VIRGINIA EARLY CHILDHOOD FOUNDATION 2018 ANNUAL REPORT TO STAKEHOLDERS

VECF is Virginia's School Readiness Entrepreneur

To our Stakeholders and Investors:

The Virginia Early Childhood Foundation (VECF) was launched thirteen years ago by business and education leaders who recognized the role that early childhood development plays in laying a strong foundation for Virginia's youngest citizens, helping to ensure their success in school -- and in life. Brain science has taught us that becoming a healthy, school-ready kindergartner begins very early – even in the months prior to birth. And, with 70% of young children living in families with all parents in the workforce, we know that early childhood education is a double win: a critical workforce support for today's workers as well as a school readiness opportunity for the generation at the start of the workforce pipeline. With these dynamics, we're fortunate to have the partnership of the Virginia business community in shifting the conversation about early childhood development to a workforce issue, driving home the link between quality experiences in the early years and job preparedness, and what that means in return on investment for our state.

VECF has made strides in building a strong and sustained focus on school readiness in Virginia, highlighting the importance of public-private partnerships, regionally-driven solutions, and ultimately, the need for a systemic and state-wide business plan for school readiness. In short, VECF is working to make a cohesive whole of the many working parts of a system so that all families and children in Virginia have opportunities to thrive. The problems and solutions are complex, but Virginia is at a tipping point, well-positioned to build on the efforts and learnings of VECF, local Smart Beginnings initiatives, and many other partners toward the goal of an equitable, efficient, accountable, high-quality early childhood system.

Fostering Public-Private Partnerships – VECF, along with our business partners, recognizes that early childhood education must be a public-private endeavor. Equitable solutions will not derive from one sector alone. VECF and Smart Beginnings partners (intentionally built as coalitions of public and private representatives) have maximized state investments by leveraging additional resources for school readiness, yielding an impressive return for the state. In FY18 alone, the resources leveraged through VECF's appropriation were 27:1.

Linking Local and Regional Solutions to State Policy – Communities across our richly diverse state have unique challenges and assets – and require different strategies for success. By nurturing innovation and building local capacity through the Smart Beginnings network, VECF catalyzes solutions that inform state policy and budget decisions. This approach is bolstering Virginia's ability to forge collaborative, regionally-driven paths to success.

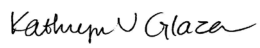
Driving Data-Informed Decisions – Increasingly, state and community leaders need better data to inform effective early childhood investments and interventions. VECF believes in the power of actionable information through effective data and analytic systems and convenes partners with influence and expertise to ensure Virginia's capacity to build and sustain systems and expertise that inform policy and financing solutions.

Integrated Financing – The programs and funding that support young children's school readiness are a patchwork that encompasses 40-plus line items across 8 state agencies in Virginia's budget, as well as incorporates funds from 7 programs across multiple federal agencies. To achieve more efficient and effective use of precious resources, VECF is exploring implementation of entrepreneurial integrated financing strategies at both the state and community levels.

Over more than a dozen years, VECF and partners in the health, education, business, and social service sectors, as well as leaders in the executive and legislative branches, have laid important groundwork for a united early childhood system in Virginia. Now, hand and in hand with Virginia's business community, we've outlined a framework to articulate Virginia's enduring early childhood goals, principles, and standards in statute, leveraging an array of programs to form a powerful comprehensive strategy. Thank you for your valued interest and support of this transformative work.

Together, let's get it on the record that Virginia values the early years and their inextricable link to our future economic success.

Bill Ermatinger
Chairman

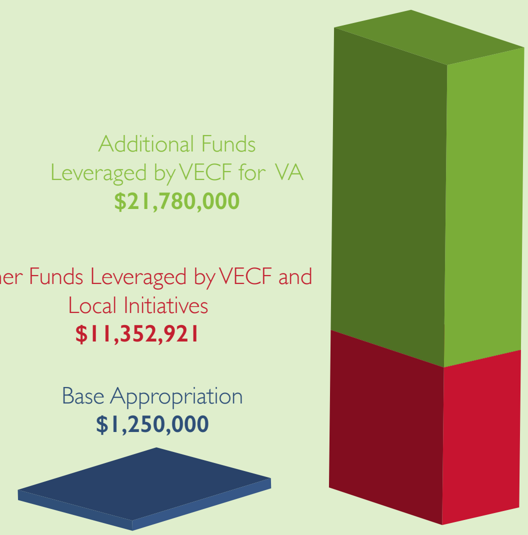


Kathy Glazer
President

VECF'S FINANCIAL STEWARDSHIP

Fundraising	1%
Management & General	4%
Public Awareness/Engagement	2%

FY18 Program Expenses
$5,365,426



FY18 Leveraged Funds for School Readiness in Virginia
$33,132,921

(27:1 ratio from base appropriation)

FINANCIAL INFORMATION

STATEMENT OF FINANCIAL POSITION

June 30, 2018

ASSETS

Current Assets	
Cash & Cash Equivalents	$4,141,421
Accounts Receivable	
Grants Receivable	172,565
Contributions Receivable	3,595
Other Receivables	30,313
Prepaid Expenses	32,189
Other Assets	3,767
Total Current Assets	**4,383,850**
Property and Equipment	
Furniture & Fixtures	29,999
Accumulated Depreciation	(22,549)
Total Property and Equipment	**7,450**
Total Assets	**$4,391,300**

LIABILITIES & NET ASSETS

Current Liabilities	
Accounts Payable	$247,804
Grants Payable	529,909
Accrued Expenses	57,645
Total Current Liabilities	**835,358**
Net Assets	
Unrestricted	1,087,689
Temporarily Restricted	2,468,253
Total Net Assets	**3,555,942**
Total Liabilities & Net Assets	**$4,391,300**

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

PUBLIC SUPPORT & REVENUE

Public Support	
Contributions	
Individual & Board Contributions	$57,775
Corporations	307,595
Foundations & Organizations	684,510
Total Public Support	**1,049,880**
Revenue	
Government Grants	4,549,185
Interest Revenue	1,852
Total Revenue	**4,551,037**
Total Support & Revenue	**$5,600,917**

EXPENSES

Program Services	$5,085,513
Management & General	224,218
Fundraising	50,695
Lobbying	5,000
Total Expenses	**5,365,426**
Change in Net Assets	**235,491**
Net Assets, Beginning	**3,320,451**
Net Assets, Ending	**$3,555,942**

FY 2018 DONORS

The Virginia Early Childhood Foundation is able to provide the vision and leadership essential to advancing school readiness for Virgina's children because of the generosity and commitment of its funding partners. VECF proudly thanks and recognizes the following donors for their contributions between July 1, 2017 and June 30, 2018.

STAKEHOLDERS ($1 MILLION +)

Virginia General Assembly: Virginia Department of Education

Temporary Assistance for Needy Families Fund: Virginia Department of Social Services

INVESTOR ($100,000-$500,000)

Child Care and Development Fund: Virginia Department of Social Services

Preschool Development Grant Fund: Center for Advanced Teaching and Learning, University of Virginia

Dominion Energy

W.K. Kellogg Foundation

Nemours, National Office of Policy & Prevention via a cooperative agreement from The Centers for Disease Control and Prevention

CAPACITY BUILDER ($50,000-$99,999)

The Community Foundation Serving Richmond and Central Virginia

Huntington Ingalls Industries

Smithfield Foundation

INNOVATOR ($25,000-$49,999)

Norfolk Southern Foundation

Robins Foundation

Tobacco Region Revitalization Commission

Wells Fargo

QUALITY CHAMPION ($10,000-$24,999)

The Community Foundation, on behalf of the Virginia Children's Hospital Alliance

Mr. and Mrs. Ben J. Davenport, Jr.

Washington Gas

CONVENER ($5,000 - $9,999)

Cathy's Foundation, Bowlman T. Bowles, Jr., Trustees

Adrian and Jan Chapman

Thomas and Nancy J. Chewning Fund of The Community Foundation Serving Richmond and Central Virginia

Bill and Karie Ermatinger

Troutman Sanders

Jim and Bobbie Ukrop

Virginia Natural Gas

John Weinberg

PARTNER ($2,500 - $4,999)

Kathy Glazer

Reggie and Joy Jones

Williams Mullen

PATRON ($1,000 - $2,499)

Call Federal Credit Union

Alexandra Cunningham

Dr. Deborah M. DiCroce

Glenn DuBois

Bill and Cindy Hazel

Ned W. Massee

Monica Q. & Barry I. Matherly

William "Biff" Rees, MD, MBA

Pamela J. Royal, M.D. and C.N. Jenkins, Jr.

Nicholas Sladic

Successful Innovations, Inc.

BENEFACTOR ($250 - $999)

Kevin Curtis

Darla Edwards

Mr. and Mrs. Mark Gordon

The Halton Family

Robert Hurt

Independence United Methodist Church

Deborah Jonas

Douglas Miller & Denis Mo*

Jeff and Marilyn Rice

Gale and Bill Roberts

Cynthia Romero

FRIEND (Up to $249)

Anonymous (3)*

David & Rita Albo*

Karin and Churchill Bowles

Sharon and Rob Brager

Jeff Hansen and Kathleen Brady*

Central Rappahannock Regional Library

Ted and Siobhan Cooper*

Charles G. & Carol E. Ellis**

James Goalder

Amy Hatheway

Nancy Hoites

Reggie and Joy Jones*

Keenum Family

Jackie Makishi

Valerie Manu

Betsy and Speaker Pollard

Beth D. Rhinehart

Angela Rice

Susan Bailey and Sidney Buford Scott Endowment Trust

Alyson Williams

GIFTS IN-KIND

Alliance for Early Success

*Gifts made in honor of Jeff Novak and Libby Sherwin.

**Gift made in memory of Senator John Miller.

We have made every attempt to ensure the accuracy of this listing. If you notice an error, please contact us at **(804) 358-8323.**

MitchellWiggins

CERTIFIED PUBLIC ACCOUNTANTS

Virginia Early Childhood Foundation

Financial Statements

June 30, 2018 and 2017

Virginia Early Childhood Foundation

Table of Contents

Mitchell Wiggins

Certified Public Accountants

Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards

Board of Directors
Virginia Early Childhood Foundation
Richmond, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Virginia Early Childhood Foundation (VECF), which comprise the statement of financial position as of June 30, 2018 and 2017, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 entity'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 entity'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 VECF as of June 30, 2018 and 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 Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2018, on our consideration of VECF'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 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 VECF'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 VECF's internal control over financial reporting and compliance.

Mitchell Wiggins

Petersburg, Virginia
September 26, 2018

Virginia Early Childhood Foundation

Statements of Financial Position
June 30, 2018 and 2017

Assets	**2018**	2017
Cash and cash equivalents	**$4,141,421**	$3,566,210
Grants receivable	**172,565**	301,220
Contributions receivable	**3,595**	154,200
Other receivables	**30,313**	93,395
Prepaid expenses	**32,189**	17,843
Deposit	**3,767**	3,767
Property and equipment, net	**7,450**	3,904
Total assets	**4,391,300**	4,140,539

Liabilities and Net Assets		
Liabilities		
Accounts payable	**247,804**	95,806
Grants payable	**529,909**	681,487
Accrued expenses	**57,645**	42,795
Total liabilities	**835,358**	820,088
Net Assets		
Unrestricted	**1,087,689**	1,241,072
Temporarily restricted	**2,468,253**	2,079,379
Total net assets	**3,555,942**	3,320,451
Total liabilities and net assets	**$4,391,300**	$4,140,539

See Notes to Financial Statements

Virginia Early Childhood Foundation

Statement of Activities
Year ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
Revenues and Other Support			
Direct public support	$ 245,561	$ 804,319	$ 1,049,880
Government grants	-	4,549,185	4,549,185
Interest income	1,852	-	1,852
Net assets released from restrictions	4,964,630	(4,964,630)	-
Total revenues and other support	5,212,043	388,874	5,600,917
Expenses			
Program services	5,090,513	-	5,090,513
Fundraising	50,695	-	50,695
Management and general	224,218	-	224,218
Total expenses	5,365,426	-	5,365,426
Change in net assets	(153,383)	388,874	235,491
Net assets, beginning	1,241,072	2,079,379	3,320,451
Net assets, ending	$ 1,087,689	$ 2,468,253	$ 3,555,942

See Notes to Financial Statements

Virginia Early Childhood Foundation

Statement of Activities
Year ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total
Revenues and Other Support			
Direct public support	$ 337,054	$ 478,000	$ 815,054
Government grants	-	4,295,967	4,295,967
Interest income	1,607	-	1,607
Net assets released from restrictions	3,838,404	(3,838,404)	-
Total revenues and other support	4,177,065	935,563	5,112,628
Expenses			
Program services	3,700,490	-	3,700,490
Fundraising	32,079	-	32,079
Management and general	122,621	-	122,621
Total expenses	3,855,190	-	3,855,190
Change in net assets	321,875	935,563	1,257,438
Net assets, beginning	919,197	1,143,816	2,063,013
Net assets, ending	$ 1,241,072	$ 2,079,379	$ 3,320,451

See Notes to Financial Statements

Virginia Early Childhood Foundation

Statement of Functional Expenses
Year Ended June 30, 2018

	Programs	Management and General	Fundraising	Total
Salaries	$ 668,679	$ 61,615	$ 38,886	$ 769,180
Payroll taxes	49,055	3,062	2,671	54,788
Employee benefits	113,212	9,818	5,620	128,650
Total salaries and related expenses	830,946	74,495	47,177	952,618
Advertising	445	345	-	790
Contractual and professional services	929,754	117,248	-	1,047,002
Depreciation	2,280	204	125	2,609
Dues and subscritpions	5,293	474	300	6,067
Grants to others	2,951,748	-	-	2,951,748
Insurance	1,080	97	59	1,236
Lobbying	5,000	-	-	5,000
Meetings and events	43,738	12,178	-	55,916
Miscellaneous	660	1,417	-	2,077
Professional development	5,482	786	-	6,268
Rent	42,663	3,825	2,422	48,910
Repairs and maintenance	10,781	967	612	12,360
Subrecipient awards	218,659	-	-	218,659
Supplies and postage	2,670	6,107	-	8,777
Telephone	5,282	2,722	-	8,004
Travel	34,032	3,353	-	37,385
Total expenses	$ 5,090,513	$ 224,218	$ 50,695	$ 5,365,426

See Notes to Financial Statements

Virginia Early Childhood Foundation

Statement of Functional Expenses
Year Ended June 30, 2017

	Programs	Management and General	Fundraising	Total
Salaries	$ 779,925	$ 46,672	$ 17,934	$ 844,531
Payroll taxes	58,891	3,524	1,354	63,769
Employee benefits	143,599	8,721	1,456	153,776
Total salaries and related expenses	982,415	58,917	20,744	1,062,076
Advertising	25	220	-	245
Contractual and professional services	533,513	46,705	7,816	588,034
Depreciation	1,226	56	111	1,393
Dues and subscritpions	7,840	3,136	2,438	13,414
Grants to others	1,801,787	-	-	1,801,787
Insurance	3,491	159	317	3,967
Lobbying	6,779	-	-	6,779
Meetings and events	76,229	2,140	-	78,369
Miscellaneous	-	416	-	416
Professional development	7,607	-	-	7,607
Rent	42,501	4,984	-	47,485
Repairs and maintenance	10,349	2,504	653	13,506
Subrecipient awards	170,741	-	-	170,741
Supplies and postage	11,009	2,274	-	13,283
Telephone	7,931	1,095	-	9,026
Travel	37,047	15	-	37,062
Total expenses	$ 3,700,490	$ 122,621	$ 32,079	$ 3,855,190

See Notes to Financial Statements

Virginia Early Childhood Foundation

Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flow from Operating Activities		
Changes in net assets	**$ 235,491**	$ 1,257,438
Adjustments to reconcile changes in net assets to net cash and cash equivalents provided by (used in) operating activities		
Depreciation	**2,609**	1,393
Changes in operating assets		
Grants receivable	**128,655**	(144,042)
Contributions receivable	**150,605**	39,537
Grant advance	**-**	4,989
Prepaid expenses	**(14,346)**	(6,111)
Other receivables	**63,082**	(93,395)
Changes in operating liabilities		
Accounts payable	**151,998**	35,542
Grants payable	**(151,578)**	544,245
Accrued expenses	**14,850**	6,424
Net cash and cash equivalents provided by operating activities	**581,366**	1,646,020
Cash Flow from Investing Activities		
Purchase of property and equipment	**(6,155)**	(4,611)
Net cash and cash equivalents (used in) investing activities	**(6,155)**	(4,611)
Net change in cash and cash equivalents	**575,211**	1,641,409
Cash and cash equivalents, beginning	**3,566,210**	1,924,801
Cash and cash equivalents, ending	**$ 4,141,421**	$ 3,566,210

See Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

The Virginia Early Childhood Foundation (the Foundation) is a non-profit corporation organized exclusively for educational and charitable purposes, to promote, aid, and encourage early childhood education and services in the Commonwealth of Virginia, alone or in cooperation with governmental or other private bodies or agencies. The Foundation is funded primarily from contributions and governmental grants.

A summary of the Foundation's significant accounting policies follows:

Method of accounting
The financial statements of the Foundation have been prepared utilizing the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis of presentation
The financial statement presentation follows the requirements of the Financial Accounting Standards Board in its Accounting Standards Codification Topic (ASC) 958 Not-for-Profit Entities. Under ASC 958, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets
Unrestricted net assets are those which are not restricted by donors and are available for unrestricted use unless specifically restricted by the donor. In general, the unrestricted net assets of the Foundation may be used at the discretion of the Foundation's management and Board of Directors to support the Foundation's purpose and operations.

Temporarily restricted net assets
Temporarily restricted net assets are those which are subject to donor imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. When the restriction is met in the same period as the contribution is received, the contribution is recorded as unrestricted for financial statement purposes.

Permanently restricted net assets
Permanently restricted net assets are those which are subject to donor imposed stipulations that are maintained permanently by the Foundation to use all or part of the income earned on any related investments for general or specific purposes. The Foundation had no permanently restricted net assets as of June 30, 2018 and 2017.

Note 1. Summary of Significant Accounting Policies (continued)

Cash and cash equivalents
For purposes of the statements of cash flows, the Foundation includes all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months as cash and cash equivalents. The Foundation had cash balances in financial institutions that exceeded federal depository insurance limits at June 30, 2018 and 2017.

Grants receivable and contributions receivable
Contributions and grants receivable are recorded as received. Contributions and grants receivable due in the next year are reflected as current contributions and grants receivable and are recorded at their net realizable value. Contributions and grants receivable due in subsequent years are reflected as long-term contributions and grants receivable are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises to give are received to discount the amounts. An allowance for uncollectible contributions and grants receivable is provided based on management's evaluation of potential uncollectible contributions and grants receivable at year end. No allowance for uncollectible accounts has been provided because management has evaluated the receivables and believes they are fully collectible.

Property and equipment
Expenditures for the acquisition of property and equipment over $1,000 are capitalized at cost or, if donated, at fair market value at the date of the gift. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to five years. Maintenance and repairs are charged to expense when incurred.

Revenue recognition
Contributions which include unconditional promises to give are recognized as revenues in the period received or promised. Conditional contributions are recorded when the conditions have been substantially met. Contributions are considered to be unrestricted unless specifically restricted by the donor. Program support grants are recognized as revenue at the time of the award if they are unconditional.

The Foundation reports grants and contributions in the temporarily restricted net asset class if they are received with donor stipulations as to their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released and reclassified to unrestricted net assets in the statements of activities. However, if restrictions on grants and contributions are met in the same reporting period as the grant or contribution is received, the revenues are reported as increases in unrestricted net assets.

Note 1. Summary of Significant Accounting Policies (continued)

Revenues from cost reimbursement grants are recognized to the extent allowable expenses are incurred under the respective agreements. Amounts reported as grants and contributions receivable include grant program expenses incurred in advance of the receipt of funds as well as program support grants that have been awarded but not received. Funds received in advance of grant program expenses are reported as deferred revenue.

Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Income taxes
The Foundation is exempt from Federal income taxes as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Foundation's tax-exempt purpose may be subject to taxation as unrelated business income. The Foundation had no unrelated business income during the years ended June 30, 2018 and 2017. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1).

The Foundation follows generally accepted accounting principles regarding "Accounting for Uncertain Tax Positions." This standard provides detailed guidance for financial statement recognition, measurement, and disclosure of uncertain tax positions recognized in the Foundation's financial statements. It requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will not be sustained upon examination. The Foundation has determined that it does not have any material unrecognized tax benefits or obligations at June 30, 2018 and 2017. The tax years of 2015 to 2017 remain subject to examination by the taxing authorities.

The Foundation includes penalties and interest assessed by income taxing authorities in operating expenses. The Foundation did not have penalties and interest expenses for the years ended June 30, 2018 and 2017.

Advertising costs
Advertising costs are expensed as incurred and amounted to $790 and $245, respectively, for the years ended June 30, 2018 and 2017.

Reclassifications
Certain accounts relating to the prior year have been reclassified to conform to the current year's presentation.

Note 1. Summary of Significant Accounting Policies (continued)

Reclassifications
Certain accounts relating to the prior year have been reclassified to conform to the current year's presentation.

In-kind contributions/expenses
Donated goods and services are recorded at fair market value at the date of the donation. Donated services are recognized in the financial statements at their fair value if the following criterias are met:

- The services require specialized skills and are provided by individuals possessing those skills, and the services would typically need to be purchased if not donated; or
- The services enhance or create an asset.

Although the Foundation utilizes the services of many outside volunteers, the fair value of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under generally accepted accounting principles.

Note 2. Property and Equipment

Property and equipment at cost, less accumulated depreciation, as of June 30, 2018 and 2017 on the statements of financial position include the following major classifications:

	2018	2017
Equipment	$29,999	$23,844
	29,999	23,844
Less accumulated depreciation	(22,549)	(19,940)
	$ 7,450	$ 3,904

Note 3. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods as of June 30, 2018 and 2017:

	2018	2017
Early Childhood Programs, Initatives and Technical Assistance	$2,468,253	$2,079,379
	$2,468,253	$2,079,379

Note 3. Temporarily Restricted Net Assets (continued)

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restriction specified by donors and grantors as of June 30, 2018 and 2017 and are as follows:

	2018	2017
Early Childhood Programs, Initiatives and Technical Assistance	$4,964,630	$3,838,404
	$4,964,630	$3,838,404

Note 4. Functional Allocation of Expenses

The cost of providing various programs and other activities has been summarized on a functional basis in the statements of activities and the statements of functional expenses. Accordingly, certain costs have been statistically allocated among the programs and supporting services benefited. Expenses that relate to a specific program or supporting service are allocated directly.

Note 5. Lease Commitments

The Foundation leases office space in Richmond, Virginia under a five-year agreement that expires in October 2019. Total rental expense under this lease agreement was $48,910 and $47,485, respectively, for the years ended June 30, 2018 and 2017. The total future minimum rental commitment at June 30, 2018 is due as follows:

June 30, 2019	$ 50,377
June 30, 2020	16,957
	$ 67,334

In addition to the above lease, the Foundation leases a copier machine for $313 a month on a month-to-month basis. Total rental expense under this lease agreement was $3,699 and $389, respectively, for the years ended June 30, 2018 and 2017.

Note 6. Retirement Plan

Employees participate in a tax-deferred annuity plan that is subject to Section 403(b) of the Internal Revenue Code. The tax deferred annuity plan was established to allow employees the opportunity to contribute toward their retirement benefits. The Foundation is not required to contribute to this tax-deferred annuity plan. It was established only for employees to make contributions up to the maximum contribution permitted by the Internal Revenue Code. Employees also participate in a simplified employee pension plan in which the Foundation contributes 6% of the employee's total wages. Total retirement expense was $44,220 and $48,320, respectively, for the years ended June 30, 2018 and 2017.

Note 7. Related-Party Transactions

The Foundation contracted with a company for lobbying and education activities, in which a board member is a partner. The Foundation followed protocol outlined in its conflict of interest policy, to ensure that there was no conflict of interest regarding these services. As of June 30, 2018 and 2017, total costs for services rendered were $26,250 and $45,000, respectively.

Note 8. Economic Dependency

For the years ended June 30, 2018 and 2017, approximately 94% and 74% of total revenues and other support came from three and two funding sources, respectively. A significant reduction in the level of this support, if this were to occur, may have a significant effect on the Foundation's programs and activities.

For the years ended June 30, 2018 and 2017, approximately 98% and 84% of total contributions and grants receivable, or $172,108 and $428,016, represents amounts due from four funding sources.

Note 9. Subsequent Events

Management has evaluated subsequent events through September 26, 2018, the date which the financial statements were available for issue.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with Government Auditing Standards

Board of Directors
Virginia Early Childhood Foundation
Richmond, Virginia

We have audited, in accordance with the 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 financial statements of Virginia Early Childhood Foundation, which comprise the statements of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 26, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Virginia Early Childhood Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Virginia Early Childhood Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of Virginia Early Childhood Foundation'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 entity'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. However, material weaknesses or significant deficiencies may exist that may not have been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Virginia Early Childhood Foundation'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*.

Purpose of this Report

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mitchell Wiggins

Petersburg, Virginia
September 26, 2018

Mitchell Wiggins

Certified Public Accountants

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by The Uniform Guidance

Board of Directors
Virginia Early Childhood Foundation
Richmond, Virginia

Report on Compliance for Each Major Federal Program

We have audited Virginia Early Childhood Foundation's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Virginia Early Childhood Foundation's major federal programs for the year ended June 30, 2018. Virginia Early Childhood Foundation'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 its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Virginia Early Childhood Foundation'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 Virginia Early Childhood Foundation'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 Virginia Early Childhood Foundation's compliance.

Opinion on Each Major Federal Program

In our opinion, Virginia Early Childhood Foundation 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.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-002. Our opinion on each major federal program is not modified with respect to these matters.

Virginia Early Childhood Foundation's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Virginia Early Childhood Foundation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Virginia Early Childhood Foundation 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 Virginia Early Childhood Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing 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 Virginia Early Childhood Foundation'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 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. We did not identify any deficiencies in 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.

Mitchell Wiggins

Petersburg, Virginia
September 26, 2018

Virginia Early Childhood Foundation

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
United States Department of Health and Human Services/				
Virginia Department of Social Services				
Temporary Assistance to Needy Families (TANF)	93.558	OECD-16-090	$ 785,065	$ 1,233,981
United States Department of Health and Human Services/				
The Nemours Foundation				
Taking Steps to Healthy Success	93.742	5U58DP004102-05	-	248,040
United States Department of Health and Human Services/				
Virginia Department of Social Services				
Child Care Development Fund; Virginia Quality Rating and Improvement System	93.575	G1301VACCDF	-	211,075
United States Department of Education/				
The University of Virginia				
Preschool Development Grant: Expansion Grants	84.419B	GS11352-148366	-	103,981
Total Expenditures of Federal Awards			$ 785,065	$ 1,797,077

See Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Virginia Early Childhood Foundation under programs of the federal government for the year ended June 30, 2018. 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). Because the Schedule presents only a selected portion of the operations of Virginia Early Childhood Foundation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Virginia Early Childhood Foundation.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3. Indirect Cost Rate

Virginia Early Childhood Foundation has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

SECTION I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?	X	Yes		No
Significant deficiency(ies) identified?		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?		Yes	X	None reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)?	X	Yes		No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.558	United States Department of Health and Human Services; Temporary Assistance to Needy Families

Dollar threshold used to distinguish between type A and type B programs: $ 750,000

SECTION II: FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2018-001 Revenue

Criteria and Condition: Financial statements prepared in accordance with accounting principles generally accepted in the United States of America call for revenue to be recognized in accordance with accounting principles generally accepted in the United States of America.

Context: Audit tests revealed that there was $514,949 recorded as a deferred revenue liability as of June 30, 2018 that should have been recorded as reported as revenue in fiscal year 2018 and as an increase in temporarily restricted net assets as of June 30, 2018.

Cause: The finding appears to be an isolated incident during fiscal year 2018 and was the result of management's misinterpretation of a grant award that was unconditional rather than conditional. Management's interpretation of the grant was that it was conditional with right of return which is the reason the $514,949 was recorded as deferred revenue rather than recognized as revenue in fiscal year 2018.

Effect: Revenue recognized during fiscal year 2018 was understated by $514,949 and liabilities as of June 30, 2018 were overstated by $514,949.

Recommendation: We recommend that procedures be developed to strengthen internal controls over revenue recognition.

Views of Responsible Officials and Planned Corrective Actions: We agree with the finding and will develop procedures to strengthen internal controls over revenue recognition.

SECTION III: FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

2018-002 Noncompliance

Criteria and Condition: The grant terms and conditions with Virginia Department of Social Services (VDSS) stipulates that no work can be subcontracted without prior written consent of VDSS. Under any subcontracts, the Contractor (Virginia Early Childhood Foundation) shall remain fully liable and assure compliance with all requirements of the contract. A contractor or sub-recipient agrees to comply with the audit and reporting requirements defined by the Office of Management & Budget Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards Subpart F.

Cause: Virginia Early Childhood Foundation has managed this grant for a number of years using the same sub-recipients and working with the guidance and oversite of VDSS. In previously years, the funds came through appropriations of the Virginia General Assembly. In the current year, the grant became a federal award through the Department of Health and Human Services and the terms and conditions changed to comply with federal requirements. The contracts with sub-recipients were not updated to reflect the changes or preapproved in writing with VDSS.

Effect: Virginia Early Childhood Foundation has not complied with all the grant terms or properly communicated all grant terms and conditions to the subcontractors. They have not verified that each sub-recipient was audited if required nor considered the results of the sub-recipients audits.

Recommendation: We recommend that the grant terms and conditions with sub-recipients incorporate the wording in the contract with VDSS and the sub-recipients be preapproved in writing as required. We also suggest that Virginia Early Childhood Foundation annually send a letter to the sub-recipients with instructions to reply that no audit was required or send a copy of the sub-recipient's audit report.

Views of Responsible Officials and Planned Corrective Actions: We agree with the finding and have modified sub-recipient contracts to incorporate the VDSS wording, subcontracts will be preapproved in writing and we will develop procedures to strengthen internal controls over sub-recipients audit requirements.