

River Network

Financial Statements and Other Information
as of and for the Year Ended September 30, 2008 and
Report of Independent Accountants

RIVER NETWORK

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REPORT OF INDEPENDENT ACCOUNTANTS

*The Board of Trustees
River Network:*

We have audited the accompanying statement of financial position of River Network as of September 30, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of River Network's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the financial statements of River Network as of September 30, 2007 and, in our report dated January 22, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of River Network's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2008 financial statements referred to above present fairly, in all material respects, the financial position of River Network as of September 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on page 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, which is also the responsibility of management, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

January 16, 2009

RIVER NETWORK

STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2008

(WITH COMPARATIVE AMOUNTS FOR 2007)

	2008	2007
Assets:		
Cash and cash equivalents	\$ 205,721	34,106
Accounts receivable (note 3)	75,064	136,327
Grants and contributions receivable (note 4)	456,196	421,350
Prepaid expenses and other assets	15,864	5,000
Investments (note 5)	350,762	282,338
Long-term deposit	6,240	6,240
Furniture and equipment (note 6)	-	-
Total assets	\$ 1,109,847	885,361
Liabilities:		
Accounts payable and accrued expenses	35,575	27,128
Accrued payroll and related expenses	51,237	35,576
Grants payable	-	20,000
Note payable (note 7)	-	50,000
Deferred revenue	8,855	10,000
Total liabilities	95,667	142,704
Net assets:		
Unrestricted:		
Available for general operations	(159,549)	(306,182)
Designated by Board for permanent reserve (note 8)	343,903	277,378
Total unrestricted	184,354	(28,804)
Temporarily restricted (note 8)	829,826	771,461
Total net assets	1,014,180	742,657
Commitments and contingencies (notes 7, 11, 13, and 14)		
Total liabilities and net assets	\$ 1,109,847	885,361

See accompanying notes to financial statements.

RIVER NETWORK

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2008
(WITH COMPARATIVE TOTALS FOR 2007)

	2008			2007
	Unrestricted	Temporarily restricted	Total	
Revenues, gains and other support:				
Foundation contributions and grants	\$ 60,000	997,866	1,057,866	682,157
Corporate contributions and grants	278,087	74,800	352,887	252,915
Individual and Board contributions	152,349	2,500	154,849	213,991
Government grants	324,745	6,600	331,345	85,452
In-kind contributions	9,751	—	9,751	14,032
Annual River Rally registration revenues	135,615	15,043	150,658	241,229
Partner fees	29,925	—	29,925	26,610
Management and consulting fees	116,623	—	116,623	74,378
Interest income	6,337	—	6,337	6,748
Net appreciation (decline) in the fair value of investments	(40,090)	—	(40,090)	31,235
Other	5,709	—	5,709	9,073
Total revenues and gains	1,079,051	1,096,809	2,175,860	1,637,820
Net assets released from restriction <i>(note 9)</i>	1,038,444	(1,038,444)	—	—
Total revenues, gains and other support	2,117,495	58,365	2,175,860	1,637,820
Expenses <i>(note 10)</i>:				
Program services	1,453,233	—	1,453,233	1,434,861
Supporting services:				
Management and general	267,685	—	267,685	291,891
Fundraising	183,419	—	183,419	173,208
Total supporting services	451,104	—	451,104	465,099
Total expenses	1,904,337	—	1,904,337	1,899,960
Increase (decrease) in net assets	213,158	58,365	271,523	(262,140)
Net assets at beginning of year	(28,804)	771,461	742,657	1,004,797
Net assets at end of year	\$ 184,354	829,826	1,014,180	742,657

See accompanying notes to financial statements.

RIVER NETWORK

STATEMENT OF CASH FLOWS

YEAR ENDED SEPTEMBER 30, 2008
(WITH COMPARATIVE TOTALS FOR 2007)

	2008	2007
Cash flows from operating activities:		
Cash received from contributors, grantors, contractors and others	\$ 2,222,384	1,615,696
Cash received from interest	6,337	6,748
Cash paid to suppliers, employees and others	(1,897,255)	(1,833,580)
Cash paid for interest	(1,337)	(7,929)
Net cash provided by (used in) operating activities	330,129	(219,065)
Cash flows from investing activities:		
Proceeds from the sale of investments	5,460	165,844
Net purchases of investments	(113,974)	(13,615)
Net cash provided by (used in) investing activities	(108,514)	152,229
Cash flows from financing activities:		
Net draws (payments made) on line of credit	(50,000)	50,000
Net cash provided by (used in) financing activities	(50,000)	50,000
Net increase (decrease) in cash and cash equivalents	171,615	(16,836)
Cash and cash equivalents at beginning of year	34,106	50,942
Cash and cash equivalents at end of year	\$ 205,721	34,106

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2008

1. Organization

River Network was incorporated as a nonprofit corporation in the State of Oregon in 1988. Its primary mission is to help people understand, protect and restore rivers and their watersheds.

The organization provides publications, training and consultation to help organize and support local, state and regional watershed conservation organizations; provides state-of-the-art information on both technical and nonprofit organizational development issues; facilitates the sharing of strategies and information within the river conservation community; and helps people learn about river conservation techniques, programs and laws they may employ to protect and restore their rivers and watersheds.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by River Network are described below to enhance the usefulness of the financial statements to the reader.

Basis of Accounting – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

Basis of Presentation – River Network has adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, and SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*. Under these provisions, net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of River Network and changes therein are classified and reported as follows:

- *Unrestricted net assets* – Net assets not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that will be met either by actions of the organization and/or the passage of time.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions – Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Pledges are reported net of an allowance for uncollectible amounts and a discount to the present value of the future cash flows. The allowance is provided based upon management’s judgment including such factors as prior collection history, type of contribution, and nature of fund-raising activity. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

In-Kind Contributions – River Network reports as revenue the fair value of contributed services received where the services require specialized skills, are provided by individuals possessing these skills, and represent services that would have been purchased had they not been donated. In-kind contributions of equipment and other materials are recorded where there is an objective basis upon which to value these contributions and where the contributions are an essential part of River Network’s activities. During the year ended September 30, 2008, River Network received and recorded in-kind materials and Board-related travel expenses valued at \$12,501, including \$2,750 reported under annual rally revenues.

Cash Equivalents – For purposes of the financial statements, River Network considers all liquid investments having initial maturities of three months or less to be cash equivalents.

Investments – Investments are carried at fair market value. Net appreciation (decline) in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (decline) of those investments, is reported in the statement of activities. Interest income is accrued as earned, and reported net of investment advisory fees totaling \$2,746 in 2008. Security transactions are recorded on a trade date basis.

Capital Assets and Depreciation – Generally, furniture and equipment in excess of \$5,000 are capitalized, and reported at cost when purchased and at fair market value when acquired by gift. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, which is generally 5 years.

Revenue Recognition – All contributions and grants are considered available for unrestricted use unless specifically restricted by the donor. Service revenues are recognized at the time services are provided and the revenues are earned.

Grants Awarded – Grants are accrued when awarded by the organization and unconditional. Grants are provided from available resources and in accordance with restrictions imposed by donors.

Concentrations of Credit Risk – The organization’s investments consist primarily of money market funds, corporate and U.S. government bonds, as well as equity securities. These financial instruments may subject the organization to concentrations of credit risk as, from time to time, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation (FDIC), the market value of securities are dependent on the ability of the issuer to honor its contractual commitments, and the investments are subject to changes in market values. At September 30, 2008, the organization held \$140,086 in cash balances in excess of the FDIC insured level. Certain contributions and grants receivable, as well as other receivable may also subject the organization to concentrations of credit risk from time to time.

On October 3, 2008, President George W. Bush signed the Emergency Economic Stabilization Act of 2008, which temporarily raises the basic limit on federal deposit insurance coverage from \$100,000 to \$250,000 per depositor. The temporary increase became effective immediately upon the President's signature. In addition, on October 14, 2008 the FDIC announced that all non-interest bearing transaction deposit accounts will be fully insured for the entire amount in the deposit account. The basic deposit insurance limit will return to \$100,000 after December 31, 2009.

Income Taxes – The organization is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law.

Summarized Financial Information for 2007 – The accompanying financial information as of and for the year ended September 30, 2007 is presented for comparative purposes only and is not intended to represent a complete financial statement presentation.

Other Significant Accounting Policies – Other significant accounting policies are set forth in the financial statements and the following notes.

3. Accounts Receivable

Accounts receivable at September 30, 2008 are summarized as follows:

Environmental Protection Agency	\$	53,166
Other		21,898
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Total	\$	75,064
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4. Grants and Contributions Receivable

Grants and contributions receivable are summarized as follows at September 30, 2008:

<i>Unconditional promises</i>	
<i>expected to be collected in:</i>	
Less than one year	\$ 335,530
One year to five years	125,000
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	460,530
Less discount ¹	(4,334)
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	\$ 456,196
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¹Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 1.8%.

At September 30, 2008, the organization was also the beneficiary of a \$300,000 corporate sponsorship grant which was subject to various conditions and performance obligations that are expected to be fulfilled over the next three years. In addition, at September 30, 2008, the organization had access to an additional \$366,785 in government grants, the receipt of which was conditioned upon the incurrence of allowable costs. These grants have not been included in the accompanying financial statements because the associated conditions had not been satisfied as of September 30, 2008.

5. Investments

The following is a summary of investments held at September 30, 2008:

Domestic common stocks	\$ 136,542
Corporate fixed income securities	97,866
U.S. government securities	11,260
Money market funds	105,094
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	\$ 350,762

Investments in common stocks are reported at fair market value as quoted on major stock exchanges. Fixed income instruments are reported at quoted market prices. Investments in equity and fixed income funds, and mutual funds are valued at quoted values by the issuers.

Investment performance for all accounts managed under investment agreements are reviewed periodically by River Network's finance committee and Board of Trustees.

Changes in Investment Valuation Subsequent to September 30, 2008

Subsequent to September 30, 2008, a number of external factors combined to create unprecedented volatility in the world's credit and financial markets. In turn, these events have raised the risks and uncertainties associated with management and valuation of the organization's investment portfolio. Although there were significant changes in the quoted market prices of the investment securities held by the organization during the period subsequent to September 30, 2008, management believes that these changes do not represent a permanent impairment of the true value of its investments

6. Furniture and Equipment

A summary of furniture and equipment at September 30, 2008, is as follows:

Furniture and equipment	\$ 70,993
Less accumulated depreciation	(70,993)
	<hr/>
	\$ -

7. Line of Credit

The organization maintains a line of credit secured by all business assets for up to a total of \$75,000, bearing interest at prime plus 1.5% (6.5% at September 30, 2008). At September 30, 2008, no balance was outstanding under this agreement.

8. Restrictions and Limitations on Net Asset Balances

Board-Designated Net Assets

As of September 30, 2008, the organization's Board of Trustees had designated \$343,903 of the organization's unrestricted net assets as a permanent reserve for long-term investment.

Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30, 2008 represent contributions, grants, and other unexpended revenues and gains restricted by donors for the following:

Building Citizen Capacity for Freshwater Protection	\$ 411,250
Other programs	393,546
Future periods	25,030
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	\$ 829,826

9. Net Assets Released from Restrictions

During the year ended September 30, 2008, River Network incurred \$1,038,444 in expenses in satisfaction of the restricted purposes specified by donors, or otherwise satisfied the restrictions by the occurrence of other events.

10. Expenses

The costs of providing the various programs and other activities of the organization have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

11. Operating Lease

Future minimum rental payments required under operating leases for office space, and for various office equipment, that have terms in excess of one year, at September 30, 2008, are as follows:

<i>Years ending September 30,</i>	
2009	\$ 83,832
2010	84,797
2011	86,484
2012	60,700
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	\$ 315,813

Rent expense for office space and office equipment for the year ended September 30, 2008 totaled \$82,612.

12. Retirement Plan

River Network maintains a Simplified Employee Pension ("SEP") Individual Retirement Account Contribution Agreement as provided under Section 408(k) of the Internal Revenue Code, and a §403(b)(7) Tax-Shelter Annuity ("TSA"). All permanent employees 18 years of age and older and with at least four months of employment are eligible to participate in the plans. Employee contributions under the TSA are discretionary and may not exceed 15.0% of the employee's total compensation. River Network makes annual elective contributions to the SEP. For the year ending September 30, 2008, the organization elected to make a contribution equal to 4.0% (1.0% in the prior year) of total participating employee's compensation. Contributions to the plan totaled \$30,160 for the year ended September 30, 2008.

Subsequent to September 30, 2008, the TSA and SEP plans were converted to a §401(k) retirement plan.

13. Other Commitments

At September 30, 2008, the organization had awarded \$112,534 in grants to other organizations which are conditioned upon the recipient organization incurring allowable costs. These grants have not been included in the accompanying financial statements because the associated conditions had not been satisfied as of September 30, 2008.

14. Contingencies

Amounts received or receivable under governmental contracts are subject to audit and adjustment by the contracting agencies. Any expenditures or claims disallowed as a result of such audits would become a liability of the organization's general operating funds. In the opinion of the organization's management, any adjustments that might result from such audits would not be material to the organization's overall financial statements.

15. Statement of Cash Flow Reconciliation

The following presents a reconciliation of the increase in net assets (as reported on the statement of activities) to net cash provided by operating activities (as reported on the statement of cash flows):

Increase in net assets	\$ 271,523
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<i>Adjustments to reconcile increase in net assets to net cash provided by operating activities:</i>	
Net decline in the fair value of investments	40,090
<i>Net changes in:</i>	
Accounts receivable	61,263
Grants and contributions receivable	(34,846)
Prepaid expenses and other assets	(10,864)
Accounts payable and accrued expenses	8,447
Accrued payroll and related expenses	15,661
Grants payable	(20,000)
Deferred revenue	(1,145)
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Total adjustments	58,606
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Net cash provided by operating activities	\$ 330,129
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16. New Accounting Standards

The following new accounting standards may affect the organization's financial statements in future years.

- Statement of Financial Accounting Standards No. 157 ("SFAS No. 157"), *Fair Value Measurements*, was issued by the Financial Accounting Standards Board ("FASB") in September of 2006. This standard defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the U.S., and expands disclosures about fair value measurements. The pronouncement applies under other accounting standards that require or permit fair value measurements. Accordingly, this statement does not require any new fair value measurements. The statement is effective for years beginning after November 15, 2007; the organization will be required to adopt SFAS No. 157 during the year ended September 30, 2009. Management is currently evaluating the requirements of SFAS No. 157 and has not yet determined the effect on the organization's financial statements.



RIVER NETWORK

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2008
(WITH COMPARATIVE TOTALS FOR 2007)

	2008				Total	Total	2007
	Program services	Management and general	Fund-raising	Total			
Salaries	\$ 618,085	160,836	101,433	262,269	880,354	786,673	
Payroll taxes and benefits	144,971	19,755	40,069	59,824	204,795	178,508	
Grants	99,793	—	—	—	99,793	55,543	
Professional services	153,865	47,505	5,500	53,005	206,870	136,282	
Printing and publications	16,531	886	275	1,161	17,692	16,219	
Supplies	9,364	11,779	3,417	15,196	24,560	26,233	
Meeting expenses	64	11,238	—	11,238	11,302	6,656	
Travel	68,967	3,218	2,035	5,253	74,220	41,259	
Telephone	8,296	13,400	—	13,400	21,696	21,331	
Office equipment and repair	—	6,305	—	6,305	6,305	4,462	
Postage and shipping	4,991	1,937	1,759	3,696	8,687	10,578	
Program materials	3,500	—	2,563	2,563	6,063	647	
Occupancy	—	61,085	—	61,085	61,085	60,569	
Equipment lease	—	21,527	—	21,527	21,527	16,855	
Dues and fees	3,092	13,953	2,079	16,032	19,124	27,485	
Insurance	—	4,715	—	4,715	4,715	8,812	
River Rally expenses	192,133	—	—	—	192,133	465,837	
Training costs	1,029	4,208	85	4,293	5,322	2,281	
Depreciation	—	—	—	—	—	1,821	
Interest	—	1,337	—	1,337	1,337	7,929	
Bad debt expense	—	9,900	—	9,900	9,900	—	
Other	1,075	17,668	8,114	25,782	26,857	23,980	
Total expenses before indirect cost allocation	1,325,756	411,252	167,329	578,581	1,904,337	1,899,960	
Indirect cost allocation	127,477	(143,567)	16,090	(127,477)	—	—	
Total expenses	\$ 1,453,233	267,685	183,419	451,104	1,904,337	1,899,960	

RIVER NETWORK

GOVERNING BOARD AND MANAGEMENT

AS OF DECEMBER 31, 2008

Board of Trustees

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The Pomperaug River Watershed
Coalition, Inc.
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Charles River Watershed
Association
Weston, Massachusetts

Management

Ezra Milchman
President/Chief Executive Officer

Susan Schwartz
Chief Administrative Officer

RIVER NETWORK

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