

The Edna McConnell Clark Foundation

OMB Circular A-133 Report
September 30, 2014

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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 consolidated financial statements of The Edna McConnell Clark Foundation and Subsidiary (the "Foundation"), which comprise the consolidated statements of financial position as of September 30, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Edna McConnell Clark Foundation and Subsidiary as of September 30, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3, the financial statements include alternative investments valued at \$449,357,328 (45 percent of net assets) as of September 30, 2014 and \$389,429,792 (41 percent of net assets) as of September 30, 2013, whose fair values have been 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 consolidated 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 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 21, 2015 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 Foundation's internal control over financial reporting and compliance.



Chicago, Illinois
January 21, 2015

The Edna McConnell Clark Foundation and Subsidiary

**Consolidated Statements of Financial Position
September 30, 2014 and 2013**

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

See Notes to Consolidated Financial Statements.

The Edna McConnell Clark Foundation and Subsidiaries

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

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

See Notes to Consolidated Financial Statements.

The Edna McConnell Clark Foundation and Subsidiary

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

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

See Notes to Consolidated Financial Statements.

The Edna McConnell Clark Foundation

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The Edna McConnell Clark Foundation is a private nonprofit foundation that makes grants to help better the lives of people in low-income communities.

Financial statement presentation: The financial statements have been prepared following accounting principles generally accepted in the United States of America (GAAP).

Use of estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

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

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

Tax status: The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the Code) and, accordingly, is not subject to federal income taxes. However, in accordance with Section 4940(e) of the Code, the Foundation is subject to a federal excise tax of 2 percent of net investment income (including net realized taxable gains on security transactions) or of 1 percent if the Foundation meets certain specified distribution requirements. The Foundation was subject to a 1 percent tax for fiscal 2014 and 2013.

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

The Foundation follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Foundation, and various positions related to the potential sources of unrelated business taxable income. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. As of September 30, 2014 and 2013, there were no unrecognized tax positions identified or recorded as liabilities.

The Foundation files forms 990PF in the U.S. federal jurisdiction and the State of New York. With few exceptions, the Foundation is no longer subject to examination by the Internal Revenue Service for fiscal years before 2011.

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

The Edna McConnell Clark Foundation

Notes to Consolidated Financial Statements

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

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

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

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

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

Cash and cash equivalents: The Foundation defines cash and cash equivalents as highly liquid investments with original maturities of 90 days or less which include cash equivalents held in investment managers' accounts that are temporarily uninvested. The Foundation maintains cash in bank deposit accounts that, at times, may exceed federally insured (FDIC) limits. The Foundation has not experienced any losses in such accounts. Management believes that the Foundation is not exposed to significant credit risk on cash.

Investments: U.S. Government obligations are carried at fair value based on either quoted prices or the observable inputs for similar instruments in active markets. Alternative investments, which are primarily hedge funds and limited partnerships, are carried at approximate fair value, as determined by management, using either fair values based on the reported net asset value (NAV) or, where not available, based on information provided by the investment managers and generally recognized valuation methods. Purchases and sales of securities are recorded on trade date.

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

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

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

Program-related investments: The Foundation had one program-related investment at September 30, 2014 and 2013, which was a \$5,000,000 loan to a tax-exempt organization as defined under Section 501(c)(3) of the Internal Revenue Code. The purpose of this investment is to support the organization's general operations, growth and capital needs. The note accrues interest at 1 percent and will be repaid in full by the end of fiscal 2015. \$3,000,000 was repaid in fiscal 2014.

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

The Edna McConnell Clark Foundation

Notes to Consolidated Financial Statements

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

Other assets: Other assets primarily consist of non-federal grant payments advanced by the Foundation to SIF grantees prior to grantees meeting required conditions.

Leasehold improvements, furniture, equipment and software: These assets are depreciated or amortized over their estimated useful lives or the lease period, as applicable, using the straight-line method.

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

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

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

Subsequent events: Management of the Foundation has evaluated subsequent events for potential recognition and/or disclosure through January 21, 2015, the date the consolidated financial statements were available to be issued.

Note 2. Investments

Investments at September 30, 2014 and 2013 consist of:

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

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.

The Edna McConnell Clark Foundation

Notes to Consolidated Financial Statements

Note 3. Fair Value Measurement (Continued)

Level 2. Inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies.

Level 3. Inputs are unobservable for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. The unobservable inputs would be developed based on the best information available in the circumstances and may include the entity's own data.

Substantially all of the Foundation's other assets and liabilities are considered financial instruments and are either already reflected at fair value or at carrying amounts that approximate fair value because of the short maturity of the instruments.

The Foundation assesses the levels of financial instruments at each measurement date, and transfers between levels are recognized on the actual date of the event of change in circumstances that caused the transfer in accordance with the Foundation's accounting policy regarding recognition of transfers between levels of the fair value hierarchy. There were no significant transfers among Levels 1, 2, and 3 during the years ended September 30, 2014 and 2013.

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

	2014			
	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
U.S. Government obligations	\$ 32,693,355	\$ -	\$ -	\$ 32,693,355
Alternative investments:				
Fund of funds - equities	-	386,956,838	208,664,963	595,621,801
Private equity partnerships	-	-	273,787,949	273,787,949
Hedge funds	-	-	75,469,496	75,469,496
	32,693,355	386,956,838	557,922,408	977,572,601
Cash and cash equivalents:				
Money market fund	23,531,344	-	-	23,531,344
	<u>\$ 56,224,699</u>	<u>\$ 386,956,838</u>	<u>\$ 557,922,408</u>	<u>\$ 1,001,103,945</u>
	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
	<u>\$ 60,447,729</u>	<u>\$ 379,466,853</u>	<u>\$ 499,572,344</u>	<u>\$ 939,486,926</u>

The Edna McConnell Clark Foundation

Notes to Consolidated Financial Statements

Note 3. Fair Value Measurement (Continued)

Financial instruments classified as Level 3 in the fair value hierarchy represent the Foundation's investment in financial instruments for which the Foundation has used at least one significant unobservable input in the valuation model. The following table presents a reconciliation of activity for the Level 3 financial instruments:

	Fund of Funds	Private Equity Partnerships	Hedge Funds	Total
Balance, October 1, 2012	\$ 148,994,149	\$ 246,642,546	\$ 70,251,422	\$ 465,888,117
Change in unrealized appreciation on investments	33,159,081	4,670,575	6,523,788	44,353,444
Contributions to investments	-	38,175,547	-	38,175,547
Distributions received from investments	-	(48,844,764)	-	(48,844,764)
Balance, September 30, 2013	182,153,230	240,643,904	76,775,210	499,572,344
Change in unrealized appreciation (depreciation) on investments	19,511,733	12,915,350	2,664,286	35,091,369
Contributions to investments	7,000,000	44,926,361	2,800,000	54,726,361
Distributions received from investments	-	(24,697,666)	(6,770,000)	(31,467,666)
Balance, September 30, 2014	\$ 208,664,963	\$ 273,787,949	\$ 75,469,496	\$ 557,922,408

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

	Percent of Fair Value 2014	Percent of Fair Value 2013
Equity long/short funds	41%	43%
Private equity investments	29%	26%
Multi-strategy funds	22%	21%
Other	8%	10%
	100%	100%

The private equity partnerships reflect these investments at fair value. The Foundation's share of its net assets and income or losses is reflected in the financial statements using the equity method of accounting. The Foundation has open commitments to make additional partnership investments of \$134,402,505 at September 30, 2014. Returned unused capital contributions to the Foundation may be recalled by the partnership and all distributions are subject to repayment to cover liabilities of the partnerships. As of September 30, 2014, this contingency amounted to \$28,603,009. Redemption periods for investment partnerships range from daily to nine years dependent on the various investment managers' terms and may be subject to other restrictions and penalties.

The portion of alternative investments whose fair values have been estimated by management in the absence of readily determinable fair values, based on information provided by the investment managers at September 30, 2014 totaled \$449,357,328 (2013 - \$389,429,792).

The Edna McConnell Clark Foundation

Notes to Consolidated Financial Statements

Note 4. Grants

Grants payable consist primarily of multi-year unconditional grants that are generally payable over one to three years. Management estimates these grants will be paid as follows:

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

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

The following schedule reconciles the total conditional and unconditional grant commitments approved by the Foundation's Board of Trustees to grants awarded in the statements of activities for the years ended 2014 and 2013:

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

Note 5. Retirement Plans

The Foundation maintains three defined contribution, retirement plans. The first plan covers all active full-time employees. Under the terms of the plan, the Foundation must contribute specified percentages of an employee's salary. The plan is currently invested in employee-designated mutual funds that have been approved by the Foundation. The Foundation's contribution to the plan was \$470,345 for fiscal year 2014 (2013 - \$430,430).

The second plan is a supplemental retirement plan that allows employees to defer a portion of their pretax salaries. No contributions were made to this plan by the Foundation.

The third plan is a supplemental retirement plan that covers highly compensated employees. Under the terms of the plan, the Foundation makes additional retirement contributions for employees who exceed regulatory thresholds related to pensionable earnings. The plan is currently invested in employee-designated mutual funds. The Foundation's contribution to the plan was \$17,250 (2013 - \$29,278).

The Edna McConnell Clark Foundation

Notes to Consolidated Financial Statements

Note 6. Commitments

The Foundation leases its office space and equipment under operating lease agreements that expire on various dates through November 2019. The office space lease contains an escalation clause which provides for rental increases resulting from increases in real estate taxes and certain other operating expenses. There are two five year options for the office space lease subsequent to the November 2019 expiration. These options were not considered for the below schedule. At September 30, 2014, the Foundation had the following aggregate minimum annual rental commitments, exclusive of escalation clauses, under these leases:

2015	\$	721,453
2016		717,192
2017		678,927
2018		678,927
Thereafter		678,927
	\$	<u>3,475,426</u>

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

Note 7. Concentration of Credit Risk

The majority of investment transactions of the Foundation are cleared and carried by the Bank of New York Mellon. In the event that this financial institution does not fulfill its obligation, the Foundation may be exposed to risk. The risk of default also depends on the creditworthiness of the counterparties to these transactions. The Foundation attempts to minimize this credit risk by monitoring the creditworthiness of the financial institution.

Supplementary Information

Edna McConnell Clark Foundation
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2014

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	<u>\$ 6,273,799</u>

The Edna McConnell Clark Foundation

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 consolidated 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	<u>\$ 5,064,232</u>



**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 and Subsidiary (the "Foundation"), which comprise the consolidated statements of financial position as of September 30, 2014, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 21, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated 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 a 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 consolidated financial statements are free from 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 the 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 21, 2015



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 and Subsidiary'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 on the Foundation's major federal program for the year ended September 30, 2014. 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 program 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Foundation's compliance.

Opinion on the 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, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular No. A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2014-001. Our opinion on the major federal program is not modified with respect to this matter.

The Foundation's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Foundation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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.



Chicago, Illinois
January 21, 2015

The Edna McConnell Clark Foundation

**Schedule of Findings and Questioned Costs
Year Ended September 30, 2014**

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 No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes No
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes 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 No

Identification of major programs:

<u>CFDA number</u>	<u>Name of federal program or cluster</u>
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? Yes No

The Edna McConnell Clark Foundation

**Schedule of Findings and Questioned Costs (Continued)
Year Ended September 30, 2014**

II. Financial Statement Findings

There were no internal control deficiencies identified and no compliance findings over the consolidated financial statements for fiscal year 2014.

III. Findings and Questioned Costs for Federal Awards

Finding 2014-001: Timely submission of financial reports

Criteria:

Per the Foundation's contract with the Corporation for National and Community Service, the Foundation is required to file progress reports quarterly and financial reports semi-annually.

Condition and context:

The Foundation is required to submit a total of ten reports each year, consisting of quarterly financial reports to the Department of Health and Human Services, quarterly progress reports to the Corporation for National and Community Service, and semi-annual financial reports to the Corporation for National and Community Service. We tested all of these reports for timely submission and found that both the mid-year and year-end semi-annual financial reports were late. All other reports were submitted by the deadline.

Cause and Effect:

The Foundation did not prioritize the timely submission of the semi-annual financial reports to the Corporation for National and Community Service ("CNCS"). This caused the Foundation to submit the semi-annual financial reports to CNCS five days after their due dates, which is not in compliance with the grant contract.

Recommendation:

We recommend that management submit the semi-annual financial reports to the CNCS timely.

Management Response:

We agree with the finding and recommendation. Though late reporting is not in compliance with the grant agreement, the Corporation has communicated that no action will be taken against the Foundation. We will ensure timely submission of all financial reports to the Corporation.

Summary Schedule of Prior Audit Findings

The Edna McConnell Clark Foundation

**Summary Schedule of Prior Audit Findings
Year Ended September 30, 2014**

I. Financial Statement Findings

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

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 2013.