REPORTS OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

# THE FRESHWATER TRUST

December 31, 2021 and 2020

MOSSADAMS

# Table of Contents

# Report of Independent Auditors

The Board of Directors
The Freshwater Trust

## Report on the Audit of the Financial Statements

### *Opinion*

We have audited the financial statements of The Freshwater Trust (the Organization), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Freshwater Trust as of December 31, 2021 and 2020, 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.

### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Freshwater Trust's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control–related matters that we identified during the audit.

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards 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 1, 2022, 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 Organization'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 Organization's internal control over financial reporting and compliance.

Moss Adams LLP

Portland, Oregon
June 1, 2022

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# The Freshwater Trust
## Statements of Financial Position

**ASSETS**

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 4,465,475 | $ 2,840,950 |
| Restricted reserve account | 202,174 | 201,960 |
| Total cash and cash equivalents and restricted reserve | 4,667,649 | 3,042,910 |
| Grants and fees receivable | 772,555 | 790,648 |
| Pledges receivable, current portion | 357,617 | - |
| Investments | - | 1,592 |
| Prepaid expenses and other assets | 32,753 | 157,111 |
| Deposits | 38,739 | 32,469 |
| Total current assets | 5,869,313 | 4,024,730 |
| PROPERTY AND EQUIPMENT | | |
| Furniture and fixtures | 93,483 | 98,498 |
| Equipment | 126,129 | 156,125 |
| Leasehold improvements | 390,905 | 390,905 |
| Less accumulated depreciation | (408,091) | (370,372) |
| Net property and equipment | 202,426 | 275,156 |
| LONG-TERM ASSETS | | |
| Beneficial interest held by others | 184,526 | 156,135 |
| Pledges receivable, long-term portion | 322,397 | - |
| StreamBank software, net | 310,608 | 402,769 |
| Projects in process - intangible assets | 87,661 | 32,425 |
| Water rights interest | 226,909 | 226,909 |
| Total assets | $ 7,203,840 | $ 5,118,124 |



See accompanying notes.

## LIABILITIES AND NET ASSETS (DEFICIT)

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Accounts payable | $ 190,409 | $ 83,436 |
| Accrued interest | 8,835 | 13,417 |
| Payroll liabilities | 172,594 | 193,117 |
| Current portion of PRI loan payable | 1,000,000 | 650,000 |
| Total current liabilities | 1,371,838 | 939,970 |
| OTHER LIABILITIES | | |
| Deferred rent | 154,361 | 188,360 |
| Deferred revenue | 2,442,839 | 2,785,723 |
| PRI loan payable | 900,000 | 1,900,000 |
| Total liabilities | 4,869,038 | 5,814,053 |
| NET ASSETS (DEFICIT) | | |
| Without donor restrictions | 1,784,990 | (1,200,791) |
| With donor restrictions | 549,812 | 504,862 |
| Total net assets (deficit) | 2,334,802 | (695,929) |
| Total liabilities and net assets | $ 7,203,840 | $ 5,118,124 |

# The Freshwater Trust
## Statement of Activities
## Year Ended December 31, 2021

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| REVENUES, GAINS, AND OTHER SUPPORT | | | |
| Grants and contributions | $ 256,213 | $ 4,441,083 | $ 4,697,296 |
| Individual giving | 2,587,773 | 680,014 | 3,267,787 |
| Water Quality Trading income | 3,638,439 | - | 3,638,439 |
| Special events income | 551,086 | - | 551,086 |
| In-kind donations | 156,473 | 391,880 | 548,353 |
| Investment return, net | 9,780 | 28,165 | 37,945 |
| Other revenue | 35,115 | - | 35,115 |
| Total revenues, gains, and other support | 7,234,879 | 5,541,142 | 12,776,021 |
| NET ASSETS RELEASED FROM RESTRICTIONS | 5,496,192 | (5,496,192) | - |
| Total revenues, gains, other support, and net assets released from restrictions | 12,731,071 | 44,950 | 12,776,021 |
| EXPENSES | | | |
| Program services | 6,876,769 | - | 6,876,769 |
| Special events | 548,305 | - | 548,305 |
| Development expenses | 817,621 | - | 817,621 |
| General and administrative | 1,502,595 | - | 1,502,595 |
| Total expenses | 9,745,290 | - | 9,745,290 |
| CHANGE IN NET ASSETS | 2,985,781 | 44,950 | 3,030,731 |
| NET ASSETS (DEFICIT), beginning of year | (1,200,791) | 504,862 | (695,929) |
| NET ASSETS, end of year | $ 1,784,990 | $ 549,812 | $ 2,334,802 |



See accompanying notes.

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| REVENUES, GAINS, AND OTHER SUPPORT | | | |
| Grants and contributions | $ 21,260 | $ 5,347,874 | $ 5,369,134 |
| Individual giving | 1,089,674 | - | 1,089,674 |
| Water Quality Trading income | 3,358,715 | - | 3,358,715 |
| Special events income | 147,759 | - | 147,759 |
| In-kind donations | 58,736 | 208,222 | 266,958 |
| Investment return, net | 11,801 | 8,464 | 20,265 |
| Total revenues, gains, and other support | 4,687,945 | 5,564,560 | 10,252,505 |
| NET ASSETS RELEASED FROM RESTRICTIONS | 5,468,375 | (5,468,375) | - |
| Total revenues, gains, other support, and net assets released from restrictions | 10,156,320 | 96,185 | 10,252,505 |
| EXPENSES | | | |
| Program services | 6,992,949 | - | 6,992,949 |
| Special events | 275,075 | - | 275,075 |
| Development expenses | 939,441 | - | 939,441 |
| General and administrative | 1,503,765 | - | 1,503,765 |
| Total expenses | 9,711,230 | - | 9,711,230 |
| CHANGE IN NET ASSETS | 445,090 | 96,185 | 541,275 |
| NET ASSETS (DEFICIT), beginning of year | (1,645,881) | 408,677 | (1,237,204) |
| NET ASSETS (DEFICIT), end of year | $ (1,200,791) | $ 504,862 | $ (695,929) |

## The Freshwater Trust
### Statement of Functional Expenses
### Year Ended December 31, 2021

| | Program Services | Supporting Services: Special Events | Supporting Services: Development | Supporting Services: General and Administration | Total Expenses |
|---|---|---|---|---|---|
| Payroll and related costs | $ 2,881,280 | $ 85,410 | $ 492,965 | $ 911,031 | $ 4,370,686 |
| Advertising and promotion | 235 | - | 37,132 | 38,788 | 76,155 |
| Special events expenses | - | 346,036 | - | - | 346,036 |
| Contracted services | 2,963,922 | - | - | 37,506 | 3,001,428 |
| Bank charges | 214 | 543 | 2,860 | 5,453 | 9,070 |
| Dues and subscriptions | 285 | - | 263 | 15,770 | 16,318 |
| Meetings and education | 1,150 | - | - | 1,412 | 2,562 |
| Insurance | 600 | - | - | 60,981 | 61,581 |
| Interest | - | - | 2,386 | 18,857 | 21,243 |
| Licenses, taxes, and fees | 5,149 | - | 362 | 1,635 | 7,146 |
| Supplies | 86,523 | - | 115 | 12,426 | 99,064 |
| Gifts and promotion | - | - | 467 | 7,001 | 7,468 |
| Telephone | 97 | - | - | 23,271 | 23,368 |
| Postage and shipping | 412 | - | 820 | 3,077 | 4,309 |
| Professional services | 87,750 | - | 216,850 | 95,850 | 400,450 |
| Printing and publishing | 127 | - | 1,633 | 1,070 | 2,830 |
| Business development and prospecting | 4,579 | 3 | 29,431 | 25,868 | 59,881 |
| Travel | 25,854 | - | - | 1,699 | 27,553 |
| Equipment and maintenance | 14,410 | - | 9,036 | 54,568 | 78,014 |
| Occupancy | 163,015 | - | - | 163,015 | 326,030 |
| Depreciation and amortization | 208,800 | - | - | 6,458 | 215,258 |
| In-kind donations | 391,880 | 116,313 | 23,301 | 16,859 | 548,353 |
| Water acquisition fees and lease payments | 40,487 | - | - | - | 40,487 |
| Total expenses | $ 6,876,769 | $ 548,305 | $ 817,621 | $ 1,502,595 | $ 9,745,290 |



See accompanying notes.

# The Freshwater Trust
## Statement of Functional Expenses
## Year Ended December 31, 2020

| | Program Services | Supporting Services: Special Events | Supporting Services: Development | Supporting Services: General and Administration | Total Expenses |
|---|---|---|---|---|---|
| Payroll and related costs | $ 2,491,319 | $ 131,645 | $ 763,881 | $ 922,192 | $ 4,309,037 |
| Advertising and promotion | 440 | - | 23,543 | 36,576 | 60,559 |
| Special events expenses | 3 | 83,296 | - | - | 83,299 |
| Contracted services | 2,514,918 | - | - | 35,300 | 2,550,218 |
| Bank charges | 70 | - | 6,469 | 7,405 | 13,944 |
| Dues and subscriptions | 3,204 | - | 5,606 | 12,135 | 20,945 |
| Meetings and education | 5,527 | - | 206 | 13,954 | 19,687 |
| Insurance | 600 | - | - | 73,244 | 73,844 |
| Interest | - | - | - | 16,000 | 16,000 |
| Licenses, taxes, and fees | 28,355 | - | - | 2,298 | 30,653 |
| Supplies | 211,189 | - | 287 | 11,855 | 223,331 |
| Gifts and promotion | - | - | 145 | 13,122 | 13,267 |
| Telephone | 404 | - | 1,582 | 28,315 | 30,301 |
| Postage and shipping | 295 | - | 683 | 2,272 | 3,250 |
| Professional services | 50,850 | - | 46,306 | 118,173 | 215,329 |
| Printing and publishing | 708 | - | 15,810 | 619 | 17,137 |
| Business development and prospecting | 2,583 | - | 52,339 | 8,124 | 63,046 |
| Travel | 31,288 | - | 3 | 2,808 | 34,099 |
| Equipment and maintenance | 14,429 | - | 5,028 | 34,957 | 54,414 |
| Occupancy | 175,530 | - | 17,553 | 157,977 | 351,060 |
| Depreciation and amortization | 208,194 | - | - | 6,439 | 214,633 |
| In-kind donations | 206,824 | 60,134 | - | - | 266,958 |
| Bad debt expense | 44,107 | - | - | - | 44,107 |
| Water acquisition fees and lease payments | 1,002,112 | - | - | - | 1,002,112 |
| Total expenses | $ 6,992,949 | $ 275,075 | $ 939,441 | $ 1,503,765 | $ 9,711,230 |

See accompanying notes.

## The Freshwater Trust
### Statements of Cash Flows

| | Years Ended December 31, 2021 | 2020 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | $ 3,030,731 | $ 541,275 |
| Adjustments to reconcile change in net assets to net cash cash provided by operating activities | | |
| Depreciation and amortization | 215,258 | 214,633 |
| Loss on sale of property and equipment | 860 | 2,145 |
| Net unrealized and realized gains on investments | (34,620) | (16,350) |
| Changes in assets and liabilities | | |
| Grants and fees receivable | 18,093 | 182,098 |
| Pledges receivable | (680,014) | - |
| Prepaid expenses and other assets | 124,358 | (94,262) |
| Deposits | (6,270) | 1,099 |
| Accounts payable | 106,973 | (117,915) |
| Accrued interest | (4,582) | - |
| Payroll liabilities | (20,523) | 90,092 |
| Deferred rent | (33,999) | (28,185) |
| Deferred revenue | (342,884) | 444,384 |
| Net cash provided by operating activities | 2,373,381 | 1,219,014 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment and projects in process | (106,463) | (4,561) |
| Proceeds from sale of assets | - | 16,097 |
| Proceeds from investments | 7,821 | 9,872 |
| Net cash (used) provided by investing activities | (98,642) | 21,408 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on PRI loan payable | (650,000) | (550,000) |
| Net cash used by financing activities | (650,000) | (550,000) |
| INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED RESERVE | 1,624,739 | 690,422 |
| CASH AND CASH EQUIVALENTS AND RESTRICTED RESERVE, beginning of year | 3,042,910 | 2,352,488 |
| CASH AND CASH EQUIVALENTS AND RESTRICTED RESERVE, end of year | $ 4,667,649 | $ 3,042,910 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Cash paid for loan interest | $ 25,825 | $ 30,812 |



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, 2021 and 2020, 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 (continued)

**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, 2021 and 2020 was $202,174 and $201,960, 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, 2021 or 2020.

**Pledges receivable**
Pledges are considered unconditional commitments of the donors. Accordingly, recognition of those contributions is recognized when the pledge is made. 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. The allowance for doubtful accounts is estimated by evaluating the credit worthiness of those from whom amounts are due as well as current economic trends. Based on management’s analysis, no allowance has been recorded at December 31, 2021.

**Note 2 – Summary of Significant Accounting Policies (continued)**

**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 on the date of donation. 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, 2021 and 2020 was $90,671 and $95,405, respectively.

**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 are 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 5 to 10 years. Amortization expense for the years ended December 31, 2021 and 2020 was $124,587 and $119,228, 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 the 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, 2021 or 2020. 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.

## Note 2 – Summary of Significant Accounting Policies (continued)

**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.

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, 2021 or 2020 because qualifying expenditures have not yet been incurred.

**Paycheck Protection Program revenue recognition**
During 2021 and 2020, the Organization received loans under the Small Business Association's (SBA) Paycheck Protection Program from Beneficial State Bank in the amounts of $733,733 and $681,287, respectively. It is the Organization's policy to account for this funding as a conditional contribution in accordance with ASU No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. Upon receipt, the cash inflow is recorded as a refundable advance. This refundable advance is reduced as the barriers are overcome and the Organization is entitled to the assets and the conditions of release have been substantially met or explicitly waived. Management has determined the barriers have been overcome when expenses are incurred. As of December 31, 2021 and 2020, the Organization had recorded the full amount as grants and contributions on the statements of activities totaling $733,733 and $681,287, respectively. In March 2021, the Organization received notification from the SBA that the Organization's first loan in the amount of $681,287 had been fully forgiven. Subsequent to year-end, the Organization received notification from the SBA that the Organization's second loan in the amount of $733,733 had been fully forgiven.

**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.

**Note 2 – Summary of Significant Accounting Policies (continued)**

**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.

The Organization has evaluated subsequent events through June 1, 2022, which is the date the financial statements were available to be issued. See Note 10.

**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:

| | 2021 | 2020 |
|---|---|---|
| Financial assets at year-end | | |
| Cash and cash equivalents | $ 4,465,475 | $ 2,840,950 |
| Restricted reserve account | 202,174 | 201,960 |
| Grants and fees receivable | 772,555 | 790,648 |
| Pledges receivable, current portion | 357,617 | - |
| Beneficial interest held by others | 184,526 | 156,135 |
| Total financial assets | 5,982,347 | 3,989,693 |
| Less amounts not available to be used within one year | | |
| Restricted reserve account | 202,174 | 201,960 |
| Pledges receivable, long-term portion | 322,397 | - |
| Beneficial interest held by others | 184,526 | 156,135 |
| Net assets with donor restrictions | 416,373 | 391,467 |
| | 1,125,470 | 749,562 |
| Financial assets available to meet general expenditures over the next twelve months | $ 4,856,877 | $ 3,240,131 |

**Note 3 – Liquidity and Availability (continued)**

Additionally, the Organization has an operating line of credit totaling $1,000,000 at December 31, 2021 and 2020, respectively. 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. 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.

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.

**Note 4 – Revenue and Revenue Recognition (continued)**

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.

Amounts that have been charged to the customer are recorded in grants and fees 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 – Pledges Receivable**

Pledges receivable greater than one year are reflected at the present value of estimated future payments using an estimated discount rate of 3.25%. As of December 31, 2021, pledges receivable are due as follows:

| | | |
|---|---|---|
| Year ending December 31, | 2022 | $ 368,833 |
| | 2023 | 238,833 |
| | 2024 | 55,000 |
| | 2025 | 55,000 |
| | | 717,666 |
| Less discount to net present value | | (37,652) |
| | Total | $ 680,014 |

**Note 6 – 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, 2021 and 2020, the Organization received distributions of $8,121 and $10,307, respectively.

**Note 7 – 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.

**Note 7 – Fair Value Measurements (continued)**

**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.

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 underlying 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, 2021 or 2020.

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, 2021 and 2020:

| | 2021 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Beneficial interest in perpetual trust measured at net asset value | | | | $ 184,526 |
| Total assets at fair value | $ - | $ - | $ - | $ 184,526 |

| | 2020 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Common stock | | | | |
| Domestic | $ 1,592 | $ - | $ - | $ 1,592 |
| Beneficial interest in perpetual trust measured at net asset value | | | | 156,135 |
| Total assets at fair value | $ 1,592 | $ - | $ - | $ 157,727 |

### Note 8 – 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, 2021 and 2020, the Organization has not recognized any impairment losses on the value of these water rights.

### Note 9 – Line of Credit

During 2020, the Organization increased their 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. 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 accrues at the Wall Street Journal prime rate plus 0.75% (4.00% at December 31, 2021 and 2020), or the floor rate of 4.00%. The operating line matured on May 28, 2022 and is in the process of being renewed under similar terms. There was no outstanding balance on the line of credit at December 31, 2021 and 2020.

### Note 10 – 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.

At December 31, 2021, the approximate principal payments for the PRI Note Payable are as follows:

| | | |
|---|---|---|
| Year ending December 31, | 2022 | $ 1,000,000 |
| | 2023 | 900,000 |
| | Total | $ 1,900,000 |

**Note 10 – Program-Related Investment Loan Payable (continued)**

Subsequent to year-end, the Organization entered into an Economic Injury Disaster Loan (EIDL) with the SBA to pay-off the PRI Note Payable in the amount of $1,900,000. Installment payments, including principal and interest, of $8,536 monthly will begin 24 months from the date of the promissory note, or February 2024. Interest will accrue at the rate of 2.75% per year. The loan matures February 2052 and is secured by accounts receivable, contracts receivable and grants receivable.

**Note 11 – Net Assets with Donor Restrictions**

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

| | 2021 | 2020 |
|---|---|---|
| Donations and grants restricted by purpose for habitat programs | $ 416,373 | $ 391,467 |
| Endowments | 133,439 | 113,395 |
| Total | $ 549,812 | $ 504,862 |

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, 2021 and 2020 was $5,496,192 and $5,468,375, respectively.

**Note 12 – 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 expired 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 and was not renewed. Occupancy expense for the years ended December 31, 2021 and 2020 was $403,992 and $446,042, respectively. Sublease income for the years ended December 31, 2021 and 2020 was $97,815 and $145,485, respectively.

In addition, the Organization leases certain office equipment under lease agreements expiring in 2024. Rental expense paid for equipment leases for the years ended December 31, 2021 and 2020 was $18,000 and $16,923, respectively.

**Note 12 – Commitments (continued)**

At December 31, 2021, the approximate minimum rental commitments for the above leases are as follows:

| | | |
|---|---|---|
| Year ending December 31, | 2022 | $ 316,495 |
| | 2023 | 317,956 |
| | 2024 | 316,094 |
| | 2025 | 325,577 |
| | 2026 | 137,809 |
| | Total | $ 1,413,931 |

**Water leases**

The Organization has entered into multiple water rights lease agreements with participating landowners in Oregon with terms ranging from five to ten 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 2020, the Organization received notice from the Columbia Basin Water Transaction Program that they would not fund the Organization during their 2020-2021 fiscal year. During 2021, the Organization negotiated temporary and permanent transfers no longer obligating the Organization for a portion of the water leases and has secured funding from other funders to continue the remaining lease agreements through December 31, 2023.

At December 31, 2021, the approximate minimum commitments for the above leases are as follows:

| | | |
|---|---|---|
| Year ending December 31, | 2022 | $ 47,864 |
| | 2023 | 63,836 |
| | 2024 | 56,800 |
| | 2025 | 56,800 |
| | 2026 | 56,800 |
| | Thereafter | 113,600 |
| | Total | $ 395,700 |

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.

**Note 13 – 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, 2021 and 2020 were $181,069 and $173,851, respectively.

**Note 14 – In-Kind Contributions**

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, 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 accompanying statements of activities as $548,353 and $266,958 at December 31, 2021 and 2020, respectively.

**Note 15 – 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.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

**Note 15 – Endowment (continued)**

The following table details the changes in endowment net assets for the year ended December 31, 2021:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Endowment net assets, beginning of year | $ 42,740 | $ 113,395 | $ 156,135 |
| Investment return, net | 9,780 | 28,165 | 37,945 |
| Appropriation of endowment assets for expenditure | (1,433) | (8,121) | (9,554) |
| Endowment net assets, end of year | $ 51,087 | $ 133,439 | $ 184,526 |

The following table details the changes in endowment net assets for the year ended December 31, 2020:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Endowment net assets, beginning of year | $ 30,939 | $ 115,238 | $ 146,177 |
| Investment return, net | 11,801 | 8,464 | 20,265 |
| Appropriation of endowment assets for expenditure | - | (10,307) | (10,307) |
| Endowment net assets, end of year | $ 42,740 | $ 113,395 | $ 156,135 |

**Note 16 – Risks and Uncertainties**

Since March 2020, financial markets and economic conditions have undergone a significant negative impact as a result of the COVID-19 global pandemic. The extent of the impact of COVID-19 on the Organization’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and the related impact on contributors and grantors, employees, contractors, and vendors, all of which are uncertain and cannot be predicted. As such, the extent to which COVID-19 may impact the Organization’s financial position and results of operations cannot be reasonably estimated at this time.

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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, 2021, 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 1, 2022.

### Report on 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) as a basis for designing 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 were not identified.

### Report on 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 financial statements. 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 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 1, 2022

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# Report of Independent Auditors on Compliance for the 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 the Major Federal Program

### *Opinion on the Major Federal Program*

We have audited The Freshwater Trust's (the Organization) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2021. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2021.

### *Basis for Opinion on the Major Federal Program*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States *(Government Auditing Standards)*; 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

### *Responsibilities of Management for Compliance*

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

### *Auditor's Responsibilities for the Audit of Compliance*

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express and opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards,* and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## Report on 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 Auditor’s Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 1, 2022

## 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? _______ yes ___x___ 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:

| *Federal Assistance Listing Number* | *Name of Major Federal Program or Cluster* | *Type of Auditor's Report Issued on Compliance for Major Federal Programs* |
|---|---|---|
| 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? ___x___ yes _______ no

## Section II – Financial Statement Findings

None reported.

## Section III – Federal Award Findings and Questioned Costs

None reported.

# Supplementary Information

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal Assistance Listing Number | Pass-Through Entity Identifying Number | Amounts Provided to Subrecipients | Federal Expenditures |
|---|---|---|---|---|
| U.S. Department of the Interior Pass-Through Programs From: | | | | |
| Bureau of Reclamation - Fish and Wildlife Coordination Act | 15.517 | R17AC00159, R16AC00100, R18AC00049, R18AC00056 R15AC00036 | $ - | $ 1,036,457 |
| National Fish & Wildlife Foundation - Secure Rural Schools and Community Self Determination | 15.234 | L17AC00161, L21AC10181 | - | 78,542 |
| *Total U.S. Department of the Interior* | | | - | 1,114,999 |
| U.S. Department of Agriculture Direct Programs: | | | | |
| National Fish and Wildlife Foundation | 10.683 | | - | 79,328 |
| Environmental Quality Incentives Program | 10.912 | | - | 109,793 |
| *Total U.S. Department of Agriculture* | | | - | 189,121 |
| U.S. Department of Commerce Pass-Through Programs From: | | | | |
| Oregon Watershed Enhancement Board - Pacific Coast Salmon Recovery Pacific Salmon Treaty Program | 11.438 | 220-3022-17368, 220-9005-19827 | - | 338,585 |
| NOAA National Marine Fisheries Service - Habitat Conservation | 11.463 | NOAA-NMFS-HCPO-2020-2006306, NAZONMF4630302 | - | 414,598 |
| *Total U.S. Department of Commerce* | | | - | 753,183 |
| **Total Expenditures of Federal Awards** | | | $ - | $ 2,057,303 |

### 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, 2021. 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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