



FINANCIAL STATEMENTS

Year Ended June 30, 2017

with

Independent Auditors' Report

OREGON CHILDREN'S FOUNDATION DBA SMART

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Independent Auditors' Report

The Board of Directors
Oregon Children's Foundation dba SMART

Report on the Financial Statements

We have audited the accompanying financial statements of Oregon Children's Foundation dba SMART (SMART), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 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 auditors' 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 Oregon Children's Foundation dba SMART as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited SMART's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 18, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hellman, Stewart & Schmidt, P.C.

Lake Oswego, Oregon
February 26, 2018

OREGON CHILDREN'S FOUNDATION DBA SMART

Statement of Financial Position

June 30, 2017 <i>(With Comparative Amounts for 2016)</i>	2017	2016
ASSETS		
Cash and cash equivalents	\$ 984,604	\$ 911,252
Investments <i>(Notes 3 and 12)</i>	1,439,110	1,321,762
Contributions and grants receivable - net <i>(Note 4)</i>	399,018	696,734
Prepaid expenses	51,713	126,353
Beneficial interest in assets held by Oregon Community Foundation <i>(Notes 5, 12 and 13)</i>	1,653,800	1,463,827
Restricted cash <i>(Note 13)</i>	55,307	-
Property and equipment - net <i>(Note 6)</i>	35,809	31,932
	<u>\$ 4,619,361</u>	<u>\$ 4,551,860</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 33,117	\$ 17,703
Accrued payroll expenses	126,682	121,480
Total liabilities	159,799	139,183
Commitments <i>(Note 7)</i>		
Net assets:		
Unrestricted:		
Undesignated	2,053,347	1,861,397
Designated by Board for endowment <i>(Note 13)</i>	1,273,877	1,131,286
Net investment in furniture and equipment	35,809	31,932
Total unrestricted	3,363,033	3,024,615
Temporarily restricted <i>(Notes 8 and 13)</i>	838,362	1,185,202
Permanently restricted <i>(Notes 9 and 13)</i>	258,167	202,860
Total net assets	<u>4,459,562</u>	<u>4,412,677</u>
Total liabilities and net assets	<u>\$ 4,619,361</u>	<u>\$ 4,551,860</u>

The accompanying notes are an integral part of the financial statements.

OREGON CHILDREN'S FOUNDATION DBA SMART

Statement of Activities

Year Ended June 30, 2017 (With Comparative Totals for 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2017	2016
Operating revenues, gains, and other support:					
Contributions and grants (Note 14)	\$ 2,071,990	\$ 402,531	\$ 55,307	\$ 2,529,828	\$ 2,655,798
In-kind contributions (Note 11)	550,921	-	-	550,921	660,304
Special events	822,183	2,848	-	825,031	767,006
Less direct costs	(196,963)	-	-	(196,963)	(152,852)
Special events - net	625,220	2,848	-	628,068	614,154
Other revenue	4,925	-	-	4,925	37,178
Net operating revenues, gains, and other support before releases	3,253,056	405,379	55,307	3,713,742	3,967,434
Releases from restriction (Note 8)	794,601	(794,601)	-	-	-
Net operating revenues, gains, and other support after releases	4,047,657	(389,222)	55,307	3,713,742	3,967,434
Operating expenses:					
SMART program	2,931,373	-	-	2,931,373	2,685,039
Supporting services:					
Management and general	356,036	-	-	356,036	342,180
Fundraising	686,004	-	-	686,004	815,081
Total operating expenses	3,973,413	-	-	3,973,413	3,842,300
Increase (decrease) in net assets from operations	74,244	(389,222)	55,307	(259,671)	125,134
Non-operating items:					
Investment income	22,398	-	-	22,398	20,092
Net increase in fair value of investments	99,185	-	-	99,185	16,666
Net increase (decrease) in beneficial interest in assets held by Oregon Community Foundation (Notes 5, 12, and 13)	142,591	42,382	-	184,973	(50,104)
Total non-operating items	264,174	42,382	-	306,556	(13,346)
Increase (decrease) in net assets	338,418	(346,840)	55,307	46,885	111,788
Net assets, beginning of year	3,024,615	1,185,202	202,860	4,412,677	4,300,889
Net assets, end of year	\$ 3,363,033	\$ 838,362	\$ 258,167	\$ 4,459,562	\$ 4,412,677

The accompanying notes are an integral part of the financial statements.

OREGON CHILDREN'S FOUNDATION DBA SMART

Statement of Functional Expenses

Year Ended June 30, 2017 (With Comparative Totals for 2016)

	SMART Program	Management and General	Fundraising	Total	
				2017	2016
Salaries and related expenses	\$ 1,437,176	\$ 243,396	\$ 559,464	\$ 2,240,036	\$ 2,166,781
In-kind volunteer coordinators (Note 11)	446,498	-	-	446,498	556,668
In-kind space, communication, and other expenses (Note 11)	98,770	5,653	-	104,423	103,636
Background checks	56,508	-	-	56,508	57,392
Books	343,347	-	-	343,347	327,328
Occupancy	60,706	10,434	23,713	94,853	79,893
Professional fees	108,594	34,624	1,898	145,116	114,705
Insurance	9,492	3,480	733	13,705	13,115
Office expenses	156,482	40,150	60,215	256,847	210,556
Travel	56,504	6,948	17,697	81,149	88,898
Meetings and events	41,971	2,426	10,108	54,505	73,123
Advertising and promotion	98,729	150	3,000	101,879	27,878
Other	8,878	7,448	1,419	17,745	10,663
Depreciation	7,718	1,327	3,014	12,059	10,384
Bad debt	-	-	4,743	4,743	1,280
Total expenses	\$ 2,931,373	\$ 356,036	\$ 686,004	\$ 3,973,413	\$ 3,842,300

The accompanying notes are an integral part of the financial statements.

OREGON CHILDREN'S FOUNDATION DBA SMART

Statement of Cash Flows

Year Ended June 30, 2017 (With Comparative Totals for 2016)	2017	2016
Cash flows from operating activities:		
Increase in net assets	\$ 46,885	\$ 111,788
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	12,059	10,384
Net increase in fair value of investments	(99,185)	(16,666)
Net (increase) decrease in beneficial interest in assets held by Oregon Community Foundation	(184,973)	50,104
Proceeds from contribution to permanent endowment	(55,307)	(5,000)
Net changes in:		
Contributions and grants receivable	297,716	181,003
Prepaid expenses	74,640	(59,322)
Accounts payable	15,414	(49,303)
Accrued payroll expenses	5,202	(25,520)
Deferred revenue	-	(11,666)
Net cash provided by operating activities	112,451	185,802
Cash flows from investing activities:		
Purchases of furniture and equipment	(15,936)	(11,438)
Purchase of investments	(116,060)	(502,857)
Proceeds from sale of investments	97,897	165,395
Cash restricted for permanent endowment	(55,307)	-
Purchase of beneficial interest in assets held by Oregon Community Foundation	(5,000)	(64,227)
Net cash used by investing activities	(94,406)	(413,127)
Cash flows from financing activities:		
Proceeds from contribution to permanent endowment	55,307	5,000
Net cash provided by financing activities	55,307	5,000
Net increase (decrease) in cash and cash equivalents	73,352	(222,325)
Cash and cash equivalents, beginning of year	911,252	1,133,577
Cash and cash equivalents, end of year	\$ 984,604	\$ 911,252

The accompanying notes are an integral part of the financial statements.

OREGON CHILDREN'S FOUNDATION DBA SMART

Notes to Financial Statements

1. Organization

Oregon Children's Foundation dba SMART (SMART) is a nationally recognized, statewide nonprofit organization (incorporated in the state of Oregon) with a network of volunteers, educators, donors, and advocates across Oregon who are banding together to empower children for more successful futures through books and reading. Headquartered in Portland, SMART envisions an Oregon in which every child can read and is empowered to succeed. Our mission is to engage community volunteers to read one-on-one with prekindergarten 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 270 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. SMART is overwhelmingly funded by private sources, and achieves this work by leveraging private dollars and public infrastructure to provide proven reading support, mentorship, and books for Oregon's most vulnerable children. The intention of SMART is to provide a fun, child-guided experience that builds reading skills, self-confidence, and a lifelong love of reading in children.

During the year ended June 30, 2017, SMART delivered one-on-one reading support to 10,101 children and gave away 136,052 books. This was possible in part thanks to over 4,700 volunteers, who together contributed approximately 109,000 hours of volunteer time. Since 1992, SMART has served almost 200,000 children with the help of over 129,000 volunteers, and given away over 2.5 million books. Together, with support from communities across the state, SMART is empowering Oregon kids for reading and learning success.

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 accounting principles generally accepted in the United States of America (GAAP) 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.

OREGON CHILDREN'S FOUNDATION DBA SMART

Notes to Financial Statements - Continued

2. Summary of Significant Accounting Policies - Continued

Basis of Presentation - 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.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. 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 GAAP requires management to 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. Among other areas, estimates are used in the calculation of depreciation expense, any allowance for uncollectible receivables, and the functional allocation of certain expenses.

Contributions - Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, at the time 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 discount 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.

Contributions received with donor imposed restrictions that are met in the same year as received are reported as revenues in the unrestricted net asset class.

At June 30, 2017, SMART had two conditional grants receivable totaling \$188,000 from two charitable trusts. One of the conditional grants totaling \$33,000 is conditioned upon receiving two to one matching contributions by March 31, 2018. The other conditional grant of \$150,000 is conditioned upon SMART receiving 10 contributions totaling \$50,000 or more toward the endowment. The contributions will be recognized once the conditions have been met.

OREGON CHILDREN'S FOUNDATION DBA SMART

Notes to Financial Statements - Continued

2. Summary of Significant Accounting Policies - Continued

In-Kind Contributions - Significant services received which create or enhance a nonfinancial asset or require specialized skills SMART would have purchased if not donated are recognized at estimated fair value in the statement of activities. In addition, in-kind contributions of equipment, materials, and the free use of facilities are recorded at estimated fair value where there is an objective basis upon which to value these contributions and the contributions are an essential part of SMART's activities.

Contributions of Long-Lived Assets - Contributions of furniture and equipment 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 furniture and equipment with such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are released once the related assets have been placed in service.

Cash Equivalents - SMART considers all highly liquid investments having initial maturities of three months or less to be cash equivalents.

Investments - Investments in domestic and international equity mutual funds, bond funds, and real estate investment funds are carried at fair value. Investment return, which consists of realized gains and losses and unrealized increases or decreases in the fair values of those investments, as well as interest and dividend income and management fees is reported in the statement of activities.

Allowance for Doubtful Accounts - An allowance for uncollectible contributions receivable is recorded based on management's assessment of the specific amounts outstanding. Management will write off any balance that remains after it has exhausted all reasonable collection efforts.

Furniture and Equipment - Furniture and equipment are carried at cost when purchased, and at estimated fair value when acquired by gift. Depreciation is generally provided on a straight-line basis over the estimated useful lives of the assets, which range from three to seven years.

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. Amounts received in advance of being earned are recorded as deferred revenue.

Advertising Expenses - Advertising and promotional costs are charged to expense as they are incurred.

Subsequent Events - Management has evaluated subsequent events through February 26, 2018, the date the financial statements were available for issue.

OREGON CHILDREN'S FOUNDATION DBA SMART

Notes to Financial Statements - Continued

2. Summary of Significant Accounting Policies - Continued

Income Taxes - Income taxes are not provided for in the financial statements since SMART is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. SMART is not classified as a private foundation.

GAAP prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and provides guidance on various related matters such as interest, penalties, and required disclosures. Management does not believe SMART has any uncertain tax positions. SMART files informational returns. There are currently no tax examinations in progress for any periods. Interest or penalties assessed by taxing authorities, if any, would be included with management and general expenses.

Functional Allocation of Expenses - Costs of providing various programs and other activities have been allocated among the programs and supporting services benefited. Costs by their natural classification are presented in the statement of functional expenses.

Retirement Plan - SMART sponsors a 401(k) retirement plan under which eligible employees may defer a portion of their salaries in accordance with applicable tax law. SMART does not make any contributions to the plan.

Summarized Financial Information for 2016 - The accompanying financial information as of and for the year ended June 30, 2016, is presented for comparative purposes only and is not intended to represent a complete financial statement presentation in accordance with GAAP. Accordingly, such information should be read in conjunction with SMART's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

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

3. Investments

Investments held by SMART are summarized as follows at June 30:

	2017	2016
Domestic equity mutual funds	\$ 679,022	\$ 632,546
Bond funds	577,900	531,448
International equity mutual funds	153,973	130,014
Real estate investment funds	<u>28,215</u>	<u>27,754</u>
	<u>\$ 1,439,110</u>	<u>\$ 1,321,762</u>

OREGON CHILDREN'S FOUNDATION DBA SMART

Notes to Financial Statements - Continued

4. Contributions and Grants Receivable

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

	2017	2016
Unconditional promises expected to be collected in:		
Less than one year	\$ 376,974	\$ 510,690
One year to five years	39,960	203,960
	<u>416,934</u>	<u>714,650</u>
Gross contributions receivable	416,934	714,650
	<u>(17,916)</u>	<u>(17,916)</u>
Less allowance for uncollectible amounts	<u>\$ 399,018</u>	<u>\$ 696,734</u>

Management has elected not to calculate any discount on pledges due beyond one year as such amounts would not be material to the financial statements.

5. Beneficial Interest in Assets Held by Oregon Community Foundation

SMART's beneficial interest in assets held by Oregon Community Foundation consists of the following at June 30:

	2017	2016
SMART Book Endowment Fund	\$ 83,899	\$ 74,508
SMART Legacy Fund	197,350	170,404
Oregon Children's Foundation Fund	1,027,913	912,854
Lane County SMART Fund	38,152	33,882
Jackson County SMART Fund	245,965	218,433
Deschutes County SMART Fund	60,521	53,746
	<u>\$ 1,653,800</u>	<u>\$ 1,463,827</u>

SMART has an agreement with Oregon Community Foundation (OCF) in order to achieve improved performance results with respect to investments and enhance long-term planned giving goals. Under the terms of the agreement, OCF may distribute not less than annually an appropriate percentage of the fair market value of the fund. Such percentage shall be determined periodically by the Board of Directors of OCF under its grant percentage payout policy for permanent funds. OCF gives SMART the option to take this percentage payout in the form of a distribution or to reinvest. To date, SMART has chosen to reinvest. Investments held at OCF are valued at fair value.

OREGON CHILDREN'S FOUNDATION DBA SMART

Notes to Financial Statements - Continued

5. Beneficial Interest in Assets Held by Oregon Community Foundation - Continued

The majority of the investments held at OCF consist of marketable equity and debt securities recorded at fair market value based on current quoted market prices. However, a portion of the investments held at OCF consists of investments in limited partnerships and real estate whose fair values have been estimated by OCF management in the absence of readily determinable market values. These estimates are based on information provided by the fund managers or the general partners, and real estate appraisals; therefore, the reported values may differ from the values that would have been used had a quoted market price existed. SMART uses the estimates provided by OCF in valuing its beneficial interest in these investments. The portfolio allocation of investment funds held at OCF at June 30, 2017, is as follows:

Equities (international and domestic)	55 %
Fixed income	8
Marketable alternative investments	17
Private equity	9
Real assets	11
	<u>100 %</u>

6. Property and Equipment

Property and equipment are summarized as follows at June 30:

	2017	2016
Furniture and equipment	\$ 61,835	\$ 45,898
Leasehold improvements	<u>3,753</u>	<u>3,753</u>
	65,588	49,651
Less accumulated depreciation	<u>(29,779)</u>	<u>(17,719)</u>
	<u>\$ 35,809</u>	<u>\$ 31,932</u>

OREGON CHILDREN'S FOUNDATION DBA SMART

Notes to Financial Statements - Continued

7. Commitments

SMART leases space and office equipment under various noncancelable operating lease agreements expiring through April 2021. Rent expense for the year ended June 30, 2017, was \$94,853. Minimum payments remaining under the noncancelable operating leases are as follows at June 30, 2017:

Years Ending June 30,	Amount
2018	\$ 111,846
2019	107,275
2020	105,255
2021	<u>21,794</u>
	<u><u>\$ 346,170</u></u>

8. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes and time periods at June 30, 2017:

Quality initiative	\$ 130,000
Permanent book collection	34,963
General program support for future periods	493,491
Unexpended endowment earnings (<i>Note 13</i>)	177,063
Other	<u>2,845</u>
	<u><u>\$ 838,362</u></u>

During the year ended June 30, 2017, \$794,601 of restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose and/or the passage of time as designated by the donor.

OREGON CHILDREN'S FOUNDATION DBA SMART

Notes to Financial Statements - Continued

9. Permanently Restricted Net Assets

Permanently restricted net assets have been restricted by donors to investment in perpetuity. The figures below represent the original contribution plus all subsequent contributions received through the end of the fiscal year and do not include investment income, gains, or losses. The donors of these permanent endowments have stipulated that investment income and realized and unrealized gains be restricted. A summary of permanent endowments maintained by SMART as of June 30 is as follows:

	2017	2016
SMART Book Endowment Fund	\$ 50,000	\$ 50,000
SMART Legacy Fund	94,860	94,860
Lane County SMART Fund	24,000	24,000
Deschutes County SMART Fund	34,000	34,000
DNG Fund	5,000	-
SMART General Fund	25,000	-
Mary Jubitz Fund for SMART Children	25,307	-
	<u>\$ 258,167</u>	<u>\$ 202,860</u>

10. Financial Instruments with Concentrations of Risk

Financial instruments that potentially subject SMART to concentrations of risk consist primarily of cash and cash equivalents, investments, and contributions receivable. On occasion throughout the year, cash and cash equivalent balances exceeded amounts insured by the Federal Deposit Insurance Corporation. Investments are managed via SMART's investment policies. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible changes in the values of investment securities will occur in the near term and such changes could materially affect account balances and the amounts reported in the financial statements. Contributions receivable are due primarily from local businesses, charitable foundations, and individuals. At June 30, 2017, approximately 58 percent of gross contributions receivable were receivable from two donors.

OREGON CHILDREN'S FOUNDATION DBA SMART

Notes to Financial Statements - Continued

11. In-Kind Contributions

SMART received the following in-kind contributions during the years ended June 30:

	2017	2016
Volunteer Site Coordinators at SMART's 270 sites	\$ 446,498	\$ 556,668
Office space	38,922	70,476
Books	14,142	20,173
Professional services and other donated materials	<u>51,359</u>	<u>12,987</u>
	<u>\$ 550,921</u>	<u>\$ 660,304</u>

In addition during 2017, the core of the SMART program is the more than 4,700 volunteers who read one on one with children on a weekly basis, plus volunteers who work on SMART's board and assist in other capacities. SMART's management estimates that volunteers donated approximately 109,000 hours of services to SMART during the year ended June 30, 2017, representing a value of approximately \$2,628,049. The estimated value of the volunteer time was based on the Independent Sector value at June 30, 2017. Consistent with generally accepted accounting principles, the value of such services has not been recognized in the accompanying financial statements.

12. Fair Value Measurements

GAAP provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

OREGON CHILDREN'S FOUNDATION DBA SMART

Notes to Financial Statements - Continued

12. Fair Value Measurements - Continued

The three levels of the fair value hierarchy and the valuation methodologies used for assets are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets SMART has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices observable for the asset or liability.
- Inputs 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: Fair value based on significant unobservable inputs.

The assets 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.

OREGON CHILDREN'S FOUNDATION DBA SMART

Notes to Financial Statements - Continued

12. Fair Value Measurements - Continued

The following table sets forth by level, within the fair value hierarchy, SMART's assets measured at fair value on a recurring basis as of June 30, 2017:

	Level 1	Level 3	Total
Investments:			
Domestic equity mutual funds:			
Large blend	\$ 230,866	\$ -	\$ 230,866
Mid-cap blend	100,195	-	100,195
Small blend	101,181	-	101,181
Large blend	246,780	-	246,780
Bond funds:			
Short-term	287,075	-	287,075
Emerging markets	101,666	-	101,666
High yield	71,662	-	71,662
Corporate	117,497	-	117,497
International equity mutual funds:			
Foreign large blend	77,133	-	77,133
Diversified emerging markets	76,840	-	76,840
Real estate investment funds	28,215	-	28,215
 Total investments	 1,439,110	 -	 1,439,110
 Beneficial interest in assets held by Oregon Community Foundation	 -	 1,653,800	 1,653,800
 Total assets at fair value	 \$ 1,439,110	 \$ 1,653,800	 \$ 3,092,910

The following is a description of the valuation methodologies used for assets measured at fair value:

Investments in equity mutual funds, bond funds, and real estate investment funds are valued at reference to quoted market prices.

Assets held at OCF represent SMART's share of a pooled investment portfolio managed by OCF. SMART's share of the pooled investment portfolio is not actively traded, and significant other observable inputs are not available. However, as described in *Note 5*, the underlying investments of OCF are measured by management of OCF using a variety of valuation methods including Level 1, Level 2, and Level 3 inputs. As such, this asset is classified as Level 3.

OREGON CHILDREN'S FOUNDATION DBA SMART

Notes to Financial Statements - Continued

12. Fair Value Measurements - Continued

A summary of the changes in fair value of Level 3 assets for the years ended June 30, 2017, is as follows:

	Beneficial Interest in Assets Held by OCF
Balance, beginning of year	\$ 1,463,827
Interest and dividends	13,440
Increase in fair value of investments	183,138
Investment management fees	(11,605)
Contributions	<u>5,000</u>
Balance, end of year	<u><u>\$ 1,653,800</u></u>

13. Endowment Funds

SMART presents its net assets and its revenue and gains based upon the existence or absence of donor imposed restrictions into three classes: unrestricted, temporarily restricted, and permanently restricted. Accounting standards provide guidance for the classification of donor restricted endowment funds that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Interpretation of Relevant Law

The Board of Directors of SMART have interpreted UPMIFA as requiring the preservation of the fair value of the original gift, as of the gift date, of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, SMART classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument, if any, at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by SMART in a manner consistent with the standard of prudence prescribed by UPMIFA.

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Notes to Financial Statements - Continued

13. Endowment Funds - Continued

Investment Strategy and Spending Policy

SMART has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long-term. SMART's spending and investment policies work together to achieve this objective. SMART's endowment funds are invested primarily at OCF. The Board of Directors of OCF determines investment of funds by OCF, which would include SMART's funds with OCF summarized in *Note 5*. Per SMART's policy, investment returns will be reinvested until the assets in the OCF funds reach \$2 million.

Once SMART's assets at OCF reach \$2 million, SMART's board will decide on an annual basis whether to take the annual distribution from these funds. As described above, the annual distribution is set by OCF, is based on a rolling 3 year average, and is capped at 7 percent. The distribution would support the SMART program, and would be allocated according to fund-specific restrictions (such as the fund for Deschutes County); unrestricted funds will be allocated based on need.

At June 30, 2017, there were \$55,307 in endowment contributions received that had not yet been invested.

Endowment asset composition by type of fund as of June 30, 2017 is as follows:

2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted funds	\$ -	\$ 177,063	\$ 258,167	\$ 435,230
Board designated funds	1,273,877	-	-	1,273,877
	<u>\$ 1,273,877</u>	<u>\$ 177,063</u>	<u>\$ 258,167</u>	<u>\$ 1,709,107</u>

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Notes to Financial Statements - Continued

13. Endowment Funds - Continued

Changes in endowment net assets for the years ended June 30, 2017 and 2016, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 1,131,286	\$ 134,681	\$ 202,860	\$ 1,468,827
Increase in beneficial interest in assets held by Oregon Community Foundation	142,591	42,382	-	184,973
Contributions	-	-	55,307	55,307
Endowment net assets, end of year	<u>\$ 1,273,877</u>	<u>\$ 177,063</u>	<u>\$ 258,167</u>	<u>\$ 1,709,107</u>

14. Contributions and Grants

Contributions and grants were received from the following sources during the year ended June 30, 2017:

Individuals	\$ 981,603
Foundations	588,384
State and local government	430,578
Corporations	<u>529,263</u>
	<u>\$ 2,529,828</u>