Grant Thornton

Consolidated Financial Statements and Report of Independent Certified Public Accountants

Ounce of Prevention Fund

June 30, 2014 and 2013

Contents

Grant Thornton

Grant Thornton LLP
175 W Jackson Boulevard, 20th Floor
Chicago, IL 60604-2687

T 312.856.0200
F 312.565.4719
GrantThornton.com
linkd.in/GrantThorntonUS
twitter.com/GrantThorntonUS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Ounce of Prevention Fund

Report on the financial statements

We have audited the accompanying consolidated financial statements of Ounce of Prevention Fund (an Illinois not-for-profit organization) and subsidiaries (the Ounce), which comprise the consolidated statements of financial position as of June 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. Those standards require that we plan and perform the audit 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 Ounce'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 Ounce'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 financial position of Ounce of Prevention Fund and subsidiaries as of June 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.

Grant Thornton LLP

Chicago, Illinois
December 15, 2014

Ounce of Prevention Fund
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30,

ASSETS	2014 Ounce	2014 FFYF	2014 Bounce DC	2014 Eliminations	2014 Total	2013
CURRENT ASSETS						
Cash and cash equivalents	$ 5,889,562	$ 1,955,307	$ 1,051,111	$ -	$ 8,895,980	$ 12,210,878
Accounts receivable - governmental agencies and other	5,604,141	542	171,451	(193,853)	5,582,281	4,488,669
Pledges receivable, current	2,457,036	1,000,000	-	-	3,457,036	6,975,422
Deposits, prepaid expenses and other assets	186,701	80,778	-	-	267,479	130,877
Total current assets	14,137,440	3,036,627	1,222,562	(193,853)	18,202,776	23,805,846
INVESTMENTS						
Donor and Board designated	24,402,664	-	-	-	24,402,664	21,900,417
Other	2,221,817	-	-	-	2,221,817	2,142,383
Total investments	26,624,481	-	-	-	26,624,481	24,042,800
NOTE RECEIVABLE	-	-	10,700,070	-	10,700,070	10,700,070
PLEDGES RECEIVABLE, NET OF CURRENT PORTION	1,954,670	-	-	-	1,954,670	147,958
PROPERTY, PLANT AND EQUIPMENT, NET	6,482,615	17,244	-	-	6,499,859	6,800,940
TOTAL ASSETS	$ 49,199,206	$ 3,053,871	$ 11,922,632	$ (193,853)	$ 63,981,856	$ 65,497,614

LIABILITIES AND NET ASSETS

LIABILITIES AND NET ASSETS	2014 Ounce	2014 FFYF	2014 Bounce DC	2014 Eliminations	2014 Total	2013
LIABILITIES						
Current liabilities						
Accounts payable and accrued expenses	$ 5,389,837	$ 515,650	$ 146,026	$ (193,853)	$ 5,857,660	$ 6,123,168
Deferred revenue	484,987	-	-	-	484,987	363,669
Total current liabilities	5,874,824	515,650	146,026	(193,853)	6,342,647	6,486,837
Other liabilities	921,346	-	-	-	921,346	831,136
Total liabilities	6,796,170	515,650	146,026	(193,853)	7,263,993	7,317,973
NET ASSETS						
Unrestricted						
Undesignated	10,155,517	17,244	11,776,606	-	21,949,367	23,446,946
Board designated	5,350,972	-	-	-	5,350,972	4,818,840
	15,506,489	17,244	11,776,606	-	27,300,339	28,265,786
Temporarily restricted	12,043,767	2,520,977	-	-	14,564,744	15,064,575
Permanently restricted	14,852,780	-	-	-	14,852,780	14,849,280
Total net assets	42,403,036	2,538,221	11,776,606	-	56,717,863	58,179,641
TOTAL LIABILITIES AND NET ASSETS	$ 49,199,206	$ 3,053,871	$ 11,922,632	$ (193,853)	$ 63,981,856	$ 65,497,614

The accompanying notes are an integral part of these statements.

Ounce of Prevention Fund
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended June 30, 2014

	Ounce				FFYF			Bounce DC			Total			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue and other support														
Grants														
State of Illinois Department of Human Services														
Division of Community Health and Prevention	$ 11,659,680	$ -	$ -	$ 11,659,680	$ -	$ -	$ -	$ -	$ -	$ -	$ 11,659,680	$ -	$ -	$ 11,659,680
Bureau of Child Care and Development	616,906	-	-	616,906	-	-	-	-	-	-	616,906	-	-	616,906
State of Illinois State Board of Education	1,767,090	-	-	1,767,090	-	-	-	-	-	-	1,767,090	-	-	1,767,090
State of Illinois Department of Children and Family Services	10,595	-	-	10,595	-	-	-	-	-	-	10,595	-	-	10,595
State of Illinois National Governors Association	25,000	-	-	25,000	-	-	-	-	-	-	25,000	-	-	25,000
U.S. Department of Health and Human Services	14,095,775	-	-	14,095,775	-	-	-	-	-	-	14,095,775	-	-	14,095,775
U.S. Department of Education	1,038,309	-	-	1,038,309	-	-	-	-	-	-	1,038,309	-	-	1,038,309
U.S. Department of Agriculture	120,489	-	-	120,489	-	-	-	-	-	-	120,489	-	-	120,489
Chicago Public Schools	1,791,858	-	-	1,791,858	-	-	-	-	-	-	1,791,858	-	-	1,791,858
Contributions														
Corporations, foundations and trusts	1,788,009	7,943,433	3,500	9,734,942	-	4,050,000	4,050,000	-	-	-	1,788,009	11,993,433	3,500	13,784,942
Individuals	533,345	2,539,205	-	3,072,550	-	-	-	-	-	-	533,345	2,539,205	-	3,072,550
Loss on uncollectible pledges receivable	(7,000)	-	-	(7,000)	-	-	-	-	-	-	(7,000)	-	-	(7,000)
Investment return, other revenue and gains/losses	1,912,203	2,699,644	-	4,611,847	-	-	-	107,001	3,818	110,819	2,019,204	2,703,462	-	4,722,666
Donated service/in-kind	716,288	-	-	716,288	-	-	-	-	-	-	716,288	-	-	716,288
Net assets released from restrictions	12,608,820	(12,608,820)	-	-	4,861,804	(4,861,804)	-	265,307	(265,307)	-	17,735,931	(17,735,931)	-	-
Total revenue and other support	48,677,367	573,462	3,500	49,254,329	4,861,804	(811,804)	4,050,000	372,308	(261,489)	110,819	53,911,479	(499,831)	3,500	53,415,148
Expenses														
Direct program services														
Child and Family Support Services	8,326,081	-	-	8,326,081	-	-	-	-	-	-	8,326,081	-	-	8,326,081
Illinois Birth to Three Institute	1,691,068	-	-	1,691,068	-	-	-	-	-	-	1,691,068	-	-	1,691,068
Illinois Policy	1,145,131	-	-	1,145,131	-	-	-	-	-	-	1,145,131	-	-	1,145,131
Research	1,375,437	-	-	1,375,437	-	-	-	-	-	-	1,375,437	-	-	1,375,437
Educare Learning Network	2,346,404	-	-	2,346,404	-	-	-	-	-	-	2,346,404	-	-	2,346,404
Ounce National Training Institute	3,669,916	-	-	3,669,916	-	-	-	-	-	-	3,669,916	-	-	3,669,916
National Consultation	1,308,707	-	-	1,308,707	-	-	-	-	-	-	1,308,707	-	-	1,308,707
Special projects/program innovations	4,356,130	-	-	4,356,130	-	-	-	-	-	-	4,356,130	-	-	4,356,130
Total direct program services	24,218,874	-	-	24,218,874	-	-	-	-	-	-	24,218,874	-	-	24,218,874
Subcontracted program services	17,115,642	-	-	17,115,642	-	-	-	-	-	-	17,115,642	-	-	17,115,642
First Five Years Fund	-	-	-	-	4,302,774	-	4,302,774	-	-	-	4,302,774	-	-	4,302,774
Bounce DC	-	-	-	-	-	-	-	1,994,588	-	1,994,588	1,994,588	-	-	1,994,588
Total program services	41,334,516	-	-	41,334,516	4,302,774	-	4,302,774	1,994,588	-	1,994,588	47,631,878	-	-	47,631,878
Supporting services														
General and administrative activities	5,122,809	-	-	5,122,809	568,947	-	568,947	-	-	-	5,691,756	-	-	5,691,756
Fund-raising	1,553,292	-	-	1,553,292	-	-	-	-	-	-	1,553,292	-	-	1,553,292
Total supporting services	6,676,101	-	-	6,676,101	568,947	-	568,947	-	-	-	7,245,048	-	-	7,245,048
Total expenses	48,010,617	-	-	48,010,617	4,871,721	-	4,871,721	1,994,588	-	1,994,588	54,876,926	-	-	54,876,926
CHANGE IN NET ASSETS	666,750	573,462	3,500	1,243,712	(9,917)	(811,804)	(821,721)	(1,622,280)	(261,489)	(1,883,769)	(965,447)	(499,831)	3,500	(1,461,778)
Net assets at beginning of year	14,839,739	11,470,305	14,849,280	41,159,324	27,161	3,332,781	3,359,942	13,398,886	261,489	13,660,375	28,265,786	15,064,575	14,849,280	58,179,641
Net assets at end of year	$ 15,506,489	$ 12,043,767	$ 14,852,780	$ 42,403,036	$ 17,244	$ 2,520,977	$ 2,538,221	$ 11,776,606	$ -	$ 11,776,606	$ 27,300,339	$ 14,564,744	$ 14,852,780	$ 56,717,863

The accompanying notes are an integral part of this statement.

Ounce of Prevention Fund
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended June 30, 2013

	Ounce				FFYF			Bounce DC			Total			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue and other support														
Grants														
State of Illinois Department of Human Services														
Division of Community Health and Prevention	$ 11,747,662	$ -	$ -	$ 11,747,662	$ -	$ -	$ -	$ -	$ -	$ -	$ 11,747,662	$ -	$ -	$ 11,747,662
Bureau of Child Care and Development	583,420	-	-	583,420	-	-	-	-	-	-	583,420	-	-	583,420
State of Illinois State Board of Education	1,837,251	-	-	1,837,251	-	-	-	-	-	-	1,837,251	-	-	1,837,251
State of Illinois Department of Children and Family Services	6,413	-	-	6,413	-	-	-	-	-	-	6,413	-	-	6,413
U.S. Department of Health and Human Services	13,978,153	-	-	13,978,153	-	-	-	-	-	-	13,978,153	-	-	13,978,153
U.S. Department of Education	1,103,065	-	-	1,103,065	-	-	-	-	-	-	1,103,065	-	-	1,103,065
U.S. Department of Agriculture	121,915	-	-	121,915	-	-	-	-	-	-	121,915	-	-	121,915
Chicago Public Schools	1,819,858	-	-	1,819,858	-	-	-	-	-	-	1,819,858	-	-	1,819,858
Contributions														
Corporations, foundations and trusts	1,423,390	10,118,431	35,053	11,576,874	-	4,529,606	4,529,606	-	417,314	417,314	1,423,390	15,065,351	35,053	16,523,794
Individuals	620,253	50,100	-	670,353	-	-	-	-	-	-	620,253	50,100	-	670,353
Loss on uncollectible pledges receivable	-	-	(105,000)	(105,000)	-	-	-	-	-	-	-	-	(105,000)	(105,000)
Investment return, other revenue and gains/losses	1,260,416	1,693,475	-	2,953,891	-	-	-	318,838	5,920	324,758	1,579,254	1,699,395	-	3,278,649
Donated service/in-kind	324,185	-	-	324,185	-	-	-	-	-	-	324,185	-	-	324,185
Net assets released from restrictions	11,624,127	(11,624,127)	-	-	3,530,204	(3,530,204)	-	2,563,516	(2,563,516)	-	17,717,847	(17,717,847)	-	-
Total revenue and other support	46,450,108	237,879	(69,947)	46,618,040	3,530,204	999,402	4,529,606	2,882,354	(2,140,282)	742,072	52,862,666	(903,001)	(69,947)	51,889,718
Expenses														
Direct program services														
Child and Family Support Services	7,739,025	-	-	7,739,025	-	-	-	-	-	-	7,739,025	-	-	7,739,025
Illinois Birth to Three Institute	1,759,589	-	-	1,759,589	-	-	-	-	-	-	1,759,589	-	-	1,759,589
Illinois Policy	1,293,154	-	-	1,293,154	-	-	-	-	-	-	1,293,154	-	-	1,293,154
Research	1,442,924	-	-	1,442,924	-	-	-	-	-	-	1,442,924	-	-	1,442,924
Educare Learning Network	2,791,662	-	-	2,791,662	-	-	-	-	-	-	2,791,662	-	-	2,791,662
Ounce National Training Institute	3,045,333	-	-	3,045,333	-	-	-	-	-	-	3,045,333	-	-	3,045,333
National Consultation	1,774,131	-	-	1,774,131	-	-	-	-	-	-	1,774,131	-	-	1,774,131
Special projects/program innovations	2,933,529	-	-	2,933,529	-	-	-	-	-	-	2,933,529	-	-	2,933,529
Total direct program services	22,779,347	-	-	22,779,347	-	-	-	-	-	-	22,779,347	-	-	22,779,347
Subcontracted program services	16,634,113	-	-	16,634,113	-	-	-	-	-	-	16,634,113	-	-	16,634,113
First Five Years Fund	-	-	-	-	3,064,686	-	3,064,686	-	-	-	3,064,686	-	-	3,064,686
Bounce DC	-	-	-	-	-	-	-	2,702,847	-	2,702,847	2,702,847	-	-	2,702,847
Total program services	39,413,460	-	-	39,413,460	3,064,686	-	3,064,686	2,702,847	-	2,702,847	45,180,993	-	-	45,180,993
Supporting services														
General and administrative activities	5,472,509	-	-	5,472,509	469,675	-	469,675	-	-	-	5,942,184	-	-	5,942,184
Fund-raising	1,287,245	-	-	1,287,245	-	-	-	-	-	-	1,287,245	-	-	1,287,245
Total supporting services	6,759,754	-	-	6,759,754	469,675	-	469,675	-	-	-	7,229,429	-	-	7,229,429
Total expenses	46,173,214	-	-	46,173,214	3,534,361	-	3,534,361	2,702,847	-	2,702,847	52,410,422	-	-	52,410,422
CHANGE IN NET ASSETS	276,894	237,879	(69,947)	444,826	(4,157)	999,402	995,245	179,507	(2,140,282)	(1,960,775)	452,244	(903,001)	(69,947)	(520,704)
Net assets at beginning of year	14,562,845	11,232,426	14,919,227	40,714,498	31,318	2,333,379	2,364,697	13,219,379	2,401,771	15,621,150	27,813,542	15,967,576	14,919,227	58,700,345
Net assets at end of year	$ 14,839,739	$ 11,470,305	$ 14,849,280	$ 41,159,324	$ 27,161	$ 3,332,781	$ 3,359,942	$ 13,398,886	$ 261,489	$ 13,660,375	$ 28,265,786	$ 15,064,575	$ 14,849,280	$ 58,179,641

The accompanying notes are an integral part of this statement.

Ounce of Prevention Fund
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30,

	2014	2013
Cash flows from operating activities		
Change in net assets	$ (1,461,778)	$ (520,704)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation	594,352	610,737
In-kind contribution related to capital lease of building	-	342,361
In-kind contribution of furniture and equipment	-	268,844
Net realized gains on sales of investments	(431,053)	(681,759)
Net unrealized gains on investments	(2,515,559)	(879,780)
Contributions restricted for permanent investment	(3,500)	(35,053)
Decrease in accounts and pledges receivable	546,061	2,303,621
(Increase) decrease in deposits, prepaid expenses and other assets	(136,603)	436,369
Increase (decrease) in accounts payable and accrued expenses	(297,008)	(973,830)
Increase in other liabilities and deferred revenue	211,529	86,998
Net cash (used in) provided by operating activities	(3,493,559)	957,804
Cash flows from investing activities		
Issuance of note receivable	-	(10,700,070)
Proceeds from capital lease of building	-	12,700,000
Purchases of property and equipment	(261,771)	(925,759)
Proceeds from sales of investments	960,463	903,563
Purchases of investments	(595,531)	(980,574)
Net cash provided by investing activities	103,161	997,160
Cash flows from financing activities		
Proceeds from contributions restricted for investment in endowment	75,500	352,000
Net cash provided by financing activities	75,500	352,000
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,314,898)	2,306,964
Cash and cash equivalents at beginning of year	12,210,878	9,903,914
Cash and cash equivalents at end of year	$ 8,895,980	$ 12,210,878
Fixed asset additions included in accounts payable as of June 30	$ 98,031	$ 66,531

The accompanying notes are an integral part of these statements.

NOTE A - GENERAL

The Ounce of Prevention Fund (the Ounce) helps low-income children unlock their fullest potential by putting early learning theory into practice with the organization's team of strategic experts and its comprehensive pregnancy to birth-to-five approach. The Ounce's mission is to give children in poverty the best chance for success in school and in life by advocating for and providing the highest quality care and education from birth to age five.

The Ounce has made tremendous gains since its founding in 1982, and has built deep expertise in program, training, policy and research, making the organization a national voice for high-quality birth-to-five programs that serve low-income children and families. The Ounce uses three complementary approaches:

- Creating and supporting direct programs that provide research-based early learning solutions that work for children from birth to age five and pregnant women;
- Developing, educating and coaching practitioners to provide more children with high-quality early education; and
- Advocating and influencing policymakers, business leaders and the public at large to act and ultimately create systemic change.

The Ounce partners with parents and communities to annually promote the healthy development of more than 25,000 infants, toddlers and preschool children, plus millions more nationwide through its advocacy and systems-building efforts. The Ounce provides family-focused, community-based direct services to more than 4,000 Illinois children from birth to age five and families through Early Head Start and Head Start programs in Chicago's Grand Boulevard community and throughout the city and surrounding counties, as well as across its statewide network of voluntary home visiting programs; conducts specialized training for early childhood professionals working in community agencies throughout Illinois and nationwide; researches and evaluates its programs, and uses outcomes and assessment data to further refine its services; promotes best practices and disseminates lessons learned to inform the early childhood field; provides consultation on early childhood programs and policy to states nationwide; and advocates for public policy changes at the state and federal levels to better serve the needs of children and families in Illinois and across the country. Furthermore, the Ounce promotes and supports the successful implementation of Educare, a research-based, birth-to-five program model that prepares at-risk children for school. Currently, there are 20 operating Educare Schools in 12 states and the District of Columbia serving more than 3,000 young children and their families. The Ounce works in partnership to extend the lessons learned from Educare to inform broader program and policy efforts to improve access to high-quality early learning programs for children and families across the country.

The Ounce is principally supported by major local and national private philanthropies, the U.S. Department of Health and Human Services (DHHS), and the State of Illinois Department of Human Services. The Ounce uses private dollars to develop and implement innovative programs, and to encourage and leverage the wisest investment of available public funding resources.

The consolidated financial statements separately delineate the revenue and expenses for the First Five Years Fund (FFYF) and Bounce DC. FFYF, a limited liability company wholly owned and operated by the Ounce, was established in May 2007 to lead communications and advocacy efforts that will strengthen federal policies and practices to generate resources for quality early learning programs for at-risk children from birth to age five. As a limited liability company with a single member, FFYF is treated for federal income tax purposes as part of the Ounce and shares its 501(c)(3) status. FFYF is funded through restricted private donations. In

November 2009, Bounce DC, a 501(c)(3) supporting organization of the Ounce, was established with the purpose of developing and building Educare DC and funding the broader birth-to-five quality improvement efforts in the District of Columbia. Although Bounce DC and Educare DC are separate 501(c)(3) organizations, they are related parties. They share common representation on their respective boards. Bounce DC also has provided substantial support, financial, technical and managerial, to Educare DC.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and changes therein. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of these consolidated financial statements, cash equivalents are defined as short-term, highly liquid investments that have original maturities of three months or less and are readily convertible to known amounts of cash.

Property, Plant and Equipment

Purchases of individual fixed assets of $500 or greater are capitalized and depreciated. Fixed assets are recorded at purchased cost. Depreciation of building and renovation costs is provided over the expected minimum life of the asset (40 years and 15 years, respectively) using the straight-line method. Depreciation of furniture and equipment is provided over the estimated useful lives of the assets (five years) using the straight-line method. Depreciation expense was $594,352 and $610,737 for the years ended June 30, 2014 and 2013, respectively. Repairs are expensed as incurred.

If a fixed asset is purchased with funds provided by DHHS and is disposed of, the following procedures apply. If the program for which the equipment is acquired is still receiving support from DHHS, and if the DHHS awarding agency approves, the net proceeds from the sale of the asset may be used for allowable costs of that program. Otherwise, the net amount must be remitted to the DHHS awarding agency.

Investments

U.S. GAAP defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and specifies disclosure requirements for fair value measurements. Furthermore, the Ounce maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Ounce has the ability to access.

Level 2 - Inputs to the valuation methodology include the following:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Included in Level 3 are investments using a net asset value (NAV) per share, or its equivalent, that cannot be redeemed at NAV at or near the report date.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

However, the determination of what constitutes observable requires judgment by the Ounce's management. The Ounce's management considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by multiple, independent sources that are actively involved in the relevant market. The categorization of an investment within the fair value hierarchy is based on the pricing transparency of the investment and does not necessarily correspond to Ounce management's perceived risk of that investment.

Investment Valuation

The following is a description of the valuation methodologies used for investments measured at fair value.

Investments, other than cash equivalents and the limited partnership accounted for at cost, are reported at fair value. The fair value of investments with a readily determinable market value is based on the quoted market prices as of the close of the last business day of the year. The fair value of the Covenant Apartments Fund VII (Institutional) limited partnership is determined using the NAV, or its equivalent.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Ounce believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The 19.2% ownership of Multifamily Portfolio Limited Partnership (the Partnership) is accounted for under the cost method of accounting as the percentage of ownership does not give the Ounce significant influence over the Partnership and because fair value information is not available. This investment was not evaluated for impairment because no indicators of impairment were present.

Contributions

All contributions are considered to be available for the general programs of the Ounce unless specifically restricted by the donor.

Donor-restricted Gifts

Unconditional promises to give cash and other assets are reported as temporarily restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Unconditional pledges that are expected to be collected within one year are recorded based on estimated future cash flows. Unconditional pledges that are expected to be collected in more than one year are recorded at the present value of estimated cash flows. The discounts on those amounts are computed using a risk-adjusted interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue.

Pledges receivable are written off when they become uncollectible, which is determined based on the length of time the receivables are past due and the responsiveness of the donor.

Gifts In-kind and Contributed Services

Gifts in-kind used in the Ounce programs include free rent, equipment and donated goods distributed (e.g., clothing, furniture and foodstuffs). Contributed services represent services requiring specialized skills that the Ounce would typically purchase, such as legal and consulting services. Gifts in-kind and contributed services are recognized at their estimated fair values at date of receipt with an equal and offsetting amount in expenses in the consolidated statements of activities, resulting in no net impact on the change in net assets during the year.

The Ounce receives services from a large number of volunteers who give significant amounts of their time to fund-raising campaigns, various committees and programs. However, no amounts for these types of contributed services have been recognized in the consolidated financial statements because such services do not require specialized skills and there is no objective basis available to measure the value of such services.

Contributed services were $660,688 and $268,585 for the years ended June 30, 2014 and 2013, respectively. Contributed services in the Ounce programs include discounted consulting and legal fees, and donated salary from one staff member.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Permanently restricted net assets are composed of pledges receivable with a permanent restriction, as well as endowments, which represent resources subject to donor restrictions requiring that the principal be invested and maintained in perpetuity. The income generated from these funds is classified as temporarily restricted until appropriated for expenditure. For the years ended June 30, 2014 and 2013, the Ounce did not have any earnings on permanently restricted net assets that were subject to donor restrictions regarding purpose.

Temporarily restricted net assets represent resources that are temporarily restricted by the donor. Net assets released from restriction represent amounts released from time restriction or spent on restricted purposes.

Unrestricted net assets represent resources available for support of daily operations and contributions received for which there are no donor-imposed stipulations or time restrictions. Board-designated unrestricted net assets are assets that are earmarked for long-term investment by the board of directors.

Income Taxes

The Ounce and Bounce DC have received favorable determination letters from the Internal Revenue Service stating that they are exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code of 1986, except for income taxes pertaining to unrelated business income. The Financial Accounting Standards Board issued guidance that requires tax effects from uncertain tax positions to be recognized in the consolidated financial statements only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. Management has determined there are no material uncertain tax positions that require recognition in the consolidated financial statements. The Ounce and Bounce DC have not accrued any provision for income taxes as the Ounce and Bounce DC have had no significant unrelated business income. There is no interest or penalties recognized in the consolidated statements of activities or consolidated statements of financial position. The tax years ended 2011, 2012, 2013 and 2014 are still open to audit for both federal and state purposes.

NOTE C - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following as of June 30:

	2014	2013
Furniture and equipment	$ 3,578,972	$ 4,108,660
Building and leasehold improvements	8,170,579	8,142,703
Total property, plant and equipment	11,749,551	12,251,363
Less accumulated depreciation	(5,249,692)	(5,450,423)
Property, plant and equipment, net	$ 6,499,859	$ 6,800,940

NOTE D - PROMISES TO GIVE AND ACCOUNTS RECEIVABLE

Included in pledges receivable are the following unconditional promises to give as of June 30:

	2014	2013
Corporations, foundations, individuals and trusts	$5,460,036	$7,125,422
Less unamortized discount	(48,330)	(2,042)
Net unconditional promises to give	$5,411,706	$7,123,380
Amounts due in		
Less than one year	$3,457,036	$6,975,422
One to five years	2,003,000	150,000
Total	$5,460,036	$7,125,422

Pledges at June 30, 2014 and 2013, were discounted using risk-adjusted interest rates ranging from 1.38% to 1.62%. The Ounce believes that the pledges shown above are fully collectible; therefore, an allowance for doubtful accounts is not necessary.

As of June 30, 2014, approximately 22% of accounts receivable were due from one federal agency, 25% from one state agency, 9% from one foundation and 7% from another foundation. As of June 30, 2013, approximately 21% of accounts receivable were due from one federal agency, 15% from one state agency, 23% from one foundation and 8% from another foundation.

The Ounce believes that the accounts receivable from governmental agencies are fully collectible; therefore, an allowance for doubtful accounts is not necessary.

NOTE E - NMTC NOTE RECEIVABLE

In September 2012, Bounce DC, as leverage lender, made a loan to Educare DC NMTC Investment Fund, LLC, a qualified equity investment fund involved in financing obtained through a New Markets Tax Credit (NMTC) transaction.

The loan has interest-only payments for seven years at a 1% rate, payable quarterly.

The equity investor of Educare DC NMTC Investment Fund, LLC can sell its ownership interest to Bounce DC for $1,000 at the end of year seven (put option). It is anticipated that this will happen, resulting in ownership of Educare DC NMTC Investment Fund, LLC by Bounce DC.

This action, in combination with other agreements, will essentially result in the forgiveness of the note. The amount of the note is $10,700,070 as of June 30, 2014 and 2013.

NOTE F - INVESTMENTS

Board-designated investments are composed of permanently restricted resources subject to donor restrictions requiring that the principal be invested and maintained, as well as a component of unrestricted funds designated for long-term investment by the board.

The composition of investments at June 30, 2014 and 2013, is summarized as follows:

	2014			2013		
	Board designated	Other	Total	Board designated	Other	Total
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ -	$ -
Publicly traded						
Money market funds	389,461	-	389,461	261,800	-	261,800
Equity securities	10,646,672	-	10,646,672	8,971,179	-	8,971,179
Mutual funds	11,786,225	-	11,786,225	11,153,067	-	11,153,067
Bonds	1,211,034	-	1,211,034	1,370,743	-	1,370,743
Supplemental employees' retirement plan (mutual funds)	-	462,807	462,807	-	383,373	383,373
Total publicly traded	24,033,392	462,807	24,496,199	21,756,789	383,373	22,140,162
Other investments						
Limited partnerships	369,272	1,759,010	2,128,282	143,628	1,759,010	1,902,638
Total	$24,402,664	$2,221,817	$26,624,481	$21,900,417	$2,142,383	$24,042,800

The composition of investment return is as follows for the years ended June 30:

	2014	2013
Interest and dividend income	$1,193,354	$1,198,841
Unrealized gains, net	2,515,559	879,780
Realized gains, net	431,053	681,759
Total investment return	4,139,966	2,760,380
Other revenue	582,700	287,113
Gains/losses	-	231,156
Total investment return, other revenue and gains/losses	$4,722,666	$3,278,649

Included in interest and dividend income are $669,504 and $563,904 in distributions from the cost method limited partnership for the years ended June 30, 2014 and 2013, respectively.

The following table sets forth by level, within the fair value hierarchy, the Ounce's financial instruments reported at fair value as of June 30, 2014:

	Level 1	Level 3	Total
Money market funds	$ 389,461	$ -	$ 389,461
Equity securities	10,646,672	-	10,646,672
Mutual funds	12,249,032	-	12,249,032
Bonds	1,211,034	-	1,211,034
Limited partnership	-	369,272	369,272
Total	$24,496,199	$369,272	$24,865,471

The following table sets forth by level, within the fair value hierarchy, the Ounce's financial instruments reported at fair value as of June 30, 2013:

	Level 1	Level 3	Total
Money market funds	$ 261,800	$ -	$ 261,800
Equity securities	8,971,179	-	8,971,179
Mutual funds	11,536,440	-	11,536,440
Bonds	1,370,743	-	1,370,743
Limited partnership	-	143,628	143,628
Total	$22,140,162	$143,628	$22,283,790

The following table summarizes the changes in fair value associated with Level 3 assets:

	Limited partnership
Balance as of June 30, 2012	$ -
Purchases	150,000
Unrealized losses	(6,372)
Balance as of June 30, 2013	143,628
Purchases	240,000
Unrealized losses	(14,356)
Balance as of June 30, 2014	$369,272

All net realized and unrealized losses in the table above are reflected in investment return in the accompanying consolidated statements of activities. Net unrealized gains (losses) relate to those investments held by the Ounce at year-end.

The following provides additional information about the investment recorded at NAV at June 30, 2014.

Covenant Apartment Fund VII (the Fund) acquires multi-family communities in Southeast and Mid-Atlantic States with the goal of completing value-add renovations and increasing operating income. The Fund is expected to make quarterly income distributions as the renovation programs are completed at the underlying communities. A typical hold period for each property is four to six years, though the Fund will seek to return a portion of investor capital earlier by refinancing stabilized assets. The Fund's valuation policy is to hold an asset at cost during the first year of ownership, and then assign a fair market value based on each asset's operating performance. At June 30, 2014, this limited partnership had a fair value of $369,272. The Fund's December 2013 financial statements were prepared in accordance with U.S. GAAP. At June 30, 2014, the Ounce had unfunded commitments of approximately $110,000 related to this investment. This amount is not reflected in the financial statements as a liability.

NOTE G - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets include gifts of cash and other assets for which donor-imposed restrictions have not yet been met and for which the ultimate purpose of the proceeds is not permanently restricted. Temporarily restricted net assets at June 30, 2014 and 2013, are available for the following purposes:

	2014	2013
Child and Family Support Services	$ 637,807	$ 847,864
Illinois Birth to Three Institute	122,868	117,931
Illinois Policy	317,897	715,510
Research	215,999	428,243
Educare Learning Network	898,774	5,102,956
Ounce National Training Institute	1,187,610	551,546
National Consultation	120,965	77,000
Special Projects/Program Innovation	3,351,407	608,428
First Five Years Fund	2,520,977	3,332,781
Time or other restricted	5,190,440	3,020,827
Bounce DC	-	261,489
Total	$14,564,744	$15,064,575

Permanently restricted net assets consisted of the following at June 30:

	2014	2013
Endowments	$14,636,249	$14,560,749
Pledges receivable	216,531	288,531
Total	$14,852,780	$14,849,280

NOTE H - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors for the years ended June 30, 2014 and 2013, as follows:

	2014	2013
Child and Family Support Services	$ 713,215	$ 820,205
Illinois Birth to Three Institute	15,337	4,560
Illinois Policy	794,542	796,898
Research	415,010	410,156
Educare Learning Network	4,643,994	3,926,209
Ounce National Training Institute	865,856	384,146
National Consultation	2,559,649	2,841,330
Special Projects/Program Innovation	1,252,180	821,652
First Five Years Fund	4,861,804	3,530,204
Time or other restricted	1,349,037	1,618,971
Bounce DC	265,307	2,563,516
Total	$17,735,931	$17,717,847

NOTE I - ENDOWMENT NET ASSETS

The Ounce's endowment consists of donor-restricted as well as board-designated endowment funds. Net assets associated with the Ounce's endowment funds are classified and reported based on the existence of donor-imposed restrictions.

The Ounce accounts for endowment net assets by preserving the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result, the Ounce classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the endowment fund. The Ounce considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund.
2. The purposes of the Ounce and the donor-restricted endowment fund.
3. General economic conditions.
4. The possible effects of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the Ounce.
7. The investment policies of the Ounce.

It is the policy of the Ounce to manage the endowment fund in a manner that will, at a minimum, preserve and maintain the real purchasing power of the principal while allowing for annual distributions to the operating budget. The Ounce has a board-approved distribution policy calculated annually as part of the organizational budget process. The decision to draw a distribution each year is at the discretion of the board. The Ounce's investment policies specify a diversified portfolio with ranges for each asset type and include maximum volatility parameters. The Ounce has an active Finance Committee that meets regularly to ensure that the objectives of the investment policy are being met, and that the strategies used to meet the objectives are in accordance with the investment policy.

The endowment net asset composition by type of fund as of June 30, 2014, is as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ -	$4,415,443	$14,636,249	$19,051,692
Board-designated endowment funds	5,350,972	-	-	5,350,972
Total	$5,350,972	$4,415,443	$14,636,249	$24,402,664

The changes in endowment net assets for the fiscal year ended June 30, 2014, are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$4,818,840	$2,520,828	$14,560,749	$21,900,417
Investment return				
Investment income	114,031	406,000	-	520,031
Net appreciation (realized and unrealized)	628,709	2,238,469	-	2,867,178
Contributions	-	-	75,500	75,500
Appropriation of endowment assets for expenditures of endowment funds	(210,608)	(749,854)	-	(960,462)
Endowment net assets, end of year	$5,350,972	$4,415,443	$14,636,249	$24,402,664

The endowment net asset composition by type of fund as of June 30, 2013, is as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ -	$2,520,828	$14,560,749	$17,081,577
Board-designated endowment funds	4,818,840	-	-	4,818,840
Total	$4,818,840	$2,520,828	$14,560,749	$21,900,417

The changes in endowment net assets for the fiscal year ended June 30, 2013, are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$4,551,844	$1,574,394	$14,208,749	$20,334,987
Investment return				
Investment income	138,308	490,267	-	628,575
Net appreciation (realized and unrealized)	327,503	1,160,916	-	1,488,419
Contributions	-	-	352,000	352,000
Appropriation of endowment assets for expenditures of endowment funds	(198,815)	(704,749)	-	(903,564)
Endowment net assets, end of year	$4,818,840	$2,520,828	$14,560,749	$21,900,417

NOTE J - COMMITMENTS

The Ounce leases office space under operating lease agreements with escalating rental payments. The leases generally provide that the Ounce pay for its share of real estate taxes and common area expenses. Rental expense was $1,397,261 and $1,241,748 for the years ended June 30, 2014 and 2013, respectively. Office leases expire during fiscal years 2014 through 2022 and require minimum annual lease payments as follows as of June 30, 2014:

Years ending June 30,	
2015	$ 979,306
2016	997,338
2017	1,015,382
2018	1,033,438
2019	992,646
Thereafter	2,381,170
Total	$7,399,280

The Ounce has a line-of-credit agreement with a bank in the amount of $6,000,000. No amounts were outstanding under this agreement as of June 30, 2014 and 2013. The interest rate is equal to the daily LIBOR rate plus 1.75% and the expiration date is March 24, 2015.

NOTE K - RETIREMENT PLANS

The Ounce began sponsoring a defined contribution 401(k) retirement plan (the Plan) in fiscal year 2000. Participants may elect to contribute a percentage of their salaries to the Plan. The Ounce contributed 3% of each participant's annual compensation to the Plan in 2014 and 2013. The Ounce recorded contributions of $401,962 and $354,373 during the years ended June 30, 2014 and 2013, respectively.

The Ounce began sponsoring a supplemental employees' retirement plan, an unfunded, non-qualified deferred compensation plan, in fiscal year 2004. The Ounce did not make contributions to this Plan in 2014 and 2013.

NOTE L - EDUCARE CHICAGO BUILDING

During fiscal year 2000, the Ounce commenced the operation of an early childhood education facility located in Chicago, Illinois.

Pursuant to an agreement dated April 1, 1998, with the Chicago School Reform Board of Trustees on behalf of the Board of Education of the City of Chicago (the Board of Education), the title to the facility was transferred from the Ounce to the Board of Education. Simultaneously, the Ounce entered into an operating lease with the Board of Education for the property for a term of 99 years, with a nominal rent payable per year. The Ounce considers the cost of construction of the building to be leasehold improvements.

The Ounce depreciates the leasehold improvements cost over 40 years, the estimated useful life of the building, and the related expense is included in total depreciation expense. Donated rent by the Board of Education is recorded in the consolidated statements of activities as a gift in-kind, with an offsetting amount to rent expense. Contributed rent was approximately $55,600 for the years ended June 30, 2014 and 2013.

NOTE M - CREDIT RISK

The Ounce maintained its cash in bank accounts, which at times exceeded federally insured limits during the years ended June 30, 2014 and 2013. The Ounce did not experience any losses in such accounts during this period and believes it is not exposed to any significant credit risk.

NOTE N - RELATED PARTIES

Donations to the Ounce from members of the board of directors were $1,136,387 and $563,711 for the years ended June 30, 2014 and 2013, respectively.

In September 2012, Bounce DC, as a leverage lender, and Educare DC, as program operator, were part of an NMTC transaction that resulted in approximately $3,000,000 in support for the Educare DC program. As part of this transaction, the newly constructed Educare DC building was leased to Educare DC through a capital lease in exchange for a payment of $12,700,000. As a part of this transaction, Bounce DC also made an in-kind gift to Educare DC of approximately $500,000 of furniture and equipment. See note P for further information.

NOTE O - RECONCILIATION OF SF-425 WITH AUDIT REPORT

The following table reconciles the federal share of net outlays on the SF-425 with the audit report:

Amounts on the schedule of expenditures of federal awards for 05CH6100/29 for the year ended June 30, 2013	$ 6,972,566
Amounts on the schedule of expenditures of federal awards for 05CH6100/29 for the year ended June 30, 2014	6,190,643
Total federal share of net outlays on SF-425 for the year ended December 31, 2013	$13,163,209

NOTE P - CAPITAL LEASE AND IN-KIND CONTRIBUTION

In October 2010, Bounce DC entered into a lease with the District of Columbia for land to be used for educational purposes, including the construction and operation of a facility, to include early childhood education. The lease is a 99-year lease at $1 per year and cannot be subleased without permission of the lessor.

In August 2012, Bounce DC entered into a sublease with Educare DC for the land mentioned above as well as a newly constructed building. The lease is a non-cancelable lease for 65 years, requiring a single up-front payment of $12,700,000. The land and building are required to be used solely for educational purposes, including the construction and operation of a facility, to include early childhood education. Since the lease of the building was essentially a sale at the time the sublease was signed, the building was removed from the Bounce DC books, where it had been capitalized in the amount of $13,042,361. This is considered fair value as the construction of the building had just been completed at the time the sublease was signed.

As Bounce DC is acting as an agent between the District of Columbia and Educare DC, and since the lease of the building is passed through to Educare DC, no amounts related to the lease and sublease are recorded in the financial statements. It was never intended that Bounce DC keep, use or benefit from the contributed land.

A required part of the NMTC transaction was a $500,000 contribution of furniture, fixtures and equipment (FFE) already invested in the Educare center from Bounce DC to Educare DC.

Details of the transaction were as follows:

Cash received	$ 12,700,000
Fair value of leased building	(13,042,361)
Fair value of in-kind FFE contributed	(500,000)
Contribution expense recorded	$ (842,361)

NOTE Q - SUBSEQUENT EVENTS

The Ounce evaluated its June 30, 2014, consolidated financial statements for subsequent events through December 15, 2014, the date the consolidated financial statements were available to be issued. The Ounce is not aware of any subsequent events that would require recognition or disclosure in the financial statements.