



Consolidated Financial Statements and Report of
Independent Certified Public Accountants

Ounce of Prevention Fund

June 30, 2013 and 2012

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Board of Directors
Ounce of Prevention Fund

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, 2013 and 2012, 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, 2013 and 2012, 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.



Chicago, Illinois
January 28, 2014

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

ASSETS	2013				Total	2012
	Ounce	FFYF	Bounce DC	Eliminations		
CURRENT ASSETS						
Cash and cash equivalents	\$ 6,887,564	\$ 2,417,613	\$ 2,905,701	\$ -	\$ 12,210,878	\$ 9,903,914
Accounts receivable - governmental agencies and other	4,490,638	88	-	(2,057)	4,488,669	5,832,859
Pledges receivable, current	5,206,358	1,575,000	194,064	-	6,975,422	5,288,397
Deposits, prepaid expenses and other assets	123,125	7,752	-	-	130,877	567,246
Total current assets	16,707,685	4,000,453	3,099,765	(2,057)	23,805,846	21,592,416
INVESTMENTS						
Donor and Board designated	21,900,417	-	-	-	21,900,417	20,334,987
Other	2,142,383	-	-	-	2,142,383	2,069,264
Total investments	24,042,800	-	-	-	24,042,800	22,404,251
NOTE RECEIVABLE	-	-	10,700,070	-	10,700,070	-
PLEDGES RECEIVABLE, NET OF CURRENT PORTION	147,958	-	-	-	147,958	3,111,360
PROPERTY, PLANT AND EQUIPMENT, NET	6,773,779	27,161	-	-	6,800,940	20,247,789
TOTAL ASSETS	<u>\$ 47,672,222</u>	<u>\$ 4,027,614</u>	<u>\$ 13,799,835</u>	<u>\$ (2,057)</u>	<u>\$ 65,497,614</u>	<u>\$ 67,355,816</u>
LIABILITIES AND NET ASSETS						
LIABILITIES						
Current liabilities						
Accounts payable and accrued expenses	\$ 5,318,093	\$ 667,672	\$ 139,460	\$ (2,057)	\$ 6,123,168	\$ 7,547,665
Deferred revenue	363,669	-	-	-	363,669	368,029
Total current liabilities	5,681,762	667,672	139,460	(2,057)	6,486,837	7,915,694
Other liabilities	831,136	-	-	-	831,136	739,777
Total liabilities	6,512,898	667,672	139,460	(2,057)	7,317,973	8,655,471
NET ASSETS						
Unrestricted						
Undesignated	10,020,899	27,161	13,398,886	-	23,446,946	23,261,698
Board designated	4,818,840	-	-	-	4,818,840	4,551,844
	14,839,739	27,161	13,398,886	-	28,265,786	27,813,542
Temporarily restricted	11,470,305	3,332,781	261,489	-	15,064,575	15,967,576
Permanently restricted	14,849,280	-	-	-	14,849,280	14,919,227
Total net assets	41,159,324	3,359,942	13,660,375	-	58,179,641	58,700,345
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 47,672,222</u>	<u>\$ 4,027,614</u>	<u>\$ 13,799,835</u>	<u>\$ (2,057)</u>	<u>\$ 65,497,614</u>	<u>\$ 67,355,816</u>

The accompanying notes are an integral part of these statements.

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

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

The accompanying notes are an integral part of this statement.

Ounce of Prevention Fund
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended June 30, 2012

	Ounce			FFYF			Bounce DC			Total				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue and other support														
Grants														
State of Illinois Department of Human Services														
Division of Community Health and Prevention	\$ 11,021,354	\$ -	\$ -	\$ 11,021,354	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,021,354	\$ -	\$ -	\$ 11,021,354
Bureau of Child Care and Development	599,321	-	-	599,321	-	-	-	-	-	-	599,321	-	-	599,321
State of Illinois State Board of Education	2,267,151	-	-	2,267,151	-	-	-	-	-	-	2,267,151	-	-	2,267,151
State of Illinois Department of Children and Family Services	9,613	-	-	9,613	-	-	-	-	-	-	9,613	-	-	9,613
U.S. Department of Health and Human Services	14,092,724	-	-	14,092,724	-	-	-	-	-	-	14,092,724	-	-	14,092,724
U.S. Department of Education	284,679	-	-	284,679	-	-	-	-	-	-	284,679	-	-	284,679
U.S. Department of Agriculture	111,842	-	-	111,842	-	-	-	-	-	-	111,842	-	-	111,842
Chicago Public Schools	1,739,562	-	-	1,739,562	-	-	-	-	-	-	1,739,562	-	-	1,739,562
Contributions														
Corporations, foundations and trusts	1,339,068	12,044,913	75,105	13,459,086	19,320	5,290,254	5,309,574	-	511,427	511,427	1,358,388	17,846,594	75,105	19,280,087
Individuals	535,263	25,000	157,475	717,738	-	-	-	-	-	-	535,263	25,000	157,475	717,738
Investment return and other revenue	331,618	254,749	-	586,367	-	-	-	-	25,922	25,922	331,618	280,671	-	612,289
Donated service/in-kind	416,057	-	-	416,057	180,000	-	180,000	4,547	-	4,547	600,604	-	-	600,604
Net assets released from restrictions	10,596,831	(10,596,831)	-	-	3,188,163	(3,188,163)	-	12,221,427	(12,221,427)	-	26,006,421	(26,006,421)	-	-
Total revenue and other support	43,345,083	1,727,831	232,580	45,305,494	3,387,483	2,102,091	5,489,574	12,225,974	(11,684,078)	541,896	58,958,540	(7,854,156)	232,580	51,336,964
Expenses														
Direct program services														
Child and Family Support Services	7,802,765	-	-	7,802,765	-	-	-	-	-	-	7,802,765	-	-	7,802,765
Illinois Birth to Three Institute	1,953,722	-	-	1,953,722	-	-	-	-	-	-	1,953,722	-	-	1,953,722
Illinois Policy	1,118,252	-	-	1,118,252	-	-	-	-	-	-	1,118,252	-	-	1,118,252
Research	1,149,970	-	-	1,149,970	-	-	-	-	-	-	1,149,970	-	-	1,149,970
Educare Learning Network	2,791,698	-	-	2,791,698	-	-	-	-	-	-	2,791,698	-	-	2,791,698
Ounce National Training Institute	2,949,197	-	-	2,949,197	-	-	-	-	-	-	2,949,197	-	-	2,949,197
National Consultation	1,638,513	-	-	1,638,513	-	-	-	-	-	-	1,638,513	-	-	1,638,513
Special projects/program innovations	2,316,182	-	-	2,316,182	-	-	-	-	-	-	2,316,182	-	-	2,316,182
Total direct program services	21,720,299	-	-	21,720,299	-	-	-	-	-	-	21,720,299	-	-	21,720,299
Subcontracted program services	16,255,690	-	-	16,255,690	-	-	-	-	-	-	16,255,690	-	-	16,255,690
First Five Years Fund	-	-	-	-	2,953,162	-	2,953,162	-	-	-	2,953,162	-	-	2,953,162
Bounce DC	-	-	-	-	-	-	-	1,336,906	-	1,336,906	1,336,906	-	-	1,336,906
Total program services	37,975,989	-	-	37,975,989	2,953,162	-	2,953,162	1,336,906	-	1,336,906	42,266,057	-	-	42,266,057
Supporting services														
General and administrative activities	4,682,007	-	-	4,682,007	443,426	-	443,426	-	-	-	5,125,433	-	-	5,125,433
Fund-raising	1,199,094	-	-	1,199,094	-	-	-	-	-	-	1,199,094	-	-	1,199,094
Total supporting services	5,881,101	-	-	5,881,101	443,426	-	443,426	-	-	-	6,324,527	-	-	6,324,527
Total expenses	43,857,090	-	-	43,857,090	3,396,588	-	3,396,588	1,336,906	-	1,336,906	48,590,584	-	-	48,590,584
CHANGE IN NET ASSETS	(512,007)	1,727,831	232,580	1,448,404	(9,105)	2,102,091	2,092,986	10,889,068	(11,684,078)	(795,010)	10,367,956	(7,854,156)	232,580	2,746,380
Net assets at beginning of year	15,074,852	9,504,595	14,686,647	39,266,094	40,423	231,288	271,711	2,330,311	14,085,849	16,416,160	17,445,586	23,821,732	14,686,647	55,953,965
Net assets at end of year	<u>\$ 14,562,845</u>	<u>\$ 11,232,426</u>	<u>\$ 14,919,227</u>	<u>\$ 40,714,498</u>	<u>\$ 31,318</u>	<u>\$ 2,333,379</u>	<u>\$ 2,364,697</u>	<u>\$ 13,219,379</u>	<u>\$ 2,401,771</u>	<u>\$ 15,621,150</u>	<u>\$ 27,813,542</u>	<u>\$ 15,967,576</u>	<u>\$ 14,919,227</u>	<u>\$ 58,700,345</u>

The accompanying notes are an integral part of this statement.

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

	2013	2012
Cash flows from operating activities		
Change in net assets	\$ (520,704)	\$ 2,746,380
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	610,737	638,290
In-kind contribution related to capital lease of building	342,361	-
In-kind contribution of furniture and equipment	268,844	-
Net realized gains on sales of investments	(681,759)	(408,076)
Net unrealized (gains) losses on investments	(879,780)	1,027,307
Contributions restricted for permanent investment	(35,053)	(232,580)
Decrease (increase) in accounts and pledges receivable	2,303,621	(65,597)
Decrease (increase) in deposits and prepaid expenses	436,369	(179,062)
(Decrease) increase in accounts payable	(973,830)	259,153
Increase in other liabilities	86,998	3,260
Net cash provided by operating activities	957,804	3,789,075
Cash flows from investing activities		
Note receivable	(10,700,070)	-
Proceeds from capital lease of building	12,700,000	-
Purchases of property and equipment	(925,759)	(11,863,082)
Proceeds from sales of investments	903,563	803,303
Purchases of investments	(980,574)	(1,527,150)
Net cash provided by investing activities	997,160	(12,586,929)
Cash flows from financing activities		
Proceeds from contributions restricted for investment in endowment	352,000	935,576
Net cash provided by financing activities	352,000	935,576
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,306,964	(7,862,278)
Cash and cash equivalents at beginning of year	9,903,914	17,766,192
Cash and cash equivalents at end of year	<u>\$ 12,210,878</u>	<u>\$ 9,903,914</u>
Fixed asset additions included in accounts payable as of June 30, 2013	\$ 66,531	\$ 517,197

The accompanying notes are an integral part of these statements.

Ounce of Prevention Fund
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE A - GENERAL

Since its founding in 1982, the Ounce of Prevention Fund (the Ounce) has worked to help low-income children unlock their fullest potential by putting early learning theory into practice with the Ounce's team of strategic experts and its comprehensive pregnancy to birth-to-five approach. The Ounce's mission is to give children in poverty the best chance for success in school and in life by advocating for and providing the highest quality care and education from birth to age five.

The Ounce has made tremendous gains over the last 30 years, having created innovative early learning programs, trained thousands of teachers, advocated for public funding, and researched best practices to test and optimize its approaches. The Ounce remains passionate about helping families, persistent in reaching its goals, continuously working in the spirit of partnership, and always learning and refining while approaching each effort with uncompromising integrity.

The Ounce partners with parents and communities to annually promote the healthy development of more than 25,000 infants, toddlers and preschool children in Illinois, plus countless more nationwide. The Ounce provides family-focused, community-based direct services to more than 4,000 Illinois children from birth to age five and families through Early Head Start and Head Start programs in Chicago's Grand Boulevard community and throughout the city and surrounding counties, as well as across its statewide network of voluntary home visiting programs; conducts specialized training for early childhood professionals working in community agencies throughout Illinois and nationwide; researches and evaluates its programs, and uses outcomes and assessment data to further refine its services; promotes best practices and disseminates lessons learned to inform the early childhood field; provides consultation on early childhood programs and policy to states nationwide; and advocates for public policy changes at the state and federal levels to better serve the needs of children and families in Illinois and across the country. Furthermore, the Ounce promotes and supports the successful implementation of Educare, a research-based, birth-to-five program model that prepares at-risk children for school. Currently, there are 19 operating Educare Schools in 12 states and the District of Columbia serving more than 2,900 young children and their families. The Ounce works in partnership to extend the lessons learned from Educare to inform broader program and policy efforts to improve access to high-quality early learning programs for children and families across the country.

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

The consolidated financial statements separately delineate the revenue and expenses for the First Five Years Fund (FFYF) and Bounce DC. FFYF, a limited liability company wholly owned and operated by the Ounce, was established in May 2007 to lead communications and advocacy efforts that will strengthen federal policies and practices to generate resources for quality early learning programs for at-risk children from birth to age five. As a limited liability company with a single member, FFYF is treated for federal income tax purposes as part of the Ounce and shares its 501(c)(3) status. FFYF is funded through restricted private donations. In November 2009, Bounce DC, a 501(c)(3) supporting organization of the Ounce, was established with the purpose of developing and building Educare DC and funding the broader birth-to-five quality improvement efforts in the District of Columbia. Although Bounce DC and Educare DC are separate 501(c)(3) organizations, they are related parties. They share common representation on their respective boards. Bounce DC also has provided substantial support, financial, technical and managerial, to Educare DC.

Ounce of Prevention Fund
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
June 30, 2013 and 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Cash and Cash Equivalents

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

Property, Plant and Equipment

Purchases of individual fixed assets of \$500 or greater are capitalized and depreciated. Fixed assets are recorded at purchased cost. Depreciation of building and renovation costs is provided over the expected minimum life of the asset (40 years and 15 years, respectively) using the straight-line method. Depreciation of furniture and equipment is provided over the estimated useful lives of the assets (five years) using the straight-line method. Depreciation expense was \$610,737 and \$638,290 for the years ended June 30, 2013 and 2012, 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.

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

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

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

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

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

Investment Valuation

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

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

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

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

Contributions

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

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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 \$268,585 and \$539,833 for the years ended June 30, 2013 and 2012, 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, 2013 and 2012, 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.

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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 a favorable determination letter from the Internal Revenue Service stating that they are exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code of 1986, except for income taxes pertaining to unrelated business income. The Financial Accounting Standards Board issued guidance that requires tax effects from uncertain tax positions to be recognized in the financial statements only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. Management has determined there are no material uncertain tax positions that require recognition in the consolidated financial statements. The Ounce and Bounce DC have not accrued any provision for income taxes as the Ounce and Bounce DC have had no significant unrelated business income. There is no interest or penalties recognized in the consolidated statements of activities or consolidated statements of financial position. The tax years ended 2010, 2011, 2012 and 2013 are still open to audit for both federal and state purposes.

Reclassifications

Certain prior-year information has been reclassified to conform to the current-year presentation.

NOTE C - PROPERTY, PLANT AND EQUIPMENT

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

	<u>2013</u>	<u>2012</u>
Construction in progress - Educare, Washington, D.C.	\$ -	\$12,984,598
Furniture and equipment	4,108,660	5,578,910
Building and leasehold improvements	<u>8,142,703</u>	<u>7,947,677</u>
Total property, plant and equipment	12,251,363	26,511,185
Less accumulated depreciation	<u>(5,450,423)</u>	<u>(6,263,396)</u>
Property, plant and equipment, net	<u>\$ 6,800,940</u>	<u>\$20,247,789</u>

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NOTE D - PROMISES TO GIVE

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

	<u>2013</u>	<u>2012</u>
Corporations, foundations, individuals and trusts	\$7,125,422	\$8,427,613
Less unamortized discount	<u>(2,042)</u>	<u>(27,856)</u>
Net unconditional promises to give	<u>\$7,123,380</u>	<u>\$8,399,757</u>
Amounts due in		
Less than one year	\$6,975,422	\$5,288,397
One to five years	<u>150,000</u>	<u>3,139,216</u>
Total	<u>\$7,125,422</u>	<u>\$8,427,613</u>

Pledges at June 30, 2013 and 2012, were discounted using risk-adjusted interest rates ranging from 0.73% to 1.38%. The Ounce believes that the pledges shown above are fully collectible; therefore, an allowance for doubtful accounts is not necessary.

As of June 30, 2013, approximately 21% of accounts receivable were due from one federal agency, 15% from one state agency, 23% from one foundation and 8% from another foundation. As of June 30, 2012, approximately 12% of accounts receivable were due from one federal agency, 23% from one state agency, 37% from one foundation and 7% from another foundation.

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

NOTE E - NMTC NOTE RECEIVABLE

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

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

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

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

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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, 2013 and 2012, is summarized as follows:

	2013			2012		
	Board designated	Other	Total	Board designated	Other	Total
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 542	\$ -	\$ 542
Publicly traded						
Money market funds	261,800	-	261,800	834,007	-	834,007
Equity securities	8,971,179	-	8,971,179	9,066,273	-	9,066,273
Mutual funds	11,153,067	-	11,153,067	9,288,060	-	9,288,060
Bonds	1,370,743	-	1,370,743	1,146,105	-	1,146,105
Supplemental employees' retirement plan (mutual funds)	-	383,373	383,373	-	310,254	310,254
Total publicly traded	21,756,789	383,373	22,140,162	20,334,987	310,254	20,645,241
Other investments						
Limited partnerships	143,628	1,759,010	1,902,638	-	1,759,010	1,759,010
Total	\$21,900,417	\$2,142,383	\$24,042,800	\$20,334,987	\$2,069,264	\$22,404,251

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

	2013	2012
Interest and dividend income	\$1,198,841	\$ 957,528
Unrealized gains (losses), net	879,780	(1,027,307)
Realized gains, net	681,759	408,076
Total investment return	2,760,380	338,297
Other revenue	287,113	273,992
Gains/losses	231,156	-
Total investment return, other revenue and gains/losses	\$3,278,649	\$ 612,289

Included in interest and dividend income are \$563,904 and \$340,032 in distributions from the cost method limited partnership for the years ended June 30, 2013 and 2012, respectively.

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

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

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, 2012:

	<u>Level 1</u>
Money market funds	\$ 834,007
Equity securities	9,066,273
Mutual funds	9,598,313
Bonds	<u>1,146,105</u>
Total	<u>\$20,644,698</u>

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

	<u>Limited partnership</u>
Balance as of June 30, 2012	\$ -
Purchases	150,000
Unrealized losses	<u>(6,372)</u>
Balance as of June 30, 2013	<u>\$143,628</u>

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

The following provides additional information about the investment recorded at NAV at June 30, 2013.

Covenant Apartment Fund VII (the Fund) acquires multi-family communities in southeast and mid-Atlantic states with the goal of completing value-add renovations and increasing operating income. The Fund is expected to make quarterly income distributions as the renovation programs are completed at the underlying communities. A typical hold period for each property is four to six years, though the Fund will seek to return a portion of investor capital earlier by refinancing stabilized assets. The Fund's valuation policy is to hold an asset at cost during the first year of ownership, and then assign a fair market value based on each asset's operating performance. At June 30, 2013, this limited partnership had a fair value of \$143,628. The Fund's

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December 2012 financial statements were prepared in accordance with U.S. GAAP. At June 30, 2013, the Ounce had unfunded commitments of approximately \$350,000 related to this investment. This amount is not reflected in the financial statements as a liability.

NOTE G - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets include gifts of cash and other assets for which donor-imposed restrictions have not yet been met and for which the ultimate purpose of the proceeds is not permanently restricted. Temporarily restricted net assets at June 30, 2013 and 2012, are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Child and Family Support Services	\$ 847,864	\$ 1,000,020
Illinois Birth to Three Institute	117,931	112,490
Illinois Policy	715,510	681,446
Research	428,243	561,997
Educare Learning Network	5,102,956	5,239,864
Ounce National Training Institute	551,546	405,692
National Consultation	77,000	206,584
Special Projects/Program Innovation	608,428	44,365
First Five Years Fund	3,332,780	2,333,378
Time or other restricted	3,020,828	2,979,969
Bounce DC	<u>261,489</u>	<u>2,401,771</u>
Total	<u>\$15,064,575</u>	<u>\$15,967,576</u>

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

	<u>2013</u>	<u>2012</u>
Endowments	\$14,560,749	\$14,208,749
Pledges receivable	<u>288,531</u>	<u>710,478</u>
Total	<u>\$14,849,280</u>	<u>\$14,919,227</u>

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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, 2013 and 2012, as follows:

	<u>2013</u>	<u>2012</u>
Child and Family Support Services	\$ 820,205	\$ 697,399
Illinois Birth to Three Institute	4,560	1,306
Illinois Policy	796,898	894,020
Research	410,156	399,613
Educare Learning Network	3,926,209	4,410,422
Ounce National Training Institute	384,146	392,874
National Consultation	2,841,330	2,618,038
Special Projects/Program Innovation	821,652	47,660
First Five Years Fund	3,530,204	3,188,163
Time or Other Restricted	1,618,971	1,135,499
Bounce DC	<u>2,563,516</u>	<u>12,221,427</u>
Total	<u>\$17,717,847</u>	<u>\$26,006,421</u>

NOTE I - ENDOWMENT NET ASSETS

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

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

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

It is the policy of the Ounce to manage the endowment fund in a manner that will, at a minimum, preserve and maintain the real purchasing power of the principal while allowing for annual distributions to the operating budget. The Ounce has a board-approved distribution policy calculated annually as part of the

Ounce of Prevention Fund
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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, 2013, is as follows:

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

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

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

The endowment net asset composition by type of fund as of June 30, 2012, is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$1,574,394	\$14,208,749	\$15,783,143
Board-designated endowment funds	<u>4,551,844</u>	<u>-</u>	<u>-</u>	<u>4,551,844</u>
Total	<u>\$4,551,844</u>	<u>\$1,574,394</u>	<u>\$14,208,749</u>	<u>\$20,334,987</u>

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The changes in endowment net assets for the fiscal year ended June 30, 2012, are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$4,832,981	\$2,113,970	\$13,273,173	\$20,220,124
Investment return				
Investment income	131,133	454,691	-	585,824
Net depreciation (realized and unrealized)	(135,029)	(468,203)	-	(603,232)
Contributions	-	-	935,576	935,576
Appropriation of endowment assets for expenditures of endowment funds	<u>(277,241)</u>	<u>(526,064)</u>	<u>-</u>	<u>(803,305)</u>
Endowment net assets, end of year	<u>\$4,551,844</u>	<u>\$1,574,394</u>	<u>\$14,208,749</u>	<u>\$20,334,987</u>

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 \$1,241,748 and \$1,157,995 for the years ended June 30, 2013 and 2012, respectively. Office leases expire during fiscal years 2014 through 2022 and require minimum annual lease payments as follows as of June 30, 2013:

Years ending June 30,

2014	\$ 991,031
2015	979,306
2016	997,338
2017	1,015,382
2018	1,033,438
Thereafter	<u>3,373,816</u>
Total	<u>\$8,390,311</u>

The Ounce has a line-of-credit agreement with a bank in the amount of \$6,000,000. No amounts were outstanding under this agreement as of June 30, 2013 and 2012. The interest rate is equal to the daily LIBOR rate plus 1.75% and the expiration date is March 24, 2015.

NOTE K - RETIREMENT PLANS

The Ounce began sponsoring a defined contribution 401(k) retirement plan (the Plan) in fiscal year 2000. Participants may elect to contribute a percentage of their salaries to the Plan. The Ounce contributed 3% of

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each participant's annual compensation to the Plan in 2013 and 2012. The Ounce recorded contributions of \$354,373 and \$358,841 during the years ended June 30, 2013 and 2012, 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 2013 and 2012.

NOTE L - EDUCARE CHICAGO BUILDING

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

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

The Ounce depreciates the leasehold improvements cost over 40 years, the estimated useful life of the building, and the related expense is included in total depreciation expense. Donated rent by the Board of Education is recorded in the consolidated statements of activities as a gift in-kind, with an offsetting amount to rent expense. Contributed rent was approximately \$55,600 for the years ended June 30, 2013 and 2012.

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, 2013 and 2012. The Ounce did not experience any losses in such accounts during this period and believes it is not exposed to any significant credit risk.

NOTE N - RELATED PARTIES

Donations to the Ounce from members of the board of directors were \$563,711 and \$515,750 for the years ended June 30, 2013 and 2012, respectively.

In September 2012, Bounce DC, as a leverage lender, and Educare DC, as program operator, were part of an NMTTC transaction that resulted in nearly \$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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
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NOTE O - RECONCILIATION OF SF-425 WITH AUDIT REPORT

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

Amounts on the schedule of expenditures of federal awards for 05CH6100/28 for the year ended June 30, 2012	\$ 6,924,308
Amounts on the schedule of expenditures of federal awards for 05CH6100/28 for the year ended June 30, 2013	<u>7,005,587</u>
Total federal share of net outlays on SF-425 for the year ended December 31, 2012	<u>\$13,929,895</u>

NOTE P - CAPITAL LEASE AND IN-KIND CONTRIBUTION

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

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

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

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

Details of the transaction were as follows:

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

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NOTE Q - SUBSEQUENT EVENTS

The Ounce evaluated its June 30, 2013, consolidated financial statements for subsequent events through January 28, 2014, the date the consolidated financial statements were available to be issued. The Ounce is not aware of any subsequent events that would require recognition or disclosure in the financial statements.