investments with a maturity of three months or less at the date of acquisition to be cash equivalents. Cash includes balances held in checking, savings and money market accounts and certificates of deposit with original maturities of three months or less, except that such instruments purchased with endowment assets are classified as investments.

The Foundation maintains cash balances in an institution which exceeds the federally insured limit of \$250,000. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Pledges Receivable, Net - Irrevocable unconditional promises to give to the Foundation are recorded in the year the pledge is made. The Foundation analyzed historical collection experience and reviewed the current status of pledges and other receivables to determine that no allowance for uncollectibles was required.

CHICAGO PUBLIC LIBRARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 1 – Nature of Activities and Summary of Significant Accounting Policies (continued)

Investments - Investments consist of equity funds, hedged equity funds, absolute return funds and fixed income funds. Investments are recorded at fair value based upon quoted market prices, when available. If listed prices or quotes are not available, fair value is based upon externally developed models that are unobservable inputs due to the limited market activity of the instrument. Donated investments are recorded at fair value at the date of donation, or, if sold immediately, at the amount of sales proceeds received, which is considered a fair measure of the value at the date of donation.

Property, Equipment and Collections - The Foundation records property and equipment at cost and amortizes the cost using the straight-line method. The Foundation has adopted a policy of capitalizing collections at a nominal value in its financial statements. Although the financial statements do not disclose the cumulative value of collections, certain artwork received in 1991 as an unrestricted donation has been cataloged and preserved. Since 2003 the artwork has been displayed, on permanent loan, in the Joan W. and Irving B. Harris Theater for Music and Dance. The Theater carries a \$2 million insurance policy on this artwork.

Net Assets - Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations.

Permanently Restricted (Endowment) Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets would permit the Foundation to use all or part of the income earned on related investments for general or specific purposes. The Foundation has \$8,641,882 of permanently restricted net assets at December 31, 2017 and 2016.

To ensure the observance of limitations and stipulations placed on the use of available resources, the Foundation maintains its internal financial accounts in accordance with the principles and practices of fund accounting. This is the procedure by which resources for various purposes are classified for accounting purposes into funds established in accordance with their nature or purpose.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Expiration of temporary restrictions on net assets (i.e. the donor-imposed stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as reclassifications between applicable classes of net assets. Donor-restricted contributions and related earnings whose restrictions are met in the same reporting period are reported as unrestricted support.

CHICAGO PUBLIC LIBRARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2017 and 2016

NOTE 1 – Nature of Activities and Summary of Significant Accounting Policies (continued)

Operations - Operating results in the statement of activities reflect all transactions increasing or decreasing net assets, except the receipt and expenditure of those gifts, grants and bequests of a long-term investment nature and net investment income.

Contributions - Contributions, including unconditional pledges to give, represent amounts raised from the public and are recognized in the period received. Conditional promises are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Gifts received for perpetual endowment funds are reported as non-operating revenues in the statement of activities. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets.

Contributions from board members were approximately \$2,775,000 and \$1,594,000 for the years ended December 31, 2017 and 2016, respectively.

Donated Services - Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Such services, as valued by the donors, totaled \$264,248 and \$373,738 on December 31, 2017 and 2016, respectively, and are reflected as support and expense in the statements of activities. In addition, various board members donated personal services to the Foundation. These donated services are not reflected in the financial statements since the services are not required to be recorded.

Endowment Income - The Foundation adopted a spending policy directed at meeting current operational budget requirements. The Foundation's policy has been to expend 4.5% of a four-year rolling average of the market value of the Foundation's investments as of each December 31, as audited.

Endowment yields that are in excess of the spending policy are returned to the endowment and reinvested. However, if endowment yields are not sufficient to support the spending policy, the balance is provided from realized capital gains. The difference between the actual yield on endowment investments and the spending rate is reported as a nonoperating excess or deficit.

Grants to the Library - The Foundation recognizes unconditional promises to make grants to the Library as expenses in the period made. Conditional promises to give, however, are not recognized until the conditions on which they depend are substantially met. Grant obligations are measured at their fair values.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

CHICAGO PUBLIC LIBRARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2017 and 2016

NOTE 2 – Fair Value Measurement

Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measure date. Under this guidance, a three-level hierarchy is used for fair value measurements which are based on the transparency of information, such as pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories.

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or market-corroborated inputs.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the reporting entity's own data.

Valuation Techniques and Inputs

Level 1 – Level 1 assets include investments in mutual funds for which quoted prices are readily available.

There have been no changes in techniques and inputs used as of December 31, 2017 and 2016.

CHICAGO PUBLIC LIBRARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2017 and 2016

NOTE 2 – Fair Value Measurement (continued)

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

While the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table presents information about the Foundation's assets measured at fair value on a recurring basis as of December 31, 2017 based upon the three-tier hierarchy:

	2017			
	Total	Level 1	Level 2	Level 3
Mutual Funds:				
Large cap equity funds	\$ 8,400,454	\$ 8,400,454	\$ -	\$ -
Small cap equity funds	1,121,639	1,121,639	-	-
International equity funds	4,345,420	4,345,420	-	-
Fixed income funds	2,746,310	2,746,310	-	-
Total Assets Recorded at Fair Value	\$ 16,613,823	\$ 16,613,823	\$ -	\$ -
Alternative investments valued at net asset value	7,974,262			
Total investments at Fair Value	24,588,085			
Cash and cash equivalents at cost	2,451,657			
Total per Statement of Financial Position	\$ 27,039,742			

The above table includes \$2,451,657 of investments in transit as of December 31, 2017. See note 4 for investments line item reconciliation.

CHICAGO PUBLIC LIBRARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2017 and 2016

NOTE 2 – Fair Value Measurement (continued)

The following table presents information about the Foundation's assets measured at fair value on a recurring basis as of December 31, 2016 based upon the three-tier hierarchy:

	2016			
	Total	Level 1	Level 2	Level 3
Mutual Funds:				
Large cap equity funds	\$ 7,311,991	\$ 7,311,991	\$ -	\$ -
Small cap equity funds	1,045,983	1,045,983	-	-
International equity funds	2,442,983	2,442,983	-	-
Fixed income funds	2,975,852	2,975,852	-	-
Total Assets Recorded at Fair Value	\$ 13,776,809	\$ 13,776,809	\$ -	\$ -
Alternative investments valued at net asset value	16,121,379			
Total per Statement of Financial Position	\$ 29,898,188			

The fair value of certain alternative investment funds has been estimated using Net Asset Value ("NAV") as reported by the management of the fund.

The liquidity table below presents the redemption notification period required for the investment portfolio.

	2017 Total	Redemption Frequency	Notice Period
Large cap equity fund	\$ 8,400,454	Daily	Daily
Large cap equity fund	2,961,277	Monthly	10 days
Small cap equity fund	1,121,639	Daily	Daily
International equity funds	3,019,889	Daily	Daily
International equity funds	3,431,155	Monthly	30 days
International equity funds	1,325,531	Daily	Daily
Hedged equity funds	1,275,361	Annually-Dec*	45 days
Hedged equity funds	27,035	Fund in liquidation mode	
Absolute return funds	279,434	Annually	45 days
Fixed income funds	2,746,310	Daily	Daily
Total Assets Recorded at Fair Value	\$ 24,588,085		

* - 3 year lock-up period expired in Dec. 2017

CHICAGO PUBLIC LIBRARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 3 – Pledges Receivable, Net

Promises to give at December 31, 2017 and 2016 are as follows:

	2017	2016
Receivables due in less than one year	\$ 1,092,817	\$ 978,683
Receivables due in one to three years	646,113	-
Pledges receivable, net	\$ 1,738,930	\$ 978,683

NOTE 4 – Investments

The market value of investments held by the Foundation as of December 31, 2017 and 2016 are summarized as follows:

	2017	2016
Large cap equity funds	\$ 11,361,731	\$ 10,135,809
Small cap equity funds	1,121,639	1,045,983
International equity funds	7,776,575	6,853,552
Hedged equity funds	1,302,396	4,536,066
Absolute return funds	279,434	4,350,926
Fixed income funds	2,746,310	2,975,852
Cash and cash equivalents	2,451,657	-
Total	\$ 27,039,742	\$ 29,898,188

The following schedule summarizes the Foundation's investment return and related expenses on endowment funds and their classification in the statements of activities:

	2017	2016
Investment return		
Dividends and interest	\$ 710,159	\$ 538,374
Less: Investment management fees	25,211	17,853
Net	684,948	520,521
Less: investment yield used to support current operations	1,341,052	1,317,812
Endowment deficit	(656,104)	(797,291)
 Net gains on investments	 3,504,069	 688,096
Investment return in excess (deficit) of amounts used to support current operations	\$ 2,847,965	\$ (109,195)

CHICAGO PUBLIC LIBRARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2017 and 2016

NOTE 4 – Investments (continued)

Investments, in general, are subject to various risks, including credit, interest rate and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and such changes could materially affect the Foundation's investment balances and the amounts reported on the statements of financial position.

The Foundation's investment strategy incorporates a diversified asset allocation approach and maintains, within defined limits, exposure to the international equity, hedged equity markets and an equity portfolio which participates in a securities lending program. This strategy provides the Foundation with a long-term asset mix that is most likely to meet the Foundation's long-term return goals with the appropriate level of risk.

Alternative investments were entered into to diversify the Foundation's portfolio. The Foundation's management, the Investment Committee of the Board of Directors and the Foundation's external investment consultant review reports provided by the general partners and hedge fund managers on a regular basis and the Foundation's external investment consultant attends meetings of the various general partners and hedge fund managers in order to evaluate the risk associated with these investments. In addition, the Foundation monitors its portfolio mix to ensure that it is in accordance with the Board of Directors' policy.

NOTE 5 – Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31:

	2017	2016
Children's programs	\$ 1,467,911	\$ 3,495,897
Teen programs	1,256,355	298,325
Technology access	531,152	929,830
Workforce, financial and civic literacy	-	57,942
Collections and cultural programs	425,052	682,484
Branch programs	271,808	245,585
Other library programs	605,069	805,372
Endowment fund	4,202,753	1,601,041
	<u>\$ 8,760,100</u>	<u>\$ 8,116,476</u>

NOTE 6 – Endowment Funds

The Foundation's endowment includes both donor-restricted endowment funds [30 funds] and funds designated by the Board of Directors to function as endowments [3 funds], for a variety of purposes. As required by accounting principles generally accepted in the United States Of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

CHICAGO PUBLIC LIBRARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2017 and 2016

NOTE 6 – Endowment Funds (continued)

The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The Investment policies of the Foundation

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are expected to outperform a custom benchmark (the Allocation Index) consisting of the appropriate indices of each asset class and their proportional weighting in the portfolio.

The Allocation Index is constructed by selecting appropriate indices (e.g., S&P 500, Russell 2000, MSCI EAFE, etc.) and assigning beginning of the quarter weighting by asset class. The total return of the invested assets is expected to exceed the total return of the Allocation Index.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investment to achieve its long-term return objectives within prudent risk constraints.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration.

CHICAGO PUBLIC LIBRARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 6 – Endowment Funds (continued)

The Foundation has an endowment distribution policy that determines a maximum spending rate of 4.5% applied to the average of the fair value of endowment investments for the four years ended December 31, 2017 and 2016, respectively. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, the long-term goal is to achieve a rate of growth sufficient to meet the Foundation’s spending needs, while maintaining the inflation-adjusted principal of the endowment funds. If actual earnings for any year are less than the current year spending rule, the deficiency is drawn from prior years’ amounts that have accumulated but not been spent. The amount of investment income included in operating revenues totaled \$1,341,052 and \$1,317,812 for 2017 and 2016, respectively.

The following table summarizes endowment net asset composition by type of fund as of December 31, 2017.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 4,202,753	\$ 8,641,882	\$ 12,844,635
Board-designated endowment funds	1,215,750	-	-	1,215,750
Total funds	<u>\$ 1,215,750</u>	<u>\$ 4,202,753</u>	<u>\$ 8,641,882</u>	<u>\$ 14,060,385</u>

The following table summarizes endowment net asset composition by type of fund as of December 31, 2016.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 1,601,041	\$ 8,641,882	\$ 10,242,923
Board-designated endowment funds	969,497	-	-	969,497
Total funds	<u>\$ 969,497</u>	<u>\$ 1,601,041</u>	<u>\$ 8,641,882</u>	<u>\$ 11,212,420</u>

CHICAGO PUBLIC LIBRARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 6 – Endowment Funds (continued)

Changes in endowment net assets for December 31, 2017 and 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2015	\$ 978,939	\$ 1,700,794	\$ 8,641,882	\$ 11,321,615
Investment return	451,710	756,907	-	1,208,617
Appropriation of endowment assets for expenditure	<u>(461,152)</u>	<u>(856,660)</u>	-	<u>(1,317,812)</u>
Endowment net assets, December 31, 2016	\$ 969,497	\$ 1,601,041	\$ 8,641,882	\$ 11,212,420
Investment return	715,538	3,473,479	-	4,189,017
Appropriation of endowment assets for expenditure	<u>(469,285)</u>	<u>(871,767)</u>	-	<u>(1,341,052)</u>
Endowment net assets, December 31, 2017	<u>\$ 1,215,750</u>	<u>\$ 4,202,753</u>	<u>\$ 8,641,882</u>	<u>\$ 14,060,385</u>

NOTE 7 – Retirement Plan

The Foundation established a 403(b) defined contribution plan covering all employees working 30 hours or more each week, for which it makes discretionary contributions. Contributions to the plan for the years ended December 31, 2017 and 2016 were \$85,781 and \$78,006, respectively.

NOTE 8 – Special Events

The Foundation holds one significant fund raising event – an annual dinner at which the Carl Sandburg Literary Award pays tribute to a writer whose work has helped enhance the public's awareness of the written word and reflects the Foundation's and the Chicago Public Library's commitment to the freedom of all people to read, to learn and to discover. The following is a financial summary of that event:

	<u>2017</u>	<u>2016</u>
Contributions	\$ 2,003,755	\$ 1,543,582
Donated Services	232,594	233,594
Less: Expenses, including costs of direct benefits to donors of \$108,290 (2017) and \$84,500 (2016)	(628,532)	(527,520)
Special event revenue, net of expenses	<u>\$ 1,607,817</u>	<u>\$ 1,249,656</u>

CHICAGO PUBLIC LIBRARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2017 and 2016

NOTE 9 – Operating Leases

Effective March 1, 2014, the Foundation signed a lease amendment to occupy new quarters in the same building. This lease expires June 30, 2020. Lease expense for the years ended December 31, 2017 and 2016 totaled \$34,066 and \$32,829, respectively. Future minimum lease payments are:

<u>Year</u>	<u>Amount</u>
2018	\$ 35,434
2019	36,496
2020	18,337
	<u>\$ 90,267</u>

In April 2016, the Foundation leased a new copier for a term of five years that expires in March 2021. Lease expense for the years ended December 31, 2017 and 2016 totaled \$6,036 and \$7,176, respectively. Future minimum lease payments are:

<u>Year</u>	<u>Amount</u>
2018	\$ 6,456
2019	6,456
2020	6,456
2021	1,614
	<u>\$ 20,982</u>

NOTE 10 – Subsequent Events

The Foundation has evaluated subsequent events through June 20, 2018, which is the date the financial statements were approved and available to be issued, for events requiring recording or disclosure in the Foundation's financial statements.

Supplemental Information

CHICAGO PUBLIC LIBRARY FOUNDATION

CHANGES IN TEMPORARILY RESTRICTED GRANTS AND CONTRACTS
For the Year Ended December 31, 2017

	Balance January 1, 2017	Contributions and Pledges Received	Temporarily Restricted Special Event Revenue	Net Assets Released From Restrictions	Balance December 31, 2017
Children's Programs	\$ 3,495,897	\$ 1,339,030	\$ 25,000	\$ 3,392,016	\$ 1,467,911
Teen Programs	298,325	1,298,957	450,000	790,927	1,256,355
Technology Access	929,830	529,896	53,500	982,074	531,152
Workforce, Financial and Civic Literacy	57,942	-	-	57,942	-
Collections and Cultural Programs	682,484	100,125	-	357,557	425,052
Branch Programs	245,585	80,855	-	54,632	271,808
Other Library Programs	805,372	6,500	-	206,803	605,069
Totals	<u>\$ 6,515,435</u>	<u>\$ 3,355,363</u>	<u>\$ 528,500</u>	<u>\$ 5,841,951</u>	<u>\$ 4,557,347</u>

CHICAGO PUBLIC LIBRARY FOUNDATION

CHANGES IN TEMPORARILY RESTRICTED (DONOR RESTRICTED ENDOWMENT) AND PERMANENTLY RESTRICTED (ENDOWMENT)
NET ASSETS AND BOARD DESIGNATED UNRESTRICTED NET ASSETS
For the Year Ended December 31, 2017

	Principal Balance at January 1, 2017	Contributions Received (Expended)	Principal Balance at December 31, 2017	Cumulative Available for Long-Term Investment *	Endowment Balance at December 31, 2017
Permanently Restricted (Endowment) Net Assets					
AON Corporation Fund	\$ 30,000	\$ -	\$ 30,000	\$ 16,022	\$ 46,022
Arthur Andersen Fund I	37,500	-	37,500	20,057	57,557
Arthur Andersen Fund II	37,500	-	37,500	20,056	57,556
Blum-Kovler Foundation Fund	1,000,000	-	1,000,000	534,723	1,534,723
City of Chicago Humanities Fund	138,920	-	138,920	74,377	213,297
CPLF Gala 1998	208,000	-	208,000	107,212	315,212
CPLF Sandburg Awards Dinner 2000	202,000	-	202,000	65,574	267,574
Arie & Ida Crown Memorial Fund	250,000	-	250,000	133,515	383,515
Gaylord & Dorothy Donnelley Foundation	100,000	-	100,000	53,017	153,017
First National Bank of Chicago	80,000	-	80,000	42,788	122,788
Friends of the Chicago Public Library	219,397	-	219,397	102,092	321,489
James S. Kemper Foundation Fund	75,000	-	75,000	40,087	115,087
Chauncey & Marion Deering McCormick Foundation	100,000	-	100,000	53,122	153,122
MacArthur Foundation Fund	1,250,000	-	1,250,000	668,897	1,918,897
NEH Challenge Grant	599,173	-	599,173	320,895	920,068
John Nuveen Fund	30,000	-	30,000	16,054	46,054
Albert Pick, Jr. Fund	750,000	-	750,000	400,572	1,150,572
Polk Bros. Foundation Fund	60,000	-	60,000	32,111	92,111
Prince Charitable Trusts Fund	150,000	-	150,000	80,257	230,257
Pritzker Foundation Fund I	1,000,000	-	1,000,000	486,455	1,486,455
Pritzker Foundation Fund II	1,000,000	-	1,000,000	244,794	1,244,794
Sagan/Hill Fund	20,000	-	20,000	10,369	30,369
Salomon Foundation Fund	50,000	-	50,000	26,744	76,744
Sears Family Literature Fund	150,000	-	150,000	77,317	227,317
WH Smith Fund	50,000	-	50,000	26,786	76,786
Stone Container Corporation Fund	30,000	-	30,000	16,016	46,016
United Airlines Fund	100,000	-	100,000	53,461	153,461
Madeline Block Willner Fund	50,000	-	50,000	26,762	76,762
Oprah Winfrey Fund	100,000	-	100,000	53,472	153,472
Laura Weber Bequest	774,392	-	774,392	399,149	1,173,541
Total Permanently Restricted	8,641,882	-	8,641,882	4,202,753	12,844,635
Board Designated Unrestricted Net Assets					
Friends of the Lincoln Park Branch Library	130,000	-	130,000	(18,141)	111,859
Gould Foundation	976,571	-	976,571	(87,488)	889,083
Jesse Jones Children's Charitable Remainder Trust	223,907	-	223,907	(9,099)	214,808
Total Board Designated	1,330,478	-	1,330,478	(114,728)	1,215,750
Total Endowment Funds	\$ 9,972,360	\$ -	\$ 9,972,360	\$ 4,088,025	\$ 14,060,385

*Board policy is to designate for investment the cumulative excess of actual investment income earned over the 4.5% spending rate in order to preserve the value of the endowment funds.

CHICAGO PUBLIC LIBRARY FOUNDATION

ALLOCATION OF 4.5% SPENDING POLICY AS
DESIGNATED BY THE BOARD
For the Year Ended December 31, 2017

	General	For Books and/or Programs	Total Expendable
Permanently Restricted (Endowment) Net Assets			
AON Corporation Fund	\$ -	\$ 4,389	\$ 4,389
Arthur Andersen Fund I	-	5,490	5,490
Arthur Andersen Fund II	-	5,490	5,490
Blum-Kovler Foundation Fund	-	146,379	146,379
City of Chicago Humanities Fund	-	20,344	20,344
CPLF Gala 1998	-	30,064	30,064
CPLF Sandburg Awards Dinner 2000	22,867	2,654	25,521
Arie & Ida Crown Memorial Fund	-	36,579	36,579
Gaylord & Dorothy Donnelley Foundation	-	14,594	14,594
First National Bank of Chicago	-	11,711	11,711
Friends of the Library	-	30,663	30,663
James S. Kemper Foundation Fund	-	10,977	10,977
Chauncey & Marion Deering McCormick Foundation Fund	-	14,605	14,605
MacArthur Foundation Fund	183,020	-	183,020
NEH Challenge Grant	-	87,754	87,754
John Nuveen Fund	-	4,393	4,393
Albert Pick, Jr. Fund	-	109,739	109,739
Polk Bros. Foundation Fund	-	8,785	8,785
Prince Charitable Trusts Fund	-	21,961	21,961
Pritzker Foundation Fund I	141,775	-	141,775
Pritzker Foundation Fund II	118,726	-	118,726
Sagan/Hill Fund	2,897	-	2,897
Salomon Foundation Fund	-	7,320	7,320
Sears Family Literature Fund	-	21,681	21,681
WH Smith Fund	-	7,324	7,324
Stone Container Corporation Fund	-	4,389	4,389
United Airlines Fund	-	14,637	14,637
Madeline Block Willner Fund	-	7,321	7,321
Oprah Winfrey Fund	-	14,638	14,638
Laura Weber Bequest	-	111,930	111,930
	<u>469,285</u>	<u>755,811</u>	<u>1,225,096</u>
Board Designated Unrestricted Net Assets			
Friends of Lincoln Park Branch Library	-	10,669	10,669
Gould Foundation	-	84,799	84,799
Jesse O. Jones Children's Charitable Remainder Trust	-	20,488	20,488
	-	<u>115,956</u>	<u>115,956</u>
Total Endowment Income Expendable	<u>\$ 469,285</u>	<u>\$ 871,767</u>	<u>\$ 1,341,052</u>