MCKENZIE RIVER TRUST

FINANCIAL STATEMENTS AND
SINGLE AUDIT INFORMATION

For the Years Ended December 31, 2017 and 2016

Jones Roth
CPAs & Business Advisors

MCKENZIE RIVER TRUST
FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

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Jones & Roth
CPAs & Business Advisors

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
McKenzie River Trust
Eugene, Oregon

We have audited the accompanying financial statements of McKenzie River Trust (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statement

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 audits. We conducted our audits 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 audits 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of McKenzie River Trust as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. 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 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 audits 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 April 26, 2018, on our consideration of McKenzie River Trust's 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 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 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 McKenzie River Trust's internal control over financial reporting and compliance.

Jones & Roth, P.C.

Jones & Roth, P.C.
Eugene, Oregon
April 26, 2018

FINANCIAL STATEMENTS

MCKENZIE RIVER TRUST
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

	2017	2016
Assets		
Current assets		
Cash and cash equivalents	$ 2,510,941	$ 1,227,141
Investments	3,166,223	2,760,891
Grants and contracts receivable, current portion	193,832	207,890
Unconditional promises to give receivable, current portion	228,303	103,105
Prepaid expenses and deposits	12,835	12,835
Total current assets	6,112,134	4,311,862
Buildings, equipment, and site improvements		
Buildings, equipment, and site improvements, net of accumulated depreciation of $217,530 for 2017 and $186,454 for 2016	321,895	300,471
Other assets		
Grants and contracts receivable, long-term portion	68,614	61,175
Unconditional promises to give receivable, long-term portion	90,490	130,153
Beneficial interest in the assets of Oregon Community Foundation (OCF)	576,087	520,193
Land held for conservation	3,000,815	4,415,813
Site improvements on land held for conservation, net of accumulated depreciation of $61,869 for 2017 and $47,073 for 2016	227,410	242,206
Total other assets	3,963,416	5,369,540
Total assets	$ 10,397,445	$ 9,981,873

	2017	2016
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 63,436	$ 57,869
Accrued payroll and related liabilities	75,521	62,823
Other accrued liabilities	400	1,600
Total current liabilities	139,357	122,292
Long-term debt, net of deferred financing costs	-	1,386,631
Total liabilities	139,357	1,508,923
Net assets		
Unrestricted:		
Undesignated operating funds	961,584	128,082
Board designated program funds	1,443,073	1,479,429
Buildings, equipment, and site improvements	321,895	300,471
Land held and site improvements on land held for conservation	3,228,225	3,271,388
Total unrestricted	5,954,777	5,179,370
Temporarily restricted	4,303,311	3,293,580
Total net assets	10,258,088	8,472,950
Total liabilities and net assets	$ 10,397,445	$ 9,981,873

The accompanying notes are an integral part of these statements.

MCKENZIE RIVER TRUST
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2017 and 2016

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, contracts, and other revenue				
Support and contracts:				
Contributions	$ 405,854	$ 1,733	$ -	$ 407,587
Capital campaign contributions	-	1,058,463	-	1,058,463
Grants	-	4,678,022	-	4,678,022
Contracts	253,209	-	-	253,209
In-kind donations	3,201	-	-	3,201
Total support and contracts	662,264	5,738,218	-	6,400,482
Other revenue:				
Rental income	12,470	-	-	12,470
Investment income	192,559	302,533	-	495,092
Total other revenue	205,029	302,533	-	507,562
Net assets released from restrictions				
Satisfaction of program restrictions	5,031,020	(5,031,020)	-	-
Total support, contracts, other revenue, and reclassifications	5,898,313	1,009,731	-	6,908,044
Expenses				
Program services	4,575,264	-	-	4,575,264
Fundraising	376,914	-	-	376,914
Support services	170,728	-	-	170,728
Total expenses	5,122,906	-	-	5,122,906
Change in net assets	775,407	1,009,731	-	1,785,138
Net assets, beginning of year	5,179,370	3,293,580	-	8,472,950
Net assets, end of year	$ 5,954,777	$ 4,303,311	$ -	$ 10,258,088

2016			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 420,680	$ 4,660	$ -	$ 425,340
-	836,970	-	836,970
-	749,520	-	749,520
75,334	-	-	75,334
462	534	-	996
496,476	1,591,684	-	2,088,160
12,000	-	-	12,000
83,389	119,229	-	202,618
95,389	119,229	-	214,618
728,768	(728,768)	-	-
1,320,633	982,145	-	2,302,778
862,710	-	-	862,710
258,417	-	-	258,417
204,156	-	-	204,156
1,325,283	-	-	1,325,283
(4,650)	982,145	-	977,495
5,184,020	2,311,435	-	7,495,455
$ 5,179,370	$ 3,293,580	$ -	$ 8,472,950

The accompanying notes are an integral part of these statements.

MCKENZIE RIVER TRUST
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	$ 1,785,138	$ 977,495
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	45,871	39,621
Amortization of deferred financing costs	8,369	5,580
Realized/unrealized gain on investments	(258,543)	(70,329)
Realized/unrealized gain in beneficial interest in the assets of OCF	(77,690)	(27,355)
Donated equipment and securities	(158,337)	(112,682)
Conservation easement granted to third party	1,415,000	-
(Increase) decrease in:		
Grants and contracts receivable	6,619	(3,270)
Unconditional promises to give receivable	(85,535)	(232,258)
Prepaid expenses and deposits	-	(8,607)
Increase (decrease) in:		
Accounts payable	5,567	43,221
Accrued payroll and related liabilities	12,698	52,394
Other accrued liability	(1,200)	-
Net cash provided by operating activities	2,697,957	663,810
Cash flows from investing activities		
Net proceeds from sale of investments	11,546	44,969
Net proceeds from (deposits to) beneficial interest in the assets of OCF	21,797	(7,274)
Purchase of equipment, land held for conservation, and site improvements	(52,500)	(773,591)
Net cash used by investing activities	(19,157)	(735,896)
Cash flows from financing activities		
Payments on long-term debt	(1,395,000)	-
Proceeds from long-term debt	-	741,935
Net cash provided (used) by financing activities	(1,395,000)	741,935
Net increase in cash and cash equivalents	1,283,800	669,849
Cash and cash equivalents, beginning of year	1,227,141	557,292
Cash and cash equivalents, end of year	$ 2,510,941	$ 1,227,141
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 20,294	23,148

The accompanying notes are an integral part of these statements.

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

McKenzie River Trust (the Trust) is an Oregon nonprofit corporation that provides for the protection and enhancement of natural qualities of land in Western Oregon. The mission of the Trust is to help people protect and care for the lands and rivers they cherish in Western Oregon. The Trust carries out management and restoration activities on properties it owns in fee title, particularly on its Green Island, Berrgren, CARP, Waite, Big Island, and Finn Rock Reach parcels. The Trust also hosts outreach events on its properties and participates in public events to increase public awareness and support for land and water conservation in the region. Acreage managed by the Trust as of December 31, 2017 and 2016 are as follows:

	2017	2016
Acreage under management:		
Owned directly	2,252	2,252
Conservation easements	2,934	2,372
Total acreage under Trust management	5,186	4,624

Income Tax Status

McKenzie River Trust is an exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC). The Trust has been classified as an organization other than a private foundation and qualifies for the 50 percent charitable contribution deduction allowed to individual donors. The Trust files required informational returns with both the U.S. federal jurisdiction and the state of Oregon.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Trust and changes therein are classified and reported as follows:

- *Unrestricted net assets* — Net assets that are not subject to donor-imposed stipulations or restrictions.

- *Temporarily restricted net assets* — Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Trust and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

- *Permanently restricted net assets* — Net assets subject to donor-imposed stipulations that they be maintained permanently by the Trust. Generally, the donors of these assets permit the Trust to use all or part of the income earned on any related investments for general or specific purposes. The Trust had no permanently restricted net assets for the years ended December 31, 2017 and 2016.

1. Nature of Operations and Summary of Significant Accounting Policies, continued

Estimates

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

Revenue Recognition

Contributions and grants are recognized as revenue when the contribution or grant is made and are recorded as support that is unrestricted, temporarily restricted, or permanently restricted. Classification is based on the existence and nature of any donor restrictions imposed on the contribution. Support that is restricted by the donor is reported as temporarily restricted revenues and is released to unrestricted net assets when the restriction is met. Contract revenue is recognized when services under the contract have been rendered by the Trust. Contract revenue is considered unrestricted.

In-kind Donations

Donated goods, including donated real property, are recorded at their estimated fair values at the date of donation. Donated services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. For the years ended December 31, 2017 and 2016, total donated goods and services were $3,201 and $996, respectively.

Expense Allocation

The Trust allocates expenses among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expense classification. Expenses that are common to several functions are allocated based on actual direct payroll expenses as a percentage of total payroll expenses.

Cash and Cash Equivalents

For financial statement purposes, the Trust considers all highly liquid investments, including money market accounts held at non-brokerage institutions, purchased with an original maturity of three months or less to be cash equivalents. Fair value approximates carrying amounts.

Grants and Contracts Receivable

Grants and contracts receivable, which are carried at the amount management expects to receive, are comprised primarily of amounts due from various governmental agencies and private foundations. Credit risk associated with receivables is periodically reviewed by management. An allowance account is established, if considered necessary, based on past history of collections and financial viability of the donor. No such allowance was considered necessary at December 31, 2017 and 2016.

1. Nature of Operations and Summary of Significant Accounting Policies, continued

Unconditional Promises to Give

Unconditional promises to give are comprised of monies or other property of value that have been unconditionally promised to the Trust and will be received at some future date. The promises include unrestricted promises as well as capital campaign promises, which are considered temporarily restricted. The reported value is a fair representation of the future value of the receivables. Amounts are written-off when determined that they are uncollectible. An allowance for uncollectible pledges is provided based on management's evaluation of potential uncollectible pledges at year end. At December 31, 2017 and 2016, management considered the promises fully collectible; therefore, no allowance has been established.

Investments

The Trust holds investments in mutual funds and equities with a brokerage firm. Investments in marketable equity securities with readily determinable fair values are stated at fair value. Unrealized gains and losses are recognized in the period in which they occur. Certain investments are uninsured and subject to normal market risk associated with the underlying investment.

Buildings, Equipment, and Site Improvements

Purchased buildings, equipment, and site improvements are recorded at cost. Donated items are recorded as a contribution at estimated fair market value at the date of gift. Expenditures for maintenance, repairs, and renewals are charged to expense as incurred. Major betterments and equipment expenditures in excess of $5,000 are capitalized. The cost and related accumulated depreciation of equipment sold or retired is removed from the accounts and the resulting gain or loss is included in income.

Depreciation has been computed using the straight-line method over the estimated useful lives of the buildings or equipment, 20 to 40 years for buildings, 5 to 10 years for equipment, and 20 years for site improvements. Depreciation expense for buildings, equipment, and site improvements for the years ended December 31, 2017 and 2016 was $31,076 and $24,826, respectively.

Land Held for Conservation

Purchased land is recorded at cost. Donated land is recorded as a contribution at its estimated fair market value at the date of gift. While professional appraisals are used to determine a fair market value for conservation easements held by the Trust, that value is not convertible by the Trust and holding the easement increases the Trust's stewardship obligations. Consequently, easements are recorded at a nominal $1 value for tracking purposes only. The Board may from time to time evaluate the carrying value of land held for conservation and if the value of the property appears impaired based upon restrictions imposed by the Board or a third-party funding source, may adjust the value of the land based on the restrictions imposed. During the year ended December 31, 2017, the carrying value of the Finn Rock property was decreased by $1,415,000 due to a deed of conservation easement granted to Bonneville Power Administration. During the year ended December 31, 2016, there were no such carrying value adjustments.

1. Nature of Operations and Summary of Significant Accounting Policies, continued

Site Improvements on Land Held for Conservation

Site improvements made to land held for conservation that is owned by the Trust that are determined to provide additional market value to the land held for conservation are capitalized. Such amounts are recorded at cost and depreciated using the straight-line method over the estimated useful life of the improvement, estimated at 10 to 20 years. Depreciation expense for site improvements on land held for conservation for the years ended December 31, 2017 and 2016 was $14,795 and $14,795, respectively. Expenditures for maintenance and repairs are charged to expense as incurred.

Advertising

The Trust uses advertising to promote fundraising activities and open employment opportunities. Advertising costs are expensed as incurred. Advertising costs totaled $4,363 and $2,100 for 2017 and 2016, respectively.

Concentration of Credit Risk

The Trust maintains cash balances in both bank and brokerage accounts. Amounts held in bank accounts are federally insured up to $250,000 through the Federal Deposit Insurance Corporation (FDIC). A portion of cash held in brokerage accounts is not insured under FDIC. The Trust's cash balances exceeded FDIC depository insurance by $1,983,365 and $836,186 for the years ended December 31, 2017 and 2016, respectively.

2. Concentrations

Due to the timing and nature of grants awards, a significant portion of outstanding grant and contracts receivable, all of which management considers fully collectible, may be due from a concentrated number of organizations at year end. Of the total amount of grants and contracts receivable at December 31, 2017, 98 percent was due from three organizations and of the total amount of grants and contracts receivable at December 31, 2016, 69 percent was due from two organizations.

During 2017, revenue totaling $4,764,648 was received from two sources, comprising approximately 69 percent of total revenue. During 2016, revenue totaling $700,186 was received from five sources, comprising approximately 34 percent of total revenue.

3. Unconditional Promises to Give

At December 31, unconditional promises to give include amounts due from individuals, businesses, and other organizations. For the year ended December 31, 2017, total capital campaign contributions included $58,100 from Board members of which $5,000 was included in unconditional promises to give at year end. For the year ended December 31, 2016, total capital campaign contributions included $124,500 from Board members of which $96,600 was included in unconditional promises to give at year end.

3. Unconditional Promises to Give, continued

At December 31, unconditional promises to give are expected to be collected as follows:

	2017	2016
Amounts to be collected in:		
One year	$ 228,303	$ 103,105
Two to five years	90,490	130,153
Total unconditional promises to give	$ 318,793	$ 233,258

4. Beneficial Interest in the Assets of The Oregon Community Foundation

The Oregon Community Foundation (OCF) holds a conservation easement fund and a board designated fund for the Trust. The funds are used by the OCF as the source of unrestricted grants for the Trust. The agreement with the OCF stipulates OCF maintains variance power over the fund and that the fund shall be held and owned by the OCF. OCF may distribute, on an annual basis, a fixed percentage of the fund assets. The percentage is determined by the Board of Directors of OCF. The agreement also provides that, upon written request from a majority of the Board of Directors of the Trust, additional distributions may be made from the fund assets, even to the exhaustion of the fund, if in the sole judgment of the Board of Directors of OCF the requested distribution is consistent with the objectives and purposes of the Trust.

The following schedule summarizes the activity of these funds reported at fair value for the years ended December 31:

	2017	2016
Investment income:		
Interest and dividends	$ 4,722	$ 4,362
Realized gain	5,680	4,304
Unrealized gain	72,010	23,051
Total investment income	82,412	31,717
Other decreases:		
Investment management fees	(2,033)	(1,744)
OCF fees	(2,758)	(2,489)
Grants/scholarship approved	(24,227)	(22,955)
Total other decreases	(29,018)	(27,188)
Contributions	2,500	30,100
Net change	55,894	34,629
Beginning balance	520,193	485,564
Ending balance	$ 576,087	$ 520,193

5. Restrictions on Net Assets

As of December 31, temporarily restricted net assets were available for the following purposes:

	2017	2016
Conservation easement monitoring	$ 270,254	$ 244,380
Stewardship and protection	3,740,025	2,756,014
Outreach and organizational development	293,032	293,186
Total temporarily restricted net assets	$ 4,303,311	$ 3,293,580

6. Investment Income

The following schedule summarizes the income from investments and the beneficial interest in OCF for the years ended December 31:

	2017	2016
Interest and dividends	$ 158,858	$ 104,934
Realized gain	45,218	11,082
Unrealized gain	291,016	86,602
Total investment income	$ 495,092	$ 202,618

7. Lease Agreements

Lessee – The Trust entered into a lease agreement requiring monthly lease payments reduced by the amount of Lane County property tax exemption passed through to the lessor. The amended lease term expired January 31, 2018, and was renewed for month to month until April. The Trust entered into a new lease agreement from April 1, 2018 to March 31, 2023, with monthly payments of $3,699, increasing 2.5 percent annually. For the years ended December 31, 2017 and 2016, rent expense totaled $41,280 and $35,982, respectively. Rent expense is presented net of amounts received under a sublease agreement, described below, of $-0- and $5,838 for the years ended December 31, 2017 and 2016, respectively. Future minimum rent payments under the operating lease are as follows:

Year Ending December 31,	
2018	$ 36,716
2019	45,220
2020	46,351
2021	47,510
2022	48,697
Thereafter	12,249
Total	$ 236,743

Sublease – The Trust subleased a portion of its office space in the prior years. The income from the sublease was used to offset rent expense. The office space sublease agreement expired June 30, 2016, and was not renewed as the Trust required use of the space.

7. Lease Agreements, continued

Lessor – The Trust leases acreage and a house on the Berggren property. The lease for the Berggren property was operating as a month to month lease until December 1, 2015 when the Trust entered into a lease agreement that required a one-time payment of $1,200 that was received in December 2015. The terms of that lease expired on December 31, 2016 at which time a new lease agreement was signed. The new lease term expires December 31, 2019. Future lease payments to be received under the lease are as follows:

Year Ending December 31,		
2018	$	12,600
2019		15,000
Total	$	27,600

The Trust also leased two cabins on the Finn Rock property, under month to month lease agreements, until May 2017. Total rental income under these leases totaled $12,470 and $12,000 for the years ended December 31, 2017 and 2016, respectively.

8. Retirement Plan

The Trust sponsors a SIMPLE IRA plan for eligible employees. The Trust matches employee contributions monthly up to 3 percent of eligible wages. For the years ended December 31, 2017 and 2016, employer contributions totaled $15,334 and $12,673, respectively. Under the plan, contributions are made directly to participants' individual accounts. After the funds have been distributed, the Trust has no fiduciary responsibility or control over the accounts.

9. Long-term Debt

On December 28, 2015, the Trust entered into a loan agreement with Craft3 to secure the purchase of real property to be acquired in two phases (the Finn Rock acquisition). Proceeds of the loan are disbursed through escrow ratably for each phase of the Finn Rock acquisition. The Trust closed on the first phase of the Finn Rock acquisition on December 30, 2015. On March 28, 2016, the Trust completed the second phase of the Finn Rock acquisition, resulting in an increase of $741,935 to the long-term debt payable to Craft3 and an increase of $773,591 in land held for conservation. The balance of the loan at December 31, 2016, net of unamortized deferred financing costs of $8,369, was $1,386,631. The Trust paid off the entire loan in December 2017 from grant proceeds and the balance at December 31, 2017 was $-0-.

For the year ended December 31, 2017 and 2016, interest expense was $28,664 and $27,728, respectively, of which $8,369 and $5,580, respectively, was amortization of deferred financing costs.

10. Fair Value Measurement

Accounting principles generally accepted in the United States of America define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability; in the absence of a principal market, the most advantageous market.

Valuation techniques that are consistent with the market, income, or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1: Inputs are quoted prices in active markets for identical assets or liabilities for which the Trust has the ability to access at the measurement date.

Level 2: Inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table sets forth by level, within the fair value hierarchy, the Trust assets at fair value as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Investments - mutual funds	$ 3,165,057	$ -	$ -	$ 3,165,057
Investments - securities	1,166	-	-	1,166
Beneficial interest in the assets of OCF	-	-	576,087	576,087
Total fair value assets measured on a recurring basis	$ 3,166,223	$ -	$ 576,087	$ 3,742,310

10. Fair Value Measurement, continued

The following table sets forth by level, within the fair value hierarchy, the Trust assets at fair value as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
Investments - mutual funds	$ 2,660,641	$ -	$ -	$ 2,660,641
Fixed income	100,250	-	-	100,250
Beneficial interest in the assets of OCF	-	-	520,193	520,193
Total fair value assets measured on a recurring basis	$ 2,760,891	$ -	$ 520,193	$ 3,281,084

11. Subsequent Events

Management evaluates events and transactions that occur after the statement of financial position date as potential subsequent events. Management has performed this evaluation through the date of the independent auditor's report.

SINGLE AUDIT INFORMATION

MCKENZIE RIVER TRUST
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2017

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Program Award Amount	Expenditures
U.S. Department of Energy: Bonneville Power Administration			
Direct programs:			
Wildlife Mitigation Program	81.UNKNOWN	$ 3,443,125	$ 3,443,125
Total federal awards		$ 3,443,125	$ 3,443,125

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of McKenzie River Trust under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented 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). Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The Schedule is not intended to and does not present the financial position, changes in net assets, or cash flows of McKenzie River Trust.

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 allowable or are limited as to reimbursement.

McKenzie River Trust has elected to use the ten percent de minimis indirect cost rate as allowed under the Uniform Guidance; however, there were no indirect costs related to the federal awards for the year ended December 31, 2017.

McKenzie River Trust does not have any subrecipients.

Jones & Roth
CPAs & Business Advisors

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
McKenzie River Trust
Eugene, 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 McKenzie River Trust (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, 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 April 26, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered McKenzie River Trust'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 McKenzie River Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of McKenzie River Trust'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 McKenzie River Trust'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*.

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.

Jones & Roth, P.C.

Jones & Roth, P.C.
Eugene, Oregon
April 26, 2018

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
McKenzie River Trust
Eugene, Oregon

Report on Compliance for Each Major Federal Program

We have audited McKenzie River Trust'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 McKenzie River Trust's major federal programs for the year ended December 31, 2017. McKenzie River Trust'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 McKenzie River Trust'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 McKenzie River Trust'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 McKenzie River Trust's compliance.

Opinion on Each Major Federal Program

In our opinion, McKenzie River Trust 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 December 31, 2017.

Report on Internal Control Over Compliance

Management of McKenzie River Trust 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 McKenzie River Trust'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 McKenzie River Trust'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 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.

Jones & Roth, P.C.

Jones & Roth, P.C.
Eugene, Oregon
April 26, 2018

MCKENZIE RIVER TRUST
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2017

Summary of Auditor's Results

1) The independent auditor's report expresses an unmodified opinion on the financial statements of McKenzie River Trust.

2) No significant deficiencies and no material weaknesses in internal control were disclosed by the audit of the financial statements.

3) No instances of noncompliance material to the financial statements of McKenzie River Trust, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

4) No significant deficiencies and no material weaknesses in internal control over major federal award programs were disclosed by the audit of the major federal award programs.

5) The independent auditor's report on compliance for the major federal award program for McKenzie River Trust expresses an unmodified opinion.

6) There are no audit findings that are required to be reported in accordance with the Uniform Guidance.

7) Identification of major program:

CFDA #	*Name of Federal Program*
81.UNKNOWN	Wildlife Mitigation Program

8) The dollar threshold used to distinguish between Type A and Type B programs was $750,000.

9) McKenzie River Trust does not qualify as a low risk auditee.

Findings – Financial Statement Audit

None.

Findings and Questioned Costs – Major Federal Award Programs Audit

None.