Grant Thornton

Consolidated Financial Statements and Report of Independent Certified Public Accountants

Ounce of Prevention Fund

June 30, 2015 and 2014

Contents

Grant Thornton

Grant Thornton LLP
Grant Thornton Tower
171 N. Clark Street, Suite 200
Chicago, IL 60601-3370

T +1 312 856 0200
F +1 312 565 4719
grantthornton.com

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, 2015 and 2014, 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, 2015 and 2014, 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 18, 2015

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

	2015					
ASSETS	Ounce	FFYF	Bounce DC	Eliminations	Total	2014
CURRENT ASSETS						
Cash and cash equivalents	$ 6,366,999	$ 2,560,385	$ 451,319	$ -	$ 9,378,703	$ 8,895,980
Accounts receivable - governmental agencies and other	5,189,541	-	26,750	(37,821)	5,178,470	5,582,281
Pledges receivable, current	5,312,948	1,250,000	-	-	6,562,948	3,457,036
Deposits, prepaid expenses and other assets	133,825	33,518	-	-	167,343	267,479
Total current assets	17,003,313	3,843,903	478,069	(37,821)	21,287,464	18,202,776
INVESTMENTS						
Donor and Board designated	23,115,531	-	-	-	23,115,531	24,402,664
Other	2,228,759	-	-	-	2,228,759	2,221,817
Total investments	25,344,290	-	-	-	25,344,290	26,624,481
NOTE RECEIVABLE	-	-	10,700,070	-	10,700,070	10,700,070
PLEDGES RECEIVABLE, NET OF CURRENT PORTION	10,769,344	1,795,906	-	-	12,565,250	1,954,670
PROPERTY, PLANT AND EQUIPMENT, NET	6,315,980	81,751	-	-	6,397,731	6,499,859
TOTAL ASSETS	$ 59,432,927	$ 5,721,560	$ 11,178,139	$ (37,821)	$ 76,294,805	$ 63,981,856
LIABILITIES AND NET ASSETS						
LIABILITIES						
Current liabilities						
Accounts payable and accrued expenses	$ 5,855,756	$ 828,313	$ 91,321	$ (37,821)	$ 6,737,569	$ 5,857,660
Deferred revenue	473,948	-	-	-	473,948	484,987
Total current liabilities	6,329,704	828,313	91,321	(37,821)	7,211,517	6,342,647
Other liabilities	922,487	1,979	-	-	924,466	921,346
Total liabilities	7,252,191	830,292	91,321	(37,821)	8,135,983	7,263,993
NET ASSETS						
Unrestricted						
Undesignated	9,880,797	81,750	11,086,818	-	21,049,365	21,949,367
Board designated	5,067,694	-	-	-	5,067,694	5,350,972
	14,948,491	81,750	11,086,818	-	26,117,059	27,300,339
Temporarily restricted	22,369,465	4,809,518	-	-	27,178,983	14,564,744
Permanently restricted	14,862,780	-	-	-	14,862,780	14,852,780
Total net assets	52,180,736	4,891,268	11,086,818	-	68,158,822	56,717,863
TOTAL LIABILITIES AND NET ASSETS	$ 59,432,927	$ 5,721,560	$ 11,178,139	$ (37,821)	$ 76,294,805	$ 63,981,856

The accompanying notes are an integral part of these statements.

Ounce of Prevention Fund
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended June 30, 2015

	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 Family and Community Services	$ 12,944,839	$ -	$ -	$ 12,944,839	$ -	$ -	$ -	$ -	$ -	$ -	$ 12,944,839	$ -	$ -	$ 12,944,839
Bureau of Child Care and Development	555,661	-	-	555,661	-	-	-	-	-	-	555,661	-	-	555,661
Illinois State Board of Education	1,804,798	-	-	1,804,798	-	-	-	-	-	-	1,804,798	-	-	1,804,798
State of Illinois Department of Children and Family Services	17,188	-	-	17,188	-	-	-	-	-	-	17,188	-	-	17,188
U.S. Department of Health and Human Services	15,254,769	-	-	15,254,769	-	-	-	-	-	-	15,254,769	-	-	15,254,769
U.S. Department of Education	551,727	-	-	551,727	-	-	-	-	-	-	551,727	-	-	551,727
U.S. Department of Agriculture	123,618	-	-	123,618	-	-	-	-	-	-	123,618	-	-	123,618
Chicago Public Schools	1,901,538	-	-	1,901,538	-	-	-	-	-	-	1,901,538	-	-	1,901,538
Contributions														
Corporations, foundations and trusts	2,050,957	23,593,159	10,000	25,654,116	-	8,105,563	8,105,563	-	-	-	2,050,957	31,698,722	10,000	33,759,679
Individuals	756,483	474,670	-	1,231,153	-	-	-	-	-	-	756,483	474,670	-	1,231,153
Investment return and other revenue	830,521	(223,166)	-	607,355	-	-	-	108,164	-	108,164	938,685	(223,166)	-	715,519
Donated service/in-kind	644,288	-	-	644,288	-	-	-	-	-	-	644,288	-	-	644,288
Net assets released from restrictions	13,518,965	(13,518,965)	-	-	5,817,022	(5,817,022)	-	-	-	-	19,335,987	(19,335,987)	-	-
Total revenue and other support	50,955,352	10,325,698	10,000	61,291,050	5,817,022	2,288,541	8,105,563	108,164	-	108,164	56,880,538	12,614,239	10,000	69,504,777
Expenses														
Direct program services														
Child and Family Support Services	8,988,722	-	-	8,988,722	-	-	-	-	-	-	8,988,722	-	-	8,988,722
Illinois Birth to Three Institute	1,706,904	-	-	1,706,904	-	-	-	-	-	-	1,706,904	-	-	1,706,904
Illinois Policy	1,297,395	-	-	1,297,395	-	-	-	-	-	-	1,297,395	-	-	1,297,395
Research	1,358,963	-	-	1,358,963	-	-	-	-	-	-	1,358,963	-	-	1,358,963
Educare Learning Network	2,370,585	-	-	2,370,585	-	-	-	-	-	-	2,370,585	-	-	2,370,585
Ounce Institute	3,830,513	-	-	3,830,513	-	-	-	-	-	-	3,830,513	-	-	3,830,513
National Consultation	1,349,542	-	-	1,349,542	-	-	-	-	-	-	1,349,542	-	-	1,349,542
Advancing Center Based Quality	1,913,411	-	-	1,913,411	-	-	-	-	-	-	1,913,411	-	-	1,913,411
Special projects/program innovations	4,706,976	-	-	4,706,976	-	-	-	-	-	-	4,706,976	-	-	4,706,976
Total direct program services	27,523,011	-	-	27,523,011	-	-	-	-	-	-	27,523,011	-	-	27,523,011
Subcontracted program services	16,880,328	-	-	16,880,328	-	-	-	-	-	-	16,880,328	-	-	16,880,328
First Five Years Fund	-	-	-	-	5,141,458	-	5,141,458	-	-	-	5,141,458	-	-	5,141,458
Bounce DC	-	-	-	-	-	-	-	797,952	-	797,952	797,952	-	-	797,952
Total program services	44,403,339	-	-	44,403,339	5,141,458	-	5,141,458	797,952	-	797,952	50,342,749	-	-	50,342,749
Supporting services														
General and administrative activities	5,487,869	-	-	5,487,869	611,058	-	611,058	-	-	-	6,098,927	-	-	6,098,927
Fund-raising	1,622,142	-	-	1,622,142	-	-	-	-	-	-	1,622,142	-	-	1,622,142
Total supporting services	7,110,011	-	-	7,110,011	611,058	-	611,058	-	-	-	7,721,069	-	-	7,721,069
Total expenses	51,513,350	-	-	51,513,350	5,752,516	-	5,752,516	797,952	-	797,952	58,063,818	-	-	58,063,818
CHANGE IN NET ASSETS	(557,998)	10,325,698	10,000	9,777,700	64,506	2,288,541	2,353,047	(689,788)	-	(689,788)	(1,183,280)	12,614,239	10,000	11,440,959
Net assets at beginning 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
Net assets at end of year	$ 14,948,491	$ 22,369,465	$ 14,862,780	$ 52,180,736	$ 81,750	$ 4,809,518	$ 4,891,268	$ 11,086,818	$ -	$ 11,086,818	$ 26,117,059	$ 27,178,983	$ 14,862,780	$ 68,158,822

The accompanying notes are an integral part of this statement.

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
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 and other revenue	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 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 STATEMENTS OF CASH FLOWS
Years ended June 30,

	2015	2014
Cash flows from operating activities		
Change in net assets	$11,440,959	$ (1,461,778)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	624,870	594,352
Net realized gains on sales of investments	(4,651,947)	(431,053)
Net unrealized losses (gains) on investments	5,619,696	(2,515,559)
Contributions restricted for permanent investment	(10,000)	(3,500)
(Increase) Decrease in accounts and pledges receivable	(13,307,681)	546,061
Decrease (Increase) in deposits, prepaid expenses and other assets	100,136	(136,603)
Increase (decrease) in accounts payable and accrued expenses	921,444	(297,008)
(Decrease) Increase in other liabilities and deferred revenue	(7,919)	211,529
Net cash provided by (used in) operating activities	729,558	(3,493,559)
Cash flows from investing activities		
Purchases of property and equipment	(564,276)	(261,771)
Proceeds from sales of investments	929,834	960,463
Purchases of investments	(617,393)	(595,531)
Net cash (used in) provided by investing activities	(251,835)	103,161
Cash flows from financing activities		
Proceeds from contributions restricted for investment in endowment	5,000	75,500
Net cash provided by financing activities	5,000	75,500
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	482,723	(3,314,898)
Cash and cash equivalents at beginning of year	8,895,980	12,210,878
Cash and cash equivalents at end of year	$ 9,378,703	$ 8,895,980
Fixed asset additions included in accounts payable as of June 30	$ 56,497	$ 98,031

The accompanying notes are an integral part of these statements.

NOTE A - GENERAL

Since its founding in 1982, the Ounce of Prevention Fund (the Ounce) has worked 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. Ounce experts develop and support research-based early learning programs; educate and coach practitioners; and advocate with policymakers, business leaders and the public. This comprehensive approach addresses the systems-level change required for sustained impact on thousands of children and families.

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 21 operating Educare Schools in 13 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 $624,870 and $594,352 for the years ended June 30, 2015 and 2014, 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.

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 the 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) and the Weatherlow Offshore Fund 1 Ltd. limited partnerships are determined using net asset value (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 $588,688 and $660,688 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014, 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 (FASB) 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 2012, 2013 and 2014 are still open to audit for both federal and state purposes.

New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers,* which supersedes most of the current revenue recognition requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The guidance is currently effective for the Ounce for fiscal year 2020 (early adoption is not permitted). The guidance permits the use of either a retrospective or cumulative effect transition method. The adoption of ASU 2014-09 is not expected to have material impact on the Ounce's consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent),* which exempts investments measured using the NAV practical expedient in ASC 820, *Fair Value Measurement,* from categorization within the fair value hierarchy and related disclosures. This ASU requires presentation of the carrying amount of investments measured using the NAV practical expedient as a reconciling item between the total amount of investments categorized within the fair value hierarchy and total investments measured at fair value on the face of the financial statements. The ASU is effective for the Ounce for fiscal year 2018. However, early adoption is permitted, and the Ounce adopted the ASU for 2015, with retrospective application. The revised disclosures are included in note F to the consolidated financial statements.

NOTE C - PROPERTY, PLANT AND EQUIPMENT

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

	2015	2014
Furniture and equipment	$ 3,863,747	$ 3,578,972
Building and leasehold improvements	8,274,574	8,170,579
Total property, plant and equipment	12,138,321	11,749,551
Less accumulated depreciation	(5,740,590)	(5,249,692)
Property, plant and equipment, net	$ 6,397,731	$ 6,499,859

NOTE D - PLEDGES RECEIVABLE AND ACCOUNTS RECEIVABLE

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

	2015	2014
Corporations, foundations, individuals and trusts	$19,789,448	$5,460,036
Less unamortized discount	(661,250)	(48,330)
Net pledges receivable	$19,128,198	$5,411,706
Amounts due in		
Less than one year	$ 6,562,948	$3,457,036
One to five years	9,226,500	2,300,000
Five to 10 years	4,000,000	-
Total	$19,789,448	$5,460,036

Pledges at June 30, 2015 and 2014, were discounted using a risk-adjusted interest rate of 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, 2015, approximately 11% of accounts receivable were due from one federal agency, 8% from one state agency, 36% from one foundation and 18% from another foundation. 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.

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, 2015 and 2014.

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, 2015 and 2014, is summarized as follows:

	2015			2014		
	Board designated	Other	Total	Board designated	Other	Total
Publicly traded						
Money market funds	$ 104,801	$ -	$ 104,801	$ 389,461	$ -	$ 389,461
Equity securities	2,114,005	-	2,114,005	10,646,672	-	10,646,672
Mutual funds	15,338,934	-	15,338,934	11,786,225	-	11,786,225
Bonds	-	-	-	1,211,034	-	1,211,034
Supplemental employees' retirement plan (mutual funds)	-	469,749	469,749	-	462,807	462,807
Total publicly traded	17,557,740	469,749	18,027,489	24,033,392	462,807	24,496,199
Other investments						
Limited partnerships	5,557,791	1,759,010	7,316,801	369,272	1,759,010	2,128,282
Total	$23,115,531	$2,228,759	$25,344,290	$24,402,664	$2,221,817	$26,624,481

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

	2015	2014
Interest and dividend income	$ 1,029,620	$1,193,354
Unrealized (losses) gains, net	(5,619,696)	2,515,559
Realized gains, net	4,651,947	431,053
Total investment return	61,871	4,139,966
Other revenue	653,648	582,700
Total investment return and other revenue	$ 715,519	$4,722,666

Included in interest and dividend income are $416,064 and $669,504 in distributions from the cost method limited partnership for the years ended June 30, 2015 and 2014, 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, 2015:

	Level 1	Level 3	Total
Money market funds	$ 104,801	$ -	$ 104,801
Equity securities	2,114,005	-	2,114,005
Mutual funds	15,808,683	-	15,808,683
Subtotal	18,027,489	-	18,027,489
Limited partnerships measured at NAV	-	-	5,557,791
Total	$18,027,489	$ -	$23,585,280

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
Subtotal	24,496,199	-	24,496,199
Limited partnerships measured at NAV	-	-	369,272
Total	$24,496,199	$ -	$24,865,471

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 investments recorded at NAV at June 30, 2015.

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, 2015, this limited partnership had a fair value of $452,569. The Fund's December 2014 financial statements were prepared in accordance with U.S. GAAP. At June 30, 2015, the Ounce had unfunded commitments of approximately $30,000 related to this investment. This amount is not reflected in the consolidated financial statements as a liability.

The Weatherlow Fund I L.P. (Weatherlow) is a multi-strategy hedge fund of funds launched in October 2002 that seeks to achieve long-term returns commensurate with the long-term returns from a portfolio invested in the general equity markets, while experiencing volatility more like that of a portfolio invested in the general debt markets. Weatherlow expects to have 20 to 30 core hedge fund managers within its portfolio and has experienced typical annualized turnover in hedge fund managers of approximately 15% since inception. Weatherlow invests in hedge fund managers across four main sectors: Long-Short Equity, Event Driven, Relative Value and Global Asset Allocation. Based on Evanston Capital Management, LLC's subjective assessment of the hedge funds in Weatherlow's portfolio, the average exposure since inception to each sector as of November 1, 2015, was 53% to Long-Short Equity, 23% to Event Driven, 17% to Relative Value and 11% to Global Asset Allocation. At June 30, 2015, this limited partnership had a fair value of $5,105,222.

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, 2015 and 2014, are available for the following purposes:

	2015	2014
Child and Family Support Services	$ 600,747	$ 637,807
Illinois Birth to Three Institute	112,868	122,868
Illinois Policy	205,321	317,897
Research	253,015	215,999
Educare Learning Network	1,812,751	898,774
Ounce Institute	352,476	1,187,610
National Consultation	775,915	120,965
Special Projects/Program Innovation	142,533	369,923
First Five Years Fund	4,809,516	2,520,977
Time or other restricted	15,547,532	6,988,137
Advancing Center Based Quality	2,566,309	1,183,787
Total	$27,178,983	$14,564,744

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

	2015	2014
Endowments	$14,641,249	$14,636,249
Pledges receivable	221,531	216,531
Total	$14,862,780	$14,852,780

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, 2015 and 2014, as follows:

	2015	2014
Child and Family Support Services	$ 347,178	$ 713,215
Illinois Birth to Three Institute	15,610	15,337
Illinois Policy	733,596	794,542
Research	687,983	415,010
Educare Learning Network	1,387,154	4,643,994
Ounce Institute	929,186	865,856
National Consultation	4,608,241	2,559,649
Special Projects/Program Innovation	1,252,329	1,243,509
First Five Years Fund	5,817,022	4,861,804
Time or other restricted	2,371,087	1,349,037
Advancing Center Based Quality	1,186,601	8,671
Bounce DC	-	265,307
Total	$19,335,987	$17,735,931

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, 2015, is as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ 898,694	$3,406,588	$14,641,249	$18,946,531
Board-designated endowment funds	4,169,000	-	-	4,169,000
Total	$5,067,694	$3,406,588	$14,641,249	$23,115,531

The changes in endowment net assets for the fiscal year ended June 30, 2015, are as follows:

	Unrestricted	Temporarily Restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$5,350,972	$4,415,443	$14,636,249	$24,402,664
Investment return				
Investment income	134,257	478,136	-	612,393
Net depreciation (realized and unrealized)	(217,066)	(773,051)	-	(990,117)
Contributions	-	-	5,000	5,000
Appropriation of endowment assets for expenditures of endowment funds	(200,469)	(713,940)	-	(914,409)
Endowment net assets, end of year	$5,067,694	$3,406,588	$14,641,249	$23,115,531

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

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 $1,379,142 and $1,397,261 for the years ended June 30, 2015 and 2014, respectively. Office leases expire during fiscal years 2015 through 2022 and require minimum annual lease payments as follows as of June 30, 2015:

Years ending June 30,	
2016	$1,195,567
2017	1,217,603
2018	1,239,701
2019	1,203,004
2020	1,194,020
Thereafter	1,539,892
Total	$7,589,787

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, 2015 and 2014. The interest rate is equal to the daily LIBOR rate plus 1.75% and the expiration date is March 31, 2016.

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 2015 and 2014. The Ounce recorded contributions of $434,573 and $401,962 during the years ended June 30, 2015 and 2014, 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 2015 and 2014.

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 $55,600 for the years ended June 30, 2015 and 2014.

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, 2015 and 2014. 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 related parties were $12,159,321 and $2,136,387 for the years ended June 30, 2015 and 2014, 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 05CH6100/30 for the year ended June 30, 2014	$ 6,987,754
Amounts on the schedule of expenditures of federal awards for 05CH6100/30 for the year ended June 30, 2015	7,075,559
Total federal share of net outlays on SF-425 for the year ended December 31, 2014	$14,063,313

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 consolidated financial statements. It was never intended that Bounce DC keep, use or benefit from the contributed land.

NOTE Q - SUBSEQUENT EVENTS

The Ounce evaluated its June 30, 2015, consolidated financial statements for subsequent events through December 18, 2015, 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.

Notes to FY2015 Audited Financial Statements

With regard to our FY2015 financial statements, the Ounce uses the accrual basis of accounting, in which pledged revenue is booked in the year it is pledged, and the expenses are booked during the year they occur. There were private multi-year pledges that were booked in FY2015 for which expenses will be incurred in subsequent years.