Grant Thornton

Consolidated Financial Statements and Report of Independent Certified Public Accountants, Single Audit Reports and Other Information

Ounce of Prevention Fund

June 30, 2018 and 2017

Contents

GRANT THORNTON LLP
171 N. Clark Street, Suite 200
Chicago, IL 60601

D +1 312 856 0200
F +1 312 565 4719

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, 2018 and 2017, 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 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Ounce of Prevention Fund as of June 30, 2018 and

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2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Supplementary information
Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for the purposes of additional analysis, rather than to present the financial position, changes in net assets and cash flows of the individual organizations, and is not a required part of the consolidated financial statements. The State of Illinois Department of Human Services - Grant Allowable Cost Summary for the period from July 1, 2017 through June 30, 2018, and the schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations (CFR) Part 200,* Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards for the year ended June 30, 2018 are presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating and supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated March 29, 2019, on our consideration of the Ounce's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Ounce's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Ounce's internal control over financial reporting and compliance.

Grant Thornton LLP

Chicago, Illinois
March 29, 2019

Ounce of Prevention Fund
CONSOLIDATED STATEMENT OF FINANCIAL POSITION WITH COMPARATIVE TOTALS FOR 2017
June 30,

	2018					
ASSETS	Ounce	FFYF	Bounce DC	Eliminations	Total	2017
CURRENT ASSETS						
Cash and cash equivalents	$ 13,077,825	$ 769,190	$ 206,617	$ -	$ 14,053,632	$ 8,552,427
Accounts receivable - governmental agencies and other	8,852,348	-	26,750		8,879,098	8,293,424
Pledges receivable, current	10,733,597	495,663			11,229,260	14,039,223
Deposits, prepaid expenses and other assets	840,057	131,500			971,557	481,181
Total current assets	33,503,827	1,396,353	233,367	-	35,133,547	31,366,255
INVESTMENTS						
Donor and Board designated	22,738,522	-	-	-	22,738,522	22,946,511
Other	1,934,468	-	-	-	1,934,468	1,919,640
Total investments	24,672,990	-	-	-	24,672,990	24,866,151
NOTE RECEIVABLE	-	-	10,700,070	-	10,700,070	10,700,070
PLEDGES RECEIVABLE, NET OF CURRENT PORTION	6,388,485	-	-	-	6,388,485	11,982,315
PROPERTY, PLANT AND EQUIPMENT, NET	7,380,507	165,308	-	-	7,545,815	6,775,585
TOTAL ASSETS	$ 71,945,809	$ 1,561,661	$ 10,933,437	$ -	$ 84,440,907	$ 85,690,376

LIABILITIES AND NET ASSETS	Ounce	FFYF	Bounce DC	Eliminations	Total	2017
LIABILITIES						
Current liabilities						
Accounts payable and accrued expenses	$ 8,844,185	$ -	$ 110	$ -	$ 8,844,295	$ 7,070,908
Deferred revenue	373,515				373,515	364,531
Total current liabilities	9,217,700	-	110	-	9,217,810	7,435,439
Other liabilities	1,741,522				1,741,522	559,584
Total liabilities	10,959,222	-	110	-	10,959,332	7,995,023
NET ASSETS						
Unrestricted						
Undesignated	14,883,316	179,389	10,933,327		25,996,032	22,053,952
Board designated	4,982,126	-	-		4,982,126	5,028,138
	19,865,442	179,389	10,933,327	-	30,978,158	27,082,090
Temporarily restricted	26,468,396	1,382,272	-		27,850,668	35,750,483
Permanently restricted	14,652,749	-	-		14,652,749	14,862,780
Total net assets	60,986,587	1,561,661	10,933,327	-	73,481,575	77,695,353
TOTAL LIABILITIES AND NET ASSETS	$ 71,945,809	$ 1,561,661	$ 10,933,437	$ -	$ 84,440,907	$ 85,690,376

The accompanying notes are an integral part of these statements.

Ounce of Prevention Fund
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended June 30, 2018

	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	$ 11,012,459	$ -	$ -	$ 11,012,459	$ -	$ -	$ -	$ -	$ 11,012,459	$ -	$ -	$ 11,012,459
Bureau of Child Care and Development	506,804	-		506,804	-	-	-	-	506,804	-	-	506,804
Illinois State Board of Education	3,959,955	-		3,959,955	-	-	-	-	3,959,955	-	-	3,959,955
State of Illinois Department of Children and Family Services	31,727	-		31,727	-	-	-	-	31,727	-	-	31,727
U.S. Department of Health and Human Services	15,065,117	-		15,065,117	-	-	-	-	15,065,117	-	-	15,065,117
U.S. Department of Agriculture	122,901	-		122,901	-	-	-	-	122,901	-	-	122,901
City of Chicago-DFSS	3,123,676	-		3,123,676	-	-	-	-	3,123,676	-	-	3,123,676
Chicago Public Schools	-	-		-	-	-	-	-	-	-	-	-
Contributions												
Corporations, foundations and trusts	5,845,554	10,812,204		16,657,758	15,224	2,263,849	2,279,073	-	5,860,778	13,076,053	-	18,936,831
Individuals	860,167	11,952		872,119	-	-	-	-	860,167	11,952	-	872,119
Investment return and other revenue	1,928,016	936,851		2,864,867	-	-	-	107,572	2,035,588	936,851	-	2,972,439
Donated service/in-kind	415,188	-		415,188	30,897	-	30,897	-	446,085	-	-	446,085
Net assets released from restrictions	17,350,050	(17,140,019)	(210,031)	-	4,784,652	(4,784,652)	-	-	22,134,702	(21,924,671)	(210,031)	-
Total revenue and other support	60,221,614	(5,379,012)	(210,031)	54,632,571	4,830,773	(2,520,803)	2,309,970	107,572	65,159,959	(7,899,815)	(210,031)	57,050,113
Expenses												
Direct program services												
Child and Family Support Services	9,376,876			9,376,876	-	-	-	-	9,376,876	-	-	9,376,876
Illinois Birth to Three Institute	1,721,908			1,721,908	-	-	-	-	1,721,908	-	-	1,721,908
Illinois Policy	1,508,801			1,508,801	-	-	-	-	1,508,801	-	-	1,508,801
Research	2,528,371			2,528,371	-	-	-	-	2,528,371	-	-	2,528,371
Educare Learning Network	3,074,078			3,074,078	-	-	-	-	3,074,078	-	-	3,074,078
Ounce Institute	3,362,789			3,362,789	-	-	-	-	3,362,789	-	-	3,362,789
National Consultation	1,386,196			1,386,196	-	-	-	-	1,386,196	-	-	1,386,196
Advancing Center Based Quality	2,835,435			2,835,435	-	-	-	-	2,835,435	-	-	2,835,435
Special projects/program innovations	4,871,740			4,871,740	-	-	-	-	4,871,740	-	-	4,871,740
Total direct program services	30,666,194	-	-	30,666,194	-	-	-	-	30,666,194	-	-	30,666,194
Subcontracted program services	18,556,025			18,556,025	333,000		333,000		18,889,025	-	-	18,889,025
First Five Years Fund				-	3,773,598		3,773,598		3,773,598	-	-	3,773,598
Bounce DC				-			-	127,104	127,104	-	-	127,104
Total program services	49,222,219	-	-	49,222,219	4,106,598	-	4,106,598	127,104	53,455,921	-	-	53,455,921
Supporting services												
General and administrative activities	5,161,444			5,161,444	615,990		615,990		5,777,434	-	-	5,777,434
Fund-raising	2,030,536			2,030,536	-	-	-	-	2,030,536	-	-	2,030,536
Total supporting services	7,191,980	-	-	7,191,980	615,990	-	615,990	-	7,807,970	-	-	7,807,970
Total expenses	56,414,199	-	-	56,414,199	4,722,588	-	4,722,588	127,104	61,263,891	-	-	61,263,891
CHANGE IN NET ASSETS	3,807,415	(5,379,012)	(210,031)	(1,781,628)	108,185	(2,520,803)	(2,412,618)	(19,532)	3,896,068	(7,899,815)	(210,031)	(4,213,778)
Net assets at beginning 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
Net assets at end of year	$ 19,865,442	$ 26,468,396	$ 14,652,749	$ 60,986,587	$ 179,389	$ 1,382,272	$ 1,561,661	$ 10,933,327	$ 30,978,158	$ 27,850,668	$ 14,652,749	$ 73,481,575

The accompanying notes are an integral part of this statement.

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 STATEMENTS OF CASH FLOWS
Years ended June 30,

	2018	2017
Cash flows from operating activities		
Change in net assets	$ (4,213,778)	$ (1,177,913)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	559,771	582,181
Net realized (gains) losses on sales of investments	(261,770)	85,659
Net unrealized gains on investments	(318,376)	(1,741,391)
Contributions restricted for permanent investment	-	(2,000)
Decrease in accounts and pledges receivable	7,818,119	1,220,952
Increase in deposits, prepaid expenses and other assets	(490,376)	(243,291)
Increase (decrease) in accounts payable and accrued expenses	957,991	(1,844,998)
Increase (decrease) in other liabilities and deferred revenue	1,190,922	(197,378)
Net cash provided by (used in) operating activities	5,242,503	(3,318,179)
Cash flows from investing activities		
Purchases of property and equipment	(456,161)	(29,461)
Proceeds from sales of investments	2,914,942	605,123
Purchases of investments	(2,141,635)	(574,066)
Net cash provided by investing activities	317,146	1,596
Cash flows from financing activities		
Payments made on capital lease obligations	(58,444)	-
Net cash used in financing activities	(58,444)	-
NET CHANGE IN CASH AND CASH EQUIVALENTS	5,501,205	(3,316,583)
Cash and cash equivalents at beginning of year	8,552,427	11,869,010
Cash and cash equivalents at end of year	$ 14,053,632	$ 8,552,427
Fixed asset additions included in accounts payable as of June 30 (including capital leases)	$ 815,396	$ 93,409

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.

The Ounce's national work extends from its deep roots in Illinois, where it has worked on the ground for more than 35 years to directly provide and implement early childhood programs. In Illinois, the Ounce provides close to 2,000 families with home visiting services, and is partnering with state and local agencies to pilot Illinois Family Connects, the state's first universal home visiting program. The Ounce also delivers researched-based professional development trainings to more than 4,500 home visiting and center-based professionals. Its doula program has over 1,000 participants. Through its Early Head Start and Head Start delegates in the Chicago area, the Ounce reaches more than 1,500 young children with high-quality care and education. The Ounce serves 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 23 organizations that serves over 3,800 low-income children and their families annually. The Ounce works in partnership to amplify and 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 has over 25 expert researchers and 15 academic institutions affiliated with the Educare Network and conducting research at Educare schools. This research has been the basis of 14 peer-reviewed academic journal articles, three book chapters, four dissertations or theses, and over 60 presentations at professional research and practitioner conferences or meetings. There are an additional 10 academic papers under review.

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. This includes partnering with state and federal advocacy organizations, 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 seeks to amplify its impact by publishing journal articles, dissertations, and white papers.

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.

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 (3 - 5 years) using the straight-line method. Depreciation expense was $559,771 and $582,181 for the years ended June 30, 2018 and 2017, 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 $371,085 and $335,076 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, 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:

	2018	2017
Furniture and equipment	$ 3,384,187	$ 3,372,329
Building and leasehold improvements	10,433,075	9,392,294
Capital leases	228,179	-
Total property, plant and equipment	14,045,441	12,764,623
Less accumulated depreciation	(6,499,626)	(5,989,038)
Property, plant and equipment, net	$ 7,545,815	$ 6,775,585

NOTE D - PLEDGES RECEIVABLE AND ACCOUNTS RECEIVABLE

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

	2018	2017
Corporations, foundations, individuals and trusts	$17,966,759	$26,443,227
Less unamortized discount	(349,014)	(421,689)
Net pledges receivable	$17,617,745	$26,021,538
Amounts due in		
Less than one year	$11,229,260	$14,039,223
One to five years	6,737,499	10,404,004
Five to 10 years	-	2,000,000
Total	$17,966,759	$26,443,227

Pledges were discounted using a risk-adjusted interest rate in the year the pledge was received, ranging from 1.62% to 2.73%. The Ounce believes that the pledges shown above are fully collectible; therefore, an allowance for doubtful accounts is not necessary.

As of June 30, 2018, approximately 16% of accounts receivable were due from one federal agency, 7% from one state agency, 23% from one foundation and 12% from another foundation. 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.

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, 2018 and 2017.

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, 2018 and 2017, is summarized as follows:

	2018			2017		
	Board designated	Other	Total	Board designated	Other	Total
Publicly traded						
Money market funds	$ 73,891	$ -	$ 73,891	$ 280,243	$ -	$280,243
Equity securities	1,727,480		1,727,480	1,759,309	-	1,759,309
Mutual funds	15,941,656		15,941,656	15,659,769	-	15,659,769
Supplemental employees' retirement plan (mutual funds)	-	175,458	175,458	-	160,630	160,630
Total publicly traded	17,743,027	175,458	17,918,485	17,699,321	160,630	17,859,951
Other investments						
Limited partnerships	4,995,495	1,759,010	6,754,505	5,247,190	1,759,010	7,006,200
Total	$22,738,522	$1,934,468	$24,672,990	$22,946,511	$1,919,640	$24,866,151

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

	2018	2017
Interest and dividend income	$ 690,144	$1,501,868
Unrealized gains, net	318,376	1,741,391
Realized gains (losses), net	261,770	(85,659)
Total investment return	1,270,290	3,157,600
Other revenue	1,702,149	649,669
Total investment return and other revenue	$2,972,439	$3,807,269

Included in interest and dividend income are $804,672 and $919,899 in distributions from the cost method limited partnership for the years ended June 30, 2018 and 2017, 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, 2018:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 73,891	$ -	$ -	$ 73,891
Equity securities	1,727,480	-	-	1,727,480
Mutual funds	16,117,114	-	-	16,117,114
Subtotal	$17,918,485	$ -	$ -	17,918,485
Limited partnerships measured at NAV				4,995,495
Limited partnership measured at cost				1,759,010
Total				$24,672,990

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
Limited partnership measured at cost				1,759,010
Total				$24,866,151

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, 2018.

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, 2018, this limited partnership had a fair value of $43,396. The Institutional Fund's December 2017 consolidated financial statements were prepared in accordance with U.S. GAAP. The investment is illiquid during the term of commitment. At June 30, 2018 and 2017, 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 October 1, 2018, was 48% to Long-Short Equity, 20% to Event Driven, 11% to Relative Value and 18% to Global Asset Allocation. At June 30, 2018, this limited partnership had a fair value of $4,952,099. The investment is illiquid during the term of commitment. At June 30, 2018 and 2017, 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:

	2018	2017
Child and Family Support Services	$ 495,164	$ 504,613
Illinois Birth to Three Institute	112,919	110,199
Illinois Policy	639,198	618,790
Research	1,922,784	3,377,164
Educare Learning Network	2,967,526	2,417,560
Ounce Institute	171,328	233,272
National Consultation	884,917	1,159,010
Special Projects/Program Innovation	2,548,699	4,072,458
First Five Years Fund	1,382,270	3,903,073
Time or other restricted	11,306,010	13,601,150
Advancing Center Based Quality	5,419,853	5,753,194
Total	$27,850,668	$35,750,483

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

	2018	2017
Endowments	$14,652,749	$14,652,749
Pledges receivable	-	210,031
Total	$14,652,749	$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, 2018 and 2017, as follows:

	2018	2017
Child and Family Support Services	$ 184,372	$ 186,731
Illinois Birth to Three Institute	60,812	71,400
Illinois Policy	944,837	1,137,343
Research	2,048,663	1,965,696
Educare Learning Network	3,206,997	3,753,031
Ounce Institute	61,945	402,712
National Consultation	1,369,508	1,314,309
Special Projects/Program Innovation	2,035,335	3,732,803
First Five Years Fund	4,784,652	5,477,860
Time or other restricted	4,012,631	510,998
Advancing Center Based Quality	3,214,919	1,454,179
Total	$21,924,671	$20,007,062

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, 2018, is as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ -	$3,101,647	$14,652,749	$17,754,396
Board-designated for long-term investment funds	4,982,126	-	-	4,982,126
Total	$4,982,126	$3,101,647	$14,652,749	$22,736,522

The changes in endowment net assets for the fiscal year ended June 30, 2018, are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$4,918,576	$2,875,186	$14,652,749	$22,446,511
Investment return				
Investment income	139,019	495,408	-	634,427
Net appreciation (realized and unrealized)	123,876	441,442	-	565,318
Appropriation of endowment assets for expenditures of endowment funds	(199,345)	(710,389)	-	(909,734)
Endowment net assets, end of year	$4,982,126	$3,101,647	$14,652,749	$22,736,522

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	$ -	$2,875,186	$14,652,749	$17,527,935
Board-designated for long-term investment funds	4,918,576	-	-	4,918,576
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

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 $1,622,397 and $1,564,214 for the years ended June 30, 2018 and 2017, respectively. Office leases expire during fiscal years 2018 through 2024 and require minimum annual lease payments as of June 30, 2018:

Years ending June 30,	
2019	$1,243,932
2020	1,269,190
2021	1,288,756
2022	526,836
2023	144,338
Thereafter	197,665
Total	$4,670,717

Subsequent to year end, the Ounce renewed and extended their office space leases. The renewals expire on various dates through 2031.

The Ounce has a line-of-credit agreement with a bank in the amount of $6,000,000. There were no borrowings against the line at June 30, 2018. As of June 30, 2017, $200,000 was outstanding under this agreement. The interest rate is equal to the daily LIBOR rate, plus 1.75% and the expiration date is March 31, 2019. The interest rate for fiscal years for 2018 and 2017 was 2.12% and 2.21%, respectively.

NOTE K – CAPITAL LEASE

The Ounce entered into a three-year lease of computer related equipment and it is classified as a capital lease in the financial statements.

Future minimum lease obligations under capital lease as of June 30, 2018 are as follows:

Years ending June 30,	
2019	$ 82,505
2020	82,505
2021	17,702
Total minimum lease payments	182,712
Less: Amount representing interest	7,782
Present value of minimum lease payments	$174,930

NOTE L - 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 2018 and 2017. The Ounce recorded contributions of $522,361 and $532,772 during the years ended June 30, 2018 and 2017, 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 2018 and 2017.

NOTE M - 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, 2018 and 2017.

NOTE N - CREDIT RISK

The Ounce maintained its cash in bank accounts, which at times exceeded federally insured limits during the years ended June 30, 2018 and 2017. 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 O - RELATED PARTIES

Donations to the Ounce from related parties were $350,990 and $269,500 for the years ended June 30, 2018 and 2017, 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 Q for further information.

NOTE P - 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, 2017	$ 7,385,515
Amounts on the schedule of expenditures of federal awards for 05CH8456/02 for the year ended June 30, 2018	7,154,219
Total federal share of net outlays on SF-425 for the year ended December 31, 2017	$14,539,734

NOTE Q - 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 R - SUBSEQUENT EVENTS

The Ounce evaluated its June 30, 2018, consolidated financial statements for subsequent events through March 29, 2019, 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.

SINGLE AUDIT REPORTS

Ounce of Prevention Fund
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2018

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through grantor's number	Federal expenditures	Provided to subrecipients
U.S. Department of Health and Human Services				
Head Start				
Head Start/EHS contract	93.600	N/A	$ 6,992,622	$ 3,739,298
Head Start/EHS contract	93.600	N/A	7,017,879	3,687,851
Early Head Start	93.600	N/A	558,501	368,635
Early Head Start	93.600	N/A	496,116	373,372
			15,065,118	8,169,156
City of Chicago				
Head Start Support Services	93.600	52683	276,397	-
Early Head Start Support Services	93.600	52684	601,847	-
Early Head Start Child Care Partnership	93.600	32522	144,328	-
			1,022,572	-
Total Head Start			16,087,690	8,169,156
Illinois Department of Human Services				
Social Services Block Grant				
Parents-Too-Soon - Program	93.667	FCSWS00721	1,459,697	842,692
Parents-Too-Soon - Family Health Technical Assistance	93.667	FCSWS04096	452,436	-
			1,912,133	842,692
Maternal, Infant, and Early Childhood Home Visiting (MIECHV) Cluster				
Affordable Care Act (ACA) Maternal, Infant , and Early Childhood Home Visiting Program				
MIECHV- Doula	93.505	FCSWS04121	309,728	278,530
MIECHV- Training	93.505	FCSWS04116	72,528	-
			382,256	278,530
Maternal, Infant and Early Childhood Home Visiting Grant Program				
MIECHV- Doula Expansion	93.870	FCSWS04122	633,797	604,416
MIECHV- Training	93.870	FCSWS04116	231,072	-
MIECHV-Universal Newborn	93.870	FCSWS04132	425,443	354,717
MIECHV-Homelessnes Pilot	93.870	FCSWS04128	94,168	-
MIECHV-Family Recruitment	93.870	FCSWS04120	108,460	-
			1,492,940	959,133
Total Maternal, Infant, and Early Childhood Home Visiting (MIECHV) Cluster			1,875,196	1,237,663
CCDF Cluster				
Child Care Mandatory and Matching Funds of the Child Care and Development Fund - Educare Center	93.596	FCSWI00651	506,804	-
Total U.S. Department of Health and Human Services			20,381,823	10,249,511
U.S. Department of Agriculture				
Illinois State Board of Education				
Child and Adult Care Food Program	10.558	15016335P00	122,901	-
Total expenditures of federal awards			$ 20,504,724	$ 10,249,511

The accompanying notes are an integral part of this schedule.

NOTE A - FEDERAL GRANT PROGRAMS

The schedule of expenditures of federal awards includes all federal grant operations of the Ounce of Prevention Fund (the Ounce) for the year ended June 30, 2018, which are funded by the following federal agencies:

- U.S. Department of Health and Human Services
- U.S. Department of Agriculture

The Ounce did not receive any federal awards in the form of non-cash assistance, insurance, or loans or loan guarantees.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditures of federal awards is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic consolidated financial statements.

NOTE C - INDIRECT COST RATE

The Ounce has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

GRANT THORNTON LLP
171 N. Clark Street, Suite 200
Chicago, IL 60601

D +1 312 856 0200
F +1 312 565 4719

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Ounce of Prevention Fund

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the Ounce of Prevention Fund (an Illinois not-for-profit organization) and subsidiaries (the Ounce), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 29, 2019.

Internal control over financial reporting

In planning and performing our audit of the consolidated financial statements, we considered the Ounce's internal control over financial reporting ("internal control") to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the Ounce's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Ounce's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in the Ounce's internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and other matters

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

Intended purpose

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Ounce's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Ounce's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Chicago, Illinois
March 29, 2019

GRANT THORNTON LLP
171 N. Clark Street, Suite 200
Chicago, IL 60601

D +1 312 856 0200
F +1 312 565 4719

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Ounce of Prevention Fund

Report on compliance for each major federal program

We have audited the compliance of Ounce of Prevention Fund (an Illinois not-for-profit organization) and subsidiaries (the Ounce) with the types of compliance requirements described in the U.S. Office of Management and Budget's *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018. The Ounce's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to the Ounce's federal programs.

Auditor's responsibility
Our responsibility is to express an opinion on compliance for each of the Ounce's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Ounce's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Ounce's compliance.

Opinion on each major federal program
In our opinion, the Ounce complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Grant Thornton

Report on internal control over compliance

Management of the Ounce is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Ounce's internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Ounce's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in the Ounce's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this Report on Internal Control Over Compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Chicago, Illinois
March 29, 2019

Ounce of Prevention Fund
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2018

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	___ Yes _X_ No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	___ Yes _X_ None reported
Noncompliance material to financial statements noted?	___ Yes _X_ No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	___ Yes _X_ No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	___ Yes _X_ None reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	___ Yes _X_ No

Identification of major programs:

CFDA number(s)	Name of federal program or cluster
93.600	Head Start
93.505 & 93.870	Maternal, Infant, and Early Childhood Home Visiting (MIECHV) Cluster

Dollar threshold used to distinguish between Type A and Type B programs	$750,000
Auditee qualified as low-risk auditee?	___ Yes _X_ No

II. Financial Statement Findings

None reported.

III. Federal Awards Findings and Questioned Costs

None reported.

OUNCE OF PREVENTION FUND
33 West Monroe Street
Suite 1200
Chicago, IL 60603
P. 312.922.3863
F. 312.346.2981

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Ounce of Prevention Fund
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended June 30, 2018

Finding 2017-001:

CDFA 93.600
U.S. Department of Health and Human Services
Head Start

Maternal, Infant, and Early Childhood Home Visiting (MIECHV) Cluster
CFDA 93.505
Affordable Care Act (ACA) - Maternal, Infant, and Early Childhood Home Visiting Program
CFDA 93.870
Maternal, Infant, and Early Childhood Home Visiting Grant Program

Criteria: Per 2 CFR 200.430, *Compensation – personal services*, (i) *Standards for Documentation of Personnel Expenses* (as well as OMB Circular A-122), charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. Among other requirements, these records must:

- Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities:
- Encompass both federally assisted and all other activities compensated by the non-Federal entity on an integrated basis; and
- Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowed activity or indirect cost activity.

Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that the award recipient's system of internal controls includes processes to review after-the-fact interim charges made to a Federal award based on budget estimates, and that all necessary adjustments be made such that the final amount charges to the Federal award is accurate, and properly allocated.

Condition: At the beginning of the fiscal year, the allocation formulas to different funding sources were uploaded to the payroll system based on budgeted percentages. It is the Ounce's stated policy that employees certify the accuracy of their time on a pay period basis (twice per month) and that a supervisor review and sign-off on the employee's time after the employee has approved. However, for a number of employees selected for audit testing, no support was available to determine whether, during the year, employees certified and supervisors approved

OUNCE OF PREVENTION FUND
33 West Monroe Street
Suite 1200
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F. 312.346.2981

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the continued accuracy of these allocation at the end of each pay period. Therefore, accurate distribution of employee salaries and wages among specific programs could not be determined, due to insufficient supporting information and deficiencies in internal control.

Current Year Update: Re-communication email of the Ounce policy on timecard requirements was sent to all Ounce employees to ensure familiarity with the policy. In addition, the Ounce implemented additional monitoring procedures to identify timecards submitted without the required approvals. Every pay period a timecard status report is reviewed and corrective action is taken immediately for each timecard without appropriate approvals. This finding was not repeated in the current year.

OTHER INFORMATION

STATE OF ILLINOIS - DEPARTMENT OF HUMAN SERVICES
Grant Allowable Cost Summary

GRANT REPORT for the period July 1, 2017 through June 30, 2018
AGENCY NAME: **Ounce of Prevention Fund** **FEIN:** **36-3186328**

		DHS GRANT - FUNDED SERVICES										**All other Programs**	**Mgmt. & General**	**Total**
		Program 1	**Program 2**	**Program 3**	**Program 4**	**Program 5**	**Program 6**	**Program 7**	**Program 8**	**Program 9**	**Program 10**			
	Program Name/Number/Contract Number/Other Identification	FCSWS04116	FCSWS04132	FCSWS04128	FCSWS04122	FCSWS04120	FCSWS00721	FCSWS04086	FCSWS04121	FCSWI00651	FCSWS04096			
A	Direct Program Expenses	273,514	418,434	84,836	625,930	97,712	7,816,495	323,091	302,035	416,468	552,297	44,448,542	5,777,433	61,136,786
B	Allocate Management and General Costs (Note 1)	30,086	7,009	9,332	7,867	10,748	369,935	14,180	7,694	62,470	60,753	5,197,360	(5,777,433)	0
C	SUBTOTAL A + B	303,600	425,443	94,168	633,797	108,460	8,186,430	337,271	309,728	478,938	613,050	49,645,902	0	61,136,786
D	Subtract Unallowable costs per page 2													
E	Add other approved uses (attach documentation)													
F	TOTAL Allowable Costs	303,600	425,443	94,168	633,797	108,460	8,186,430	337,271	309,728	478,938	613,050			
G	Special provisions (see instructions)													
H	Interest Earned (see instructions)													

NOTE 1: Management and General costs are allocated based on: ___ direct salaries, ___ total direct costs, X

State of Illinois
Department of Human Services

UNALLOWABLE COST REPORT

Agency Name: Ounce of Prevention Fund FEIN: 36-3186328

	IDHS GRANT-FUNDED SERVICES				
	PROGRAM 1	PROGRAM 2	PROGRAM 3	PROGRAM 4	PROGRAM 5
Program Name/Number/Contract Number	FCSWS04116	FCSWS04132	FCSWS04128	FCSWS04122	FCSWS04120
Unallowable Costs (see instructions)					
Compensation of Governing Body					
Entertainment					
Associate Dues					
Meetings and Conventions					
Fundraising					
Bad Debt					
Charity and Grants					
Unallowable Interest					
Inventories					
Depreciation of IDHS - Funded Assets					
Cost of Production					
In-Kind Expenses					
Alcoholic Beverages					
Personal Automobile					
Fines and Penalties					
Personal Use Items					
Lobbying					
Unallowable Relocation					
Gratuities					
Political Contributions					
Related Party Transactions					
Costs Where a Conflict of Interest Exists					
Unallowable Cost if Program is Federally Funded or Cost Restricted by Contract (See Instructions)					
Explain:					
Explain:					
Total Unallowable Costs (to line D of Grant Report) - See below if None	0	0	0	0	0

If no unallowable costs are listed, sign and date as follows:
I certify that no unallowable costs are included in either direct costs or allocated Management and General costs on the Grant Report.

Printed Name: Malgorzata (Gosia) Dominiak Title: Controller

Signature: Malgorzata Dominiak Date: 3-26-19

Please visit the following IDHS web page for the instructions mentioned in this form (these instructions are listed in each fiscal years financial reporting web link): http://www.dhs.state.il.us/page.aspx?item=59675

State of Illinois
Department of Human Services

UNALLOWABLE COST REPORT

Agency Name: Ounce of Prevention Fund FEIN: 36-3186328

	IDHS GRANT-FUNDED SERVICES				
	PROGRAM 1	PROGRAM 2	PROGRAM 3	PROGRAM 4	PROGRAM 5
Program Name/Number/Contract Number	FCSWS00721	FCSWS04086	FCSWS04121	FCSWI00651	FCSWS04096
Unallowable Costs (see instructions)					
Compensation of Governing Body					
Entertainment					
Associate Dues					
Meetings and Conventions					
Fundraising					
Bad Debt					
Charity and Grants					
Unallowable Interest					
Inventories					
Depreciation of IDHS - Funded Assets					
Cost of Production					
In-Kind Expenses					
Alcoholic Beverages					
Personal Automobile					
Fines and Penalties					
Personal Use Items					
Lobbying					
Unallowable Relocation					
Gratuities					
Political Contributions					
Related Party Transactions					
Costs Where a Conflict of Interest Exists					
Unallowable Cost if Program is Federally Funded or Cost Restricted by Contract (See Instructions)					
Explain:					
Explain:					
Total Unallowable Costs (to line D of Grant Report) - See below if None	0	0	0	0	0

If no unallowable costs are listed, sign and date as follows:
I certify that no unallowable costs are included in either direct costs or allocated Management and General costs on the Grant Report.

Printed Name: Malgorzata (Gosia) Dominiak Title: Controller

Signature: Malgorzata Dominiak Date: 3-26-19

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