



**DESCHUTES RIVER  
CONSERVANCY**

**FINANCIAL STATEMENTS**

**YEAR ENDED SEPTEMBER 30, 2018**

**DESCHUTES RIVER CONSERVANCY**

**FINANCIAL STATEMENTS**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors of  
Deschutes River Conservancy  
Bend, Oregon

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Deschutes River Conservancy (a nonprofit organization), which comprise the statement of financial position as of September 30, 2018, and the related statements of activities 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.

### ***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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 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 Deschutes River Conservancy as of September 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT-continued

### **Report on Summarized Comparative Information**

We have previously audited Deschutes River Conservancy's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 26, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

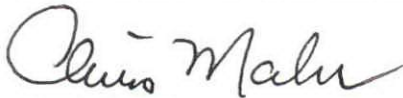
### **Other Matters**

#### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenses by funding sources on page 17 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information included in these schedules is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2019, on our consideration of Deschutes River Conservancy internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Deschutes River Conservancy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Deschutes River Conservancy's internal control over financial reporting and compliance.



Chris Mahr, Principal  
Chris Mahr + Associates | CPAs  
Bend, Oregon

February 11, 2019

**DESCHUTES RIVER CONSERVANCY**

**STATEMENT OF FINANCIAL POSITION**

**SEPTEMBER 30, 2018 AND 2017**

|   | 2018                | 2017                |
|---|---------------------|---------------------|
| <b>ASSETS</b>   |                     |                     |
| <b>CURRENT ASSETS</b>   |                     |                     |
| Cash  | \$ 1,167,139        | \$ 1,097,866        |
| Grants and other receivables  | 385,140             | 234,638             |
| Employee Advances   | 11,713              | 7,368               |
| Prepaid expenses  | 23,383              | 20,356              |
| <b>TOTAL CURRENT ASSETS</b>   | <b>1,587,375</b>    | <b>1,360,228</b>    |
| PROPERTY AND EQUIPMENT, net of accumulated depreciation<br>of \$75,414 and \$73,374, respectively | 942                 | 2,982               |
| <b>OTHER ASSETS</b>   |                     |                     |
| Deposits  | 5,269               | 5,269               |
| <b>TOTAL ASSETS</b>   | <b>\$ 1,593,586</b> | <b>\$ 1,368,479</b> |
| <br><b>LIABILITIES AND NET ASSETS</b>   |                     |                     |
| <b>CURRENT LIABILITIES</b>  |                     |                     |
| Accounts payable and accrued expenses   | \$ 244,336          | \$ 37,434           |
| Accrued payroll and related expenses  | 62,316              | 68,751              |
| Current portion of long term liabilities  | 597                 | 2,317               |
| Deferred revenue  | 274,189             | 369,890             |
| <b>TOTAL CURRENT LIABILITIES</b>  | <b>581,438</b>      | <b>478,392</b>      |
| <b>LONG-TERM LIABILITIES</b>  |                     |                     |
| Leasehold improvements loan   |                     | 597                 |
| <b>TOTAL LONG-TERM LIABILITIES</b>  |                     | 597                 |
| <b>TOTAL LIABILITIES</b>  | <b>581,438</b>      | <b>478,989</b>      |
| <b>NET ASSETS</b>   |                     |                     |
| Unrestricted  |                     |                     |
| Operating   | 688,914             | 624,391             |
| Board designated  | 232,861             | 232,861             |
| <b>Total unrestricted</b>   | <b>921,775</b>      | <b>857,252</b>      |
| Temporarily restricted  | 90,373              | 32,238              |
| <b>TOTAL NET ASSETS</b>   | <b>1,012,148</b>    | <b>889,490</b>      |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>   | <b>\$ 1,593,586</b> | <b>\$ 1,368,479</b> |

See accompanying notes to financial statements

DESCHUTES RIVER CONSERVANCY

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2018

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2017)

|   | Unrestricted      | Temporarily<br>Restricted | Totals              |                   |
|---|-------------------|---------------------------|---------------------|-------------------|
|   |                   |                           | 2018                | 2017              |
| <b>REVENUE</b>                                |                   |                           |                     |                   |
| Grants  | \$ 1,516,383      | \$ 450,000                | \$ 1,966,383        | \$ 1,135,736      |
| Interest income                               | 1,463             |                           | 1,463               | 563               |
| Contributions and events                      | 180,814           | 12,357                    | 193,171             | 236,456           |
| Other income                                  | 202,261           |                           | 202,261             | 274,638           |
| In-kind                                       | 4,161             |                           | 4,161               | 507               |
| <b>TOTAL REVENUE</b>                          | <b>1,905,082</b>  | <b>462,357</b>            | <b>2,367,439</b>    | <b>1,647,900</b>  |
| <b>EXPENSES</b>                               |                   |                           |                     |                   |
| Program services                              |                   |                           |                     |                   |
| Water acquisition and stream-flow restoration |                   |                           |                     |                   |
| Conservation                                  | 1,132,195         |                           | 1,132,195           | 501,811           |
| Water management                              | 122,979           |                           | 122,979             | 184,945           |
| Leasing of water rights                       | 118,663           |                           | 118,663             | 116,523           |
| Permanent transfers - restoration             | 199,657           |                           | 199,657             | 103,464           |
| Mitigation                                    |                   |                           |                     |                   |
| Temporary transfers - mitigation              | 56,652            |                           | 56,652              | 53,630            |
| Permanent transfers - mitigation              | 477               |                           | 477                 | 17,252            |
| Riparian restoration, monitoring, planning    | 144,084           |                           | 144,084             | 110,439           |
| Consulting                                    | 8,727             |                           | 8,727               | 17,526            |
| <b>Total Program services</b>                 | <b>1,783,434</b>  |                           | <b>1,783,434</b>    | <b>1,105,590</b>  |
| Supporting services                           |                   |                           |                     |                   |
| Management and general                        | 244,323           |                           | 244,323             | 231,352           |
| Communications and outreach                   | 158,920           |                           | 158,920             | 193,433           |
| Fundraising                                   | 58,104            |                           | 58,104              | 79,516            |
| <b>Total Supporting services</b>              | <b>461,347</b>    |                           | <b>461,347</b>      | <b>504,301</b>    |
| <b>TOTAL EXPENSES</b>                         | <b>2,244,781</b>  |                           | <b>2,244,781</b>    | <b>1,609,891</b>  |
| <b>NET ASSETS RELEASED FROM RESTRICTIONS</b>  | <b>404,222</b>    | <b>(404,222)</b>          |                     |                   |
| <b>CHANGE IN NET ASSETS</b>                   | <b>64,523</b>     | <b>58,135</b>             | <b>122,658</b>      | <b>38,009</b>     |
| <b>NET ASSETS - Beginning of year</b>         | <b>857,252</b>    | <b>32,238</b>             | <b>889,490</b>      | <b>851,481</b>    |
| <b>NET ASSETS - End of year</b>               | <b>\$ 921,775</b> | <b>\$ 90,373</b>          | <b>\$ 1,012,148</b> | <b>\$ 889,490</b> |

See accompanying notes to financial statements

**DESCHUTES RIVER CONSERVANCY**

**STATEMENT OF CASH FLOWS**

**YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

|   | 2018                | 2017                |
|---|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                     |                     |
| Change in net assets  | \$ 122,658          | \$ 38,009           |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities |                     |                     |
| Depreciation  | 2,040               | 2,334               |
| Bad debt  |                     | 9,355               |
| Water mitigation credits transferred  |                     | (38,122)            |
| Changes in current assets and liabilities   |                     |                     |
| Grants and other receivables  | (150,502)           | 183,867             |
| Employee Advances   | (4,345)             |                     |
| Prepaid expenses  | (3,027)             | (1,938)             |
| Accounts payable  | 206,902             | (371,060)           |
| Accrued payroll liabilities   | (6,435)             | (23,052)            |
| Deferred revenue  | (95,701)            | 318,655             |
| <b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>   | <b>71,590</b>       | <b>118,048</b>      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                     |                     |
| Line of credit payments   |                     | (100,000)           |
| Tenant improvement loan payments  | (2,317)             | (2,204)             |
| <b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>   | <b>(2,317)</b>      | <b>(2,204)</b>      |
| <b>NET INCREASE (DECREASE) IN CASH</b>  | <b>69,273</b>       | <b>15,864</b>       |
| CASH - Beginning of year  | <b>1,097,866</b>    | <b>1,082,002</b>    |
| CASH - End of year  | <b>\$ 1,167,139</b> | <b>\$ 1,097,866</b> |

**SUPPLEMENTAL DISCLOSURES**

Interest of \$93 and \$206 was paid for the years ending September 30, 2018 and 2017, respectively.  
Fully depreciated assets of \$8,424 were disposed during the year ended September 30, 2017.

See accompanying notes to financial statements

**DESCHUTES RIVER CONSERVANCY**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED SEPTEMBER 30, 2018**

**NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES**

***Organization and Nature of Activities***

The Deschutes River Conservancy (the Organization), is a multi-stakeholder consensus based organization with a mission to restore stream-flow and improve water quality in the Deschutes River Basin. The Organization's founders recognized the need for a non-profit organization with ecosystem restoration goals and methods focused on positive incentives, consensus and local governance rather than regulation. In March 1996, Senator Mark Hatfield introduced federal legislation authorizing federal agencies to work with this cooperative non-profit organization, then known as the Deschutes Basin Working Group. The federal legislation covered multiple years with fiscal year ended September 30, 2016 as the final year. On December 8, 2016 the Board of Directors agreed to operate outside of the federal legislation.

The Organization's Board of Directors is comprised of the key private and public interests in the Deschutes River Basin. It has representatives from hydropower, livestock grazing, recreation/tourism, timber, land development, irrigated agriculture, environment, as well as members from the Confederated Tribes of Warm Springs, the Departments of Interior and Agriculture, the State of Oregon, local governments and several at-large board members.

The Organization receives grant funds from state, federal, private foundation and hydro mitigation sources. In addition, as a 501(c)(3) organization, the Organization receives tax-deductible contributions from individuals and corporations. The funds are used to finance stream-flow restoration projects in the Deschutes River Basin using four basic approaches: 1) leasing water rights, 2) permanent water transfers, 3) water conservation and 4) reservoir operations.

The Organization has classified the Organization's activities in four major classes of programs: 1) water acquisition and stream flow restoration, 2) mitigation through water transfers, 3) riparian restoration, including monitoring and planning and 4) consulting.

The Organization was formed as an Oregon nonprofit corporation November 13, 1996.

***Basis of Accounting***

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**DESCHUTES RIVER CONSERVANCY**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED SEPTEMBER 30, 2018**

**NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES - continued**

***Financial Statement Presentation***

The financial statements are presented in accordance with Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-For-Profit Organizations," which requires the Organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Organization did not have any permanently restricted net assets at September 30, 2018.

***Comparative Financial Information***

The financial statements include certain prior period summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2017, from which the summarized information was derived.

***Reclassification of prior year amounts***

Some amounts from the prior year have been reclassified to be consistent with the current year classifications.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

***Income Taxes***

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and did not conduct unrelated business activities for the year ended September 30, 2018. Therefore, the Organization has made no provision for federal income taxes in the accompanying financial statements. In addition, the Organization has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

**DESCHUTES RIVER CONSERVANCY**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED SEPTEMBER 30, 2018**

**NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES – continued**

***Fair Value of Financial Instruments***

The Organization has not elected to measure financial assets and liabilities using the Fair Value Option for Financial Assets and Financial Liabilities under Financial Accounting Standards No. 159. The Organization does have financial instruments, which include items such as accounts receivable, grants receivable, accounts payable, and notes payable that have carrying amounts which approximate fair value at September 30, 2018.

***Revenue Recognition - Contributions***

The Organization has adopted the *Financial Accounting Standards Board Statement of Financial Accounting Standards No. 116*, "Accounting for Contributions Received and Contributions Made." Accordingly, all contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor restriction expires (when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

***Contributed Services***

A portion of the DRC's functions and programs are conducted by unpaid volunteers. The value of this contributed time is not reflected in the accompanying financial statements since the services do not require specialized skills and because the amount is not susceptible to objective measurement or valuation. Contributed professional services have been recorded at fair value as in-kind revenue in the amount of \$4,161 and \$507 for the years ended September 30, 2018 and 2017, respectively. The contributed professional services may include legal, engineering and catering services. For the year ended September 30, 2018, \$659 has been recorded as administrative expenses and \$3,502 as marketing expenses.

***Cash***

Cash and cash equivalents for purposes of the statement of cash flows consist of demand deposits, highly liquid investments with an original maturity of three months or less and amounts held by the United States Treasury Department in the Organization's name which are immediately available for use.

**DESCHUTES RIVER CONSERVANCY**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED SEPTEMBER 30, 2018**

**NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES – continued**

***Grants Receivable***

Grants receivable relate to reimbursement-basis awards from various granting agencies. No allowance for uncollectible amounts is considered necessary.

***Contribution and Other Receivables***

Contribution and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on prior years' experience. For the year ended September 30, 2018, management has determined that no allowance for uncollectible amounts is necessary and therefore, no valuation allowance has been recorded.

Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. Past due receivables are determined based on contractual terms. Finance charges are not assessed. During the year ending September 30, 2018, no receivables were written off.

***Fixed Assets***

Fixed assets are recorded at cost or fair market value on the date of receipt, if donated, and are depreciated using the straight-line method over their estimated useful life of three to seven years. Leasehold improvements are depreciated over the life of the lease. The Organization capitalizes all items with a cost exceeding \$1,000 and an estimated useful life greater than one year. If donors stipulate how long the donated fixed assets must be used, the contributions are recorded as temporarily restricted support when received. In the absence of such stipulations, contributions of fixed assets are recorded as unrestricted support. Fixed assets acquired by the Organization are generally considered owned by the Organization. However, fixed assets purchased with federal funding sources may require the Organization to refund the proceeds from the sale of these assets, if any, to the appropriate federal agency. Depreciation expense on fixed assets amounted to \$2,040 and \$2,334 for the years ended September 30, 2018 and 2017, respectively.

***Notes Payable***

Notes payable are recorded at the original amount borrowed and classified between short-term and long-term depending on the maturity date of payments. Payments due within the next year are classified as short-term, with the remainder as long-term.

**DESCHUTES RIVER CONSERVANCY**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED SEPTEMBER 30, 2018**

**NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES – continued**

***Other Income***

Other income includes revenue related to permanent transfers of water rights, consulting and miscellaneous income.

***Functional Allocation of Expenses***

The cost of providing the programs and other activities has been summarized on a functional basis in the statement of activities.

Costs are allocated between fundraising, management and general, or program services based on evaluations of the related benefits in accordance with generally accepted accounting principles in the United States of America for non-profit organizations.

Program expenses consist of all expenses paid for conservation projects. Management and general expenses include oversight, business management, general recordkeeping, budgeting, facility and other such management and administrative activities that support the projects and the Organization overall. Communications and outreach expenses include newsletter, website and payroll costs related to community discussions involving the Deschutes River. Fundraising expenses include the cost of recruiting volunteers, writing grant applications and conducting other activities to solicit contributions from individuals and other organizations.

Additionally, a schedule of expenses by funding source has been provided. This schedule lists the expenses for each program which include, when appropriate and in accordance with the programs, an allocation of management and general costs.

***Advertising Costs***

Deschutes River Conservancy expenses the costs of advertising the first time advertising takes place. Advertising expense was \$2,017 and \$467 for the years ended September 30, 2018 and 2017, respectively.

DESCHUTES RIVER CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2018

**NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES – continued**

***Administration and contract services***

The Organization provides bookkeeping, administrative and technology support to Upper Deschutes Watershed Council (UDWC). The Organization has entered into an agreement with UDWC and received \$47,544 and \$47,544 for the years ending September 30, 2018 and 2017, respectively. The income has been recorded as “other income” and the costs are included in “administration and contract services.” The Organization does not exercise significant control over UDWC.

**NOTE 2 – CASH**

The Organization maintains deposit accounts which can, at times, exceed federally insured limits of \$250,000. To eliminate the Organization’s exposure to significant risk related to deposits over the FDIC coverage, the Organization has opened accounts in several banks and monitors the balances so that they are below the \$250,000 limit. Additionally, the Organization uses a “sweep” for their checking account. On each business day, deposit balances over \$100,000 are swept from the checking account to the bank’s pooled collateral investments. The investments include government mortgage-backed securities such as Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) securities. A portion of the Organization’s deposits may not be insured or collateralized at various times. As of September 30, 2018, all of the Organization’s cash balances were insured and collateralized.

Cash consisted of the following amounts at September 30:

|                               | 2018                | 2017                |
|-------------------------------|---------------------|---------------------|
| First Interstate checking     | \$ 614,046          | \$ 540,680          |
| First Interstate money market | 100,651             | 100,456             |
| Umpqua Bank money market      | 249,570             | 249,420             |
| US Bank money market          | 201,357             | 201,119             |
| Cash on hand                  | 1,515               | 6,191               |
|                               | <u>\$ 1,167,139</u> | <u>\$ 1,097,866</u> |

DESCHUTES RIVER CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2018

**NOTE 3 – GRANTS AND OTHER RECEIVABLES**

At September 30, grants and other receivables consisted of the following:

|                                    | <u>2018</u>       | <u>2017</u>       |
|------------------------------------|-------------------|-------------------|
| Grants receivable                  | \$ 365,156        | \$ 158,190        |
| Contributions receivable           |                   | 2,146             |
| Other receivables                  | <u>19,984</u>     | <u>74,302</u>     |
| Total grants and other receivables | <u>\$ 385,140</u> | <u>\$ 234,638</u> |

All contributions receivables are due within the following year and generally are received within a month from the time the contribution is made.

**NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

|                                   | <u>2018</u>     | <u>2017</u>     |
|-----------------------------------|-----------------|-----------------|
| Furniture, fixtures and equipment | \$ 67,599       | \$ 67,599       |
| Leasehold improvements            | <u>8,757</u>    | <u>8,757</u>    |
|                                   | 76,356          | 76,356          |
| Accumulated Depreciation          | <u>(75,414)</u> | <u>(73,374)</u> |
| Net property and equipment        | <u>\$ 942</u>   | <u>\$ 2,982</u> |

**NOTE 5 – DEBT**

***Leasehold Improvement Loan***

September 10, 2013, the Organization entered in a lease agreement with Hill Street General Partnership which commenced January 1, 2014. The lease includes a provision for a tenant improvement loan whereby the lessor would loan the Organization funds for tenant improvement work. The Organization incurred tenant improvement costs of \$8,757. The terms of the loan include monthly payments beginning January 1, 2014 and continuing until December 31, 2018, the end of the lease term. The Lessor subsequently revised the beginning date of payments to be October 1, 2014. The loan bears interest at the rate of 5%. Interest costs incurred and charged to expense were \$93 and \$206 for the years ended September 30, 2018 and 2017, respectively.

DESCHUTES RIVER CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2018

**NOTE 5 – DEBT - continued**

Future maturities of debt are as follows:

| <u>Year ending September 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u>  |
|----------------------------------|------------------|-----------------|---------------|
| 2019                             | 597              | 5               | 602           |
|                                  | <u>\$ 597</u>    | <u>\$ 5</u>     | <u>\$ 602</u> |

**NOTE 6 – LEASING ACTIVITIES**

***Office Space Lease***

The Organization leases office space in Bend, Oregon, under an operating lease expiring December 31, 2018. The lease was renewed on January 1, 2019 for five years. Rent payments for the years ended September 30, 2018 and 2017 were \$54,207 and \$52,246, respectively. Upper Deschutes Watershed Council reimburses the Organization for a portion of the annual lease payments, which is recorded as an offset to rental expense. For the years ended September 30, 2018 and 2017, the Organization received \$23,100 and \$23,526, respectively from Upper Deschutes Watershed Council. This resulted in rent expense of \$30,107 and \$28,720 for the years ended September 30, 2018 and 2017, respectively.

***Copier Lease***

January 1, 2014, the Organization entered into an agreement to lease a copier. This operating lease is in effect for five years through December 31, 2018. Base rents paid under this lease are \$134 per month. On September 1, 2018, the Organization entered into a new copier lease for five years. Minimum monthly payments vary and include additional charges based on equipment usage. Base rents paid under the new lease are \$106 per month.

At September 30, 2018 future minimum annual lease payments under the operating leases are as follows:

| <u>Year ending September 30,</u> | <u>Amount</u>     |
|----------------------------------|-------------------|
| 2019                             | \$ 59,048         |
| 2020                             | 61,619            |
| 2021                             | 63,431            |
| 2022                             | 65,291            |
| 2023                             | 67,111            |
|                                  | <u>\$ 316,500</u> |

**DESCHUTES RIVER CONSERVANCY**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED SEPTEMBER 30, 2018**

**NOTE 7 – EMPLOYEE RETIREMENT PLAN**

The Organization offers a tax sheltered annuity (TSA) retirement plan under Internal Revenue Code Section 403(b), which is available to all employees. Employees may contribute a portion of the qualified wages, subject to a limit under the Code.

In addition to employee contributions, the Organization makes discretionary contributions on behalf of all eligible employees. To be eligible, employees must normally work more than 20 hours per week and have at least 1,000 hours of service during the 12-month period following date of hire. All contributions immediately vest at 100%. IRS contributions limits apply. The Organization's contributions for the years ended September 30, 2018 and 2017 amounted to \$44,085 and \$39,435, respectively.

**NOTE 8 –NET ASSETS**

Unrestricted board designated net assets available for water purchases from the Instream Capital Water Acquisition Fund were \$232,861 for both years ended September 30, 2018 and 2017.

Temporarily restricted net assets represent grants from the following funding sources:

|                           | <u>2018</u>      | <u>2017</u>      |
|---------------------------|------------------|------------------|
| Bella Vista 2015          | \$ -             | \$ 448           |
| Bella Vista 2018          | 50,643           |                  |
| Collins Foundation        |                  | 3,140            |
| Deschutes Brewery         | 10,790           | 1,425            |
| GMB: Avion Blue Water Res |                  | 1,128            |
| Laird Norton 2015         | 585              | 585              |
| Meyer Operation Grant     | 1,388            | 1,550            |
| Meyer Memorial Trust      | 11,957           | 23,962           |
| OCF - Water Marketing     | 15,010           |                  |
|                           | <u>\$ 90,373</u> | <u>\$ 32,238</u> |

**NOTE 9 - COMMITMENTS**

Under the terms of some grant agreements, Deschutes River Conservancy is required to match the funding it receives on a dollar for dollar basis. These matching commitments are in the normal course of business.

**DESCHUTES RIVER CONSERVANCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2018**

**NOTE 9 – COMMITMENTS – continued**

Subsequent to fiscal year end, the organization entered into a Conserved Water Purchase Agreement with Swalley Irrigation District to provide funding for the Rogers Piping Project of up to \$601,829. This project will be funded with an OWEB grant awarded April 27, 2018 in the amount of \$645,957.

**NOTE 10 – CREDIT RISK, CONCENTRATIONS AND CONTINGENCIES**

Reimbursement claims and revenue from various grant programs may be subject to further audit and adjustment by grantor agencies. Disallowed claims could become a liability to be paid from unrestricted net assets. Any such amounts are not expected to be significant.

The Organization receives a substantial amount of its support from several agencies. A significant reduction in the level of this support, if this were to occur, may have an effect on the Organization's programs and activities.

The Organization has credit risk arising from grant receivables and other receivables. The maximum amount of loss at September 30, 2018 equals the grants and other receivables balance of \$385,140.

**NOTE 11 – RELATED PARTY TRANSACTIONS**

The Board maintains a conflict of interest policy which requires a board member who has an interest in a transaction to abstain from voting on the transaction.

An agreement was entered into to fund a portion of the projects undertaken by the Central Oregon Irrigation District (COID). The agreement and payments are in the normal course of business for the Organization. The Board of Directors, during the current fiscal year, included a COID representative. The Organization subcontracted grant funds of \$30,027 to COID during the year ended September 30, 2018. As of September 30, 2018, no amounts were owed to or due from COID.

An agreement was entered into to fund a portion of the projects undertaken by Oregon Water Resources Department. The agreement and payments are in the normal course of business for the Organization. The Board of Directors, during the current fiscal year, included a OWRD representative. The Organization subcontracted grant funds of \$15,293 to OWRD during the year ended September 30, 2018. As of September 30, 2018, no amounts were owed to or due from COID.

**DESCHUTES RIVER CONSERVANCY**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED SEPTEMBER 30, 2018**

**NOTE 11 – RELATED PARTY TRANSACTIONS – continued**

Also as of the year ended September 30, 2018, \$180,000 was payable to Portland General Electric(PGE) as reimbursement for water rights previously paid by PGE. The Board of Directors, during the current fiscal year, included a PGE representative.

**NOTE 12 - SUBSEQUENT EVENTS**

Subsequent events have been evaluated by management through February 11, 2019, which is the date the financial statements were available to be issued. There were no subsequent events which required disclosure beyond those disclosed within the footnotes.

**SUPPLEMENTARY SCHEDULE**

**DESCHUTES RIVER CONSERVANCY**

**SCHEDULE OF EXPENSES BY FUNDING SOURCES**

**YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

| Program  | 2018                    | 2017                    |
|--|-------------------------|-------------------------|
| Avion Blue Water Program                               | \$ 13,485               | \$ 14,243               |
| Bella Vista  | 9,806                   | 1,988                   |
| Bonneville Environmental Foundation                    | 250,000                 |                         |
| Collins Foundation                                     | 3,140                   | 27,034                  |
| Deschutes Basin Board of Control                       |                         | 20,259                  |
| Deschutes Brewery                                      | 20,635                  | 29,255                  |
| Deschutes Water Alliance Bank (DWA)                    | 51,313                  | 64,952                  |
| Ground Water Mitigation Bank (GMB)                     | 79,152                  | 82,026                  |
| Laird Norton Family Foundation                         |                         | 4,836                   |
| Meyer Operation Grant                                  | 162                     | 56,435                  |
| Meyer Memorial Trust 17                                | 92,004                  |                         |
| Columbia Basin Water Transaction Fund - BPA / NFWF     | 441,937                 | 266,238                 |
| Oregon Community Foundation - Healthy Environment Fund |                         | 10,000                  |
| Oregon Community Foundation - Water Marketing          | 4,990                   |                         |
| Oregon Watershed Enhancement Board (OWEB)              | 600,993                 | 242,860                 |
| PELTON - PGE/ Warm Springs Tribes                      | 413,036                 | 430,511                 |
| Permanent credits                                      | 767                     | 37,280                  |
| The Bend Foundation                                    | 10,000                  | 10,000                  |
| Consulting - various funding sources                   | 1,079                   | 7,642                   |
| Other miscellaneous program expenses                   | 11,112                  | 19,159                  |
| <br>Total expenses by funding source                   | <br>2,003,611           | <br>1,324,718           |
| <br>Unrestricted - other                               | <br>241,170             | <br>285,173             |
| <br>Total Expenses                                     | <br><u>\$ 2,244,781</u> | <br><u>\$ 1,609,891</u> |

**UNIFORM GRANT AUDIT COMPLIANCE**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of  
Deschutes River Conservancy  
Bend, Oregon

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Deschutes River Conservancy (a nonprofit organization), which comprise the statement of financial position as of September 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 11, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Deschutes River Conservancy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Deschutes River Conservancy's internal control. Accordingly, we do not express an opinion on the effectiveness of Deschutes River Conservancy's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Deschutes River Conservancy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS – continued**

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Chris Mahr, Principal  
Chris Mahr + Associates | CPAs  
Bend, Oregon

February 11, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of  
Deschutes River Conservancy  
Bend, Oregon

**Report on Compliance for Each Major Federal Program**

We have audited Deschutes River Conservancy's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Deschutes River Conservancy's major federal programs for the year ended September 30, 2018. Deschutes River Conservancy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Deschutes River Conservancy's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Deschutes River Conservancy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Deschutes River Conservancy's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Deschutes River Conservancy complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE – continued**

**Report on Internal Control Over Compliance**

Management of Deschutes River Conservancy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Deschutes River Conservancy's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Deschutes River Conservancy's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Chris Mahr, Principal  
Chris Mahr + Associates | CPAs  
Bend, Oregon

February 11, 2019



DESCHUTES RIVER CONSERVANCY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED SEPTEMBER 30, 2018

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? \_\_\_\_\_ yes  X  no
- Significant deficiencies identified? \_\_\_\_\_ yes  X  none reported
- Noncompliance material to financial statements noted? \_\_\_\_\_ yes  X  no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? \_\_\_\_\_ yes  X  no
- Significant deficiencies identified? \_\_\_\_\_ yes  X  none reported

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a)?  
\_\_\_\_\_ yes  X  no

Identification of major programs:- Bonneville Power Administration passed through National Fish and Wildlife Foundation – Columbia Basin Water Transaction Program

CFDA Number: 81.000

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes  X  no

**DESCHUTES RIVER CONSERVANCY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED SEPTEMBER 30, 2018**

**Section II – Financial Statement Findings**

There were no findings or questioned costs.

**Section III – Federal Award Findings and Questioned Costs**

There were no findings or questioned costs.

**Section IV – Summary Schedule of Prior Audit Findings**

There were no prior year audit findings or questioned costs.

**DESCHUTES RIVER CONSERVANCY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED SEPTEMBER 30, 2018**

|  | <u>Federal<br/>CFDA<br/>Number</u> | <u>Grant<br/>Number</u> | <u>Program<br/>Expenditures</u> |
|--|------------------------------------|-------------------------|---------------------------------|
| Department of Commerce - National Oceanic and Atmospheric Administration |                                    |                         |                                 |
| Pacific Coast Salmon Recovery - Pacific Salmon Treaty Program            |                                    |                         |                                 |
| Passed through Oregon Watershed Enhancement Board                        | 11.438                             | 216-8200-15462          | 173,664                         |
| Passed through Oregon Watershed Enhancement Board                        | 11.438                             | 216-8200-15467          | <u>222,680</u>                  |
| Subtotal of Department of Commerce                                       |                                    |                         | 396,344                         |
|  |                                    |                         |                                 |
| Department of Energy - Bonneville Power Administration                   |                                    |                         |                                 |
| Columbia Basin Water Transaction Program Challenge Grant                 |                                    |                         |                                 |
| Passed through National Fish and Wildlife Foundation                     | 81.000                             | 0201.18.058020          | <u>441,937</u>                  |
|  |                                    |                         |                                 |
| Total expenditures of federal awards                                     |                                    |                         | <u>\$ 838,281</u>               |

Notes to Schedule:

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of Federal awards includes the Federal award activity of Deschutes River Conservancy, under programs of the federal government for the year ended September 30, 2018 in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. The Organization has elected to use the 10 percent de minimus indirect cost rate as allowed under Uniform Guidance.