The Edna McConnell Clark Foundation

Financial Report
September 30, 2013 and 2012

Contents

McGladrey

Independent Auditor's Report

To the Board of Trustees
The Edna McConnell Clark Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of The Edna McConnell Clark Foundation (the Foundation) which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Edna McConnell Clark Foundation as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3, the financial statements include alternative investments valued at $389,429,792 (41 percent of net assets) as of September 30, 2013 and $352,453,023 (41 percent of net assets) as of September 30, 2012, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the investment managers and generally recognized valuation methods.

McGladrey LLP

Chicago, Illinois
January 15, 2014

The Edna McConnell Clark Foundation

Statements of Financial Position
September 30, 2013 and 2012

	2013	2012
Assets		
Cash and cash equivalents	**$ 40,916,966**	$ 28,926,216
Interest, dividends and other receivables	**562,129**	1,548,932
Investments, at fair value	**911,492,128**	834,547,491
Program-related investment	**5,000,000**	5,000,000
Other assets	**4,763,949**	3,822,774
Leasehold improvements, furniture, equipment and software, at cost, net of accumulated depreciation and amortization of $704,493 2013 and $877,555 in 2012	**2,603,434**	802,972
	$ 965,338,606	$ 874,648,385
Liabilities and Unrestricted Net Assets		
Liabilities		
Grants payable	**$ 5,585,718**	$ 6,682,340
Deferred federal excise tax	**5,472,071**	3,457,178
Other liabilities	**1,865,413**	728,722
	12,923,202	10,868,240
Net Assets		
Unrestricted net assets	**951,915,404**	863,698,145
Temporarily restricted net assets	**500,000**	82,000
Total Net Assets	**952,415,404**	863,780,145
	$ 965,338,606	$ 874,648,385

See Notes to Financial Statements.

The Edna McConnell Clark Foundation

Statements of Activities
Years Ended September 30, 2013 and 2012

	2013			2012		
	Unrestricted	**Temporarily Restricted**	**Total**	Unrestricted	Temporarily Restricted	Total
Investment return:						
Net realized gains	**$ 33,091,239**	**$ -**	**$ 33,091,239**	$ 19,801,150	$ -	$ 19,801,150
Net change in unrealized gains, net of deferred federal excise taxes	**98,729,746**	**-**	**98,729,746**	70,247,223	-	70,247,223
Interest and dividend income	**3,272,587**	**-**	**3,272,587**	2,797,842	-	2,797,842
	135,093,572	**-**	**135,093,572**	92,846,215	-	92,846,215
Investment management expenses	**(4,359,954)**	**-**	**(4,359,954)**	(3,137,667)	-	(3,137,667)
	130,733,618	**-**	**130,733,618**	89,708,548	-	89,708,548
Federal grant revenue	**7,962,163**	**-**	**7,962,163**	6,405,620	-	6,405,620
Co-investor contribution	**-**	**500,000**	**500,000**	-	2,000,000	2,000,000
Net assets released from restriction	**82,000**	**(82,000)**	**-**	5,918,000	(5,918,000)	-
	138,777,781	**418,000**	**139,195,781**	102,032,168	(3,918,000)	98,114,168
Program services:						
Grants awarded (grant payments made were $43,155,001 in 2013 and $53,119,883 in 2012)	**41,218,436**	**-**	**41,218,436**	48,373,646	-	48,373,646
Program and grant management expenses	**7,296,609**	**-**	**7,296,609**	6,530,685	-	6,530,685
	48,515,045	**-**	**48,515,045**	54,904,331	-	54,904,331
General management expenses	**1,644,302**	**-**	**1,644,302**	1,496,433	-	1,496,433
Federal excise taxes	**401,175**	**-**	**401,175**	322,266	-	322,266
	50,560,522	**-**	**50,560,522**	56,723,030	-	56,723,030
Change in net assets	**88,217,259**	**418,000**	**88,635,259**	45,309,138	(3,918,000)	41,391,138
Net assets:						
Beginning of year	**863,698,145**	**82,000**	**863,780,145**	818,389,007	4,000,000	822,389,007
End of year	**$ 951,915,404**	**$ 500,000**	**$ 952,415,404**	$ 863,698,145	$ 82,000	$ 863,780,145

See Notes to Financial Statements.

The Edna McConnell Clark Foundation

Statements of Cash Flows
Years Ended September 30, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	**$ 88,635,259**	$ 41,391,138
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	**336,298**	132,971
Deferred federal excise tax provision	**2,014,893**	1,433,617
Net realized gains	**(33,091,239)**	(19,801,150)
Net change in unrealized gains	**(100,744,639)**	(71,680,840)
Changes in:		
Interest, dividends and other receivables	**986,803**	1,277,068
Other assets	**(941,175)**	113,451
Grants payable	**(1,096,622)**	(492,531)
Other liabilities	**1,136,691**	461,695
Net cash used in operating activities	**(42,763,731)**	(47,164,581)
Cash Flows from Investing Activities		
Purchases of leasehold improvements, furniture, equipment and software	**(2,136,760)**	(16,169)
Purchases of investments	**(71,852,612)**	(69,972,868)
Proceeds from sales of investments	**128,743,853**	119,296,190
Program-related investment	**-**	(5,000,000)
Net cash provided by investing activities	**54,754,481**	44,307,153
Increase (decrease) in cash and cash equivalents	**11,990,750**	(2,857,428)
Cash and cash equivalents:		
Beginning of year	**28,926,216**	31,783,644
End of year	**$ 40,916,966**	$ 28,926,216

See Notes to Financial Statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The Edna McConnell Clark Foundation (the Foundation) is a private nonprofit foundation that makes grants to help better the lives of people in low-income communities.

Financial statement presentation: The financial statements have been prepared following accounting principles generally accepted in the United States of America (GAAP).

Use of estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Tax status: The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the Code) and, accordingly, is not subject to federal income taxes. However, in accordance with Section 4940(e) of the Code, the Foundation is subject to a federal excise tax of 2 percent of net investment income (including net realized taxable gains on security transactions) or of 1 percent if the Foundation meets certain specified distribution requirements. The Foundation was subject to a 1 percent tax for fiscal 2013 and 2012.

The Foundation follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Foundation, and various positions related to the potential sources of unrelated business taxable income. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. As of September 30, 2013 or 2012, there were no unrecognized tax positions identified or recorded as liabilities.

The Foundation files forms 990PF in the U.S. federal jurisdiction and the State of New York. With few exceptions, the Foundation is no longer subject to examination by the Internal Revenue Service for fiscal years before 2010.

Social Innovation Funds: On July 22, 2010, the Corporation for National and Community Service (CNCS) awarded a $10 million grant to the Foundation to serve as an intermediary of the Social Innovation Fund (SIF). The award requires a dollar for dollar match from the Foundation. Grants were made to organizations that serve economically disadvantaged youth and were chosen in an open and competitive selection process.

On August 2, 2012 and August 1, 2011, CNCS awarded additional grants under the SIF. For the years ended September 30, 2013 and 2012, the Foundation earned revenue and incurred expenses related to the SIF of $7,962,163 and $6,405,620, respectively. Total SIF grants awarded as of September 30, 2013 was $30 million.

SIF grants are processed on a reimbursement basis. Expenses are incurred by the grantees before grant payments are made by the Foundation. Payments are made once the Foundation has been reimbursed by CNCS.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Temporarily restricted net assets: Temporarily restricted net assets consist of net assets available for support, with donor-imposed restrictions, that may or will be met either by actions of the Foundation or the passage of time. Temporarily restricted net assets are reclassified to unrestricted net assets when the restrictions are met or have expired.

Temporarily restricted net assets of $500,000 at September 30, 2013 and $82,000 at September 30, 2012, represent the balance of contributions from other organizations (co-investors) to the Foundation that the Foundation uses to increase funding to its grantees. The remaining $500,000 will be distributed to grantees in fiscal year 2014.

Cash and cash equivalents: The Foundation defines cash and cash equivalents as highly liquid investments with original maturities of 90 days or less which include cash equivalents held in investment managers' accounts that are temporarily uninvested.

Investments: Marketable securities, U.S. Government obligations and derivative financial instruments are carried at fair value based on either quoted prices or the observable inputs for similar instruments in active markets. Alternative investments, which are primarily hedge funds and limited partnerships, are carried at approximate fair value, as determined by management, using either fair values based on the reported net asset value (NAV) or, where not available, based on information provided by the investment managers and generally recognized valuation methods. Purchases and sales of securities are recorded on trade date.

The Foundation has an investment management agreement with Investure, LLC to provide investment advisory and investment management services to the Foundation. As a result of the agreement, Investure, LLC manages the Foundation's entire portfolio of investments.

The Foundation invests in various investments. Such investments are exposed to various risks such as interest rate, market, and credit risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Program-related investments: The Foundation had one program-related investment at September 30, 2013 and 2012, which is a $5,000,000 loan to a tax-exempt organization as defined under Section 501(c)(3) of the Internal Revenue Code. The purpose of this investment is to support the organization’s general operations, growth and capital needs. The note accrues interest at 1 percent and will be repaid in full by the end of fiscal 2015.

Interest, dividends and other receivables: Interest, dividends and other receivables primarily consists of amounts due from CNCS.

Other assets: Other assets primarily consist of non-federal grant payments advanced by the Foundation to SIF grantees prior to grantees meeting required conditions.

Leasehold improvements, furniture, equipment and software: These assets are depreciated or amortized over their estimated useful lives or the lease period, as applicable, using the straight-line method.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Deferred federal excise tax: Deferred federal excise tax represents taxes provided on the net unrealized gains on investments using a rate of 2 percent (although when realized, such gains may be subject to only a 1 percent rate, as noted above).

Awards and grants: Unconditional awards and grants, including multi-year grants, are considered obligations when approved by the Foundation's Board of Trustees. In accordance with GAAP, the Foundation does not reflect as liabilities the amount of future years' grant commitments if they are subject to review and other contingencies before they are paid.

Functional allocation of expenses: The costs of providing the program and other activities have been presented on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program and supporting services benefited. Expenses that are common to program services and general management are allocated based on management’s determination.

Subsequent events: Management of the Foundation has evaluated subsequent events for potential recognition and/or disclosure through January 15, 2014, the date the financial statements were available to be issued.

Note 2. Investments

Investments at September 30, 2013 and 2012 consist of:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Fixed income securities				
(U.S. Government obligations)	$ 32,939,918	$ 32,452,931	$ 32,741,189	$ 34,150,443
Equity securities (fund of funds)	359,666,247	561,620,083	372,995,761	483,503,080
Hedge funds and private equity				
partnerships	245,273,037	317,419,114	255,942,254	316,893,968
	$ 637,879,202	$ 911,492,128	$ 661,679,204	$ 834,547,491

Note 3. Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities recorded at fair value are categorized based upon the level of judgment associated with the inputs used to measure their value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. Under the fair value hierarchy, the inputs to valuation techniques are prioritized into the following levels:

Level 1. Inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that the Foundation has the ability to access at the measurement date.

Level 2. Inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies.

Level 3. Inputs are unobservable for the asset or liability and rely on management’s own assumptions about the assumptions that market participants would use in pricing the asset or liability. The unobservable inputs would be developed based on the best information available in the circumstances and may include the entity’s own data.

Note 3. Fair Value Measurement (Continued)

Substantially all of the Foundation's other assets and liabilities are considered financial instruments and are either already reflected at fair value or at carrying amounts that approximate fair value because of the short maturity of the instruments.

The Foundation assesses the levels of financial instruments at each measurement date, and transfers between levels are recognized on the actual date of the event of change in circumstances that caused the transfer in accordance with the Foundation's accounting policy regarding recognition of transfers between levels of the fair value hierarchy. There were no significant transfers among Levels 1, 2, and 3 during the years ended September 30, 2013 and 2012. However, based on reevaluation of the fair value hierarchy definitions, the Foundation determined that U.S. government obligations should be classified as Level 1 instruments and the 2012 amounts have conformed to this presentation.

The following tables present the Foundation's fair value hierarchy for assets and liabilities measured at fair value as of September 30, 2013 and 2012, by level within the fair value hierarchy.

	2013			
	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
U.S. Government obligations	$ 32,452,931	$ -	$ -	$ 32,452,931
Alternative investments:				
Fund of funds - equities	-	379,466,853	182,153,230	561,620,083
Private equity partnerships	-	-	240,643,904	240,643,904
Hedge funds	-	-	76,775,210	76,775,210
	32,452,931	379,466,853	499,572,344	911,492,128
Cash and cash equivalents				
Money market fund	27,994,798	-	-	27,994,798
	$ 60,447,729	$ 379,466,853	$ 499,572,344	$ 939,486,926

	2012			
	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
U.S. Government obligations	$ 34,150,443	$ -	$ -	$ 34,150,443
Alternative investments:				
Fund of funds - equities	-	334,508,931	148,994,149	483,503,080
Private equity partnerships	-	-	246,642,546	246,642,546
Hedge funds	-	-	70,251,422	70,251,422
	34,150,443	334,508,931	465,888,117	834,547,491
Cash and cash equivalents				
Money market fund	26,744,306	-	-	26,744,306
	$ 60,894,749	$ 334,508,931	$ 465,888,117	$ 861,291,797

Note 3. Fair Value Measurement (Continued)

Financial instruments classified as Level 3 in the fair value hierarchy represent the Foundation's investment in financial instruments for which the Foundation has used at least one significant unobservable input in the valuation model. The following table presents a reconciliation of activity for the Level 3 financial instruments:

	Fund of Funds	Private Equity Partnerships	Hedge Funds	Total
Balance, October 1, 2011	$ 134,518,853	$ 256,311,944	$ 65,870,498	$ 456,701,295
Change in unrealized appreciation on investments	17,484,353	(5,979,426)	4,380,924	15,885,851
Contributions to investments	-	40,012,890	-	40,012,890
Distributions received from investments	(3,009,057)	(43,702,862)	-	(46,711,919)
Balance, September 30, 2012	148,994,149	246,642,546	70,251,422	465,888,117
Change in unrealized appreciation on investments	33,159,081	4,670,575	6,523,788	44,353,444
Contributions to investments	-	38,175,547	-	38,175,547
Distributions received from investments	-	(48,844,764)	-	(48,844,764)
Balance, September 30, 2013	$ 182,153,230	$ 240,643,904	$ 76,775,210	$ 499,572,344

As of September 30, 2013 and 2012, alternative investments consist of the following:

	Percent of Fair Value 2013	Percent of Fair Value 2012
Equity long/short funds	43%	42%
Private equity investments	26%	30%
Multi-strategy funds	21%	19%
Other	10%	9%
	100%	100%

The private equity partnerships reflect these investments at fair value. The Foundation's share of its net assets and income or losses is reflected in the financial statements using the equity method of accounting. The Foundation has open commitments to make additional partnership investments of $104,145,584 at September 30, 2013. Returned unused capital contributions to the Foundation may be recalled by the partnership and all distributions are subject to repayment to cover liabilities of the partnerships. As of September 30, 2013, this contingency amounted to $26,444,214. Redemption periods for investment partnerships range from daily to nine years dependent on the various investment managers' terms and may be subject to other restrictions and penalties.

The portion of alternative investments whose fair values have been estimated by management in the absence of readily determinable fair values, based on information provided by the investment managers and generally recognized valuation methods at September 30, 2013 totaled $389,429,792 (2012 - $352,453,023).

Note 4. Grants

Grants payable consist primarily of multi-year unconditional grants that are generally payable over one to three years. Management estimates these grants will be paid as follows:

	2013	2012
One year or less	$ 5,335,968	$ 5,659,083
One to three years	250,000	1,025,000
	5,585,968	6,684,083
Discount to reduce to present value (at risk free rate)	(250)	(1,743)
	$ 5,585,718	$ 6,682,340

The Foundation also had $22,894,398 of contingent grant commitments that are not reflected as liabilities in the statements of financial position at September 30, 2013 (2012 - $36,745,727).

The following schedule reconciles the total conditional and unconditional grant commitments approved by the Foundation's Board of Trustees to grants awarded in the statements of activities for the years ended 2013 and 2012:

	2013	2012
Total conditional and unconditional grant commitments	$ 28,205,557	$ 37,025,643
Less conditional commitments from current year grants	(12,969,808)	(11,765,132)
Plus prior year conditional commitments met	25,981,194	23,110,633
Change in discount to present value	1,493	2,502
Grants as reflected in the statements of activities	$ 41,218,436	$ 48,373,646

Note 5. Retirement Plans

The Foundation maintains three defined contribution, retirement plans. The first plan covers all active full-time employees. Under the terms of the plan, the Foundation must contribute specified percentages of an employee's salary. The plan is currently invested in employee-designated mutual funds that have been approved by the Foundation. The Foundation's contribution to the plan was $430,430 for fiscal year 2013 (2012 - $367,254).

The second plan is a supplemental retirement plan that allows employees to defer a portion of their pretax salaries. No contributions were made to this plan by the Foundation.

The third plan is a supplemental retirement plan that covers highly compensated employees. Under the terms of the plan, the Foundation makes additional retirement contributions for employees who exceed regulatory thresholds related to pensionable earnings. The plan is currently invested in employee-designated mutual funds. The Foundation’s contribution to the plan was $29,278 (2012 - $5,222). The plan was established during 2012.

Note 6. Commitments

The Foundation leases its office space and equipment under operating lease agreements that expire on various dates through November 2019. The office space lease contains an escalation clause which provides for rental increases resulting from increases in real estate taxes and certain other operating expenses. There are two five year options for the office space lease subsequent to the November 2019 expiration. These options were not considered for the below schedule. At September 30, 2013, the Foundation had the following aggregate minimum annual rental commitments, exclusive of escalation clauses, under these leases:

2014	$ 702,640
2015	730,570
2016	726,309
2017	688,044
Thereafter	1,376,088
	$ 4,223,650

Rent expense was $730,292 for fiscal year 2013 (2012 - $619,500).

Note 7. Concentration of Credit Risk

The majority of investment transactions of the Foundation are cleared and carried by the Bank of New York Mellon. In the event that this financial institution does not fulfill its obligation, the Foundation may be exposed to risk. The risk of default also depends on the creditworthiness of the counterparties to these transactions. The Foundation attempts to minimize this credit risk by monitoring the creditworthiness of the financial institution.