



FINANCIAL STATEMENTS

Year Ended June 30, 2014

with

Independent Auditors' Report

OREGON CHILDREN'S FOUNDATION DBA SMART

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7

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) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, 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, 2014, 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

SMART's financial statements as of and for the year ended June 30, 2013, were audited by other auditors, and their report dated September 23, 2013, expressed an unmodified opinion on those audited financial statements.

Huffman, Stewart & Schmitt, P.C.

Lake Oswego, Oregon
October 22, 2014

OREGON CHILDREN'S FOUNDATION DBA SMART

Statement of Financial Position

June 30, 2014 <i>(With Comparative Amounts for 2013)</i>	2014	2013
ASSETS		
Cash and cash equivalents	\$ 734,076	\$ 345,492
Investments <i>(Notes 3 and 12)</i>	841,917	777,968
Contributions and grants receivable - net <i>(Note 4)</i>	616,512	1,048,686
Prepaid expenses	55,380	42,236
Beneficial interest in assets held by Oregon Community Foundation <i>(Notes 5, 12, and 13)</i>	1,283,623	1,107,753
Furniture and equipment - net <i>(Note 6)</i>	18,305	27,903
	<u>\$ 3,549,813</u>	<u>\$ 3,350,038</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 30,626	\$ 21,163
Accrued payroll expenses	121,927	104,769
Total liabilities	152,553	125,932
Commitments <i>(Note 7)</i>		
Net assets:		
Unrestricted:		
Undesignated	1,263,420	900,814
Designated by Board for endowment <i>(Note 13)</i>	946,638	817,630
Net investment in furniture and equipment	18,305	27,903
Total unrestricted	2,228,363	1,746,347
Temporarily restricted <i>(Note 8)</i>	977,037	1,286,899
Permanently restricted <i>(Notes 9 and 13)</i>	191,860	190,860
Total net assets	3,397,260	3,224,106
Total liabilities and net assets	\$ 3,549,813	\$ 3,350,038

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

OREGON CHILDREN'S FOUNDATION DBA SMART

Statement of Activities

Year Ended June 30, 2014 (With Comparative Totals for 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2014	2013
Operating revenues, gains, and other support:					
Contributions and grants	\$ 1,600,640	\$ 328,949	\$ 1,000	\$ 1,930,589	\$ 2,313,872
In-kind contributions (Note 11)	581,224	-	-	581,224	522,267
Special events	640,682	2,000	-	642,682	467,814
Less direct costs	(144,063)	-	-	(144,063)	(104,647)
Special events - net	496,619	2,000	-	498,619	363,167
Other revenue	888	-	-	888	2,516
Net operating revenues, gains, and other support	2,679,371	330,949	1,000	3,011,320	3,201,822
Net assets released from restrictions (Note 8)	686,673	(686,673)	-	-	-
Operating expenses:					
SMART program	2,133,800	-	-	2,133,800	2,009,506
Supporting services:					
Management and general	323,127	-	-	323,127	317,757
Fundraising	672,660	-	-	672,660	587,541
Total operating expenses	3,129,587	-	-	3,129,587	2,914,804
Increase (decrease) in net assets from operations	236,457	(355,724)	1,000	(118,267)	287,018
Non-operating items:					
Investment income	13,891	-	-	13,891	14,585
Net increase in fair value of investments	102,660	-	-	102,660	60,186
Net increase in beneficial interest in assets held by Oregon Community Foundation (Notes 5, 12, and 13)	129,008	45,862	-	174,870	95,949
Total non-operating items	245,559	45,862	-	291,421	170,720
Increase (decrease) in net assets	482,016	(309,862)	1,000	173,154	457,738
Net assets, beginning of year	1,746,347	1,286,899	190,860	3,224,106	2,766,368
Net assets, end of year	\$ 2,228,363	\$ 977,037	\$ 191,860	\$ 3,397,260	\$ 3,224,106

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, 2014 (With Comparative Totals for 2013)

	SMART Program	Management and General	Fundraising	Total	
				2014	2013
Salaries and related expenses	\$ 922,140	\$ 229,358	\$ 550,307	\$ 1,701,805	\$ 1,662,728
In-kind volunteer coordinators (Note 11)	455,159	-	-	455,159	424,693
In-kind space, communication, and other expenses (Note 11)	98,178	5,537	22,350	126,065	97,574
Background checks	41,414	-	-	41,414	38,421
Books	277,562	-	-	277,562	219,991
Occupancy	20,811	9,312	17,169	47,292	46,788
Professional fees	77,312	20,055	3,610	100,977	81,830
Insurance	10,942	1,653	437	13,032	15,112
Office expenses	102,954	31,845	54,019	188,818	184,318
Travel	43,337	7,629	11,802	62,768	64,905
Meetings and events	31,294	3,209	7,177	41,680	38,542
Advertising and promotion	45,447	65	1,669	47,181	20,999
Other	63	12,931	713	13,707	4,558
Depreciation	7,187	1,533	3,407	12,127	14,345
Total expenses	\$ 2,133,800	\$ 323,127	\$ 672,660	\$ 3,129,587	\$ 2,914,804

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, 2014 <i>(With Comparative Totals for 2013)</i>	2014	2013
Cash flows from operating activities:		
Increase in net assets	\$ 173,154	\$ 457,738
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	12,127	14,345
Net increase in fair value of investments	(102,660)	(60,186)
Net increase in beneficial interest in assets held by Oregon Community Foundation	(174,870)	(95,949)
Proceeds from contribution to permanent endowment	(1,000)	-
Net changes in:		
Contributions and grants receivable	432,174	(209,531)
Prepaid expenses	(13,144)	(1,131)
Accounts payable	9,463	(1,817)
Accrued payroll expenses	17,158	5,915
Net cash provided by operating activities	352,402	109,384
Cash flows from investing activities:		
Purchases of furniture and equipment	(2,529)	(10,178)
Purchase of investments	(54,609)	(1,562)
Proceeds from sale of investments	99,594	-
Reinvestment of investment earnings	(6,274)	(14,554)
Purchase of beneficial interest in assets held by Oregon Community Foundation	(1,000)	-
Net cash provided (used) by investing activities	35,182	(26,294)
Cash flows from financing activities:		
Proceeds from contribution to permanent endowment	1,000	-
Net cash provided by financing activities	1,000	-
Net increase in cash and cash equivalents	388,584	83,090
Cash and cash equivalents, beginning of year	345,492	262,402
Cash and cash equivalents, end of year	\$ 734,076	\$ 345,492

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 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. 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 at risk of falling behind.

During the year ended June 30, 2014, SMART delivered one-on-one reading support to 9,115 children and gave away 103,250 books. This was possible in part thanks to over 4,600 volunteers, who together contributed over 100,000 hours of volunteer time. Since 1992, SMART has served more than 170,000 children with the help of over 113,000 volunteers, and given away over 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 accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 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 ratably over the estimated useful lives of the assets.

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 appreciation (depreciation) 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.

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

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.

Accounting principles generally accepted in the United States of America prescribe a recognition threshold and measurement process for accounting for uncertain tax positions and provide 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. Generally, the returns are subject to examination by income tax authorities for three years from the filing of a return. As such, the returns for the years ended June 30, 2011, 2012 and 2013, are currently subject to examination. 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.

Summarized Financial Information for 2013 - The accompanying financial information as of and for the year ended June 30, 2013, is presented for comparative purposes only and is not intended to represent a complete financial statement presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with SMART's financial statements for the year ended June 30, 2013, 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:

	2014	2013
Domestic equity mutual funds	\$ 400,223	\$ 391,082
Bond funds	334,464	282,561
International equity mutual funds	89,792	89,413
Real estate investment funds	17,438	14,912
	<u>\$ 841,917</u>	<u>\$ 777,968</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:

	2014	2013
Unconditional promises expected to be collected in:		
Less than one year	\$ 616,248	\$ 654,662
One year to five years	18,180	411,940
	<hr/>	<hr/>
Gross contributions receivable	634,428	1,066,602
Less discount to present value (0.625 percent discount rate)	(4,187)	(3,930)
	<hr/>	<hr/>
Net present value	630,241	1,062,672
Less allowance for uncollectible amounts	(13,729)	(13,986)
	<hr/>	<hr/>
	<u>\$ 616,512</u>	<u>\$ 1,048,686</u>

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:

	2014	2013
SMART Book Endowment Fund	\$ 77,266	\$ 66,736
SMART Legacy Fund	259,719	223,387
Oregon Children's Foundation Fund	946,638	817,630
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	<u>\$ 1,283,623</u>	<u>\$ 1,107,753</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. In determining the percentage of payout from the fund, the OCF Board will consider the expected total return on the underlying investments, the desirability of maintaining the real value of the funds, and any other factors which the OCF Board deems relevant. 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 that are 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 Oregon Community Foundation at June 30, 2014, is as follows:

Equities (international and domestic)	40 %
Fixed income	15
Marketable alternative investments	20
Private equity	10
Inflation hedging investments	15
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	100 %
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OREGON CHILDREN'S FOUNDATION DBA SMART

Notes to Financial Statements - Continued

6. Furniture and Equipment

Furniture and equipment are summarized as follows at June 30:

	2014	2013
Furniture and equipment	\$ 76,789	\$ 74,260
Less accumulated depreciation	<u>(58,484)</u>	<u>(46,357)</u>
	<u><u>\$ 18,305</u></u>	<u><u>\$ 27,903</u></u>

7. Commitments

SMART leases space under various noncancelable operating lease agreements expiring through March, 2018. Minimum payments remaining under the noncancelable operating leases are as follows at June 30, 2014.

Years Ending June 30,	Amount
2015	\$ 72,093
2016	19,659
2017	14,448
2018	<u>1,521</u>
	<u><u>\$ 107,721</u></u>

OREGON CHILDREN'S FOUNDATION DBA SMART

Notes to Financial Statements - Continued

8. Temporarily Restricted Net Assets

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

	2014	2013
Communication and marketing	\$ 49,649	\$ 87,500
General program support	632,274	75,000
Expansion of program in rural Oregon and program evaluations	129,474	29,474
Unexpended endowment earnings <i>(Note 13)</i>	145,125	99,263
Other	-	13,500
Future periods	20,515	982,162
	<u>\$ 977,037</u>	<u>\$ 1,286,899</u>

During the year ended June 30, 2014, \$686,673 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:

	2014	2013
SMART Book Endowment Fund	\$ 50,000	\$ 50,000
SMART Legacy Fund	141,860	140,860
	<u>\$ 191,860</u>	<u>\$ 190,860</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 (FDIC). 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, 2014, approximately 47 percent of gross contributions receivable were receivable from two donors.

11. In-Kind Contributions

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

	2014	2013
Volunteer local program coordinators and managers	\$ 455,159	\$ 424,693
Office space	91,199	73,631
Books	22,032	22,301
Other donated materials	12,834	1,642
	<u>\$ 581,224</u>	<u>\$ 522,267</u>

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 109,587 hours of services to SMART during the year ended June 30 2014, representing a value of approximately \$989,023. However, consistent with generally accepted accounting principles, 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

Accounting principles generally accepted in the United States of America provide 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 asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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, 2014:

	Level 1	Level 2	Level 3	Total
Investments:				
Domestic equity mutual funds:				
Large blend	\$ 282,674	\$ -	\$ -	\$ 282,674
Mid-cap blend	59,807	-	-	59,807
Small blend	57,742	-	-	57,742
Bond funds:				
Intermediate-term	33,368	-	-	33,368
Short-term	98,811	-	-	98,811
Emerging markets	34,696	-	-	34,696
High yield	41,507	-	-	41,507
World	24,830	-	-	24,830
Corporate	101,252	-	-	101,252
International equity mutual funds:				
Foreign large blend	43,686	-	-	43,686
Diversified emerging markets	46,106	-	-	46,106
Real estate investment funds	17,438	-	-	17,438
Total investments	841,917	-	-	841,917
Beneficial interest in assets held by Oregon Community Foundation	-	-	1,283,623	1,283,623
Total assets at fair value	<u>\$ 841,917</u>	<u>\$ -</u>	<u>\$ 1,283,623</u>	<u>\$ 2,125,540</u>

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 Oregon Community Foundation 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 year ended June 30, 2014, is as follows:

	Beneficial Interest in Assets Held by OCF
Balance, beginning of year	\$ 1,107,753
Interest and dividends	13,446
Increase in fair value of investments	171,089
Investment management fees	(9,665)
Contributions	<u>1,000</u>
Balance, end of year	<u><u>\$ 1,283,623</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). The State of Oregon adopted UPMIFA effective January 1, 2008.

Interpretation of Relevant Law

The Board of Directors of SMART has 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.

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 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. Investment returns will be reinvested until the assets in the OCF funds reach \$2 million.

The spending policy calculates the amount of money to be distributed from the endowment funds for books and other board designated purposes in the area of greatest need. Once the total assets reach \$2 million the policy is to distribute not more than 7 percent of a three-year moving average.

Endowment asset composition by type of fund as of June 30, 2014, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted funds	\$ -	\$ 145,125	\$ 191,860	\$ 336,985
Board designated funds	946,638	-	-	946,638
	<u>\$ 946,638</u>	<u>\$ 145,125</u>	<u>\$ 191,860</u>	<u>\$ 1,283,623</u>

Changes in endowment net assets for the year ended June 30, 2014, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 817,630	\$ 99,263	\$ 190,860	\$ 1,107,753
Increase in beneficial interest in assets held by Oregon Community Foundation	129,008	45,862	-	174,870
Contributions	-	-	1,000	1,000
	<u>\$ 946,638</u>	<u>\$ 145,125</u>	<u>\$ 191,860</u>	<u>\$ 1,283,623</u>

14. Subsequent Events

Management has evaluated subsequent events through October 22, 2014, the date the financial statements were available for issue.