

FINANCIAL STATEMENTS

TROUT UNLIMITED, INC.



FOR THE SIX MONTH PERIOD ENDED MARCH 31, 2019

TROUT UNLIMITED, INC.

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CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Trout Unlimited, Inc.
Arlington, Virginia

We have audited the accompanying financial statements of Trout Unlimited, Inc. (TU), which comprise the statements of financial position as of March 31, 2019, and the related statements of activities and changes in net assets, functional expenses and cash flows for the six month period then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 TU as of March 31, 2019, and the changes in its net assets and its cash flows for the six month period then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2019, on our consideration of TU'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 this 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 TU's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TU's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Freedman".

September 9, 2019

TROUT UNLIMITED, INC.
STATEMENT OF FINANCIAL POSITION
AS OF MARCH 31, 2019

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 3,312,067
Receivables, net	12,369,783
Inventory	405,191
Prepaid expenses and other assets	<u>562,123</u>
Total current assets	<u>16,649,164</u>

PROPERTY AND EQUIPMENT, NET

534,484

OTHER ASSETS

Investments	<u>9,777,775</u>
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TOTAL ASSETS \$ 26,961,423

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued liabilities	\$ 3,594,338
Refundable advances - Federal grants	<u>222,836</u>
Total current liabilities	<u>3,817,174</u>

NET ASSETS

Without donor restrictions	2,778,462
With donor restrictions	<u>20,365,787</u>
Total net assets	<u>23,144,249</u>

TOTAL LIABILITIES AND NET ASSETS \$ 26,961,423

TROUT UNLIMITED, INC.

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE SIX MONTH PERIOD ENDED MARCH 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE			
Grants and contributions:			
U.S. Government	\$ 7,098,743	\$ -	\$ 7,098,743
Non-U.S. Government	10,327,729	6,649,361	16,977,090
Membership contributions	2,672,300	-	2,672,300
Investment income, net	8,112	21,114	29,226
Landowner projects	814,713	-	814,713
Other income	119,228	-	119,228
Net assets released from donor restrictions	<u>7,008,218</u>	<u>(7,008,218)</u>	<u>-</u>
Total revenue	<u>28,049,043</u>	<u>(337,743)</u>	<u>27,711,300</u>
EXPENSES			
Program Services:			
Conservation Operations	18,639,054	-	18,639,054
Volunteer Operations and Chapter Support	1,826,035	-	1,826,035
Communications	714,158	-	714,158
Government Affairs	<u>1,041,373</u>	<u>-</u>	<u>1,041,373</u>
Total program services	<u>22,220,620</u>	<u>-</u>	<u>22,220,620</u>
Supporting Services:			
Management and General	1,615,432	-	1,615,432
Fundraising	1,641,400	-	1,641,400
Membership Development	<u>1,438,426</u>	<u>-</u>	<u>1,438,426</u>
Total supporting services	<u>4,695,258</u>	<u>-</u>	<u>4,695,258</u>
Total expenses	<u>26,915,878</u>	<u>-</u>	<u>26,915,878</u>
Change in net assets	1,133,165	(337,743)	795,422
Net assets at beginning of year	<u>1,645,297</u>	<u>20,703,530</u>	<u>22,348,827</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,778,462</u>	<u>\$ 20,365,787</u>	<u>\$ 23,144,249</u>

TROUT UNLIMITED, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE SIX MONTH PERIOD ENDED MARCH 31, 2019**

	Program Services				Total Program Services
	Conservation Operations	Volunteer Operations and Chapter Support	Communications	Government Affairs	
Salaries	\$ 3,979,143	\$ 646,452	\$ 190,490	\$ 292,831	\$ 5,108,916
Employee benefits and payroll taxes	2,160,769	353,605	105,828	155,558	2,775,760
Contractors	4,277,277	11,983	-	-	4,289,260
Consulting	3,211,563	55,664	31,113	25,210	3,323,550
Materials	1,528,606	1,676	-	-	1,530,282
Grants and chapter rebates	283,298	444,494	-	449,337	1,177,129
Water leases	1,101,761	-	-	-	1,101,761
Premiums	1,540	1,348	-	-	2,888
Travel	512,152	96,090	11,648	46,703	666,593
Printing and publishing	196,411	6,854	109,630	3,041	315,936
Postage, shipping and handling	24,348	3,780	109,960	1,438	139,526
Supplies, maintenance and telephone	313,437	22,019	70,897	5,536	411,889
Occupancy	320,848	22,983	5,778	9,970	359,579
Information technology	211,408	33,750	9,926	15,259	270,343
Fulfillment, caging and contact center	3,736	688	-	-	4,424
Depreciation and amortization	150,931	24,520	7,225	11,107	193,783
Meetings and conferences	72,401	48,493	1,017	3,601	125,512
Other	70,504	5,837	9,360	8,813	94,514
Small equipment and equipment lease	126,144	24,330	2,844	3,137	156,455
Advertising and promotion	76,910	19,449	48,442	9,832	154,633
Professional fees	15,867	2,020	-	-	17,887
TOTAL	\$ 18,639,054	\$ 1,826,035	\$ 714,158	\$ 1,041,373	\$ 22,220,620

See accompanying notes to financial statements.

Supporting Services				
Management and General	Fundraising	Membership Development	Total Supporting Services	Total Expenses
\$ 858,635	\$ 301,895	\$ 211,026	\$ 1,371,556	\$ 6,480,472
381,078	165,215	116,636	662,929	3,438,689
-	-	15,000	15,000	4,304,260
22,791	26,269	36,948	86,008	3,409,558
-	-	-	-	1,530,282
350	-	34,445	34,795	1,211,924
-	-	-	-	1,101,761
-	530,224	311,304	841,528	844,416
31,544	55,831	5,894	93,269	759,862
2,245	162,953	231,839	397,037	712,973
1,917	220,794	215,376	438,087	577,613
11,234	4,772	2,341	18,347	430,236
29,258	12,334	6,401	47,993	407,572
44,741	15,731	10,996	71,468	341,811
27	72,109	169,914	242,050	246,474
32,568	11,451	8,004	52,023	245,806
30,763	35,181	228	66,172	191,684
13,274	23,020	59,543	95,837	190,351
9,197	3,234	2,260	14,691	171,146
4,640	387	271	5,298	159,931
141,170	-	-	141,170	159,057
\$ 1,615,432	\$ 1,641,400	\$ 1,438,426	\$ 4,695,258	\$ 26,915,878

See accompanying notes to financial statements.

TROUT UNLIMITED, INC.

**STATEMENT OF CASH FLOWS
FOR THE SIX MONTH PERIOD ENDED MARCH 31, 2019**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 795,422
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation and amortization	245,808
Unrealized and realized loss on investments	93,037
Loss on disposal of property and equipment	60,005
Change in allowance for doubtful accounts	(44,546)
Decrease (increase) in:	
Accounts receivable	730,172
Inventory	53,128
Prepaid expenses and other assets	(78,860)
(Decrease) increase in:	
Accounts payable and accrued liabilities	(2,913,525)
Refundable advances - Federal grants	<u>164,876</u>
Net cash used by operating activities	<u>(894,483)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment	(40,085)
Purchase of investments	(182,867)
Proceeds from sale of investments	<u>43,671</u>
Net cash used by investing activities	<u>(179,281)</u>
Net decrease in cash and cash equivalents	(1,073,764)
Cash and cash equivalents at beginning of year	<u>4,385,831</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,312,067</u>

TROUT UNLIMITED, INC.

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Trout Unlimited, Inc., (TU) conserves, protects, and restores North America's coldwater fisheries and their watersheds. TU is a not-for-profit organization with approximately 150,000 members and supporters in over 400 chapters and councils nationwide. TU also receives U.S. Government grants that are subject to audit by its oversight agency (largest U.S. Government funder), the U.S. Department of Interior.

During 2019, TU changed its fiscal year end from September 30 to March 31. Thus, the financial statements presented are for the six month period ended March 31, 2019.

The following programs and supporting services are included in the accompanying statements of activities:

Conservation Operations: Conservation operations include TU's network of regional offices that conduct regionally-based conservation initiatives.

Volunteer Operations and Chapter Support: Volunteer operations is the department responsible for coordinating the activities of chapter operations; providing leadership training and guidance to state councils; and identifying, assessing and responding to the needs of the various states' volunteer conservation efforts.

Communications: The communications department is responsible for educating the public on the importance of trout and salmon watershed conservation. It publishes the quarterly *TROUT* magazine, the monthly *Lines to Leaders* newsletter and TU's annual report. The communications department is also responsible for other publications, maintaining TU's website, generating press releases, conducting press conferences and other public relations.

Government Affairs: Government affairs deals with legislative and regulatory affairs directly relating to the mission of Trout Unlimited, Inc. on both the federal and state levels.

Management and General: This supporting service category includes the functions necessary to secure the proper administrative functioning of TU's governing board, maintain an appropriate working environment, provide information technology tools and support, and manage the financial responsibilities of TU.

Fundraising: This supporting service category includes expenditures that provide the structure necessary to encourage and secure private financial support.

Membership Development: Membership Development manages the campaigns that solicit for prospective members and membership dues and the retention of current members. This department also provides support to membership. This support takes the form of member/chapter database maintenance, responding to member queries, providing rosters, and fulfilling premiums.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The ASU was adopted retrospectively for period ended March 31, 2019.

TROUT UNLIMITED, INC.

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Cash and cash equivalents -

TU considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents with the exception of cash held in the investment portfolio. TU maintains its cash in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a limit of \$250,000. At times during the year, TU maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. Interest, dividends, realized and unrealized gains and losses are included in investment income net of management fees in the Statement of Activities and Change in Net Assets.

TU invests in a professionally managed portfolio that contains various securities that are exposed to risks such as interest, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

Receivables -

Receivables include contributions and other receivables carried at original invoice amount less an estimate for doubtful accounts based on a review of all outstanding amounts on a quarterly basis which approximates fair value. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using the historical experience applied to an aging of accounts. Receivables are allowed for and recorded as bad debt expense when deemed doubtful of collection, and written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

The provision for doubtful accounts totaled \$240,153 at March 31, 2019. All receivables are expected to be collected within one-year and are considered to be current assets.

Inventory -

Inventory consists of merchandise and is recorded under FASB ASU 2015-11 *Simplifying the Measurement of Inventory*, and as such, inventory is measured at the lower of cost and net realizable value using the average cost method.

Property and equipment -

Property and equipment in excess of \$2,500 are capitalized and stated at cost. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally five to ten years. Leasehold improvements are amortized over the remaining life of the lease. The cost of maintenance and repairs is recorded as expenses are incurred.

Depreciation and amortization expense for the six month period ended March 31, 2019 totaled \$245,808.

TROUT UNLIMITED, INC.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

Impairment of long-lived assets -

Management reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the assets is reduced, by a charge to Statement of Activities and Change in Net Assets, to its current fair value.

Income taxes -

TU is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Beginning January 1, 2018, it is subject to unrelated business income taxes on qualified transportation fringe benefits provided to its employees. The organization is not a private foundation.

Uncertain tax positions -

For the six month period ended March 31, 2019, TU documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Net asset classification -

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions are recorded as "net assets without donor restrictions." Assets restricted solely through the actions of the Board are referred to as Board Designated and are also reported as net assets without donor restrictions.
- **Net Assets With Donor Restrictions** - Contributions restricted by donors (or certain grantors) are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in "net assets with donor restrictions," depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities and Change in Net Assets as net assets released from donor restrictions. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Revenue recognition -

Contributions and grants are recorded as revenue in the year notification is received from the donor. Contributions and grants with donor restrictions are recognized as without donor restrictions only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions; such funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying financial statements.

TROUT UNLIMITED, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Revenue recognition (continued) -

Grant funding received in advance of incurring the related expenses is recorded as "net assets with donor restrictions."

Unconditional promises to give are recognized in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Contributions for landowner projects are recognized when the expenses are incurred.

TU receives funding under grants and contracts from the U.S. and state Governments and other grantors for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are recorded as revenue without donor restrictions to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements and contracts.

Grants receivable represents amounts due from funding organizations for reimbursable expenses incurred in accordance with the grant agreements.

Membership contributions are recorded as revenue without donor restrictions when received.

Use of estimates -

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Advertising -

TU expenses advertising costs as incurred. Advertising expense was \$159,930 for the years ended March 31, 2019.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. These costs include depreciation and amortization, headquarters rent, information technology, and website. Expenses directly attributed to a specific functional area of TU are reported as direct expenses to the programmatic area and those expenses that benefit more than one function are allocated on a basis of estimated time and effort.

Joint cost allocation -

TU regularly communicates to the public and TU members via mailings regarding key issues critical to conserving, protecting and restoring coldwater fishery habitats. These mailings also include requests for contributions.

TROUT UNLIMITED, INC.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Joint cost allocation (continued) -

Included in the costs of the packages that were mailed during the six month period ended March 31, 2019, were joint costs in the amount of \$556,814. Those joint costs are allocated as follows:

Program	\$ 170,325
Fundraising	<u>386,489</u>
	<u>\$ 556,814</u>

Fair value measurement -

TU adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. TU accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

In accordance with FASB ASC 820, *Fair Value Measurement*, TU has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market TU has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

For disclosure of inputs and valuation techniques, see Note 4.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. The reclassifications are primarily due to the adoption of ASU 2016-14, as discussed above, which requires two classifications of net assets from the previously presented three classes. Net assets previously classified as of September 30, 2018 as unrestricted net assets in the amount of \$1,645,297 are now classified as "net assets without donor restrictions." Net assets previously classified as temporarily restricted net assets and permanently restricted net assets in the amount of \$15,697,763 and \$5,005,767, respectively, are now classified as "net assets with donor restrictions."

TROUT UNLIMITED, INC.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

New accounting pronouncements, not yet adopted -

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. The ASU recommends application on a modified prospective basis; however, retrospective application is permitted. TU has not yet decided on a transition method. The ASU is effective for fiscal years beginning after December 15, 2018

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year thus the effective date is fiscal years beginning after December 15, 2018. Early adoption is permitted. TU has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by requiring recognition of a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities for fiscal years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

TU plans to adopt the new ASUs at the respective required implementation dates.

2. RECEIVABLES, NET

Accounts receivable consisted of the following at March 31, 2019:

Federal grants - billed	\$ 3,265,722
Federal grants - unbilled	2,383,010
State grants- billed	3,382,237
State grants - unbilled	2,119,152
Other	<u>1,459,815</u>
Total	12,609,936
Less: provision for doubtful accounts	<u>(240,153)</u>
ACCOUNTS RECEIVABLE, NET	<u>\$ 12,369,783</u>

TROUT UNLIMITED, INC.

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019**

3. PROPERTY AND EQUIPMENT

Property and equipment, accumulated depreciation and amortization and depreciation and amortization expenses at March 31, 2019; are as follows:

<u>Asset Category</u>	<u>Estimated Lives</u>	<u>Cost</u>	<u>Accumulated Depreciation and Amortization</u>	<u>Net</u>	<u>Depreciation/Amortization Expense</u>
Furniture and equipment	5-10 years	\$ 4,884,479	\$ (4,388,835)	\$ 495,644	\$ 241,680
Leasehold improvements	10 years	65,566	(34,527)	31,039	4,128
Land	-	7,801	-	7,801	-
TOTAL		<u>\$ 4,957,846</u>	<u>\$ (4,423,362)</u>	<u>\$ 534,484</u>	<u>\$ 245,808</u>

4. INVESTMENTS

The table below presents the balances of the investments measured at fair value on a recurring basis by level within the hierarchy. TU's money market funds and all mutual funds are classified as Level 1 instruments as they are valued at the published net asset value of the fund, which is the price at which additional shares can be obtained in an active market.

There were no changes in the valuation methodology from the prior year. TU's investments as of March 31, 2019 were as follows:

Asset Type:	Fair Value: Level 1
Money market funds	\$ 1,379,755
Fixed income mutual funds:	
Short-term bond	2,286,937
Tactical allocation	829,322
Multi-sector bond	687,142
Short-term government	146,339
Equity mutual funds:	
Large blend	3,512,151
Foreign large blend	898,706
Other	<u>37,423</u>
	<u>\$ 9,777,775</u>

Included in investment income as of March 31, 2019 are the following :

Interest and dividends	\$ 127,274
Unrealized and realized loss	(93,037)
Management fees	<u>(5,011)</u>
TOTAL INVESTMENT INCOME, NET	<u>\$ 29,226</u>

TROUT UNLIMITED, INC.

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019**

5. LEASE COMMITMENTS

TU has commitments under operating leases for office space and equipment expiring at various times through 2024. TU has a lease for office space that will expire in April 2024. Rent expense for the six month period ended March 31, 2019, was \$407,573.

Future minimum lease payments at March 31, 2019 are as follows:

<u>Year Ending March 31,</u>	
2020	\$ 406,530
2021	404,597
2022	376,459
2023	365,268
2024	<u>213,073</u>
	<u>\$ 1,765,927</u>

6. LINE OF CREDIT

TU has a \$2,000,000 revolving line of credit with a bank. The line expires on June 25, 2020. The line accrues interest at a rate of 3.93 percent. The line of credit is secured by the deposits and investments of TU maintained by the bank. There was no outstanding balance at March 31, 2019. There are no financial covenants related to the line of credit. The agreement requires certain financial reporting to be made within 180 days after fiscal year-end.

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at March 31, 2019:

	Balance at September 30, 2018	Additions/ Other Gains/ Investment Earnings	Releases	Balance at March 31, 2019
Subject to expenditure for specified purpose:				
Conservation operations	\$ 11,934,357	\$ 5,203,142	\$ (5,432,459)	\$ 11,705,040
Government affairs	560,205	775,024	(790,809)	544,420
Accumulated endowment earnings not yet authorized for spending	1,237,464	4,037	(270,326)	971,175
Volunteer operations and chapter support	1,965,737	688,272	(514,624)	2,139,385
Endowment contributions to be invested in perpetuity	<u>5,005,767</u>	<u>-</u>	<u>-</u>	<u>5,005,767</u>
TOTAL	<u>\$ 20,703,530</u>	<u>\$ 6,670,475</u>	<u>\$ (7,008,218)</u>	<u>\$ 20,365,787</u>

TROUT UNLIMITED, INC.

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019**

8. LIQUIDITY AND AVAILABILITY

Financial assets available for use for general expenditures within one year of the Statement of Financial Position date comprise the following:

Cash and cash equivalents	\$ 3,312,067
Investments	9,777,775
Receivables, net	<u>12,369,783</u>
Subtotal financial assets available within one year	25,459,625
Less: Donor restricted funds	<u>(20,365,787)</u>

FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 5,093,838</u>
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TU has a policy to structure its financial assets to be available and liquid as its obligations become due. As of March 31, 2019, TU has financial assets equal to approximately one month of average annual expenses. In addition, TU has a line of credit agreement (as further discussed in Note 6) which allows for additional available borrowings up to \$2,000,000.

9. EMPLOYEE RETIREMENT PLAN AND SELF-INSURANCE PLAN

TU maintains a 403(b) plan (the Plan) for eligible employees. All employees with at least one-year of service are eligible for the Plan. TU is required to contribute 4% of each eligible employee's gross salary to the Plan. TU's pension expense for the six month period ended March 31, 2019 totaled \$348,180.

TU has a self-insured health benefit plan for its employees. Under the Plan, TU has a coverage maximum of \$50,000 per diagnosis. TU is insured for claims in excess of that coverage. At March 31, 2019, TU had accruals of \$301,796 for health benefits payable under the Plan, which are included in accounts payable and accrued liabilities in the accompanying Statement of Financial Position.

10. CONTINGENCY

TU receives grants from various agencies of the United States Government. For the six month period ended March 31, 2019, such grants are subject to audit under the provisions of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the applicable provisions have been completed for all required fiscal years through 2019. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

11. ENDOWMENT

TU's endowment consists of donor-restricted endowment funds and funds designated by the governing Board 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.

TROUT UNLIMITED, INC.

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019**

11. ENDOWMENT (Continued)

The Board of Directors is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those assets are time restricted until the governing Board appropriates such amounts for expenditures. Most of those net asset also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The governing Board has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, TU considers a fund to be underwater if the fair value of the fund is less than the sum the (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. TU has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, TU considers the following factors in making a determination to appropriated or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the organization and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the organization.

Endowment net asset composition by type of fund as of March 31, 2019:

Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 5,005,767
Accumulated investment earnings:	
CCF	655,539
Teller	101,496
Idaho	<u>214,140</u>
TOTAL FUNDS	<u>\$ 5,976,942</u>

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

	Without Donor Restrictions	With Donor Restrictions	<u>Total</u>
Endowment net assets as of September 30, 2018	\$ <u>-</u>	\$ <u>6,243,231</u>	\$ <u>6,243,231</u>
Investment return:			
Investment income	-	91,948	91,948
Net depreciation (realized and unrealized)	<u>-</u>	<u>(87,911)</u>	<u>(87,911)</u>
Total investment return	-	4,037	4,037
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(270,326)</u>	<u>(270,326)</u>
ENDOWMENT NET ASSETS AS OF MARCH 31, 2019	<u>\$ -</u>	<u>\$ 5,976,942</u>	<u>\$ 5,976,942</u>

TROUT UNLIMITED, INC.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019

11. **ENDOWMENT (Continued)**

Funds with Deficiencies -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the organization to retain as fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in net assets without donor restrictions. For the six month period ended March 31, 2019, there were no deficiencies.

Return Objectives and Risk Parameters -

TU's objective is to earn a respectable, long-term, risk-adjusted total rate of return to support the designated programs. TU recognizes and accepts that pursuing a respectable rate of return involves risk and potential volatility. Over complete market cycles, the goal is to have TU's assets generate a return, net of fees, greater than the benchmark index consisting of a combination of appropriate capital market indexes weighted in the same proportions as TU's asset allocation. To minimize the administrative costs and burdens, TU is currently only invested in publicly- traded fixed income and equity mutual funds and money market funds.

Strategies Employed for Achieving Objectives -

To satisfy its long-term rate-of-return objectives, TU relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). TU targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy -

CCF Endowment: The fund was developed to support the scientific resource work of TU and was funded through the Russell Memorial Fund (\$569,375) and other individual contributions. Up to 15% of the original contribution revenue was allocated to be spent on overhead and administrative costs associated with the Coldwater Conservation Fund program. The remaining portion of the overhead and administrative allocation was spent in fiscal year 2016. A portion of the current investment income from the Endowment's funds are to be spent annually, in accordance with TU's spending policy. Spending rate of 4.5% was set for the six month period ended March 31, 2019.

E.T. Teller Endowment: This fund was established in 1995 by the Teller family. Per request by the donor, up to 50% of the annual earnings are available for general operations of TU. The other 50% should be reinvested in the fund.

Idaho Water Fund: This endowment was established in 2008 with grant funds from the Ishiyama Family Foundation. The purpose of the endowment is to fund the Idaho Water Project. A portion of the funds can be spent annually, in accordance with TU's spending policy. No funds were spent during the six month period ending 3/31/2019.

12. **SUBSEQUENT EVENTS**

In preparing these financial statements, TU has evaluated events and transactions for potential recognition or disclosure through September 9, 2019, the date the financial statements were issued.