GaryMcGee & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS

S M A R T

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Financial Statements and Other Information
as of and for the Year Ended June 30, 2013
and Report of Independent Accountants

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GaryMcGee & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors
Oregon Children's Foundation:

We have audited the accompanying financial statements of the Oregon Children's Foundation (dba "SMART"), which comprise the statement of financial position as of June 30, 2013, 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; 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.

Auditor's 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. 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 auditor's 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 organization'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 organization'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, 2013, 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.

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Summarized Comparative Information

We have previously audited SMART's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 3, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

September 23, 2013

S M A R T

STATEMENT OF FINANCIAL POSITION

J U N E 3 0 , 2 0 1 3

(W I T H C O M P A R A T I V E A M O U N T S F O R 2 0 1 2)

	2013	2012
Assets:		
Cash and cash equivalents	$ 345,492	262,402
Contributions and grants receivable *(note 3)*	1,048,686	839,155
Prepaid expenses and other assets	42,236	41,105
Investments *(note 4)*	777,968	701,666
Beneficial interest in assets held by the Oregon Community Foundation *(note 5)*	1,107,753	1,011,804
Furniture and equipment *(note 6)*	27,903	32,070
Total assets	$ 3,350,038	2,888,202
Liabilities:		
Accounts payable and accrued expenses	21,163	22,980
Accrued payroll expenses	104,769	98,854
Total liabilities	125,932	121,834
Net assets:		
Unrestricted:		
Available for programs and general operations	900,814	847,906
Designated by Board for endowment *(note 7)*	817,630	747,673
Net investment in capital assets	27,903	32,070
Total unrestricted	1,746,347	1,627,649
Temporarily restricted *(note 7)*	1,286,899	947,859
Permanently restricted *(note 7)*	190,860	190,860
Total net assets	3,224,106	2,766,368
Commitments *(notes 12 and 15)*		
Total liabilities and net assets	$ 3,350,038	2,888,202

See accompanying notes to financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013				
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**2012**
Operating revenues, gains, and other support:					
Contributions and grants *(note 8)*	$ 779,786	1,534,086	–	2,313,872	2,081,864
In-kind contributions *(note 9)*	522,267	–	–	522,267	591,547
Special events, net of direct costs of $104,647 in 2013 and $85,511 in 2012	363,167	–	–	363,167	248,334
Other revenue	2,516	–	–	2,516	3,563
Total operating revenues and gains	1,667,736	1,534,086	–	3,201,822	2,925,308
Net assets released from restrictions for operating purposes *(note 10)*	1,221,038	(1,221,038)	–	–	–
Total operating revenues, gains, and other support	2,888,774	313,048	–	3,201,822	2,925,308
Expenses *(note 11)*:					
SMART program	2,009,506	–	–	2,009,506	2,247,255
Management and general	317,757	–	–	317,757	334,461
Fundraising	587,541	–	–	587,541	488,872
Total expenses	2,914,804	–	–	2,914,804	3,070,588
Increase (decrease) in net assets before non-operating activities	(26,030)	313,048	–	287,018	(145,280)
Non-operating activities:					
Investment income	14,585	–	–	14,585	11,173
Net appreciation (decline) in the fair value of investments	60,186	–	–	60,186	(33,370)
Net increase (decrease) in the beneficial interest in assets held by the Oregon Community Foundation *(note 5)*	69,957	25,992	–	95,949	(46,084)
Total non-operating activities	144,728	25,992	–	170,720	(68,281)
Increase (decrease) in net assets	118,698	339,040	–	457,738	(213,561)
Net assets at beginning of year	1,627,649	947,859	190,860	2,766,368	2,979,929
Net assets at end of year	$ 1,746,347	1,286,899	190,860	3,224,106	2,766,368

See accompanying notes to financial statements.

SMART

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

		2013				
		SMART program	**Manage-ment and general**	**Fund-raising**	**Total**	**2012**
Salaries and related expenses	$	946,355	228,600	487,773	1,662,728	1,644,993
In-kind volunteer coordinators *(note 9)*		424,693	–	–	424,693	458,804
In-kind space, communication, and other expenses *(note 9)*		90,663	2,527	4,384	97,574	132,743
Background checks		38,421	–	–	38,421	52,425
Books		219,991	–	–	219,991	172,014
Occupancy		19,222	11,292	16,274	46,788	46,116
Professional fees		49,974	28,819	3,037	81,830	48,765
Insurance		13,457	1,655	–	15,112	23,423
Office expenses		106,745	26,490	51,083	184,318	272,898
Travel		44,920	8,124	11,861	64,905	80,092
Meetings and events		26,092	4,080	8,370	38,542	66,556
Advertising and promotion		20,551	39	409	20,999	40,365
Other		–	4,558	–	4,558	1,510
Depreciation		8,422	1,573	4,350	14,345	29,884
Total expenses	$	2,009,506	317,757	587,541	2,914,804	3,070,588

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013	2012
Cash flows from operating activities:		
Cash received from contributors and grantors	$ 2,572,155	2,153,545
Cash received from other sources	2,516	3,063
Cash received from interest and dividends	14,585	11,173
Cash paid to employees and suppliers	(2,479,872)	(2,520,222)
Net cash provided by (used in) operating activities	109,384	(352,441)
Cash flows from investing activities:		
Purchases of capital assets	(10,178)	(7,005)
Net sales (purchases) of investments	(1,562)	21,863
Reinvestment of investment earnings	(14,554)	(11,062)
Net cash provided by (used in) investing activities	(26,294)	3,796
Increase (decrease) in cash and cash equivalents	83,090	(348,645)
Cash and cash equivalents at beginning of year	262,402	611,047
Cash and cash equivalents at end of year	$ 345,492	262,402

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Organization

The Oregon Children's Foundation (dba "SMART") is a nationally recognized, statewide nonprofit organization 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. The organization 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 our state'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, 2013, SMART delivered one-on-one reading support to 8,564 children and gave away 85,280 books. This was possible in part thanks to over 4,900 volunteers, who together contributed over 100,000 hours of volunteer time. Since 1992, SMART has served more than 160,000 children with the help of 108,000 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 generally accepted accounting principles and the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

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

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

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

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

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

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

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

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

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

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

Investments – Investments are carried at fair value. The net change in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (decline) of those investments, is reported in the statement of activities. Investment income is accrued as earned and reported net of advisory fees totaling $4,978 of the year ended June 30, 2013. Security transactions are recorded on a trade date basis.

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

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

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

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

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

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

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

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

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

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

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

Concentrations of Credit Risk – The organization's financial instruments consist primarily of investments in money market funds, equity funds, bond funds, contributions and grants receivable, and a beneficial interest in assets held by the Oregon Community Foundation ("OCF"), which may subject the organization to concentrations of credit risk as, from time to time, for example, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation ("FDIC"). In addition, the market value of securities is dependent on the ability of the issuer to honor its contractual commitments, and the investments are subject to changes in market values.

All interest-bearing checking and savings accounts, money market deposit accounts, and certificates of deposit are insured by the FDIC for up to $250,000 per depositor, per insured bank, for each account ownership category. Prior to January 1, 2013, Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act provided depositors with unlimited coverage for noninterest-bearing transaction accounts. This unlimited protection for noninterest-bearing transaction accounts expired on December 31, 2012, and, beginning January 1, 2013, all accounts at an insured depository institution, including noninterest-bearing transaction accounts, are insured by the FDIC up to $250,000 per depositor, per insured bank, for each deposit insurance ownership category.

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

Contributions and grants receivable also subject SMART to concentrations of credit risk. At June 30, 2013, contributions receivable included outstanding balances from two donors representing approximately 67% of the total.

Income Taxes – SMART is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law. In addition, the SMART has been recognized as a public charity under Sections 170(b)(1)(A)(vi) and 509(a)(1) of the Internal Revenue Code. For tax purposes, SMART's open audit periods are for the years ended June 30, 2010 through 2012.

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

Subsequent Events – As required by FASB ASC No. 855, *Subsequent Events,* subsequent events have been evaluated by management through September 23, 2013, which is the date the financial statements were available to be issued.

Summarized Financial Information for 2012 – The accompanying financial statements as of and for the year ended June 30, 2012, are presented for comparative purposes only and are not intended to represent a complete financial statement presentation.

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

3. Contributions and Grants Receivable

Contributions and grants receivable, net, are summarized as follows at June 30, 2013:

Unconditional promises expected to be collected in:	
Less than one year	$ 654,662
One to five years	411,940
	1,066,602
Less allowance for doubtful collections	(13,986)
Less discount [1]	(3,930)
	$ 1,048,686

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

4. Investments

Investments held by SMART at June 30, 2013 consisted of the following, stated at fair value:

Domestic equity funds	$ 391,082
Bond funds	282,561
International equity funds	89,413
Real estate investment funds	14,912
	$ 777,968

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

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

Changes in SMART's beneficial interest in these funds for the year ended June 30, 2013 are summarized as follows:

Balance at beginning of year	$ 1,011,804
Net increase in the beneficial interest in assets held by the Oregon Community Foundation	95,949
Balance at end of year	$ 1,107,753

Under the terms of its agreement with OCF, OCF maintains variance power over, and legal ownership of, these funds. The funds are invested at the discretion of OCF's Board of Directors and are held in a mixture of asset classes designed to maximize return while minimizing risk. OCF's target asset allocation is as follows: 40% equities (both domestic and international); 15% fixed income; 20% marketable alternative investments; 10% private equity; and 15% inflation hedging investments. The valuations disclosed in the above table have been provided by OCF. SMART generally receives periodic distributions of the net investment return earned on these assets (generally 4.5% of the average fair market value of the funds using a trailing 13-quarter average). Additional distributions can be made at any time by the affirmative vote of a majority of the organization's Board of Directors and the approval of OCF. During the year ended June 30, 2013, there were no distributions made to SMART.

At June 30, 2013, investments are held for the following purposes:

Donor-restricted endowment [1]	$ 290,123
Board-designated endowment	817,630
	$ 1,107,753

[1] Includes accumulated endowment earnings totaling $99,263 (see note 7).

6. Furniture and Equipment

A summary of furniture and equipment at June 30, 2013 is as follows:

Office furniture and equipment	$	74,260
Less accumulated depreciation		(46,357)
	$	27,903

7. Restrictions and Limitations on Net Asset Balances

Board-Designated Net Assets

At June 30, 2013, SMART had designated $817,630 of unrestricted net assets for long-term investment.

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2013 represent contributions, grants, and other unexpended revenues and gains available for the following:

Endowment earnings:[1]		
Restricted for book acquisitions	$	16,736
Unrestricted		82,527
Total endowment earnings		99,263
Other:		
Communication and marketing		87,500
General program support		75,000
Expansion of program in rural Oregon, and program evaluation		29,474
Other		13,500
Future periods		982,162
	$	1,286,899

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

Permanently Restricted Net Assets

At June 30, 2013, SMART held $190,860 in endowment funds. The investment income earned on the balances of these permanently restricted endowment net assets is restricted or unrestricted as follows:

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

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

The following summarizes SMART's endowment-related activities for the year ended June 30, 2013:

	Donor-restricted endowment			Board-designated endowment	
	Temporarily restricted	Permanently restricted	Total	Unrestricted	Total endow-ment
Endowment net assets at beginning of year	$ 73,271	190,860	264,131	747,673	1,011,804
Net increase in the beneficial interest in assets held by the Oregon Community Foundation	25,992	–	25,992	69,957	95,949
Endowment net assets at end of year	$ 99,263	190,860	290,123	817,630	1,107,753

8. Contributions and Grants

Contributions and grants received during the year ended June 30, 2013 are summarized as follows:

Foundations	$ 1,502,028
Individuals	425,391
Corporations	318,761
State and local governments	67,692
	$ 2,313,872

Contributions from one donor represented approximately 26% of total contributions and grants received during the year.

9. In-Kind Contributions

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

SMART's in-kind contributions for the year ended June 30, 2013 are summarized as follows:

Volunteer local program coordinators and managers	$ 424,693
Other:	
Free use of facilities	73,631
Books	22,301
Other donated materials	1,642
Total other	97,574
	$ 522,267

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 107,299 hours of services to SMART during the year ended June 30, 2013, representing a value of approximately $952,279. However, consistent with FASB ASC No. 958-605, *Revenue Recognition*, the value of such services has not been recognized in the accompanying financial statements.

10. Net Assets Released from Restrictions

During the year ended June 30, 2013, SMART incurred $1,221,038 in expenses in satisfaction of the restricted purposes, or by the occurrence of other events, specified by donors.

11. Expenses

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

12. Operating Leases

SMART leases its administrative offices and certain office equipment under non-cancelable operating leases that expire in various years through 2017.

At June 30, 2013, SMART's annual lease commitments are payable as follows:

Years ending June 30,		
2014	$	68,574
2015		68,574
2016		19,453
2017		14,988
	$	171,589

Rental expense for the year ended June 30, 2013 for the above leases totaled $59,236.

13. Retirement Plans

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

14. Fair Value Measurements

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

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

- *Level 1* – Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

- *Level 2* – Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument.

- *Level 3* – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

At June 30, 2013, the following financial assets are measured at fair value on a recurring basis:

		Level 1	Level 3	Total
Investments *(note 4)*	$	777,968	–	777,968
Beneficial interest in assets held by the Oregon Community Foundation		–	1,107,753	1,107,753
	$	777,968	1,107,753	1,885,721

At June 30, 2013, SMART's beneficial interest in assets held by the OCF is reported at fair value on a recurring basis under Level 3, representing future cash in-flows to the organization measured at fair value based upon a discounted cash flow analysis of the expected income to be derived from SMART's interest in these assets. Since the discount rate used for this analysis is considered to be identical to the return that market participants would expect on similar assets, the organization has measured the expected cash flows for its beneficial interest as equivalent to the fair value of the underlying assets held and owned by the OCF. Management's estimate is based solely on information provided by the OCF.

See note 5 for a summary of the beneficial interest in assets held by the OCF and the associated activity for the year ended June 30, 2013.

15. Subsequent Event

Subsequent to year-end, SMART was awarded $500,000 in funding from the State of Oregon for the 2013 to 2015 biennium, starting July 1, 2013 and ending June 30, 2015.

16. Reconciliation of Statement of Cash Flows

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

Increase in net assets	$	457,738
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation		14,345
Net appreciation of the fair value of investments		(60,186)
Net increase in the beneficial interest in assets held by the Oregon Community Foundation		(95,949)
Net changes in:		
Contributions and grants receivable		(209,531)
Prepaid expenses and other assets		(1,131)
Accounts payable and accrued expenses		(1,817)
Accrued payroll expenses		5,915
Total adjustments		(348,354)
Net cash provided by operating activities	$	109,384

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GOVERNING BOARD AND MANAGEMENT

JUNE 30, 2013

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Mary Wilcox, *Vice-Chair*
Tom O'Keefe, *Treasurer*
Mary Boyle, *Secretary*
Charles Wilhoite, *Immediate Past Chair*
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Bill Thorndike, Jr.
Dan Wieden
Linda Wright

Management

Chris Otis, *Executive Director*
Nell Whitman, *Director of Finance & Administration*

INQUIRIES AND OTHER INFORMATION

Administrative offices

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