



Certified Public Accountants
and Financial Advisors

Klamath River Renewal Corporation
Financial Statements
June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Klamath River Renewal Corporation
San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of Klamath River Renewal Corporation (a non-profit organization) (the "Corporation"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States 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. 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 Corporation'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 Corporation'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 Klamath River Renewal Corporation as of June 30, 2018, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

SQUAR MILNER LLP



San Francisco, California
December 4, 2018

KLAMATH RIVER RENEWAL CORPORATION
STATEMENT OF FINANCIAL POSITION
June 30, 2018

ASSETS

Current Assets

Cash and cash equivalents	\$ 39,728,363
Accounts receivable	2,428,858
Prepaid expenses	<u>32,500</u>
Total current assets	<u>42,189,721</u>

Other Assets

Deposits	<u>6,040</u>
Total assets	<u>\$ 42,195,761</u>

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable and accrued expenses	<u>\$ 2,671,558</u>
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Net Assets

Unrestricted	(821)
Temporarily restricted	<u>39,525,024</u>
Total net assets	<u>39,524,203</u>
Total liabilities and net assets	<u>\$ 42,195,761</u>

KLAMATH RIVER RENEWAL CORPORATION**STATEMENT OF ACTIVITIES****For the Year Ended June 30, 2018**

	Unrestricted	Temporarily Restricted	Total
REVENUES AND SUPPORT			
Grants and contributions	\$ -	\$ 25,846,720	\$ 25,846,720
Interest income	-	63,290	63,290
Other income	439	-	439
Net assets released from restrictions	<u>11,622,825</u>	<u>(11,622,825)</u>	<u>-</u>
Total revenues and support	<u>11,623,264</u>	<u>14,287,185</u>	<u>25,910,449</u>
EXPENDITURES			
Program services	10,807,522	-	10,807,522
Administrative	<u>816,563</u>	<u>-</u>	<u>816,563</u>
Total expenses	<u>11,624,085</u>	<u>-</u>	<u>11,624,085</u>
CHANGE IN NET ASSETS	(821)	14,287,185	14,286,364
Net assets - beginning of year	<u>-</u>	<u>25,237,839</u>	<u>25,237,839</u>
Net assets - end of year	<u>\$ (821)</u>	<u>\$ 39,525,024</u>	<u>\$ 39,524,203</u>

KLAMATH RIVER RENEWAL CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2018

	Program Services								Total
	Regulatory	Technical Preparation	Dam Removal and Removal Preparation	Community Engagement	Program Management	Risk Management	Total Program Expenses	Administrative	
Salaries	\$ 34,739	\$ 5,080	\$ 3,354	\$ 103,501	\$ 138,185	\$ 3,756	\$ 288,615	\$ 81,417	\$ 370,032
Employee benefits	2,849	417	275	8,488	11,332	308	23,669	6,676	30,345
Payroll taxes	2,390	349	231	7,119	9,505	258	19,852	5,601	25,453
Total personnel costs	39,978	5,846	3,860	119,108	159,022	4,322	332,136	93,694	425,830
Travel and related expenses	3,501	9	-	17,182	4,341	1,742	26,775	55,832	82,607
Agency and permitting expenses	826,758	-	-	-	-	-	826,758	-	826,758
Management and consulting services	97,485	-	-	426,222	181,712	-	705,419	414,805	1,120,224
Legal services	895,638	-	85,980	3,363	419,722	11,652	1,416,355	128,242	1,544,597
Professional services	-	6,457	20,000	130,000	-	30,000	186,457	59,395	245,852
Technical representative	1,129,296	4,890,945	50,377	544,546	520,330	110,302	7,245,796	-	7,245,796
Insurance	66	5	5	972	224	32,243	33,515	41,563	75,078
Other expenses	3,213	551	216	16,197	13,657	477	34,311	23,032	57,343
Total expenses	\$ 2,995,935	\$ 4,903,813	\$ 160,438	\$ 1,257,590	\$ 1,299,008	\$ 190,738	\$ 10,807,522	\$ 816,563	\$ 11,624,085

KLAMATH RIVER RENEWAL CORPORATION

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 14,286,364
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Accounts receivable	(2,427,097)
Prepaid expenses	10,593
Deposits	(1,933)
Accounts payable and accrued expenses	<u>777,962</u>
Net cash provided by operating activities	<u>12,645,889</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	12,645,889
CASH AND CASH EQUIVALENTS - beginning of year	<u>27,082,474</u>
CASH AND CASH EQUIVALENTS - end of year	<u><u>\$ 39,728,363</u></u>

KLAMATH RIVER RENEWAL CORPORATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Operations

The Klamath River Renewal Corporation (a non-profit organization) (the "Corporation") is part of a cooperative effort to revitalize the Klamath Basin and to improve conditions for all communities who utilize the river's resources.

The Corporation is a nonprofit 501(c)(3) organization, incorporated in the State of California in February 2016, by signatories of the amended Klamath Hydroelectric Settlement Agreement (KHSA). The KHSA was amended in November 2016 and calls on the Corporation to assume ownership of the Klamath River's four lower hydroelectric dams in order to decommission them. Signatories of the KHSA include the States of California and Oregon, local governments, Tribal nations, dam owner PacifiCorp, irrigators, and several conservation and fishing groups.

The decommissioning project will be funded by PacifiCorp customer surcharges and California Proposition 1 water bond funds. The State of California Natural Resources Agency (CNRA) administers the California bond funds and the Oregon Public Utilities Commission (OPUC), and the California Public Utilities Commission (CPUC) administer the surcharge funds. The project is broken down into phases. The OPUC and CPUC agreements consist of three phases: Phase I - Start up and Planning, Phase II - Development of the "Definite Plan", procurement documents, and regulatory approvals, and Phase III - Deconstructing/Decommissioning. The CNRA agreement specifies two similar phases: Phase I - Start up and Planning, which encompasses similar activities as the OPUC and CPUC Phases I and II, and Phase II - Deconstructing/Decommissioning, which aligns with OPUC and CPUC Phase III. As of June 30, 2018, the Corporation is in Phase II.

A summary of significant accounting policies follows:

Basis of Accounting

The Corporation maintains its records using the accrual method of accounting in accordance with generally accepted accounting principles in the United States of America.

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 the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

KLAMATH RIVER RENEWAL CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Description of Net Assets

The Corporation reports information regarding its financial position and activities according to three classes of net assets as follows:

Unrestricted Net Assets

Unrestricted Net Assets

The portion of net assets that is neither temporarily restricted nor permanently restricted by donors. At June 30, 2018, the Corporation did not have any unrestricted net assets.

Temporarily Restricted Net Assets

The portion of net assets for which use by the Corporation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Corporation.

Permanently Restricted Net Assets

The portion of net assets for which use by the Corporation is limited by donor-imposed stipulations that neither expire by passage of time, nor can otherwise be removed by actions of the Corporation. At June 30, 2018, the Corporation did not have any permanently restricted net assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Corporation considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash and cash equivalents. Risks associated with cash and cash equivalents are mitigated by banking with creditworthy institutions. Such balances with any one institution may, at times, be in excess of federally insured amounts (currently \$250,000 per depositor). The Corporation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Grants and Contributions

The Corporation recognizes all unconditional grants and pledges in the period notified. Conditional promises to give are recognized when the condition on which they depend are substantially met. Amounts that are restricted by the donor/grantor are reported as increases in temporarily restricted net assets or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

KLAMATH RIVER RENEWAL CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable

Accounts receivable consist of balances due from grants. At June 30, 2018, management determined all amounts are fully collectible.

Income Taxes

The Corporation is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code, Section 23701(d). Accordingly, it has not provided for income taxes in these financial statements.

Each year, management considers whether any material tax position the Corporation has taken is more likely than not to be sustained upon examination by the applicable taxing authority. Management believes that any positions the Corporation has taken are supported by substantial authority and, hence, do not need to be measured or disclosed in these financial statements.

Functional Allocation of Expenses

The cost of providing programs and supporting services has been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure through December 4, 2018, which represents the date the financial statements were available to be issued (refer to Note 7).

KLAMATH RIVER RENEWAL CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

2. TEMPORARILY RESTRICTED NET ASSETS

A summary of temporarily restricted funding received during the year is as follows:

Funding Administrator	Balance June 30, 2017	Contributions	Interest Income	Releases	Balance June 30, 2018
CNRA	\$ 24,304,261	\$ -	\$ 47,576	\$ -	\$ 24,351,837
OPUC 1	933,578	-	626	(934,204)	-
OPUC 2	-	23,417,862	15,088	(9,757,999)	13,674,951
CPUC	-	2,428,858	-	(930,622)	1,498,236
Total	\$ 25,237,839	\$ 25,846,720	\$ 63,290	\$ (11,622,825)	\$ 39,525,024

Funding for the project comes from three sources: 1) up to \$249,500,000 will come from a California water bond, 2) up to \$184,000,000 from Oregon Public Utility Commission (OPUC) funds, and 3) up to \$16,000,000 from California Public Utility Commission (CPUC) funds. Through September 30, 2018, \$25,000,000 had been received from CNRA, \$27,465,000 had been received from OPUC and \$2,428,000 had been received from CPUC.

3. CONCENTRATIONS

The Corporation is dependent upon funding from three government agencies (refer to Notes 1 and 2).

4. MANAGEMENT SERVICES

During the year ended June 30, 2018, the Corporation engaged the services of a company to provide management services. These services included Board of Directors' support, technical consulting, project management, communication, and fiscal and administrative activities. As the Corporation grows and matures with more employees, management services may change in scope and type.

KLAMATH RIVER RENEWAL CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

5. LEASE COMMITMENT

On June 16, 2017 the Corporation entered into a two-year lease agreement for office space. Future minimum payments under the non-cancelable operating lease are as follows:

<u>Year ending June 30,</u>	
2019	\$ 54,324
2020	<u>2,085</u>
	<u>\$ 56,409</u>

The Corporation incurred and paid \$32,065 of rental expense for the year June 30, 2018.

6. RISKS AND UNCERTAINTIES

The complexity and scope of the Klamath Dam removal project expose the Corporation to a risk that funds greater than the maximum cost estimate for the project are required. These risks are mitigated by the fact that a recent budget verification determined the most probable estimate of total project cost was \$379,700,000. Committed funds of \$449,500,000 exceed this verified budget by well over \$50,000,000. The Corporation plans to employ a variety of risk management tools and procedures to prevent, and if necessary, correct cost overruns.

7. SUBSEQUENT EVENTS

Subsequent to year end, the Corporation adopted a 401(k) retirement plan (the "Plan"), retroactive to January 1, 2018. The Plan provides for employee deferrals, as well as employer matching and other discretionary contributions, which are determined annually. Effective October 1, 2018, the Corporation elected to contribute a 100% match of employee deferrals up 6% of eligible compensation. Additional discretionary contributions may be made as provided for in the Plan document.