Grant Thornton

Consolidated Financial Statements and Report of Independent Certified Public Accountants

Ounce of Prevention Fund

June 30, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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
January 12, 2018

Ounce of Prevention Fund
CONSOLIDATED STATEMENT OF FINANCIAL POSITION WITH COMPARATIVE TOTALS FOR 2016
June 30,

	2017					
ASSETS	Ounce	FFYF	Bounce DC	Eliminations	Total	2016
CURRENT ASSETS						
Cash and cash equivalents	$ 5,521,554	$ 2,804,833	$ 226,040	$ -	$ 8,552,427	$ 11,869,010
Accounts receivable - governmental agencies and other	8,266,675	-	26,750	(1)	8,293,424	9,794,557
Pledges receivable, current	13,479,223	560,000	-	-	14,039,223	8,742,763
Deposits, prepaid expenses and other assets	440,309	40,872	-	-	481,181	237,890
Total current assets	27,707,761	3,405,705	252,790	(1)	31,366,255	30,644,220
INVESTMENTS						
Donor and Board designated	22,946,511	-	-	-	22,946,511	21,239,673
Other	1,919,640	-	-	-	1,919,640	2,046,295
Total investments	24,866,151	-	-	-	24,866,151	23,285,968
NOTE RECEIVABLE	-	-	10,700,070	-	10,700,070	10,700,070
PLEDGES RECEIVABLE, NET OF CURRENT PORTION	11,172,539	809,776	-	-	11,982,315	16,952,102
PROPERTY, PLANT AND EQUIPMENT, NET	6,704,383	71,202	-	-	6,775,585	7,328,305
TOTAL ASSETS	$ 70,450,834	$ 4,286,683	$ 10,952,860	$ (1)	$ 85,690,376	$ 88,910,665
LIABILITIES AND NET ASSETS						
LIABILITIES						
Current liabilities						
Accounts payable and accrued expenses	$ 6,765,259	$ 305,649	$ 1	$ (1)	$ 7,070,908	$ 8,915,906
Deferred revenue	364,531	-	-	-	364,531	396,277
Total current liabilities	7,129,790	305,649	1	(1)	7,435,439	9,312,183
Other liabilities	552,829	6,755	-	-	559,584	725,216
Total liabilities	7,682,619	312,404	1	(1)	7,995,023	10,037,399
NET ASSETS						
Unrestricted						
Undesignated	11,029,889	71,204	10,952,859	-	22,053,952	22,310,353
Board designated	5,028,138	-	-	-	5,028,138	4,654,128
	16,058,027	71,204	10,952,859	-	27,082,090	26,964,481
Temporarily restricted	31,847,408	3,903,075	-	-	35,750,483	37,046,005
Permanently restricted	14,862,780	-	-	-	14,862,780	14,862,780
Total net assets	62,768,215	3,974,279	10,952,859	-	77,695,353	78,873,266
TOTAL LIABILITIES AND NET ASSETS	$ 70,450,834	$ 4,286,683	$ 10,952,860	$ (1)	$ 85,690,376	$ 88,910,665

The accompanying notes are an integral part of these statements.

Ounce of Prevention Fund
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended June 30, 2017

	Ounce				FFYF			Bounce DC	Total			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Total	Unrestricted	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue and other support												
Grants												
State of Illinois Department of Human Services												
Division of Family and Community Services	$ 9,999,702	$ -	$ -	$ 9,999,702	$ -	$ -	$ -	$ -	$ 9,999,702	$ -	$ -	$ 9,999,702
Bureau of Child Care and Development	552,020	-	-	552,020	-	-	-	-	552,020	-	-	552,020
Illinois State Board of Education	2,411,467	-	-	2,411,467	-	-	-	-	2,411,467	-	-	2,411,467
State of Illinois Department of Children and Family Services	31,372	-	-	31,372	-	-	-	-	31,372	-	-	31,372
U.S. Department of Health and Human Services	15,921,026	-	-	15,921,026	-	-	-	-	15,921,026	-	-	15,921,026
U.S. Department of Agriculture	129,266	-	-	129,266	-	-	-	-	129,266	-	-	129,266
City of Chicago-DFSS	557,931	-	-	557,931	-	-	-	-	557,931	-	-	557,931
Chicago Public Schools	1,853,378	-	-	1,853,378	-	-	-	-	1,853,378	-	-	1,853,378
Contributions												
Corporations, foundations and trusts	2,167,911	11,674,625	-	13,842,536	-	5,135,776	5,135,776	-	2,167,911	16,810,401	-	18,978,312
Individuals	869,507	17,572	-	887,079	-	5,000	5,000	-	869,507	22,572	-	892,079
Investment return and other revenue	1,821,343	1,878,567	-	3,699,910	-	-	-	107,359	1,928,702	1,878,567	-	3,807,269
Donated service/in-kind	408,344	-	-	408,344	1,732	-	1,732	-	410,076	-	-	410,076
Net assets released from restrictions	14,529,202	(14,529,202)	-	-	5,477,860	(5,477,860)	-	-	20,007,062	(20,007,062)	-	-
Total revenue and other support	51,252,469	(958,438)	-	50,294,031	5,479,592	(337,084)	5,142,508	107,359	56,839,420	(1,295,522)	-	55,543,898
Expenses												
Direct program services												
Child and Family Support Services	9,419,225	-	-	9,419,225	-	-	-	-	9,419,225	-	-	9,419,225
Illinois Birth to Three Institute	1,423,733	-	-	1,423,733	-	-	-	-	1,423,733	-	-	1,423,733
Illinois Policy	1,295,978	-	-	1,295,978	-	-	-	-	1,295,978	-	-	1,295,978
Research	2,153,031	-	-	2,153,031	-	-	-	-	2,153,031	-	-	2,153,031
Educare Learning Network	2,939,309	-	-	2,939,309	-	-	-	-	2,939,309	-	-	2,939,309
Ounce Institute	2,331,119	-	-	2,331,119	-	-	-	-	2,331,119	-	-	2,331,119
National Consultation	1,449,583	-	-	1,449,583	-	-	-	-	1,449,583	-	-	1,449,583
Advancing Center Based Quality	2,782,159	-	-	2,782,159	-	-	-	-	2,782,159	-	-	2,782,159
Special projects/program innovations	4,246,308	-	-	4,246,308	-	-	-	-	4,246,308	-	-	4,246,308
Total direct program services	28,040,445	-	-	28,040,445	-	-	-	-	28,040,445	-	-	28,040,445
Subcontracted program services	15,488,022	-	-	15,488,022	676,000	-	676,000	-	16,164,022	-	-	16,164,022
First Five Years Fund	-	-	-	-	4,039,595	-	4,039,595	-	4,039,595	-	-	4,039,595
Bounce DC	-	-	-	-	-	-	-	126,967	126,967	-	-	126,967
Total program services	43,528,467	-	-	43,528,467	4,715,595	-	4,715,595	126,967	48,371,029	-	-	48,371,029
Supporting services												
General and administrative activities	5,964,288	-	-	5,964,288	792,976	-	792,976	-	6,757,264	-	-	6,757,264
Fund-raising	1,593,518	-	-	1,593,518	-	-	-	-	1,593,518	-	-	1,593,518
Total supporting services	7,557,806	-	-	7,557,806	792,976	-	792,976	-	8,350,782	-	-	8,350,782
Total expenses	51,086,273	-	-	51,086,273	5,508,571	-	5,508,571	126,967	56,721,811	-	-	56,721,811
CHANGE IN NET ASSETS	166,196	(958,438)	-	(792,242)	(28,979)	(337,084)	(366,063)	(19,608)	117,609	(1,295,522)	-	(1,177,913)
Net assets at beginning 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	26,964,481	37,046,005	14,862,780	78,873,266
Net assets at end of year	$ 16,058,027	$ 31,847,408	$ 14,862,780	$ 62,768,215	$ 71,204	$ 3,903,075	$ 3,974,279	$ 10,952,859	$ 27,082,090	$ 35,750,483	$ 14,862,780	$ 77,695,353

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	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	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	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
Total program services	41,711,936	-	-	41,711,936	3,707,833	-	3,707,833	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	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)	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	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	$ 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 STATEMENTS OF CASH FLOWS
Years ended June 30,

	2017	2016
Cash flows from operating activities		
Change in net assets	$ (1,177,913)	$ 10,714,444
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation	582,181	652,279
Net realized losses on sales of investments	85,659	1,296,657
Net unrealized (gains) losses on investments	(1,741,391)	236,790
Contributions restricted for permanent investment	(2,000)	-
Decrease (increase) in accounts and pledges receivable	1,220,952	(11,194,253)
Increase in deposits, prepaid expenses and other assets	(243,291)	(70,549)
(Decrease) increase in accounts payable and accrued expenses	(1,844,998)	2,141,930
Decrease in other liabilities and deferred revenue	(197,378)	(276,921)
Net cash (used in) provided by operating activities	(3,318,179)	3,500,377
Cash flows from investing activities		
Purchases of property and equipment	(29,461)	(1,546,446)
Proceeds from sales of investments	605,123	1,162,132
Purchases of investments	(574,066)	(637,256)
Net cash provided by (used in) investing activities	1,596	(1,021,570)
Cash flows from financing activities		
Proceeds from contributions restricted for investment in endowment	-	11,500
Net cash provided by financing activities	-	11,500
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,316,583)	2,490,307
Cash and cash equivalents at beginning of year	11,869,010	9,378,703
Cash and cash equivalents at end of year	$ 8,552,427	$ 11,869,010
Fixed asset additions included in accounts payable as of June 30 (including capital leases)	$ 93,409	$ 92,904

The accompanying notes are an integral part of these statements.

NOTE A – GENERAL

The Ounce of Prevention Fund (the Ounce) was founded in 1982 as a public-private partnership to give children in poverty the best chance for success in school and in life by advocating for and providing the highest quality care and education from birth to age five. The Ounce develops and supports research-based early learning programs; educates and coaches practitioners; and advocates 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.

Our national work extends from our deep roots in Illinois, where we've worked on the ground for more than 30 years to directly provide and implement early childhood programs. As one of only three federal Early Head Start and Head Start delegates in the Chicago area, we provide high-quality care and education to more than 1,700 young children. Through a network of voluntary home visiting programs in Illinois, we serve nearly 3,700 children and families. We serve 145 low-income infants, toddlers, preschoolers and their families at Educare Chicago (Educare), which has become a national model for early childhood education. Educare has grown into a nationwide network of 22 organizations that serves over 3,400 low-income children and their families annually. 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. We are the leading provider of professional development for 95% of home visitors in Illinois, who reach 18,000 families. We train more than 4,000 community-based early childhood professionals across the country, including 950 professionals working in Educare schools. Across all of our programming and professional development services, we estimate that we reach 25,000 children and families each year.

With a deep bench of policy experts, the Ounce advocates for sound public policies for the over five million children under the age of five living in poverty, including the 400,000 in Illinois. This includes partnering with advocacy organizations in 19 states and Washington, D.C. and mobilizing our federal advocacy arm, The First Five Years Fund (FFYF), to advance policy change and increase public investments in effective birth-to-five programs. Working in partnerships at the local, state and national level, the Ounce has a strong track record of demonstrating program excellence, developing effective program and policy solutions, and advancing systemic change.

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 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 $5,000 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 $582,181 and $652,279 for the years ended June 30, 2017 and 2016, 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:

<u>Level 1</u> - 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 $335,076 and $509,901 for the years ended June 30, 2017 and 2016, 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, 2017 and 2016, 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, as such, no provision for income taxes is reflected. Additionally, there is no interest or penalties recognized in the consolidated statements of activities or consolidated statements of financial position.

New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* as a new topic, Accounting Standards Codification (ASC) *Topic 606*. The objective of ASU No. 2014-09 is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most of the existing revenue recognition guidance, including industry-specific guidance. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the new standard, companies will perform a five-step analysis of transactions to determine when and how revenue is recognized. ASU No. 2014-09 applies to all contracts with customers except those that are within the scope of other topics in the FASB ASC. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers: Deferral of the Effective Date*, which deferred the effective date of ASU No. 2014-09 by one year. This ASU is effective for the Ounce in fiscal year 2020 and shall be applied using either a full retrospective or modified retrospective approach. Early adoption is permitted.

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.

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.

NOTE C - PROPERTY, PLANT AND EQUIPMENT

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

	2017	2016
Furniture and equipment	$ 3,372,329	$ 3,776,938
Building and leasehold improvements	9,392,294	9,284,969
Capital leases	-	88,873
Total property, plant and equipment	12,764,623	13,150,780
Less accumulated depreciation	(5,989,038)	(5,822,475)
Property, plant and equipment, net	$ 6,775,585	$ 7,328,305

NOTE D - PLEDGES RECEIVABLE AND ACCOUNTS RECEIVABLE

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

	2017	2016
Corporations, foundations, individuals and trusts	$26,443,227	$26,302,771
Less unamortized discount	(421,689)	(607,906)
Net pledges receivable	$26,021,538	$25,694,865
Amounts due in		
Less than one year	$14,039,222	$ 8,742,763
One to five years	10,404,005	14,560,008
Five to 10 years	2,000,000	3,000,000
Total	$26,443,227	$26,302,771

Pledges at June 30, 2017 and 2016, were discounted using a risk-adjusted interest rate of 1.88% and 1.01%, 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, 2017, approximately 9% of accounts receivable were due from one federal agency, 9% from one state agency, 20% from one foundation and 14% from another foundation. 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.

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, 2017 and 2016.

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, 2017 and 2016, is summarized as follows:

	2017			2016		
	Board designated	Other	Total	Board designated	Other	Total
Publicly traded						
Money market funds	$ 280,243	$-	$280,243	$ 75,063	$ -	$ 75,063
Equity securities	1,759,309	-	1,759,309	1,708,323	-	1,708,323
Mutual funds	15,659,769	-	15,659,769	14,320,586	-	14,320,586
Supplemental employees' retirement plan (mutual funds)	-	160,630	160,630	-	287,285	287,285
Total publicly traded	17,699,321	160,630	17,859,951	16,103,972	287,285	16,391,257
Other investments						
Limited partnerships	5,247,190	1,759,010	7,006,200	5,135,701	1,759,010	6,894,711
Total	$22,946,511	$1,919,640	$24,866,151	$21,239,673	$2,046,295	$23,285,968

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

	2017	2016
Interest and dividend income	$1,501,868	$ 1,888,877
Unrealized gains (losses), net	1,741,391	(236,790)
Realized losses, net	(85,659)	(1,296,657)
Total investment return	3,157,600	355,430
Other revenue	649,669	1,089,748
Total investment return and other revenue	$3,807,269	$ 1,445,178

Included in interest and dividend income are $919,899 and $1,263,121 in distributions from the cost method limited partnership for the years ended June 30, 2017 and 2016, 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, 2017:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 280,243	$ -	$ -	$ 280,243
Equity securities	1,759,309	-	-	1,759,309
Mutual funds	15,820,399	-	-	15,820,399
Subtotal	$17,859,951	$ -	$ -	17,859,951
Limited partnerships measured at NAV				5,247,190
Total				$23,107,141

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

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, 2017.

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, 2017, this limited partnership had a fair value of $203,094. The Institutional Fund's December 2016 consolidated financial statements were prepared in accordance with U.S. GAAP. The investment is illiquid during the term of commitment. At June 30, 2017 and 2016, the Ounce had no unfunded commitments, related to this investment.

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, 2017, was 46% to Long-Short Equity, 24% to Event Driven, 13% to Relative Value and 18% to Global Asset Allocation. At June 30, 2017, this limited partnership had a fair value of $5,044,096. The investment is illiquid during the term of commitment. At June 30, 2017 and 2016, 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 are available for the following purposes at June 30:

	2017	2016
Child and Family Support Services	$ 504,613	$ 433,889
Illinois Birth to Three Institute	110,199	112,868
Illinois Policy	618,790	511,937
Research	3,377,164	3,088,206
Educare Learning Network	2,417,560	3,252,866
Ounce Institute	233,272	422,209
National Consultation	1,159,010	1,366,789
Special Projects/Program Innovation	4,072,458	5,304,646
First Five Years Fund	3,903,073	4,240,157
Time or other restricted	13,601,150	14,792,632
Advancing Center Based Quality	5,753,194	3,519,806
Total	$35,750,483	$37,046,005

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

	2017	2016
Endowments	$14,652,749	$14,652,749
Pledges receivable	210,031	210,031
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, 2017 and 2016, as follows:

	2017	2016
Child and Family Support Services	$ 186,731	$ 1,626,869
Illinois Birth to Three Institute	71,400	21,331
Illinois Policy	1,137,343	432,510
Research	1,965,696	1,553,509
Educare Learning Network	3,753,031	3,272,414
Ounce Institute	402,712	788,688
National Consultation	1,314,309	1,462,949
Special Projects/Program Innovation	3,732,803	3,059,526
First Five Years Fund	5,477,860	4,220,511
Time or other restricted	510,998	946,525
Advancing Center Based Quality	1,454,179	1,139,733
Total	$20,007,062	$18,524,565

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, 2017, is as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ 749,576	$2,875,186	14,652,749	18,277,511
Board-designated for long-term investment funds	4,169,000	-	-	4,169,000
Total	$4,918,576	$2,875,186	$14,652,749	$22,446,511

The changes in endowment net assets for the fiscal year ended June 30, 2017, are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$4,654,128	$1,932,796	$14,652,749	$21,239,673
Investment return				
Investment income	125,792	448,275	-	574,067
Net appreciation (realized and unrealized)	352,094	1,254,730		1,606,824
Appropriation of endowment assets for expenditures of endowment funds	(213,438)	(760,615)	-	(974,053)
Endowment net assets, end of year	$4,918,576	$2,875,186	$14,652,749	$22,446,511

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

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 $1,564,214 and $1,533,303 for the years ended June 30, 2017 and 2016, respectively. Office leases expire during fiscal years 2017 through 2023 and require minimum annual lease payments as of June 30, 2017:

Years ending June 30,	
2018	$1,239,701
2019	1,203,004
2020	1,194,020
2021	1,153,235
2022	386,657
Total	$5,176,617

The Ounce has a line-of-credit agreement with a bank in the amount of $6,000,000. As of June 30, 2017 and 2016, $200,000 and $400,000, 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, 2018. The interest rate for fiscal years 2017 and 2016 was 2.21% and 2.19%, respectively.

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 2017 and 2016. The Ounce recorded contributions of $532,772 and $492,249 during the years ended June 30, 2017 and 2016, 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 2017 and 2016.

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 each year for the years ended June 30, 2017 and 2016.

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, 2017 and 2016. 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 $269,500 and $770,422 for the years ended June 30, 2017 and 2016, 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 05CH8456/02 for the year ended June 30, 2016	$ 7,039,852
Amounts on the schedule of expenditures of federal awards for 05CH8456/02 for the year ended June 30, 2017	7,385,515
Total federal share of net outlays on SF-425 for the year ended December 31, 2016	$14,425,367

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, 2017, consolidated financial statements for subsequent events through January 12, 2018, 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.

Ounce of Prevention Fund
Notes to FY2017 Financial Statements

Throughout its history, the Ounce has been in good financial standing. The Ounce employs the accrual method of accounting, where revenue is booked in the year it is received or pledged and expenses in the year in which they are incurred. Several sizable, multi-year grant commitments are often booked in prior years, while the expenses are shown without the corresponding revenue in subsequent years. While this gives the appearance of a surplus/deficit in any given fiscal year, it balances out over the course of the multi-year grant periods. The Ounce received several sizable, multi-year grant commitments prior to FY2017, for which the corresponding expenses are incurred in later fiscal years and reported on accordingly. This accounts for all of the $1,177,913 decrease in Net Assets shown on page 6 of the audit.