



FINANCIAL STATEMENTS

Year Ended June 30, 2016

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, 2016, 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, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 13, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, 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
October 18, 2016

OREGON CHILDREN'S FOUNDATION DBA SMART

Statement of Financial Position

June 30, 2016 <i>(With Comparative Amounts for 2015)</i>	2016	2015
ASSETS		
Cash and cash equivalents	\$ 911,252	\$ 1,133,577
Investments <i>(Notes 3 and 12)</i>	1,321,762	967,634
Contributions and grants receivable - net <i>(Note 4)</i>	696,734	877,737
Prepaid expenses	126,353	67,031
Beneficial interest in assets held by Oregon Community Foundation <i>(Notes 5, 12 and 13)</i>	1,463,827	1,449,704
Property and equipment - net <i>(Note 6)</i>	31,932	30,878
	<u>\$ 4,551,860</u>	<u>\$ 4,526,561</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 17,703	\$ 67,006
Accrued payroll expenses	121,480	147,000
Deferred revenue	-	11,666
	<u>139,183</u>	<u>225,672</u>
Total liabilities	139,183	225,672
Commitments <i>(Note 7)</i>		
Net assets:		
Unrestricted:		
Undesignated	1,806,397	1,643,506
Designated by Board for endowment <i>(Note 13)</i>	1,186,286	1,105,472
Net investment in furniture and equipment	31,932	30,878
	<u>3,024,615</u>	<u>2,779,856</u>
Total unrestricted	3,024,615	2,779,856
Temporarily restricted <i>(Notes 8 and 13)</i>	1,185,202	1,323,173
Permanently restricted <i>(Notes 9 and 13)</i>	202,860	197,860
	<u>4,412,677</u>	<u>4,300,889</u>
Total net assets	4,412,677	4,300,889
Total liabilities and net assets	<u>\$ 4,551,860</u>	<u>\$ 4,526,561</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, 2016 (With Comparative Totals for 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2016	2015
Operating revenues, gains, and other support:					
Contributions and grants (Note 14)	\$ 2,147,962	\$ 502,836	\$ 5,000	\$ 2,655,798	\$ 3,266,439
In-kind contributions (Note 11)	660,304	-	-	660,304	645,046
Special events	747,756	19,250	-	767,006	744,431
Less direct costs	(152,852)	-	-	(152,852)	(159,164)
Special events - net	594,904	19,250	-	614,154	585,267
Other revenue	37,178	-	-	37,178	10,787
Net operating revenues, gains, and other support before releases	3,440,348	522,086	5,000	3,967,434	4,507,539
Releases from restriction (Note 8)	648,366	(648,366)	-	-	-
Net operating revenues, gains, and other support after releases	4,088,714	(126,280)	5,000	3,967,434	4,507,539
Operating expenses:					
SMART program	2,685,039	-	-	2,685,039	2,495,661
Supporting services:					
Management and general	342,180	-	-	342,180	347,219
Fundraising	815,081	-	-	815,081	762,741
Total operating expenses	3,842,300	-	-	3,842,300	3,605,621
Increase (decrease) in net assets from operations	246,414	(126,280)	5,000	125,134	901,918
Non-operating items:					
Investment income	20,092	-	-	20,092	11,460
Net increase (decrease) in fair value of investments	16,666	-	-	16,666	(6,499)
Net decrease in beneficial interest in assets held by Oregon Community Foundation (Notes 5, 12, and 13)	(38,413)	(11,691)	-	(50,104)	(3,250)
Total non-operating items	(1,655)	(11,691)	-	(13,346)	1,711
Increase (decrease) in net assets	244,759	(137,971)	5,000	111,788	903,629
Net assets, beginning of year	2,779,856	1,323,173	197,860	4,300,889	3,397,260
Net assets, end of year	\$ 3,024,615	\$ 1,185,202	\$ 202,860	\$ 4,412,677	\$ 4,300,889

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, 2016 *(With Comparative Totals for 2015)*

	SMART Program	Management and General	Fundraising	Total	
				2016	2015
Salaries and related expenses	\$ 1,242,208	\$ 245,134	\$ 679,439	\$ 2,166,781	\$ 1,979,401
In-kind volunteer coordinators <i>(Note 11)</i>	556,668	-	-	556,668	508,094
In-kind space, communication, and other expenses <i>(Note 11)</i>	88,367	12,452	2,817	103,636	136,952
Background checks	57,392	-	-	57,392	53,179
Books	327,328	-	-	327,328	292,471
Occupancy	51,334	9,278	19,281	79,893	52,611
Professional fees	82,436	20,846	11,423	114,705	142,895
Insurance	9,586	3,128	401	13,115	11,882
Office expenses	112,404	32,811	65,341	210,556	203,373
Travel	60,971	6,076	21,851	88,898	83,305
Meetings and events	63,930	3,496	5,697	73,123	68,713
Advertising and promotion	24,642	84	3,152	27,878	45,466
Other	2,394	6,097	2,172	10,663	10,994
Depreciation	5,379	1,498	3,507	10,384	11,062
Bad debt	-	1,280	-	1,280	5,223
Total expenses	\$ 2,685,039	\$ 342,180	\$ 815,081	\$ 3,842,300	\$ 3,605,621

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, 2016 <i>(With Comparative Totals for 2015)</i>	2016	2015
Cash flows from operating activities:		
Increase in net assets	\$ 111,788	\$ 903,629
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	10,384	11,062
Net (increase) decrease in fair value of investments	(16,666)	6,499
Net decrease in beneficial interest in assets held by Oregon Community Foundation	50,104	3,250
Proceeds from contribution to permanent endowment	(5,000)	(6,000)
Net changes in:		
Contributions and grants receivable	181,003	(261,225)
Prepaid expenses	(59,322)	(11,651)
Accounts payable	(49,303)	36,380
Accrued payroll expenses	(25,520)	25,073
Deferred revenue	(11,666)	11,666
Net cash provided by operating activities	185,802	718,683
Cash flows from investing activities:		
Purchases of furniture and equipment	(11,438)	(23,635)
Purchase of investments	(502,857)	(269,478)
Proceeds from sale of investments	165,395	137,262
Purchase of beneficial interest in assets held by Oregon Community Foundation	(64,227)	(169,331)
Net cash used by investing activities	(413,127)	(325,182)
Cash flows from financing activities:		
Proceeds from contribution to permanent endowment	5,000	6,000
Net cash provided by financing activities	5,000	6,000
Net increase (decrease) in cash and cash equivalents	(222,325)	399,501
Cash and cash equivalents, beginning of year	1,133,577	734,076
Cash and cash equivalents, end of year	\$ 911,252	\$ 1,133,577

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, 2016, SMART delivered one-on-one reading support to 10,101 children and gave away 130,310 books. This was possible in part thanks to over 4,600 volunteers, who together contributed over 164,000 hours of volunteer time. Since 1992, SMART has served more than 188,000 children with the help of over 125,000 volunteers, and given away over 2.4 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 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, 2016, SMART has conditional grants receivable totaling \$68,000 from a charitable trust. The receipt of the first grant for \$35,000 is conditioned upon receiving one to one matching contributions by March 31, 2017. The receipt of the second grant for \$33,000 is conditioned upon receiving two to one matching contributions by March 31, 2018. 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 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. 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 18, 2016, 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 2015 - The accompanying financial information as of and for the year ended June 30, 2015, 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, 2015, 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:

	2016	2015
Domestic equity mutual funds	\$ 632,546	\$ 460,979
Bond funds	531,448	392,620
International equity mutual funds	130,014	96,483
Real estate investment funds	<u>27,754</u>	<u>17,552</u>
	<u>\$ 1,321,762</u>	<u>\$ 967,634</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:

	2016	2015
Unconditional promises expected to be collected in:		
Less than one year	\$ 510,690	\$ 435,243
One year to five years	<u>203,960</u>	<u>460,410</u>
Gross contributions receivable	714,650	895,653
Less discount to present value (0.12 and 0.2 percent discount rate, respectively)	<u>(3,930)</u>	<u>(3,930)</u>
Net present value	710,720	891,723
Less allowance for uncollectible amounts	<u>(13,986)</u>	<u>(13,986)</u>
	<u><u>\$ 696,734</u></u>	<u><u>\$ 877,737</u></u>

Management's estimate of the discount to present value and allowance for uncollectible amounts at June 30, 2016 are below amounts recorded at June 30, 2015. Based on these estimates management has elected not to adjust the discount on pledges receivable or allowance for uncollectible amounts for the year ended June 30, 2016.

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:

	2016	2015
SMART Book Endowment Fund	\$ 74,508	\$ 77,127
SMART Legacy Fund	170,404	176,396
Oregon Children's Foundation Fund	912,854	944,948
Lane County SMART Fund	33,882	35,073
Jackson County SMART Fund	218,433	160,524
Deschutes County SMART Fund	<u>53,746</u>	<u>55,636</u>
	<u><u>\$ 1,463,827</u></u>	<u><u>\$ 1,449,704</u></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 held at OCF at June 30, 2016, is as follows:

Equities (international and domestic)	45 %
Fixed income	10
Marketable alternative investments	20
Private equity	15
Real assets	10
	<u>100 %</u>

6. Property and Equipment

Property and equipment are summarized as follows at June 30:

	2016	2015
Furniture and equipment	\$ 45,898	\$ 92,671
Leasehold improvements	<u>3,753</u>	<u>3,753</u>
	49,651	96,424
Less accumulated depreciation	<u>(17,719)</u>	<u>(65,546)</u>
	<u>\$ 31,932</u>	<u>\$ 30,878</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 July 2020. Rent expense for the year ended June 30, 2016, was \$79,893. Minimum payments remaining under the noncancelable operating leases are as follows at June 30, 2016:

Years Ending June 30,	Amount
2017	\$ 115,541
2018	102,966
2019	100,395
2020	100,395
2021	<u>21,794</u>
	<u><u>\$ 441,091</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, 2016:

	Fiscal Years Ending June 30:			
	Total	2017	2018	2019
General program support	\$ 703,923	\$ 499,923	\$202,000	\$ 2,000
Expansion of program	33,000	33,000	-	-
Unexpended endowment earnings (<i>Note 13</i>)	134,681	N/A - Held for Endowment		
Quality initiative	132,954	117,954	15,000	-
25th Anniversary	72,100	72,100	-	-
Permanent book collection	50,900	50,900	-	-
Other	31,250	31,250	-	-
Future periods	26,394	24,434	1,000	960
	<u>\$1,185,202</u>	<u>\$ 829,561</u>	<u>\$218,000</u>	<u>\$ 2,960</u>

During the year ended June 30, 2016, \$648,366 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:

	2016	2015
SMART Book Endowment Fund	\$ 50,000	\$ 50,000
SMART Legacy Fund	94,860	89,860
Lane County SMART Fund	24,000	24,000
Deschutes County SMART Fund	34,000	34,000
	<u>\$ 202,860</u>	<u>\$ 197,860</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 (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, 2016, approximately 56 percent of gross contributions receivable were receivable from one donor. At June 30, 2015, approximately 67 percent of gross contributions receivable were receivable from one donor.

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:

	2016	2015
Volunteer Site Coordinators at SMART's 270 sites	\$ 556,668	\$ 508,094
Office space	70,476	104,261
Books	20,173	17,042
Professional services and other donated materials	<u>12,987</u>	<u>15,649</u>
	<u>\$ 660,304</u>	<u>\$ 645,046</u>

In addition, the core of the SMART program is the more than 4,600 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 112,509 hours of services to SMART during the year ended June 30, 2016, representing a value of approximately \$1,040,708. 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

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:

2016	Level 1	Level 3	Total
Investments:			
Domestic equity mutual funds:			
Large blend	\$ 441,872	\$ -	\$ 441,872
Mid-cap blend	95,012	-	95,012
Small blend	95,662	-	95,662
Bond funds:			
Short-term	262,785	-	262,785
Emerging markets	54,351	-	54,351
High yield	67,594	-	67,594
World	38,711	-	38,711
Corporate	108,007	-	108,007
International equity mutual funds:			
Foreign large blend	64,597	-	64,597
Diversified emerging markets	65,417	-	65,417
Real estate investment funds	27,754	-	27,754
	<u>1,321,762</u>	<u>-</u>	<u>1,321,762</u>
Total investments	1,321,762	-	1,321,762
Beneficial interest in assets held by Oregon Community Foundation			
	<u>-</u>	<u>1,463,827</u>	<u>1,463,827</u>
Total assets at fair value	<u>\$ 1,321,762</u>	<u>\$ 1,463,827</u>	<u>\$ 2,785,589</u>

OREGON CHILDREN'S FOUNDATION DBA SMART

Notes to Financial Statements - Continued

12. Fair Value Measurements - Continued

2015	Level 1	Level 3	Total
Investments:			
Domestic equity mutual funds:			
Large blend	\$ 322,216	\$ -	\$ 322,216
Mid-cap blend	68,841	-	68,841
Small blend	69,922	-	69,922
Bond funds:			
Short-term	199,074	-	199,074
Emerging markets	38,802	-	38,802
High yield	48,936	-	48,936
World	29,896	-	29,896
Corporate	75,912	-	75,912
International equity mutual funds:			
Foreign large blend	48,040	-	48,040
Diversified emerging markets	48,443	-	48,443
Real estate investment funds	<u>17,552</u>	<u>-</u>	<u>17,552</u>
Total investments	967,634	-	967,634
Beneficial interest in assets held by Oregon Community Foundation	<u>-</u>	<u>1,449,704</u>	<u>1,449,704</u>
Total assets at fair value	<u>\$ 967,634</u>	<u>\$ 1,449,704</u>	<u>\$ 2,417,338</u>

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, is as follows:

	Beneficial Interest in Assets Held by OCF
Balance, June 30, 2014	\$ 1,283,623
Interest and dividends	12,036
Decrease in fair value of investments	(4,136)
Investment management fees	(10,708)
Contributions	<u>168,889</u>
Balance, June 30, 2015	1,449,704
Interest and dividends	19,704
Decrease in fair value of investments	(58,491)
Investment management fees	(11,317)
Contributions	<u>64,227</u>
Balance, June 30, 2016	<u>\$ 1,463,827</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.

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.

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

2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted funds	\$ -	\$ 134,681	\$ 202,860	\$ 337,541
Board designated funds	<u>1,186,286</u>	<u>-</u>	<u>-</u>	<u>1,186,286</u>
	<u><u>\$ 1,186,286</u></u>	<u><u>\$ 134,681</u></u>	<u><u>\$ 202,860</u></u>	<u><u>\$ 1,523,827</u></u>
2015				
Donor restricted funds	\$ -	\$ 146,372	\$ 197,860	\$ 344,232
Board designated funds	<u>1,105,472</u>	<u>-</u>	<u>-</u>	<u>1,105,472</u>
	<u><u>\$ 1,105,472</u></u>	<u><u>\$ 146,372</u></u>	<u><u>\$ 197,860</u></u>	<u><u>\$ 1,449,704</u></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, 2016 and 2015, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2014	\$ 946,638	\$ 145,125	\$ 191,860	\$ 1,283,623
Increase (decrease) in beneficial interest in assets held by Oregon Community Foundation	(4,497)	1,247	-	(3,250)
Contributions	<u>163,331</u>	<u>-</u>	<u>6,000</u>	<u>169,331</u>
Endowment net assets, June 30, 2015	1,105,472	146,372	197,860	1,449,704
Decrease in beneficial interest in assets held by Oregon Community Foundation	(38,413)	(11,691)	-	(50,104)
Contributions	<u>119,227</u>	<u>-</u>	<u>5,000</u>	<u>124,227</u>
Endowment net assets, June 30, 2016	<u>\$ 1,186,286</u>	<u>\$ 134,681</u>	<u>\$ 202,860</u>	<u>\$ 1,523,827</u>

14. Contributions and Grants

Contributions and grants were received from the following sources during the year ended June 30, 2016:

Individuals	\$ 948,760
Foundations	857,081
State and local government	343,440
Corporations	<u>506,517</u>
	<u>\$ 2,655,798</u>

During the year ended June 30, 2016, SMART received two bequests totaling \$119,227. Per SMART board policy, the first \$25,000 is allocated to operating expenses, and the remainder was board-designated for endowment, i.e. not available for operations.