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Financial Statements and Other Information
as of and for the Year Ended June 30, 2009
and Report of Independent Accountants

SMART

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GaryMcGee & Co.
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors
Oregon Children's Foundation:

We have audited the accompanying statement of financial position of the Oregon Children's Foundation (dba "SMART") as of June 30, 2009, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of SMART's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative financial information has been derived from the financial statements of SMART as of June 30, 2008 and, in our report dated September 18, 2008, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SMART's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2009 financial statements referred to above present fairly, in all material respects, the financial position of SMART as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Gary McGee & Co.

September 10, 2009

522 SW Fifth Avenue, Suite 1300 Portland, Oregon 97204-2130 p: 503 222 2515 f: 503 222 6401 www.garymcgee.com

SMART

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2009

(WITH COMPARATIVE AMOUNTS FOR 2008)

	2009	2008
Assets:		
Cash and cash equivalents	$ 153,488	169,444
Contributions and grants receivable *(note 4)*	1,727,900	1,576,705
Book inventory	27,258	37,050
Prepaid expenses and other assets	12,973	28,696
Investments *(note 5)*	1,083,541	1,244,227
Beneficial interest in assets held by the Oregon Community Foundation *(note 6)*	784,605	991,697
Leasehold improvements and equipment *(note 7)*	73,006	79,625
Total assets	$ 3,862,771	4,127,444
Liabilities:		
Accounts payable and accrued expenses	108,925	118,556
Deferred revenue	200	10,000
Total liabilities	109,125	128,556
Net assets:		
Unrestricted:		
Available for programs and general operations	1,162,011	1,294,005
Designated by Board *(note 8)*	574,423	800,837
Net investment in capital assets	73,006	79,625
Total unrestricted	1,809,440	2,174,467
Temporarily restricted *(note 8)*	1,753,346	1,633,561
Permanently restricted *(note 8)*	190,860	190,860
Total net assets	3,753,646	3,998,888
Commitments and contingencies *(notes 13 and 14)*		
Total liabilities and net assets	$ 3,862,771	4,127,444

See accompanying notes to financial statements.

SMART

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR 2008)

	2009				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	2008
Revenues, gains and other support:					
Contributions and grants *(note 9)*	$ 1,918,018	1,467,419	–	3,385,437	3,788,888
Investment income	33,488	–	–	33,488	40,564
Net decline in the fair value of investments	(165,491)	–	–	(165,491)	(75,549)
Net decline in beneficial interest in assets held by the Oregon Community Foundation *(note 6)*	(159,334)	(47,758)	–	(207,092)	(7,588)
Other revenue	47,898	–	–	47,898	42,226
Total revenues and gains	1,674,579	1,419,661	–	3,094,240	3,788,541
Net assets released from restrictions *(note 11)*	1,366,956	(1,366,956)	–	–	–
Total revenues, gains and other support	3,041,535	52,705	–	3,094,240	3,788,541
Expenses *(note 12)*:					
SMART program	2,702,688	–	–	2,702,688	3,011,197
Management and general	313,593	–	–	313,593	460,894
Fundraising	323,201	–	–	323,201	444,044
Total expenses	3,339,482	–	–	3,339,482	3,916,135
Increase (decrease) in net assets	(297,947)	52,705	–	(245,242)	(127,594)
Reclassification of endowment assets based on a change in the law governing the management of endowment funds *(note 3)*	(67,080)	67,080	–	–	–
Net assets at beginning of year	2,174,467	1,633,561	190,860	3,998,888	4,126,482
Net assets at end of year	$ 1,809,440	1,753,346	190,860	3,753,646	3,998,888

See accompanying notes to financial statements.

SMART

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR 2008)

	2009				
	SMART Program	Management and general	Fund-raising	Total	2008
Salaries and related expenses	$ 1,391,713	259,391	215,453	1,866,557	2,799,264
Volunteer coordinators	448,376	–	–	448,376	–
Recruitment and training	64,203	9,087	7,548	80,838	78,700
Volunteer-related costs	12,287	–	–	12,287	12,610
Books	184,715	–	–	184,715	322,723
Occupancy	126,142	9,935	8,252	144,329	154,757
Professional fees	51,311	5,879	12,002	69,192	82,875
Insurance	26,742	2,591	438	29,771	26,753
Office expenses	123,883	3,284	2,728	129,895	135,671
Travel	78,416	1,504	1,249	81,169	81,620
Marketing and development	142,951	14,894	69,694	227,539	163,082
Other	10,621	1,174	974	12,769	9,941
Depreciation	41,328	5,854	4,863	52,045	48,139
Total expenses	$ 2,702,688	313,593	323,201	3,339,482	3,916,135

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR 2008)

	2009	2008
Cash flows from operating activities:		
Cash received from contributors and grantors	$ 2,614,008	3,488,875
Cash received from other sources	38,098	52,226
Cash received from interest and dividends	33,488	55,301
Cash paid to employees and suppliers	(2,657,319)	(3,744,499)
Net cash provided by (used in) operating activities	28,275	(148,097)
Cash flows from investing activities:		
Purchases of capital assets	(45,426)	–
Purchase of investments	(482,000)	(268,000)
Net proceeds from the sale of investments	510,000	450,000
Reinvestment of investment earnings	(32,805)	(50,001)
Net cash provided by (used in) investing activities	(50,231)	131,999
Cash flows from financing activities:		
Proceeds from contributions restricted by donors for long-term investment	6,000	6,000
Net cash provided by financing activities	6,000	6,000
Decrease in cash and cash equivalents	(15,956)	(10,098)
Cash and cash equivalents at beginning of year	169,444	179,542
Cash and cash equivalents at end of year	$ 153,488	169,444

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2009

1. Organization

The Oregon Children's Foundation (dba "SMART") is a private, nonprofit organization located in Portland, Oregon and founded in 1991. We envision an Oregon where every child can read and is empowered to succeed. Our mission is to engage community volunteers to read one-on-one with K-3 children who need literacy support. Participating children also receive new books each month to keep and read with their families. Since 1992, thousands of SMART volunteers have been inspiring little readers through storytelling. Together with support from the community, SMART is building brighter futures for Oregonians big and small.

Research shows that children from low-income families are more likely to need extra help to develop reading skills. For that reason, SMART is committed to reaching children in the public elementary schools serving Oregon's lowest-income populations. SMART operates in schools in which at least 40% of the students participate in the federal free or reduced-price lunch program and include children (1) who struggle with reading at school, (2) who need more individual attention than their teachers can provide, and (3) who do not have books at home or adults to read with.

In 2008-09, SMART delivered one-on-one reading support and new books to 7,200 children. Since 1992, SMART has served more than 130,000 children and given away 1.7 million books.

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 Statement of Financial Accounting Standards ("SFAS") No. 116, *Accounting for Contributions Received and Contributions Made*, and SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*. 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.

Contributions – Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received. 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.

Pledges for the support of future operations, programs and activities are recorded at the present value of the estimated future cash flows, net of an allowance for uncollectible amounts. The allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution, and nature of fundraising activity.

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. Cash held as part of SMART's investment portfolio, and where management's intention is to use the cash to acquire investments that will be held for the long-term, is classified as investments.

Investments – Investments are carried at market 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 is presented net of investment advisory fees totaling $9,026. Security transactions are recorded on a trade date basis.

Inventory – Inventory consists primarily of a permanent collection of books and is carried at cost if purchased or market value when donated. Only books purchased or donated in the past three years are carried as inventory.

Capital Assets and Depreciation – Capital assets are carried at cost, and at fair market 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 three to seven years for furniture and equipment and the term of the lease for leasehold improvements, which is generally five 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 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 SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, 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.

During the year ended June 30, 2009, the Board of Directors did not appropriate any funds for expenditure. See note 8.

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

SMART's beneficial interest in assets held by OCF (see note 6) is subject to changes in the market values of the underlying assets owned by OCF (from which the value of the SMART's beneficial interest has been derived), and is also dependent on the value of the assets being commensurate with the value of distributions expected to be made to SMART by OCF in future years.

Contributions and grants receivable also subject SMART to concentrations of credit risk, although this risk is considered to be limited due to the organization's large number of funders.

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.

Summarized Financial Information for 2008 – The accompanying financial statements as of and for the year ended June 30, 2008, 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. New Accounting Pronouncements

During the year ended June 30, 2009, SMART adopted the following new accounting standards:

- Statement of Financial Accounting Standards No. 157 ("SFAS No. 157"), *Fair Value Measurements*, was issued by the Financial Accounting Standards Board ("FASB") in September of 2006. This standard defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the U.S., and expands disclosures about fair value measurements. The pronouncement applies under other accounting standards that require or permit fair value measurements. Accordingly, this statement does not require any new fair value measurements. See note 16.

- FASB Staff Position ("FSP") No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, was issued in August of 2008. 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 endowment funds. The guidance in FSP 117-1 is intended to improve the quality and consistency of financial reporting of endowments held by nonprofit organizations, and provides specific guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA. During the year ended June 30, 2009, implementation of this new accounting standard resulted in the reclassification of $67,080 in unappropriated endowment assets from unrestricted net assets to temporarily restricted net assets. The FSP also requires additional disclosures about endowments. See note 8.

4. Contributions and Grants Receivable

Contributions and grants receivable, net, are summarized as follows at June 30, 2009:

Unconditional promises expected to be collected in:	
Less than one year	$ 1,174,869
One year to five years	626,550
	1,801,419
Less allowance for doubtful collections	(44,660)
Less discount [1]	(28,859)
	$ 1,727,900

[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 2%.

In addition, at June 30, 2009, SMART held a government grant totaling $220,000, which was conditioned upon the incurrence of allowable costs. This gift has not been included in the accompanying financial statements because the associated conditions had not been satisfied as of June 30, 2009.

5. Investments

Investments held by SMART at June 30, 2009 consisted of the following, stated at market value:

Equity funds	$ 424,712
International equity funds	87,517
Bond funds	318,159
Money market funds	253,153
	$ 1,083,541

6. 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 ("OCF"). In accordance with SFAS No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others,* 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, 2009 are summarized as follows:

Balance at beginning of year	$ 991,697
Less decrease in beneficial interest in assets held by the Oregon Community Foundation	(207,092)
Balance at end of year	$ 784,605

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: 45% equities (both domestic and international); 20% fixed income; 15% marketable alternative investments; 10% private equity; and 10% inflation hedge 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, 2009, there were no distributions made to SMART.

Investments are held for the following purposes:

Donor-restricted endowment [1]	$ 210,182
Board designated endowment	574,423
	$ 784,605

[1] Includes accumulated endowment earnings totaling $19,322 (see note 8).

7. Leasehold Improvements and Equipment

A summary of leasehold improvements and equipment at June 30, 2009 is as follows:

Leasehold improvements	$	99,916
Office furniture and equipment		351,594
		451,510
Less accumulated depreciation and amortization		(378,504)
	$	73,006

8. Restrictions and Limitations on Net Asset Balances

Board-Designated Net Assets

At June 30, 2009, SMART had designated $574,423 for long-term investment.

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2009 total $1,753,346 and consist of contributions and grants and other unexpended revenues and gains available for general purposes in future periods.

Permanently Restricted Net Assets

At June 30, 2009, SMART held $190,860 in endowment funds.

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, 2009:

	Donor-restricted endowment			Board-designated endowment	Total endow-ment
	Temporarily restricted	Permanently restricted	Total	unrestricted	
Endowment net assets at beginning of year, as previously reported	$ –	190,860	190,860	800,837	991,697
Reclassification of endowment assets based on a change in the law governing the management of endowment funds	67,080	–	67,080	(67,080)	–
Endowment net assets at beginning of year, as restated	67,080	190,860	257,940	733,757	991,697
Net decline in beneficial interest in assets held by the Oregon Community Foundation	(47,758)	–	(47,758)	(159,334)	(207,092)
Endowment net assets at end of year	$ 19,322	190,860	210,182	574,423	784,605

9. Contributions and Grants

Contributions and grants received during the year ended June 30, 2009, are summarized as follows:

Foundations	$ 641,513
Corporations	491,683
Individuals	1,424,169
State and local governments	213,838
In-kind (see *note 10*)	614,234
	$ 3,385,437

10. In-Kind Contributions

Consistent with the requirements of SFAS No. 116, 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.

The organization's in-kind contributions for the year ended June 30, 2009 are summarized as follows:

Volunteer local program coordinators and managers	$ 448,376
Marketing services	84,995
Free use of facilities	69,083
Books	5,139
Other donated materials and services	6,641
	$ 614,234

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 107,000 hours of services to SMART during the year ended June 30, 2009, representing a value of approximately $903,000. Consistent with SFAS No. 116, however, the value of such services has not been recognized in the accompanying financial statements.

11. Net Assets Released from Restrictions

During the year ended June 30, 2009, SMART incurred $1,366,956 in expenses in satisfaction of the restricted purposes, or by the occurrence of other events, specified by donors, as follows:

For operating purposes	$ 1,321,529
For capital purposes	45,427
	$ 1,366,956

12. 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 their natural classification are presented in the statement of functional expenses.

13. Operating Leases

SMART leases its administrative offices and certain office equipment under non-cancelable operating leases which expire in various years through 2014.

At June 30, 2009, SMART's annual lease commitments are payable as follows:

Years ending June 30,		
2010	$	55,245
2011		12,708
2012		12,708
2013		12,708
2014		9,531
	$	102,900

Rental expense for the year ended June 30, 2009 totaled $144,329, including $69,083 in free use of facilities.

14. Retirement Plans

SMART provides substantially all full-time employees with a sheltered annuity plan as described under Section 403(b) of the Internal Revenue Code. All eligible employees may make voluntary contributions to the plan on a pre-tax basis, up to the limits allowed by law, after 90 days of employment. Employees select from among several investment options. SMART does not contribute to the plan.

15. Significant Sources of Revenue

Approximately 36% of SMART's total operating revenues generated during the year ended June 30, 2009, were provided by two grantors.

16. 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 SFAS No. 157, *Fair Value Measurements*. 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, 2009, the following financial assets are measured at fair value on a recurring basis:

	Level 1	Level 3	Total
Investments	$ 1,083,541	–	1,083,541
Beneficial interest in assets held at the Oregon Community Foundation	–	784,605	784,605
	$ 1,083,541	784,605	1,868,146

At June 30, 2009, the SMART's beneficial interest in assets held by the Oregon Community Foundation is reported at market value on a recurring basis under Level 3, representing future cash inflows 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 OCF. Management's estimate is based solely on information provided by OCF.

17. Reconciliation of Statement of Cash Flows

The following presents a reconciliation of the decrease 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):

Decrease in net assets	$ (245,242)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation	52,045
Net decline in the fair value of investments	165,491
Net change in beneficial interest in assets held by the Oregon Community Foundation	207,092
Proceeds from contributions restricted for long-term investment	(6,000)
Net changes in:	
Contributions and grants receivable	(151,195)
Book inventory	9,792
Prepaid expenses and other assets	15,723
Accounts payable and accrued expenses	(9,631)
Deferred revenue	(9,800)
Total adjustments	273,517
Net cash provided by operating activities	$ 28,275

18. Reclassification of 2008 Comparative Totals

Certain 2008 amounts presented herein have been reclassified to conform to the 2009 presentation.

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GOVERNING BOARD AND MANAGEMENT

Board of Directors

Charles Wilhoite, *Chair*
Jon Mitchell, *Vice-Chair*
Tom Gilbertson, *Secretary/Treasurer*
Mary Boyle
Behzad Hosseini
Evelyn Jenson
Ryan Killgore
Elizabeth Large
Kent Lewis
Candace Manary
Patricia Smullin
Mary Wilcox

Emeritus Directors

Gerry Brodsky
Tom Costabile
Ruth Ann Dodson
Bill Early
Joe Gonyea II
Katie Hertig
Sue Hollern
Irving Levin
Charles Rouse
Steve Stadum
Von Summers
Bill Thorndike, Jr.
Dan Wieden
Linda Wright
Steve Wynne

Management

Terry Shanley, *Chief Executive Officer*
Bruce Michieli, *Controller*

INQUIRIES AND OTHER INFORMATION

Administrative offices
SMART
219 N.W. 12th Avenue, Suite 203
Portland, Oregon 97209

(503) 937-4800
(503) 937-4859 Fax
(877) 598-4633 SMART Info Line

Website
www.getsmartoregon.org