GaryMcGee & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS

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Financial Statements and Other Information
as of and for the Year Ended June 30, 2012
and Report of Independent Accountants

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GaryMcGee & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors
Oregon Children's Foundation:

We have audited the accompanying statement of financial position of the Oregon Children's Foundation (dba "SMART") as of June 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of SMART's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the financial statements of SMART as of June 30, 2011 and, in our report dated October 19, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SMART's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2012 financial statements referred to above present fairly, in all material respects, the financial position of SMART as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Gary McGee & Co. LLP

October 3, 2012

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SMART

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2012

(WITH COMPARATIVE AMOUNTS FOR 2011)

	2012	2011
Assets:		
Cash and cash equivalents	$ 262,402	611,047
Contributions and grants receivable *(note 3)*	839,155	576,991
Prepaid expenses and other assets	41,105	58,244
Investments *(note 4)*	701,666	745,837
Beneficial interest in assets held by the Oregon Community Foundation *(note 5)*	1,011,804	1,057,888
Furniture and equipment *(note 6)*	32,070	54,949
Total assets	$ 2,888,202	3,104,956
Liabilities:		
Accounts payable and accrued expenses	22,980	24,357
Accrued payroll expenses	98,854	100,170
Deferred revenue	–	500
Total liabilities	121,834	125,027
Net assets:		
Unrestricted:		
Available for programs and general operations	847,906	1,283,010
Designated by Board for endowment *(note 7)*	747,673	782,644
Net investment in capital assets	32,070	54,949
Total unrestricted	1,627,649	2,120,603
Temporarily restricted *(note 7)*	947,859	668,466
Permanently restricted *(note 7)*	190,860	190,860
Total net assets	2,766,368	2,979,929
Commitments *(note 12)*		
Total liabilities and net assets	$ 2,888,202	3,104,956

See accompanying notes to financial statements.

SMART

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	2012				
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**2011**
Operating revenues, gains, and other support:					
Contributions and grants *(note 8)*	$ 984,315	1,097,549	–	2,081,864	1,664,677
In-kind contributions *(note 9)*	591,547	–	–	591,547	507,470
Special fundraising event, less direct costs of $85,511	248,334	–	–	248,334	–
Other revenue	3,563	–	–	3,563	22,995
Total operating revenues and gains	1,827,759	1,097,549	–	2,925,308	2,195,142
Net assets released from restrictions for operating purposes *(note 10)*	807,043	(807,043)	–	–	–
Total operating revenues, gains, and other support	2,634,802	290,506	–	2,925,308	2,195,142
Expenses *(note 11)*:					
SMART program	2,247,255	–	–	2,247,255	2,273,306
Management and general	334,461	–	–	334,461	238,591
Fundraising	488,872	–	–	488,872	247,171
Total expenses	3,070,588	–	–	3,070,588	2,759,068
Increase (decrease) in net assets before non-operating activities	(435,786)	290,506	–	(145,280)	(563,926)
Non-operating activities:					
Investment income	11,173	–	–	11,173	19,104
Net appreciation (decline) in the fair value of investments	(33,370)	–	–	(33,370)	134,874
Net increase (decrease) in the beneficial interest in assets held by the Oregon Community Foundation *(note 5)*	(34,971)	(11,113)	–	(46,084)	177,926
Total non-operating activities	(57,168)	(11,113)	–	(68,281)	331,904
Increase (decrease) in net assets	(492,954)	279,393	–	(213,561)	(232,022)
Net assets at beginning of year	2,120,603	668,466	190,860	2,979,929	3,211,951
Net assets at end of year	$ 1,627,649	947,859	190,860	2,766,368	2,979,929

See accompanying notes to financial statements.

SMART

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	2012				
	SMART program	Management and general	Fund-raising	Total	2011
Salaries and related expenses	$ 1,084,931	216,319	343,743	1,644,993	1,500,879
In-kind volunteer coordinators *(note 9)*	458,804	–	–	458,804	456,941
In-kind space, communication and other expenses *(note 9)*	132,743	–	–	132,743	50,529
Background checks	52,425	–	–	52,425	50,144
Books	172,014	–	–	172,014	141,711
Occupancy	28,886	5,368	11,862	46,116	53,789
Professional fees	10,647	29,317	8,801	48,765	80,716
Insurance	20,403	3,020	–	23,423	23,924
Office expenses	163,470	46,857	62,571	272,898	203,274
Travel	58,144	7,385	14,563	80,092	75,514
Meetings and events	19,487	20,346	26,723	66,556	85,557
Advertising and promotion	29,339	–	11,026	40,365	9,534
Other	50	1,460	–	1,510	1,081
Depreciation	15,912	4,389	9,583	29,884	25,475
Total expenses	$ 2,247,255	334,461	488,872	3,070,588	2,759,068

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	2012	2011
Cash flows from operating activities:		
Cash received from contributors and grantors	$ 2,153,545	1,900,882
Cash received from other sources	3,063	26,776
Cash received from interest and dividends	11,173	19,104
Cash paid to employees and suppliers	(2,520,222)	(2,214,435)
Net cash used in operating activities	(352,441)	(267,673)
Cash flows from investing activities:		
Purchases of capital assets	(7,005)	(2,806)
Proceeds from sale of investments	21,863	350,000
Reinvested investment earnings	(11,062)	(18,462)
Net cash provided by investing activities	3,796	328,732
Increase (decrease) in cash and cash equivalents	(348,645)	61,059
Cash and cash equivalents at beginning of year	611,047	549,988
Cash and cash equivalents at end of year	$ 262,402	611,047

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

1. Organization

The Oregon Children's Foundation (dba "SMART") is Oregon's largest private nonprofit organization devoted to children's literacy. Headquartered in Portland, SMART envisions an Oregon where every child can read and is empowered to succeed. Our mission is to engage community volunteers to read one-on-one with pre-kindergarten through third-grade children who need reading support. Participating children also receive new books each month to keep and read with their families.

SMART partners with more than 250 schools and Head Start programs across Oregon with high populations of children from low income families, as these students are most at risk for falling behind. The intention of SMART is to provide a literacy experience that entices children into books and reading, supports children's efforts to learn to read and celebrates their successes. The SMART program complements reading curriculum and instruction and is intended to build confident, lifelong readers who enjoy reading and use it as a tool for learning.

During the year ended June 30, 2012, SMART delivered one-on-one reading support to 8,548 children and gave away 87,300 books. This was possible in part thanks to over 5,000 volunteers, who together contributed over 150,000 hours of volunteer time. Since 1992, SMART has served more than 152,000 children with the help of 103,000 volunteers, and given away nearly 2 million books. Together, with support from communities across the state, SMART is building brighter futures for Oregonians big and small.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by SMART are described below to enhance the usefulness of the financial statements to the reader.

Basis of Accounting – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

Basis of Presentation – SMART has adopted the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 958-605, *Revenue Recognition,* and FASB ASC No. 958-205 *Presentation of Financial Statements*. Under these provisions, net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of SMART and changes therein are classified and reported as follows:

- *Unrestricted net assets* – Net assets not subject to donor-imposed stipulations.

- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that will be met either by actions of SMART and/or the passage of time.

- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by SMART. Generally, the donors of these assets permit SMART to use all or part of the income earned on related investments for general or specific purposes.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of SMART's management, such differences, if any, would not be significant.

Operating Results – Operating results reported in the statement of activities reflect all transactions that change unrestricted net assets except for total investment return (less endowment assets appropriated by the Board to support current operations), endowment gifts, capital gifts, net assets released from donor restrictions associated with capital additions, and gains and losses on the sale of long-lived assets that are incidental or peripheral to the organization's primary operations

Contributions – Contributions, which include unconditional promises to give (i.e., pledges), are recognized as revenue in the period the promise was received by SMART. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Management estimates an allowance for uncollectible contributions receivable based on past collection history and other factors.

Contributions of capital assets without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire capital assets with such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Cash Equivalents – For purposes of the financial statements, SMART considers all liquid investments having initial maturities of three months or less to be cash equivalents.

Investments – Investments are carried at fair value. The net change in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (decline) of those investments, is reported in the statement of activities. Investment income is accrued as earned and reported net of advisory fees totaling $6,593. Security transactions are recorded on a trade date basis.

Capital Assets and Depreciation – Capital assets are carried at cost, and at fair value when acquired by gift. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, which is generally 3 to 7 years for furniture and equipment.

Revenue Recognition – All contributions and grants are considered available for unrestricted use unless specifically restricted by the donor. Bequests are recorded as revenue at the time SMART has an established right to the bequest and the proceeds are measurable. Service revenues are recognized at the time services are provided and the revenues are earned.

Benefits Provided to Donors at Special Fundraising Events – SMART conducts special fundraising events in which a portion of the gross proceeds paid by the participants represents payment for the direct cost of the benefits received by participants at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to SMART.

Advertising and Marketing Expenses – Advertising costs are charged to expense as they are incurred.

Endowment Funds and Interpretation of Relevant Law – Effective January 1, 2008, the State of Oregon adopted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") which governs Oregon charitable institutions with respect to the management, investment and expenditure of donor-restricted endowment funds.

The Board of Directors has interpreted Oregon's adoption of UPMIFA as requiring SMART to adopt investment and spending policies that preserve the fair value of the original gift as of the date of gift, absent explicit donor stipulations to the contrary. Although SMART has a long-term fiduciary duty to the donor (and to others) for a fund of perpetual duration, the preservation of the endowment's purchasing power is only one of several factors that are considered in managing and investing these funds. Furthermore, in accordance with UPMIFA, a portion of the endowment's original gift may be appropriated for expenditure in support of the restricted purposes of the endowment if this is consistent with a spending policy that otherwise satisfies the requisite standard of prudence under UPMIFA.

As a result of this interpretation, SMART classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) subsequent gifts to the endowment, and (3) accumulations made pursuant to the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Net earnings (realized and unrealized) on the investment of endowment assets are classified as temporarily restricted until those amounts are appropriated for expenditure by SMART in a manner consistent with the standard of prudence prescribed by UPMIFA and until expended in a manner consistent with the purpose or time restrictions, if any, imposed by the donor. Any investment return classified as permanently restricted represents only those amounts required to be retained permanently as a result of explicit donor stipulations.

With regard to endowment losses or appropriations in excess of the fair value of the original gift, in accordance with FASB ASC No. 958-320, *Investments – Debt and Equity Securities*, the portion of a donor restricted endowment that is classified as permanently restricted is not reduced by losses on the investments of the fund, except to the extent required by the donor, including losses related to specific investments that the donor requires SMART to hold in perpetuity. Similarly, the amount of permanently restricted net assets is not reduced by SMART's appropriations from the fund. In the absence of donor stipulations or law to the contrary, losses or appropriations of a donor-restricted endowment reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been satisfied before the loss or appropriation occurs. Any remaining loss or appropriation reduces unrestricted net assets.

In accordance with UPMIFA, the Board of Directors has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs and operations supported by its endowment, while also seeking to maintain the long-term purchasing power of the endowment assets. Therefore, the Board of Directors considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the organization and the fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the organization; and
- The investment policies of the organization.

Concentrations of Credit Risk – SMART's financial instruments consist mainly of investments in money market funds, equity funds, bond funds, contributions and grants receivable, and a beneficial interest in assets held by the Oregon Community Foundation ("OCF").

SMART's investments may subject SMART to concentrations of credit risk as, from time to time, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation ("FDIC"), the market value of securities are dependent on the ability of the issuer to honor its contractual commitments, and the assets are subject to changes in market values. All checking and savings accounts, money market deposit accounts and certificates of deposit are insured by the FDIC up to $250,000 per depositor, per insured bank, for each account ownership category. As of June 30, 2012, SMART did not hold any funds in excess of FDIC-insured levels.

SMART's beneficial interest in assets held by OCF (see note 5) is subject to changes in the fair values of the underlying assets owned by OCF (from which the value of SMART's beneficial interest has been derived), and also is dependent on the value of the assets being commensurate with the value of distributions expected to be made to SMART by OCF in future years.

Contributions and grants receivable also subject SMART to concentrations of credit risk. At June 30, 2012, outstanding contribution receivable balance from one donor represented approximately 71% of total outstanding contributions and grants receivable.

Income Taxes – SMART is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law. In addition, the SMART has been recognized as a public charity under Sections 170(b)(1)(A)(vi) and 509(a)(1) of the Internal Revenue Code. For tax purposes, SMART's open audit periods are for the years ended June 30, 2009 through 2011.

SMART has adopted the recognition requirements for uncertain income tax positions as required by FASB ASC No. 740-10, *Income Taxes*. Under this standard, income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities.

Subsequent Events – As required by FASB ASC No. 855, *Subsequent Events,* subsequent events have been evaluated by management through October 3, 2012, which is the date the financial statements were available to be issued.

Summarized Financial Information for 2011 – The accompanying financial statements as of and for the year ended June 30, 2011, are presented for comparative purposes only and are not intended to represent a complete financial statement presentation.

Other Significant Accounting Policies – Other significant accounting policies are set forth in the financial statements and the following notes.

3. Contributions and Grants Receivable

Contributions and grants receivable, net, are summarized as follows at June 30, 2012:

Unconditional promises expected to be collected in:		
Less than one year	$	440,051
One to five years		417,020
		857,071
Less allowance for doubtful collections		(13,986)
Less discount [1]		(3,930)
	$	839,155

[1] Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 0.625%.

In addition, at June 30, 2012, SMART was the beneficiary of a conditional gift totaling $50,000 that was conditioned upon successfully raising matching funds. This contribution has not been recorded in the accompanying financial statements because the associated condition had not been satisfied as of June 30, 2012.

4. Investments

Investments held by SMART at June 30, 2012 consisted of the following, stated at fair value:

Domestic equity funds	$	316,736
Bond funds		317,874
International equity funds		67,056
	$	701,666

5. Beneficial Interest in Assets Held by the Oregon Community Foundation

SMART has established certain donor-restricted and Board-designated endowment funds at the Oregon Community Foundation ("OCF"). In accordance with FASB ASC No. 958-605, *Revenue Recognition,* SMART accounts for its interest in these funds using the equity method of accounting, which approximates the present value of the estimated expected future cash flow that will inure to SMART.

Changes in SMART's beneficial interest in these funds for the year ended June 30, 2012 are summarized as follows:

Balance at beginning of year	$ 1,057,888
Decrease in the beneficial interest in assets held by the Oregon Community Foundation	(46,084)
Balance at end of year	$ 1,011,804

Under the terms of its agreement with OCF, OCF maintains variance power over, and legal ownership of, these funds. The funds are invested at the discretion of OCF's Board of Directors and are held in a mixture of asset classes designed to maximize return while minimizing risk. OCF's target asset allocation is as follows: 40% equities (both domestic and international); 15% fixed income; 20% marketable alternative investments; 10% private equity; and 15% inflation hedge investments. The valuations disclosed in the above table have been provided by OCF. SMART generally receives periodic distributions of the net investment return earned on these assets (generally 4.5% of the average fair market value of the funds using a trailing 13-quarter average). Additional distributions can be made at any time by the affirmative vote of a majority of the organization's Board of Directors and the approval of OCF. During the year ended June 30, 2012, there were no distributions made to SMART.

At June 30, 2012, investments are held for the following purposes:

Donor-restricted endowment [1]	$	264,131
Board-designated endowment		747,673
	$	1,011,804

[1] Includes accumulated endowment earnings totaling $73,271 (see note 7).

6. Furniture and Equipment

A summary of furniture and equipment at June 30, 2012 is as follows:

Office furniture and equipment	$	315,180
Less accumulated depreciation		(283,110)
	$	32,070

7. Restrictions and Limitations on Net Asset Balances

Board-Designated Net Assets

At June 30, 2012, SMART had designated $747,673 of unrestricted net assets for long-term investment.

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2012 represent contributions, grants, and other unexpended revenues and gains available for the following:

Unrestricted endowment earnings [1]	$	62,514
Endowment earnings restricted for book acquisitions [1]		10,757
Future periods		874,588
	$	947,859

[1] Endowment earnings not yet appropriated for expenditure by the Board of Directors.

Permanently Restricted Net Assets

At June 30, 2012, SMART held $190,860 in endowment funds. The investment income earned on the balances of these permanently restricted endowment net assets is restricted or unrestricted as follows:

Income restricted:		
Book fund	$	50,000
Income unrestricted:		
Legacy fund		140,860
	$	190,860

SMART's endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowment. As required by generally accepted accounting principles, net assets associated with endowment, including funds designated by the Board of Directors to function as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

The following summarizes SMART's endowment-related activities for the year ended June 30, 2012:

	Donor-restricted endowment			Board-designated endowment	
	Temporarily restricted	Permanently restricted	Total	Unrestricted	Total endowment
Endowment net assets at beginning of year	$ 84,384	190,860	275,244	782,644	1,057,888
Net decrease in the beneficial interest in assets held by the Oregon Community Foundation	(11,113)	–	(11,113)	(34,971)	(46,084)
Endowment net assets at end of year	$ 73,271	190,860	264,131	747,673	1,011,804

8. Contributions and Grants

Contributions and grants received during the year ended June 30, 2012, are summarized as follows:

Individuals	$ 1,057,488
Foundations	667,399
Corporations	278,348
State and local governments	78,629
	$ 2,081,864

Contributions from one donor represented approximately 29% of total contributions and grants received during the year.

9. In-Kind Contributions

Consistent with the requirements of FASB ASC No. 958-605, *Revenue Recognition*, significant services received which create or enhance a non-financial asset or require specialized skills that the organization would have purchased if not donated are recognized in the statement of activities. In addition, in-kind contributions of equipment, materials, and the free use of facilities are recorded where there is an objective basis upon which to value these contributions and where the contributions are an essential part of SMART's activities.

SMART's in-kind contributions for the year ended June 30, 2012 are summarized as follows:

Volunteer local program coordinators and managers	$ 458,804
Other:	
Free use of facilities	57,137
Books	19,868
Marketing and promotion	55,438
Other donated materials	300
Total other	132,743
	$ 591,547

In addition, SMART regularly receives contributed services from a large number of volunteers who assist in program activities and other efforts through their participation in a range of events and by working with SMART staff in a variety of capacities. SMART's management estimates that volunteers donated approximately 110,460 hours of services to SMART during the year ended June 30, 2012, representing a value of approximately $949,956. However, consistent with FASB ASC No. 958-605, *Revenue Recognition*, the value of such services has not been recognized in the accompanying financial statements.

10. Net Assets Released from Restrictions

During the year ended June 30, 2012, SMART incurred $807,043 in expenses in satisfaction of the restricted purposes, or by the occurrence of other events, specified by donors.

11. Expenses

The costs of providing the various programs and other activities of SMART have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Costs by natural classification are presented in the statement of functional expenses.

12. Operating Leases

SMART leases its administrative offices and certain office equipment under non-cancelable operating leases, which expire in various years through 2015.

At June 30, 2012, SMART's annual lease commitments are payable as follows:

Years ending June 30,	
2013	$ 66,294
2014	63,117
2015	53,586
2016	4,465
	$ 187,462

Rental expense for the year ended June 30, 2012 for the above leases totaled $56,519.

13. Retirement Plans

SMART has established a retirement plan as described in section 401(k) of the Internal Revenue Code. Employees are eligible, after one year of employment and 1,000 hours of service, to make voluntary contributions to the plan on a pre-tax basis, up to the limits allowed by law. Employees select from among several investment options. SMART does not contribute to the plan.

14. Fair Value Measurements

Included in the accompanying financial statements are certain financial instruments (primarily investments and a beneficial interest in assets held by the Oregon Community Foundation) carried at fair value. The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. Fair values are based on quoted market prices when available. When market prices are not available, fair value is generally estimated using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality.

All financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by FASB ASC No. 820, *Fair Value Measurements and Disclosures*. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities and the lowest ranking to fair values determined using methodologies and models with unobservable inputs as follows:

- *Level 1* – Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.
- *Level 2* – Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument.
- *Level 3* – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Continued

At June 30, 2012, the following financial assets are measured at fair value on a recurring basis:

		Level 1	Level 3	Total
Investments *(note 4)*	$	701,666	–	701,666
Beneficial interest in assets held by the Oregon Community Foundation		–	1,011,804	1,011,804
	$	701,666	1,011,804	1,713,470

At June 30, 2012, SMART's beneficial interest in assets held by the OCF is reported at fair value on a recurring basis under Level 3, representing future cash in-flows to the organization measured at fair value based upon a discounted cash flow analysis of the expected income to be derived from SMART's interest in these assets. Since the discount rate used for this analysis is considered to be identical to the return that market participants would expect on similar assets, the organization has measured the expected cash flows for its beneficial interest as equivalent to the fair value of the underlying assets held and owned by OCF. Management's estimate is based solely on information provided by OCF.

See note 5 for a summary of the beneficial interest in assets held by OCF and the associated activity for the year ended June 30, 2012.

15. Reclassification of 2011 Totals

Certain 2011 amounts presented herein have been reclassified to conform to the 2012 presentation.

16. Reconciliation of Statement of Cash Flows

The following presents a reconciliation of the decrease in net assets (as reported on the statement of activities) to net cash used in operating activities (as reported on the statement of cash flows):

Decrease in net assets	$	(213,561)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation		29,884
Net decline of the fair value of investments		33,370
Net decrease in the beneficial interest in assets held by the Oregon Community Foundation		46,084
Net changes in:		
Contributions and grants receivable		(262,164)
Prepaid expenses and other assets		17,139
Accounts payable and accrued expenses		(1,377)
Accrued payroll expense		(1,316)
Deferred revenue		(500)
Total adjustments		(138,880)
Net cash used in operating activities	$	(352,441)

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GOVERNING BOARD AND MANAGEMENT

JUNE 30, 2012

Board of Directors

Charles Wilhoite, *Chair*

Mary Wilcox, *Vice-Chair*

Behzad Hosseini, *Treasurer*

Mary Boyle, *Secretary*

Greg Chaille

Michele Daterman

Vernon Fuller

Joey Harrington

Bob Hunter

Kent Lewis

Margaret Maguire

Tom O'Keefe

Patricia C. Smullin

Janae Sorenson

Andy Vobora

Deborah Wilson

Steve Wynne

Emeritus Directors

Gerry Brodsky

Tom Costabile

Ruth Ann Dodson

Bill Early

Joe Gonyea II

Katie Hertig

Sue Hollern

Irving Levin

John Morgan

Charles H. Rouse

Steve Stadum

Von Summers

Bill Thorndike, Jr.

Dan Wieden

Linda Wright

Management

Chris Otis, *Executive Director*

Nell Whitman, *Director of Finance & Administration*

INQUIRIES AND OTHER INFORMATION

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