The Edna McConnell Clark Foundation

Reports Required by OMB Circular A-133 and
Government Auditing Standards
September 30, 2011

Contents

McGladrey

Independent Auditor's Report

To the Board of Trustees
The Edna McConnell Clark Foundation
New York, New York

We have audited the accompanying statement of financial position of The Edna McConnell Clark Foundation (Foundation) as of September 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. 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 audit provides 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, 2011, and the results of its activities and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 26, 2012, on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended September 30, 2011, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

McGladrey LLP

Chicago, Illinois
June 26, 2012

The Edna McConnell Clark Foundation

Statements of Financial Position
September 30, 2011 and 2010

	2011	2010
Assets		
Cash and cash equivalents	**$ 31,783,644**	$ 32,902,792
Interest, dividends and other receivables	**2,826,000**	121,788
Investments, at fair value	**792,388,823**	778,598,600
Other assets	**3,936,225**	546,642
Leasehold improvements, furniture, equipment and software, at cost, net of accumulated depreciation and amortization of $781,634 in 2011 and $671,160 in 2010	**919,774**	989,786
	$ 831,854,466	$ 813,159,608
Liabilities and Unrestricted Net Assets		
Liabilities		
Grants payable, short-term	**$ 7,174,871**	$ 7,145,880
Deferred federal excise tax	**2,023,561**	1,342,851
Other liabilities	**267,027**	209,541
	9,465,459	8,698,272
Net Assets		
Unrestricted net assets	**818,389,007**	804,461,336
Temporarily restricted net assets	**4,000,000**	-
Total Net Assets	**822,389,007**	804,461,336
	$ 831,854,466	$ 813,159,608

See Notes to Financial Statements.

The Edna McConnell Clark Foundation

Statements of Activities
Years Ended September 30, 2011 and 2010

	2011	2010
Unrestricted net assets:		
Investment return:		
Net realized gains	**$ 19,971,091**	$ 74,772,849
Net change in unrealized gains, net of deferred federal excise taxes	**33,354,798**	14,371,400
Interest and dividend income	**4,472,738**	2,106,065
	57,798,627	91,250,314
Investment management expenses	**(3,477,662)**	(2,974,926)
	54,320,965	88,275,388
Federal grant revenue	**3,970,923**	-
	58,291,888	88,275,388
Program services:		
Grants awarded (grant payments made were $40,744,757 in 2011 and $33,142,635 in 2010)	**37,194,829**	36,251,515
Program and grant management expenses	**5,508,184**	4,554,499
	42,703,013	40,806,014
General management expenses	**1,435,748**	1,124,215
Federal excise taxes	**225,456**	820,744
	44,364,217	42,750,973
Change in unrestricted net assets	**13,927,671**	45,524,415
Temporarily restricted net assets:		
Revenue:		
Coinvestor contribution	**4,000,000**	-
Change in temporarily restricted net assets	**4,000,000**	-
Change in net assets	**17,927,671**	45,524,415
Net assets:		
Beginning of year	**804,461,336**	758,936,921
End of year	**$ 822,389,007**	$ 804,461,336

See Notes to Financial Statements.

The Edna McConnell Clark Foundation

Statements of Cash Flows
Years Ended September 30, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Change in net assets	**$ 17,927,671**	$ 45,524,415
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	**144,406**	132,399
Deferred federal excise tax provision	**680,710**	293,109
Net realized gains	**(19,971,091)**	(74,772,849)
Net change in unrealized gains	**(34,035,508)**	(14,664,510)
Changes in:		
Interest, dividends and other receivables	**(2,704,212)**	16,902
Other assets	**(3,389,583)**	(546,642)
Grants payable	**28,991**	3,108,880
Other liabilities	**57,486**	(1,394,371)
Net cash used in operating activities	**(41,261,130)**	(42,302,667)
Cash Flows from Investing Activities		
Purchases of leasehold improvements, furniture, equipment and software	**(74,394)**	(19,383)
Purchases of investments	**(78,704,190)**	(680,587,917)
Proceeds from sales of investments	**118,920,566**	639,129,519
Net cash provided by (used in) investing activities	**40,141,982**	(41,477,781)
Decrease in cash and cash equivalents	**(1,119,148)**	(83,780,448)
Cash and cash equivalents:		
Beginning of year	**32,902,792**	116,683,240
End of year	**$ 31,783,644**	$ 32,902,792

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 2011 and 2010.

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, 2011, 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 are being made to organizations serving economically disadvantaged youth on the basis of an open and competitive application process

On August 1, 2011, CNCS awarded an additional $10 million grant under the SIF. As of September 30, 2011, the Foundation earned revenue and incurred expenses related to the SIF of $3,970,923.

SIF grants are processed on a reimbursement basis. Expenses are incurred by the grantees before grant payments are made by the Foundation.

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.

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

Temporarily restricted net assets of $4,000,000 at September 30, 2011 represent contributions from co-investors (other foundations) to be distributed to grantees in fiscal year 2012.

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.

Interest, dividends and other receivables: Interest, dividends and other receivables primarily consists of amounts due from a co-investor and CNCS at September 30, 2011. Donor’s promises to give cash that are conditional are not recognized until the conditions on which they depend are substantially met by the Foundation.

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.

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.

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

Reclassification: Certain balances for the year ended September 30, 2010, have been reclassified to conform to the current year presentation with no effect on changes in net assets.

Note 2. Investments

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Fixed income securities (long-term bonds and notes and mutual funds)	$ 29,723,106	$ 31,085,943	$ 43,389,471	$ 43,190,400
Equity securities (corporate stock, mutual funds and fund of funds)	401,846,098	439,120,438	415,673,827	460,165,120
Hedge funds and limited partnerships	259,632,506	322,182,442	252,383,697	275,243,080
	$ 691,201,710	$ 792,388,823	$ 711,446,995	$ 778,598,600

In connection with its investing activities, the Foundation entered into transactions involving a variety of derivative financial instruments, primarily financial futures contracts. The Foundation used these instruments primarily to maintain an asset mix or to hedge currency exposure while taking advantage of opportunities in selected securities in an attempt to contain or reduce portfolio risk and/or to enhance return. The Foundation ceased using derivative instruments early in the year ended September 30, 2010. Changes in the market values of these derivative financial instruments were recognized in the statements of activities; for the year ended September 30, 2010, net realized gains include income of $2,964,126 from these activities. As of September 30, 2011 and 2010, the Foundation had no open futures contracts.

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.

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 following tables present the Foundation's fair value hierarchy for assets and liabilities measured at fair value as of September 30, 2011 and 2010, by level within the fair value hierarchy.

	2011			
	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
Treasury bills	$ -	$ 31,085,943	$ -	$ 31,085,943
Alternative investments:				
Fund of funds - equities	-	170,082,732	134,518,853	304,601,585
Private equity partnerships			256,311,944	256,311,944
Hedge funds	-	-	65,870,498	65,870,498
	-	201,168,675	456,701,295	657,869,970
Cash and cash equivalents				
Money market fund	20,995,433	-	-	20,995,433
	$ 20,995,433	$ 201,168,675	$ 456,701,295	$ 678,865,403

	2010			
	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
Equities	$ 16,910,727	$ -	$ -	$ 16,910,727
Treasury bills	-	26,279,674	-	26,279,674
Alternative investments:				
Fund of funds - equities	-	322,489,903	137,675,216	460,165,119
Private equity partnerships	-	-	196,558,961	196,558,961
Hedge funds	-	-	78,684,119	78,684,119
	16,910,727	348,769,577	412,918,296	778,598,600
Cash and cash equivalents				
Money market fund	23,980,414	-	-	23,980,414
	$ 40,891,141	$ 348,769,577	$ 412,918,296	$ 802,579,014

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:

Balance, October 1, 2009	$ 428,880,527
Reclassification of categorization of level of the fair value hierarchy	(41,760,842)
Change in unrealized appreciation on investment	4,239,678
Contributions to investments	230,845,621
Distributions received from investments	(209,286,688)
Balance, September 30, 2010	412,918,296
Change in unrealized appreciation on investment	46,196,966
Contributions to investments	41,875,882
Distributions received from investments	(44,289,849)
Balance, September 30, 2011	$ 456,701,295

As of September 30, 2011 and 2010, alternative investments consist of the following:

	Percent of Fair Value 2011	Percent of Fair Value 2010
Equity long/short funds	40%	44%
Private equity investments	33%	27%
Multi-strategy funds	18%	21%
Other	9%	8%
	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 $118,351,841 at September 30, 2011. Returned unused capital contributions may be recalled and all distributions are subject to repayment to cover liabilities of the partnerships. As of September 30, 2011, this contingency amounted to $6,183,043. 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, 2011 totaled $244,509,773 (2010 - $194,104,288).

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:

	2011	2010
One year or less	$ 5,404,116	$ 3,874,000
One to three years	1,775,000	3,925,000
	7,179,116	7,799,000
Discount to reduce to present value (at risk free rate)	(4,245)	(653,120)
	$ 7,174,871	$ 7,145,880

The Foundation also had $48,034,077 of contingent grant commitments that are not reflected as liabilities in the statements of financial position at September 30, 2011 (2010 - $19,080,000).

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 2011 and 2010:

	2011	2010
Total conditional and unconditional grant commitments	$ 69,350,031	$ 35,484,635
Less conditional commitments from current year grants	(46,804,077)	(15,080,000)
Plus prior year conditional commitments met	14,000,000	16,500,000
Change in discount to present value	648,875	(653,120)
Grants as reflected in the statements of activities	$ 37,194,829	$ 36,251,515

Note 5. Retirement Plans

The Foundation maintains a defined contribution retirement plan covering 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 $323,372 for fiscal year 2011 (2010 - $269,009).

In addition, the Foundation maintains 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.

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, 2010, the Foundation had the following aggregate minimum annual rental commitments, exclusive of escalation clauses, under these leases:

2012	$ 667,686
2013	637,962
2014	637,962
2015	640,053
2016	645,639
Thereafter	1,936,916
	$ 5,166,218

Rent expense was $587,975 for fiscal year 2011 (2010 - $588,562).

Note 7. Concentration of Credit Risk

The majority of investment transactions of the Foundation are cleared and carried by 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 June 26, 2012, the date the financial statements were available to be issued. There are no subsequent events to disclose.

Supplementary Information

Edna McConnell Clark Foundation
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2011

Federal Grantor/Pass-through Grantor Program Title	Federal CFDA Number	Federal Grant/ Pass-through Grantor Identifying Number	Federal Expenditures
Corporation for National and Community Service			
Social Innovation Funds*	94.019	10SIHNY003	$ 2,332,807
Total Federal Awards expended			$ 2,332,807

* Denotes major program.

The Edna McConnell Clark Foundation

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of The Edna McConnell Clark Foundation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the financial statements.

Note 2. Amounts Provided to Subrecipients

Included in the schedule of expenditures of federal awards presented above, the Foundation provided federal awards to subrecipients as follows:

	Federal CFDA Number	Amounts Provided to Subrecipients
Corporation for National and Community Service		
Social Innovation Funds	94.019	$ 2,332,807

McGladrey

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees
The Edna McConnell Clark Foundation
New York, New York

We have audited the financial statements of The Edna McConnell Clark Foundation (Foundation) as of and for the year ended September 30, 2011, and have issued our report thereon dated June 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Foundation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the Board of Trustees, management, and federal awarding agencies and is not intended to be used and should not be used by anyone other than these specified parties.

McGladrey LLP

Chicago, Illinois
June 26, 2012

McGladrey

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Trustees
The Edna McConnell Clark Foundation
New York, New York

Compliance

We have audited the compliance of The Edna McConnell Clark Foundation (Foundation) with the types of compliance requirements described in the *OMB Circular A-133, Compliance Supplement* that could have a direct and material effect on the Foundation's major federal program for the year ended September 30, 2011. The Foundation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Foundation's management. Our responsibility is to express an opinion on the Foundation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Foundation's compliance with those requirements.

In our opinion, the Foundation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2011.

Internal Control Over Compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Foundation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Trustees, management, and federal awarding agencies and is not intended to be used and should not be used by anyone other than these specified parties.

McGladrey LLP

Chicago, Illinois
June 26, 2012

I. Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	_____ Yes	__X__ No
Significant deficiencies identified that are not considered to be material weaknesses?	_____ Yes	__X__ None Reported
Noncompliance material to financial statements noted?	_____ Yes	__X__ No

Federal Awards

Internal control over major programs:

Material weaknesses identified?	_____ Yes	__X__ No
Significant deficiencies identified that are not considered to be material weakness(es)?	_____ Yes	__X__ None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____ Yes	__X__ No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
94.019	Corporation for National and Community Service: Social Innovation Fund

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee qualified as low-risk auditee?	_____ Yes	__X__ No

II. Financial Statement Findings

None.

III. Finding and Questioned Costs for Federal Awards

None.