The Freshwater Trust

Audited Financial Statements

FOR THE YEARS ENDED

December 31, 2016 and 2015

THE FRESHWATER TRUST

TABLE OF CONTENTS

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, 2016 and 2015, 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.

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

Verity
Accountancy, PC

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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, 2016 and 2015, 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 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 29, 2017 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.

Verity Accountancy, PC

Verity Accountancy, PC

May 29, 2017

Portland, Oregon

THE FRESHWATER TRUST

Statements of Financial Position

December 31, 2016 and 2015

Assets

	2016	2015
Current Assets		
Cash and cash equivalents	$ 1,471,794	$ 2,165,500
Investments - other, short term	-	743,387
Grants and fees receivable	1,478,661	543,134
Pledges receivable	-	97,694
Prepaid expenses	50,524	78,779
Deposits	33,569	49,847
Total Current Assets	3,034,548	3,678,341
Property and Equipment		
Furniture & Fixtures	131,122	51,479
Equipment	263,478	258,593
Leasehold Improvements	392,252	199,612
Less Accumulated Depreciation	(265,086)	(170,270)
Net Property and Equipment	521,766	339,414
Beneficial interest held by others	125,011	118,343
StreamBank software, net	869,605	904,146
Water rights interest	1,209,873	1,209,873
Total Assets	$ 5,760,803	$ 6,250,117

Liabilities and Net Assets

	2016	2015
Current Liabilities		
Accounts payable	$ 357,730	$ 298,080
Accrued interest	16,811	16,811
Payroll liabilities	79,245	101,173
Pension obligation	478	7,020
Current portion of PRI loan payable	200,000	-
Total Current Liabilities	654,264	423,084
Other Liabilities		
Deferred revenue	56,800	36,500
PRI loan payable	3,700,000	4,000,000
Total Liabilities	4,411,064	4,459,584
Net Assets		
Unrestricted	903,744	823,296
Temporarily restricted	340,640	867,550
Permanently restricted	105,355	99,687
Total Net Assets	1,349,739	1,790,533
Total Liabilities and Net Assets	$ 5,760,803	$ 6,250,117

The accompanying notes are an integral part of these financial statements

THE FRESHWATER TRUST

Statement of Activities

Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Grants and contributions	$ 12,230	$ 4,118,034	$ -	$ 4,130,264
Individual giving	994,266	-	-	994,266
Water Quality Trading income	2,906,617	-	-	2,906,617
Special events income	557,160	-	-	557,160
In-kind donations	63,812	435,784	-	499,596
Interest income	3,029	-	-	3,029
Net gain/(loss) on investments	1,528	-	5,668	7,196
Sales and other revenues	10,262	-	-	10,262
Total revenues, gains and other support	4,548,904	4,553,818	5,668	9,108,390
Net assets released from restrictions	5,080,728	(5,080,728)	-	-
Total revenues, gain, other support and net assets released from restrictions	9,629,632	(526,910)	5,668	9,108,390
Expenses:				
Program services	7,570,726	-	-	7,570,726
Special events	416,969	-	-	416,969
Development expenses	549,894	-	-	549,894
General and administrative	1,011,595	-	-	1,011,595
Total Expenses	9,549,184	-	-	9,549,184
Change in Net Assets	80,448	(526,910)	5,668	(440,794)
Net Assets, Beginning of Year	823,296	867,550	99,687	1,790,533
Net Assets, End of Year	$ 903,744	$ 340,640	$ 105,355	$ 1,349,739

The accompanying notes are an integral part of these financial statements

THE FRESHWATER TRUST
Statement of Activities
Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Grants and contributions	$ 36,244	$ 3,770,758	$ -	$ 3,807,002
Individual giving	656,850	-	-	656,850
Water Quality Trading income	1,909,391	-	-	1,909,391
Special events income	592,575	-	-	592,575
In-kind donations	47,360	358,024	-	405,384
Interest income	2,546	-	-	2,546
Net gain/(loss) on investments	3,671	-	(1,500)	2,171
Sales and other revenues	1,249	-	-	1,249
Total revenues, gains and other support	3,249,886	4,128,782	(1,500)	7,377,168
Net assets released from restrictions	3,509,340	(3,509,340)	-	-
Total revenues, gain, other support and net assets released from restrictions	6,759,226	619,442	(1,500)	7,377,168
Expenses:				
Program services	6,596,586	-	-	6,596,586
Special events	347,872	-	-	347,872
Development expenses	418,876	-	-	418,876
General and administrative	1,223,094	-	-	1,223,094
Total Expenses	8,586,428	-	-	8,586,428
Change in Net Assets	(1,827,202)	619,442	(1,500)	(1,209,260)
Net Assets, Beginning of Year	2,650,498	248,108	101,187	2,999,793
Net Assets, End of Year	$ 823,296	$ 867,550	$ 99,687	$ 1,790,533

THE FRESHWATER TRUST

Statement of Functional Expenses

Year Ended December 31, 2016

	Program Services	Support Services: Special Events	Support Services: Development	Support Services: General & Administration	Total Expenses
Payroll and related costs	$ 2,389,629	$ 54,879	$ 444,005	$ 775,571	$ 3,664,084
Advertising and promotion	5,542	-	11,172	30,618	47,332
Acquisition expenses	44	298,278	-	247	298,569
Contracted services	2,760,632	-	-	19,165	2,779,797
Bank charges	1,235	-	2,316	2,208	5,759
Dues and subscriptions	7,652	-	10,050	6,049	23,751
Meetings and education	27,500	-	3,206	69	30,775
Insurance	13,443	-	-	39,586	53,029
Interest	-	-	-	40,000	40,000
Licenses, taxes and fees	2,018	-	-	2,546	4,564
Supplies	118,030	-	1,519	16,855	136,404
Gifts and promotion	648	-	1,287	5,955	7,890
Telephone	11,211	-	-	14,978	26,189
Postage and shipping	-	-	4,880	3,314	8,194
Professional services	32,572	-	5,863	85,680	124,115
Printing and publishing	4,687	-	11,196	13,635	29,518
Meals and entertainment	13,592	-	7,884	14,681	36,157
Travel	150,091	-	32,689	11,340	194,120
Equipment and maintenance	26,749	-	620	36,635	64,004
Occupancy	168,498	-	13,207	163,809	345,514
Depreciation and amortization	182,845	-	-	14,512	197,357
In-kind donations	435,784	63,812	-	-	499,596
Water acquisition fees and lease payments	932,466	-	-	-	932,466
Indirect cost allocation	285,858	-	-	(285,858)	-
Total Expenses	$ 7,570,726	$ 416,969	$ 549,894	$ 1,011,595	$ 9,549,184

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

THE FRESHWATER TRUST

Statement of Functional Expenses

Year Ended December 31, 2015

	Program Services	Support Services: Special Events	Support Services: Development	Support Services: General & Administration	Total Expenses
Payroll and related costs	$ 2,544,225	$ 34,330	$ 314,865	$ 833,135	$ 3,726,555
Advertising and promotion	20,677	-	20,736	50,581	91,994
Acquisition expenses	1,848	266,182	-	1,681	269,711
Contracted services	1,743,964	-	-	21,698	1,765,662
Bank charges	5	-	1,437	2,260	3,702
Dues and subscriptions	14,117	-	2,415	7,986	24,518
Meetings and education	57,372	-	3,178	10,978	71,528
Insurance	-	-	-	50,966	50,966
Interest	-	-	-	40,000	40,000
Licenses, taxes and fees	1,654	-	-	4,711	6,365
Supplies	201,468	-	491	19,435	221,394
Gifts and promotion	3,015	-	1,056	15,412	19,483
Telephone	6,098	-	-	18,023	24,121
Postage and shipping	-	-	2,636	9,137	11,773
Professional services	95,063	-	20,360	41,260	156,683
Printing and publishing	4,971	-	11,492	25,179	41,642
Meals and entertainment	26,958	-	8,511	21,879	57,348
Travel	273,762	-	14,248	22,780	310,790
Equipment and maintenance	9,001	-	1,346	46,582	56,929
Occupancy	140,461	-	16,105	79,618	236,184
Depreciation and amortization	125,634	-	-	17,292	142,926
In-kind donations	358,024	47,360	-	-	405,384
Water acquisition fees and lease payments	850,770	-	-	-	850,770
Indirect cost allocation	117,499	-	-	(117,499)	-
Total Expenses	$ 6,596,586	$ 347,872	$ 418,876	$ 1,223,094	$ 8,586,428

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

The Freshwater Trust

Statements of Cash Flows

Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Decrease in net assets	$ (440,794)	$ (1,209,260)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and Amortization	197,357	142,926
Net unrealized and realized gains on investments	(9,988)	(2,171)
Decrease (Increase) in Operating Assets:		
Pledges receivable	97,694	(97,694)
Grants and fees receivable	(935,527)	1,734,607
Prepaid Expenses	28,255	(31,688)
Deposits	16,278	(24,864)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	59,650	46,234
Accrued Interest	-	(633)
Accrued Expenses	(21,928)	(164)
Pension Obligation	(6,542)	(23,590)
Deferred Revenue	20,300	14,000
Net Cash Provided/(Used) by Operating Activities	(995,245)	547,703
Cash Flows from Investing Activities		
Purchases of Property and Equipment	(345,169)	(398,938)
Purchases of Investments	-	(500,000)
Proceeds from Investments	746,708	1,000,000
Net Cash Provided by Investing Activities	401,539	101,062
Cash Flows from Financing Activities		
PRI Loan Repayment	(100,000)	-
Net Cash Used by Financing Activities	(100,000)	-
Net Increase (Decrease) In Cash and Cash Equivalents	(693,706)	648,765
Beginning Cash and Cash Equivalents	2,165,500	1,516,735
Ending Cash and Cash Equivalents	$ 1,471,794	$ 2,165,500

Supplemental Disclosures of Cash Flow Information

	2016	2015
Cash paid for loan interest	$ 40,000	$ 40,633

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

NOTE 1 - ORGANIZATION

The Freshwater Trust (the Organization) is a 501(c)(3) not-for-profit that preserves and restores freshwater ecosystems. 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, 2016 and 2015, 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 funding restoration actions. By calculating and quantifying how much thermal energy is avoided on a river by planting streamside trees, the Organization 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 regulated agencies, irrigators, regulators and farmers. This program can include restoration actions that generate not only temperature credits, but also credits generated from reductions of other pollutants, such as nutrients.

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 rivers.

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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 10 years.

Depreciation of property and equipment for the years ended December 31, 2016 and 2015 was:

2016	2015
$ 197,357	$ 142,926

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, 2016 and 2015, 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 2013.

Investments - Other - Certificates of deposit held for investment that are not debt securities are included in investments - other. Certificates with original maturities greater than three months and remaining maturities less than one year are classified as investments - other, short-term. Certificates of deposit with remaining maturities greater than one year are classified as investments - other, long-term.

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. Effective January 1, 2014, capitalized software of $1,025,407 became ready for its intended use and will be amortized over 10 years. Amortization expense for the years ended December 31, 2016 and 2015 was $102,541 and 102,541, respectively.

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 29, 2017, 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, 2016 and 2015, cash balances exceed federally insured limits by $694,772 and $1,606,884, respectively.

Cash equivalents consist of certificates of deposit that are invested with institutions covered by the CDARS Network. Member institutions issue CDs in amounts under the $250,000 FDIC limit. At December 31, 2016 and 2015, the Organization's uninsured certificates of deposit balance totaled $-0- 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 - PLEDGES RECEIVABLE

Pledges receivable consist of amounts that were promised to the Organization and will be paid within one year of promise. Pledges receivable are carried at original amount less an estimate made for doubtful receivables based on a review of all outstanding amounts. Management believes that all pledges receivable are collectible and that no reserve is necessary. At December 31, 2016 and 2015, contributors have made unconditional promises to give of $-0- and $97,694, respectively.

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.

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 6, 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.

NOTE 5 - FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2016			
	Level 1	Level 2	Level 3	Total
Beneficial interest held by others	-	-	125,011	125,011
Total assets at fair value	$ -	$ -	$ 125,011	125,011

	Assets at Fair Value as of December 31, 2015			
	Level 1	Level 2	Level 3	Total
Beneficial interest held by others	-	-	118,343	118,343
Total assets at fair value	$ -	$ -	$ 118,343	118,343

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:

	Level 3 Endowment Investments 2016	Level 3 Endowment Investments 2015
Balance, beginning of year	$ 118,343	$ 120,107
Realized gains/(losses)	1,028	413
Unrealized gains/(losses)	5,612	(2,729)
Investment income, net of expense	28	552
Purchases	-	-
Balance, end of year	$ 125,011	$ 118,343

NOTE 6 - 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, 2016 and 2015, the fair value of the assets in this fund totaled $125,011 and $118,343, 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 7 - 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 projected future operating deficits and allow for capacity investment while building water quality trading and other natural infrastructure mitigation programs. The loans are unsecured. An initial advance of $2,000,000 was made on the closing date. A second advance of $2,000,000 was received July 2014. The third and final advance of $1,000,000 will be available no later than September 1, 2015, provided the Organization satisfies certain conditions. Effective December 31, 2016, those conditions had not been met and the Organization did not take the final $1,000,000 advance.

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, 2016 and 2015 was:

$ 16,811	$ 16,811

Principal payments commenced on October 31, 2016 and will be made on or before each April 30th and October 31st prior to the maturity date of October 31, 2023. Principal payments will be based upon the greater of a fixed escalating principal repayment or a stated percentage of temperature and nutrient credits sold by the Organization during each six-month period ending June 30th or December 31st prior to the maturity date.

At December 31, 2016, the approximate minimum principal payments for the PRI Note Payable are as follows:

Year Ending December 31,

2017	$ 200,000
2018	200,000
2019	400,000
2020	550,000
2021 and thereafter	2,550,000
Total	$ 3,900,000

NOTE 8 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	2016	2015
Habitat programs	$ 340,640	$ 867,550
Total Temporarily Restricted Net Assets	$ 340,640	$ 867,550

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, 2016 and 2015, consist of investments held within the Oregon Trout Endowment Fund; which is managed by the Oregon Community Foundation.

NOTE 9 - OPERATING LEASE COMMITMENTS

The Organization leases its primary office faciliites under an operating lease, which commenced January 1, 2016 and expires April 30, 2026. The lease contains an annual provision to be paid as additional rent to cover the Organization's proportionate share of certain operating expenses.

Previously, the Organization occupied facilities under an operating lease which commenced December 1, 2005 and expires on September 30, 2021. A sublease agreement was negotiated for a portion of the office space with a term of January 1, 2016 through September 30, 2021.

Occupancy expense for the years ended December 31, 2016 and 2015 was:

	2016	2015
	$ 345,514	$ 236,184

Sublease income for the years ended December 31, 2016 and 2015 was:

	2016	2015
	$ 56,097	$ -

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, 2016 and 2015 was:

	2016	2015
	$ 15,718	$ 20,403

At December 31, 2016, the approximate minimum rental commitments for the above leases are as follows:

Year Ending December 31,

2017	$ 454,042
2018	475,081
2019	502,912
2020	477,541
2021 and thereafter	2,141,136
Total	$ 4,050,712

NOTE 9 - OPERATING LEASE COMMITMENTS (CONTINUED)

At December 31, 2016, the approximate sublease income for the above leases are as follows:

Year Ending December 31,		
2017	$	77,040
2018		79,351
2019		81,732
2020		84,184
2021 and thereafter		65,032
Total	$	387,339

NOTE 10 - RELATED PARTY TRANSACTIONS

During 2013, the Organization entered into a water rights lease transaction with Mr. Malmberg, who was an employee of the organization at the time the agreement was executed. The agreement includes a five year instream lease which was paid up front. It also includes a fifteen year time limited instream transfer. The agreement was consummated in an arms-length transaction and is comparable to other water rights lease transactions entered into during 2013.

NOTE 11 - RETIREMENT PLANS

The Organization provides substantially all full-time and certain part-time employees with access to a defined contribution retirement 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 for the years ended December 31, 2016 and 2015 were:

$ 149,616	$ 146,643

NOTE 12 - 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 $63,812 and $47,360 are included in unrestricted contributions, specifically for Special Events for the years ending December 31, 2016 and 2015.

Contributed goods and professional services valued at $435,784 and $358,035 are included in unrestricted contributions, specifically for the Habitat Program for the years ending December 31, 2016 and 2015.

NOTE 13 - 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, 2016 and 2015, the Organization has not recognized any impairment losses on the value these water rights.

NOTE 14 - 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, 2016, 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.

At December 31, 2016. the approximate minimum commitments for the above leases are as follows:

Year Ending December 31:

2017	$	703,038
2018		165,333
2019		65,712
2020		53,526
2021 and thereafter		62,051
Total	$	1,049,660

NOTE 15 - 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

Endowment Net Asset Composition by Type of Fund as of December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	19,656	-	105,355	125,011
Total assets at fair value	$ 19,656	$ -	$ 105,355	$ 125,011

Endowment Net Asset Composition by Type of Fund as of December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	18,656	-	99,687	118,343
Total assets at fair value	$ 18,656	$ -	$ 99,687	$ 118,343

NOTE 15 - ENDOWMENT (CONTINUED)

Changes in Endowment Net Assets for the year ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 18,656	-	99,687	$ 118,343
Investment return:				
Investment income	4	-	23	27
Net appreciation/(depreciation) (realized and unrealized)	996	-	5,645	6,641
Endowment net assets, end of year	$ 19,656	$ -	$ 105,355	$ 125,011

NOTE 16 - INDIRECT COST ALLOCATION

The Organization receives federal funding which is subject to an Indirect Cost Negotiation Agreement offered by the United States Department of the Interior Business Center. The provisional rate in effect for the year ended December 31, 2016 was 14.86%.

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, 2016

Federal Agency	Pass Through Agency	Federal Program Title	CFDA Number	Grant Identification Number	Expenditures
National Fish & Wildlife Foundation	CBWTP	Innovative Transactions to Restore Flow	81.000	0201.16.049002	$ 153,629
National Fish & Wildlife Foundation	CBWTP	Innovative Transactions to Restore Flow	81.000	0201.16.049006	76,690
National Fish & Wildlife Foundation	CBWTP	Innovative Transactions to Restore Flow	81.000	0201.17.053096	42,348
National Fish & Wildlife Foundation	CBWTP	Innovative Transactions to Restore Flow	81.000	0201.17.053092	18,022
National Fish & Wildlife Foundation	CBWTP	Water Lease Payments - Columbia Basin	81.000	0201.16.049002	636,171
National Fish & Wildlife Foundation	CBWTP	Water Lease Payments - Accord	81.000	0201.16.049006	95,603
National Fish & Wildlife Foundation	CBWTP	Water Lease Payments - Columbia Basin	81.000	0201.17.053096	3,000
National Fish & Wildlife Foundation	CBWTP	Water Lease Payments - Accord	81.000	0201.17.053092	195,477
Total National Fish and Wildlife Foundation					1,220,940
Bureau of Land Management		Salmon River Habitat Restoration	15.234	L13AC00128	88,825
Bureau of Land Management		Salmon River Aquatic Habitat Restoration	15.234	L11AC20158	6,569
Total Bureau of Land Management					95,394
Bureau of Reclamation		Rogue River Basin Restoration	15.517	R16AC00136	10,576
Bureau of Reclamation		Rogue River Basin Restoration	15.517	R16AC00100	15,626
Bureau of Reclamation		Rogue River Basin Restoration	15.517	R15AC00036	1,502,791
Bureau of Reclamation		Rogue River Basin Restoration	15.517	R14AC00029	79,225
Bureau of Reclamation		Rogue River Basin Restoration	15.517	R14AC00048	296,143
Total Bureau of Reclamation					1,904,361
OWEB/Pacific Coast Salmon Program		Upper Sandy River Habitat Restoration	11.438	214.3034	15,902
OWEB/Pacific Coast Salmon Program		Upper Sandy River Habitat Restoration	11.438	215-3048-11707	106,767
OWEB/Pacific Coast Salmon Program		Upper Sandy River Habitat Restoration	11.438	216-3039	80,000
Total OWEB/Pacific Coast Salmon Program					202,669
US Environmental Protection Agency		Accelerating Freshwater Ecosystems and Watershed Conservation	66.441	83590301	41,393
Total US Environmental Protection Agency					41,393
US Forest Service	NFWF	Upper Sandy River Basin Habitat Restoration	10.683	0901.15.050926	20,091
Total US Forest Service					20,091
Bureau of Land Management	NFWF	Upper Sandy River Basin Habitat Restoration	15.231	0901.15.050926	45,420
Total Bureau of Land Management					45,420
Total Expenditures Federal Awards					$ 3,530,268

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 Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

Total expenditures of federal awards	$	3,530,268
Non federal expenditures		6,018,916
Total expenses per Statement of Activities	$	9,549,184

NOTE 2 - INDIRECT COST RATE

The organization has elected not to use the ten percent (10%) de-minimis indirect cost rate provision.

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, 2016, 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 29, 2017.

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 solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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.

Verity Accountancy, PC

Verity Accountancy, PC

May 29, 2017

Portland, Oregon

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

Verity
Accountancy, PC

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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 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 Uniform Guidance, 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Verity Accountancy, PC

Verity Accountancy, PC

May 29, 2017
Portland, Oregon

THE FRESHWATER TRUST

Schedule of Findings and Questioned Costs

Year ended December 31, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditors' report issued: *Unmodified*

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: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance, Section 200.516(a)?		yes	X	no

Identification of major programs:

CFDA Number	*Federal Program*
81.000	Innovative Transactions to Restore Flows
81.000	Water Lease Payments
15.517	Rogue River Basin Restoration

Dollar threshold used to distinguish between Type A and Type B programs: $750,000

Auditee qualifies as low-risk auditee:	X	yes		no

THE FRESHWATER TRUST

Schedule of Findings and Questioned Costs

Year ended December 31, 2016

Section II - Financial Statement Findings

None.

THE FRESHWATER TRUST
Schedule of Findings and Questioned Costs
Year ended December 31, 2016

Section III - Findings and Questioned Costs for Federal Awards

None.