

The Freshwater Trust

Audited Financial Statements

FOR THE YEARS ENDED

December 31, 2018 and 2017

THE FRESHWATER TRUST

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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, 2018 and 2017, 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.



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, 2018 and 2017, 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.

Emphasis of Matter

As discussed in Note 3 to the financial statements, the 2017 financial statements have been restated to correct an error in the capitalization of intangible assets. Our opinion is not modified with respect to this matter.

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 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 June 21, 2019, 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 solely 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 the effectiveness of The Freshwater Trust's 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

June 21, 2019
Portland, Oregon

THE FRESHWATER TRUST
Statements of Financial Position
December 31, 2018 and 2017

Assets		
	2018	(Restated) 2017
Current Assets		
Cash and cash equivalents	\$ 1,483,879	\$ 588,691
Restricted reserve account	200,671	200,038
Grants and fees receivable	1,380,929	970,691
Prepaid expenses	62,865	55,547
Deposits	33,568	33,569
Total Current Assets	<u>3,161,912</u>	<u>1,848,536</u>
Property and Equipment		
Furniture & Fixtures	131,721	131,122
Equipment	302,246	297,465
Leasehold Improvements	392,252	392,252
Less Accumulated Depreciation	<u>(457,124)</u>	<u>(364,932)</u>
Net Property and Equipment	<u>369,095</u>	<u>455,907</u>
Beneficial interest held by others	128,521	137,981
StreamBank software, net	672,579	775,119
Water rights interest	<u>226,909</u>	<u>226,909</u>
Total Assets	<u><u>\$ 4,559,016</u></u>	<u><u>\$ 3,444,452</u></u>
Liabilities and Net Assets		
	2018	2017
Current Liabilities		
Accounts payable	\$ 359,350	\$ 334,088
Accrued interest	14,978	15,811
Payroll liabilities	103,783	91,963
Pension obligation	485	478
Current portion of PRI loan payable	<u>400,000</u>	<u>200,000</u>
Total Current Liabilities	<u>878,596</u>	<u>642,340</u>
Other Liabilities		
Deferred revenue	27,950	17,000
Deferred revenue - Stewardship	2,264,708	2,161,611
PRI loan payable	<u>3,100,000</u>	<u>3,500,000</u>
Total Liabilities	<u>6,271,254</u>	<u>6,320,951</u>
Net Assets		
Without donor restrictions	(2,443,662)	(3,123,917)
With donor restrictions	<u>731,424</u>	<u>247,418</u>
Total Net Assets	<u>(1,712,238)</u>	<u>(2,876,499)</u>
Total Liabilities and Net Assets	<u><u>\$ 4,559,016</u></u>	<u><u>\$ 3,444,452</u></u>

The accompanying notes are an integral part of these financial statements

THE FRESHWATER TRUST
Statement of Activities
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Grants and contributions	\$ 18,925	\$ 5,460,380	\$ 5,479,305
Individual giving	712,709	-	712,709
Water Quality Trading income	3,182,866	-	3,182,866
Special events income	548,549	-	548,549
In-kind donations	67,171	368,494	435,665
Interest income	2,313	-	2,313
Loss on investments, net of investment expense of \$1,217	(598)	(3,391)	(3,989)
Sales and other revenues	149	-	149
Total revenues, gains and other support	4,532,084	5,825,483	10,357,567
Net assets released from restrictions	5,341,477	(5,341,477)	-
Total revenues, gain, other support and net assets released from restrictions	9,873,561	484,006	10,357,567
Expenses:			
Program services	6,935,041	-	6,935,041
Special events	340,396	-	340,396
Development expenses	663,710	-	663,710
General and administrative	1,254,159	-	1,254,159
Total Expenses	9,193,306	-	9,193,306
Change in Net Assets	680,255	484,006	1,164,261
Net Assets, Beginning of Year	(3,123,917)	247,418	(2,876,499)
Net Assets, End of Year	<u>\$ (2,443,662)</u>	<u>\$ 731,424</u>	<u>\$ (1,712,238)</u>

The accompanying notes are an integral part of these financial statements

THE FRESHWATER TRUST
Statement of Activities
Year Ended December 31, 2017

	(Restated)		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Grants and contributions	\$ 38,084	\$ 5,136,993	\$ 5,175,077
Individual giving	323,425	-	323,425
Water Quality Trading income	2,394,425	-	2,394,425
Special events income	521,217	-	521,217
In-kind donations	94,912	1,019,329	1,114,241
Interest income	299	-	299
Gain on investments, net of investment expense of \$1,131	2,750	15,586	18,336
Sales and other revenues	447	-	447
Total revenues, gains and other support	3,375,559	6,171,908	9,547,467
Net assets released from restrictions	6,370,485	(6,370,485)	-
Total revenues, gain, other support and net assets released from restrictions	9,746,044	(198,577)	9,547,467
Expenses:			
Program services	8,264,221	-	8,264,221
Special events	381,669	-	381,669
Development expenses	422,491	-	422,491
General and administrative	1,387,749	-	1,387,749
Total Expenses	10,456,130	-	10,456,130
Change in Net Assets	(710,086)	(198,577)	(908,663)
Net Assets, Beginning of Year	(1,420,594)	445,995	(974,599)
Prior period adjustments	(993,237)	-	(993,237)
Net Assets, End of Year	<u>\$ (3,123,917)</u>	<u>\$ 247,418</u>	<u>\$ (2,876,499)</u>

The accompanying notes are an integral part of these financial statements

THE FRESHWATER TRUST
Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services	Support Services			Total Expenses
		Special Events	Development	General & Administration	
Payroll and related costs	\$ 2,030,578	\$ 8,502	\$ 543,373	\$ 754,014	\$ 3,336,467
Advertising and promotion	608	-	2,925	41,971	45,504
Acquisition expenses	17	264,723	-	1,922	266,662
Contracted services	2,759,757	-	-	33,133	2,792,890
Bank charges	35	-	3,036	1,075	4,146
Dues and subscriptions	1,549	-	850	2,507	4,906
Meetings and education	14,020	-	789	1,918	16,727
Insurance	2,900	-	-	56,028	58,928
Interest	-	-	-	36,167	36,167
Licenses, taxes and fees	26,080	-	10	807	26,897
Supplies	108,229	-	1,211	27,185	136,625
Gifts and promotion	-	-	1,062	5,081	6,143
Telephone	942	-	-	19,254	20,196
Postage and shipping	168	-	1,884	4,485	6,537
Professional services	1,516	-	4,659	38,034	44,209
Printing and publishing	2,362	-	11,527	10,438	24,327
Business development and prospecting	11,240	-	72,203	8,426	91,869
Travel	99,765	-	461	612	100,838
Equipment and maintenance	10,141	-	4,533	42,912	57,586
Occupancy	192,128	-	15,187	162,711	370,026
Depreciation and amortization	190,876	-	-	5,479	196,355
In-kind donations	368,494	67,171	-	-	435,665
Water acquisition fees and lease payments	1,113,636	-	-	-	1,113,636
Total Expenses	\$ 6,935,041	\$ 340,396	\$ 663,710	\$ 1,254,159	\$ 9,193,306

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

THE FRESHWATER TRUST
Statement of Functional Expenses
Year Ended December 31, 2017

	Program Services	Support Services			(Restated)
		Special Events	Development	General & Administration	Total Expenses
Payroll and related costs	\$ 2,180,169	\$ 33,443	\$ 332,167	\$ 934,397	\$ 3,480,176
Advertising and promotion	6,205	-	570	25,921	32,696
Acquisition expenses	-	253,314	-	315	253,629
Contracted services	2,260,537	-	-	27,677	2,288,214
Bank charges	66	-	2,203	3,454	5,723
Dues and subscriptions	2,251	-	6,107	2,381	10,739
Meetings and education	30,195	-	8,015	3,009	41,219
Insurance	2,852	-	-	50,089	52,941
Interest	-	-	-	38,167	38,167
Licenses, taxes and fees	7,849	-	-	1,376	9,225
Supplies	1,260,628	-	3,190	15,639	1,279,457
Gifts and promotion	977	-	1,396	4,935	7,308
Telephone	6,901	-	-	15,410	22,311
Postage and shipping	-	-	2,492	2,789	5,281
Professional services	12,770	-	6,840	49,854	69,464
Printing and publishing	2,181	-	10,836	4,607	17,624
Business development and prospecting	9,087	-	13,567	5,471	28,125
Travel	137,258	-	19,362	11,208	167,828
Equipment and maintenance	31,731	-	1,899	21,131	54,761
Occupancy	186,686	-	13,847	162,135	362,668
Depreciation and amortization	194,602	-	-	7,784	202,386
In-kind donations	1,019,329	94,912	-	-	1,114,241
Water acquisition fees and lease payments	911,947	-	-	-	911,947
Total Expenses	<u>\$ 8,264,221</u>	<u>\$ 381,669</u>	<u>\$ 422,491</u>	<u>\$ 1,387,749</u>	<u>\$ 10,456,130</u>

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

The Freshwater Trust
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	(Restated) 2017
Cash Flows from Operating Activities		
Change in net assets	\$ 1,164,261	\$ (908,663)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and Amortization	196,355	202,386
Net unrealized and realized (gain) loss on investments	3,989	(18,336)
(Increase) Decrease in Current Assets:		
Grants and fees receivable	(410,237)	507,970
Prepaid Expenses	(7,318)	(5,021)
Increase (Decrease) in Current Liabilities:		
Accounts Payable	25,262	(23,644)
Accrued Interest	(833)	(1,000)
Accrued Expenses	11,820	12,720
Pension Obligation	7	-
Deferred Revenue	10,950	(39,800)
Deferred Revenue - Stewardship	103,097	(162,727)
Net Cash Provided (Used) by Operating Activities	<u>1,097,353</u>	<u>(436,115)</u>
Cash Flows from Investing Activities		
Purchases of Property and Equipment	(7,002)	(52,317)
Proceeds from Investments	5,470	5,367
Net Cash Used by Investing Activities	<u>(1,532)</u>	<u>(46,950)</u>
Cash Flows from Financing Activities		
PRI Loan Repayment	(200,000)	(200,000)
Net Cash Used by Financing Activities	<u>(200,000)</u>	<u>(200,000)</u>
Net Increase (Decrease) In Cash and Cash Equivalents	895,821	(683,065)
Beginning Cash and Cash Equivalents	788,729	1,471,794
Ending Cash and Cash Equivalents	<u>\$ 1,684,550</u>	<u>\$ 788,729</u>
 Supplemental Disclosures of Cash Flow Information		
Cash paid for loan interest	<u>\$ 37,000</u>	<u>\$ 39,167</u>

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

THE FRESHWATER TRUST
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended December 31, 2018 and 2017

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, 2018 and 2017, 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.

New Accounting Pronouncement - On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Basis of Presentation - The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

THE FRESHWATER TRUST
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended December 31, 2018 and 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are classified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Expenses are reported as a decrease in net assets without donor restrictions. Gains and losses on investments and other asset or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities 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.

Restricted Reserve Account - Restricted reserve funds include amounts restricted for future stewardship costs.

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, 2018 and 2017 was:

\$	<u>93,814</u>	\$	<u>99,845</u>
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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, 2018 and 2017, 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.

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 value.

Revenue Recognition - All contributions and grants are reported as increases in net assets without donor restrictions 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 reported as increases in net assets without donor restrictions and are recognized as revenue when received.

THE FRESHWATER TRUST
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended December 31, 2018 and 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (Topic 606) "Revenue from Contracts with Customers", to clarify the principles of recognizing revenue and create common revenue recognition guidance between U.S. GAAP and International Financial Reporting Standards. Under ASU 2014-09, revenue is recognized when a customer obtains control of promised goods or services and is recognized at an amount that reflects the consideration expected to be received in exchange for such goods or services. In addition, ASU 2014-09 requires disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

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, 2018 and 2017 was \$102,541 and 102,541, respectively.

Functional expense - The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

Expense	Method of Allocation
Payroll and related costs	Time and effort
Advertising and promotion	Time and effort
Acquisition expenses	Time and effort
Contracted services	Time and effort
Bank charges	Time and effort
Dues and subscriptions	Time and effort
Meetings and education	Time and effort
Insurance	Time and effort
Licenses, taxes and fees	Time and effort
Supplies	Time and effort
Gifts and promotion	Time and effort
Telephone	Time and effort
Postage and shipping	Time and effort
Professional services	Time and effort
Printing and publishing	Time and effort
Meals and entertainment	Time and effort
Travel	Time and effort
Equipment and maintenance	Time and effort
Occupancy	Space, time and effort
Depreciation and amortization	Time and effort

THE FRESHWATER TRUST
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended December 31, 2018 and 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

Subsequent Events - Management has evaluated subsequent events through June 21, 2019, the date the financial statements were available to be issued.

NOTE 3 - PRIOR PERIOD ADJUSTMENTS

Management identified that the prior accounting treatment of certain permanent water deals were incorrectly capitalized and recognized as intangible assets between 2011 and 2014 resulting in a \$982,964 overstatement of water rights interests. While The Freshwater Trust was involved in structuring and facilitating these transactions, management subsequently determined that it did not have any title in the water rights or have any right to use and or benefit from these rights. As such, the Organization recorded a cumulative reduction to beginning net assets of \$982,964 as of January 1, 2017 to correct the accounting treatment related to the incorrect capitalization of permanent water right interests for the periods 2011 through 2014.

Management identified that the prior accounting treatment of certain StreamBank software costs associated with a third-party reimbursement arrangement were incorrectly capitalized during 2016 and 2017 resulting in an overstatement of StreamBank software and net assets. The Organization recorded a cumulative reduction to beginning net assets of \$10,273 as of January 1, 2017 to correct the accounting treatment related to capitalization of StreamBank software and net assets for the period 2016. The Organization has restated the 2017 financial statements to properly account for \$92,146 of the StreamBank software costs as an expense in the period incurred.

NOTE 4 - AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets at December 31, 2018 and 2017:

	2018	2017
Financial assets at year end:		
Cash and cash equivalents	\$ 1,483,879	\$ 588,691
Restricted reserve account	200,671	200,038
Grants and fees receivable	1,380,929	970,691
Beneficial interest held by others	128,521	137,981
Total financial assets	3,194,000	1,897,401
Less amounts not available to be used within one year:		
Restricted reserve account	200,671	200,038
Beneficial interest held by others	128,521	137,981
Net assets with donor restrictions	624,711	126,477
	<u>953,903</u>	<u>464,496</u>
Financial assets available to meet general expenditures over the next twelve months	\$ <u>2,240,097</u>	\$ <u>1,432,905</u>

THE FRESHWATER TRUST
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended December 31, 2018 and 2017

NOTE 4 - AVAILABILITY AND LIQUIDITY (CONTINUED)

The Organization has \$2,240,097 of financial assets available within 1 year of the balance sheet date to meet cash needs for general expenditure consisting of cash of \$1,483,879 and grants and fees receivable of \$1,380,929. Some of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. Specifically, \$624,711 of the cash balance is considered donor restricted for program use. The grants and fee receivable are subject to implied time restrictions but are expected to be collected within one year. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 5 - REVENUES

Adoption of ASC Topic 606, "Revenue from Contracts with Customers"

On January 1, 2017, the Organization elected to early adopt Topic 606 using the full retrospective method applied to those water quality trading contracts in which a stewardship component was not completed as of January 1, 2016. Results for reporting periods beginning after January 1, 2016 are presented under Topic 606.

Revenue Recognition

Revenues are recognized when control of the promised goods or services is transferred to the Organization's customers, in an amount that reflects the consideration the Organization expects to be entitled to in exchange for those goods or services.

The following table presents the Organization's Water Quality Trading revenues disaggregated by type of contract.

	2018	2017
Contracts with future stewardship commitments	\$ 392,534	\$ 114,802
Satisfaction of performance obligations	484,612	395,179
Contracts without future stewardship commitments	<u>2,305,720</u>	<u>1,884,444</u>
Total Water Quality Trading revenue	\$ <u>3,182,866</u>	\$ <u>2,394,425</u>

Arrangements with Multiple Performance Obligations

The Organization's Water Quality Trading contracts may include performance obligations related to ongoing long-term stewardship activities including maintenance, monitoring, third-party verification, credit registration, landowner payments and project management. For such arrangements, the Organization allocates revenue to the performance obligation based on its relative standalone selling price. The Organization generally determines standalone selling prices based on the prices used to generate credit calculations.

THE FRESHWATER TRUST
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended December 31, 2018 and 2017

NOTE 5 - REVENUES (CONTINUED)

Deferred Revenues

The Organization records deferred revenue for its Water Quality Trading programs when cash payments are received in advance of completing all service obligations associated with long-term stewardship. The Organization recognizes deferred revenue based on a weighted average price per credit that covers all of the Organization's Water Quality Trading sites. Deferred revenues are released annually as a percentage of the weighted average price per credit based on the estimated stewardship costs for that year. Deferred revenues will be released over the next 20 years, as the Organization projects to spend approximately \$1.8 million on long-term stewardship of the Water Quality Trading sites.

	2018	2017
Deferred revenue, beginning of period	\$ 2,161,611	\$ 2,324,338
Additions to deferred revenue	587,709	232,452
Satisfaction of performance obligations	<u>(484,612)</u>	<u>(395,179)</u>
Deferred revenue, end of period	\$ <u>2,264,708</u>	\$ <u>2,161,611</u>

At December 31, 2018, the approximate minimum release of deferred revenues are as follows:

Year Ending December 31,

2019	\$ 123,267
2020	140,718
2021	116,063
2022	156,914
2023	116,868
Thereafter	<u>1,610,878</u>
Total	\$ <u>2,264,708</u>

NOTE 6 - 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.
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THE FRESHWATER TRUST
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended December 31, 2018 and 2017

NOTE 6 - FAIR VALUE MEASUREMENTS (CONTINUED)

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 7, 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.

THE FRESHWATER TRUST
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended December 31, 2018 and 2017

NOTE 6 - FAIR VALUE MEASUREMENTS (CONTINUED)

	Assets at Fair Value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Beneficial interest held by others	-	-	128,521	128,521
Total assets at fair value	\$ -	\$ -	\$ 128,521	128,521

	Assets at Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Beneficial interest held by others	-	-	137,981	137,981
Total assets at fair value	\$ -	\$ -	\$ 137,981	137,981

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	Level 3
	Endowment	Endowment
	Investments	Investments
	2018	2017
Balance, beginning of year	\$ 137,981	\$ 125,011
Realized gains/(losses)	2,509	1,326
Unrealized gains/(losses)	(6,314)	17,031
Investment income, net of expense	(185)	(20)
Distributions	(5,470)	(5,367)
Balance, end of year	\$ 128,521	\$ 137,981

NOTE 7 - INVESTMENT IN PERPETUAL TRUST

In 1996 the Organization established the Freshwater Trust 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, 2018 and 2017, the fair value of the assets in this fund totaled \$128,521 and \$137,981, 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. For the years ended December 31, 2018 and 2017, the Organization received distributions of \$5,470 and \$5,367, respectively.

THE FRESHWATER TRUST
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended December 31, 2018 and 2017

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 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 was potentially available no later than September 1, 2015, provided the Organization satisfied certain conditions. Subsequently, 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, 2018 and 2017 was:

	\$ 14,978	\$ 15,811
	<u> </u>	<u> </u>

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, 2018, the approximate minimum principal payments for the PRI Note Payable are as follows:

Year Ending December 31,

2019	\$ 400,000
2020	550,000
2021	650,000
2022	1,000,000
2023	900,000
Thereafter	-
Total	<u>\$ 3,500,000</u>

THE FRESHWATER TRUST
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended December 31, 2018 and 2017

NOTE 9 - NET ASSETS

Net assets with donor restrictions were as follows for the years ended December 31, 2018 and 2017:

	2018	2017
Specific Purpose		
Habitat programs	\$ 624,711	\$ 126,477
The Freshwater trust Endowment Fund	<u>106,713</u>	<u>120,941</u>
Total	<u>\$ 731,424</u>	<u>\$ 247,418</u>

The Endowment Fund was established for the purpose of providing investment revenues to support wild fish conservation programs in perpetuity. Permanently restricted net assets at December 31, 2018 and 2017, consist of investments held within the Freshwater Trust Endowment Fund; which is managed by the Oregon Community Foundation.

Net assets released from net assets with donor restrictions are as follows:

	2018	2017
Satisfaction of Purpose Restrictions	<u>\$ 5,341,477</u>	<u>\$ 6,370,485</u>

NOTE 10 - OPERATING LEASE COMMITMENTS

The Organization leases its primary office facilities 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, 2018 and 2017 was:

	<u>\$ 512,273</u>	<u>\$ 484,871</u>
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Sublease income for the years ended December 31, 2018 and 2017 was:

	<u>\$ 142,248</u>	<u>\$ 122,203</u>
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In addition, the Organization leases certain office equipment under lease agreements expiring in 2021. Rental expense paid for equipment leases for the years ended December 31, 2018 and 2017 was:

	<u>\$ 17,879</u>	<u>\$ 13,189</u>
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THE FRESHWATER TRUST
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended December 31, 2018 and 2017

NOTE 10 - OPERATING LEASE COMMITMENTS (CONTINUED)

At December 31, 2018, the approximate minimum rental commitments for the above leases are as follows:

Year Ending December 31,

2019	\$ 483,355
2020	446,105
2021	405,703
2022	297,949
2023	306,888
Thereafter	977,015
Total	<u>\$ 2,917,015</u>

At December 31, 2018, the approximate sublease income for the above leases are as follows:

Year Ending December 31,

2019	\$ 139,020
2020	98,935
2021	65,032
2022	-
2023	-
Thereafter	-
Total	<u>\$ 302,987</u>

NOTE 11 - 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. Mr. Malmberg now provides services to the Organization as a consultant. 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 12 - 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, 2018 and 2017 were:

<u>\$ 129,979</u>	<u>\$ 138,398</u>
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THE FRESHWATER TRUST
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended December 31, 2018 and 2017

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 \$67,171 and \$94,912 are included in unrestricted contributions, specifically for Special Events for the years ending December 31, 2018 and 2017.

Contributed goods and professional services valued at \$368,494 and \$1,019,329 are included in unrestricted contributions, specifically for the Habitat Program for the years ending December 31, 2018 and 2017.

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, 2018 and 2017, the Organization has not recognized any impairment losses on the value these water rights. However, please reference Note 3 - Prior Period Adjustments for correcting the accounting treatment of previously capitalized water right interests.

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 or other agency funder of water transactions. 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, 2018, 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, 2018, the approximate minimum commitments for the above leases are as follows:

Year Ending December 31:

2019	\$	388,522
2020		98,388
2021		98,388
2022		57,788
2023		14,640
Thereafter		58,560
Total	\$	<u>716,286</u>

THE FRESHWATER TRUST
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended December 31, 2018 and 2017

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

Endowment Net Asset Composition by Type of Fund as of December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 21,808	\$ 106,713	\$ 128,521
Total assets at fair value	<u>\$ 21,808</u>	<u>\$ 106,713</u>	<u>\$ 128,521</u>

Endowment Net Asset Composition by Type of Fund as of December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 22,406	\$ 115,575	\$ 137,981
Total assets at fair value	<u>\$ 22,406</u>	<u>\$ 115,575</u>	<u>\$ 137,981</u>

THE FRESHWATER TRUST
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended December 31, 2018 and 2017

NOTE 16 - ENDOWMENT (CONTINUED)

Changes in Endowment Net Assets for the year ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 22,406	\$ 115,575	\$ 137,981
Investment return:			
Investment income	(27)	(158)	(185)
Net appreciation/(depreciation) (realized and unrealized)	(571)	(3,234)	(3,805)
Appropriation of endowment assets for expenditure	-	(5,470)	(5,470)
Endowment net assets, end of year	<u>\$ 21,808</u>	<u>\$ 106,713</u>	<u>\$ 128,521</u>

Changes in Endowment Net Assets for the year ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 19,656	\$ 105,355	\$ 125,011
Investment return:			
Investment income	(3)	(17)	(20)
Net appreciation/(depreciation) (realized and unrealized)	2,753	15,604	18,357
Appropriation of endowment assets for expenditure	-	(5,367)	(5,367)
Endowment net assets, end of year	<u>\$ 22,406</u>	<u>\$ 115,575</u>	<u>\$ 137,981</u>

NOTE 17 - 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, 2018 and 2017, cash balances exceed federally insured limits by \$1,263,356 and \$261,282, 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.

THE FRESHWATER TRUST
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended December 31, 2018 and 2017

NOTE 18 - RESTRICTED RESERVE ACCOUNT

The Organization maintains a cash reserve account to fund future stewardship costs associated with a USFS Water Quality Trading contract. The contract stipulates that \$301,500 (45% of the contract) is earmarked for future stewardship costs. The balance in the reserve account at December 31, 2018 and 2017 was \$200,671 and \$200,038, respectively.

NOTE 19 - 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 rate in effect for the years ended December 31, 2018 and 2017, was 20.20% (provisional) and 19.41% (final), respectively.

THE FRESHWATER TRUST
Schedule of Expenditures of Federal Awards
Year ended December 31, 2018

Federal Agency	Pass Through Agency	Federal Program Title	CFDA Number	Grant Identification Number	Expenditures
National Fish & Wildlife Foundation	CBWTP	Innovative Transactions to Restore Flows	81.000	0201.18.058011	\$ 111,074
National Fish & Wildlife Foundation	CBWTP	Innovative Transactions to Restore Flows	81.000	0201.19.061546	29,908
National Fish & Wildlife Foundation	CBWTP	Innovative Transactions to Restore Flows	81.000	0201.18.058002	50,484
National Fish & Wildlife Foundation	CBWTP	Innovative Transactions to Restore Flows	81.000	0201.19.061551	9,398
National Fish & Wildlife Foundation	CBWTP	Water Lease Payments - Columbia Basin	81.000	0201.18.058011	671,338
National Fish & Wildlife Foundation	CBWTP	Water Lease Payments - Accord	81.000	0201.19.061546	244,526
National Fish & Wildlife Foundation	CBWTP	Water Lease Payments - Columbia Basin	81.000	0201.18.058002	95,026
National Fish & Wildlife Foundation	CBWTP	Water Lease Payments - Accord	81.000	0201.19.061551	<u>2,488</u>
Total National Fish and Wildlife Foundation					1,214,242
Bureau of Land Management		Waters Creek RM 0.7 Habitat Project	15.234	L17AC00161	24,234
Bureau of Land Management		Salmon River Aquatic Habitat Restoration	15.234	L13AC00128	<u>795</u>
Total Bureau of Land Management					25,029
Bureau of Reclamation		Rogue River Basin Restoration	15.517	R17AC00159	494,966
Bureau of Reclamation		Rogue River Basin Restoration	15.517	R16AC00136	50,379
Bureau of Reclamation		Rogue River Basin Restoration	15.517	R16AC00100	162,988
Bureau of Reclamation		Rogue River Basin Restoration	15.517	R15AC00036	45,853
Bureau of Reclamation		Rogue River Basin Restoration	15.517	R14AC00029	1,531
Bureau of Reclamation		Rogue River Basin Restoration	15.517	R14AC00048	71,445
Bureau of Reclamation		Rogue River Basin Restoration	15.517	R18AC00056	<u>112,010</u>
Total Bureau of Reclamation					939,172
US Department of Agriculture, NRCS		Streamlining Regulatory Compliance and Conservation Planning	10.912	69-3A75-17-287	202,092
US Department of Agriculture, NRCS		Transferable System to Promote Increased Adoption of Cover Crops for Improved Natural Infiltration and Drought Resiliency in California	10.912	69-9104-18-008	<u>28,232</u>
Total US Department of Agriculture, NRCS Program					230,324
US Environmental Protection Agency	US Endowment for Forestry & Communities	Framework for Acquiring and Sustainably Managing Agricultural Land	66.441	83590301	<u>40,907</u>
Total US Environmental Protection Agency					40,907

See accompanying notes and accountant's report.

THE FRESHWATER TRUST
Schedule of Expenditures of Federal Awards
Year ended December 31, 2018

Federal Agency	Pass Through Agency	Federal Program Title	CFDA Number	Grant Identification Number	Expenditures
US Forest Service		Rogue River Basin Water Quality Enhancement and Watershed Restoration Partnership	10.683	18-PA-11061000-033	40,100
US Forest Service		Little Butte Watershed Riparian Erosion Mapping and Assessment Project	10.683	17-PA-110610-022	866
US Forest Service		Upper Sandy River Basin Restoration - Instream Restoration	10.683	17-SA-11060600-012	56,585
US Forest Service	National Forest Foundation	Upper Sandy River Watershed Restoration Project	10.683	KJ-603	<u>113,709</u>
Total US Forest Service					211,260
Bureau of Land Management	NFWF	Upper Sandy River Basin Habitat Restoration	15,231	0901.16.054362	<u>433</u>
Total Bureau of Land Management					433
	Confederated Tribes of the Warm Springs Reservation				
Bonneville Power Administration		MFJDR Galena Tailings Design Final Report		T-17382-16	<u>840</u>
Total Bonneville Power Administration					840
	Oregon Watershed Enhancement Board				
Department of Commerce, Pacific Coast Salmon Recovery Pacific Salmon Treaty Program		Upper Sandy River Basin Aquatic Habitat Restoration Project	11.438	OWEB 217-3021-14175	79,806
Department of Commerce, Pacific Coast Salmon Recovery Pacific Salmon Treaty Program	Oregon Watershed Enhancement Board	Upper Sandy River Basin Aquatic Habitat Restoration Project	11.438	OWEB 218-3020-15931	<u>230,869</u>
Total National Forest Foundation					310,675
Total Expenditures Federal Awards					<u><u>\$ 2,972,882</u></u>

See accompanying notes and accountant's report.

The Freshwater Trust
Notes To Schedule of Expenditures of Federal Awards
Year ended December 31, 2018

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	\$ 2,972,882
Non federal expenditures	<u>6,220,424</u>
Total expenses per Statement of Activities	<u>\$ 9,193,306</u>

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, 2018, 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 June 21, 2019.

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

June 21, 2019

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, 2018. 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, 2018.



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

Verity Accountancy, PC

Verity Accountancy, PC

June 21, 2019
Portland, Oregon

THE FRESHWATER TRUST
Schedule of Findings and Questioned Costs
Year ended December 31, 2018

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*

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, 2018

Section II - Financial Statement Findings

None.

THE FRESHWATER TRUST
Schedule of Findings and Questioned Costs
Year ended December 31, 2018

Section III - Findings and Questioned Costs for Federal Awards

None.