

The Edna McConnell Clark Foundation

Reports Required By OMB Circular A-133 and
Government Auditing Standards
September 30, 2015

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Independent Auditor's Report

RSM US LLP

To the Board of Trustees
The Edna McConnell Clark Foundation

Report on the Financial Statements

We have audited the accompanying consolidated financial statements collectively, the financial statements, of The Edna McConnell Clark Foundation (the Foundation), which comprise the statements of financial position as of September 30, 2015 and 2014, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Edna McConnell Clark Foundation as of September 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 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 March 2, 2016 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.

RSM US LLP

Chicago, Illinois
March 2, 2016

The Edna McConnell Clark Foundation

Consolidated Statements of Financial Position
September 30, 2015 and 2014

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

See notes to consolidated financial statements.

The Edna McConnell Clark Foundation

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

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

See notes to consolidated financial statements.

The Edna McConnell Clark Foundation

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

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

See notes to consolidated financial statements.

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, New Partnership for Youth, LLC (subsequently known as Blue Meridian Partners). The LLC was established in 2014. The purpose of the LLC is to support the field of youth development.

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

Tax status: The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the Code) and, accordingly, is not subject to federal income taxes. However, in accordance with Section 4940(e) of the Code, the Foundation is subject to a federal excise tax of 2 percent of net investment income (including net realized taxable gains on security transactions) or of 1 percent if the Foundation meets certain specified distribution requirements. The Foundation was subject to a 1 percent tax for fiscal 2015 and 2014.

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

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

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

Social Innovation Funds: On July 22, 2010, the Corporation for National and Community Service (CNCS) awarded a \$10,000,000 grant to the Foundation to serve as an intermediary of the Social Innovation Fund (SIF). The award requires a dollar-for-dollar match from the Foundation. Grants were made to organizations that serve economically disadvantaged youth and were chosen in an open and competitive selection process.

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, 2015 and 2014, the Foundation incurred expenses and earned revenue related to the SIF of \$4,294,752 and \$6,098,163, respectively. SIF grant awards total \$30,000,000, of which \$1,240,324 is available to be earned and expended over the next two fiscal years.

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

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

There were no temporarily restricted net assets at September 30, 2015 and 2014.

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

Investments: Investments are carried at fair value based on either quoted prices or the observable inputs for similar instruments in active markets, or at approximate fair value, as determined by management, using the reported net asset value (NAV). Purchases and sales of securities are recorded on trade date.

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

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

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

Program-related investments: The Foundation loaned \$5,000,000 loan to a tax-exempt organization to support the organization's general operations, growth and capital needs. The note accrued interest at 1 percent, which was fully forgiven in fiscal 2015. Repayments of \$2,000,000 and \$3,000,000 were received in fiscal 2015 and 2014, respectively.

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

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

The Edna McConnell Clark Foundation

Notes to Consolidated Financial Statements

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

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

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

Awards and grants: Unconditional awards and grants, including multi-year grants, are considered obligations when approved by the Foundation's Board of Trustees, and are then recorded in the financial statements as a liability. Grants payable due on dates greater than one year in the future are recorded net of a present value discount. The Foundation does not reflect as liabilities the amount of future years' grant commitments if they are subject to the Foundation's review and approval and other contingencies to comply with grant requirements.

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

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

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

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

The Edna McConnell Clark Foundation

Notes to Consolidated Financial Statements

Note 2. Investments

Investments at September 30, 2015 and 2014 consist of:

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

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

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

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

The Foundation assesses the levels of financial instruments at each measurement date, and transfers between levels are recognized on the actual date of the event of change in circumstances that caused the transfer in accordance with the Foundation's accounting policy regarding recognition of transfers between levels of the fair value hierarchy. There were no significant transfers among Levels 1, 2, and 3 during the years ended September 30, 2015 and 2014.

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

The Edna McConnell Clark Foundation

Notes to Consolidated Financial Statements

Note 3. Fair Value Measurement (Continued)

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

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

	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>

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, 2013	\$ 182,153,230	\$ 240,643,904	\$ 76,775,210	\$ 499,572,344
Change in unrealized gains	19,511,733	12,915,350	2,664,286	35,091,369
Contributions to investments	7,000,000	44,926,361	2,800,000	54,726,361
Distributions received from investments	-	(24,697,666)	(6,770,000)	(31,467,666)
Balance, September 30, 2014	208,664,963	273,787,949	75,469,496	557,922,408
Change in unrealized gains	4,560,831	(8,309,544)	(2,605,973)	(6,354,686)
Contributions to investments	16,000,000	47,901,132	-	63,901,132
Distributions received from investments	(6,206,860)	(30,784,679)	-	(36,991,539)
Balance, September 30, 2015	<u>\$ 223,018,934</u>	<u>\$ 282,594,858</u>	<u>\$ 72,863,523</u>	<u>\$ 578,477,315</u>
Unrealized gains for investments held at September 30, 2015	<u>\$ 95,589,488</u>	<u>\$ 44,125,702</u>	<u>\$ 32,684,494</u>	<u>\$ 172,399,684</u>

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

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

The private equity partnerships report investments at fair value. The Foundation's share of its net assets and income or losses is recorded in the financial statements using the equity method of accounting. The Foundation has open commitments to make additional alternative investments of \$148,738,547 at September 30, 2015. Returned unused capital contributions to the Foundation may be recalled by the partnership and all distributions are subject to repayment to cover liabilities of the partnerships. As of September 30, 2015, this contingency amounted to \$30,245,816. Redemption periods for investment partnerships range from daily to nine years dependent on the various investment managers' terms and may be subject to other restrictions and penalties.

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.

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

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

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

Note 5. Retirement Plans

The Foundation maintains two defined contribution retirement plans. The first plan covers all active full-time employees. Under the terms of the plan, the Foundation must contribute specified percentages of an employee's salary and allows employees to defer a portion of their pre or post-tax salaries. The plan is currently invested in employee-designated mutual funds that have been approved by the Foundation. The Foundation's contribution to the plan was \$519,649 for fiscal year 2015 (2014 - \$470,345).

The second plan is a supplemental retirement plan that covers highly compensated employees. Under the terms of the plan, the Foundation makes additional retirement contributions for employees who exceed regulatory thresholds related to pensionable earnings. The plan is currently invested in employee-designated mutual funds. The Foundation's contribution to the plan was \$16,750 for fiscal year 2015 (2014 - \$17,250).

Note 6. Commitments

The Foundation leases its office space and equipment under operating lease agreements that expire on various dates through November 2019. The office space lease contains an escalation clause which provides for rental increases resulting from increases in real estate taxes and certain other operating expenses. The lease provides for two five-year renewal options. At September 30, 2015, the Foundation had the following aggregate minimum annual rental commitments under these leases:

2016	\$ 745,593
2017	707,328
2018	707,328
2019	707,328
	<u>\$ 2,867,577</u>

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

The Edna McConnell Clark Foundation

Notes to Consolidated Financial Statements

Note 7. Concentration of Credit Risk

The majority of investment transactions of the Foundation are cleared and carried by the Bank of New York Mellon. The Foundation is subject to risks that this financial institution does not fulfill its obligations. The risk of default also depends on the creditworthiness of the counterparties to these transactions. The Foundation attempts to minimize this credit risk by monitoring the creditworthiness of the financial institution.

Supplementary Information

Edna McConnell Clark Foundation
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2015

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>\$ 4,380,441</u>

See notes to schedule of expenditures of federal awards.

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. There were no federal awards expended for non-cash assistance or insurance for the year ended September 30, 2015.

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:

	<u>Federal CFDA Number</u>	<u>Provided to Subrecipients</u>
Corporation for National and Community Service Social Innovation Funds	94.019	<u>\$ 3,173,955</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

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), which comprise the consolidated statements of financial position as of September 30, 2015, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements collectively, the financial statements and have issued our report thereon dated March 2, 2016.

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 the 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 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 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 Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Chicago, Illinois
March 2, 2016

**Report on Compliance for Each Major Federal Program; and
Report on Internal Control Over Compliance**

Independent Auditor's Report

To the Board of Trustees
The Edna McConnell Clark Foundation

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 on the Foundation's major federal program for the year ended September 30, 2015. 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 program.

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 the 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, 2015.

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 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.

RSM US LLP

Chicago, Illinois
March 2, 2016

The Edna McConnell Clark Foundation

**Schedule of Findings and Questioned Costs
Year Ended September 30, 2015**

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, 2015**

II. Financial Statement Findings

There were no internal control deficiencies identified and no compliance findings related to the consolidated financial statements for fiscal year 2015.

III. Findings and Questioned Costs for Federal Awards

There were no internal control deficiencies identified and no compliance findings related to the federal awards identified for fiscal year 2015.

Summary Schedule of Prior Audit Findings

The Edna McConnell Clark Foundation

**Summary Schedule of Prior Audit Findings
Year Ended September 30, 2015**

I. Financial Statement Findings

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

II. Finding and Questioned Costs for Federal Awards

Finding 2014-001: Timely submission of financial reports

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 (the Corporation), and semi-annual financial reports to the Corporation. We tested all of these reports for timely submission and found that both the mid-year and year-end semi-annual financial reports were submitted to the Corporation five days after their due date, which is not in compliance with the grant contract. All other reports were submitted by the deadline.

Corrective action taken:

The Foundation ensured timely submission of all financial reports to the Corporation. Our testing did not reveal any late report submissions.