



MCKENZIE RIVER TRUST

FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

Jones & Roth
CPAs & Business Advisors

MCKENZIE RIVER TRUST
FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

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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, 2018 and 2017, and the related statements of activities, and cash flows for the years then ended, and the statement of functional expenses for the year ended December 31, 2018, 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. 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.

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, 2018 and 2017, 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.

Jones & Roth, P.C.

Jones & Roth, P.C.
Eugene, Oregon
April 30, 2019

FINANCIAL STATEMENTS

MCKENZIE RIVER TRUST
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 1,454,065	\$ 2,510,941
Investments	3,622,576	3,166,223
Grants and contracts receivable, current portion	296,125	193,832
Unconditional promises to give receivable, current portion	119,740	228,303
Prepaid expenses and deposits	<u>3,000</u>	<u>12,835</u>
 Total current assets	 <u>5,495,506</u>	 <u>6,112,134</u>
Buildings, equipment, and site improvements		
Buildings, equipment, and site improvements, net of accumulated depreciation of \$149,834 for 2018 and \$217,530 for 2017	<u>312,799</u>	<u>321,895</u>
Other assets		
Grants and contracts receivable, long-term portion	118,604	68,614
Unconditional promises to give receivable, long-term portion	4,000	90,490
Beneficial interest in the assets of Oregon Community Foundation (OCF)	536,937	576,087
Land held for conservation	3,000,815	3,000,815
Site improvements on land held for conservation, net of accumulated depreciation of \$81,658 for 2018 and \$61,869 for 2017	<u>230,198</u>	<u>227,410</u>
 Total other assets	 <u>3,890,554</u>	 <u>3,963,416</u>
 Total assets	 <u><u>\$ 9,698,859</u></u>	 <u><u>\$ 10,397,445</u></u>

	<u>2018</u>	<u>2017</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 11,430	\$ 63,436
Accrued payroll and related liabilities	75,627	75,521
Other accrued liabilities	<u>400</u>	<u>400</u>
Total current liabilities	87,457	139,357
Net assets		
Net assets without donor restrictions:		
Undesignated operating funds	846,157	961,584
Board designated program funds	1,150,451	1,443,073
Buildings, equipment, and site improvements	312,799	321,895
Land held and site improvements on land held for conservation	<u>3,231,013</u>	<u>3,228,225</u>
Total net assets without donor restrictions	5,540,420	5,954,777
Net assets with donor restrictions	<u>4,070,982</u>	<u>4,303,311</u>
Total net assets	<u>9,611,402</u>	<u>10,258,088</u>
Total liabilities and net assets	<u>\$ 9,698,859</u>	<u>\$ 10,397,445</u>

The accompanying notes are an integral part of these statements.

MCKENZIE RIVER TRUST
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2018 and 2017

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Support, contracts, and other revenue			
Support and contracts:			
Contributions	\$ 489,643	\$ 76,577	\$ 566,220
Capital campaign contributions	-	171,245	171,245
Grants	2,766	235,381	238,147
Contracts	319,475	-	319,475
In-kind donations	<u>22,857</u>	<u>-</u>	<u>22,857</u>
Total support and contracts	<u>834,741</u>	<u>483,203</u>	<u>1,317,944</u>
Other revenue (loss):			
Rental income	12,600	-	12,600
Investment income (loss)	(117,857)	(69,664)	(187,521)
Loss on disposal of asset	<u>(15,365)</u>	<u>-</u>	<u>(15,365)</u>
Total other revenue (loss)	<u>(120,622)</u>	<u>(69,664)</u>	<u>(190,286)</u>
Net assets released from restrictions			
Satisfaction of program restrictions	<u>645,868</u>	<u>(645,868)</u>	<u>-</u>
Total support, contracts, other revenue, and reclassifications	<u>1,359,987</u>	<u>(232,329)</u>	<u>1,127,658</u>
Expenses			
Program services	1,225,799	-	1,225,799
General and administrative	239,597	-	239,597
Fundraising	<u>308,948</u>	<u>-</u>	<u>308,948</u>
Total expenses	<u>1,774,344</u>	<u>-</u>	<u>1,774,344</u>
Change in net assets	(414,357)	(232,329)	(646,686)
Net assets, beginning of year	<u>5,954,777</u>	<u>4,303,311</u>	<u>10,258,088</u>
Net assets, end of year	<u>\$ 5,540,420</u>	<u>\$ 4,070,982</u>	<u>\$ 9,611,402</u>

2017		
<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
\$ 405,854	\$ 1,733	\$ 407,587
-	1,058,463	1,058,463
-	4,678,022	4,678,022
253,209	-	253,209
<u>3,201</u>	<u>-</u>	<u>3,201</u>
<u>662,264</u>	<u>5,738,218</u>	<u>6,400,482</u>
12,470	-	12,470
187,467	302,533	490,000
<u>-</u>	<u>-</u>	<u>-</u>
<u>199,937</u>	<u>302,533</u>	<u>502,470</u>
<u>5,031,020</u>	<u>(5,031,020)</u>	<u>-</u>
<u>5,893,221</u>	<u>1,009,731</u>	<u>6,902,952</u>
4,575,264	-	4,575,264
165,636	-	165,636
<u>376,914</u>	<u>-</u>	<u>376,914</u>
<u>5,117,814</u>	<u>-</u>	<u>5,117,814</u>
775,407	1,009,731	1,785,138
<u>5,179,370</u>	<u>3,293,580</u>	<u>8,472,950</u>
<u>\$ 5,954,777</u>	<u>\$ 4,303,311</u>	<u>\$ 10,258,088</u>

The accompanying notes are an integral part of these statements.

MCKENZIE RIVER TRUST
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018

	Program				Total Program Services	General and Administrative	Fundraising	Total
	Land Protection	Land Stewardship	Conservation Easement Monitoring	Public Outreach				
Wages	\$ 104,316	\$ 151,400	\$ 15,676	\$ 109,256	\$ 380,648	\$ 163,407	\$ 150,687	\$ 694,742
Employee benefits and taxes	24,453	35,051	3,666	25,973	89,143	35,422	35,072	159,637
Land management:								
Contract labor	-	324,551	1,775	-	326,326	-	-	326,326
Supplies and materials	-	124,806	757	-	125,563	-	-	125,563
Tools and equipment	-	19,297	-	-	19,297	-	-	19,297
Site utilities	-	12,418	-	-	12,418	-	-	12,418
Property taxes	-	14,485	-	-	14,485	-	-	14,485
Professional fees	6,067	9,636	975	25,394	42,072	10,503	13,774	66,349
Rent, utilities and security	8,262	11,932	1,191	8,374	29,759	12,395	11,413	53,567
Travel	3,585	10,466	776	7,560	22,387	2,044	4,575	29,006
Office expense	4,854	8,156	1,103	17,506	31,619	6,210	12,735	50,564
In-kind goods and services	400	-	-	68	468	341	22,049	22,858
Advertising	-	-	-	11,016	11,016	1,068	11,818	23,902
Training	1,357	1,978	53	1,311	4,699	600	2,384	7,683
Other expenses	2,702	5,043	365	7,167	15,277	3,335	20,950	39,562
Insurance	2,406	4,948	2,190	2,921	12,465	3,409	3,652	19,526
Land acquisition costs	36,782	-	-	-	36,782	-	-	36,782
Depreciation	-	42,404	-	-	42,404	863	-	43,267
Event expense	-	-	-	8,971	8,971	-	19,839	28,810
Total functional expenses	\$ 195,184	\$ 776,571	\$ 28,527	\$ 225,517	\$ 1,225,799	\$ 239,597	\$ 308,948	\$ 1,774,344

The accompanying notes are an integral part of these statements.

MCKENZIE RIVER TRUST
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ (646,686)	\$ 1,785,138
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	43,267	45,871
Amortization of deferred financing costs	-	8,369
Realized/unrealized loss (gain) on investments	425,577	(258,543)
Realized/unrealized loss (gain) in beneficial interest in the assets of OCF	15,956	(77,690)
Loss on disposal of asset	15,365	-
Donated equipment and securities	(67,893)	(158,337)
Conservation easement granted to third party	-	1,415,000
(Increase) decrease in:		
Grants and contracts receivable	(152,283)	6,619
Unconditional promises to give receivable	195,053	(85,535)
Prepaid expenses and deposits	9,835	-
Increase (decrease) in:		
Accounts payable	(52,006)	5,567
Accrued payroll and related liabilities	106	12,698
Other accrued liability	-	(1,200)
Net cash provided (used) by operating activities	<u>(213,709)</u>	<u>2,697,957</u>
Cash flows from investing activities		
Purchase of investments	(877,309)	(762,374)
Proceeds from sale of investments	63,272	773,920
Proceeds from beneficial interest in the assets of OCF	24,693	24,297
Deposits to beneficial interest in the assets of OCF	(1,500)	(2,500)
Proceeds from sale of equipment	2,500	-
Purchase of equipment, land held for conservation, and site improvements	<u>(54,823)</u>	<u>(52,500)</u>
Net cash used by investing activities	<u>(843,167)</u>	<u>(19,157)</u>
Cash flows from financing activities		
Payments on long-term debt	<u>-</u>	<u>(1,395,000)</u>
Net cash used by financing activities	<u>-</u>	<u>(1,395,000)</u>
Net increase (decrease) in cash and cash equivalents	(1,056,876)	1,283,800
Cash and cash equivalents, beginning of year	<u>2,510,941</u>	<u>1,227,141</u>
Cash and cash equivalents, end of year	<u>\$ 1,454,065</u>	<u>\$ 2,510,941</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ -</u>	<u>\$ 20,294</u>

The accompanying notes are an integral part of these statements.

MCKENZIE RIVER TRUST
NOTES TO FINANCIAL 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, 2018 and 2017 are as follows:

	2018	2017
Acreage under management:		
Owned directly	2,252	2,252
Conservation easements	2,934	2,934
Total acreage under Trust management	5,186	5,186

Recent Accounting Standard Adopted

During the year ended December 31, 2018, McKenzie River Trust adopted the provisions of the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) No. 2016-14: *Presentation of Financial Statements of Not-for-Profit Entities*. The standard was applied on a retrospective basis. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and availability of resources and related to functional allocation of expenses. The 2017 financial statements have been restated to conform to the presentation and disclosure requirements of ASU 2016-14.

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:

- *Net assets without donor restrictions* — Net assets that are not subject to donor-imposed stipulations or restrictions.
- *Net assets with donor restrictions* — Net assets with donor restrictions are 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Net assets with donor restrictions may also be subject to donor-imposed stipulations that the net assets must be retained as a fund of perpetual duration. Generally, the donors of such 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 net assets that were required to be retained as a fund of perpetual duration at December 31, 2018 and 2017.

MCKENZIE RIVER TRUST
NOTES TO FINANCIAL STATEMENTS

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 promised or made and are recorded as support that is either with or without donor restrictions. 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 restricted revenues and is released to net assets without donor restrictions when the restriction is met. Contract revenue is recognized when services under the contract have been rendered by the Trust. Contract revenue is considered to be without donor restrictions.

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, 2018 and 2017, total donated goods and services were \$22,857 and \$3,201, respectively.

Functional Expense Allocation

The Trust allocates its expenses on a functional basis among its program and support services. Expenses that can be identified with a specific program or support service are allocated directly to that program or support services according to their natural expense classification. Other expenses that are common to several functions are allocated based among the programs and support services benefited.

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, 2018 and 2017.

MCKENZIE RIVER TRUST
NOTES TO FINANCIAL STATEMENTS

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 promises without restrictions as well as capital campaign promises, which are considered net assets with donor restrictions. 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, 2018 and 2017, 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, 2018 and 2017 was \$27,343 and \$31,076, 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, 2018, there were no such carrying value adjustments.

MCKENZIE RIVER TRUST
NOTES TO FINANCIAL STATEMENTS

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, 2018 and 2017 was \$15,924 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 \$23,902 and \$4,363 for 2018 and 2017, 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 \$922,602 and \$1,983,365 for the years ended December 31, 2018 and 2017, respectively.

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 within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi). The Trust files required informational returns with both the U.S. federal jurisdiction and the state of Oregon.

Liquidity and Availability of Resources

The Trust has a policy to manage its liquidity and reserves in order to meet its needs to fund operating expenditures. At December 31, 2018 and 2017, the Trust's financial assets, reduced by amounts not available for general expenditures within one year, are comprised of the following:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 1,454,065	\$ 2,510,941
Contracts receivable	142,421	59,645
Investments	<u>3,622,576</u>	<u>3,166,223</u>
	5,219,062	5,736,809
Less: Investments with donor restrictions	(2,288,893)	(2,411,107)
Less: Board designated program funds	<u>(1,024,159)</u>	<u>(1,307,205)</u>
Financial assets available for general expenditure	<u>\$ 1,906,010</u>	<u>\$ 2,018,497</u>

MCKENZIE RIVER TRUST
NOTES TO FINANCIAL STATEMENTS

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

Liquidity and Availability of Resources, continued

The Board of Directors has designated a portion of the Trust's net assets without donor restrictions to be reserved for the purpose of land protection, stewardship, and as a source of reserves for the Trust. The Board designated funds are held in investments and with the Oregon Community Foundation (Note 4).

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, 2018, 90 percent was due from two organizations and of the total amount of grants and contracts receivable at December 31, 2017, 98 percent was due from three organizations.

During 2018, revenue totaling \$575,021 was received from four sources, comprising approximately 51 percent of total revenue. During 2017, revenue totaling \$4,764,648 was received from two sources, comprising approximately 69 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, 2018, total contributions included \$25,843 from Board members of which \$4,392 was included in unconditional promises to give at year end. For the year ended December 31, 2017, total contributions included \$58,100 from Board members of which \$5,000 was included in unconditional promises to give at year end.

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

	2018	2017
Amounts to be collected in:		
One year	\$ 119,740	\$ 228,303
Two to five years	4,000	90,490
Total unconditional promises to give	\$ 123,740	\$ 318,793

MCKENZIE RIVER TRUST
NOTES TO FINANCIAL STATEMENTS

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:

	<u>2018</u>	<u>2017</u>
Investment income (loss):		
Interest and dividends	\$ 4,320	\$ 4,722
Realized gain	10,498	5,680
Unrealized gain (loss)	<u>(26,454)</u>	<u>72,010</u>
Total investment income (loss)	<u>(11,636)</u>	<u>82,412</u>
Other decreases:		
Investment management fees	(2,193)	(2,033)
OCF fees	(2,900)	(2,758)
Grants/scholarship approved	<u>(23,921)</u>	<u>(24,227)</u>
Total other decreases	<u>(29,014)</u>	<u>(29,018)</u>
Contributions	<u>1,500</u>	<u>2,500</u>
Net change	(39,150)	55,894
Beginning balance	<u>576,087</u>	<u>520,193</u>
Ending balance	<u>\$ 536,937</u>	<u>\$ 576,087</u>

5. Net Assets with Donor Restrictions

As of December 31, net assets with donor restrictions were available for the following purposes:

	<u>2018</u>	<u>2017</u>
Conservation easement monitoring	\$ 214,050	\$ 270,254
Stewardship and protection	3,457,333	3,740,025
Outreach and organizational development	<u>399,599</u>	<u>293,032</u>
Total net assets with donor restrictions	<u>\$ 4,070,982</u>	<u>\$ 4,303,311</u>

MCKENZIE RIVER TRUST
NOTES TO FINANCIAL STATEMENTS

6. Investment Income

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

	2018	2017
Interest and dividends	\$ 259,704	\$ 158,858
Realized gain	9,770	45,218
Unrealized gain (loss)	(451,303)	291,016
Investment management fees	(5,692)	(5,092)
 Total investment income (loss)	 \$ (187,521)	 \$ 490,000

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 \$3,684, increasing 2.5 percent annually. For the years ended December 31, 2018 and 2017, rent expense totaled \$40,578 and \$41,280, respectively. Future minimum rent payments under the operating lease are as follows:

Year Ending December 31,		
2019	\$	45,039
2020		46,165
2021		47,319
2022		48,502
2023		12,200
Thereafter		-
Total	\$	199,225

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,		
2019	\$	15,000
Total	\$	15,000

The Trust also leased two cabins on the Finn Rock property, under month to month lease agreements, until May 2017 when the cabins were demolished. Total rental income for the Berggren property and cabin leases totaled \$12,600 and \$12,470 for the years ended December 31, 2018 and 2017, respectively.

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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, 2018 and 2017, employer contributions totaled \$19,445 and \$15,334, 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 Trust paid off the entire loan balance in December 2017.

For the year ended December 31, 2018 and 2017, interest expense was \$-0- and \$28,664, respectively, of which \$-0- and \$8,369, 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.

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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, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments - mutual funds	\$ 3,618,225	\$ -	\$ -	\$ 3,618,225
Investments - securities	4,351	-	-	4,351
Beneficial interest in the assets of OCF	<u>-</u>	<u>-</u>	<u>536,937</u>	<u>536,937</u>
Total fair value assets measured on a recurring basis	<u>\$ 3,622,576</u>	<u>\$ -</u>	<u>\$ 536,937</u>	<u>\$ 4,159,513</u>

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

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

11. Reclassification

Certain prior year amounts have been reclassified to conform to current year presentation. Such reclassifications had no effect on previously stated net assets or changes in net assets.

12. 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.