

The Edna McConnell Clark Foundation

Reports Required by OMB Circular A-133 and
Government Auditing Standards
September 30, 2012

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Independent Auditor's Report

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

We have audited the accompanying statements of financial position of The Edna McConnell Clark Foundation (Foundation) as of September 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Edna McConnell Clark Foundation as of September 30, 2012 and 2011, and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3, the financial statements include alternative investments valued at \$352,453,023 (41 percent of net assets) as of September 30, 2012 and \$244,509,773 (29 percent of net assets) as of September 30, 2011, whose fair values have been estimated 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.

In accordance with *Government Auditing Standards*, we have also issued our reports, dated February 19, 2013 and June 26, 2012, on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended September 30, 2012, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

McGladrey LLP

Chicago, Illinois
February 19, 2013

The Edna McConnell Clark Foundation

Statements of Financial Position

September 30, 2012 and 2011

	2012	2011
Assets		
Cash and cash equivalents	\$ 28,926,216	\$ 31,783,644
Interest, dividends and other receivables	1,548,932	2,826,000
Investments, at fair value	834,547,491	792,388,823
Program-related investment	5,000,000	-
Other assets	3,822,774	3,936,225
Leasehold improvements, furniture, equipment and software, at cost, net of accumulated depreciation and amortization of \$877,555 in 2012 and \$781,634 in 2011	<u>802,972</u>	<u>919,774</u>
	<u><u>\$ 874,648,385</u></u>	<u><u>\$ 831,854,466</u></u>
Liabilities and Unrestricted Net Assets		
Liabilities		
Grants payable	\$ 6,682,340	\$ 7,174,871
Deferred federal excise tax	3,457,178	2,023,561
Other liabilities	728,722	267,027
	<u>10,868,240</u>	<u>9,465,459</u>
Net Assets		
Unrestricted net assets	863,698,145	818,389,007
Temporarily restricted net assets	82,000	4,000,000
Total Net Assets	<u>863,780,145</u>	<u>822,389,007</u>
	<u><u>\$ 874,648,385</u></u>	<u><u>\$ 831,854,466</u></u>

See Notes to Financial Statements.

The Edna McConnell Clark Foundation

Statements of Activities

Years Ended September 30, 2012 and 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Investment return:						
Net realized gains	\$ 19,801,150	\$ -	\$ 19,801,150	\$ 19,971,091	\$ -	\$ 19,971,091
Net change in unrealized gains, net of deferred federal excise taxes	70,247,223	-	70,247,223	33,354,798	-	33,354,798
Interest and dividend income	2,797,842	-	2,797,842	4,472,738	-	4,472,738
	92,846,215	-	92,846,215	57,798,627	-	57,798,627
Investment management expenses	(3,137,667)	-	(3,137,667)	(3,477,662)	-	(3,477,662)
	89,708,548	-	89,708,548	54,320,965	-	54,320,965
Federal grant revenue	6,405,620	-	6,405,620	3,970,923	-	3,970,923
Co-investor contribution	-	2,000,000	2,000,000	-	4,000,000	4,000,000
Net assets released from restriction	5,918,000	(5,918,000)	-	-	-	-
	102,032,168	(3,918,000)	98,114,168	58,291,888	4,000,000	62,291,888
Program services:						
Grants awarded (grant payments made were \$53,119,883 in 2012 and \$40,744,757 in 2011)	48,373,646	-	48,373,646	37,194,829	-	37,194,829
Program and grant management expenses	6,530,685	-	6,530,685	5,508,184	-	5,508,184
	54,904,331	-	54,904,331	42,703,013	-	42,703,013
General management expenses	1,496,433	-	1,496,433	1,435,748	-	1,435,748
Federal excise taxes	322,266	-	322,266	225,456	-	225,456
	56,723,030	-	56,723,030	44,364,217	-	44,364,217
Change in net assets	45,309,138	(3,918,000)	41,391,138	13,927,671	4,000,000	17,927,671
Net assets:						
Beginning of year	818,389,007	4,000,000	822,389,007	804,461,336	-	804,461,336
End of year	\$ 863,698,145	\$ 82,000	\$ 863,780,145	\$ 818,389,007	\$ 4,000,000	\$ 822,389,007

See Notes to Financial Statements.

The Edna McConnell Clark Foundation

**Statements of Cash Flows
Years Ended September 30, 2012 and 2011**

	2012	2011
Cash Flows from Operating Activities		
Change in net assets	\$ 41,391,138	\$ 17,927,671
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	132,971	144,406
Deferred federal excise tax provision	1,433,617	680,710
Net realized gains	(19,801,150)	(19,971,091)
Net change in unrealized gains	(71,680,840)	(34,035,508)
Changes in:		
Interest, dividends and other receivables	1,277,068	(2,704,212)
Other assets	113,451	(3,389,583)
Grants payable	(492,531)	28,991
Other liabilities	461,695	57,486
Net cash used in operating activities	(47,164,581)	(41,261,130)
Cash Flows from Investing Activities		
Purchases of leasehold improvements, furniture, equipment and software	(16,169)	(74,394)
Purchases of investments	(69,972,868)	(78,704,190)
Proceeds from sales of investments	119,296,190	118,920,566
Program-related investment	(5,000,000)	-
Net cash provided by investing activities	44,307,153	40,141,982
Decrease in cash and cash equivalents	(2,857,428)	(1,119,148)
Cash and cash equivalents:		
Beginning of year	31,783,644	32,902,792
End of year	\$ 28,926,216	\$ 31,783,644

See Notes to Financial Statements.

The Edna McConnell Clark Foundation

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 2012 and 2011.

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, 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 2008.

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

On August 1, 2011 and August 2, 2012, CNCS awarded additional grants under the SIF. For the years ended September 30, 2012 and 2011, the Foundation earned revenue and incurred expenses related to the SIF of \$6,405,620 and \$3,970,923, respectively. Total SIF grants awarded as of September 30, 2012 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.

The Edna McConnell Clark Foundation

Notes to Financial Statements

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 \$82,000 at September 30, 2012 and \$4,000,000 at September 30, 2011 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 \$82,000 will be distributed to grantees in fiscal year 2013.

Cash and cash equivalents: The Foundation defines cash and cash equivalents as highly liquid investments with original maturities of 90 days or less which include cash equivalents held in investment managers' accounts that are temporarily uninvested.

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

Investment management expenses include fees paid directly to investment managers by the Foundation. Fees charged directly to mutual fund, hedge fund, and certain limited partnership investments are included in net realized and changes in unrealized gains.

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

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

Program-related investments: The Foundation had one program-related investment at September 30, 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 loan will accrue 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 consists of non-federal grant payments advanced by the Foundation to SIF grantees prior to grantees meeting required conditions.

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

The Edna McConnell Clark Foundation

Notes to Financial Statements

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.

Reclassification: Certain balances for the year ended September 30, 2011, have been reclassified to conform to the current year presentation with no effect on changes in net assets.

Recent accounting pronouncements: In May 2011, the FASB issued *Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS)*. The Accounting Standards Update (ASU) represents the converged guidance of the FASB and the International Accounting Standards Board (the Boards) on fair value measurement. The collective efforts of the Boards and their staffs have resulted in common requirements for measuring fair value and for disclosing the information about fair value measurements, including a consistent meaning of the term "fair value" and enhanced disclosures requirements for investments that do not have readily determinable fair values. The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. The amendments to the FASB Codification in this ASU are to be applied prospectively and are effective during interim and annual periods beginning after December 15, 2011. The Foundation is currently assessing the impact of this ASU on its future financial statements.

Note 2. Investments

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Fixed income securities				
(U.S. Government obligations)	\$ 32,741,189	\$ 34,150,443	\$ 29,723,106	\$ 31,085,943
Equity securities (fund of funds)	372,995,761	483,503,080	401,846,098	439,120,438
Hedge funds and private equity partnerships	255,942,254	316,893,968	259,632,506	322,182,442
	<u>\$ 661,679,204</u>	<u>\$ 834,547,491</u>	<u>\$ 691,201,710</u>	<u>\$ 792,388,823</u>

The Edna McConnell Clark Foundation

Notes to Financial Statements

Note 3. Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities recorded at fair value are categorized based upon the level of judgment associated with the inputs used to measure their value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. Under the fair value hierarchy, the inputs to valuation techniques are prioritized into the following levels:

Level 1. Inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets the Foundation has the ability to access at the measurement date.

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

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

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 such transfers for fiscal 2012 or 2011.

The following tables present the Foundation's fair value hierarchy for assets and liabilities measured at fair value as of September 30, 2012 and 2011, by level within the fair value hierarchy.

	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
	-	368,659,374	465,888,117	834,547,491
Cash and cash equivalents				
Money market fund	26,744,306	-	-	26,744,306
	<u>\$ 26,744,306</u>	<u>\$ 368,659,374</u>	<u>\$ 465,888,117</u>	<u>\$ 861,291,797</u>

The Edna McConnell Clark Foundation

Notes to Financial Statements

Note 3. Fair Value Measurement (Continued)

	2011			
	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
U.S. Government obligations	\$ -	\$ 31,085,943	\$ -	\$ 31,085,943
Alternative investments:				
Fund of funds - equities	-	304,601,585	134,518,853	439,120,438
Private equity partnerships	-	-	256,311,944	256,311,944
Hedge funds	-	-	65,870,498	65,870,498
	-	335,687,528	456,701,295	792,388,823
Cash and cash equivalents				
Money market fund	20,995,433	-	-	20,995,433
	<u>\$ 20,995,433</u>	<u>\$ 335,687,528</u>	<u>\$ 456,701,295</u>	<u>\$ 813,384,256</u>

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

Balance, October 1, 2010	\$ 412,918,296
Change in unrealized appreciation on investments	46,196,966
Contributions to investments	41,875,882
Distributions received from investments	(44,289,849)
Balance, September 30, 2011	<u>456,701,295</u>
Change in unrealized appreciation on investments	15,885,851
Contributions to investments	40,012,890
Distributions received from investments	(46,711,919)
Balance, September 30, 2012	<u>\$ 465,888,117</u>

As of September 30, 2012 and 2011, alternative investments consist of the following:

	Percent of Fair Value 2012	Percent of Fair Value 2011
Equity long/short funds	42%	40%
Private equity investments	30%	33%
Multi-strategy funds	19%	18%
Other	9%	9%
	<u>100%</u>	<u>100%</u>

The Edna McConnell Clark Foundation

Notes to Financial Statements

Note 3. Fair Value Measurement (Continued)

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 \$126,164,656 at September 30, 2012. Returned unused capital contributions may be recalled and all distributions are subject to repayment to cover liabilities of the partnerships. As of September 30, 2012, this contingency amounted to \$23,716,860. 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, 2012 totaled \$352,453,023 (2011 - \$244,509,773).

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:

	2012	2011
One year or less	\$ 5,659,083	\$ 5,404,116
One to three years	1,025,000	1,775,000
	6,684,083	7,179,116
Discount to reduce to present value (at risk free rate)	(1,743)	(4,245)
	<u>\$ 6,682,340</u>	<u>\$ 7,174,871</u>

The Foundation also had \$36,745,727 of contingent grant commitments that are not reflected as liabilities in the statements of financial position at September 30, 2012 (2011 - \$48,034,077).

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 2012 and 2011:

	2012	2011
Total conditional and unconditional grant commitments	\$ 37,025,643	\$ 69,350,031
Less conditional commitments from current year grants	(11,765,132)	(46,804,077)
Plus prior year conditional commitments met	23,110,633	14,000,000
Change in discount to present value	2,502	648,875
Grants as reflected in the statements of activities	<u>\$ 48,373,646</u>	<u>\$ 37,194,829</u>

The Edna McConnell Clark Foundation

Notes to Financial Statements

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 \$367,254 for fiscal year 2012 (2011 - \$323,372).

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

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 \$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. At September 30, 2012, the Foundation had the following aggregate minimum annual rental commitments, exclusive of escalation clauses, under these leases:

2013	\$ 670,739
2014	670,739
2015	672,830
2016	678,415
Thereafter	2,035,245
	<u>\$ 4,727,968</u>

Rent expense was \$619,500 for fiscal year 2012 (2011 - \$587,975).

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.

Note 8. Subsequent Events

Management of the Foundation evaluated subsequent events for potential recognition and/or disclosure through February 19, 2013, the date the financial statements were available to be issued. There are no subsequent events to disclose.

Supplementary Information

The Edna McConnell Clark Foundation

**Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012**

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>\$ 7,227,903</u>

The Edna McConnell Clark Foundation

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

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

Note 2. Amounts Provided to Subrecipients

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

	Federal CFDA Number	Amounts Provided to Subrecipients
Corporation for National and Community Service Social Innovation Funds	94.019	<u>\$ 7,155,633</u>



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

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

We have audited the financial statements of The Edna McConnell Clark Foundation (Foundation) as of and for the year ended September 30, 2012, and have issued our report thereon dated February 19, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

McGladrey LLP

Chicago, Illinois
February 19, 2013



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

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

Compliance

We have audited the compliance of The Edna McConnell Clark Foundation (Foundation) with the types of compliance requirements described in the *OMB Circular A-133, Compliance Supplement* that could have a direct and material effect on the Foundation's major federal program for the year ended September 30, 2012. The Foundation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Foundation's management. Our responsibility is to express an opinion on the Foundation's compliance based on our audit.

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

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

Internal Control Over Compliance

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

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

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

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

McGladrey LLP

Chicago, Illinois
February 19, 2013

The Edna McConnell Clark Foundation

**Schedule of Findings and Questioned Costs
Year Ended September 30, 2012**

I. Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Federal Awards

Internal control over major programs:

Material weaknesses identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weakness(es)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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Identification of major programs:

<u>CFDA Numbers</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 low-risk auditee?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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The Edna McConnell Clark Foundation

**Schedule of Prior Year Findings
Year Ended September 30, 2012**

II. Financial Statement Findings

None.

III. Finding and Questioned Costs for Federal Awards

None.

The Edna McConnell Clark Foundation

**Schedule of Prior Year Findings
Year Ended September 30, 2012**

There were no prior year findings.