The Edna McConnell Clark Foundation

Consolidated Financial Report
September 30, 2015 and 2014

Contents

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 (the Foundation), which comprise the statements of financial position as of September 30, 2015 and 2014, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements (collectively, 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 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 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 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 September 30, 2015 and 2014, 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.

RSM US LLP

Chicago, Illinois
March 2, 2016

The Edna McConnell Clark Foundation

Consolidated Statements of Financial Position
September 30, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents	**$ 43,381,887**	$ 30,281,903
Interest, dividends and other receivables	**293,301**	433,557
Investments, at fair value	**934,626,911**	977,572,601
Program-related investment	**-**	2,000,000
Other assets	**1,536,323**	4,550,363
Property and equipment, net	**2,240,681**	2,455,540
	$ 982,079,103	$ 1,017,293,964
Liabilities and Net Assets		
Liabilities:		
Grants payable	**$ 105,427**	$ 1,238,361
Deferred federal excise tax	**5,777,164**	6,649,377
Other liabilities	**236,100**	272,468
	6,118,691	8,160,206
Net assets:		
Unrestricted	**975,960,412**	1,009,133,758
	$ 982,079,103	$ 1,017,293,964

See notes to consolidated financial statements.

The Edna McConnell Clark Foundation

Consolidated Statements of Activities
Years Ended September 30, 2015 and 2014

	2015			2014		
	Unrestricted	**Temporarily Restricted**	**Total**	Unrestricted	Temporarily Restricted	Total
Investment return:						
Net realized gains	**$ 67,391,096**	**$ -**	**$ 67,391,096**	$ 39,438,456	$ -	$ 39,438,456
Net change in unrealized gains, net of deferred federal excise taxes	**(42,738,431)**	**-**	**(42,738,431)**	57,688,016	-	57,688,016
Interest and dividend income	**6,578,984**	**-**	**6,578,984**	10,700,172	-	10,700,172
	31,231,649	**-**	**31,231,649**	107,826,644	-	107,826,644
Investment management expenses	**(4,085,684)**	**-**	**(4,085,684)**	(3,072,762)	-	(3,072,762)
	27,145,965	**-**	**27,145,965**	104,753,882	-	104,753,882
Federal grant revenue	**4,294,752**	**-**	**4,294,752**	6,098,163	-	6,098,163
Co-investor and partner contributions	**-**	**1,418,000**	**1,418,000**	-	1,500,000	1,500,000
Net assets released from restriction	**1,418,000**	**(1,418,000)**	**-**	2,000,000	(2,000,000)	-
	32,858,717	**-**	**32,858,717**	112,852,045	(500,000)	112,352,045
Program services:						
Grants awarded (grant payments made were $51,993,685 in 2015 and $49,075,190 in 2014)	**53,919,620**	**-**	**53,919,620**	44,970,613	-	44,970,613
Program and grant management expenses	**9,633,555**	**-**	**9,633,555**	8,464,925	-	8,464,925
	63,553,175	**-**	**63,553,175**	53,435,538	-	53,435,538
General management expenses	**1,719,972**	**-**	**1,719,972**	1,696,366	-	1,696,366
Federal excise taxes	**758,916**	**-**	**758,916**	501,787	-	501,787
	66,032,063	**-**	**66,032,063**	55,633,691	-	55,633,691
Change in net assets	**(33,173,346)**	**-**	**(33,173,346)**	57,218,354	(500,000)	56,718,354
Net assets:						
Beginning of year	**1,009,133,758**	**-**	**1,009,133,758**	951,915,404	500,000	952,415,404
End of year	**$ 975,960,412**	**$ -**	**$ 975,960,412**	$ 1,009,133,758	$ -	$ 1,009,133,758

See notes to consolidated financial statements.

The Edna McConnell Clark Foundation

Consolidated Statements of Cash Flows
Years Ended September 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	**$ (33,173,346)**	$ 56,718,354
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	**266,037**	274,617
Deferred federal excise tax provision (benefit)	**(872,213)**	1,177,306
Net realized gains	**(67,391,096)**	(39,438,456)
Net change in unrealized gains	**43,610,644**	(58,865,322)
Changes in:		
Interest, dividends and other receivables	**140,256**	128,572
Other assets	**3,014,040**	213,586
Grants payable	**(1,132,934)**	(4,347,357)
Other liabilities	**(36,368)**	(1,592,945)
Net cash used in operating activities	**(55,574,980)**	(45,731,645)
Cash flows from investing activities:		
Purchases of property and equipment	**(51,178)**	(126,722)
Purchases of investments	**(125,873,431)**	(61,321,507)
Proceeds from sales of investments	**192,599,573**	93,544,811
Proceeds from program-related investment	**2,000,000**	3,000,000
Net cash provided by investing activities	**68,674,964**	35,096,582
Increase (decrease) in cash and cash equivalents	**13,099,984**	(10,635,063)
Cash and cash equivalents:		
Beginning of year	**30,281,903**	40,916,966
End of year	**$ 43,381,887**	$ 30,281,903

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, New Partnership for Youth, LLC (subsequently known as Blue Meridian Partners). 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). 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 2015 and 2014.

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. There were no unrecognized tax positions identified or recorded as liabilities for the reporting periods presented in these financial statements.

The Foundation files forms 990PF and 990-T in the U.S. federal jurisdiction and the State of New York. The Foundation is generally no longer subject to examination by the Internal Revenue Service for fiscal years before 2012.

Social Innovation Funds: On July 22, 2010, the Corporation for National and Community Service (CNCS) awarded a $10,000,000 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, 2015 and 2014, the Foundation incurred expenses and earned revenue related to the SIF of $4,294,752 and $6,098,163, respectively. SIF grant awards total $30,000,000, of which $1,240,324 is available 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 to the grantees 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.

There were no temporarily restricted net assets at September 30, 2015 and 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. 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: Investments are carried at fair value based on either quoted prices or the observable inputs for similar instruments in active markets, or at approximate fair value, as determined by management, using the reported net asset value (NAV). 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 loaned $5,000,000 loan to a tax-exempt organization to support the organization’s general operations, growth and capital needs. The note accrued interest at 1 percent, which was fully forgiven in fiscal 2015. Repayments of $2,000,000 and $3,000,000 were received in fiscal 2015 and 2014, respectively.

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.

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

Property and equipment: These assets consist of leasehold improvements, furniture, equipment and software and are depreciated or amortized over their estimated useful lives or the lease period, as applicable, using the straight-line method. The amounts presented are net of accumulated depreciation and amortization of $1,193,040 and $927,003 as of September 30, 2015 and 2014, respectively.

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, and are then recorded in the financial statements as a liability. Grants payable due on dates greater than one year in the future are recorded net of a present value discount. The Foundation does not reflect as liabilities the amount of future years' grant commitments if they are subject to the Foundation’s review and approval and other contingencies to comply with grant requirements.

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.

Recent accounting pronouncements: The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective. The updated standard will be effective for the Foundation’s September 30, 2020 financial statements. The Foundation has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 850): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The ASU also limits certain disclosures to investments for which the entity has elected to measure the fair value using the practical expedient. The amendments in ASU 2015-07 are effective for fiscal year 2017 and early adoption is permitted. The Foundation does not anticipate its adoption will have a material impact on its financial statements.

Subsequent events: Management of the Foundation has evaluated subsequent events for potential recognition and/or disclosure through March 2, 2016, the date the consolidated financial statements were available to be issued.

Note 2. Investments

Investments at September 30, 2015 and 2014 consist of:

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Fixed income securities (U.S. Government obligations)	$ 22,995,284	$ 23,538,633	$ 32,939,918	$ 32,693,355
Equity securities (fund of funds)	344,115,838	555,629,897	350,622,984	595,621,801
Hedge funds and private equity partnerships	278,648,185	355,458,381	261,531,451	349,257,445
	$ 645,759,307	$ 934,626,911	$ 645,094,353	$ 977,572,601

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.

Substantially all of the Foundation's other assets and liabilities, except for leasehold improvements, 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, 2015 and 2014.

Investments in money market funds and U.S. Government obligations are stated at the last reported sales price on the day of valuation. Alternative investments are recorded at net asset value (NAV). Alternative investments valued at NAV without redemption restrictions are Level 2 and with redemption restrictions are Level 3.

Note 3. Fair Value Measurement (Continued)

The following tables present the Foundation's fair value hierarchy for assets and liabilities measured at fair value as of September 30, 2015 and 2014, by level within the fair value hierarchy.

	2015			
	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
U.S. Government obligations	$ 23,538,633	$ -	$ -	$ 23,538,633
Alternative investments:				
Fund of funds - equities	-	332,610,963	223,018,934	555,629,897
Private equity partnerships	-	-	282,594,858	282,594,858
Hedge funds	-	-	72,863,523	72,863,523
	23,538,633	332,610,963	578,477,315	934,626,911
Cash and cash equivalents:				
Money market fund	29,426,677	-	-	29,426,677
	$ 52,965,310	$ 332,610,963	$ 578,477,315	$ 964,053,588

	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

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, 2013	$ 182,153,230	$ 240,643,904	$ 76,775,210	$ 499,572,344
Change in unrealized gains	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
Change in unrealized gains	4,560,831	(8,309,544)	(2,605,973)	(6,354,686)
Contributions to investments	16,000,000	47,901,132	-	63,901,132
Distributions received from investments	(6,206,860)	(30,784,679)	-	(36,991,539)
Balance, September 30, 2015	$ 223,018,934	$ 282,594,858	$ 72,863,523	$ 578,477,315
Unrealized gains for investments held at September 30, 2015	$ 95,589,488	$ 44,125,702	$ 32,684,494	$ 172,399,684

As of September 30, 2015 and 2014, alternative investments consist of the following:

	Percent of Fair Value 2015	Percent of Fair Value 2014
Equity long/short funds	37%	41%
Private equity partnerships	30%	29%
Multi-strategy funds	24%	22%
Other	9%	8%
	100%	100%

The private equity partnerships report investments at fair value. The Foundation's share of its net assets and income or losses is recorded in the financial statements using the equity method of accounting. The Foundation has open commitments to make additional alternative investments of $148,738,547 at September 30, 2015. 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, 2015, this contingency amounted to $30,245,816. 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.

Note 4. Grants

Grants payable consist primarily of multi-year unconditional grants that are generally payable over one to three years.

The Foundation also had $47,779,476 of contingent grant commitments that are not reflected as liabilities in the consolidated statements of financial position at September 30, 2015 (2014 - $63,764,851).

The following schedule reconciles the total conditional and unconditional grant commitments approved by the Foundation's Board of Trustees to grants awarded expense in the statements of activities for the years ended 2015 and 2014:

	2015	2014
Total conditional and unconditional grant commitments	$ 35,320,375	$ 85,982,571
Less conditional commitments from current year grants	(11,349,936)	(55,336,964)
Plus prior year conditional commitments met	29,949,181	14,324,756
Change in discount to present value	-	250
Grants as reflected in the statements of activities	$ 53,919,620	$ 44,970,613

Note 5. Retirement Plans

The Foundation maintains two 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 and allows employees to defer a portion of their pre or post-tax salaries. 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 $519,649 for fiscal year 2015 (2014 - $470,345).

The second 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 $16,750 for fiscal year 2015 (2014 - $17,250).

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. The lease provides for two five-year renewal options. At September 30, 2015, the Foundation had the following aggregate minimum annual rental commitments under these leases:

2016	$ 745,593
2017	707,328
2018	707,328
2019	707,328
	$ 2,867,577

Rent expense was $703,964 for fiscal year 2015 (2014 - $666,081).

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. The Foundation is subject to risks that this financial institution does not fulfill its obligations. 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.