The Edna McConnell Clark Foundation and Subsidiary

Financial Report
September 30, 2014 and 2013

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 consolidated financial statements of The Edna McConnell Clark Foundation and Subsidiary (the Foundation), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Edna McConnell Clark Foundation and Subsidiary as of December 31, 2014 and 2013, 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 consolidated financial statements include alternative investments valued at $449,357,328 (45 percent of net assets) as of September 30, 2014 and $389,429,792 (41 percent of net assets) as of September 30, 2013, 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 21, 2015

The Edna McConnell Clark Foundation and Subsidiary

Consolidated Statements of Financial Position
September 30, 2014 and 2013

	2014	2013
Assets		
Cash and cash equivalents	**$ 30,281,903**	$ 40,916,966
Interest, dividends and other receivables	**433,557**	562,129
Investments, at fair value	**977,572,601**	911,492,128
Program-related investment	**2,000,000**	5,000,000
Other assets	**4,550,363**	4,763,949
Leasehold improvements, furniture, equipment and software, at cost, net of accumulated depreciation and amortization of $927,003 2014 and $704,493 in 2013	**2,455,540**	2,603,434
	$ 1,017,293,964	$ 965,338,606
Liabilities and Unrestricted Net Assets		
Liabilities		
Grants payable	**$ 1,238,361**	$ 5,585,718
Deferred federal excise tax	**6,649,377**	5,472,071
Other liabilities	**272,468**	1,865,413
	8,160,206	12,923,202
Net Assets		
Unrestricted net assets	**1,009,133,758**	951,915,404
Temporarily restricted net assets	**-**	500,000
Total Net Assets	**1,009,133,758**	952,415,404
	$ 1,017,293,964	$ 965,338,606

See Notes to Consolidated Financial Statements.

The Edna McConnell Clark Foundation and Subsidia

Consolidated Statements of Activities
Years Ended September 30, 2014 and 2013

	2014			2013		
	Unrestricted	**Temporarily Restricted**	**Total**	Unrestricted	Temporarily Restricted	Total
Investment return:						
Net realized gains	**$ 39,438,456**	**$ -**	**$ 39,438,456**	$ 33,091,239	$ -	$ 33,091,239
Net change in unrealized gains, net of deferred federal excise taxes	**57,688,016**	**-**	**57,688,016**	98,729,746	-	98,729,746
Interest and dividend income	**10,700,172**	**-**	**10,700,172**	3,272,587	-	3,272,587
	107,826,644	**-**	**107,826,644**	135,093,572	-	135,093,572
Investment management expenses	**(3,072,762)**	**-**	**(3,072,762)**	(4,359,954)	-	(4,359,954)
	104,753,882	**-**	**104,753,882**	130,733,618	-	130,733,618
Federal grant revenue	**6,098,163**	**-**	**6,098,163**	7,962,163	-	7,962,163
Co-investor and partner contributions	**-**	**1,500,000**	**1,500,000**	-	500,000	500,000
Net assets released from restriction	**2,000,000**	**(2,000,000)**	**-**	82,000	(82,000)	-
	112,852,045	**(500,000)**	**112,352,045**	138,777,781	418,000	139,195,781
Program services:						
Grants awarded (grant payments made were $49,075,190 in 2014 and $43,155,001 in 2013)	**44,970,613**	**-**	**44,970,613**	41,218,436	-	41,218,436
Program and grant management expenses	**8,464,925**	**-**	**8,464,925**	7,296,609	-	7,296,609
	53,435,538	**-**	**53,435,538**	48,515,045	-	48,515,045
General management expenses	**1,696,366**	**-**	**1,696,366**	1,644,302	-	1,644,302
Federal excise taxes	**501,787**	**-**	**501,787**	401,175	-	401,175
	55,633,691	**-**	**55,633,691**	50,560,522	-	50,560,522
Change in net assets	**57,218,354**	**(500,000)**	**56,718,354**	88,217,259	418,000	88,635,259
Net assets:						
Beginning of year	**951,915,404**	**500,000**	**952,415,404**	863,698,145	82,000	863,780,145
End of year	**$ 1,009,133,758**	**$ -**	**$ 1,009,133,758**	$ 951,915,404	$ 500,000	$ 952,415,404

See Notes to Consolidated Financial Statements.

The Edna McConnell Clark Foundation and Subsidiary

Consolidated Statements of Cash Flows
Years Ended September 30, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Change in net assets	**$ 56,718,354**	$ 88,635,259
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	**274,617**	336,298
Deferred federal excise tax provision	**1,177,306**	2,014,893
Net realized gains	**(39,438,456)**	(33,091,239)
Net change in unrealized gains	**(58,865,322)**	(100,744,639)
Changes in:		
Interest, dividends and other receivables	**128,572**	986,803
Other assets	**213,586**	(941,175)
Grants payable	**(4,347,357)**	(1,096,622)
Other liabilities	**(1,592,945)**	1,136,691
Net cash used in operating activities	**(45,731,645)**	(42,763,731)
Cash Flows from Investing Activities		
Purchases of leasehold improvements, furniture, equipment and software	**(126,722)**	(2,136,760)
Purchases of investments	**(61,321,507)**	(71,852,612)
Proceeds from sales of investments	**93,544,811**	128,743,853
Proceeds from program-related investment	**3,000,000**	-
Net cash provided by investing activities	**35,096,582**	54,754,481
Increase (decrease) in cash and cash equivalents	**(10,635,063)**	11,990,750
Cash and cash equivalents:		
Beginning of year	**40,916,966**	28,926,216
End of year	**$ 30,281,903**	$ 40,916,966

See Notes to Consolidated Financial Statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The Edna McConnell Clark 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.

Limited Liability Company: The Foundation has created and is the sole member of a Limited Liability Company, called New Partnership for Youth (LLC). The LLC was established in 2014. The purpose of the LLC is to support the field of youth development.

Principles of consolidation: The consolidated financial statements include the accounts of The Edna McConnell Clark Foundation and the LLC (collectively, the Foundation). All significant intercompany balances and transactions are eliminated in consolidation.

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 2014 and 2013.

The LLC qualifies as a tax-exempt organization under Section 501(c)(3) of the Code and is classified as a disregarded entity for tax purposes.

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, 2014 and 2013, 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 2011.

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.

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

On August 2, 2012 and August 1, 2011, CNCS awarded additional grants under the SIF. For the years ended September 30, 2014 and 2013, the Foundation earned revenue and incurred expenses related to the SIF of $6,098,163 and $7,962,163, respectively. Total SIF grants awarded as of September 30, 2014 was $30 million, of which $5,563,131 is still to be earned and expended over the next two fiscal years.

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.

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 $0 at September 30, 2014 and $500,000 at September 30, 2013, represent the balance of contributions from other organizations to the Foundation that the Foundation uses to increase funding to its grantees.

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. The Foundation maintains cash in bank deposit accounts that, at times, may exceed federally insured (FDIC) limits. The Foundation has not experienced any losses in such accounts. Management believes that the Foundation is not exposed to significant credit risk on cash.

Investments: U.S. Government obligations 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.

Interest and dividend income: The Foundation recognizes contractual interest on investments on an accrual basis and dividend income is recognized on the ex-dividend date.

Program-related investments: The Foundation had one program-related investment at September 30, 2014 and 2013, which was 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. $3,000,000 was repaid in fiscal 2014.

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

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

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.

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 consolidated 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 21, 2015, the date the consolidated financial statements were available to be issued.

Note 2. Investments

Investments at September 30, 2014 and 2013 consist of:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Fixed income securities (U.S. Government obligations)	$ 32,939,918	$ 32,693,355	$ 32,939,918	$ 32,452,931
Equity securities (fund of funds)	350,622,984	595,621,801	359,666,247	561,620,083
Hedge funds and private equity partnerships	261,531,451	349,257,445	245,273,037	317,419,114
	$ 645,094,353	$ 977,572,601	$ 637,879,202	$ 911,492,128

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.

Note 3. Fair Value Measurement (Continued)

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 significant transfers among Levels 1, 2, and 3 during the years ended September 30, 2014 and 2013.

The following tables present the Foundation's fair value hierarchy for assets and liabilities measured at fair value as of September 30, 2014 and 2013, by level within the fair value hierarchy.

	2014			
	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
U.S. Government obligations	$ 32,693,355	$ -	$ -	$ 32,693,355
Alternative investments:				
Fund of funds - equities	-	386,956,838	208,664,963	595,621,801
Private equity partnerships	-	-	273,787,949	273,787,949
Hedge funds	-	-	75,469,496	75,469,496
	32,693,355	386,956,838	557,922,408	977,572,601
Cash and cash equivalents:				
Money market fund	23,531,344	-	-	23,531,344
	$ 56,224,699	$ 386,956,838	$ 557,922,408	$ 1,001,103,945

	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

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, 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
Change in unrealized appreciation (depreciation) on investments	19,511,733	12,915,350	2,664,286	35,091,369
Contributions to investments	7,000,000	44,926,361	2,800,000	54,726,361
Distributions received from investments	-	(24,697,666)	(6,770,000)	(31,467,666)
Balance, September 30, 2014	$ 208,664,963	$ 273,787,949	$ 75,469,496	$ 557,922,408

As of September 30, 2014 and 2013, alternative investments consist of the following:

	Percent of Fair Value 2014	Percent of Fair Value 2013
Equity long/short funds	41%	43%
Private equity investments	29%	26%
Multi-strategy funds	22%	21%
Other	8%	10%
	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 $134,402,505 at September 30, 2014. 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, 2014, this contingency amounted to $28,603,009. 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 at September 30, 2014 totaled $449,357,328 (2013 - $389,429,792).

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:

	2014	2013
One year or less	$ 1,238,361	$ 5,335,968
One to three years	-	250,000
	1,238,361	5,585,968
Discount to reduce to present value (at risk free rate)	-	(250)
	$ 1,238,361	$ 5,585,718

The Foundation also had $63,764,851 of contingent grant commitments that are not reflected as liabilities in the consolidated statements of financial position at September 30, 2014 (2013 - $22,894,398).

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 2014 and 2013:

	2014	2013
Total conditional and unconditional grant commitments	$ 85,982,571	$ 28,205,557
Less conditional commitments from current year grants	(55,336,964)	(12,969,808)
Plus prior year conditional commitments met	14,324,756	25,981,194
Change in discount to present value	250	1,493
Grants as reflected in the statements of activities	$ 44,970,613	$ 41,218,436

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 $470,345 for fiscal year 2014 (2013 - $430,430).

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 $17,250 (2013 - $29,278).

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, 2014, the Foundation had the following aggregate minimum annual rental commitments, exclusive of escalation clauses, under these leases:

2015	$	721,453
2016		717,192
2017		678,927
2018		678,927
Thereafter		678,927
	$	3,475,426

Rent expense was $666,081 for fiscal year 2014 (2013 - $730,292).

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.