REPORTS OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

THE FRESHWATER TRUST

December 31, 2019 and 2018

MOSSADAMS

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Report of Independent Auditors

To the Board of Directors
The Freshwater Trust

Report on the Financial Statements

We have audited the accompanying financial statements of The Freshwater Trust (the Organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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, 2019, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Restatement of Previously Issued Financial Statements

As discussed in Note 16 to the financial statements, the Organization has restated its 2018 financial statements to correct for a misstatement. Our opinion is not modified with respect to this matter.

The financial statements of The Freshwater Trust as of December 31, 2018, before the restatement described in Note 16, were audited by other auditors whose report dated June 21, 2019, expressed an unmodified opinion on those statements.

As part of our audit of the December 31, 2019 financial statements, we also audited the adjustments described in Note 16 that were applied to restate the 2018 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2018 financial statements of The Freshwater Trust other than with respect to the restatement adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2018 financial statements as a whole.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The 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 June 12, 2020 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.

Moss Adams LLP

Portland, Oregon
June 12, 2020

The Freshwater Trust
Statements of Financial Position

ASSETS

	December 31, 2019	December 31, 2018 (As Restated)
CURRENT ASSETS		
Cash and cash equivalents	$ 2,150,920	$ 1,483,879
Restricted reserve account	201,568	200,671
Total cash and cash equivalents and restricted reserve	2,352,488	1,684,550
Grants and fees receivable	972,746	1,380,929
Investments	5,072	-
Prepaid expenses	62,849	62,865
Deposits	33,568	33,568
Total current assets	3,426,723	3,161,912
PROPERTY AND EQUIPMENT		
Furniture and fixtures	130,635	131,721
Equipment	401,033	302,246
Leasehold improvements	398,927	392,252
Less accumulated depreciation	(546,353)	(457,124)
Net property and equipment	384,242	369,095
Beneficial interest held by others	146,177	128,521
StreamBank software, net	554,422	672,579
Water rights interest	226,909	226,909
Total assets	$ 4,738,473	$ 4,559,016

LIABILITIES AND NET ASSETS (DEFICIT)

	December 31, 2019	December 31, 2018 (As Restated)
CURRENT LIABILITIES		
Accounts payable	$ 201,351	$ 359,350
Accrued interest	13,417	14,978
Payroll liabilities	103,025	104,268
Current portion of PRI loan payable	550,000	400,000
Total current liabilities	867,793	878,596
OTHER LIABILITIES		
Deferred rent	216,545	246,861
Deferred revenue	2,341,339	2,054,320
PRI loan payable	2,550,000	3,100,000
Total liabilities	5,975,677	6,279,777
NET ASSETS (DEFICIT)		
Without donor restrictions	(1,645,881)	(2,452,185)
With donor restrictions	408,677	731,424
Total net deficit	(1,237,204)	(1,720,761)
Total liabilities and net deficit	$ 4,738,473	$ 4,559,016

The Freshwater Trust
Statement of Activities
Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Grants and contributions	$ 52,734	$ 5,140,613	$ 5,193,347
Individual giving	693,944	-	693,944
Water Quality Trading income	3,269,862	-	3,269,862
Special events income	714,449	-	714,449
In-kind donations	280,270	377,574	657,844
Investment return, net	12,731	14,161	26,892
Other revenues	41,000	-	41,000
Total revenues, gains, and other support	5,064,990	5,532,348	10,597,338
NET ASSETS RELEASED FROM RESTRICTIONS	5,855,095	(5,855,095)	-
Total revenues, gains, other support, and net assets released from restrictions	10,920,085	(322,747)	10,597,338
EXPENSES			
Program services	7,275,360	-	7,275,360
Special events	619,881	-	619,881
Development expenses	907,199	-	907,199
General and administrative	1,311,341	-	1,311,341
Total expenses	10,113,781	-	10,113,781
CHANGE IN NET ASSETS (DEFICIT)	806,304	(322,747)	483,557
NET ASSETS (DEFICIT), beginning of year	(2,452,185)	731,424	(1,720,761)
NET ASSETS (DEFICIT), end of year	$ (1,645,881)	$ 408,677	$ (1,237,204)

See accompanying notes.

	Without Donor Restrictions (As Restated)	With Donor Restrictions	Total (As Restated)
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	3,209,125	-	3,209,125
Special events income	548,549	-	548,549
In-kind donations	67,171	368,494	435,665
Investment loss, net	1,715	(3,391)	(1,676)
Other revenues	149	-	149
Total revenues, gains, and other support	4,558,343	5,825,483	10,383,826
NET ASSETS RELEASED FROM RESTRICTIONS	5,341,477	(5,341,477)	-
Total revenues, gains, other support, and net assets released from restrictions	9,899,820	484,006	10,383,826
EXPENSES			
Program services	6,935,041	-	6,935,041
Special events	340,396	-	340,396
Development expenses	663,710	-	663,710
General and administrative	1,237,832	-	1,237,832
Total expenses	9,176,979	-	9,176,979
CHANGE IN NET ASSETS (DEFICIT)	722,841	484,006	1,206,847
NET ASSETS (DEFICIT), beginning of year	(3,175,026)	247,418	(2,927,608)
NET ASSETS (DEFICIT), end of year	$ (2,452,185)	$ 731,424	$ (1,720,761)

The Freshwater Trust
Statement of Functional Expenses
Year Ended December 31, 2019

		Supporting Services			
	Program Services	Special Events	Development	General and Administration	Total Expenses
Payroll and related costs	$ 2,221,821	$ 11,713	$ 769,145	$ 748,291	$ 3,750,970
Advertising and promotion	2,950	-	1,244	52,600	56,794
Special events expenses	8	440,797	-	-	440,805
Contracted services	2,746,369	-	143	27,211	2,773,723
Bank charges	-	-	7,726	2,668	10,394
Dues and subscriptions	3,040	-	3,722	9,570	16,332
Meetings and education	2,998	-	1,598	-	4,596
Insurance	-	-	-	61,938	61,938
Interest	-	-	-	33,188	33,188
Licenses, taxes, and fees	34,662	-	390	790	35,842
Supplies	493,812	-	2,146	16,560	512,518
Gifts and promotion	15	-	1,745	6,405	8,165
Telephone	3	-	15	27,557	27,575
Postage and shipping	1,031	-	1,897	952	3,880
Professional services	17,554	-	802	28,553	46,909
Printing and publishing	3,933	-	8,725	10,725	23,383
Business development and prospecting	7,876	-	86,155	28,093	122,124
Travel	94,877	-	1,987	-	96,864
Equipment and maintenance	15,404	-	5,137	42,680	63,221
Occupancy	190,091	-	14,622	160,847	365,560
Depreciation and amortization	204,311	-	-	6,319	210,630
In-kind donations	377,574	167,371	-	46,394	591,339
Water acquisition fees and lease payments	857,031	-	-	-	857,031
Total expenses	$ 7,275,360	$ 619,881	$ 907,199	$ 1,311,341	$ 10,113,781

See accompanying notes.

	Program Services	Supporting Services: Special Events	Supporting Services: Development	Supporting Services: General and Administration (As Restated)	Total Expenses (As Restated)
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
Special events 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	146,384	353,699
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	$ 1,237,832	$ 9,176,979

See accompanying notes.

The Freshwater Trust
Statements of Cash Flows

	Years Ended December 31, 2019	2018 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 483,557	$ 1,206,847
Adjustments to reconcile change in net assets to net cash cash provided by operating activities		
Depreciation and amortization	210,630	196,355
Contribution of property and equipment	(66,505)	-
Contribution of investment securities	(5,072)	-
Net unrealized and realized (gain) loss on investments	(23,292)	3,989
Changes in assets and liabilities		
Grants and fees receivable	408,183	(410,237)
Prepaid expenses	16	(7,318)
Accounts payable	(157,999)	25,262
Accrued interest	(1,561)	(833)
Payroll liabilities	(1,243)	11,827
Deferred rent	(30,316)	(16,327)
Deferred revenue	287,019	87,788
Net cash provided by operating activities	1,103,417	1,097,353
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(41,115)	(7,002)
Proceeds from investments	5,636	5,470
Net cash used by investing activities	(35,479)	(1,532)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on PRI loan payable	(400,000)	(200,000)
Net cash used by financing activities	(400,000)	(200,000)
INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED RESERVE	667,938	895,821
CASH AND CASH EQUIVALENTS AND RESTRICTED RESERVE, beginning of year	1,684,550	788,729
CASH AND CASH EQUIVALENTS AND RESTRICTED RESERVE, end of year	$ 2,352,488	$ 1,684,550
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for loan interest	$ 34,750	$ 37,000

 See accompanying notes.

Note 1 – Organization

The Freshwater Trust (the Organization) is a 501(c)(3) not-for-profit organization 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, 2019 and 2018, 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 streams and rivers.

Habitat – The Freshwater Trust actively restores aquatic habitat in the Western United States 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.

Watershed Analytics and Solutions – Making sense of widely available, but largely "unseen" data, The Freshwater Trust is able to drive landscape-level change on the conservation landscape. Specifically, the Organization uses data to identify and illustrate the specific action or actions necessary to change the trajectory of a watershed's current condition; uses that insight to drive the policy changes, funders, and social buy-in necessary to understand and implement that optimal pathway; and then develop the operational/supply chain capacity and innovative conservation financing approaches necessary to deploy those solutions.

Note 2 – Summary of Significant Accounting Policies

Basis of accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Note 2 – Summary of Significant Accounting Policies

Basis of presentation
Net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

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.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grantors that may or will be met, either by actions of the Organization or the passage of time. When a restriction is met, 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. Also included in this classification are net assets subject to donor-imposed stipulations which must be maintained in perpetuity by the Organization. Generally, the donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes.

Cash equivalents
For financial statement purposes, the Organization considers all liquid investments having initial maturities of three months or less to be cash equivalents. Certain amounts may exceed the limits of FDIC insurance coverage. However, the Organization has not incurred any credit losses to date.

Restricted reserve account
Restricted reserve funds include amounts restricted for future stewardship costs by the U.S. Forest Service (USFS). The balance in the reserve account at December 31, 2019 and 2018 was $201,568 and $200,671, respectively.

Grants and fees receivable
Grants and fees receivable are unsecured and reported at the amount management expects to collect on balances outstanding at year-end. Management’s policy regarding write-offs of receivable balances is to review historical payments and subsequent collections in order to determine if an allowance is necessary. Based on an assessment of the credit history with those having outstanding balances and current relationships with them, management has concluded that realization losses on balances outstanding at year-end will be insignificant, and thus no allowance has been recorded at December 31, 2019 or 2018.

Property and equipment
Purchased property and equipment is recorded at its cost of acquisition. Donated property and equipment is recorded at its estimated fair 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, 2019 and 2018 was $92,474 and $93,814, respectively.

Note 2 – Summary of Significant Accounting Policies (continued)

Investments and investment return
Investments in securities with readily determinable fair values are measured at fair value in the statements of financial position. Investment returns include realized and unrealized gains and losses, interest, and dividends, net of investment expenses, and are reported as an increase or decrease to the appropriate net asset category.

StreamBank software development costs
Costs 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. Capitalized software is amortized over 10 years. Amortization expense for the years ended December 31, 2019 and 2018 was $118,156 and $102,541, respectively.

Deferred rent
Occupancy expense for the Organization's leases, which generally have escalating rental payments over the term of the lease, is recorded on a straight-line basis over the lease term. The difference between the occupancy expense and rent paid is recorded as a deferred rent liability on the statements of financial position.

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.

The Organization recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Organization recognizes interest and penalties related to income tax matters, if any, in licenses, taxes, and fees expense.

The Organization had no unrecognized tax benefits at December 31, 2019 or 2018. The Organization files an exempt organization return in the U.S. federal jurisdiction and applicable unrelated business income tax returns for U.S. federal and Oregon purposes.

Revenue and revenue recognition
The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

Note 2 – Summary of Significant Accounting Policies (continued)

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statements of financial position. The Organization had not received any cost-reimbursable grants that have not been recognized at December 31, 2019 because qualifying expenditures have not yet been incurred.

The Organization has adopted Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)*, as management believes the standard improves the usefulness and understandability of the Organization's financial reporting. Adoption of this standard had no impact on the Organization's overall change in net assets or net cash from operating activities.

Functional allocation of expenses
The costs of providing program and other activities have been summarized on a functional basis in the accompanying statements of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited. Such allocations are determined by management on a reasonable basis that is consistently applied on the basis of estimates of time and effort for all categories other than occupancy which is allocated on the basis of estimates of space, time, and effort.

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
Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are available to be issued. The Organization recognizes in the financial statements, the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Organization's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position and before the financial statements are available to be issued. See Note 15.

The Organization has evaluated subsequent events through June 12, 2020, which is the date the financial statements were available to be issued.

Note 3 – Liquidity and Availability

Financial assets and liquid resources available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following for the years ended December 31:

	2019	2018
Financial assets at year-end		
Cash and cash equivalents	$ 2,150,920	$ 1,483,879
Restricted reserve account	201,568	200,671
Grants and fees receivable	972,746	1,380,929
Beneficial interest held by others	146,177	128,521
Total financial assets	3,471,411	3,194,000
Less amounts not available to be used within one year		
Restricted reserve account	201,568	200,671
Beneficial interest held by others	146,177	128,521
Net assets with donor restrictions	293,439	624,711
	641,184	953,903
Financial assets available to meet general expenditures over the next twelve months	$ 2,830,227	$ 2,240,097

Additionally, the Organization has an operating line of credit totaling $150,000 at December 31, 2019. While this line could be made available for general expenditures, the Board placed certain restrictions on the use of the line of credit to comply with PRI loan covenants as described in the PRI loan agreement. No line of credit was available at December 31, 2018. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Note 4 – Revenue and Revenue Recognition

Revenue recognition

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Organization early adopted the new standard effective January 1, 2017, the first day of the Organization's fiscal year using the full retrospective approach.

As part of the adoption of the ASU, the Organization applied the standard only to contracts that were not completed at the initial date of application.

Note 4 – Revenue and Revenue Recognition (continued)

To determine revenue recognition for contracts with customers, the Organization performs the following five steps:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when the Organization satisfies a performance obligation

The Organization has utilized the portfolio approach practical expedient per Topic 606-10-10-4, which allows the application of Topic 606 to a portfolio of contracts with similar characteristics provided the accounting does not differ materially to application of Topic 606 to the individual contract.

The Organization's revenues under the scope of Topic 606 primarily related to: (1) Water Quality Trading (WQT) contracts with future stewardship and (2) WQT contracts without future stewardship.

WQT contracts with future stewardship
WQT contracts with future stewardship commitments are bundled arrangements that include program set up and implementation (implementation) as well as stewardship (stewardship) expenses. Stewardship includes monitoring and maintenance, ongoing verifications, and other services necessary to meet the thermal credit verification during the period under contract.

WQT contracts with future stewardship obligations include service warranties related to the stewardship obligations that have been included and recognized as a separate performance obligation. The Organization concluded these warranties were service type warranties given that the customer contracts require the Organization to complete additional services, including monitoring and maintenance, ongoing verifications, and other stewardship activities necessary to ensure project benefits accrue and are protected over time.

Revenue is allocated to implementation and stewardship performance obligations based on stand-alone selling prices, which were determined based on the prices used to generate credit calculations.

As the Organization performs implementation and stewardship obligations, the Organization recognizes the revenues as those services are completed. The total of recognized revenue is estimated based on ongoing stewardship requirements per the related contracts. The Organization has concluded that the customer simultaneously receives and consumes the benefit of these completed services.

WQT contracts without future stewardship
The Organization also enters into contracts with customers where future stewardship expenses are not bundled into an upfront purchase price. These contracts operate like a professional services agreement. Based on the nature of the professional services provided, the Organization has concluded that the customer simultaneously receives and consumes the benefit as the Organization performs the services, and thus the service revenues are recognized as the service is performed.

Note 4 – Revenue and Revenue Recognition (continued)

Amounts that have been charged to the customer are recorded in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met.

WQT contracts with future stewardship commitments bundle payment for implementation and future stewardship into a credit price that is paid upon verification that the site has been implemented consistent with performance standards. WQT contracts without future stewardship commitments are generally billed based on services completed, expenses incurred, or hours worked. In instances where the timing of revenue recognition differs from the timing of invoicing, the Organization has determined contracts do not include a significant financing component. The primary purpose of the Organization's invoicing terms is to provide customers with simplified and predictable ways of purchasing the Organization's services, not to receive financing from customers or to provide customers with financing.

Note 5 – Beneficial Interest in Perpetual Trust

The Freshwater Trust has an agreement with the Oregon Community Foundation (OCF) to transfer certain of its investments to OCF in order to achieve improved performance results and enhanced long-term planned giving goals. The agreement gives OCF variance power, that is, terms which grant OCF's Board of Directors the authority to modify restrictions and conditions of the fund under certain circumstances. The agreement stipulates that OCF will distribute a percentage of the fair value of the fund to the Organization based on the expected total return on the investments of the permanent funds of OCF and other factors. The agreement specifies that such percentage shall not be less than a reasonable rate of return. For the years ended December 31, 2019 and 2018, the Organization received distributions of $5,636 and $5,470, respectively.

Note 6 – Fair Value Measurements

GAAP establishes a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources while unobservable inputs reflect estimates about market data.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities readily accessible at the reporting date.

Level 2 – Pricing inputs are observable for the assets or liabilities, either directly or indirectly, as of the reporting date, but are not the same as those used in Level 1.

Level 3 – Pricing inputs are unobservable for the assets or liabilities and may include significant judgment or estimation.

Note 6 – Fair Value Measurements (continued)

The Organization used the following methods and significant assumptions to estimate fair value for its assets measured at fair value in the financial statements:

Investments – Investments are comprised of donated stocks that had not been liquidated as of December 31, for which fair values are based on quoted market prices in an active market.

Beneficial interest in perpetual trust – As described in Note 5, investments held at OCF represent the Organization's share of a pooled investment portfolio managed by OCF. The Organization's share of the pooled investment portfolio is not actively traded and significant other observable inputs are not available. However, the underling investments of OCF are measured by management of OCF using a variety of valuation methods using Level 1, Level 2, and Level 3 inputs. As such, investments held at OCF are valued on the basis of the net asset value (NAV) as a practical expedient for measuring fair value. NAV is the market value of the investment, less any associated liabilities, divided per share, or its equivalent. Investments measured at NAV are not included in the fair value hierarchy. There are no unfunded commitments and the redemption frequency is quarterly. There is no redemption notice period and no other restrictions.

There have been no changes in methodologies used to determine fair value during the years ended December 31, 2019 or 2018.

Follows is the Organization's assets measured at fair value on a recurring basis, along with an articulation of how fair value was determined at December 31:

	2019			
	Level 1	Level 2	Level 3	Total
Common stock				
Domestic	$ 5,072	$ -	$ -	$ 5,072
Beneficial interest in perpetual trust measured at net asset value				146,177
Total assets at fair value	$ 5,072	$ -	$ -	$ 151,249

	2018			
	Level 1	Level 2	Level 3	Total
Beneficial interest in perpetual trust measured at net asset value	$ -	$ -	$ -	$ 128,521
Total assets at fair value	$ -	$ -	$ -	$ 128,521

Note 7 – 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, 2019 and 2018, the Organization has not recognized any impairment losses on the value these water rights.

Note 8 – Line of Credit

In August 2019, the Organization obtained an operating line of credit with an approved maximum borrowing line of $150,000. The line of credit was secured by all inventory, equipment, accounts receivable, chattel paper, instruments, letter-of-credit rights, letters of credit, documents, deposit accounts, investment property, money, other rights to payments and performance, and general intangibles. The Board placed certain restrictions on the use of the line of credit to comply with PRI loan covenants as described in the PRI loan agreement. Interest accrued at the bank's prime rate plus 0.50% (5.25% at December 31, 2019). There was no outstanding balance on the line of credit at December 31, 2019.

Subsequent to year-end, the Organization increased the line of credit to $1,000,000. The line of credit was modified to be secured by only accounts receivable, contracts receivable, and grants receivable. Interest accrues at the Wall Street Journal prime rate plus 0.75%, or the floor rate of 4.00%. The operating line matures on May 29, 2021.

Note 9 – Program-Related Investment Loan Payable

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 (collectively, PRI Lenders) to support projected future operating deficits and allow for capacity investment while building water quality trading and other natural infrastructure mitigation programs. The loan is 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.

Principal payments commenced in October 2016 and are 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 30 and December 31 prior to the maturity date of October 31, 2023. Interest accrues at 1% per annum.

Note 9 – Program-Related Investment Loan Payable (continued)

At December 31, 2019, the approximate principal payments for the PRI Note Payable are as follows:

Year ending December 31,	2020	$ 550,000
	2021	650,000
	2022	1,000,000
	2023	900,000
	Total	$ 3,100,000

Note 10 – Net Assets with Donor Restrictions

Net assets with donor restrictions are comprised of the following at December 31:

	2019	2018
Donations and grants restricted by purpose for habitat programs	$ 293,439	$ 624,711
Endowments	115,238	106,713
Total	$ 408,677	$ 731,424

The Endowment Fund was established for the purpose of providing investment revenues to support wild fish conservation programs in perpetuity and consist of investments held within The Freshwater Trust Endowment Fund; which is managed by OCF. See Note 5.

Net assets released from net assets with donor restrictions at December 31, 2019 and 2018 was $5,855,095 and $5,341,477, respectively.

Note 11 – Commitments

Operating leases
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, 2019 and 2018 was $475,740 and $512,273, respectively. Sublease income for the years ended December 31, 2019 and 2018 was $141,318 and $142,248, respectively.

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, 2019 and 2018 was $16,212 and $17,879, respectively.

Note 11 – Commitments (continued)

At December 31, 2019, the approximate minimum rental commitments for the above leases are as follows:

Year ending December 31,	2020	$ 472,252
	2021	400,220
	2022	297,949
	2023	306,888
	2024	316,094
	Thereafter	463,386
	Total	$ 2,256,789

At December 31, 2019, the approximate sublease income for the above leases are as follows:

Year ending December 31,	2020	$ 145,485
	2021	112,306
	Total	$ 257,791

Water leases

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 funders 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, 2019, the approximate minimum commitments for the above leases are as follows:

Year ending December 31,	2020	$ 235,441
	2021	392,241
	2022	175,775
	2023	132,627
	2024	7,441
	Total	$ 943,525

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 plan for the years ended December 31, 2019 and 2018 were $167,319 and $129,979, respectively.

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 at their estimated fair values at the date of receipt. In-kind contributions have been recorded as revenue and expense in the accompany statements of activities as follows at December 31:

	2019	2018
Contributed services of volunteers and in-kind donations	$ 591,339	$ 435,665
Capitalized in-kind donations	66,505	-
	$ 657,844	$ 435,665

Note 14 – Endowment

The Organization's endowment consists of one fund established for a variety of purposes. Its endowment includes 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 Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA or the Act) 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 net assets with donor restrictions: (a) the original gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Note 14 – Endowment (continued)

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

Changes in endowment net assets for the year ended December 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 21,808	$ 106,713	$ 128,521
Investment return, net	9,131	14,161	23,292
Appropriation of endowment assets for expenditure	-	(5,636)	(5,636)
Endowment net assets, end of year	$ 30,939	$ 115,238	$ 146,177

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	$ 115,574	$ 137,980
Investment loss, net	(598)	(3,391)	(3,989)
Appropriation of endowment assets for expenditure	-	(5,470)	(5,470)
Endowment net assets, end of year	$ 21,808	$ 106,713	$ 128,521

Note 15 – Subsequent Events

Subsequent to December 31, 2019, the Organization responded to the coronavirus outbreak by enabling almost all of its employees to work remotely, banning all non-essential travel and placing a temporary hold on most in-person meetings. Given the dynamic nature of these circumstances, it is too early to tell what effect these changes will have on the business in the short term. The Organization will continue to monitor the situation closely, but given the uncertainty about the situation, the Organization is unable to estimate the impact to the financial statements.

Subsequent to December 31, 2019, the Organization applied for and received a paycheck protection program (PPP) loan under the provisions of the Federal CARES Act in the amount of $681,287. This loan is designed to help the Organization keep its workforce employed during the public health emergency. The Organization may qualify for forgiveness provided the Organization satisfies all conditions throughout the period as specified in the agreement.

Note 16 – Restatement of Previously Issued Financial Statements to Correct Errors

Subsequent to the issuance of the Organization's financial statements for the year ended December 31, 2018, management determined and corrected for certain errors related to its accounting for leases and revenue recognition. The errors related to the Organization not properly accounting for the escalations in lease payments over the respective lease term and not accurately accounting for a contract modification when establishing the Organization's standalone selling price for managing WQT stewardship contract revenue deferral. The following schedule details the previously reported and restated amounts of selected items within the statement of financial position and statement of activities for the year ended December 31, 2018:

	As Previously Reported	Restated Adjustment	As Restated
Statement of financial position selected data			
Deferred rent	$ -	$ 246,861	$ 246,861
Deferred revenue	2,292,658	(238,338)	2,054,320
Net assets (deficit) without donor restrictions	(2,443,662)	(8,523)	(2,452,185)
Total net deficit	(1,712,238)	(8,523)	(1,720,761)
Statement of activities selected data			
Water Quality Trading income	3,182,866	26,259	3,209,125
General and administrative expenses	1,254,159	(16,327)	1,237,832
NET ASSETS (DEFICIT) - without donor restrictions, beginning of year	(3,123,917)	(51,109)	(3,175,026)
NET ASSETS (DEFICIT) - without donor restrictions, end of year	(2,443,662)	(8,523)	(2,452,185)
Statement of functional expenses selected data			
Occupancy	370,026	(16,327)	353,699

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Report of Independent Auditors 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*

The Board of Directors
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 (the Organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 12, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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*.

The Freshwater Trust's Response to the Finding

The Freshwater Trust's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Portland, Oregon
June 12, 2020

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Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

The Board of Directors
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, 2019. 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, 2019.

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 a 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.

Moss Adams LLP

Portland, Oregon
June 12, 2020

Section I – Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: *Unmodified*

Internal control over financial reporting:
- Material weakness(es) identified? _______ yes ___x___ no
- Significant deficiency(ies) identified? __x____ yes _______ none reported

Noncompliance material to financial statements noted? _______ yes ___x___ no

Federal Awards

Internal control over major federal programs:
- Material weakness(es) identified? _______ yes ___x___ no
- Significant deficiency(ies) identified? _______ yes ___x___ none reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _______ yes __x___ no

Identification of major federal programs:

CFDA Number	*Name of Major Federal Program or Cluster*	*Type of Auditor's Report Issued on Compliance for Major Federal Programs*
10.683	National Fish and Wildlife Foundation	Unmodified
15.517	Fish and Wildlife Coordination Act	Unmodified

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

Auditee qualified as low-risk auditee? _______ yes __x___ no

Section II – Financial Statement Findings

FINDING 2019-001 – Financial Close and Reporting, Significant Deficiency in Internal Control over Financial Reporting

Criteria or specific requirement:
An effective internal control system and timely financial reporting provides reasonable assurance for the reliability of accurate financial information.

Section II – Financial Statement Findings (continued)

Condition:
There were several items identified throughout our audit procedures as follows:

- While we understand through discussions with management that reviews of reconciliations and journal entries occur, there was insufficient documentation available to verify review procedures were occurring on a timely basis. Without documentation available, we were unable to confirm controls surrounding the review of reconciliations and journal entries are operating effectively as designed.
- Documentation was not available to verify that user access to the Organization's accounting system is reviewed. Because user account permissions within the Organization's accounting system do not substantially restrict employees from unauthorized access and use, review of access is required to verify user account permissions are in line with a proper business purpose.
- Throughout our audit procedures, two prior period adjustments were identified related to the Organization not properly accounting for complex areas of US generally accepted auditing principles. These adjustments addressed not properly accounting for the escalations in lease payments over the respective lease term and improperly accounting for contract modifications in the Organization's allocation of its standalone selling price. The impact of these adjustments were significant to the Organization's financial statements taken as a whole.

Cause:
The Organization does not have an adequately documented financial close and reporting process.

Effect:
The financial statements, as presented to the auditors, contained misstatements that required adjustments.

Recommendation:
We recommend the Organization formally implement a financial close and reporting process to guide the Organization's closing process to ensure all reconciliations and journal entries are prepared timely and reviewed appropriately. We further recommend documentation of this process as well as the review to ensure an appropriate audit trail. Additionally, we recommend management review user access to the Organization's accounting system and verify user account permissions are in line with a proper business purpose. This review should be documented on a periodic basis as determined by management.

Views of responsible officials:
Management agrees with the finding. In February of 2020, before the audit began, the Organization added an assistant financial controller (CPA) to bolster the in-house staff capacity and the technical expertise of the Organization's finance team. In June of 2020, the Organization incorporated and communicated changes to certain policies and procedures to implement a financial close and reporting checklist that guides the closing process and ensures all reconciliations and journal entries are prepared and reviewed on a timely basis. The Organization has also implemented a process to verify and document review of user account permissions annually, or more often as appropriate. Additionally, changes were implemented to accurately account for escalations in lease payments over the respective lease terms and account for contract modifications in the deferral of revenue on WQT contracts with future stewardship.

Section III – Federal Award Findings and Questioned Costs

None reported.

The Freshwater Trust
Changing the course of conservation.

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Portland, OR 97205
503-222-9091
www.thefreshwatertrust.org

Corrective Action Plan:
Contact Person: Tim Wigington
In June of 2020, we incorporated and communicated changes to our policy and procedures to implement a financial close and reporting checklist that guides our closing process and ensures all reconciliations and journal entries are prepared and reviewed on a timely basis. We have also implemented a process to verify and document review of user account permissions annually, or more often as appropriate. Additionally, we implemented changes to our lease tracking to accurately account for escalations in payments over the respective lease terms and updated our WQT contracts with future stewardship revenue deferral to account for contract modifications.
Completion Date: September, 2020.

Signed:

____
Tim Wigington

Date: 6/5/2020

Supplementary Information

The Freshwater Trust
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Amounts Provided to Subrecipients	Federal Expenditures
U.S. Department of Energy, passed through from the National Fish & Wildlife Foundation:				
CBWTP - Innovative Transactions to Restore Flows	81.000	0201.18.058011	$ -	$ 152,218
CBWTP - Innovative Transactions to Restore Flows	81.000	0201.19.061546	-	41,982
CBWTP - Innovative Transactions to Restore Flows	81.000	0201.18.058002	-	61,989
CBWTP - Water Lease Payments - Columbia	81.000	0201.19.061551	-	208,581
CBWTP - Water Lease Payments - Columbia	81.000	0201.18.058011	-	222,855
Total U.S. Department of Energy				687,625
Bureau of Reclamation Direct Programs:				
Fish and Wildlife Coordination Act	15.517		-	1,209,030
Total Bureau of Reclamation			-	1,209,030
U.S. Department of Agriculture Direct Programs:				
Environmental Quality Incentives Program	10.912		-	303,968
National Forest Foundation	10.682		-	103,718
Total U.S. Department of Agriculture			-	407,686
U.S. Department of Commerce Pass-Through Programs From:				
Oregon Watershed Enhancement Board - Pacific Coast Salmon Recovery Pacific Salmon Treaty Program	11.438	OWEB 218-3020-15931	-	60,543
Oregon Watershed Enhancement Board - Pacific Coast Salmon Recovery Pacific Salmon Treaty Program	11.438	OWEB 219-3019-16640	-	158,338
Total U.S. Department of Commerce			-	218,881
U.S. Forest Service Direct Programs:				
National Fish and Wildlife Foundation	10.683		-	560,371
Total U.S. Forest Service			-	560,371
U.S. Department of the Interior Pass-Through Programs From:				
National Fish & Wildlife Foundation - Secure Rural Schools and Community Self Determination	15.234	L17AC00161	-	2,579
Total U.S. Department of the Interior			-	2,579
Total Expenditures of Federal Awards			$ -	$ 3,086,172

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of The Freshwater Trust (the Organization) under programs of the federal government for the year ended December 31, 2019. The information in the 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). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Note 3 – Indirect Cost Rate

During the current year, the Organization did not elect to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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