The Edna McConnell Clark Foundation

Financial Report
September 30, 2012 and 2011

Contents

McGladrey

Independent Auditor's Report

To the Board of Trustees
The Edna McConnell Clark Foundation

We have audited the accompanying statements of financial position of The Edna McConnell Clark Foundation (the Foundation) as of September 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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 September 30, 2012 and 2011, and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3, the financial statements include alternative investments valued at $352,453,023 (41 percent of net assets) as of September 30, 2012 and $244,509,773 (29 percent of net assets) as of September 30, 2011, 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
February 19, 2013

The Edna McConnell Clark Foundation

Statements of Financial Position
September 30, 2012 and 2011

	2012	2011
Assets		
Cash and cash equivalents	**$ 28,926,216**	$ 31,783,644
Interest, dividends and other receivables	**1,548,932**	2,826,000
Investments, at fair value	**834,547,491**	792,388,823
Program-related investment	**5,000,000**	-
Other assets	**3,822,774**	3,936,225
Leasehold improvements, furniture, equipment and software, at cost, net of accumulated depreciation and amortization of $877,555 in 2012 and $781,634 in 2011	**802,972**	919,774
	$ 874,648,385	$ 831,854,466
Liabilities and Unrestricted Net Assets		
Liabilities		
Grants payable	**$ 6,682,340**	$ 7,174,871
Deferred federal excise tax	**3,457,178**	2,023,561
Other liabilities	**728,722**	267,027
	10,868,240	9,465,459
Net Assets		
Unrestricted net assets	**863,698,145**	818,389,007
Temporarily restricted net assets	**82,000**	4,000,000
Total Net Assets	**863,780,145**	822,389,007
	$ 874,648,385	$ 831,854,466

See Notes to Financial Statements.

The Edna McConnell Clark Foundation

Statements of Activities
Years Ended September 30, 2012 and 2011

	2012			2011		
	Unrestricted	**Temporarily**	**Total**	Unrestricted	Temporarily	Total
Investment return:						
Net realized gains	**$ 19,801,150**	**$ -**	**$ 19,801,150**	$ 19,971,091	$ -	$ 19,971,091
Net change in unrealized gains, net of deferred federal excise taxes	**70,247,223**	**-**	**70,247,223**	33,354,798	-	33,354,798
Interest and dividend income	**2,797,842**	**-**	**2,797,842**	4,472,738	-	4,472,738
	92,846,215	**-**	**92,846,215**	57,798,627	-	57,798,627
Investment management expenses	**(3,137,667)**	**-**	**(3,137,667)**	(3,477,662)	-	(3,477,662)
	89,708,548	**-**	**89,708,548**	54,320,965	-	54,320,965
Federal grant revenue	**6,405,620**	**-**	**6,405,620**	3,970,923	-	3,970,923
Co-investor contribution	**-**	**2,000,000**	**2,000,000**	-	4,000,000	4,000,000
Net assets released from restriction	**5,918,000**	**(5,918,000)**	**-**	-	-	-
	102,032,168	**(3,918,000)**	**98,114,168**	58,291,888	4,000,000	62,291,888
Program services:						
Grants awarded (grant payments made were $53,119,883 in 2012 and $40,744,757 in 2011)	**48,373,646**	**-**	**48,373,646**	37,194,829	-	37,194,829
Program and grant management expenses	**6,530,685**	**-**	**6,530,685**	5,508,184	-	5,508,184
	54,904,331	**-**	**54,904,331**	42,703,013	-	42,703,013
General management expenses	**1,496,433**	**-**	**1,496,433**	1,435,748	-	1,435,748
Federal excise taxes	**322,266**	**-**	**322,266**	225,456	-	225,456
	56,723,030	**-**	**56,723,030**	44,364,217	-	44,364,217
Change in net assets	**45,309,138**	**(3,918,000)**	**41,391,138**	13,927,671	4,000,000	17,927,671
Net assets:						
Beginning of year	**818,389,007**	**4,000,000**	**822,389,007**	804,461,336	-	804,461,336
End of year	**$ 863,698,145**	**$ 82,000**	**$ 863,780,145**	$ 818,389,007	$ 4,000,000	$ 822,389,007

See Notes to Financial Statements.

The Edna McConnell Clark Foundation

Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Change in net assets	**$ 41,391,138**	$ 17,927,671
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	**132,971**	144,406
Deferred federal excise tax provision	**1,433,617**	680,710
Net realized gains	**(19,801,150)**	(19,971,091)
Net change in unrealized gains	**(71,680,840)**	(34,035,508)
Changes in:		
Interest, dividends and other receivables	**1,277,068**	(2,704,212)
Other assets	**113,451**	(3,389,583)
Grants payable	**(492,531)**	28,991
Other liabilities	**461,695**	57,486
Net cash used in operating activities	**(47,164,581)**	(41,261,130)
Cash Flows from Investing Activities		
Purchases of leasehold improvements, furniture, equipment and software	**(16,169)**	(74,394)
Purchases of investments	**(69,972,868)**	(78,704,190)
Proceeds from sales of investments	**119,296,190**	118,920,566
Program-related investment	**(5,000,000)**	-
Net cash provided by investing activities	**44,307,153**	40,141,982
Decrease in cash and cash equivalents	**(2,857,428)**	(1,119,148)
Cash and cash equivalents:		
Beginning of year	**31,783,644**	32,902,792
End of year	**$ 28,926,216**	$ 31,783,644

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 2012 and 2011.

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, 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 2008.

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 1, 2011 and August 2, 2012, CNCS awarded additional grants under the SIF. For the years ended September 30, 2012 and 2011, the Foundation earned revenue and incurred expenses related to the SIF of $6,405,620 and $3,970,923, respectively. Total SIF grants awarded as of September 30, 2012 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.

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 $82,000 at September 30, 2012 and $4,000,000 at September 30, 2011 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 $82,000 will be distributed to grantees in fiscal year 2013.

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.

Investment management expenses include fees paid directly to investment managers by the Foundation. Fees charged directly to mutual fund, hedge fund, and certain limited partnership investments are included in net realized and changes in unrealized gains.

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, 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 loan will accrue 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 consists 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.

Reclassification: Certain balances for the year ended September 30, 2011, have been reclassified to conform to the current year presentation with no effect on changes in net assets.

Recent accounting pronouncements: In May 2011, the FASB issued *Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS).* The Accounting Standards Update (ASU) represents the converged guidance of the FASB and the International Accounting Standards Board (the Boards) on fair value measurement. The collective efforts of the Boards and their staffs have resulted in common requirements for measuring fair value and for disclosing the information about fair value measurements, including a consistent meaning of the term “fair value” and enhanced disclosures requirements for investments that do not have readily determinable fair values. The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. The amendments to the FASB Codification in this ASU are to be applied prospectively and are effective during interim and annual periods beginning after December 15, 2011. The Foundation is currently assessing the impact of this ASU on its future financial statements.

Note 2. Investments

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Fixed income securities				
(U.S. Government obligations)	$ 32,741,189	$ 34,150,443	$ 29,723,106	$ 31,085,943
Equity securities (fund of funds)	372,995,761	483,503,080	401,846,098	439,120,438
Hedge funds and private equity				
partnerships	255,942,254	316,893,968	259,632,506	322,182,442
	$ 661,679,204	$ 834,547,491	$ 691,201,710	$ 792,388,823

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 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.

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 such transfers for fiscal 2012 or 2011.

The following tables present the Foundation's fair value hierarchy for assets and liabilities measured at fair value as of September 30, 2012 and 2011, by level within the fair value hierarchy.

	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
	-	368,659,374	465,888,117	834,547,491
Cash and cash equivalents				
Money market fund	26,744,306	-	-	26,744,306
	$ 26,744,306	$ 368,659,374	$ 465,888,117	$ 861,291,797

Note 3. Fair Value Measurement (Continued)

	2011			
	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
U.S. Government obligations	$ -	$ 31,085,943	$ -	$ 31,085,943
Alternative investments:				
Fund of funds - equities	-	304,601,585	134,518,853	439,120,438
Private equity partnerships	-	-	256,311,944	256,311,944
Hedge funds	-	-	65,870,498	65,870,498
	-	335,687,528	456,701,295	792,388,823
Cash and cash equivalents				
Money market fund	20,995,433	-	-	20,995,433
	$ 20,995,433	$ 335,687,528	$ 456,701,295	$ 813,384,256

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:

Balance, October 1, 2010	$ 412,918,296
Change in unrealized appreciation on investments	46,196,966
Contributions to investments	41,875,882
Distributions received from investments	(44,289,849)
Balance, September 30, 2011	456,701,295
Change in unrealized appreciation on investments	15,885,851
Contributions to investments	40,012,890
Distributions received from investments	(46,711,919)
Balance, September 30, 2012	$ 465,888,117

As of September 30, 2012 and 2011, alternative investments consist of the following:

	Percent of Fair Value 2012	Percent of Fair Value 2011
Equity long/short funds	42%	40%
Private equity investments	30%	33%
Multi-strategy funds	19%	18%
Other	9%	9%
	100%	100%

Note 3. Fair Value Measurement (Continued)

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 $126,164,656 at September 30, 2012. Returned unused capital contributions may be recalled and all distributions are subject to repayment to cover liabilities of the partnerships. As of September 30, 2012, this contingency amounted to $23,716,860. 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, 2012 totaled $352,453,023 (2011 - $244,509,773).

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:

	2012	2011
One year or less	$ 5,659,083	$ 5,404,116
One to three years	1,025,000	1,775,000
	6,684,083	7,179,116
Discount to reduce to present value (at risk free rate)	(1,743)	(4,245)
	$ 6,682,340	$ 7,174,871

The Foundation also had $36,745,727 of contingent grant commitments that are not reflected as liabilities in the statements of financial position at September 30, 2012 (2011 - $48,034,077).

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 2012 and 2011:

	2012	2011
Total conditional and unconditional grant commitments	$ 37,025,643	$ 69,350,031
Less conditional commitments from current year grants	(11,765,132)	(46,804,077)
Plus prior year conditional commitments met	23,110,633	14,000,000
Change in discount to present value	2,502	648,875
Grants as reflected in the statements of activities	$ 48,373,646	$ 37,194,829

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 $367,254 for fiscal year 2012 (2011 - $323,372).

The second plan is a supplemental retirement plan that allows employees to defer a portion of their pretax salaries. No contributions are 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 $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. At September 30, 2012, the Foundation had the following aggregate minimum annual rental commitments, exclusive of escalation clauses, under these leases:

2013	$ 670,739
2014	670,739
2015	672,830
2016	678,415
Thereafter	2,035,245
	$ 4,727,968

Rent expense was $619,500 for fiscal year 2012 (2011 - $587,975).

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.

Note 8. Subsequent Events

Management of the Foundation evaluated subsequent events for potential recognition and/or disclosure through February 19, 2013, the date the financial statements were available to be issued. There are no subsequent events to disclose.