The Edna McConnell Clark Foundation

OMB Circular A-133 Report
September 30, 2013

Contents

McGladrey

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of The Edna McConnell Clark Foundation (the Foundation) which comprise the statement of financial position as of September 30, 2013, and the related statements of activities and cash flows for the year then ended and the related notes to 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 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 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 reasonable 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, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3, the financial statements include alternative investments valued at $389,429,792 (41 percent of net assets) as of September 30, 2013 and $352,453,023 (41 percent of net assets) as of September 30, 2012, whose fair values have been determined 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.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated January 15, 2014 on our consideration of the Foundation's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Institute's internal control over financial reporting and compliance.

McGladrey LLP

Chicago, Illinois
January 15, 2014

The Edna McConnell Clark Foundation

Statements of Financial Position
September 30, 2013 and 2012

	2013	2012
Assets		
Cash and cash equivalents	**$ 40,916,966**	$ 28,926,216
Interest, dividends and other receivables	**562,129**	1,548,932
Investments, at fair value	**911,492,128**	834,547,491
Program-related investment	**5,000,000**	5,000,000
Other assets	**4,763,949**	3,822,774
Leasehold improvements, furniture, equipment and software, at cost, net of accumulated depreciation and amortization of $704,493 2013 and $877,555 in 2012	**2,603,434**	802,972
	$ 965,338,606	$ 874,648,385
Liabilities and Unrestricted Net Assets		
Liabilities		
Grants payable	**$ 5,585,718**	$ 6,682,340
Deferred federal excise tax	**5,472,071**	3,457,178
Other liabilities	**1,865,413**	728,722
	12,923,202	10,868,240
Net Assets		
Unrestricted net assets	**951,915,404**	863,698,145
Temporarily restricted net assets	**500,000**	82,000
Total Net Assets	**952,415,404**	863,780,145
	$ 965,338,606	$ 874,648,385

See Notes to Financial Statements.

The Edna McConnell Clark Foundation

Statements of Activities
Years Ended September 30, 2013 and 2012

	2013			2012		
	Unrestricted	**Temporarily Restricted**	**Total**	Unrestricted	Temporarily Restricted	Total
Investment return:						
Net realized gains	**$ 33,091,239**	**$ -**	**$ 33,091,239**	$ 19,801,150	$ -	$ 19,801,150
Net change in unrealized gains, net of deferred federal excise taxes	**98,729,746**	**-**	**98,729,746**	70,247,223	-	70,247,223
Interest and dividend income	**3,272,587**	**-**	**3,272,587**	2,797,842	-	2,797,842
	135,093,572	**-**	**135,093,572**	92,846,215	-	92,846,215
Investment management expenses	**(4,359,954)**	**-**	**(4,359,954)**	(3,137,667)	-	(3,137,667)
	130,733,618	**-**	**130,733,618**	89,708,548	-	89,708,548
Federal grant revenue	**7,962,163**	**-**	**7,962,163**	6,405,620	-	6,405,620
Co-investor contribution	**-**	**500,000**	**500,000**	-	2,000,000	2,000,000
Net assets released from restriction	**82,000**	**(82,000)**	**-**	5,918,000	(5,918,000)	-
	138,777,781	**418,000**	**139,195,781**	102,032,168	(3,918,000)	98,114,168
Program services:						
Grants awarded (grant payments made were $43,155,001 in 2013 and $53,119,883 in 2012)	**41,218,436**	**-**	**41,218,436**	48,373,646	-	48,373,646
Program and grant management expenses	**7,296,609**	**-**	**7,296,609**	6,530,685	-	6,530,685
	48,515,045	**-**	**48,515,045**	54,904,331	-	54,904,331
General management expenses	**1,644,302**	**-**	**1,644,302**	1,496,433	-	1,496,433
Federal excise taxes	**401,175**	**-**	**401,175**	322,266	-	322,266
	50,560,522	**-**	**50,560,522**	56,723,030	-	56,723,030
Change in net assets	**88,217,259**	**418,000**	**88,635,259**	45,309,138	(3,918,000)	41,391,138
Net assets:						
Beginning of year	**863,698,145**	**82,000**	**863,780,145**	818,389,007	4,000,000	822,389,007
End of year	**$ 951,915,404**	**$ 500,000**	**$ 952,415,404**	$ 863,698,145	$ 82,000	$ 863,780,145

See Notes to Financial Statements.

The Edna McConnell Clark Foundation

Statements of Cash Flows
Years Ended September 30, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	**$ 88,635,259**	$ 41,391,138
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	**336,298**	132,971
Deferred federal excise tax provision	**2,014,893**	1,433,617
Net realized gains	**(33,091,239)**	(19,801,150)
Net change in unrealized gains	**(100,744,639)**	(71,680,840)
Changes in:		
Interest, dividends and other receivables	**986,803**	1,277,068
Other assets	**(941,175)**	113,451
Grants payable	**(1,096,622)**	(492,531)
Other liabilities	**1,136,691**	461,695
Net cash used in operating activities	**(42,763,731)**	(47,164,581)
Cash Flows from Investing Activities		
Purchases of leasehold improvements, furniture, equipment and software	**(2,136,760)**	(16,169)
Purchases of investments	**(71,852,612)**	(69,972,868)
Proceeds from sales of investments	**128,743,853**	119,296,190
Program-related investment	**-**	(5,000,000)
Net cash provided by investing activities	**54,754,481**	44,307,153
Increase (decrease) in cash and cash equivalents	**11,990,750**	(2,857,428)
Cash and cash equivalents:		
Beginning of year	**28,926,216**	31,783,644
End of year	**$ 40,916,966**	$ 28,926,216

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 2013 and 2012.

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, 2013 or 2012, there were no unrecognized tax positions identified or recorded as liabilities.

The Foundation files forms 990PF in the U.S. federal jurisdiction and the State of New York. With few exceptions, the Foundation is no longer subject to examination by the Internal Revenue Service for fiscal years before 2010.

Social Innovation Funds: On July 22, 2010, the Corporation for National and Community Service (CNCS) awarded a $10 million grant to the Foundation to serve as an intermediary of the Social Innovation Fund (SIF). The award requires a dollar for dollar match from the Foundation.
Grants were made to organizations that serve economically disadvantaged youth and were chosen in an open and competitive selection process.

On August 2, 2012 and August 1, 2011, CNCS awarded additional grants under the SIF. For the years ended September 30, 2013 and 2012, the Foundation earned revenue and incurred expenses related to the SIF of $7,962,163 and $6,405,620, respectively. Total SIF grants awarded as of September 30, 2013 was $30 million.

SIF grants are processed on a reimbursement basis. Expenses are incurred by the grantees before grant payments are made by the Foundation. Payments are made once the Foundation has been reimbursed by CNCS.

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

Temporarily restricted net assets: Temporarily restricted net assets consist of net assets available for support, with donor-imposed restrictions, that may or will be met either by actions of the Foundation or the passage of time. Temporarily restricted net assets are reclassified to unrestricted net assets when the restrictions are met or have expired.

Temporarily restricted net assets of $500,000 at September 30, 2013 and $82,000 at September 30, 2012, represent the balance of contributions from other organizations (co-investors) to the Foundation that the Foundation uses to increase funding to its grantees. The remaining $500,000 will be distributed to grantees in fiscal year 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.

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.

The Foundation has an investment management agreement with Investure, LLC to provide investment advisory and investment management services to the Foundation. As a result of the agreement, Investure, LLC manages the Foundation's entire portfolio of investments.

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

Program-related investments: The Foundation had one program-related investment at September 30, 2013 and 2012, which is a $5,000,000 loan to a tax-exempt organization as defined under Section 501(c)(3) of the Internal Revenue Code. The purpose of this investment is to support the organization’s general operations, growth and capital needs. The note accrues interest at 1 percent and will be repaid in full by the end of fiscal 2015.

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

Other assets: Other assets primarily 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.

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

Deferred federal excise tax: Deferred federal excise tax represents taxes provided on the net unrealized gains on investments using a rate of 2 percent (although when realized, such gains may be subject to only a 1 percent rate, as noted above).

Awards and grants: Unconditional awards and grants, including multi-year grants, are considered obligations when approved by the Foundation's Board of Trustees. In accordance with GAAP, the Foundation does not reflect as liabilities the amount of future years' grant commitments if they are subject to review and other contingencies before they are paid.

Functional allocation of expenses: The costs of providing the program and other activities have been presented on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program and supporting services benefited. Expenses that are common to program services and general management are allocated based on management's determination.

Subsequent events: Management of the Foundation has evaluated subsequent events for potential recognition and/or disclosure through January 15, 2014, the date the financial statements were available to be issued.

Note 2. Investments

Investments at September 30, 2013 and 2012 consist of:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Fixed income securities (U.S. Government obligations)	$ 32,939,918	$ 32,452,931	$ 32,741,189	$ 34,150,443
Equity securities (fund of funds)	359,666,247	561,620,083	372,995,761	483,503,080
Hedge funds and private equity partnerships	245,273,037	317,419,114	255,942,254	316,893,968
	$ 637,879,202	$ 911,492,128	$ 661,679,204	$ 834,547,491

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.

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 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, 2013 and 2012. However, based on reevaluation of the fair value hierarchy definitions, the Foundation determined that U.S. government obligations should be classified as Level 1 instruments and the 2012 amounts have conformed to this presentation.

The following tables present the Foundation's fair value hierarchy for assets and liabilities measured at fair value as of September 30, 2013 and 2012, by level within the fair value hierarchy.

	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

	2012			
	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
U.S. Government obligations	$ 34,150,443	$ -	$ -	$ 34,150,443
Alternative investments:				
Fund of funds - equities	-	334,508,931	148,994,149	483,503,080
Private equity partnerships	-	-	246,642,546	246,642,546
Hedge funds	-	-	70,251,422	70,251,422
	34,150,443	334,508,931	465,888,117	834,547,491
Cash and cash equivalents				
Money market fund	26,744,306	-	-	26,744,306
	$ 60,894,749	$ 334,508,931	$ 465,888,117	$ 861,291,797

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, 2011	$ 134,518,853	$ 256,311,944	$ 65,870,498	$ 456,701,295
Change in unrealized appreciation on investments	17,484,353	(5,979,426)	4,380,924	15,885,851
Contributions to investments	-	40,012,890	-	40,012,890
Distributions received from investments	(3,009,057)	(43,702,862)	-	(46,711,919)
Balance, September 30, 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

As of September 30, 2013 and 2012, alternative investments consist of the following:

	Percent of Fair Value 2013	Percent of Fair Value 2012
Equity long/short funds	43%	42%
Private equity investments	26%	30%
Multi-strategy funds	21%	19%
Other	10%	9%
	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 $104,145,584 at September 30, 2013. 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, 2013, this contingency amounted to $26,444,214. 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, 2013 totaled $389,429,792 (2012 - $352,453,023).

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:

	2013	2012
One year or less	$ 5,335,968	$ 5,659,083
One to three years	250,000	1,025,000
	5,585,968	6,684,083
Discount to reduce to present value (at risk free rate)	(250)	(1,743)
	$ 5,585,718	$ 6,682,340

The Foundation also had $22,894,398 of contingent grant commitments that are not reflected as liabilities in the statements of financial position at September 30, 2013 (2012 - $36,745,727).

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 2013 and 2012:

	2013	2012
Total conditional and unconditional grant commitments	$ 28,205,557	$ 37,025,643
Less conditional commitments from current year grants	(12,969,808)	(11,765,132)
Plus prior year conditional commitments met	25,981,194	23,110,633
Change in discount to present value	1,493	2,502
Grants as reflected in the statements of activities	$ 41,218,436	$ 48,373,646

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 $430,430 for fiscal year 2013 (2012 - $367,254).

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 $29,278 (2012 - $5,222). The plan was established during 2012.

Note 6. Commitments

The Foundation leases its office space and equipment under operating lease agreements that expire on various dates through November 2019. The office space lease contains an escalation clause which provides for rental increases resulting from increases in real estate taxes and certain other operating expenses. 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, 2013, the Foundation had the following aggregate minimum annual rental commitments, exclusive of escalation clauses, under these leases:

2014	$ 702,640
2015	730,570
2016	726,309
2017	688,044
Thereafter	1,376,088
	$ 4,223,650

Rent expense was $730,292 for fiscal year 2013 (2012 - $619,500).

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.

Supplementary Information

Edna McConnell Clark Foundation
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2013

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	$ 8,608,924

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying 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	$ 7,681,194

McGladrey

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*

Independent Auditor's Report

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

We have audited, in accordance with the 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, the financial statements of The Edna McConnell Clark Foundation (the Foundation) as of and for the year ended September 30, 2013 and the related notes to the financial statements, which collectively comprise the Foundation's financial statements, and have issued our report thereon dated January 15, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McGladrey LLP

Chicago, Illinois
January 15, 2014

McGladrey

Report on Compliance for Each Major Program and on Internal Control Over Compliance

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited The Edna McConnell Clark Foundation's (the Foundation) compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect the Foundation's major federal program for the year ended September 30, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Foundation's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Non-Profit 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 the 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 our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination on the Foundation's compliance.

Opinion on Each Major Federal Program

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2013.

Report on Internal Control Over Compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 over compliance 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

McGladrey LLP

Chicago, Illinois
January 15, 2014

Schedule of Findings and Questioned Costs
Year Ended September 30, 2013

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
· Material weakness(es) identified?	_____Yes __X__No
· Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____Yes __X__No
Noncompliance material to financial statements noted?	_____Yes __X__No

Federal Awards

Internal control over major programs:	
· Material weakness(es) identified?	_____Yes __X__No
· Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____Yes __X__No
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	_____Yes __X__No

Identification of major programs:

CFDA number	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 a low-risk auditee?	__X__Yes _____No

II. Financial Statement Findings

There were no internal control deficiencies identified and no compliance findings over the financial statements for fiscal year 2013.

III. Finding and Questioned Costs for Federal Awards

There were no internal control deficiencies identified and no compliance findings over the federal awards for fiscal year 2013.

Summary Schedule of Prior Audit Findings

Schedule of Prior Audit Findings
Year Ended September 30, 2013

I. Financial Statement Findings

There were no internal control deficiencies identified and no compliance findings over the financial statements for fiscal year 2012.

II. Finding and Questioned Costs for Federal Awards

There were no internal control deficiencies identified and no compliance findings over the federal awards for fiscal year 2012.