

Independent Auditor's Report

*To the Board of Directors of
Robert Sterling Clark Foundation, Inc.*

We have audited the statement of financial position of the Robert Sterling Clark Foundation, Inc. (the "Foundation") as of October 31, 2006, 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. The prior year summarized comparative information has been derived from the Foundation's 2005 financial statements which were audited by other auditors whose report dated April 18, 2006 expressed an unqualified opinion on those financial statements.

We conducted our audit 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 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 Robert Sterling Clark Foundation, Inc. as of October 31, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the Foundation changed its method of accounting from the modified cash basis to the accrual basis under generally accepted accounting principles. The other auditors reported on the financial statements before the retrospective adjustment. We also audited the adjustments to the 2005 financial statements to retrospectively apply the change in accounting as described in Note 2. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the Foundation's 2005 financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2005 financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the 2006 basic financial statements taken as a whole. The supplemental information included in the Schedule of Grants Paid is presented for purposes of additional analysis and is not a required part of the basic financial statements. The 2006 supplemental schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2006 basic financial statements taken as a whole. We also audited the adjustments to the 2005 financial statements to retrospectively apply the change in accounting included in the supplemental information as described in Note 2. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the Foundation's 2005 financial statements and supplemental information other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2005 financial statements taken as a whole.

Buchbinder Tunick & Company LLP

*Buchbinder Tunick & Company LLP
May 14, 2007*

Robert Sterling Clark Foundation, Inc. Statements of Financial Position

October 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Assets:		
Cash and cash equivalents	\$ 1,678,232	\$ 1,055,820
Investments (Notes 2 and 3)	117,671,222	106,113,165
Accrued dividends and interest receivable	209,000	12,000
Prepaid expenses and other assets	<u>25,665</u>	<u>33,691</u>
	119,584,119	107,214,676
Property and equipment (Note 2):		
Co-operative (office space)	1,007,766	1,007,766
Furniture, fixtures and equipment	89,454	88,865
Less: accumulated depreciation	<u>(351,694)</u>	<u>(323,508)</u>
Property and equipment, net	<u>745,526</u>	<u>773,123</u>
Total assets	<u>\$ 120,329,645</u>	<u>\$ 107,987,799</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Due to brokers	\$ 80,600	\$ —
Accrued expenses and other liabilities	193,700	189,700
Grants payable	902,500	1,410,500
Federal excise taxes payable	<u>45,000</u>	<u>40,000</u>
Total liabilities	<u>1,221,800</u>	<u>1,640,200</u>
Net assets:		
Income (loss)	(749,575)	(277,556)
Principal	<u>119,857,420</u>	<u>106,625,155</u>
Total net assets	<u>119,107,845</u>	<u>106,347,599</u>
Total liabilities and net assets	<u>\$ 120,329,645</u>	<u>\$ 107,987,799</u>

See notes to financial statements.

Robert Sterling Clark Foundation, Inc. Statements of Activities

For the years ended October 31, 2006 and 2005

	2006		2005	
	Income (Loss)	Principal	Total	Total
Revenue and gains:				
Realized and unrealized gains (Note 3)	\$ –	\$ 18,140,293	\$ 18,140,293	\$ 13,906,223
Interest and dividends (Note 3)	1,661,721	–	1,661,721	1,325,158
Rental income (Note 7)	46,731	–	46,731	44,400
Other income	461	–	461	1,523
Total revenue and gains	<u>1,708,913</u>	<u>18,140,293</u>	<u>19,849,206</u>	<u>15,277,304</u>
Expenses:				
Program services	5,897,439	–	5,897,439	4,990,530
Administrative and general	991,901	–	991,901	951,218
Excise tax	171,434	–	171,434	101,000
Depreciation expense	–	28,186	28,186	28,762
Total expenses	<u>7,060,774</u>	<u>28,186</u>	<u>7,088,960</u>	<u>6,071,510</u>
Revenue and gains over (under) expenses	(5,351,861)	18,112,107	12,760,246	9,205,794
Other changes in net assets:				
Transfers to (from) income	<u>4,879,842</u>	<u>(4,879,842)</u>	<u>–</u>	<u>–</u>
Change in net assets	(472,019)	13,232,265	12,760,246	9,205,794
Net assets – beginning of year	<u>(277,556)</u>	<u>106,625,155</u>	<u>106,347,599</u>	<u>97,141,805</u>
Net assets – end of year	<u>\$ (749,575)</u>	<u>\$119,857,420</u>	<u>\$119,107,845</u>	<u>\$106,347,599</u>

See notes to financial statements.

Robert Sterling Clark Foundation, Inc.

Statements of Cash Flows

For the years ended October 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ 12,760,246	\$ 9,205,794
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Depreciation	28,186	28,762
Unrealized (gains) on investments	(1,758,159)	(9,237,077)
Realized (gains) on investments	(16,382,134)	(4,669,146)
(Increase) decrease in interest receivable	(197,000)	5,000
Decrease (increase) in prepaid expenses and other assets	8,026	(4,659)
Increase (decrease) in due to (from) brokers	80,600	(68,915)
Increase (decrease) in accrued expenses	4,000	(16,000)
(Decrease) increase in grants payable	(508,000)	43,500
Increase in federal excise taxes payable	5,000	65,000
Net cash (used in) operating activities	<u>(5,959,235)</u>	<u>(4,647,741)</u>
Cash flows from investing activities:		
Purchase of furniture and equipment	(589)	(4,543)
Purchase of investments	(38,114,470)	(13,495,183)
Proceeds from sale of investments	44,696,706	18,033,093
Net cash provided by investing activities	<u>6,581,647</u>	<u>4,533,367</u>
Net increase (decrease) in cash and cash equivalents	622,412	(114,374)
Cash and cash equivalents:		
Beginning of year	1,055,820	1,170,194
End of year	<u>\$ 1,678,232</u>	<u>\$ 1,055,820</u>
Supplementary cash flows information:		
Cash payments for:		
Excise taxes	<u>\$ 166,000</u>	<u>\$ 36,000</u>

See notes to financial statements.

Robert Sterling Clark Foundation, Inc.

Notes to Financial Statements

October 31, 2006 and 2005

Note 1. Organization

The Robert Sterling Clark Foundation, Inc. (the "Foundation") was incorporated under the laws of the State of New York as a private foundation. The Foundation was organized to provide grants to charitable organizations.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting

During the year ended October 31, 2006, the Foundation changed its method of accounting from the modified cash basis to the accrual basis under generally accepted accounting principles. The financial statements for October 31, 2005 have been restated on the accrual basis.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. Accordingly, actual results could differ from those estimates.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended October 31, 2006 from which the summarized information was derived.

Income Taxes

The Foundation is a charitable organization within the meaning of Section 501(c)(3) of the Internal Revenue Code (the "Code"). The Foundation is exempt from the Federal income tax under the Code as a private foundation, but is subject to Federal excise tax on its net investment income.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Investments

Investments are stated at fair value and unrealized gains and losses are reflected in the statements of activities.

Property and Equipment

Property and equipment are recorded at cost.

The Foundation depreciates the cooperative, furniture, fixtures and equipment principally under the straight-line method. The general range of estimated useful lives used in depreciating is as follows:

Cooperative	39 years
Furniture, fixtures and equipment	5 years

Grants Payable

Grants payable represents all unconditional grants that have been authorized prior to the year end, but remain unpaid as of the statement of financial position date. Conditional grants are expensed and considered payable in the period the conditions are substantially satisfied.

Note 3. Investments

The Foundation, in following FASB No. 124, has stated its securities at fair market value instead of historical cost. In accordance with FASB No. 124, the unrealized gains and losses on securities are presented as revenue in the current period. Total unrealized gains recorded since the implementation of FASB No. 124 is as follows:

	Unrealized Gains				Total
	Alliance Capital	Deutsche Bank	Beck, Mack & Oliver	Capital Guardian	
Unrealized gains at October 31, 2004	\$ 1,730,456	–	\$ 26,051,561	\$ 3,552,094	\$ 31,334,111
2005 net increase in unrealized gains	3,336,217	–	5,573,774	327,086	9,237,077
Unrealized gains at October 31, 2005	5,066,673	–	31,625,335	3,879,180	40,571,188
2006 net increase (decrease) in unrealized gains	(2,784,900)	–	3,998,944	544,115	1,758,159
Unrealized gains at October 31, 2006	\$ 2,281,773	\$ –	\$ 35,624,279	\$ 4,423,295	\$ 42,329,347

The following schedule summarizes the investment return and its classification in the statement of activities as of October 31, 2006 and 2005.

	Alliance Capital	Deutsche Bank	Beck, Mack & Oliver	Capital Guardian	Total	
					October 31	
					2006	2005
Unrealized gains (losses)	\$ (2,784,900)	\$ –	\$ 3,998,944	\$ 544,115	\$ 1,758,159	\$ 9,237,077
Realized gains	3,433,427	–	10,550,434	2,398,273	16,382,134	4,669,146
Realized and unrealized gains	648,527	–	14,549,378	2,942,388	18,140,293	13,906,223
Interest income	–	1,073	335,684	–	336,757	6,714
Dividend income	152,819	48,427	807,149	316,569	1,324,964	1,318,444
Total interest and dividends	152,819	49,500	1,142,833	316,569	1,661,721	1,325,158
Total investment income	\$ 801,346	\$ 49,500	\$ 15,692,211	\$ 3,258,957	\$ 19,802,014	\$ 15,231,381

Note 4. Risks and Uncertainties

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

Note 5. Pension Plan

The Foundation sponsors a defined contribution plan. Any employee, excluding students and those who work less than 20 hours per week are eligible for employer contributions after completing 1 year of service and attainment of age 21. Voluntary contributions can be made at any time. Contributions to the plan must be made on a non-discriminatory basis. The Foundation will make a contribution to the plan on the employee's behalf in the amount of 15% of his or her compensation. Employee voluntary contributions can also be made up to the allowable maximum contribution as determined by IRS regulations.

Pension expenses for the Foundation for the years ended October 31, 2006 and 2005 were \$80,517 and \$77,927 respectively.

Note 6. Concentration of Credit Risk

Financial instruments, which potentially subject the Foundation to concentrations of credit risk, consist of money market accounts and investment securities. The Foundation places its cash and temporary cash investments with high credit quality financial institutions. At times such investments may be in excess of the FDIC and SPIC insurance limits.

Note 7. Rental Income

The Foundation leases out a portion of its office space under a lease that expires March 31, 2010. Rental income during the years ended October 31, 2006 and 2005 totaled \$46,731 and \$44,400, respectively.

Future rental income under the lease is:

<u>Year Ending</u> <u>October 31</u>	<u>Amount</u>
2007	\$ 48,396
2008	48,396
2009	48,396
2010	20,165
Total	<u>\$ 165,353</u>