Grant Thornton

Consolidated Financial Statements and Report of Independent Certified Public Accountants

Ounce of Prevention Fund

June 30, 2016 and 2015

Contents

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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, 2016 and 2015, 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, 2016 and 2015, 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 19, 2016

Ounce of Prevention Fund
CONSOLIDATED STATEMENT OF FINANCIAL POSITION WITH COMPARATIVE TOTALS FOR 2015
June 30,

	2016					
ASSETS	Ounce	FFYF	Bounce DC	Eliminations	Total	2015
CURRENT ASSETS						
Cash and cash equivalents	$ 8,434,567	$ 3,189,989	$ 244,454	$ -	$ 11,869,010	$ 9,378,703
Accounts receivable - governmental agencies and other	9,767,807	-	27,943	(1,193)	9,794,557	5,178,470
Pledges receivable, current	7,642,763	1,100,000	-	-	8,742,763	6,562,948
Deposits, prepaid expenses and other assets	197,411	40,479	-	-	237,890	167,343
Total current assets	26,042,548	4,330,468	272,397	(1,193)	30,644,220	21,287,464
INVESTMENTS						
Donor and Board designated	21,239,673	-	-	-	21,239,673	23,115,531
Other	2,046,295	-	-	-	2,046,295	2,228,759
Total investments	23,285,968	-	-	-	23,285,968	25,344,290
NOTE RECEIVABLE	-	-	10,700,070	-	10,700,070	10,700,070
PLEDGES RECEIVABLE, NET OF CURRENT PORTION	16,853,102	99,000	-	-	16,952,102	12,565,250
PROPERTY, PLANT AND EQUIPMENT, NET	7,228,122	100,183	-	-	7,328,305	6,397,731
TOTAL ASSETS	$ 73,409,740	$ 4,529,651	$ 10,972,467	$ (1,193)	$ 88,910,665	$ 76,294,805

LIABILITIES AND NET ASSETS	Ounce	FFYF	Bounce DC	Eliminations	Total	2015
LIABILITIES						
Current liabilities						
Accounts payable and accrued expenses	$ 8,733,179	$ 183,920	$ -	$ (1,193)	$ 8,915,906	$ 6,737,569
Deferred revenue	396,277	-	-	-	396,277	473,948
Total current liabilities	9,129,456	183,920	-	(1,193)	9,312,183	7,211,517
Other liabilities	719,827	5,389	-	-	725,216	924,466
Total liabilities	9,849,283	189,309	-	(1,193)	10,037,399	8,135,983
NET ASSETS						
Unrestricted						
Undesignated	11,237,703	100,183	10,972,467	-	22,310,353	21,049,365
Board designated	4,654,128	-	-	-	4,654,128	5,067,694
	15,891,831	100,183	10,972,467	-	26,964,481	26,117,059
Temporarily restricted	32,805,846	4,240,159	-	-	37,046,005	27,178,983
Permanently restricted	14,862,780	-	-	-	14,862,780	14,862,780
Total net assets	63,560,457	4,340,342	10,972,467	-	78,873,266	68,158,822
TOTAL LIABILITIES AND NET ASSETS	$ 73,409,740	$ 4,529,651	$ 10,972,467	$ (1,193)	$ 88,910,665	$ 76,294,805

The accompanying notes are an integral part of this statement.

Ounce of Prevention Fund
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended June 30, 2016

	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	$ 11,158,023	$ -	$ -	$ 11,158,023	$ -	$ -	$ -	$ -	$ -	$ -	$ 11,158,023	$ -	$ -	$ 11,158,023
Bureau of Child Care and Development	498,670	-	-	498,670	-	-	-	-	-	-	498,670	-	-	498,670
Illinois State Board of Education	1,950,009	-	-	1,950,009	-	-	-	-	-	-	1,950,009	-	-	1,950,009
State of Illinois Department of Children and Family Services	16,757	-	-	16,757	-	-	-	-	-	-	16,757	-	-	16,757
U.S. Department of Health and Human Services	15,094,331	-	-	15,094,331	-	-	-	-	-	-	15,094,331	-	-	15,094,331
U.S. Department of Education	11,541	-	-	11,541	-	-	-	-	-	-	11,541	-	-	11,541
U.S. Department of Agriculture	121,503	-	-	121,503	-	-	-	-	-	-	121,503	-	-	121,503
Chicago Public Schools	1,492,538	-	-	1,492,538	-	-	-	-	-	-	1,492,538	-	-	1,492,538
Contributions														
Corporations, foundations and trusts	1,892,952	25,147,003	-	27,039,955	-	3,651,152	3,651,152	-	-	-	1,892,952	28,798,155	-	30,691,107
Individuals	1,094,507	94,252	-	1,188,759	-	-	-	-	-	-	1,094,507	94,252	-	1,188,759
Investment return and other revenue	1,838,749	(500,820)	-	1,337,929	-	-	-	107,249	-	107,249	1,945,998	(500,820)	-	1,445,178
Donated service/in-kind	584,901	-	-	584,901	-	-	-	-	-	-	584,901	-	-	584,901
Net assets released from restrictions	14,304,054	(14,304,054)	-	-	4,220,511	(4,220,511)	-	-	-	-	18,524,565	(18,524,565)	-	-
Total revenue and other support	50,058,535	10,436,381	-	60,494,916	4,220,511	(569,359)	3,651,152	107,249	-	107,249	54,386,295	9,867,022	-	64,253,317
Expenses														
Direct program services														
Child and Family Support Services	9,015,019	-	-	9,015,019	-	-	-	-	-	-	9,015,019	-	-	9,015,019
Illinois Birth to Three Institute	1,271,410	-	-	1,271,410	-	-	-	-	-	-	1,271,410	-	-	1,271,410
Illinois Policy	1,171,320	-	-	1,171,320	-	-	-	-	-	-	1,171,320	-	-	1,171,320
Research	1,253,320	-	-	1,253,320	-	-	-	-	-	-	1,253,320	-	-	1,253,320
Educare Learning Network	2,721,820	-	-	2,721,820	-	-	-	-	-	-	2,721,820	-	-	2,721,820
Ounce Institute	1,796,195	-	-	1,796,195	-	-	-	-	-	-	1,796,195	-	-	1,796,195
National Consultation	1,384,504	-	-	1,384,504	-	-	-	-	-	-	1,384,504	-	-	1,384,504
Advancing Center Based Quality	2,661,521	-	-	2,661,521	-	-	-	-	-	-	2,661,521	-	-	2,661,521
Special projects/program innovations	4,600,027	-	-	4,600,027	-	-	-	-	-	-	4,600,027	-	-	4,600,027
Total direct program services	25,875,136	-	-	25,875,136	-	-	-	-	-	-	25,875,136	-	-	25,875,136
Subcontracted program services	15,836,800	-	-	15,836,800	500,000	-	500,000	-	-	-	16,336,800	-	-	16,336,800
First Five Years Fund	-	-	-	-	3,207,833	-	3,207,833	-	-	-	3,207,833	-	-	3,207,833
Bounce DC	-	-	-	-	-	-	-	221,600	-	221,600	221,600	-	-	221,600
Total program services	41,711,936	-	-	41,711,936	3,707,833	-	3,707,833	221,600	-	221,600	45,641,369	-	-	45,641,369
Supporting services														
General and administrative activities	5,833,377	-	-	5,833,377	494,245	-	494,245	-	-	-	6,327,622	-	-	6,327,622
Fund-raising	1,569,882	-	-	1,569,882	-	-	-	-	-	-	1,569,882	-	-	1,569,882
Total supporting services	7,403,259	-	-	7,403,259	494,245	-	494,245	-	-	-	7,897,504	-	-	7,897,504
Total expenses	49,115,195	-	-	49,115,195	4,202,078	-	4,202,078	221,600	-	221,600	53,538,873	-	-	53,538,873
CHANGE IN NET ASSETS	943,340	10,436,381	-	11,379,721	18,433	(569,359)	(550,926)	(114,351)	-	(114,351)	847,422	9,867,022	-	10,714,444
Net assets at beginning 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
Net assets at end of year	$ 15,891,831	$ 32,805,846	$ 14,862,780	$ 63,560,457	$ 100,183	$ 4,240,159	$ 4,340,342	$ 10,972,467	$ -	$ 10,972,467	$ 26,964,481	$ 37,046,005	$ 14,862,780	$ 78,873,266

The accompanying notes are an integral part of this statement.

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 STATEMENTS OF CASH FLOWS
Years ended June 30,

	2016	2015
Cash flows from operating activities		
Change in net assets	$10,714,444	$ 11,440,959
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	652,279	624,870
Net realized losses (gains) on sales of investments	1,296,657	(4,651,947)
Net unrealized losses on investments	236,790	5,619,696
Contributions restricted for permanent investment	-	(10,000)
Increase in accounts and pledges receivable	(11,194,253)	(13,307,681)
(Increase) decrease in deposits, prepaid expenses and other assets	(70,549)	100,136
Increase in accounts payable and accrued expenses	2,141,930	921,444
Decrease in other liabilities and deferred revenue	(276,921)	(7,919)
Net cash provided by operating activities	3,500,377	729,558
Cash flows from investing activities		
Purchases of property and equipment	(1,546,446)	(564,276)
Proceeds from sales of investments	1,162,132	929,834
Purchases of investments	(637,256)	(617,393)
Net cash used in investing activities	(1,021,570)	(251,835)
Cash flows from financing activities		
Proceeds from contributions restricted for investment in endowment	11,500	5,000
Net cash provided by financing activities	11,500	5,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,490,307	482,723
Cash and cash equivalents at beginning of year	9,378,703	8,895,980
Cash and cash equivalents at end of year	$ 11,869,010	$ 9,378,703
Fixed asset additions included in accounts payable as of June 30 (including capital leases)	$ 92,904	$ 56,497

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 financial, technical and managerial support 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 (5 years) using the straight-line method. Depreciation expense was $652,279 and $624,870 for the years ended June 30, 2016 and 2015, 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 Fund) and the Weatherlow Offshore Fund I Ltd. (Weatherlow) 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 $509,901 and $588,688 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015, 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 2013, 2014 and 2015 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 February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statements of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for the Ounce in fiscal year 2021. Early adoption is permitted. Management is currently evaluating the new guidance and has not determined the impact this standard may have on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities,* which is intended to improve how a not-for-profit (NFP) entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment return, and cash flows. The guidance replaces the three classes of net assets currently presented on the statements of financial position with two new classes of net assets, which are based on the existence or absence of donor-imposed restrictions. ASU No. 2016-14 includes specific disclosure requirements intended to improve a financial statement user's ability to assess an entity's available financial resources, along with its management of liquidity and liquidity risk. The guidance requires an NFP to present expenses by both their natural and functional classification in a single location in the financial statements. ASU No. 2016-14 is effective for the Ounce in fiscal year 2019. Early adoption is permitted and entities are required to adopt the guidance retrospectively, but if comparative financial statements are presented, they have the option to omit certain information for any periods presented that are prior to the period of adoption. Management is currently evaluating the new guidance and has not determined the impact this standard may have on the consolidated financial statements.

NOTE C - PROPERTY, PLANT AND EQUIPMENT

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

	2016	2015
Furniture and equipment	$ 3,776,938	$ 3,863,747
Building and leasehold improvements	9,284,969	8,274,574
Capital leases	88,873	-
Total property, plant and equipment	13,150,780	12,138,321
Less accumulated depreciation	(5,822,475)	(5,740,590)
Property, plant and equipment, net	$ 7,328,305	$ 6,397,731

NOTE D - PLEDGES RECEIVABLE AND ACCOUNTS RECEIVABLE

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

	2016	2015
Corporations, foundations, individuals and trusts	$26,302,771	$19,789,448
Less unamortized discount	(607,906)	(661,250)
Net pledges receivable	$25,694,865	$19,128,198
Amounts due in		
Less than one year	$ 8,742,763	$ 6,562,948
One to five years	14,560,008	9,226,500
Five to 10 years	3,000,000	4,000,000
Total	$26,302,771	$19,789,448

Pledges at June 30, 2016 and 2015, were discounted using a risk-adjusted interest rate of 1.01% and 1.62%, respectively. The Ounce believes that the pledges shown above are fully collectible; therefore, an allowance for doubtful accounts is not necessary.

As of June 30, 2016, approximately 8% of accounts receivable were due from one federal agency, 18% from one state agency, 22% from one foundation and 11% from another foundation. 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.

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, 2016 and 2015.

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, 2016 and 2015, is summarized as follows:

	2016			2015		
	Board designated	Other	Total	Board designated	Other	Total
Publicly traded						
Money market funds	$ 75,063	$ -	$ 75,063	$ 104,801	$ -	$ 104,801
Equity securities	1,708,323	-	1,708,323	2,114,005	-	2,114,005
Mutual funds	14,320,586	-	14,320,586	15,338,934	-	15,338,934
Supplemental employees' retirement plan (mutual funds)	-	287,285	287,285	-	469,749	469,749
Total publicly traded	16,103,972	287,285	16,391,257	17,557,740	469,749	18,027,489
Other investments						
Limited partnerships	5,135,701	1,759,010	6,894,711	5,557,791	1,759,010	7,316,801
Total	$21,239,673	$2,046,295	$23,285,968	$23,115,531	$2,228,759	$25,344,290

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

	2016	2015
Interest and dividend income	$ 1,888,877	$ 1,029,620
Unrealized losses, net	(236,790)	(5,619,696)
Realized (losses) gains, net	(1,296,657)	4,651,947
Total investment return	355,430	61,871
Other revenue	1,089,748	653,648
Total investment return and other revenue	$ 1,445,178	$ 715,519

Included in interest and dividend income are $1,263,121 and $416,064 in distributions from the cost method limited partnership for the years ended June 30, 2016 and 2015, 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, 2016:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 75,063	$ -	$ -	$ 75,063
Equity securities	1,708,323	-	-	1,708,323
Mutual funds	14,607,871	-	-	14,607,871
Subtotal	$16,391,257	$ -	$ -	16,391,257
Limited partnerships measured at NAV				5,135,701
Total				$21,526,958

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 2	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				$23,585,280

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, 2016.

The Institutional Fund acquires multi-family communities in Southeast and Mid-Atlantic States with the goal of completing value-add renovations and increasing operating income. The Institutional 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 Institutional Fund will seek to return a portion of investor capital earlier by refinancing stabilized assets. The Institutional 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, 2016, this limited partnership had a fair value of $380,702. The Institutional Fund's December 2015 consolidated financial statements were prepared in accordance with U.S. GAAP. The investment is illiquid during the term of commitment. At June 30, 2016 and 2015, the Ounce had unfunded commitments of approximately $-0- and $30,000, respectively, related to this investment. Unfunded commitments are not reflected in the consolidated financial statements as a liability.

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 September 30, 2016, was 50% to Long-Short Equity, 21% to Event Driven, 15% to Relative Value and 14% to Global Asset Allocation. At June 30, 2016, this limited partnership had a fair value of $4,754,999. The investment is illiquid during the term of commitment. At June 30, 2016 and 2015, the Ounce had no unfunded commitments related to this investment.

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, 2016 and 2015, are available for the following purposes:

	2016	2015
Child and Family Support Services	$ 433,889	$ 600,747
Illinois Birth to Three Institute	112,868	112,868
Illinois Policy	511,937	205,321
Research	3,088,206	253,015
Educare Learning Network	3,252,866	1,812,751
Ounce Institute	422,209	352,476
National Consultation	1,366,789	775,915
Special Projects/Program Innovation	5,304,646	142,533
First Five Years Fund	4,240,157	4,809,516
Time or other restricted	14,792,632	15,547,532
Advancing Center Based Quality	3,519,806	2,566,309
Total	$37,046,005	$27,178,983

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

	2016	2015
Endowments	$14,652,749	$14,641,249
Pledges receivable	210,031	221,531
Total	$14,862,780	$14,862,780

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, 2016 and 2015, as follows:

	2016	2015
Child and Family Support Services	$ 1,626,869	$ 347,178
Illinois Birth to Three Institute	21,331	15,610
Illinois Policy	432,510	733,596
Research	1,553,509	687,983
Educare Learning Network	3,272,414	1,387,154
Ounce Institute	788,688	929,186
National Consultation	1,462,949	4,608,241
Special Projects/Program Innovation	3,059,526	1,252,329
First Five Years Fund	4,220,511	5,817,022
Time or other restricted	946,525	2,371,087
Advancing Center Based Quality	1,139,733	1,186,601
Total	$18,524,565	$19,335,987

NOTE I - ENDOWMENT NET ASSETS

The Ounce's endowment consists of donor-restricted as well as board-designated for long-term investment 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, 2016, is as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ 485,128	$1,932,796	$14,652,749	$17,070,673
Board-designated for long-term investment funds	4,169,000	-	-	4,169,000
Total	$4,654,128	$1,932,796	$14,652,749	$21,239,673

The changes in endowment net assets for the fiscal year ended June 30, 2016, are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$5,067,694	$ 3,406,588	$14,641,249	$23,115,531
Investment return				
Investment income	137,118	488,638	-	625,756
Net depreciation (realized and unrealized)	(335,076)	(1,194,087)	-	(1,529,163)
Contributions	-	-	11,500	11,500
Appropriation of endowment assets for expenditures of endowment funds	(215,608)	(768,343)	-	(983,951)
Endowment net assets, end of year	$4,654,128	$ 1,932,796	$14,652,749	$21,239,673

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 for long-term investment 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

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 $1,533,303 and $1,379,142 for the years ended June 30, 2016 and 2015, respectively. Office leases expire during fiscal years 2016 through 2022 and require minimum annual lease payments as follows as of June 30, 2016:

Years ending June 30,	
2017	$1,217,603
2018	1,239,701
2019	1,203,004
2020	1,194,020
2021	1,153,235
Thereafter	386,656
Total	$6,394,219

The Ounce has entered into capital leases for office equipment, with depreciation expense for the capital lease assets of $26,452 for the year ended June 30, 2016. Future minimum lease payments are as follows:

Years ending June 30,	
2017	$26,452
2018	26,452
2019	26,452
2020	3,323
Thereafter	-
Total	82,679
Less amount representing interest	(2,114)
Capital lease obligation as of June 30, 2016	$80,565

The Ounce has a line-of-credit agreement with a bank in the amount of $6,000,000. As of June 30, 2016 and 2015, $400,000 and $-0-, respectively, were outstanding under this agreement. The interest rate is equal to the daily LIBOR rate plus 1.75% and the expiration date is March 31, 2017.

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 2016 and 2015. The Ounce recorded contributions of $492,249 and $434,573 during the years ended June 30, 2016 and 2015, 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 2016 and 2015.

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 $75,000 and $55,600 for the years ended June 30, 2016 and 2015, respectively.

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, 2016 and 2015. 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 $770,422 and $12,159,321 for the years ended June 30, 2016 and 2015, 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 05CH8456/01 for the year ended June 30, 2015	$ 7,181,713
Amounts on the schedule of expenditures of federal awards for 05CH8456/01 for the year ended June 30, 2016	7,081,600
Total federal share of net outlays on SF-425 for the year ended December 31, 2015	$14,263,313

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, 2016, consolidated financial statements for subsequent events through December 19, 2016, 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 consolidated financial statements.