The Freshwater Trust™

Audited Financial Statements

FOR THE YEARS ENDED

December 31, 2013 and 2012

THE FRESHWATER TRUST

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PRIOR + HART
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Freshwater Trust

Report on the Financial Statements

We have audited the accompanying financial statements of The Freshwater Trust (a nonprofit organization) which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States and Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated May 28, 2014 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* in considering The Freshwater Trust's internal control over financial reporting and compliance.

Prior + Hart, LLC

Prior + Hart, LLC
Certified Public Accountants

May 28, 2014
Portland, Oregon

THE FRESHWATER TRUST

Statements of Financial Position

December 31, 2013 and 2012

ASSETS

	2013	2012
Current Assets:		
Cash and cash equivalents	$ 1,582,494	$ 622,903
Grants and fees receivable	1,253,655	1,644,403
Prepaid expenses	39,281	42,795
Deposits	23,594	17,247
Total Current Assets	2,899,024	2,327,348
Property and Equipment, net	68,394	59,519
Beneficial interest held by others	116,380	103,867
StreamBank software	961,927	822,578
Water rights interest	1,167,666	1,167,666
Total Assets	$ 5,213,391	$ 4,480,978

LIABILITIES AND NET ASSETS

	2013	2012
Current Liabilities:		
Accounts payable	$ 189,279	$ 751,143
Accrued interest	14,222	-
Line of credit	56,606	215,216
Loan payable	-	149,440
Payroll liabilities	70,347	54,690
Pension obligation	30,531	22,390
Total Current Liabilities	360,985	1,192,879
Other liabilities:		
Landowner payable	15,000	15,000
Deferred revenue	63,065	200,967
PRI loan payable	2,000,000	-
Total Liabilities	2,439,050	1,408,846
Net Assets:		
Unrestricted	2,525,984	2,606,877
Temporarily restricted	150,338	377,872
Permanently restricted	98,019	87,383
Total Net Assets	2,774,341	3,072,132
Total Liabilities and Net Assets	$ 5,213,391	$ 4,480,978

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

THE FRESHWATER TRUST

Statement of Activities

Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Grants and contributions	$ 212,852	$ 2,197,997	$ -	$ 2,410,849
Individual giving	273,304	-	-	273,304
Water Quality Trading income	2,113,782	-	-	2,113,782
Special events income	575,723	-	-	575,723
In-kind donations	47,190	167,924	-	215,114
Interest income	526	-	-	526
Net gain on investments	1,877	-	10,636	12,513
Total revenues, gains and other support	3,225,254	2,365,921	10,636	5,601,811
Net assets released from restrictions	2,593,455	(2,593,455)	-	-
Total revenues, gains, other support and net assets released from restrictions	5,818,709	(227,534)	10,636	5,601,811
Expenses				
Program services	4,563,240	-	-	4,563,240
Special events expenses	325,893	-	-	325,893
Development expenses	423,647	-	-	423,647
General and administrative	726,171	-	-	726,171
Total Expenses	6,038,951	-	-	6,038,951
Change in Net Assets	(220,242)	(227,534)	10,636	(437,140)
Net Assets, Beginning of Year	2,606,877	377,872	87,383	3,072,132
StreamBank software	139,349	-	-	139,349
Net Assets, End of year	$ 2,525,984	$ 150,338	$ 98,019	$ 2,774,341

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

THE FRESHWATER TRUST

Statement of Activities

Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Grants and contributions	$ 233,620	$ 3,408,546	$ -	$ 3,642,166
Individual giving	453,548	-	-	453,548
Water Quality Trading income	1,106,333	-	-	1,106,333
Special events income	662,924	-	-	662,924
In-kind donations	93,450	539,399	-	632,849
Interest income	506	-	-	506
Net gain on investments	1,463	-	8,293	9,756
Loss on asset disposal	(5,455)	-	-	(5,455)
Sales and other revenues	528	-	-	528
Total revenues, gains and other support	2,546,917	3,947,945	8,293	6,503,155
Net assets released from restrictions	4,251,280	(4,251,280)	-	-
Total revenues, gains, other support and net assets released from restrictions	6,798,197	(303,335)	8,293	6,503,155
Expenses				
Program services	4,967,144	-	-	4,967,144
Special events expenses	372,806	-	-	372,806
Development expenses	338,624	-	-	338,624
General and administrative	470,147	-	-	470,147
Total Expenses	6,148,721	-	-	6,148,721
Change in Net Assets	649,476	(303,335)	8,293	354,434
Net Assets, Beginning of Year	1,681,006	681,207	79,090	2,441,303
Assets purchased with restricted donations:				
StreamBank software	53,403	-	-	53,403
Permanent water right interests	222,992	-	-	222,992
Net Assets, End of year	$ 2,606,877	$ 377,872	$ 87,383	$ 3,072,132

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

THE FRESHWATER TRUST

Statement of Functional Expenses

Year Ended December 31, 2013

	Program Services				Support Services			
	Water Quality Trading	Flow	Habitat	Total	Special Events	Development	General & Administration	Total Expenses
Payroll and related costs	$ 1,203,751	$ 287,157	$ 445,982	$ 1,936,890	$ 66,462	$ 317,018	$ 552,967	$ 2,873,337
Advertising and promotion	5,283	884	903	7,070	-	18,245	69,216	94,531
Acquisition expenses	-	-	-	-	212,241	-	577	212,818
Contracted services	574,129	26,614	506,465	1,107,208	-	5,219	3,271	1,115,698
Bank charges	482	210	222	914	-	2,624	185	3,723
Dues and subscriptions	16,351	3,202	2,191	21,744	-	6,527	2,301	30,572
Meeting and education	25,223	5,480	12,175	42,878	-	2,134	1,562	46,574
Insurance	14,313	6,239	6,606	27,158	-	4,038	5,506	36,702
Interest	18,517	-	927	19,444	-	-	-	19,444
Licenses, taxes and fees	3,275	413	415	4,103	-	441	346	4,890
Supplies	29,525	8,372	8,766	46,663	-	2,673	4,292	53,628
Gifts and promotion	1,489	-	180	1,669	-	9,819	4,714	16,202
Telephone	10,810	3,956	4,071	18,837	-	2,184	2,450	23,471
Postage and shipping	1,639	750	673	3,062	-	2,239	2,601	7,902
Professional services	214,973	16,361	19,289	250,623	-	4,802	10,622	266,047
Printing and publishing	6,258	1,108	1,437	8,803	-	4,075	17,629	30,507
Meals and entertainment	15,406	4,653	3,386	23,445	-	6,344	1,844	31,633
Travel	103,572	38,044	18,317	159,933	-	10,097	2,970	173,000
Equipment and maintenance	9,026	3,590	4,819	17,435	-	2,896	3,386	23,717
Occupancy	69,230	24,070	25,359	118,659	-	22,272	27,501	168,432
Depreciation and amortization	7,515	18,832	-	26,347	-	-	12,231	38,578
In-kind donations	-	-	167,924	167,924	47,190	-	-	215,114
Bad debt	-	-	-	-	-	-	-	-
Water acquisition fees and lease payments	1,682	550,749	-	552,431	-	-	-	552,431
Total Expenses	$ 2,332,449	$ 1,000,684	$ 1,230,107	$ 4,563,240	$ 325,893	$ 423,647	$ 726,171	$ 6,038,951

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

THE FRESHWATER TRUST

Statement of Functional Expenses

Year Ended December 31, 2012

	Program Services				Support Services			
	Water Quality Trading	Flow	Habitat	Total	Special Events	Development	General & Administration	Expenses
Payroll and related costs	$ 704,615	$ 330,956	$ 311,318	$1,346,889	$ 64,611	$ 237,635	$ 382,790	$ 2,031,925
Advertising and promotion	1,944	1,000	90	3,034	-	9,262	4,072	16,368
Acquisition expenses	-	-	-	-	216,565	-	584	217,149
Contracted services	821,584	20,822	987,183	1,829,589	-	16,415	8,024	1,854,028
Bank charges	482	160	106	748	-	889	281	1,918
Dues and subscriptions	4,060	465	1,842	6,367	-	11,274	518	18,159
Meetings and education	4,311	924	12,924	18,159	-	1,478	1,341	20,978
Insurance	23,421	1,248	864	25,533	-	1,631	2,111	29,275
Interest	-	-	4,603	4,603	-	-	-	4,603
Licenses, taxes and fees	915	84	363	1,362	40	184	143	1,729
Supplies	13,263	10,818	62,965	87,046	-	3,612	3,896	94,554
Gifts and promotion	3,999	627	459	5,085	-	3,828	1,038	9,951
Telephone	11,335	3,311	3,210	17,856	-	3,540	4,569	25,965
Postage and shipping	2,289	662	493	3,444	-	1,575	2,075	7,094
Professional services	105,901	8,300	31,323	145,524	-	6,355	10,402	162,281
Printing and publishing	2,528	536	851	3,915	-	1,698	16,453	22,066
Meals and entertainment	11,843	2,608	1,881	16,332	-	7,474	1,105	24,911
Travel	68,503	38,648	25,135	132,286	-	7,276	1,536	141,098
Equipment and maintenance	10,294	3,355	3,778	17,427	-	4,465	2,047	23,939
Occupancy	49,087	17,913	21,069	88,069	-	17,033	18,430	123,532
Depreciation and amortization	5,845	17,167	-	23,012	-	-	8,241	31,253
In-kind donations	1,369	-	539,399	540,768	91,590	-	491	632,849
Bad debt	-	-	-	-	-	3,000	-	3,000
Water acquisition fees and lease payments	326	645,515	4,255	650,096	-	-	-	650,096
Total Expenses	$ 1,847,914	$ 1,105,119	$ 2,014,111	$4,967,144	$ 372,806	$ 338,624	$ 470,147	$ 6,148,721

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

THE FRESHWATER TRUST

Statements of Cash Flows

Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities:		
Increase (decrease) in net assets	(437,140)	$ 354,434
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	38,578	31,253
Net unrealized and realized (gain)/loss on investments	(12,513)	(9,756)
Net loss on asset dispositions	-	5,455
(Increase) decrease in current assets:		
Grants and contributions receivable	390,748	(1,133,687)
Prepaid expenses	3,515	(27,091)
Deposits	(6,347)	(974)
Increase (decrease) in current liabilities:		
Accounts payable	(561,865)	344,254
Accrued interest	14,222	-
Accrued expenses	15,657	21,676
Pension obligation	8,142	7,964
Landowner payable	-	15,000
Deferred revenue	(137,903)	150,967
Net Cash Used by Operating Activities	(684,906)	(240,505)
Cash Flows from Investing Activities:		
Purchases of property and equipment	(39,938)	(42,081)
Net Cash Used by Investing Activities	(39,938)	(42,081)
Cash Flows from Financing Activities		
Proceeds from loans payable	1,843,045	143,595
Proceeds from/(payments to) line of credit	(158,610)	140,413
Net Cash Provided by Financing Activities	1,684,435	284,008
Net Increase in Cash	959,591	1,422
Cash Balance Beginning of Period	622,903	621,481
Cash Balance End of Period	$ 1,582,494	$ 622,903
Supplemental Disclosures of Cash Flow Information		
Cash paid for loan interest	$ 5,221	$ 4,603
Noncash Investing and Financing Activities		
StreamBank software purchased through grant funds received	$ 139,349	$ 53,403
Permanent water rights interests purchased through grand funds received	$ -	$ 222,992

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

NOTE 1 - ORGANIZATION

The Freshwater Trust (the Organization) is an action-oriented 501(c)(3) not-for-profit that restores rivers and streams throughout Oregon. The Freshwater Trust uses cooperative, market-based solutions that benefit rivers, working lands and local communities - from working with landowners to keep more water in streams to streamlining restoration processes to achieve greater pace and scale to improving aquatic habitat using a localized approach.

During the years ended December 31, 2013 and 2012, the Organization incurred program expenses in the following major categories:

Water Quality Trading - The Freshwater Trust's water quality trading program allows for regulated entities to achieve regulatory compliance by engaging in restoration actions. By calculating and quantifying how much thermal energy is avoided on a river by planting streamside trees, The Freshwater Trust generates credits that are then purchased by wastewater facilities and power plants to offset their impacts to impaired rivers and streams. The work is done in partnership with agencies, irrigators, regulators and farmers.

Flow - The Freshwater Trust restores stream flows by working collaboratively with willing landowners. The Organization uses a variety of cooperative solutions, including financial compensation, technical assistance and expert advice to keep more water in our streams and river - because water quality starts with water quantity.

Habitat - The Freshwater Trust actively restores aquatic habitat in Oregon through its Habitat Restoration program. From placing logs instream to create river complexity and planting trees to stabilize streambanks and provide shade to lower water temperature, the Organization advances science-based, ecologically-sound restoration projects to restore habitat function critical to salmon productivity.

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.

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.

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 3 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, 2013, 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 2009.

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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 28, 2014, 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, 2013 and 2012, cash balances exceed federally insured limits by $767,839 and $348,286, respectively.

Cash equivalents consist of money market funds that are invested with institutions covered by the Securities Investor Protection Corporation (SIPC). The SIPC insures investments up to $500,000 with a maximum of $100,000 in cash. At December 31, 2013 and 2012, the Organization's uninsured money market balance totaled $400,021 and $0, 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, 2013 and 2012, the fair value of the assets in this fund totaled $116,380 and $103,867, 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.

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:

* Quoted prices for similar assets or liabilities in active markets;
* Quoted prices for identical or similar assets or liabilities in inactive markets;
* Inputs other than quoted prices that are observable for the asset or liability;
* Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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.

NOTE 5 - FAIR VALUE MEASUREMENTS (CONTINUED)

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.

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

As described in Note 4, the Organization maintains an endowment fund with the Oregon Community Foundation. The beneficial interest held at the Foundation was determined by the Foundation based upon the Organization's allocable share in the market value of the underlying investments made by the Foundation as reported to the Foundation by a third-party trustee from published market quotes.

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.

	Assets at Fair Value as of December 31, 2013			
	Level 1	Level 2	Level 3	Total
Beneficial interest held by others	-	-	116,380	116,380
Total assets at fair value	$ -	$ -	$ 116,380	$ 116,380

NOTE 5 - FAIR VALUE MEASUREMENTS (CONTINUED)

	Assets at Fair Value as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
Beneficial interest held by others	-	-	103,867	103,867
Total assets at fair value	$ -	$ -	$ 103,867	$ 103,867

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, 2013:

	Level 3
	Endowment Investments
Balance, beginning of year	$ 103,867
Realized gains/(losses)	3,879
Unrealized gains/(losses)	8,268
Investment income, net of expense	366
Balance, end of year	$ 116,380

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2013	2012
Furniture and equipment	$ 131,105	$ 93,747
Leasehold improvements	39,326	36,746
	170,431	130,493
Less: accumulated depreciation and amortization	(102,037)	(70,974)
Net property and equipment	$ 68,394	$ 59,519

Depreciation and amortization expense for the years ended December 31, 2013 and 2012 was $38,578 and $31,253, respectively.

NOTE 7 - LINES 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, 2013 and 2012, the outstanding balance on the line of credit was $56,606 and $215,216 respectively.

On June 28, 2012, the Organization signed a $860,405 non-revolving line of credit agreement with Craft3 to support the Organization's water quality trading program. The term of the loan is 16 months with full payout at maturity on or before September 30, 2013. Interest is charged at 6.0%. As of December 31, 2013 and 2012, the outstanding balance on the line of credit was $0 and $156,955, respectively. Loan fees of $13,360 are being amortized over the term of the loan.

NOTE 8 - LONG TERM DEBT

On March 1, 2013, the Organization signed a $5,000,000 credit agreement with The David and Lucile Packard Foundation, The Gordon and Betty Moore Foundation, and The Kresge Foundation to support the Organization's water quality trading program. An initial advance of $2,000,000 was made on the closing date. A second advance of $2,000,000 will be available no later than June 1, 2014, provided the Organization satisfies certain conditions. The third and final advance of $1,000,000 will be available no later than September 1, 2015, provided the Organization satisfies certain conditions.

The Organization shall pay interest on the unpaid principal amount, to the extent funded, through the date that the entire principal amount of the loan has been repaid in full, at an interest rate equal to 1% per annum, simple interest. Accrued interest at December 31, 2013 was $14,222.

Principal payments will be made on or before each April 30 and October 31 prior to the maturity date of January 31, 2020. Principal payments will commence on April 30, 2016. Principal payments will be based upon the number of temperature and nutrient credits sold by the Organization during the period prior to January 31, 2016, and thereafter, during each six-month period ending on July 31 or January 31 prior to the maturity date.

NOTE 9 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	2013	2012
Habitat programs	$ 150,338	$ 377,872
Total Temporarily Restricted Net Assets	$ 150,338	$ 377,872

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, 2013 and 2012, consist of investments held within the Oregon Trout Endowment Fund; which is managed by the Oregon Community Foundation.

NOTE 10 - OPERATING LEASE COMMITMENTS

The Organization leases its primary 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.

The Organization signed a lease for additional office space under an operating lease, which commenced May 20, 2013 and expires on August 31, 2016. The Organization has the option to terminate the lease after one year or two years with early termination fees of $11,909 at May 1, 2014 and $6,842 at May 1, 2015.

Occupancy expense for the years ended December 31, 2013 and 2012 was $168,432 and $123,532, respectively.

In addition, the Organization leases certain office equipment under lease agreements expiring in 2017. Rental expense paid for equipment leases for the years ended December 31, 2013 and 2012 was $18,460 and $18,104, respectively.

NOTE 10 - OPERATING LEASE COMMITMENTS (CONTINUED)

At December 31, 2013, the approximate minimum rental commitments for the above leases are as follows:

Year Ending December 31,

2014	$ 218,162
2015	223,291
2016	202,091
2017	175,008
2018 and thereafter	400,837
Total	$1,219,389

NOTE 11 - 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 water rights lease agreement extends through the 2013 irrigation season. All payments and conditions continued to be met according to the terms of the agreement.

During 2013, the Organization entered into a water rights lease transaction with Mr. Malmberg. The agreement includes a five year instream lease which was paid up front. It also includes a fifteen year time limited instream transfer. Payment for the fifteen year time limited instream transfer was made subsequent to year end. This amount has been included in the schedule accompanying the water lease transactions footnote below. The agreement was consummated in an arms-length transaction and is comparable to other water rights lease transactions entered into during 2013.

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 $110,800 and $78,173 and for the years ended December 31, 2013 and 2012.

NOTE 13 - 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 $47,190 and $91,590 are included in unrestricted contributions, specifically for Special Events for the years ending December 31, 2013 and 2012.

Contributed goods and professional services valued at $167,924 and $539,399 are included in unrestricted contributions, specifically for the Habitat Program for the years ending December 31, 2013 and 2012.

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, 2013 and 2012, the Organization has not recognized any impairment losses on the value these water rights.

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 fifteen 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.

During the year ended December 31, 2013, 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.

NOTE 15 - WATER LEASE COMMITMENTS (CONTINUED)

At December 31, 2013. the approximate minimum commitments for the above leases are as follows:

Year Ending December 31:

2014	$ 452,739
2015	23,259
2016	22,495
2017	16,643
2018 and thereafter	119,284
Total	$ 634,420

NOTE 16 - 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 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

NOTE 16 - ENDOWMENT (CONTINUED)

Endowment Net Asset Composition by Type of Fund as of December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment fund	18,361	-	98,019	116,380
Total assets at fair value	$ 18,361	$ -	$ 98,019	$ 116,380

Endowment Net Asset Composition by Type of Fund as of December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment fund	16,484	-	87,383	103,867
Total assets at fair value	$ 16,484	$ -	$ 87,383	$ 103,867

Changes in Endowment Net Assets for the year ended December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 16,484	-	87,383	$ 103,867
Investment return:				
Investment income	55	-	311	366
Net appreciation (realized and unrealized)	1,822	-	10,325	12,147
Endowment net assets, end of year	$ 18,361	$ -	$ 98,019	$ 116,380

NOTE 17 - RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the current year presentation.

THE FRESHWATER TRUST

Schedule of Expenditures of Federal Awards

Year ended December 31, 2013

Federal Agency	Pass Through Agency	Federal Program Title	CFDA Number	Grant Identification Number	Expenditures
National Fish & Wildlife Foundation	CBWTP	Flow Restoration in the Columbia Basin	00029462	0201.12.033738	$ 142,529
National Fish & Wildlife Foundation	CBWTP	Flow Restoration in the Accord Basin	00029462	0201.12.033740	89,262
National Fish & Wildlife Foundation	CBWTP	Flow Restoration in the Columbia Basin	00029462	0201.13.039727	38,505
National Fish & Wildlife Foundation	CBWTP	Flow Restoration in the Accord Basin	00029462	0201.13.039728	24,969
National Fish & Wildlife Foundation	CBWTP	Water Lease Payments - Columbia Basin	00029462	0201.12.036793	221,866
National Fish & Wildlife Foundation	CBWTP	Water Lease Payments - Accord Basin	00029462	0201.12.036795	288,427
National Fish & Wildlife Foundation	CBWTP	Water Lease Payments - Columbia Basin	00029462	0201.14.041234	30,132
National Fish & Wildlife Foundation	CBWTP	Water Lease Payments - Accord Basin	00029462	0201.14.041235	802
Total National Fish and Wildlife Foundation					836,492
National Fish & Wildlife Foundation	BLM	Salmon River Habitat Restoration	15.231	0901.12.0313230	49,800
Total National Fish and Wildlife Foundation					49,800
Bureau of Land Management		Salmon River Habitat Restoration	15.234	L13AC00128	33,750
Bureau of Land Management		Wood River	15.234	L08AC13825	52,057
Bureau of Land Management		Salmon River Habitat Restoration	15.234	L11AC20158	46,573
Total Bureau of Land Management					132,380
EcoTrust	NOAA/USFS	Salmon River Habitat Restoration	N/A	1210-E-OR_NJV	24,991
Total EcoTrust					24,991
The Nature Conservancy	NOAA	Salmon River Habitat Restoration	N/A	GMT-TFT-070111	27,064
Total The Nature Conservancy					27,064

See accompanying notes and accountant's report.

THE FRESHWATER TRUST

Schedule of Expenditures of Federal Awards

Year ended December 31, 2013

Federal Agency	Pass Through Agency	Federal Program Title	CFDA Number	Grant Identification Number	Expenditures
National Resources Conservation Service		NW Environmental Markets Initiative	10.912	69-3A75-11-181	280,518
Total National Resources Conservation Service					280,518
Bureau of Reclamation		Rogue River Basin Restoration	15.517	R13AC13011	27,374
Total U.S. Forest Service					27,374
Fish America Foundation	NOAA	Rudio Creek Habitat Restoration	N/A	FAF-12003	57,004
Total Fish America Foundation					57,004
Total Expenditures Federal Awards					$ 1,435,623

See accompanying notes and accountant's report.

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	$	1,435,623
Non federal expenditures		4,603,328
Total expenses per Statement of Activities	$	6,038,951

PRIOR + HART
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
The Freshwater Trust

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Freshwater Trust (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 28, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Freshwater Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Freshwater Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the The Freshwater Trust's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Freshwater Trust's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Prior + Hart, LLC

Prior + Hart, LLC
Certified Public Accountants

May 28, 2014
Portland, Oregon

PRIOR + HART
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of
The Freshwater Trust

Report on Compliance for Each Major Federal Program

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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of The Freshwater Trust's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of The Freshwater Trust's compliance.

Opinion on Each Major Federal Program

In our opinion, The Freshwater Trust complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control over Compliance

Management of The Freshwater Trust is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered The Freshwater Trust's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Prior + Hart, LLC

Prior + Hart, LLC
Certified Public Accountants

May 28, 2014
Portland, Oregon

The Freshwater Trust

Schedule of Findings and Questioned Costs

Year ended December 31, 2013

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	Water Transaction Instream Flow
00029462	Flow Restoration in the Umatilla Basin
00029462	Water Lease Payments
10.912	NW Environmental Markets Initiative

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000	
Auditee qualifies as low-risk auditee:	X yes	____ no

Section II - Financial Statement Findings

None.

Section III - Findings and Questioned Costs for Federal Awards

None.