



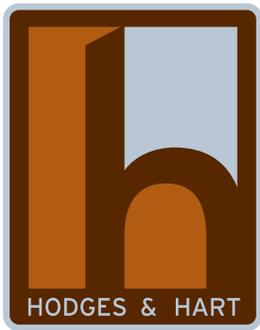
**Audited Financial Statements**

FOR THE YEARS ENDED  
December 31, 2011 and 2010

# THE FRESHWATER TRUST

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Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

### **Board of Directors** The Freshwater Trust

We have audited the accompanying statements of financial position of The Freshwater Trust (a nonprofit organization) as of December 31, 2011 and 2010, and the related statements of activities, functional expenditures, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Freshwater Trust as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2012, on our consideration of The Freshwater 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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of The Freshwater Trust taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Hodges & Hart, LLC". The script is cursive and fluid.

Hodges & Hart, LLC  
Certified Public Accountants

May 7, 2012  
Portland, Oregon

THE FRESHWATER TRUST  
**Statements of Financial Position**  
December 31, 2011 and 2010

**ASSETS**

|                             | <b>2011</b>         | <b>2010</b>         |
|-----------------------------|---------------------|---------------------|
| Current Assets:             |                     |                     |
| Cash and cash equivalents   | \$ 621,481          | \$ 351,031          |
| Grants receivable           | 510,716             | 342,956             |
| Prepaid expenses            | 15,706              | 2,742               |
| Deposits                    | 16,271              | 7,413               |
| Miscellaneous receivable    | -                   | 527                 |
| Total Current Assets        | 1,164,174           | 704,669             |
| Investments:                |                     |                     |
| Unrestricted                | 15,021              | 15,500              |
| Temporarily restricted      | -                   | 217,770             |
| Endowments                  | 79,090              | 81,805              |
| Total Long-Term Investments | 94,111              | 315,075             |
| Property and Equipment, net | 48,302              | 53,152              |
| StreamBank software         | 769,174             | 667,277             |
| Water rights interest       | 944,674             | 226,909             |
| Total Assets                | <u>\$ 3,020,435</u> | <u>\$ 1,967,082</u> |

**LIABILITIES AND NET ASSETS**

|                                   |                     |                     |
|-----------------------------------|---------------------|---------------------|
| Current Liabilities:              |                     |                     |
| Accounts payable                  | \$ 406,889          | \$ 113,305          |
| Line of credit                    | 74,803              | -                   |
| Payroll liabilities               | 33,014              | 31,112              |
| Pension obligation                | 14,426              | 15,015              |
| Total Current Liabilities         | 529,132             | 159,432             |
| Other liabilities:                |                     |                     |
| Deferred revenue                  | 50,000              | 7,750               |
| Total Liabilities                 | 579,132             | 167,182             |
| Net Assets:                       |                     |                     |
| Unrestricted net assets           | 1,681,006           | 811,379             |
| Temporarily restricted net assets | 681,207             | 906,716             |
| Permanently restricted net assets | 79,090              | 81,805              |
| Total Net Assets                  | 2,441,303           | 1,799,900           |
| Total Liabilities and Net Assets  | <u>\$ 3,020,435</u> | <u>\$ 1,967,082</u> |

The accompanying notes are an integral part of these financial statements.

THE FRESHWATER TRUST  
**Statement of Activities**  
Year Ended December 31, 2011

|  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Revenues, gains and other support:   |                     |                                   |                                   |                     |
| Grants and contributions   | \$ 153,198          | \$ 3,168,283                      | \$ -                              | \$ 3,321,481        |
| Individual giving  | 236,741             | 35,163                            | -                                 | 271,904             |
| Special events income  | 440,040             | -                                 | -                                 | 440,040             |
| In-kind donations  | 114,218             | -                                 | -                                 | 114,218             |
| Interest income  | 111                 | 1,462                             | 428                               | 2,001               |
| Realized gain (loss) on investments  | (19)                | 10,517                            | (108)                             | 10,390              |
| Unrealized gain (loss) on investments  | (535)               | (9,814)                           | (3,035)                           | (13,384)            |
| Sales and other revenues   | 495                 | 200,000                           | -                                 | 200,495             |
| Total revenues, gains and other support  | <u>944,249</u>      | <u>3,405,611</u>                  | <u>(2,715)</u>                    | <u>4,347,145</u>    |
| Net assets released from restrictions  | <u>3,631,120</u>    | <u>(3,631,120)</u>                | <u>-</u>                          | <u>-</u>            |
| Total revenues, gains, other support and net assets released from restrictions | <u>4,575,369</u>    | <u>(225,509)</u>                  | <u>(2,715)</u>                    | <u>4,347,145</u>    |
| Expenses   |                     |                                   |                                   |                     |
| Program services   | 3,428,032           | -                                 | -                                 | 3,428,032           |
| Special events expenses  | 243,029             | -                                 | -                                 | 243,029             |
| Development expenses   | 249,786             | -                                 | -                                 | 249,786             |
| General and administrative   | 604,558             | -                                 | -                                 | 604,558             |
| Total Expenses   | <u>4,525,405</u>    | <u>-</u>                          | <u>-</u>                          | <u>4,525,405</u>    |
| Change in Net Assets   | 49,964              | (225,509)                         | (2,715)                           | (178,260)           |
| Net Assets, Beginning of Year  | 811,379             | 906,716                           | 81,805                            | 1,799,900           |
| Assets purchased with restricted donations:                                    |                     |                                   |                                   |                     |
| StreamBank software  | 101,898             | -                                 | -                                 | 101,898             |
| Jacobs permanent water right interest  | <u>717,765</u>      | <u>-</u>                          | <u>-</u>                          | <u>717,765</u>      |
| Net Assets, End of year  | <u>\$ 1,681,006</u> | <u>\$ 681,207</u>                 | <u>\$ 79,090</u>                  | <u>\$ 2,441,303</u> |

The accompanying notes are an integral part of these financial statements.

THE FRESHWATER TRUST  
**Statement of Activities**  
Year Ended December 31, 2010

|   | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Revenues, gains and other support:  |                     |                                   |                                   |                     |
| Grants and contributions  | \$ 111,636          | \$ 3,168,452                      | \$ -                              | \$ 3,280,088        |
| Individual giving   | 149,709             | 10,000                            | -                                 | 159,709             |
| Golf tournament and auction income  | 387,173             | -                                 | -                                 | 387,173             |
| In-kind donations   | 50,887              | 193,518                           | -                                 | 244,405             |
| Interest income   | 339                 | 3,219                             | 248                               | 3,806               |
| Realized gain (loss) on investments   | 175                 | (15,004)                          | 1,446                             | (13,383)            |
| Unrealized gain (loss) on investments   | 1,289               | 17,827                            | 7,389                             | 26,505              |
| Sales and other revenues  | 10,817              | 21,853                            | -                                 | 32,670              |
| Total revenues, gains and other support   | <u>712,025</u>      | <u>3,399,865</u>                  | <u>9,083</u>                      | <u>4,120,973</u>    |
| Net assets released from restrictions   | <u>3,228,113</u>    | <u>(3,228,113)</u>                | <u>-</u>                          | <u>-</u>            |
| Total revenues, gains, other support and<br>net assets released from restrictions | <u>3,940,138</u>    | <u>171,752</u>                    | <u>9,083</u>                      | <u>4,120,973</u>    |
| Expenses  |                     |                                   |                                   |                     |
| Program services  | 3,200,489           | -                                 | -                                 | 3,200,489           |
| Special events expenses   | 229,068             | -                                 | -                                 | 229,068             |
| Development expenses  | 257,480             | -                                 | -                                 | 257,480             |
| General and administrative  | 547,264             | -                                 | -                                 | 547,264             |
| Total Expenses  | <u>4,234,301</u>    | <u>-</u>                          | <u>-</u>                          | <u>4,234,301</u>    |
| Change in Net Assets  | (294,163)           | 171,752                           | 9,083                             | (113,328)           |
| Net Assets, Beginning of Year   | 1,096,179           | 734,964                           | 81,431                            | 1,912,574           |
| Assets purchased with restricted donations  | 654                 | -                                 | -                                 | 654                 |
| Assets released from permanent restriction  | <u>8,709</u>        | <u>-</u>                          | <u>(8,709)</u>                    | <u>-</u>            |
| Net Assets, End of year   | <u>\$ 811,379</u>   | <u>\$ 906,716</u>                 | <u>\$ 81,805</u>                  | <u>\$ 1,799,900</u> |

The accompanying notes are an integral part of these financial statements.

THE FRESHWATER TRUST  
**Statement of Functional Expenses**  
Year Ended December 31, 2011

|   | Program Services  |                     |                  |                     | Support Services  |                   |                          | Total Expenses      |
|---|-------------------|---------------------|------------------|---------------------|-------------------|-------------------|--------------------------|---------------------|
|   | Education         | Conservation        | Membership       | Total               | Special Events    | Development       | General & Administration |                     |
| Payroll and related costs                 | \$ 5,248          | \$ 819,215          | \$ 36,756        | \$ 861,219          | \$ 50,640         | \$ 179,745        | \$ 383,053               | \$ 1,474,657        |
| Advertising and promotion                 | -                 | 5,509               | 650              | 6,159               | -                 | 11,790            | 3,630                    | 21,579              |
| Acquisition expenses                      | -                 | -                   | -                | -                   | 159,456           | -                 | -                        | 159,456             |
| Contracted services                       | 80,025            | 1,072,052           | -                | 1,152,077           | -                 | -                 | 1,500                    | 1,153,577           |
| Bank charges                              | -                 | -                   | 626              | 626                 | -                 | 336               | 1,092                    | 2,054               |
| Dues and subscriptions                    | 1,050             | 3,015               | -                | 4,065               | -                 | 2,181             | 2,362                    | 8,608               |
| Meetings and education                    | -                 | 9,331               | -                | 9,331               | -                 | 3,553             | 1,345                    | 14,229              |
| Insurance                                 | -                 | -                   | -                | -                   | -                 | -                 | 9,099                    | 9,099               |
| Interest                                  | -                 | -                   | -                | -                   | -                 | -                 | 2,769                    | 2,769               |
| Licenses, taxes and fees                  | -                 | 1,774               | -                | 1,774               | -                 | 324               | 1,208                    | 3,306               |
| School field trips                        | 1,032             | -                   | -                | 1,032               | -                 | -                 | -                        | 1,032               |
| Supplies                                  | 1,832             | 16,668              | -                | 18,500              | -                 | 249               | 10,515                   | 29,264              |
| Gifts and promotion                       | -                 | 5                   | 1,557            | 1,562               | -                 | 3,378             | 4,576                    | 9,516               |
| Telephone                                 | 851               | 4,615               | -                | 5,466               | -                 | 107               | 16,071                   | 21,644              |
| Postage and shipping                      | -                 | 193                 | 382              | 575                 | -                 | 368               | 7,070                    | 8,013               |
| Professional services                     | 9,213             | 73,419              | -                | 82,632              | -                 | -                 | 45,347                   | 127,979             |
| Printing and publishing                   | -                 | 2,144               | 904              | 3,048               | -                 | 4,153             | 20,509                   | 27,710              |
| Meals and entertainment                   | -                 | 5,573               | 3,724            | 9,297               | -                 | 2,009             | 12,929                   | 24,235              |
| Travel                                    | 2,077             | 86,560              | 1,855            | 90,492              | -                 | 3,174             | 4,990                    | 98,656              |
| Equipment and maintenance                 | -                 | 456                 | -                | 456                 | -                 | -                 | 24,362                   | 24,818              |
| Occupancy                                 | 3,250             | 58,049              | -                | 61,299              | -                 | 38,419            | 28,809                   | 128,527             |
| Depreciation                              | -                 | -                   | -                | -                   | -                 | -                 | 20,835                   | 20,835              |
| In-kind donations                         | 341               | 82,208              | -                | 82,549              | 29,183            | -                 | 2,487                    | 114,219             |
| Bad debt                                  | -                 | -                   | -                | -                   | 3,750             | -                 | -                        | 3,750               |
| Water acquisition fees and lease payments | -                 | 1,035,873           | -                | 1,035,873           | -                 | -                 | -                        | 1,035,873           |
| <b>Total Expenses</b>                     | <b>\$ 104,919</b> | <b>\$ 3,276,659</b> | <b>\$ 46,454</b> | <b>\$ 3,428,032</b> | <b>\$ 243,029</b> | <b>\$ 249,786</b> | <b>\$ 604,558</b>        | <b>\$ 4,525,405</b> |

The accompanying notes are an integral part of these financial statements.

THE FRESHWATER TRUST  
**Statement of Functional Expenses**  
Year Ended December 31, 2010

|   | Program Services         |                            |                         |                            | Support Services         |                          |                          | Total Expenses             |
|---|--------------------------|----------------------------|-------------------------|----------------------------|--------------------------|--------------------------|--------------------------|----------------------------|
|   | Education                | Conservation               | Membership              | Total                      | Special Events           | Development              | General & Administration |                            |
| Payroll and related costs                 | \$ 247,537               | \$ 757,466                 | \$ 43,844               | \$ 1,048,847               | \$ 40,500                | \$ 201,760               | \$ 314,172               | \$ 1,605,279               |
| Advertising and promotion                 | 384                      | 2,518                      | 8,140                   | 11,042                     | -                        | 12,102                   | 11,522                   | 34,666                     |
| Acquisition expenses                      | 27,860                   | -                          | 1,239                   | 29,099                     | 150,184                  | 5,457                    | 7                        | 184,747                    |
| Contracted services                       | 92,195                   | 980,571                    | -                       | 1,072,766                  | -                        | 2,804                    | 1,150                    | 1,076,720                  |
| Bank charges                              | -                        | 2                          | 87                      | 89                         | -                        | 282                      | 2,676                    | 3,047                      |
| Dues and subscriptions                    | 170                      | 352                        | 25                      | 547                        | -                        | 1,547                    | 2,247                    | 4,341                      |
| Meetings and education                    | 4,951                    | 3,503                      | 40                      | 8,494                      | -                        | 1,811                    | 607                      | 10,912                     |
| Insurance                                 | -                        | 1,890                      | -                       | 1,890                      | -                        | -                        | 7,038                    | 8,928                      |
| Licenses, taxes and fees                  | -                        | 821                        | 161                     | 982                        | -                        | -                        | 732                      | 1,714                      |
| School field trips                        | 35,994                   | -                          | -                       | 35,994                     | -                        | -                        | -                        | 35,994                     |
| Supplies                                  | 22,432                   | 160,198                    | 1,899                   | 184,529                    | -                        | 203                      | 10,493                   | 195,225                    |
| Gifts and promotion                       | 159                      | 203                        | 1,824                   | 2,186                      | -                        | 743                      | 4,512                    | 7,441                      |
| Telephone                                 | 4,166                    | 6,221                      | -                       | 10,387                     | -                        | 882                      | 22,523                   | 33,792                     |
| Postage and shipping                      | 366                      | 550                        | 4,055                   | 4,971                      | 173                      | 378                      | 6,457                    | 11,979                     |
| Professional services                     | 22,462                   | 4,560                      | -                       | 27,022                     | -                        | 1,380                    | 49,015                   | 77,417                     |
| Printing and publishing                   | 4,390                    | 839                        | 2,589                   | 7,818                      | 3                        | 724                      | 26,419                   | 34,964                     |
| Meals and entertainment                   | 2,183                    | 6,294                      | 16,825                  | 25,302                     | 5                        | 3,697                    | 5,909                    | 34,913                     |
| Travel                                    | 13,511                   | 71,704                     | 2,282                   | 87,497                     | 359                      | 3,738                    | 4,221                    | 95,815                     |
| Equipment and maintenance                 | 3,072                    | 5,055                      | -                       | 8,127                      | -                        | 112                      | 19,319                   | 27,558                     |
| Occupancy                                 | 21,580                   | 71,411                     | -                       | 92,991                     | -                        | 19,860                   | 21,964                   | 134,815                    |
| Depreciation                              | -                        | -                          | -                       | -                          | -                        | -                        | 23,238                   | 23,238                     |
| In-kind donations                         | 105,653                  | 87,865                     | -                       | 193,518                    | 37,844                   | -                        | 13,043                   | 244,405                    |
| Bad debt                                  | -                        | -                          | -                       | -                          | -                        | -                        | -                        | -                          |
| Water acquisition fees and lease payments | -                        | 346,391                    | -                       | 346,391                    | -                        | -                        | -                        | 346,391                    |
| <b>Total Expenses</b>                     | <b><u>\$ 609,065</u></b> | <b><u>\$ 2,508,414</u></b> | <b><u>\$ 83,010</u></b> | <b><u>\$ 3,200,489</u></b> | <b><u>\$ 229,068</u></b> | <b><u>\$ 257,480</u></b> | <b><u>\$ 547,264</u></b> | <b><u>\$ 4,234,301</u></b> |

The accompanying notes are an integral part of these financial statements.

**THE FRESHWATER TRUST**  
**Statements of Cash Flows**  
Years Ended December 31, 2011 and 2010

|   | <u>2011</u>       | <u>2010</u>       |
|---|-------------------|-------------------|
| Cash Flows from Operating Activities:   |                   |                   |
| Decrease in net assets  | (178,260)         | \$ (113,328)      |
| Adjustments to reconcile change in net assets<br>to net cash used in operating activities |                   |                   |
| Depreciation and amortization   | 20,835            | 23,238            |
| Net unrealized and realized (gain)/loss on investments                                    | 2,994             | (13,122)          |
| (Increase) decrease in current assets:  |                   |                   |
| Grants and contributions receivable   | (167,760)         | (190,712)         |
| Prepaid expenses  | (12,964)          | 7,964             |
| Deposits  | (8,858)           | (700)             |
| Water rights receivable   | -                 | 30,000            |
| Miscellaneous receivable  | 527               | 150               |
| Increase (decrease) in current liabilities:   |                   |                   |
| Accounts payable  | 293,584           | 34,939            |
| Accrued expenses  | 1,902             | (3,648)           |
| Pension obligation  | (589)             | 1,629             |
| Deferred revenue  | <u>42,250</u>     | <u>250</u>        |
| Net Cash Used by Operating Activities   | <u>(6,339)</u>    | <u>(223,340)</u>  |
| Cash Flows from Investing Activities:   |                   |                   |
| Purchases of property and equipment   | (15,984)          | (6,724)           |
| Proceeds from sale of investments   | <u>217,970</u>    | <u>99,198</u>     |
| Net Cash Provided by Investing Activities   | <u>201,986</u>    | <u>92,474</u>     |
| Cash Flows from Financing Activities  |                   |                   |
| Proceeds from line of credit  | <u>74,803</u>     | <u>-</u>          |
| Net Cash Provided by Financing Activities   | <u>74,803</u>     | <u>-</u>          |
| Net Increase (Decrease) in Cash   | 270,450           | (130,866)         |
| Cash Balance Beginning of Period  | <u>351,031</u>    | <u>481,897</u>    |
| Cash Balance End of Period  | <u>\$ 621,481</u> | <u>\$ 351,031</u> |
| Supplemental Disclosures of Cash Flow Information   |                   |                   |
| Cash paid for line of credit interest   | <u>\$ 2,769</u>   | <u>\$ 194</u>     |

The accompanying notes are an integral part of these financial statements.

THE FRESHWATER TRUST  
**NOTES TO THE FINANCIAL STATEMENTS**  
For The Years Ended December 31, 2011 and 2010

**NOTE 1 - ORGANIZATION**

The Freshwater Trust is a statewide non-profit organization headquartered in Portland, Oregon with satellite offices in Bend and Corvallis. The Freshwater Trust takes a holistic approach to restoring freshwater ecosystems - from restoring a river's architecture to working with landowners to keep more water in rivers to educating children on the importance of freshwater conservation.

The Freshwater Trust was established in 2009 through a merger of Oregon Trout and Oregon Water Trust. Founded in 1983 by a group of flyfishing conservationists, Oregon Trout started the wild fish discussion in the Pacific Northwest, working to protect and restore native fish and their ecosystems. Oregon Water Trust was founded in 1993 to work cooperatively with water users to keep more water in landowners' rivers and streams. Oregon Water Trust was the first water trust in the United States.

While remaining true to both organizations' original missions, the merger allows The Freshwater Trust to address form, flow and function at the same time - creating an integrated and more effective approach freshwater health.

During the years ended December 31, 2011 and 2010, the Organization incurred program expenses in the following major categories:

**Education** - Programs designed to educate students on the importance of healthy rivers and streams, including, the Salmon Watch program for youth, designed to teach watershed and salmon stewardship. At the end of 2010, the Organization elected to discontinue this program.

**Habitat** - The Freshwater Trust works with landowners to protect and restore native fish and watersheds through a variety of projects related to habitat. The Organization monitors the issuance of water rights to the public. This is an oversight function to ensure public officials are being cognizant of who receives the privilege of water rights. The Organization is dedicated to providing technical assistance outreach to local community stream restoration activities statewide. As part of this program, the Organization acquires water rights through gift, lease or purchase and commits those rights to instream flows in order to conserve fisheries and aquatic habitat and to enhance regional values and the ecological health of water courses.

**Membership Expansion** - Program designed to increase dues paying members and expand public awareness of The Freshwater Trust.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting** - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

THE FRESHWATER TRUST  
**NOTES TO THE FINANCIAL STATEMENTS**  
For The Years Ended December 31, 2011 and 2010

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation** - The Organization has adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 958-605-25 "Revenue Recognition" and FASB ASC No. 958-205 "Presentation of Financial Statements." These provisions establish standards for external financial reporting by not-for-profit organizations and require that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. A description of the three net asset categories follows:

*Unrestricted net assets* - Net assets not subject to donor-imposed restrictions.

*Temporarily restricted net assets* - Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization and/or the passage of time.

*Permanently restricted net assets* - Net assets restricted by donors to be maintained in perpetuity. Generally, income earned on such funds is unrestricted or temporarily restricted based on donor stipulations.

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

**Cash Equivalents** - For financial statement purposes, the Organization considers all liquid investments having initial maturities of three months or less to be cash equivalents.

**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 market value.

**Contributions of Long-Lived Assets** - Contributions of furniture and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire furniture and equipment with such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

THE FRESHWATER TRUST  
**NOTES TO THE FINANCIAL STATEMENTS**  
For The Years Ended December 31, 2011 and 2010

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Property and Equipment** - Purchased property and equipment is recorded at its cost of acquisition. Donated property is recorded at its estimated fair market value. Property and equipment additions in excess of \$500 are capitalized. Depreciation is provided on a straight-line basis over the estimated useful lives of 5 to 7 years.

**Income Taxes** - The Organization is exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code. No provision for income taxes has been made in the accompanying statements.

Accounting principles require management to evaluate tax positions taken by the organization and recognize a tax liability (or asset) if the organization has taken an uncertain position that more than likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the organization, and has concluded that as of December 31, 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

The organization is subject to routine audits by taxing jurisdictions; however there are currently no audits for any tax periods in progress. Management believes the organization is no longer subject to income tax examinations for years prior to 2007.

**Investments** - Investments in securities are presented in the financial statements at market value, with the resulting realized and unrealized gains and losses included in the statement of activities. Market value is determined by the quoted market price at the date of the statement of financial position. Security transactions and related expenses are accounted for on a trade-date basis. Investment expense incurred for the for years ended December 31, 2011 and 2010 was \$852 and \$2,000, respectively.

**Fair Value of Financial Instruments** - Financial instruments are composed of cash, investments, accounts/grants/pledges receivable, water rights, accounts payable and accrued liabilities, the carrying value of which approximates fair market value.

**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. Membership payments received from Organization members are considered equivalent to unrestricted contributions and are recognized as revenue when received.

THE FRESHWATER TRUST  
**NOTES TO THE FINANCIAL STATEMENTS**  
For The Years Ended December 31, 2011 and 2010

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Software development costs** - Cost to develop software programs to be used solely for internal needs have been accounted for in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 350-40 "Internal -Use Software". Costs incurred during the application development stage for software programs to be used solely for internal needs were capitalized and will be amortized over their useful life once the software is substantially complete and ready for its intended use.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

**Subsequent Events** - Management has evaluated subsequent events through May 7, 2012, the date the financial statements were available to be issued.

**NOTE 3 - CONCENTRATION OF CREDIT RISK**

Financial instruments, which potentially expose the Organization to concentrations of credit risk, consist primarily of cash and cash equivalents. Cash is deposited with institutions insured by the Federal Deposit Insurance Corporation (FDIC) and at times during the year exceeded the FDIC limits. At December 31, 2011 and 2010, cash balances exceed federally insured limits by \$380,095 and \$37,123, respectively.

The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

**NOTE 4 - INVESTMENT IN PERPETUAL TRUST**

In 1996 the Organization established the Oregon Trout Endowment Fund at the Oregon Community Foundation (the Foundation). The Organization intends to grow the balance of this fund to \$100,000 before beginning to draw on investment income and appreciation. At December 31, 2011 and 2010, the fair value of the assets in this fund totaled \$79,090 and \$81,805, respectively. As a component fund of the Foundation, the fund is invested and managed by the foundation and only investment income and appreciation will be made available to The Freshwater Trust in the future.

THE FRESHWATER TRUST  
**NOTES TO THE FINANCIAL STATEMENTS**  
For The Years Ended December 31, 2011 and 2010

**NOTE 5 - FAIR VALUE MEASUREMENTS**

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 820-10 "Fair Value Measurements", establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC No. 820-10 are described below:

|         |   |
|---------|---|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access. |
|---------|---|

|         |  |
|---------|--|
| Level 2 | Inputs to the valuation method include: <ul style="list-style-type: none"><li>* Quoted prices for similar assets or liabilities in active markets;</li><li>* Quoted prices for identical or similar assets or liabilities in inactive markets;</li><li>* Inputs other than quoted prices that are observable for the asset or liability;</li><li>* Inputs that are derived principally from or corroborated by observable market data by correlation or other means.</li></ul> |
|---------|--|

If the asset or liability has a specified (contractual term), the Level 2 input must be observable for substantially the full term of the asset or liability.

|         |   |
|---------|---|
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement. |
|---------|---|

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

THE FRESHWATER TRUST  
**NOTES TO THE FINANCIAL STATEMENTS**  
For The Years Ended December 31, 2011 and 2010

**NOTE 5 - FAIR VALUE MEASUREMENTS (CONTINUED)**

Following is a description of the valuation methodologies used for assets measured at fair value.

*Money market funds:* Valued at the stated value of the instrument.

*Mutual funds:* Valued at the net asset value ("NAV") of shares held at year end.

*Securities:* Valued at the closing price reported on the active market on which the individual securities are traded.

*Fixed Income:* Valued at the closing price reported on the active market on which the individual issues are traded.

*StreamBank software:* Valued at the historical cost incurred to develop the software.

Investment accounts consisting of publicly traded equities and mutual funds are recorded at fair market value based on current quoted market prices provided primarily by custodians. Investments in fixed income accounts are recorded at fair value provided primarily by custodians and are based on pricing models that incorporate available trade, bid and other market information.

Quoted market prices are not available for certain investments. These investments are recorded at their estimated fair market value; therefore, the reported value may differ from the value that would have been used had a quoted market price existed. As described in Note 4, the Organization maintains an endowment fund with the Oregon Community Foundation. The Oregon Community Foundation believes that the reported amounts for these investments are a reasonable estimate of their fair value at December 31, 2011 and 2010.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Management believes its valuation methods are appropriate and consistent, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

THE FRESHWATER TRUST  
**NOTES TO THE FINANCIAL STATEMENTS**  
For The Years Ended December 31, 2011 and 2010

**NOTE 5 - FAIR VALUE MEASUREMENTS (CONTINUED)**

|                            | Assets at Fair Value as of December 31, 2011 |             |                   |                   |
|----------------------------|--|-------------|-------------------|-------------------|
|                            | Level 1                                      | Level 2     | Level 3           | Total             |
| * Other investments        | -  | -           | 94,111            | 94,111            |
| StreamBank software        | -  | -           | 769,174           | 769,174           |
| Total assets at fair value | <u>\$ -</u>                                  | <u>\$ -</u> | <u>\$ 863,285</u> | <u>\$ 863,285</u> |

\* Investments held/managed by the Oregon Community Foundation (see note 4).

|                            | Assets at Fair Value as of December 31, 2010 |             |                   |                   |
|----------------------------|--|-------------|-------------------|-------------------|
|                            | Level 1                                      | Level 2     | Level 3           | Total             |
| Money market funds         | \$ 92,706                                    | \$ -        | \$ -              | \$ 92,706         |
| Mutual funds               | 10,375                                       | -           | -                 | 10,375            |
| Fixed Income               | 114,689                                      | -           | -                 | 114,689           |
| * Other investments        | -  | -           | 97,305            | 97,305            |
| StreamBank software        | -  | -           | 667,277           | 667,277           |
| Total assets at fair value | <u>\$ 217,770</u>                            | <u>\$ -</u> | <u>\$ 764,582</u> | <u>\$ 982,352</u> |

\* Investments held/managed by the Oregon Community Foundation (see note 4).

The table below sets forth a summary of changes in the fair value of the Organization's level 3 assets for the year ended December 31, 2011:

|                                   | Level 3 Assets        |                   |
|-----------------------------------|-----------------------|-------------------|
|                                   | Endowment Investments | StreamBank        |
| Balance, beginning of year        | \$ 97,305             | \$ 667,277        |
| Realized gains/(losses)           | (127)                 | -                 |
| Unrealized gains/(losses)         | (3,571)               | -                 |
| Investment income, net of expense | 504                   | -                 |
| Purchases                         | -                     | 101,897           |
| Balance, end of year              | <u>\$ 94,111</u>      | <u>\$ 769,174</u> |

THE FRESHWATER TRUST  
**NOTES TO THE FINANCIAL STATEMENTS**  
For The Years Ended December 31, 2011 and 2010

**NOTE 6 - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

|   | <u>2011</u>      | <u>2010</u>      |
|---|------------------|------------------|
| Furniture                                       | \$ 6,280         | \$ 6,280         |
| Equipment                                       | 168,350          | 162,864          |
| Leasehold improvements                          | <u>16,598</u>    | <u>16,598</u>    |
|   | 191,228          | 185,742          |
| Less: accumulated depreciation and amortization | <u>(142,926)</u> | <u>(132,590)</u> |
| Net property and equipment                      | <u>\$ 48,302</u> | <u>\$ 53,152</u> |

Depreciation and amortization expense for the years ended December 31, 2011 and 2010 was \$20,835 and \$23,238, respectively.

**NOTE 7 - LINE OF CREDIT**

On July 29, 2011, the Organization renewed a \$600,000 line of credit with Wells Fargo Bank to support the organization's working capital. Interest is charged at the greater of the bank's prime rate plus 1.5% or the floor rate of 5.0%. As of December 31, 2011 and 2010, the outstanding balance on the line of credit was \$74,803 and \$0 respectively.

**NOTE 8 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of the following:

|   | <u>2011</u>       | <u>2010</u>       |
|---|-------------------|-------------------|
| Habitat programs                        | \$ 648,539        | \$ 408,020        |
| Education                               | 494               | 40,322            |
| Streambank                              | <u>32,174</u>     | <u>458,374</u>    |
| Total Temporarily Restricted Net Assets | <u>\$ 681,207</u> | <u>\$ 906,716</u> |

The Endowment Fund was established for the purpose of providing investment revenues to support wild fish conservation programs in perpetuity. Permanently restricted net assets at December 31, 2011 and 2010, consist of investments held within the Oregon Trout Endowment Fund; which is managed by the Oregon Community Foundation.

THE FRESHWATER TRUST  
**NOTES TO THE FINANCIAL STATEMENTS**  
For The Years Ended December 31, 2011 and 2010

**NOTE 9 - OPERATING LEASE COMMITMENTS**

The Organization leases its office facilities under an operating lease, which commenced on December 1, 2005 and expires on September 30, 2021. The lease contains an annual provision to be paid as additional rent to cover the Organization's proportionate share of certain operating expenses. This lease was modified August 25, 2008 (Amendment I) to include office space on the entire second floor in addition to the existing lease of the third floor. This lease was modified again September 26, 2011 (Amendment II) to extend the lease term by 10 years.

Occupancy expense for the years ended December 31, 2011 and 2010 was \$128,527 and 134,815, respectively.

In addition, the Organization leases certain office equipment under lease agreements expiring in 2012. Rental expense paid for equipment leases for the years ended December 31, 2011 and 2010 was \$21,077 and \$20,083, respectively.

At December 31, 2011, the approximate minimum rental commitments for the above leases are as follows:

Year Ending December 31,

|                     |                           |
|---------------------|---------------------------|
| 2012                | \$ 140,771                |
| 2013                | 143,578                   |
| 2014                | 130,446                   |
| 2015                | 132,234                   |
| 2016 and thereafter | <u>675,513</u>            |
| Total               | <u><u>\$1,222,542</u></u> |

**NOTE 10 - RELATED PARTY TRANSACTIONS**

Tony Malmberg, an employee of the Organization, entered into a water rights lease transaction during 2011. The water rights lease transaction was completed before Tony joined the Organization as an employee. The water rights lease was consummated in an arms-length transaction and is comparable to other water rights lease transactions entered into during 2011. As an employee, Tony was one of three candidates who applied for the position and secured the job based on his abilities and skill set.

THE FRESHWATER TRUST  
**NOTES TO THE FINANCIAL STATEMENTS**  
For The Years Ended December 31, 2011 and 2010

**NOTE 11 - IN-KIND CONTRIBUTIONS**

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skill, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. Donations of equipment and materials are recorded where there is an objective basis upon which to value these contributions and where the contributions are an essential part of the Organization's activities.

Contributed goods and professional services valued at \$31,670 and \$50,887 are included in unrestricted contributions, specifically for Special Events for the years ending December 31, 2011 and 2010.

Contributed software valued at \$68,000 is included in unrestricted contributions, specifically for the Habitat Program for the year ending December 31, 2011.

During the year ended December 31, 2010, the financial statements recorded \$99,300 for 3,248 hours of direct volunteer services attributed to the Salmon Watch program and \$37,800 for 2,100 hours of unreported volunteer services attributed to the Deschutes 100,000 Trees program. These programs were discontinued as of the end of 2010.

**NOTE 12 - RETIREMENT PLANS**

The Organization provides substantially all full-time and certain part-time employees with a Simplified Employees Pension Plan. The Organization's annual contribution to the plan is equal to 5.0% of the eligible annual compensation of each participant. Contributions by the Organization to the plan totaled \$51,957 and \$59,585 and for the years ended December 31, 2011 and 2010.

**NOTE 13 - ENDOWMENT**

The Organization's endowment consists of one fund established for a variety of purposes. Its endowment includes funds both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

THE FRESHWATER TRUST  
**NOTES TO THE FINANCIAL STATEMENTS**  
For The Years Ended December 31, 2011 and 2010

**NOTE 13 - ENDOWMENT (CONTINUED)**

The Board of Directors of The Freshwater Trust has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date and the donor-restricted funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

Endowment Net Asset Composition by Type of Fund as of December 31, 2011

|                                 | Unrestricted | Temporarily<br>Restricted | Permanently<br>Restricted | Total     |
|---------------------------------|--------------|---------------------------|---------------------------|-----------|
| Board-designated endowment fund | 15,021       | -                         | 79,090                    | 94,111    |
| Total assets at fair value      | \$ 15,021    | \$ -                      | \$ 79,090                 | \$ 94,111 |

THE FRESHWATER TRUST  
**NOTES TO THE FINANCIAL STATEMENTS**  
For The Years Ended December 31, 2011 and 2010

**NOTE 13 - ENDOWMENT (CONTINUED)**

Endowment Net Asset Composition by Type of Fund as of December 31, 2010

|                                 | Unrestricted     | Temporarily<br>Restricted | Permanently<br>Restricted | Total            |
|---------------------------------|------------------|---------------------------|---------------------------|------------------|
| Board-designated endowment fund | 15,500           | -                         | 81,805                    | 97,305           |
| Total assets at fair value      | <u>\$ 15,500</u> | <u>\$ -</u>               | <u>\$ 81,805</u>          | <u>\$ 97,305</u> |

Changes in Endowment Net Assets for the year ended December 31, 2011

|   | Unrestricted     | Temporarily<br>Restricted | Permanently<br>Restricted | Total            |
|---|------------------|---------------------------|---------------------------|------------------|
| Endowment net assets,<br>beginning of year    | \$ 15,500        | -                         | 81,805                    | \$ 97,305        |
| Investment return:                            |                  |                           |                           |                  |
| Investment income                             | 76               | -                         | 428                       | 504              |
| Net appreciation<br>(realized and unrealized) | <u>(555)</u>     | <u>-</u>                  | <u>(3,143)</u>            | <u>(3,698)</u>   |
| Endowment net assets,<br>end of year          | <u>\$ 15,021</u> | <u>\$ -</u>               | <u>\$ 79,090</u>          | <u>\$ 94,111</u> |

Certain assets received in the October 2008 merger with Oregon Water Trust, Inc. were classified as endowments subject to a permanent restriction. Subsequent review has identified these assets as board designated and not as donor endowments. During 2010, these assets were released from permanent endowment restriction and included in the organization's general unrestricted net assets.

**NOTE 14 - WATER RIGHTS**

The Organization has acquired title for partial water right interests among several basins in Oregon to preserve in-stream water flows. The water rights are valued based on their original purchase cost. Annually, the Organization assesses the value of the water right interests held to determine if any permanent impairment of value has occurred. If the value of the water rights is determined to be impaired; the carrying value of the water rights would be reduced to their estimated fair value in the period that the impairment has occurred. For the years ended December 31, 2011 and 2010, the Organization has not recognized any impairment losses on the value these water rights.

THE FRESHWATER TRUST  
**NOTES TO THE FINANCIAL STATEMENTS**  
For The Years Ended December 31, 2011 and 2010

**NOTE 15 - WATER LEASE COMMITMENTS**

The Organization has entered into multiple water rights lease agreements with participating landowners in Oregon with terms ranging from one to four years. Each water right lease agreement is conditioned upon the Organization receiving annual funding from the Columbia Basin Water Transaction Program. In the event that funding is not made available the water right lease terminates and the parties are released from their obligations.

At December 31, 2011, the approximate minimum commitments for the above leases are as follows:

Year Ending December 31:

|       |                   |
|-------|-------------------|
| 2012  | \$ 208,683        |
| 2013  | 185,853           |
| 2014  | 178,822           |
| 2015  | <u>8,883</u>      |
| Total | <u>\$ 582,241</u> |

During the year ended December 31, 2011 certain water rights lease agreements were paid two to five years in advance. There are contractual remedies that the Organization can pursue in the event of default by the landowner, which can include repayment of funds received.

THE FRESHWATER TRUST  
**Schedule of Expenditures of Federal Awards**  
Year ended December 31, 2011

| Federal Agency                              | Pass Through Agency | Federal Program Title                  | CFDA Number | Grant Identification Number | Expenditures   |
|---|---------------------|--|-------------|-----------------------------|----------------|
| National Fish & Wildlife Foundation         | CBWTP               | Water Transactions Instream Flow       | 00029462    | 2011-0016-008               | \$ 41,080      |
| National Fish & Wildlife Foundation         | CBWTP               | Flow Restoration in the Umatilla Basin | 00029462    | 2011-0016-010               | 23,822         |
| National Fish & Wildlife Foundation         | CBWTP               | Water Transactions Instream Flow       | 00029462    | 2010-0056-008               | 162,735        |
| National Fish & Wildlife Foundation         | CBWTP               | Flow Restoration in the Umatilla Basin | 00029462    | 2010-0056-010               | 182,772        |
| National Fish & Wildlife Foundation         | CBWTP               | Water Lease Payments                   | 00029462    | 2010-0056-901               | 194,559        |
| National Fish & Wildlife Foundation         | CBWTP               | Water Lease Payments                   | 00029462    | 2010-0056-901               | 632,765        |
| National Fish & Wildlife Foundation         | CBWTP               | Water Lease Payments                   | 00029462    | 2009-0018-903               | <u>110,541</u> |
| Total National Fish and Wildlife Foundation |                     |  |             |                             | 1,348,274      |
| National Fish & Wildlife Foundation         |                     | Bring Back the Natives - Rudio         | 15.231      | 2010-0055-003               | <u>24,708</u>  |
| Total National Fish and Wildlife Foundation |                     |  |             |                             | 24,708         |
| Bureau of Land Management                   |                     | Wood River Delta Habitat Restoration   | 15.231      |                             | 1,273          |
| Bureau of Land Management                   |                     | Salmon River Habitat Restoration       | 15.234      | L11AC20158                  | <u>88,575</u>  |
| Total Bureau of Land Management             |                     |  |             |                             | 89,848         |
| National Forest Foundation                  |                     | Salmon River Habitat Restoration       | 10.682      | 8-05-05-19                  | <u>41,581</u>  |
| Total National Forest Foundation            |                     |  |             |                             | 41,581         |
| NOAA  | NACo                | Rudio Creek Restoration                | 11.463      | DOC.749.2010-24-328         | <u>48,352</u>  |
| Total NOAA                                  |                     |  |             |                             | 48,352         |
| Fish America Foundation                     | NOAA                | Salmon River Habitat Restoration       | N/A         | FAF-10036                   | <u>58,525</u>  |
| Total Fish America Foundation               |                     |  |             |                             | 58,525         |
| U.S. Forest Service - Malheur               |                     | Salmon River Restoration               | 10.692      | 11-DG-11060600-015          | 70,488         |

See accompanying notes and accountant's report.

THE FRESHWATER TRUST  
**Schedule of Expenditures of Federal Awards**  
Year ended December 31, 2011

|   |                                     |        |                    |                            |
|---|-------------------------------------|--------|--------------------|----------------------------|
| U.S. Forest Service - Malheur                 | Rudio Creek Restoration             | 10.692 | 11-DG-11060400-005 | <u>7,843</u>               |
| Total U.S. Forest Service - Malheur           |                                     |        |                    | 78,331                     |
| Environmental Protection Agency               | Oregon Environmental Literacy Plan  | 66.951 |                    | <u>13,462</u>              |
| Total Environmental Protection Agency         |                                     |        |                    | 13,462                     |
| National Resources Conservation Service       | NW Environmental Markets Initiative | 10.912 | 69-3A75-11-181     | <u>163,197</u>             |
| Total National Resources Conservation Service |                                     |        |                    | 163,197                    |
| U.S. Fish and Wildlife Service                | Lowe Creek                          | 15.632 | 134207J716         | <u>79,069</u>              |
| Total U.S. Fish and Wildlife Service          |                                     |        |                    | 79,069                     |
| <b>Total Expenditures Federal Awards</b>      |                                     |        |                    | <u><u>\$ 1,945,347</u></u> |

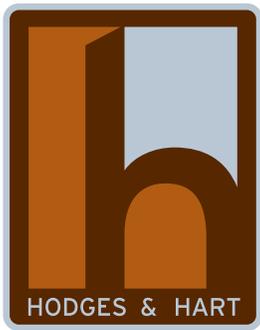
See accompanying notes and accountant's report.

The Freshwater Trust  
**Notes To Schedule of Expenditures of Federal Awards**  
Year ended December 31, 2011

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of The Freshwater Trust and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*.

|  |                     |
|--|---------------------|
| Total expenditures of federal awards       | \$ 1,945,347        |
| Non federal expenditures                   | <u>2,580,058</u>    |
| Total expenses per Statement of Activities | <u>\$ 4,525,405</u> |



Certified Public Accountants

## **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**

### **Board of Directors** The Freshwater Trust

We have audited the financial statements of The Freshwater Trust (a nonprofit organization) as of and for the year ended December 31, 2011 and have issued our report thereon dated May 7, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Freshwater Trust's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Freshwater Trust's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting - item 2011-1. 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.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Freshwater Trust's financial statements are free of 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*.

The Freshwater Trust's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit The Freshwater Trust's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Hodges & Hart, LLC  
Certified Public Accountants

May 7, 2012  
Portland, Oregon



Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-  
133**

**Board of Directors**  
The Freshwater Trust

Compliance

We have audited The Freshwater Trust's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of The Freshwater Trust's major federal programs for the year ended December 31, 2011. The Freshwater Trust's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of The Freshwater Trust's management. Our responsibility is to express an opinion on The Freshwater Trust's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 The Freshwater 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. Our audit does not provide a legal determination of The Freshwater Trust's compliance with those requirements.

In our opinion, The Freshwater Trust complied, in all material respects, with the 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, 2011.

**HODGES & HART, LLC** // Certified Public Accountants

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## Internal Control over Compliance

Management of The Freshwater Trust is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered The Freshwater Trust's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 The Freshwater 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The Freshwater Trust's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit The Freshwater Trust's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Hodges & Hart, LLC  
Certified Public Accountants

May 7, 2012  
Portland, Oregon

The Freshwater Trust  
**Schedule of Findings and Questioned Costs**  
 Year ended December 31, 2011

**Section I - Summary of Auditor's Results**

***Financial Statements***

Type of auditors' report issued: *unqualified*

Internal control over financial reporting:

\* Material weaknesses identified? \_\_\_\_\_ yes        X no

\* Significant deficiencies identified not considered to be material weaknesses? \_\_\_\_\_ yes        X no

Noncompliance material to financial statements noted? \_\_\_\_\_ yes        X no

***Federal Awards***

Internal control over major programs:

\* Material weaknesses identified? \_\_\_\_\_ yes        X no

\* Significant deficiencies identified not considered to be material weaknesses? \_\_\_\_\_ yes        X none reported

Type of auditors' report issued on compliance for major programs: *unqualified*

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)? \_\_\_\_\_ yes        X no

Identification of major programs:

CFDA Number

Federal Program

00029462  
 00029462  
 00029462

Water Transaction Instream Flow  
 Flow Restoration in the Umatilla Basin  
 Water Lease Payments

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualifies as low-risk auditee:        X yes        no

The Freshwater Trust  
**Schedule of Findings and Questioned Costs**  
Year ended December 31, 2011

**Section II - Financial Statement Findings**

None.

The Freshwater Trust  
**Schedule of Findings and Questioned Costs**  
Year ended December 31, 2011

**Section III - Findings and Questioned Costs for Federal Awards**

None.