



FINANCIAL STATEMENTS

Year Ended June 30, 2018

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, 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.

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 SMART as of June 30, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 26, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Heuman, Stewart & Schmitt, P.C.

Lake Oswego, Oregon
October 25, 2018

OREGON CHILDREN'S FOUNDATION DBA SMART

Statement of Financial Position

June 30, 2018 <i>(With Comparative Amounts for 2017)</i>	2018	2017
ASSETS		
Cash and cash equivalents	\$ 1,006,740	\$ 984,604
Investments <i>(Notes 3 and 12)</i>	1,536,586	1,439,110
Contributions and grants receivable - net <i>(Note 4)</i>	846,595	399,018
Prepaid expenses	86,225	51,713
Beneficial interest in assets held by Oregon Community Foundation <i>(Notes 5, 12 and 13)</i>	1,931,879	1,653,800
Restricted cash <i>(Note 13)</i>	81,716	55,307
Property and equipment - net <i>(Note 6)</i>	76,106	35,809
	<u>\$ 5,565,847</u>	<u>\$ 4,619,361</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 29,428	\$ 33,117
Accrued payroll expenses	134,747	126,682
	<u>164,175</u>	<u>159,799</u>
Total liabilities	164,175	159,799
Commitments <i>(Note 7)</i>		
Net assets:		
Unrestricted:		
Undesignated	2,015,442	2,053,347
Designated by Board for endowment <i>(Note 13)</i>	1,390,180	1,273,877
Net investment in furniture and equipment	76,106	35,809
	<u>3,481,728</u>	<u>3,363,033</u>
Total unrestricted	3,481,728	3,363,033
Temporarily restricted <i>(Notes 8 and 13)</i>	1,411,175	838,362
Permanently restricted <i>(Notes 9 and 13)</i>	508,769	258,167
	<u>5,401,672</u>	<u>4,459,562</u>
Total net assets	5,401,672	4,459,562
Total liabilities and net assets	<u>\$ 5,565,847</u>	<u>\$ 4,619,361</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, 2018 (With Comparative Totals for 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2018	2017
Operating revenues, gains, and other support:					
Contributions and grants (Note 14)	\$ 2,058,262	\$ 1,058,794	\$ 250,602	\$ 3,367,658	\$2,529,828
In-kind contributions (Note 11)	604,416	-	-	604,416	550,921
Special events	755,877	48,770	-	804,647	825,031
Less direct costs	(179,880)	-	-	(179,880)	(196,963)
Special events - net	575,997	48,770	-	624,767	628,068
Program service revenue	120,665	-	-	120,665	-
Other revenue	3,535	-	-	3,535	4,925
Net operating revenues, gains, and other support before releases	3,362,875	1,107,564	250,602	4,721,041	3,713,742
Releases from restriction (Note 8)	570,925	(570,925)	-	-	-
Net operating revenues, gains, and other support after releases	3,933,800	536,639	250,602	4,721,041	3,713,742
Operating expenses:					
SMART program	3,042,664	-	-	3,042,664	2,931,373
Supporting services:					
Management and general	367,410	-	-	367,410	356,036
Fundraising	607,163	-	-	607,163	686,004
Total operating expenses	4,017,237	-	-	4,017,237	3,973,413
Increase (decrease) in net assets from operations	(83,437)	536,639	250,602	703,804	(259,671)
Non-operating items:					
Investment income	24,450	-	-	24,450	22,398
Net increase in fair value of investments	61,379	-	-	61,379	99,185
Net increase in beneficial interest in assets held by Oregon Community Foundation (Notes 5, 12, and 13)	116,303	36,174	-	152,477	184,973
Total non-operating items	202,132	36,174	-	238,306	306,556
Increase in net assets	118,695	572,813	250,602	942,110	46,885
Net assets, beginning of year	3,363,033	838,362	258,167	4,459,562	4,412,677
Net assets, end of year	\$ 3,481,728	\$ 1,411,175	\$ 508,769	\$ 5,401,672	\$ 4,459,562

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, 2018 *(With Comparative Totals for 2017)*

	SMART Program	Management and General	Fundraising	Total	
				2018	2017
Salaries and related expenses	\$ 1,617,926	\$ 260,170	\$ 455,596	\$ 2,333,692	\$ 2,240,036
In-kind volunteer coordinators <i>(Note 11)</i>	494,358	-	-	494,358	446,498
In-kind space, communication, and other expenses <i>(Note 11)</i>	56,366	28,973	24,719	110,058	104,423
Background checks	43,215	-	-	43,215	56,508
Books	373,571	-	-	373,571	343,347
Occupancy	52,418	16,214	37,834	106,466	94,853
Professional fees	31,000	16,600	7,386	54,986	145,116
Insurance	9,693	3,729	740	14,162	13,705
Office expenses	198,367	24,126	45,571	268,064	256,847
Travel	74,402	6,514	18,102	99,018	81,149
Meetings and events	46,711	2,973	7,070	56,754	54,505
Advertising and promotion	26,375	-	650	27,025	101,879
Other	9,487	6,653	1,404	17,544	17,745
Depreciation	8,775	1,458	2,753	12,986	12,059
Bad debt	-	-	5,338	5,338	4,743
Total expenses	\$ 3,042,664	\$ 367,410	\$ 607,163	\$ 4,017,237	\$ 3,973,413

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, 2018 <i>(With Comparative Totals for 2017)</i>	2018	2017
Cash flows from operating activities:		
Increase in net assets	\$ 942,110	\$ 46,885
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	12,986	12,059
Net increase in fair value of investments	(61,379)	(99,185)
Net increase in beneficial interest in assets held by Oregon Community Foundation	(152,477)	(184,973)
Proceeds from contributions to permanent endowment	(152,011)	(55,307)
Net changes in:		
Contributions and grants receivable	(447,577)	297,716
Prepaid expenses	(34,512)	74,640
Accounts payable	(3,689)	15,414
Accrued payroll expenses	8,065	5,202
Net cash provided by operating activities	111,516	112,451
Cash flows from investing activities:		
Purchase of furniture and equipment	(53,283)	(15,936)
Purchase of investments	(36,097)	(116,060)
Proceeds from sale of investments	-	97,897
Cash restricted for permanent endowment	(26,409)	(55,307)
Distributions from Oregon Community Foundation	25,000	-
Purchase of beneficial interest in assets held by Oregon Community Foundation	(150,602)	(5,000)
Net cash used by investing activities	(241,391)	(94,406)
Cash flows from financing activities:		
Proceeds from contributions to permanent endowment	152,011	55,307
Net cash provided by financing activities	152,011	55,307
Net increase in cash and cash equivalents	22,136	73,352
Cash and cash equivalents, beginning of year	984,604	911,252
Cash and cash equivalents, end of year	\$ 1,006,740	\$ 984,604

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, 2018, SMART delivered one-on-one reading support to 10,802 children and gave away 141,569 books. This was possible in part thanks to over 4,600 volunteers, who together contributed approximately 109,000 hours of volunteer time. Since 1992, SMART has served over 200,000 children with the help of over 134,000 volunteers, and given away over 2.7 million books. Together, with support from communities across the state, SMART is empowering Oregon children 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.

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 October 25, 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 (the 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 2017 - The accompanying financial information as of and for the year ended June 30, 2017, 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, 2017, 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:

	2018	2017
Domestic equity mutual funds	\$ 773,440	\$ 679,022
Bond funds	569,698	577,900
International equity mutual funds	165,836	153,973
Real estate investment funds	<u>27,612</u>	<u>28,215</u>
	<u>\$ 1,536,586</u>	<u>\$ 1,439,110</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:

	2018	2017
Unconditional promises expected to be collected in:		
Less than one year	\$ 407,688	\$ 376,974
	<u>468,442</u>	<u>39,960</u>
Gross contributions receivable	876,130	416,934
Less unamortized discount (2 percent discount rate)	(22,535)	-
Less allowance for uncollectible amounts	<u>(7,000)</u>	<u>(17,916)</u>
	<u>\$ 846,595</u>	<u>\$ 399,018</u>

At June 30, 2017, management 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:

	2018	2017
SMART Book Endowment Fund	\$ 91,648	\$ 83,899
SMART Legacy Fund	289,131	197,350
Oregon Children's Foundation Fund	1,096,499	1,027,913
Lane County SMART Fund	67,460	38,152
Jackson County SMART Fund	268,682	245,965
Deschutes County SMART Fund	66,111	60,521
Mary Jubitz Fund	<u>52,348</u>	<u>-</u>
	<u>\$ 1,931,879</u>	<u>\$ 1,653,800</u>

OREGON CHILDREN'S FOUNDATION DBA SMART

Notes to Financial Statements - Continued

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

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.

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, except the Mary Jubitz Fund, held at OCF at June 30, 2018, is as follows:

Equities (international and domestic)	52.2 %
Fixed income	11.2
Marketable alternative investments	15.5
Private equity	10.4
Real assets	10.7
	<u>100 %</u>

The portfolio allocation of investments for the Mary Jubitz Fund held at OCF in the Social Impact Fund at June 30, 2018, is as follows:

Equities (international and domestic)	61.3 %
Fixed income	30.7
Private equity	8.0
	<u>100 %</u>

OREGON CHILDREN'S FOUNDATION DBA SMART

Notes to Financial Statements - Continued

6. Property and Equipment

Property and equipment are summarized as follows at June 30:

	2018	2017
Furniture and equipment	\$ 115,118	\$ 61,835
Leasehold improvements	<u>3,753</u>	<u>3,753</u>
	118,871	65,588
Less accumulated depreciation	<u>(42,765)</u>	<u>(29,779)</u>
	<u><u>\$ 76,106</u></u>	<u><u>\$ 35,809</u></u>

7. Commitments

SMART leases space and office equipment under various noncancelable operating lease agreements expiring through June 2023. Rent expense for the year ended June 30, 2018, was \$106,466.

Minimum payments remaining under the noncancelable operating leases are as follows at June 30, 2018:

Years Ending June 30,	Amount
2019	\$ 121,230
2020	118,201
2021	33,337
2022	2,028
2023	<u>2,028</u>
	<u><u>\$ 276,824</u></u>

OREGON CHILDREN'S FOUNDATION DBA SMART

Notes to Financial Statements - Continued

8. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes and time periods at June 30, 2018:

Quality initiative	\$ 30,000
Permanent book collection	2,915
General program support for future periods	1,116,253
Unexpended endowment earnings (<i>Note 13</i>)	213,237
Other	48,770
	<u>\$ 1,411,175</u>

During the year ended June 30, 2018, \$570,925 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.

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:

	2018	2017
SMART Book Endowment Fund	\$ 50,000	\$ 50,000
SMART Legacy Fund	219,860	94,860
Lane County SMART Fund	49,602	24,000
Deschutes County SMART Fund	34,000	34,000
Neil Goldschmidt for SMART Children	30,000	30,000
Mary Jubitz Fund for SMART Children	25,307	25,307
Mary & Tim Boyle North Coast SMART Fund	100,000	-
	<u>\$ 508,769</u>	<u>\$ 258,167</u>

OREGON CHILDREN'S FOUNDATION DBA SMART

Notes to Financial Statements - Continued

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, 2018, approximately 50 percent of gross contributions receivable were receivable from one donor.

11. In-Kind Contributions

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

	2018	2017
Volunteer Site Coordinators at SMART's 270 sites	\$ 494,358	\$ 446,498
Office space	88,479	38,922
Books	12,819	14,142
Professional services and other donated materials	8,760	51,359
	<u>\$ 604,416</u>	<u>\$ 550,921</u>

The core of the SMART program is the more than 4,500 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, 2018, representing a value of approximately \$2,697,000. The estimated value of the volunteer time was based on the Independent Sector value at June 30, 2018. Consistent with GAAP, the value of such services has not been recognized in the accompanying financial statements.

OREGON CHILDREN'S FOUNDATION DBA SMART

Notes to Financial Statements - Continued

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).

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, 2018:

	Level 1	Level 3	Total
Investments:			
Domestic equity mutual funds:			
Large blend	\$ 537,955	\$ -	\$ 537,955
	115,115	-	115,115
	120,370	-	120,370
Bond funds:			
Short-term	289,842	-	289,842
Emerging markets	94,917	-	94,917
High yield	70,368	-	70,368
Corporate	114,571	-	114,571
International equity mutual funds:			
Foreign large blend	79,250	-	79,250
Diversified emerging markets	86,586	-	86,586
Real estate investment funds	27,612	-	27,612
 Total investments	 1,536,586	 -	 1,536,586
 Beneficial interest in assets held by Oregon Community Foundation	 -	 1,931,879	 1,931,879
 Total assets at fair value	 \$ 1,536,586	 \$ 1,931,879	 \$ 3,468,465

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, 2018, is as follows:

	Beneficial Interest in Assets Held by OCF
Balance, beginning of year	\$ 1,653,800
Interest and dividends	14,415
Increase in fair value of investments	151,685
Investment management fees	(13,623)
Distributions	(25,000)
Purchases	<u>150,602</u>
Balance, end of year	<u><u>\$ 1,931,879</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 has interpreted UPMIFA as allowing SMART to appropriate for expenditure or accumulate so much of an endowment fund as SMART determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift agreement. Unless otherwise stated in the gift instrument, the assets in an endowment fund shall be donor restricted assets until appropriate for expenditure by the Board of Directors. 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.

OREGON CHILDREN'S FOUNDATION DBA SMART

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, 2018, there were \$81,716 in endowment contributions received that had not yet been invested and \$98,591 in endowment contributions that are included in contributions receivable.

Endowment asset composition by type of fund as of June 30, 2018 is as follows:

2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted funds	\$ -	\$ 213,237	\$ 508,769	\$ 722,006
Board designated funds	1,390,180	-	-	1,390,180
	<u>\$ 1,390,180</u>	<u>\$ 213,237</u>	<u>\$ 508,769</u>	<u>\$ 2,112,186</u>

OREGON CHILDREN'S FOUNDATION DBA SMART

Notes to Financial Statements - Continued

13. Endowment Funds - Continued

Changes in endowment net assets for the years ended June 30, 2018, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$1,273,877	\$177,063	\$258,167	\$1,709,107
Increase in beneficial interest in assets held by Oregon Community Foundation	116,303	36,174	-	152,477
Contributions	-	-	250,602	250,602
Endowment net assets, end of year	<u>\$ 1,390,180</u>	<u>\$ 213,237</u>	<u>\$ 508,769</u>	<u>\$ 2,112,186</u>

14. Contributions and Grants

Contributions and grants were received from the following sources during the year ended June 30, 2018:

Individuals	\$ 2,026,754
Foundations	636,089
State and local government	203,933
Corporations	<u>500,882</u>
	<u>\$ 3,367,658</u>