

STROUD WATER RESEARCH CENTER, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Stroud Water Research Center, Inc.

We have audited the accompanying financial statements of Stroud Water Research Center, Inc. (a nonprofit corporation), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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. 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 Stroud Water Research Center, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Stroud Water Research Center, Inc.'s 2016 financial statements, and our report dated August 29, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gunnip & Company LLP

September 10, 2018

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,179,269	\$ 2,471,058
Accounts and grants receivable	1,974,555	2,042,643
Pledges receivable	531,279	73,250
Prepaid expenses	15,176	37,540
	<u>3,700,279</u>	<u>4,624,491</u>
PROPERTY AND EQUIPMENT		
Land	2,357,839	2,357,839
Buildings and improvements	12,443,046	12,333,742
Equipment	2,977,873	2,823,368
Vehicles	325,242	231,275
	<u>18,104,000</u>	<u>17,746,224</u>
Less accumulated depreciation	<u>6,362,153</u>	<u>5,826,615</u>
	<u>11,741,847</u>	<u>11,919,609</u>
CONSTRUCTION IN PROGRESS	20,000	6,631
PLEDGES RECEIVABLE	2,237,718	90,622
INVESTMENTS	26,392,342	20,996,472
BENEFICIAL INTEREST IN PERPETUAL TRUST	<u>10,384,656</u>	<u>9,343,528</u>
Total assets	<u><u>\$ 54,476,842</u></u>	<u><u>\$ 46,981,353</u></u>

See accompanying notes to financial statements.

STROUD WATER RESEARCH CENTER, INC.

	2017	2016
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of bonds payable	\$ 250,358	\$ 245,674
Accounts payable and accrued expenses	774,986	507,462
Taxes payable - payroll	6,358	6,368
	<u>1,031,702</u>	<u>759,504</u>
BONDS PAYABLE	5,238,268	5,488,626
PENSION BENEFIT OBLIGATION	<u>2,787,371</u>	<u>2,093,430</u>
Total liabilities	<u>9,057,341</u>	<u>8,341,560</u>
NET ASSETS		
Unrestricted		
Board designated	22,148,956	16,277,650
Undesignated	6,884,023	5,605,163
	<u>29,032,979</u>	<u>21,882,813</u>
Temporarily restricted	3,013,259	4,424,845
Permanently restricted	<u>13,373,263</u>	<u>12,332,135</u>
Total net assets	<u>45,419,501</u>	<u>38,639,793</u>
Total liabilities and net assets	<u>\$ 54,476,842</u>	<u>\$ 46,981,353</u>

See accompanying notes to financial statements.

STATEMENT OF ACTIVITIES

STROUD WATER RESEARCH CENTER, INC.

FOR THE YEAR ENDED DECEMBER 31, 2017 WITH COMPARATIVE TOTALS FOR 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2017</u>	<u>Total 2016</u>
OPERATING REVENUE					
Research programs	\$ 1,883,278	\$ 1,396,841	\$ 0	\$ 3,280,119	\$ 3,730,165
Education/public programs	480,134	74,098	0	554,232	547,606
Watershed restoration programs	2,022,268	253,962	0	2,276,230	1,826,445
Annual fund	512,806	0	0	512,806	535,170
Contributions	5,332,715	0	0	5,332,715	438,239
Contribution from beneficial interest in perpetual trust	419,577	0	0	419,577	414,503
Other income	119,204	100,000	0	219,204	82,143
Special event	378,774	0	0	378,774	340,761
	<u>11,148,756</u>	<u>1,824,901</u>	<u>0</u>	<u>12,973,657</u>	<u>7,915,032</u>
Net assets released from restriction	<u>3,236,487</u>	<u>(3,236,487)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total operating revenue	<u>14,385,243</u>	<u>(1,411,586)</u>	<u>0</u>	<u>12,973,657</u>	<u>7,915,032</u>
OPERATING EXPENSES					
Program services					
Research	4,573,199	0	0	4,573,199	3,573,833
Education	561,863	0	0	561,863	570,666
Watershed restoration	1,762,969	0	0	1,762,969	1,578,627
Total program services	6,898,031	0	0	6,898,031	5,723,126
Supporting services					
Outreach	319,807	0	0	319,807	349,502
Finance and administrative	671,239	0	0	671,239	648,201
Information services	339,377	0	0	339,377	360,451
Facilities	1,042,927	0	0	1,042,927	917,814
Communications and marketing	88,282	0	0	88,282	45,057
Special event	43,094	0	0	43,094	34,382
Other expenses	144,419	0	0	144,419	0
Total supporting services	<u>2,649,145</u>	<u>0</u>	<u>0</u>	<u>2,649,145</u>	<u>2,355,407</u>
Total operating expenses	<u>9,547,176</u>	<u>0</u>	<u>0</u>	<u>9,547,176</u>	<u>8,078,533</u>
NET INCOME (LOSS) FROM OPERATIONS	<u>4,838,067</u>	<u>(1,411,586)</u>	<u>0</u>	<u>3,426,481</u>	<u>(163,501)</u>

See accompanying notes to financial statements.

STATEMENT OF ACTIVITIES (cont'd)

STROUD WATER RESEARCH CENTER, INC.

FOR THE YEAR ENDED DECEMBER 31, 2017 WITH COMPARATIVE TOTALS FOR 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2017</u>	<u>Total 2016</u>
OTHER CHANGES					
Pension-related changes other than net periodic pension cost	(626,771)	0	0	(626,771)	(643,628)
Investment income	613,466	0	0	613,466	354,264
Net realized and unrealized gains (losses) on:					
Beneficial interest in perpetual trust	0	0	1,041,128	1,041,128	78,351
Investments	2,325,404	0	0	2,325,404	1,339,880
Total other changes	<u>2,312,099</u>	<u>0</u>	<u>1,041,128</u>	<u>3,353,227</u>	<u>1,128,867</u>
CHANGE IN NET ASSETS	7,150,166	(1,411,586)	1,041,128	6,779,708	965,366
NET ASSETS, BEGINNING OF YEAR	<u>21,882,813</u>	<u>4,424,845</u>	<u>12,332,135</u>	<u>38,639,793</u>	<u>37,674,427</u>
NET ASSETS, END OF YEAR	<u>\$ 29,032,979</u>	<u>\$ 3,013,259</u>	<u>\$ 13,373,263</u>	<u>\$ 45,419,501</u>	<u>\$ 38,639,793</u>

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS

STROUD WATER RESEARCH CENTER, INC.

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
OPERATING ACTIVITIES		
Change in net assets	\$ 6,779,708	\$ 965,366
Adjustments to reconcile change in net assets to net cash flow used by operating activities		
Depreciation	535,538	532,103
Amortization of debt issuance costs	1,674	1,597
Net realized and unrealized gains	(3,366,532)	(694,093)
Contributed investments	(1,851,065)	(234,457)
(Increase) decrease in -		
Accounts and grants receivable	68,088	(520,377)
Pledges receivable	(3,152,935)	(36,282)
Prepaid expenses	22,364	(20,797)
Increase (decrease) in -		
Accounts payable and accrued expenses	267,524	(128,502)
Pension benefit obligation	693,941	552,844
Taxes payable - payroll	(10)	697
Net cash flow from (used by) operating activities	<u>(1,705)</u>	<u>418,099</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(371,145)	(208,024)
Purchase of investment securities	(3,477,487)	(3,139,358)
Proceeds on sale of investment securities	<u>2,258,086</u>	<u>3,299,074</u>
Net cash flow used by investing activities	<u>(1,590,546)</u>	<u>(48,308)</u>
FINANCING ACTIVITIES		
Pledge payments received	547,810	148,865
Repayment of bond payable	<u>(247,348)</u>	<u>(242,800)</u>
Net cash flow from (used by) financing activities	<u>300,462</u>	<u>(93,935)</u>
NET CHANGE IN CASH	(1,291,789)	275,856
CASH, BEGINNING OF YEAR	<u>2,471,058</u>	<u>2,195,202</u>
CASH, END OF YEAR	<u>\$ 1,179,269</u>	<u>\$ 2,471,058</u>
CASH PAID FOR INTEREST	<u>\$ 241,946</u>	<u>\$ 252,718</u>
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Contributed investments	<u>\$ 1,851,065</u>	<u>\$ 234,457</u>

See accompanying notes to financial statements.

Note 1 Summary of Corporation activities and significant accounting policies

Corporation activities

Stroud Water Research Center, Inc. ("the Corporation") operates as a nonprofit corporation established under Delaware law. The Corporation's purpose is to advance knowledge of stream and river ecosystems through interdisciplinary research; to develop and communicate new ecological ideas; to provide solutions for water resource problems worldwide; and to promote public understanding of freshwater ecology through education programs, watershed restoration, conservation leadership, and professional service.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Comparative information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a complete presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Basis of presentation

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958 – Not-for-Profit Entities, the Corporation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Contributions and revenue recognition

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

Note 1 Summary of significant accounting policies (cont'd)

Contributions and revenue recognition (cont'd)

Contributions, including unconditional promises to give, are recognized in the period received. Conditional promises to give are not recognized until the condition is met. Contributions of assets other than cash are recorded at their estimated fair values. Contributions (pledges) to be received after one year are discounted at appropriate rates commensurate with the risks involved.

Contributions with restrictions met in the same year

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions

Net asset classifications

FASB ASC 958-10 – Not-for-Profit Entities-Disclosure, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”). The accounting standard also requires disclosures about an organization’s endowment funds, both donor restricted endowment funds and board designated endowment funds, whether or not the organization is subject to UPMIFA.

The State of Delaware complies with UPMIFA. The Corporation has determined that a portion of its net assets meet the definition of endowment under UPMIFA.

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

Permanently restricted net assets - resources contributed by donors under the stipulation that the principal of the gift be retained intact in perpetuity and that investment earnings on those gifts, both yields and gains and losses, be used to support operations. The donor may further stipulate that the earnings be applied to a specific operating purpose.

Temporarily restricted net assets - resources contributed by donors subject to use for a stipulated purpose or in a stipulated future time period.

Unrestricted net assets - resources available to support any operating need of the Corporation.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or law.

Note 1 Summary of significant accounting policies (cont'd)

Net asset classifications (cont'd)

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Release of restriction on net assets for acquisition of property and equipment

Contributions of land, buildings and equipment with donor stipulations concerning the use of such long lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings and equipment are reported as revenues of the temporarily restricted net asset class. The restrictions are considered to be released at the time of acquisition of such long lived assets.

Endowment investment and spending policies

The Corporation's endowment consists of individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, 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 Corporation has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, and (d) changes in the fair value of the beneficial interest in perpetual trust. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Corporation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (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 Corporation, and (7) the Corporation's investment policies.

Note 1 Summary of significant accounting policies (cont'd)

Endowment investment and spending policies (cont'd)

The Corporation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. The Corporation's objective is for its spending and investment policies to work together to achieve this objective. The investment guidelines are based upon an investment horizon of greater than ten years. In establishing the risk tolerances for this strategy, the Corporation's ability to withstand short- and intermediate-term variability were considered. The current long-term return objective is to return an average of 8%. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Corporation 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). The Corporation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

The spending policy calculates the amount of money annually distributed from the Corporation's various endowed funds to fund Corporation operations and capital acquisitions. The current spending policy is to distribute an amount equal to 5% of a thirteen quarter weighted average of the value of endowment assets. In addition to this distribution, the Corporation's finance committee has the authority to distribute additional funds as they are deemed necessary. The spending policy called for a budgeted distribution of \$ 1,473,282 in 2017. Actual distributions from the endowment based on operating funds needed were \$ 419,577 in 2017 (\$ 2,152,498 in 2016).

Investments

Investments are comprised of common stock, mutual funds, alternative investment and cash management funds. Investments are stated at fair market value.

Property and equipment

Property and equipment are stated at cost. Cost is the purchase price at date of acquisition, if purchased, or the fair value at date of donation, if acquired by gift.

Depreciation is computed over the estimated useful lives of property and equipment using the straight-line method. The annual depreciation rates are based on the following ranges of useful lives:

Buildings	20-50 years
Building improvements	5-20 years
Equipment	3-10 years
Vehicles	5 years

Note 1 Summary of significant accounting policies (cont'd)

Property and equipment (cont'd)

Renewals and improvements are capitalized. Normal maintenance and repairs are expensed as incurred and major renewals and improvements are capitalized.

Depreciation expense was \$ 535,538 in 2017 (\$ 532,103 in 2016).

Deferred fees and amortization

Debt issuance costs of \$ 58,670, net of accumulated amortization of \$ 10,223, are reported as a direct deduction from the face amount of the bonds payable to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed using the effective interest method, over the terms of the respective notes payable.

Interest expense related to the debt issuance costs for the years ended December 31, 2017 and 2016 was \$ 1,674 and \$ 1,597, respectively.

Beneficial interest in perpetual trust

Under the terms of the perpetual trust held and administered by a third party, the Corporation is the beneficiary of income earned on those trust's assets in perpetuity. The Corporation recognized the fair value of the trust's assets as permanently restricted contribution revenue and an asset (beneficial interest in perpetual trust) when it was notified of the trust's existence.

Changes in the fair value of the trust's assets are recognized as permanently restricted unrealized gains or losses in the period the change occurs. The change in value recognized was an unrealized gain of \$ 1,041,128 in 2017 (unrealized gain of \$ 78,351 in 2016).

The Corporation records income, in the period it is received from the trust, as an unrestricted contribution. Contributions received from the trust were \$ 419,577 in 2017 (\$ 414,503 in 2016).

Income taxes

The Corporation is exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code but can be subject to tax on unrelated trade or business income.

The Corporation complies with FASB ASC 740 – Accounting for Uncertainty in Income Taxes. For the years ended December 31, 2017 and 2016, the Corporation has determined it did not have a material tax liability for uncertain tax positions.

Note 1 Summary of significant accounting policies (cont'd)

Income taxes (cont'd)

The Corporation's policy for penalties and interest assessed by income taxing authorities is to include them in other expenses. For the years ended December 31, 2017 and 2016, the Corporation did not incur any interest and penalties from taxing authorities.

The federal income tax returns of the Corporation for 2014, 2015 and 2016 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

Advertising costs

Advertising costs are charged to operations when incurred. Total advertising costs were \$ 363 in 2017 (\$ 50 in 2016).

Subsequent events

The date to which events occurring after December 31, 2017, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is September 10, 2018, which is the date on which the financial statements were available to be issued.

Reclassification

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Note 2 Financial instruments

Concentrations of credit risk

Financial instruments that potentially subject the Corporation to significant concentrations of credit risk are principally cash, receivables and investments.

Cash is maintained in bank deposit accounts with financial institutions that at times exceeds federally insured limits. The Corporation has not experienced any losses in such accounts and does not believe it is exposed to any significant risk.

Note 2 Financial instruments (cont'd)

Concentrations of credit risk (cont'd)

Receivables, which represent unsecured support and revenue, are periodically reviewed by management for collectability. An allowance for doubtful accounts is established if required.

Investments are unsecured and are managed by professional advisors subject to the Corporation's investment policy. The degree and concentration of credit risk vary by type of investment.

Fair value measurement of financial instruments

The Corporation complies with FASB ASC 820 – Fair Value Measurements and Disclosures. FASB ASC 820 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The definitions, framework and disclosures required by FASB ASC 820 apply to other accounting pronouncements that require or permit fair value measurement. FASB ASC 820 does not require any new fair value measurements of reported balances.

FASB ASC 820 establishes a three-level hierarchy that prioritizes the factors (inputs) used to calculate the fair value of assets and liabilities:

Level 1 - inputs are unadjusted quoted prices, such as a New York Stock Exchange closing price in active markets for identical assets. Level 1 is the highest priority in the hierarchy.

Level 2 - inputs may include quoted prices for similar assets and liabilities in active markets, as well as other significant inputs that are observable at commonly quoted intervals, such as interest rates, foreign exchange rates, and yield curves.

Level 3 - inputs are unobservable. Typically, assumptions determine the inputs since there is little, if any, related market activity. Level 3 is the lowest priority in the hierarchy.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Investments - the carrying amount approximates the fair value of investments. The fair value of Level 1 securities is determined by reference to quoted market prices and other relevant information generated by market transactions. The fair value of Level 2 securities is determined by using a market approach and reflects the fair value of an investment's underlying securities divided by the number of shares that are outstanding within the fund.

Beneficial interest in perpetual trust - the carrying amount approximates the fair value which is determined by reference to quoted market prices and other relevant information generated by market transactions.

Note 2 Financial instruments (cont'd)

Fair value measurement of financial instruments (cont'd)

Fair values of assets measured on a recurring basis at December 31, 2016 are as follows:

	<u>Fair Value Measurement at Reporting Date Using</u>		
	<u>Fair Value</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>
Cash management fund	\$ 339,003	\$ 339,003	\$ 0
Mutual funds			
Domestic blended equities	1,663,787	1,663,787	
Domestic large cap equities	2,517,887	2,517,887	
Domestic small cap equities	2,860,301	2,860,301	
Fixed income	4,468,541	4,468,541	
International equities			
Developed	1,835,338	1,835,338	
Emerging markets	1,099,123	1,099,123	
Investment in limited partnership	<u>6,212,492</u>	<u> </u>	<u>6,212,492</u>
Total investments	<u>\$ 20,996,472</u>	<u>\$ 14,783,980</u>	<u>\$ 6,212,492</u>
Beneficial interest in perpetual trust	<u>\$ 9,343,528</u>	<u>\$ 0</u>	<u>\$ 9,343,528</u>

Note 3 Pledges receivable

Pledges receivable consisted of the following at December 31:

	2017	2016
Receivable in less than one year	\$ 531,279	\$ 73,250
Receivable in one to five years	1,762,361	100,000
Receivable in greater than five years	<u>950,000</u>	<u>0</u>
Total pledges	3,243,640	173,250
Less discounts to net present value	474,643	9,378
Less allowance for uncollectible pledges receivable	<u>0</u>	<u>0</u>
	<u>\$ 2,768,997</u>	<u>\$ 163,872</u>

Note 4 Investments

Investments are stated at fair value and are summarized as follows at December 31:

	2017		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Cash management fund	\$ 145,195	\$ 145,195	\$ 0
Mutual funds	15,269,044	18,589,394	3,320,350
Investment in limited partnership	<u>5,654,979</u>	<u>7,657,752</u>	<u>2,002,773</u>
Total investments	<u>\$ 21,069,218</u>	<u>\$ 26,392,341</u>	<u>\$ 5,323,123</u>

	2016		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Cash management fund	\$ 339,003	\$ 339,003	\$ 0
Mutual funds	12,514,346	14,444,977	1,930,631
Investment in limited partnership	<u>5,148,431</u>	<u>6,212,492</u>	<u>1,064,061</u>
Total investments	<u>\$ 18,001,780</u>	<u>\$ 20,996,472</u>	<u>\$ 2,994,692</u>

Investment income consisted of the following for the years ended December 31:

	2017	2016
Interest and dividends	\$ 564,089	\$ 425,557
Partnership income (loss)	96,309	(28,707)
Fees and other expenses	<u>(46,932)</u>	<u>(42,586)</u>
	<u>\$ 613,466</u>	<u>\$ 354,264</u>

Note 5 Bonds payable

In 2008, the Corporation entered into an agreement to construct a new building to accommodate the needs of their education, communications, development and business departments which was completed in 2012. A portion of the funding for the project was obtained from tax-exempt bond financing in the amount of \$ 6,500,000 which was approved by the Central and Western Chester County Industrial Development Authority and was advanced by Brown Brothers Harriman & Co ("BBH").

Note 5 Bonds payable (cont'd)

Bonds payable totalled \$ 5,488,626 as of December 31, 2017 (\$ 5,734,300 as of December 31, 2016). The first \$ 3,250,000 of the bond issue bears interest at 4.70% until December 23, 2035. The second \$ 3,250,000 of the bond issue bears interest at 3.65% until December 23, 2035. Payments of interest and principal are due in accordance with the schedule outlined in the bond issue through December 2035.

Components of bonds payable are as follows for December 31, 2017:

	Bonds Payable	Unamortized Loan Costs	Net
Current portion	\$ 252,112	\$ 1,754	\$ 250,358
Long-term portion	<u>5,284,961</u>	<u>46,693</u>	<u>5,238,268</u>
Total	<u>\$ 5,537,073</u>	<u>\$ 48,447</u>	<u>\$ 5,488,626</u>

Components of bonds payable are as follows for December 31, 2016:

	Bonds Payable	Unamortized Loan Costs	Net
Current portion	\$ 247,348	\$ 1,674	\$ 245,674
Long-term portion	<u>5,537,073</u>	<u>48,447</u>	<u>5,488,626</u>
Total	<u>\$ 5,784,421</u>	<u>\$ 50,121</u>	<u>\$ 5,734,300</u>

Components of interest expense on the bonds payable for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Interest expense	\$ 241,946	\$ 252,718
Amortization of loan costs	<u>1,674</u>	<u>1,597</u>
Total interest expense	<u>\$ 243,620</u>	<u>\$ 254,315</u>

Scheduled principal payments on the bond payable for each of the next five years, thereafter and in the aggregate are as follows:

2018	\$ 252,112
2019	257,106
2020	262,338
2021	262,820
2022	273,565
Thereafter	<u>4,229,132</u>
	<u>\$ 5,537,073</u>

Note 5 Bond payable (cont'd)

Covenants

The Corporation must maintain the following financial covenants for the bond payable to its bank as follows:

The Corporation's unrestricted investments shall not be less than \$ 8,000,000.

The Corporation shall not incur an operating deficit for any fiscal year, as defined in the bond agreement, in an amount greater than \$ 200,000.

The Corporation met the covenants described above as of December 31, 2017 and 2016.

Note 6 Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes at December 31:

	2017	2016
Research programs	\$ 1,493,802	\$ 2,437,071
Education/public programs	45,261	42,002
Watershed Restoration	97,790	28,911
Other programs	121,627	22,774
Assistant director's fund	341,364	491,379
New building	<u>913,415</u>	<u>1,402,708</u>
	<u>\$ 3,013,259</u>	<u>\$ 4,424,845</u>

Note 7 Permanently restricted net assets

Permanently restricted net assets are restricted to investment in perpetuity, the investment income and gains and losses, however, are expendable for the mission of the Corporation. Permanently restricted net assets consisted of the following at December 31:

	2017	2016
Investments	\$ 2,988,607	\$ 2,988,607
Beneficial interest in perpetual trust	<u>10,384,656</u>	<u>9,343,528</u>
	<u>\$ 13,373,263</u>	<u>\$ 12,332,135</u>

Note 8 Net assets released from restriction

Net assets were released from donor restrictions by incurring expenses satisfying restricted purposes or by occurrence of other events specified by donors are as follows for the years ended December 31:

	2017	2016
Research programs	\$ 2,340,111	\$ 1,615,515
Education/public programs	70,839	85,645
Watershed Restoration	185,082	179,784
Other Programs	1,147	0
Assistant director's fund	150,015	150,015
New building	<u>489,293</u>	<u>495,517</u>
	<u>\$ 3,236,487</u>	<u>\$ 2,526,476</u>

Note 9 Major contributors

Of the \$ 5,845,521 in contributions received in 2017, approximately 52%, or \$ 3,039,658 was received from two major contributors (none of \$ 973,409 was received from a major contributor in 2016). Pledges receivable from major contributors was \$ 1,950,000 as of December 31, 2017 (\$ 150,000 as of December 31, 2016).

Note 10 Major grantors

Of the \$ 6,110,581 in program grants and contracts received in 2017, approximately 72%, or \$ 4,397,601 of these program grants and contracts were received from three grantors (approximately 68%, or \$ 4,133,916 of \$ 6,104,216 were received from three grantors in 2016). Grants receivable from major grantors was \$ 987,979 and \$ 910,767 as of December 31, 2017 and 2016, respectively.

Note 11 Pension plan

The Corporation complies with FASB ASC 715 - Compensation-Retirement Benefits, for recognition and disclosure of its pension plan activity.

The Corporation has a defined benefit pension plan which covers all full-time employees with a minimum of one year of service. Annual pension benefits beginning at normal retirement age are equal to 1.25% of final average compensation for each year of service.

Note 11 Pension plan (cont'd)

The following tables set forth further information about the Corporation's defined benefit pension plan for the years ended December 31:

Pension plan obligations and funded status:

	2017	2016
Projected benefit obligation	\$ 10,469,507	\$ 8,866,467
Fair value of plan assets	<u>7,682,136</u>	<u>6,773,037</u>
Funded status	<u>\$ (2,787,371)</u>	<u>\$ (2,093,430)</u>
Accumulated benefit obligation	\$ 9,230,520	\$ 7,924,234
Employer contributions	\$ 305,000	\$ 296,000
Participant contributions	\$ 0	\$ 0
Benefits paid	\$ (166,691)	\$ (166,691)

Amounts recognized in the statement of financial position:

	2017	2016
Pension benefit obligation	<u>\$ 2,787,371</u>	<u>\$ 2,093,430</u>

Amounts recognized in the statement of activities:

	2017	2016
Components of net periodic benefit cost		
Service cost	\$ 333,749	\$ 247,638
Interest cost	360,383	317,062
Amortization of net loss	85,485	54,895
Expected return on plan assets	<u>(407,447)</u>	<u>(414,379)</u>
Net periodic benefit cost	372,170	205,216
Changes in plan assets and benefit obligations recognized in other changes in unrestricted net assets		
Net loss	712,256	698,523
Amortization of net loss	<u>(85,485)</u>	<u>(54,895)</u>
Total recognized in other changes in unrestricted net assets	<u>626,771</u>	<u>643,628</u>
Total recognized in net periodic benefit costs and other changes in unrestricted net assets	<u>\$ 998,941</u>	<u>\$ 848,844</u>

Note 11 Pension plan (cont'd)

The estimated net loss and prior service cost for the defined benefit pension plan that will be amortized from other changes in unrestricted net assets into the net periodic benefit over the next year are \$ 112,925 and \$ 85,485, respectively.

The following assumptions were used in accounting for the pension plan:

Weighted average assumptions used to determine the pension benefit obligation at December 31:

	2017	2016
Discount rate	3.60%	4.15%
Rate of compensation increase	3.00%	3.00%
Expected return on plan assets	6.10%	6.10%

Weighted average assumptions used to determine the net periodic benefit cost during the year ended December 31:

	2017	2016
Discount rate	4.15%	4.25%
Rate of compensation increase	3.00%	2.00%
Expected return on plan assets	6.10%	7.00%

The expected rate of return on pension plan assets is determined by those assets' historical long-term investment performance, current asset allocation, and estimates of future long-term returns by asset class.

The percentage of the fair value of total pension plan assets held as of December 31, 2017 by asset category is as follows:

Cash and alternatives	1.8%
Equities	61.1%
Fixed income securities	37.1%
Other	0.0%
	<u>100.0%</u>

The Corporation expects to contribute approximately \$ 350,000 to the pension plan in the year ended December 31, 2018. No plan assets are expected to be returned to the Corporation during the year ended December 31, 2017. Future benefit payments, which reflect expected service as appropriate, are expected to be paid as follows:

2018	\$ 358,932
2019	\$ 459,600
2020	\$ 454,057
2021	\$ 454,344
2022	\$ 458,518
2023 – 2026	\$ 2,497,702

Note 12 Commitments - copier leases

The Corporation leases copiers under various operating leases. Future minimum rental payments under these operating leases by year and in the aggregate for each of the next five years ending December 31 are as follows:

2018	\$ 14,775
2019	15,983
2020	15,751
2021	13,200
2022	13,200
Thereafter	<u>3,300</u>
	<u>\$ 76,209</u>

Rent expense was \$ 13,342 in 2017 (\$ 13,780 in 2016).

Note 13 Endowment assets

Endowment net asset composition by type of fund as of December 31, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds				
Donor-restricted	\$ 0	\$ 1,254,779	\$ 13,373,263	\$ 14,628,042
Board-designated	<u>22,148,956</u>	<u>0</u>	<u>0</u>	<u>22,148,956</u>
	<u>\$22,148,956</u>	<u>\$ 1,254,779</u>	<u>\$ 13,373,263</u>	<u>\$ 36,776,998</u>

Changes in endowment net assets for the year ended December 31, 2017 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 01, 2017	\$ 16,277,650	\$ 1,894,087	\$ 12,332,135	\$ 30,503,872
Investment return:				
Investment income, net of fees	613,466	0	0	613,466
Net realized/unrealized gains	<u>2,325,404</u>	<u>0</u>	<u>1,041,128</u>	<u>3,366,532</u>
Total investment return	<u>2,938,870</u>	<u>0</u>	<u>1,041,128</u>	<u>3,979,998</u>
Contributions transferred into endowment	2,712,705	0	0	2,712,705
Appropriation of assets for expenditure	(419,577)	(639,308)	0	(1,058,885)
Other changes:				
Transfers to board- designated endowment	<u>639,308</u>	<u>0</u>	<u>0</u>	<u>639,308</u>
Endowment net assets, December 31, 2017	<u>\$ 22,148,956</u>	<u>\$ 1,254,779</u>	<u>\$ 13,373,263</u>	<u>\$ 36,776,998</u>

Note 13 Endowment assets (cont'd)

Endowment net asset composition by type of fund as of December 31, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds				
Donor-restricted	\$ 0	\$ 1,894,087	\$ 12,332,135	\$ 14,226,222
Board-designated	<u>16,277,650</u>	<u>0</u>	<u>0</u>	<u>16,277,650</u>
	<u>\$ 16,277,650</u>	<u>\$ 1,894,087</u>	<u>\$ 12,332,135</u>	<u>\$ 30,503,872</u>

Changes in endowment net assets for the year ended December 31, 2016 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 01, 2016	\$ 15,343,668	\$ 2,250,169	\$ 12,253,784	\$ 29,847,621
Investment return:				
Investment income, net of fees	1,078,402	0	0	1,078,402
Net realized/unrealized losses	<u>615,742</u>	<u>0</u>	<u>78,351</u>	<u>694,093</u>
Total investment return	1,694,144	0	78,351	1,772,495
Contributions transferred into endowment	738,116	298,138	0	1,036,254
Appropriation of assets for expenditure	(2,152,498)	(654,220)	0	(2,806,718)
Other changes:				
Transfers to board- designated endowment	<u>654,220</u>	<u>0</u>	<u>0</u>	<u>654,220</u>
Endowment net assets, December 31, 2016	<u>\$ 16,277,650</u>	<u>\$ 1,894,087</u>	<u>\$ 12,332,135</u>	<u>\$ 30,503,872</u>