

CHICAGO PUBLIC LIBRARY FOUNDATION

Chicago, Illinois

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the years ended December 31, 2016 and 2015

CHICAGO PUBLIC LIBRARY FOUNDATION

TABLE OF CONTENTS

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 - 10
Notes to Financial Statements	11 - 22
Supplemental Information	
Changes in Temporarily Restricted Grants and Contracts (Schedule 1)	23
Changes in Temporarily Restricted (Donor Restricted Endowment) and Permanently Restricted (Endowment) Net Assets and Board Designated Unrestricted Net Assets (Schedule 2)	24
Allocation of 4.5% Spending Policy as Designated by the Board (Schedule 3)	25

INDEPENDENT AUDITORS' REPORT

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, 2016 and 2015, and the related statements of activities, cash flows and functional expenses 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 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 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.

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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 23-25 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

Oak Brook, Illinois
June 15, 2017

CHICAGO PUBLIC LIBRARY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

As of December 31, 2016 and 2015

ASSETS		
	2016	2015
Cash and cash equivalents	\$ 613,558	\$ 605,339
Accounts receivable	-	16,960
Pledges receivable, net	978,683	3,245,991
Accrued interest/dividends receivable	6,897	3,401
Investments	29,898,188	28,842,405
Prepaid expenses	52,410	223,382
Property, equipment and collections	1	1
TOTAL ASSETS	\$ 31,549,737	\$ 32,937,479
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 357,987	\$ 305,802
Net Assets		
Unrestricted:		
Available for operations and library programs	13,463,895	13,744,466
Board designated	969,497	978,939
Total Unrestricted	14,433,392	14,723,405
Temporarily restricted - grants and contracts	6,515,435	7,565,596
Temporarily restricted - donor restricted endowment funds	1,601,041	1,700,794
Total Restricted	8,116,476	9,266,390
Permanently restricted (endowment)	8,641,882	8,641,882
Total Net Assets	31,191,750	32,631,677
TOTAL LIABILITIES AND NET ASSETS	\$ 31,549,737	\$ 32,937,479

CHICAGO PUBLIC LIBRARY FOUNDATION

STATEMENTS OF ACTIVITIES For the Years Ended December 31, 2016 with Comparative Totals for the Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted Endowment	2016 Total	2015 Total
Operating					
Support and revenue					
Contributions	\$ 510,391	2,937,295	\$ -	\$ 3,447,686	\$ 6,244,096
Special event revenue, net of expenses	1,032,656	217,000	-	1,249,656	983,409
Endowment income	1,317,812	-	-	1,317,812	1,288,506
Other income	11,529	-	-	11,529	11,459
Donated services and materials	373,738	-	-	373,738	890,248
Net assets released from restrictions	4,204,456	(4,204,456)	-	-	-
Total Support and Revenue	7,450,582	(1,050,161)	-	6,400,421	9,417,718
Expenses					
Program Services - Library	5,788,850	-	-	5,788,850	5,595,277
Supporting Services					
Management and general	619,466	-	-	619,466	504,885
Fundraising	1,322,837	-	-	1,322,837	1,047,423
Total Expenses	7,731,153	-	-	7,731,153	7,147,585
Change in Net Assets from Operating Activities	(280,571)	(1,050,161)	-	(1,330,732)	2,270,133
Nonoperating					
Net gains (losses) on investments	688,096	-	-	688,096	(1,116,603)
Deficit of income earned over withdrawal under spending policy, net of investment expenses	(697,538)	(99,753)	-	(797,291)	(778,789)
Change in Net Assets from Nonoperating Activities	(9,442)	(99,753)	-	(109,195)	(1,895,392)
Change in Net Assets	(290,013)	(1,149,914)	-	(1,439,927)	374,741
Net Assets-Beginning of Year	14,723,405	9,266,390	8,641,882	32,631,677	32,256,936
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>	<u>\$ 32,631,677</u>

CHICAGO PUBLIC LIBRARY FOUNDATION

STATEMENT OF ACTIVITIES For the Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted Endowment	2015 Total
Operating				
Support and revenue				
Contributions	\$ 474,534	5,769,562	\$ -	\$ 6,244,096
Special event revenue, net of expenses	808,409	175,000	-	983,409
Endowment income	1,288,506	-	-	1,288,506
Other income	11,459	-	-	11,459
Donated services and materials	890,248	-	-	890,248
Net assets released from restrictions	3,010,058	(3,010,058)	-	-
Total Support and Revenue	6,483,214	2,934,504	-	9,417,718
Expenses				
Program Services - Library	5,595,277	-	-	5,595,277
Supporting Services				
Management and general	504,885	-	-	504,885
Fundraising	1,047,423	-	-	1,047,423
Total Expenses	7,147,585	-	-	7,147,585
Change in Net Assets from Operating Activities	(664,371)	2,934,504	-	2,270,133
Nonoperating				
Net losses on investments	(1,116,603)	-	-	(1,116,603)
Deficit of income earned over withdrawal under spending policy, net of investment expenses	(591,768)	(187,021)	-	(778,789)
Change in Net Assets from Nonoperating Activities	(1,708,371)	(187,021)	-	(1,895,392)
Change in Net Assets	(2,372,742)	2,747,483	-	374,741
Net Assets-Beginning of Year	17,096,147	6,518,907	8,641,882	32,256,936
Net Assets-End of Year	<u>\$ 14,723,405</u>	<u>\$ 9,266,390</u>	<u>\$ 8,641,882</u>	<u>\$ 32,631,677</u>

CHICAGO PUBLIC LIBRARY FOUNDATION

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,439,927)	\$ 374,741
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Net (gains) losses on investments	(688,096)	1,116,603
Changes in assets and liabilities		
Accounts receivable	16,960	(16,960)
Pledges receivable	2,267,308	(1,480,113)
Accrued interest/dividends receivable	(3,496)	(1,216)
Prepaid expenses	170,972	77,377
Accounts payable	52,185	(98,656)
Net Cash Flows from Operating Activities	<u>375,906</u>	<u>(28,224)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(2,801,674)	(2,802,616)
Sales of investments	2,433,987	3,059,186
Net Cash Flows from Investing Activities	<u>(367,687)</u>	<u>256,570</u>
Net Change in Cash and Cash Equivalents	8,219	228,346
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>605,339</u>	<u>376,993</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 613,558</u>	<u>\$ 605,339</u>
NONCASH INVESTING ACTIVITIES		
Donated securities	<u>\$ 54,379</u>	<u>\$ 110,519</u>

CHICAGO PUBLIC LIBRARY FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2016 with Comparative Totals for the Year Ended December 31, 2015

	Children's Programs	Teen Programs	Technology Access	Workforce, Financial and Civic Literacy	Collections and Cultural Programs
Books, subscriptions and publications	\$ 15,028	\$ -	\$ -	\$ -	\$ 121,231
Computer hardware, software, supplies and amortization	14,814	69,061	17,212	-	-
Conferences, meetings and training	4,311	5,054	-	-	-
Copier lease and supplies	-	-	-	-	-
Donated services/materials	11,147	14,277	-	-	-
Dues, fees and memberships	-	-	-	-	-
Honoraria	147,684	66,784	3,770	11,000	34,390
Insurance	-	-	-	-	-
Marketing and promotion	52,739	8,486	13,276	40,170	37,762
Office supplies	-	-	-	-	-
Postage, shipping and messengers	-	-	373	-	-
Printing and design	125,743	907	-	2,884	23,894
Professional fees:					
Audit and tax returns	-	-	-	-	-
CyberNavigators and YOUMedia staff	-	606,638	1,208,029	99,194	-
Interns & teen book discussion moderators	283,863	-	-	-	-
Investment consultants	-	-	-	-	-
Legal services	-	-	-	-	-
Other services	64,514	72,844	119,100	149,520	145,925
Teachers in the Library	743,455	-	-	-	-
Rent, telephone and utilities	-	-	181,855	-	-
Salaries, payroll taxes and benefits	-	-	-	-	-
Special events and program materials	487,563	62,479	17,613	4,620	22,506
Transportation, travel and business	44,267	44,635	3,288	7,738	18,571
Total	<u>\$ 1,995,128</u>	<u>\$ 951,165</u>	<u>\$ 1,564,516</u>	<u>\$ 315,126</u>	<u>\$ 404,279</u>

			Supporting Services			
Branch Programs	Other Library Programs	Total Library	Management and General	Fund- Raising	2016 Total	2015 Total
\$ 15,919	\$ -	\$ 152,178	\$ 60	\$ 3,010	\$ 155,248	\$ 149,949
142	-	101,229	10,340	25,304	136,873	115,335
-	240	9,605	37	1,336	10,978	12,138
-	-	-	2,066	5,110	7,176	5,539
-	-	25,424	2,491	345,823	373,738	890,248
-	-	-	2,133	13,945	16,078	18,826
19,927	-	283,555	-	-	283,555	56,042
-	-	-	4,162	6,379	10,541	10,806
336	90,203	242,972	-	146,516	389,488	280,322
-	-	-	4,525	9,049	13,574	7,057
-	-	373	494	16,136	17,003	12,660
-	3,354	156,782	-	7,059	163,841	87,724
-	-	-	43,299	-	43,299	41,906
-	-	1,913,861	-	-	1,913,861	1,598,322
-	-	283,863	-	-	283,863	74,886
-	-	-	20,000	-	20,000	15,000
-	-	-	25,452	-	25,452	2,027
-	393,714	945,617	83,583	57,541	1,086,741	1,451,824
-	-	743,455	-	-	743,455	661,621
-	115	181,970	18,721	31,604	232,295	140,231
-	-	-	382,829	608,969	991,798	1,006,143
19,318	2,290	616,389	-	26,045	642,434	365,852
1,265	11,813	131,577	19,274	19,011	169,862	143,127
<u>\$ 56,907</u>	<u>\$ 501,729</u>	<u>\$ 5,788,850</u>	<u>\$ 619,466</u>	<u>\$ 1,322,837</u>	<u>\$ 7,731,153</u>	<u>\$ 7,147,585</u>

CHICAGO PUBLIC LIBRARY FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES For the Year Ended December 31, 2015

	Children's Programs	Teen Programs	Technology Access	Workforce, Financial and Civic Literacy
Books, subscriptions and publications	\$ 8,943	\$ 4,966	\$ -	\$ -
Computer hardware, software, supplies and amortization	4,063	36,778	14,292	158
Conferences, meetings and training	303	2,578	-	-
Copier lease and supplies	-	-	-	-
Donated services/materials	354,311	-	39,000	-
Dues, fees and memberships	-	-	-	-
Honoraria	30,150	5,560	-	-
Insurance	-	-	-	-
Marketing and promotion	53,970	8,748	1,000	438
Office supplies	-	-	-	-
Postage, shipping and messengers	88	130	-	-
Printing and design	56,944	-	-	-
Professional fees:				
Audit and tax returns	-	-	-	-
CyberNavigators and YOUMedia staff	-	691,225	907,097	-
Interns & teen book discussion moderators	74,886	-	-	-
Investment consultants	-	-	-	-
Legal services	-	-	-	-
Other services (website, consultants, presenters, et al)	150,986	52,795	277,643	311,780
Teachers in the Library	661,621	-	-	-
Rent, telephone and utilities	-	-	88,517	-
Salaries, payroll taxes and benefits	-	-	-	-
Special events and program materials	163,167	153,852	11,654	1,267
Transportation, travel and business	17,903	33,328	806	1,937
Total	<u>\$ 1,577,335</u>	<u>\$ 989,960</u>	<u>\$ 1,340,009</u>	<u>\$ 315,580</u>

Supporting Services						
Collections and Cultural Programs	Branch Programs	Other Library Programs	Total Library	Management and General	Fund- Raising	2015 Total
\$ 120,447	\$ 14,313	\$ -	\$ 148,669	\$ -	\$ 1,280	\$ 149,949
206	2,269	11,984	69,750	17,567	28,018	115,335
-	-	1,625	4,506	3,339	4,293	12,138
-	-	-	-	1,739	3,800	5,539
-	-	336,000	729,311	4,188	156,749	890,248
-	-	-	-	2,360	16,466	18,826
6,455	13,877	-	56,042	-	-	56,042
-	-	-	-	3,912	6,894	10,806
51,317	-	78,921	194,394	-	85,928	280,322
-	-	-	-	2,998	4,059	7,057
-	-	367	585	598	11,477	12,660
17,983	-	12,498	87,425	-	299	87,724
-	-	-	-	41,906	-	41,906
-	-	-	1,598,322	-	-	1,598,322
-	-	-	74,886	-	-	74,886
-	-	-	-	15,000	-	15,000
-	-	-	-	2,027	-	2,027
120,916	10,150	493,274	1,417,544	6,270	28,010	1,451,824
-	-	-	661,621	-	-	661,621
-	-	1,389	89,906	20,046	30,279	140,231
-	-	-	-	377,974	628,169	1,006,143
7,049	7,247	21,616	365,852	-	-	365,852
11,890	1,007	29,593	96,464	4,961	41,702	143,127
<u>\$ 336,263</u>	<u>\$ 48,863</u>	<u>\$ 987,267</u>	<u>\$ 5,595,277</u>	<u>\$ 504,885</u>	<u>\$ 1,047,423</u>	<u>\$ 7,147,585</u>

CHICAGO PUBLIC LIBRARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

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, 2016 and 2015. 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, 2016 and 2015

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, 2016 and 2015.

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, 2016 and 2015

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 unrestricted 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 \$1,594,000 and \$5,061,000 for the years ended December 31, 2016 and 2015, 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 \$373,738 and \$890,248 on December 31, 2016 and 2015, 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.

Summarized Information - The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

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, 2016 and 2015

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

New Accounting Pronouncement - In May 2015, FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. Under the new guidance, investments measured at net asset value, as a practical expedient for fair value, are excluded from the fair value hierarchy disclosure requirement. The guidance is effective for the Foundation's fiscal year beginning January 1, 2017, with early adoption permitted. The Foundation elected to early adopt the guidance in fiscal 2016. The guidance is retrospective, and as a result, the 2015 amounts were reclassified to conform to the 2016 financial statement presentation. The adoption of the ASU did not have a significant impact on the Foundation's financial position or results of operations.

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.

CHICAGO PUBLIC LIBRARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

NOTE 2 – Fair Value Measurement (continued)

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, 2016 and 2015.

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, 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			

CHICAGO PUBLIC LIBRARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

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, 2015 based upon the three-tier hierarchy:

	2015			
	Total	Level 1	Level 2	Level 3
Mutual funds:				
Large cap equity funds	\$ 6,332,899	\$ 6,332,899	\$ -	\$ -
Small cap equity funds	871,191	871,191	-	-
International equity funds	2,561,125	2,561,125	-	-
Fixed income funds	2,433,655	2,433,655	-	-
Total Assets Recorded at Fair Value	\$ 12,198,870	\$ 12,198,870	\$ -	\$ -
Alternative investments valued at net asset value	16,643,535			
Total per Statement of Financial Position	\$ 28,842,405			

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.

	2016 Total	Redemption Frequency	Notice Period
Large cap equity funds	\$ 7,311,991	Daily	Daily
Large cap equity funds	2,823,818	Monthly	10 days
Small cap equity funds	1,045,983	Daily	Daily
International equity funds	1,983,593	Annually-Dec	90 days
International equity funds	2,442,983	Daily	Daily
International equity funds	2,426,976	Monthly	30 days
Hedged equity funds	1,259,519	Annually-Dec*	45 days
Hedged equity funds	1,959,714	Monthly	30 days
Hedged equity funds	1,289,902	Annually-May	60 days
Hedged equity funds	26,931	Fund in liquidation mode	
Absolute return funds	4,350,926	Annually	45 days
Fixed income funds	2,975,852	Daily	Daily
Total Assets Recorded at Fair Value	\$ 29,898,188	* - 3 year lock-up period expires in Dec. 2017	

CHICAGO PUBLIC LIBRARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

NOTE 3 – Pledges Receivable

Promises to give at December 31, 2016 and 2015 are as follows:

	2016	2015
Receivables due in less than one year	\$ 978,683	\$ 2,745,991
Receivables due in one to three years	-	500,000
Total unconditional promises to give	978,683	3,245,991
Less discount to net present value	-	-
Pledges receivable, net	<u>\$ 978,683</u>	<u>\$ 3,245,991</u>

NOTE 4 – Investments

The market value of investments held by the Foundation as of December 31, 2016 and 2015 are summarized as follows:

	2016	2015
Large cap equity funds	\$ 10,135,809	\$ 7,989,726
Small cap equity funds	1,045,983	1,778,100
International equity funds	6,853,552	6,860,451
Hedged equity funds	4,536,066	5,606,894
Absolute return funds	4,350,926	4,173,579
Fixed income funds	<u>2,975,852</u>	<u>2,433,655</u>
Total	<u>\$ 29,898,188</u>	<u>\$ 28,842,405</u>

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

	2016	2015
Yield on long-term investments		
Dividends and interest	\$ 538,374	\$ 536,638
Less: Investment management fees	<u>17,853</u>	<u>26,921</u>
Net	520,521	509,717
Less: investment yield used to support current operations	<u>1,317,812</u>	<u>1,288,506</u>
Endowment deficit	(797,291)	(778,789)
Net gains (losses) on investments	<u>688,096</u>	<u>(1,116,603)</u>
Investment return in excess (deficit) of amounts used to support current operations	<u>\$ (109,195)</u>	<u>\$ (1,895,392)</u>

CHICAGO PUBLIC LIBRARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

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:

	2016	2015
Children's programs	\$ 3,495,897	\$ 4,113,024
Teen programs	298,325	996,800
Technology access	929,830	1,075,320
Workforce, financial and civic literacy	57,942	373,068
Collections and cultural programs	682,484	682,581
Branch programs	245,585	244,276
Other library programs	805,372	80,527
Endowment fund	1,601,041	1,700,794
	<u>\$ 8,116,476</u>	<u>\$ 9,266,390</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, 2016 and 2015

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, 2016 and 2015

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, 2016 and 2015, 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 \$1,317,812 and \$1,288,506 for 2016 and 2015, respectively.

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>

The following table summarizes endowment net asset composition by type of fund as of December 31, 2015.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 1,700,794	\$ 8,641,882	\$ 10,342,676
Board-designated endowment funds	978,939	-	-	978,939
Total funds	<u>\$ 978,939</u>	<u>\$ 1,700,794</u>	<u>\$ 8,641,882</u>	<u>\$ 11,321,615</u>

CHICAGO PUBLIC LIBRARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2016 and 2015

NOTE 6 – Endowment Funds (continued)

Changes in endowment net assets for December 31, 2016 and 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2014	\$ 996,641	\$ 1,887,815	\$ 8,641,882	\$ 11,526,338
Investment income	433,195	650,588	-	1,083,783
Appropriation of endowment assets for expenditure	(450,897)	(837,609)	-	(1,288,506)
Endowment net assets, December 31, 2015	\$ 978,939	\$ 1,700,794	\$ 8,641,882	\$ 11,321,615
Investment income	451,710	756,907	-	1,208,617
Appropriation of endowment assets for expenditure	(461,152)	(856,660)	-	(1,317,812)
Endowment net assets, December 31, 2016	\$ 969,497	\$ 1,601,041	\$ 8,641,882	\$ 11,212,420

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, 2016 and 2015 were \$78,006 and \$79,388, 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:

	2016	2015
Contributions	\$ 1,543,582	\$ 1,313,358
Donated Services	233,594	349,853
Less: Expenses, including costs of direct benefits to donors of \$84,500 (2016) and \$91,000 (2015)	(527,520)	(679,802)
Net revenue from special event	\$ 1,249,656	\$ 983,409

CHICAGO PUBLIC LIBRARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

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 payments for the years ended December 31, 2016 and 2015 totaled \$32,829 and \$32,427, respectively. Future minimum lease expense are:

<u>Year</u>	<u>Amount</u>
2017	\$ 34,348
2018	35,434
2019	36,496
2020	18,337
	<u>\$ 124,615</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, 2016 and 2015 totaled \$7,176 and \$5,540, respectively. Future minimum lease payments are:

<u>Year</u>	<u>Amount</u>
2017	\$ 6,456
2018	6,456
2019	6,456
2020	6,456
2021	1,614
	<u>\$ 27,438</u>

NOTE 10 – Subsequent Events

The Foundation has evaluated subsequent events through June 15, 2017, 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, 2016

	Balance January 1, 2016	Contributions and Pledges Received	Temporarily Restricted Special Event Revenue	Net Assets Released From Restrictions	Balance December 31, 2016
Children's Programs	\$ 4,113,024	\$ 843,959	\$ 76,900	\$ 1,537,986	\$ 3,495,897
Teen Programs	996,800	114,770	25,000	838,245	298,325
Technology Access	1,075,320	871,875	65,100	1,082,465	929,830
Workforce, Financial and Civic Literacy	373,068	-	-	315,126	57,942
Collections and Cultural Programs	682,581	210,200	50,000	260,297	682,484
Branch Programs	244,276	58,216	-	56,907	245,585
Other Library Programs	80,527	838,275	-	113,430	805,372
Totals	<u>\$ 7,565,596</u>	<u>\$ 2,937,295</u>	<u>\$ 217,000</u>	<u>\$ 4,204,456</u>	<u>\$ 6,515,435</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, 2016

	Principal Balance at January 1, 2016	Contributions Received (Expended)	Principal Balance at December 31, 2016	Cumulative Available for Long-Term Investment *	Endowment Balance at December 31, 2016
Permanently Restricted (Endowment) Net Assets					
AON Corporation Fund	\$ 30,000	\$ -	\$ 30,000	\$ 6,700	\$ 36,700
Arthur Andersen Fund I	37,500	-	37,500	8,399	45,899
Arthur Andersen Fund II	37,500	-	37,500	8,398	45,898
Blum-Kovler Foundation Fund	1,000,000	-	1,000,000	223,862	1,223,862
City of Chicago Humanities Fund	138,920	-	138,920	31,173	170,093
CPLF Gala 1998	208,000	-	208,000	43,365	251,365
CPLF Sandburg Awards Dinner 2000	202,000	-	202,000	11,376	213,376
Arie & Ida Crown Memorial Fund	250,000	-	250,000	55,833	305,833
Gaylord & Dorothy Donnelley Foundation	100,000	-	100,000	22,023	122,023
First National Bank of Chicago	80,000	-	80,000	17,917	97,917
Friends of the Chicago Public Library	219,397	-	219,397	36,974	256,371
James S. Kemper Foundation Fund	75,000	-	75,000	16,776	91,776
Chauncey & Marion Deering McCormick Foundation	100,000	-	100,000	22,107	122,107
MacArthur Foundation Fund	1,250,000	-	1,250,000	280,217	1,530,217
NEH Challenge Grant	599,173	-	599,173	134,533	733,706
John Nuveen Fund	30,000	-	30,000	6,726	36,726
Albert Pick, Jr. Fund	750,000	-	750,000	167,521	917,521
Polk Bros. Foundation Fund	60,000	-	60,000	13,454	73,454
Prince Charitable Trusts Fund	150,000	-	150,000	33,618	183,618
Pritzker Foundation Fund I	1,000,000	-	1,000,000	185,370	1,185,370
Pritzker Foundation Fund II	1,000,000	-	1,000,000	(7,342)	992,658
Sagan/Hill Fund	20,000	-	20,000	4,218	24,218
Salomon Foundation Fund	50,000	-	50,000	11,199	61,199
Sears Family Literature Fund	150,000	-	150,000	31,273	181,273
WH Smith Fund	50,000	-	50,000	11,233	61,233
Stone Container Corporation Fund	30,000	-	30,000	6,695	36,695
United Airlines Fund	100,000	-	100,000	22,377	122,377
Madeline Block Willner Fund	50,000	-	50,000	11,214	61,214
Oprah Winfrey Fund	100,000	-	100,000	22,386	122,386
Laura Weber Bequest	774,392	-	774,392	161,446	935,838
Total Permanently Restricted	8,641,882	-	8,641,882	1,601,041	10,242,923
Board Designated Unrestricted Net Assets					
Friends of the Lincoln Park Branch Library	130,000	-	130,000	(40,798)	89,202
Gould Foundation	976,571	-	976,571	(267,574)	708,997
Jesse Jones Children's Charitable Remainder Trust	223,907	-	223,907	(52,609)	171,298
Total Board Designated	1,330,478	-	1,330,478	(360,981)	969,497
Total Endowment Funds	\$ 9,972,360	\$ -	\$ 9,972,360	\$ 1,240,060	\$ 11,212,420

*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, 2016

	General	For Books and/or Programs	Total Expendable
Permanently Restricted (Endowment) Net Assets			
AON Corporation Fund	\$ -	\$ 4,313	\$ 4,313
Arthur Andersen Fund I	-	5,395	5,395
Arthur Andersen Fund II	-	5,394	5,394
Blum-Kovler Foundation Fund	-	143,842	143,842
City of Chicago Humanities Fund	-	19,991	19,991
CPLF Gala 1998	-	29,543	29,543
CPLF Sandburg Awards Dinner 2000	22,470	2,608	25,078
Arie & Ida Crown Memorial Fund	-	35,945	35,945
Gaylord & Dorothy Donnelley Foundation	-	14,341	14,341
First National Bank of Chicago	-	11,508	11,508
Friends of the Library	-	30,132	30,132
James S. Kemper Foundation Fund	-	10,787	10,787
Chauncey & Marion Deering McCormick Foundation Fund	-	14,351	14,351
MacArthur Foundation Fund	179,849	-	179,849
NEH Challenge Grant	-	86,233	86,233
John Nuveen Fund	-	4,316	4,316
Albert Pick, Jr. Fund	-	107,840	107,840
Polk Bros. Foundation Fund	-	8,633	8,633
Prince Charitable Trusts Fund	-	21,581	21,581
Pritzker Foundation Fund I	139,318	-	139,318
Pritzker Foundation Fund II	116,669	-	116,669
Sagan/Hill Fund	2,846	-	2,846
Salomon Foundation Fund	-	7,193	7,193
Sears Family Literature Fund	-	21,305	21,305
WH Smith Fund	-	7,197	7,197
Stone Container Corporation Fund	-	4,313	4,313
United Airlines Fund	-	14,383	14,383
Madeline Block Willner Fund	-	7,195	7,195
Oprah Winfrey Fund	-	14,384	14,384
Laura Weber Bequest	-	109,991	109,991
	<u>461,152</u>	<u>742,714</u>	<u>1,203,866</u>
Board Designated Unrestricted Net Assets			
Friends of Lincoln Park Branch Library	-	10,484	10,484
Gould Foundation	-	83,329	83,329
Jesse O. Jones Children's Charitable Remainder Trust	-	20,133	20,133
	<u>-</u>	<u>113,946</u>	<u>113,946</u>
Total Endowment Income Expendable	<u>\$ 461,152</u>	<u>\$ 856,660</u>	<u>\$ 1,317,812</u>