

STROUD WATER RESEARCH CENTER, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORTS,
SINGLE AUDIT, AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2019 AND 2018

STROUD WATER RESEARCH CENTER, INC.
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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, 2019, and the related statements of activities, cash flows, and functional expenses 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.

Auditors' 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 auditors' 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 auditors consider 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.

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

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, 2019, 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.

Adjustments to Prior Period Financial Statements

The financial statements of Stroud Water Research Center, Inc. as of December 31, 2018, were audited by other auditors whose opinion dated August 20, 2019, expressed an unmodified opinion on those statements. As discussed in Note 15, Stroud Water Research Center, Inc. has restated its 2018 financial statements during the current year to correctly report contribution revenue and pledges receivable, in accordance with accounting principles generally accepted in the United States of America. The other auditors reported on the 2018 financial statements before the restatement.

As part of our audit of the 2019 financial statements, we also audited adjustments described in Note 15 that were applied to restate the 2018 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to Stroud Water Research Center, Inc.'s 2018 financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2018 financial statements as a whole.

Other Matters - Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2020 on our consideration of Stroud Water Research Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is 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 Stroud Water Research Center, Inc.'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 Stroud Water Research Center, Inc.'s internal control over financial reporting and compliance.

Belfint, Lyons & Shuman, P.A.

September 29, 2020
Wilmington, Delaware

STROUD WATER RESEARCH CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

ASSETS

	2019	2018
CURRENT ASSETS		
Cash	\$ 406,321	\$ 1,095,646
Accounts and Grants Receivable, Net	1,574,943	1,426,551
Pledges Receivable, Net	821,567	780,699
Prepaid Expenses	42,579	51,602
TOTAL CURRENT ASSETS	2,845,410	3,354,498
PROPERTY AND EQUIPMENT		
Land	2,357,839	2,357,839
Buildings and Improvements	12,702,466	12,496,708
Equipment	3,120,573	3,077,005
Vehicles	325,242	325,242
	18,506,120	18,256,794
Less: Accumulated Depreciation	7,393,620	6,915,189
TOTAL PROPERTY AND EQUIPMENT	11,112,500	11,341,605
CONSTRUCTION IN PROGRESS	-	6,252
PLEDGES RECEIVABLE, NET	1,193,696	2,043,789
INVESTMENTS	28,843,672	25,016,744
BENEFICIAL INTEREST IN PERPETUAL TRUST	10,447,650	9,486,419
TOTAL ASSETS	\$ 54,442,928	\$ 51,249,307

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

STROUD WATER RESEARCH CENTER, INC.
STATEMENTS OF FINANCIAL POSITION - CONTINUED
DECEMBER 31, 2019 AND 2018

LIABILITIES AND NET ASSETS

	2019	2018
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 662,680	\$ 656,934
Taxes Payable - Payroll	7,335	6,660
Current Portion of Bonds Payable	260,412	255,268
TOTAL CURRENT LIABILITIES	930,427	918,862
BONDS PAYABLE	4,722,586	4,982,999
PENSION BENEFIT OBLIGATION	3,981,420	2,915,409
TOTAL LIABILITIES	9,634,433	8,817,270
NET ASSETS		
Without Donor Restrictions		
Board Designated	19,455,036	17,098,133
Undesignated	2,780,068	4,553,522
Total Net Assets Without Donor Restrictions	22,235,104	21,651,655
Total Net Assets With Donor Restrictions	22,573,391	20,780,382
TOTAL NET ASSETS	44,808,495	42,432,037
TOTAL LIABILITIES AND NET ASSETS	\$ 54,442,928	\$ 51,249,307

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

STROUD WATER RESEARCH CENTER, INC.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE			
Research Programs	\$ 1,865,770	\$ -	\$ 1,865,770
Education/Public Programs	597,176	-	597,176
Watershed Restoration Programs	1,952,471	98,318	2,050,789
Annual Fund	437,100	-	437,100
Contributions	212,350	-	212,350
Contribution from Beneficial Interest in Perpetual Trust	399,807	-	399,807
Other Income	123,796	-	123,796
Special Events	389,173	-	389,173
	5,977,643	98,318	6,075,961
Net Assets Released from Restriction	570,468	(570,468)	-
TOTAL OPERATING REVENUE	6,548,111	(472,150)	6,075,961
OPERATING EXPENSES			
Program Services			
Research	2,781,204	-	2,781,204
Education	546,327	-	546,327
Watershed Restoration	1,728,078	-	1,728,078
Total Program Services	5,055,609	-	5,055,609
Supporting Services			
Finance and Administrative	663,105	-	663,105
Information Services	439,528	-	439,528
Facilities	899,878	-	899,878
Communications and Marketing	46,317	-	46,317
Other Expenses	154,437	-	154,437
Total Supporting Services	2,203,265	-	2,203,265
Development and Outreach	455,262	-	455,262
TOTAL OPERATING EXPENSES	7,714,136	-	7,714,136
CHANGE IN NET ASSETS FROM OPERATIONS	(1,166,025)	(472,150)	(1,638,175)
OTHER CHANGES			
Pension Changes Including Net Periodic Pension Cost	(1,066,011)	-	(1,066,011)
Investment Income	450,024	208,419	658,443
Net Realized and Unrealized Gains (Losses) on			
Beneficial Interest in Perpetual Trust	-	961,231	961,231
Investments	2,365,461	1,095,509	3,460,970
TOTAL OTHER CHANGES	1,749,474	2,265,159	4,014,633
CHANGE IN NET ASSETS	583,449	1,793,009	2,376,458
NET ASSETS - Beginning of Year	21,651,655	20,780,382	42,432,037
NET ASSETS - End of Year	\$ 22,235,104	\$ 22,573,391	\$ 44,808,495

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

STROUD WATER RESEARCH CENTER, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
OPERATING REVENUE			
Research Programs	\$ 2,713,410	\$ -	\$ 2,713,410
Education/Public Programs	627,535	10,947	638,482
Watershed Restoration Programs	1,298,789	195,733	1,494,522
Annual Fund	459,232	-	459,232
Contributions	404,418	1,694,578	2,098,996
Contribution from Beneficial Interest in Perpetual Trust	422,142	-	422,142
Other Income	149,377	-	149,377
Special Events	345,851	-	345,851
	<u>6,420,754</u>	<u>1,901,258</u>	<u>8,322,012</u>
Net Assets Released from Restriction	1,247,204	(1,247,204)	-
TOTAL OPERATING REVENUE	<u>7,667,958</u>	<u>654,054</u>	<u>8,322,012</u>
OPERATING EXPENSES			
Program Services			
Research	3,976,276	-	3,976,276
Education	546,469	-	546,469
Watershed Restoration	1,362,276	-	1,362,276
Total Program Services	<u>5,885,021</u>	<u>-</u>	<u>5,885,021</u>
Supporting Services			
Finance and Administrative	606,038	-	606,038
Information Services	410,308	-	410,308
Facilities	874,683	-	874,683
Communications and Marketing	49,530	-	49,530
Other Expenses	99,051	-	99,051
Total Supporting Services	<u>2,039,610</u>	<u>-</u>	<u>2,039,610</u>
Development and Outreach	517,450	-	517,450
TOTAL OPERATING EXPENSES	<u>8,442,081</u>	<u>-</u>	<u>8,442,081</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>(774,123)</u>	<u>654,054</u>	<u>(120,069)</u>
OTHER CHANGES			
Pension Changes Including Net Periodic Pension Cost	(128,038)	-	(128,038)
Investment Income	849,600	-	849,600
Net Realized and Unrealized Gains (Losses) on			
Beneficial Interest in Perpetual Trust	-	(898,237)	(898,237)
Investments	(2,690,720)	-	(2,690,720)
TOTAL OTHER CHANGES	<u>(1,969,158)</u>	<u>(898,237)</u>	<u>(2,867,395)</u>
CHANGE IN NET ASSETS	<u>(2,743,281)</u>	<u>(244,183)</u>	<u>(2,987,464)</u>
NET ASSETS - Beginning of Year	<u>24,394,936</u>	<u>21,024,565</u>	<u>45,419,501</u>
NET ASSETS - End of Year	<u>\$ 21,651,655</u>	<u>\$ 20,780,382</u>	<u>\$ 42,432,037</u>

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

STROUD WATER RESEARCH CENTER, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 2,376,458	\$ (2,987,464)
Adjustments to Reconcile Change in Net Assets to Net Cash Flow Used by Operating Activities		
Depreciation	478,431	553,036
Amortization of Debt Issuance Costs	1,838	1,754
Net Realized and Unrealized (Gains) Losses	(4,422,201)	3,588,957
Contributed Investments	(608,987)	(769,338)
(Increase) Decrease in		
Accounts and Grants Receivable	(148,392)	548,004
Pledges Receivable	(447,674)	(635,045)
Prepaid Expenses	9,023	(36,426)
Increase (Decrease) in		
Accounts Payable and Accrued Expenses	5,746	(118,052)
Taxes Payable - Payroll	675	302
Pension Benefit Obligation	1,066,011	128,038
NET CASH FROM (USED BY) OPERATING ACTIVITIES	<u>(1,689,072)</u>	<u>273,766</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(243,074)	(139,046)
Purchase of Investment Securities	(3,164,298)	(17,402,968)
Proceeds on Sale of Investment Securities	<u>3,407,327</u>	<u>16,857,184</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(45)</u>	<u>(684,830)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Pledge Payments Received	1,256,899	579,554
Repayment of Bond Payable	<u>(257,107)</u>	<u>(252,113)</u>
NET CASH FROM FINANCING ACTIVITIES	<u>999,792</u>	<u>327,441</u>
NET CHANGE IN CASH	(689,325)	(83,623)
CASH - Beginning of Year	<u>1,095,646</u>	<u>1,179,269</u>
CASH - End of Year	<u>\$ 406,321</u>	<u>\$ 1,095,646</u>
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash Paid for Interest	<u>\$ 221,125</u>	<u>\$ 231,661</u>
Noncash Investing and Financing Activities		
Contributed Investments	<u>\$ 608,987</u>	<u>\$ 769,338</u>

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

STROUD WATER RESEARCH CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	2019			
	<u>Program Services</u>	<u>Supporting Services</u>	<u>Development and Outreach</u>	<u>Total</u>
Salaries and Wages	\$ 2,345,249	\$ 888,325	\$ 332,925	\$ 3,566,499
Fringe Benefits	711,390	275,458	104,871	1,091,719
Professional Fees	14,120	38,000	-	52,120
Advertising and Promotion	500	-	-	500
Office and Lab Expenses	242,600	75,386	4,985	322,971
Travel	133,270	1,416	2,816	137,502
Conferences, Conventions, and Meeting	28,709	457	349	29,515
Interest	-	222,963	-	222,963
Depreciation	124,532	353,899	-	478,431
Insurance	-	97,044	-	97,044
Subawards	315,613	-	-	315,613
Outside Services	84,855	42,083	821	127,759
Participant Support	288,296	-	-	288,296
Laboratory Equipment	559,934	5,969	-	565,903
Other Expenses	206,541	202,265	8,495	417,301
Net Periodic Defined Benefit Pension Cost	92,141	35,677	13,583	141,401
	<u>5,147,750</u>	<u>2,238,942</u>	<u>468,845</u>	<u>7,855,537</u>
Less: Net Periodic Pension Cost Presented as Nonoperating on Statements of Activities	<u>(92,141)</u>	<u>(35,677)</u>	<u>(13,583)</u>	<u>(141,401)</u>
Total Operating Expenses	<u>\$ 5,055,609</u>	<u>\$ 2,203,265</u>	<u>\$ 455,262</u>	<u>\$ 7,714,136</u>

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

STROUD WATER RESEARCH CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018			
	Program Services	Supporting Services	Development and Outreach	Total
Salaries and Wages	\$ 2,221,095	\$ 804,046	\$ 324,087	\$ 3,349,228
Fringe Benefits	671,586	247,845	102,087	1,021,518
Professional Fees	-	36,900	-	36,900
Advertising and Promotion	91	7,350	99	7,540
Office and Lab Expenses	237,412	72,346	7,567	317,325
Travel	73,872	1,239	4,151	79,262
Conferences, Conventions, and Meeting	39,459	602	20	40,081
Interest	-	233,415	-	233,415
Depreciation	198,641	354,312	83	553,036
Insurance	-	100,302	-	100,302
Subawards	1,039,635	-	-	1,039,635
Outside Services	452,491	40,269	6,729	499,489
Participant Support	426,866	-	-	426,866
Laboratory Equipment	292,287	408	-	292,695
Other Expenses	231,586	140,576	72,627	444,789
Net Periodic Defined Benefit Pension Cost	-	110,078	-	110,078
	<u>5,885,021</u>	<u>2,149,688</u>	<u>517,450</u>	<u>8,552,159</u>
Less: Net Periodic Pension Cost Presented as Nonoperating on Statements of Activities	-	(110,078)	-	(110,078)
Total Operating Expenses	<u>\$ 5,885,021</u>	<u>\$ 2,039,610</u>	<u>\$ 517,450</u>	<u>\$ 8,442,081</u>

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

STROUD WATER RESEARCH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities - Stroud Water Research Center, Inc. (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.

Basis of Accounting - The financial statements of the Corporation have been prepared in accordance with U.S. generally accepted accounting principles.

Measure of Operations - The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Corporation's on-going services. Non-operating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

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.

Changes in Accounting Principles - Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. The Corporation has implemented Topic 606 and has adjusted the presentation in these financial statements accordingly. The amendments have been applied retrospectively to all periods presented, with no effect on net assets.

In June 2018, FASB issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Corporation has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis.

STROUD WATER RESEARCH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Revenue Recognition - In accordance with Topic 606, the Corporation recognizes revenue resulting from exchange transactions when it satisfies its performance obligations by transferring control over a product or service to a customer. The following is a description of principal exchange transactions from which the Chapter generates revenue:

Special Events - The Corporation recognizes special events revenue equal to the cost of direct benefits provided to the donor, and contribution revenue for the difference. Special event revenue equal to the cost of direct benefits provided to the donor is recognized at the point in time the benefit is delivered, generally when the event occurs. Contribution revenue resulting from special events is recognized immediately. For the years ended December 31, 2019 and 2018, the Corporation recognized ticket sales of \$59,157 and \$64,153, respectively, in accordance with the provisions of ASC 606, respectively.

The following is a description of principal activities from which the Corporation generates revenue which fall outside the scope of Topic 606:

Contributions - The Corporation recognizes contributions when cash, securities or other assets, an unconditional promise to give, or 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 substantially met.

Government Grants - A portion of the Corporation's revenue is derived from cost-reimbursable federal and state contracts or grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Corporation 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 Corporation received cost-reimbursable grants of \$7,285,627 that have not been recognized at December 31, 2019 because qualifying expenditures have not yet been incurred.

At times the Corporation may receive contracts and grants that are combination of exchange and nonexchange transactions. The Corporation recognizes the exchange portion of these contracts and grants in the period the products are transferred and/or when the services are provided.

STROUD WATER RESEARCH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net Assets - 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 although their use may be limited by other factors such as by contract or board designation.

Net Assets With Donor Restrictions - Net assets subject to donor- or certain grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions that are restricted by the donor are reported as net assets without donor restrictions if the restrictions expire in the reporting period in which the contribution is recognized.

Endowment Investment and Spending Policies - 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 has enacted UPMIFA. The Corporation has determined that a portion of its net assets meet the definition of endowment under UPMIFA.

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 Delaware Uniform 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 retains in perpetuity (a) the original value of gifts donated to the permanent

STROUD WATER RESEARCH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Endowment Investment and Spending Policies - Continued - 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. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure 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.

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 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 \$1,612,884 in 2019. Actual distributions from the endowment based on operating funds needed were \$1,597,199 and \$1,480,137 for the years ended December 31, 2019 and 2018, respectively.

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

STROUD WATER RESEARCH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

Contributions of cash and other assets to be used to acquire land, buildings, and equipment are reported as increases in net assets with donor restrictions. The net assets are considered to be released at the time the assets are placed in service.

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

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

Deferred Fees and Amortization - Debt issuance costs of \$58,670, net of accumulated amortization of \$13,815 and \$11,977, respectively, as of December 31, 2019 and 2018, 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, 2019 and 2018 was \$1,838 and \$1,754, 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 contribution revenue with donor restrictions 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 donor restricted unrealized gains or losses in the period the change occurs.

The Corporation records income, in the period it is received from the trust, as contribution revenue without donor restrictions.

STROUD WATER RESEARCH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Functional Allocation of Expenses - The cost of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statements of functional expenses present the natural classification of detail of expenses by function. The Corporation functionally reports most expenses based on the program or supportive service benefited. Certain costs have been allocated among the programs and supporting services benefited. Salary and Wages and Fringe Benefits are allocated on the basis of time records. Depreciation expense is allocated based on the program or supporting service that acquired the related fixed asset. Occupancy expense, including building depreciation expense, is reported as supporting services expense.

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, 2019 and 2018, the Corporation has determined it did not have a material tax liability for uncertain tax positions.

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, 2019 and 2018, the Corporation did not incur any interest and penalties from taxing authorities.

The federal income tax returns of the Corporation for 2016, 2017 and 2018 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

Advertising - Advertising costs are charged to operations when incurred. Total advertising expenses for the years ended December 31, 2019 and 2018 were \$500 and \$540, respectively.

Subsequent Events - The Corporation's policy is to evaluate events and transactions subsequent to its year end for potential recognition in the financial statements or disclosure in the notes to the financial statements. Management has evaluated events and transactions through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

Reclassifications - Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported change in net assets or total net assets.

STROUD WATER RESEARCH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 2: LIQUIDITY AND AVAILABILITY

The following represents the Corporation's financial assets at December 31, 2019 and 2018:

	2019	2018
Financial Assets at Year End:		
Cash and Cash Equivalents	\$ 406,321	\$ 1,095,646
Account and Grants Receivable	1,574,943	1,426,551
Pledges Receivable	2,015,263	3,224,488
Investments	28,843,672	25,016,744
Beneficial Interest in Perpetual Trust	10,447,650	9,486,419
 Total Financial Assets	 43,287,849	 40,249,848
 Less: Amounts Not Available to be Used Within One Year		
Total Net Assets with Donor Restrictions	22,573,391	20,780,382
Less: Net Assets With Purpose Restrictions to be Met in Less Than One Year	(1,954,047)	(1,664,219)
Pledges Receivable Without Donor Restrictions Due in Greater Than One Year	249,410	394,778
Quasi Endowment Established by the Board	19,455,036	17,098,133
 Total Amounts Not Available to be Used Within One Year	 40,323,790	 36,609,074
 Total Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	 \$ 2,964,059	 \$ 3,640,774

As part of the Corporation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition to the above, the Corporation has the ability 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. These distributions come out of the quasi endowment noted above.

NOTE 3: 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. Uninsured balances were \$174,300 and \$947,178 as of December 31, 2019 and 2018, respectively.

STROUD WATER RESEARCH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 3: FINANCIAL INSTRUMENTS - CONTINUED

Concentrations of Credit Risk - Continued

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 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.

STROUD WATER RESEARCH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 3: FINANCIAL INSTRUMENTS - CONTINUED

Fair Value Measurement of Financial Instruments - Continued

Investments - Limited Partnerships - Investments in limited partnerships and LLCs that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

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.

Fair values of assets measured on a recurring basis at December 31, 2019 are as follows:

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash Management Funds	\$ 290,038	\$ 290,038	\$ -	\$ -
Mutual Funds				
Domestic Blended Equities	1,897,165	1,897,165	-	-
Domestic Small/Mid Cap Equities	5,808,328	5,808,328	-	-
Domestic Large Cap Equities	1,717,011	1,717,011	-	-
Fixed Income	5,859,535	5,859,535	-	-
International Equities				
Developed	2,731,392	2,731,392	-	-
Emerging Markets	1,465,887	1,465,887	-	-
Total Investments, Measured at Fair Value	19,769,356	19,769,356	-	-
Investment Measured at Net Asset Value				
Investment in Limited Partnership	9,074,316	N/A	N/A	N/A
Total Investments	<u>\$ 28,843,672</u>	<u>\$ 19,769,356</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial Interest in Perpetual Trust	<u>\$ 10,447,650</u>	<u>\$ -</u>	<u>\$ 10,447,650</u>	<u>\$ -</u>

STROUD WATER RESEARCH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 3: FINANCIAL INSTRUMENTS - CONTINUED

Fair Value Measurement of Financial Instruments - Continued

Fair values of assets measured on a recurring basis at December 31, 2018 are as follows:

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash Management Funds	\$ 5,203,687	\$ 5,203,687	\$ -	\$ -
Mutual Funds				
Domestic Blended Equities	1,302,261	1,302,261	-	-
Domestic Small Cap Equities	4,521,328	4,521,328	-	-
Fixed Income	3,482,247	3,482,247	-	-
International Equities				
Developed	1,490,638	1,490,638	-	-
Emerging Markets	887,298	887,298	-	-
Total Investments Measured at Fair Value	16,887,459	16,887,459	-	-
Investment Measured at Net Asset Value				
Investment in Limited Partnership	8,129,285	N/A	N/A	N/A
Total Investments	<u>\$ 25,016,744</u>	<u>\$ 16,887,459</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial Interest in Perpetual Trust	<u>\$ 9,486,419</u>	<u>\$ -</u>	<u>\$ 9,486,419</u>	<u>\$ -</u>

NOTE 4: PLEDGES RECEIVABLE

Pledges receivable consisted of the following at December 31:

	2019	2018
Receivable in Less Than One Year	\$ 821,567	\$ 780,699
Receivable in One to Five Years	1,540,861	2,137,127
Receivable in Greater Than Five Years	-	301,500
Total Pledges	2,362,428	3,219,326
Less: Discounts to Net Present Value	347,165	394,838
Less: Allowance for Uncollectible Pledges Receivable	-	-
	<u>\$ 2,015,263</u>	<u>\$ 2,824,488</u>

STROUD WATER RESEARCH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 5: INVESTMENTS

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

	2019		
	Cost	Fair Value	Unrealized Appreciation
Cash Management Fund	\$ 290,038	\$ 290,038	\$ -
Mutual Funds	17,133,600	19,479,318	2,345,718
Investment in Limited Partnerships	6,754,566	9,074,316	2,319,750
Total Investments	\$ 24,178,204	\$ 28,843,672	\$ 4,665,468

	2018		
	Cost	Fair Value	Unrealized Appreciation
Cash Management Fund	\$ 5,203,687	\$ 5,203,687	\$ -
Mutual Funds	11,886,060	11,683,772	(202,288)
Investment in Limited Partnerships	6,604,773	8,129,285	1,524,512
Total Investments	\$ 23,694,520	\$ 25,016,744	\$ 1,322,224

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

	2019	2018
Interest and Dividends	\$ 599,836	\$ 652,656
Partnership Income	126,145	253,515
Fees and Other Expenses	(67,538)	(56,571)
	\$ 658,443	\$ 849,600

STROUD WATER RESEARCH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 6: 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”).

Bonds payable totaled \$4,982,998 and \$5,238,267 as of December 31, 2019 and 2018, respectively. 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 the year ended December 31, 2019:

	<u>Bonds Payable</u>	<u>Unamortized Loan Costs</u>	<u>Net</u>
Current Portion	\$ 262,339	\$ 1,927	\$ 260,412
Long-Term Portion	<u>4,765,514</u>	<u>42,928</u>	<u>4,722,586</u>
Total	<u>\$ 5,027,853</u>	<u>\$ 44,855</u>	<u>\$ 4,982,998</u>

Components of bonds payable are as follows for the year ended December 31, 2018:

	<u>Bonds Payable</u>	<u>Unamortized Loan Costs</u>	<u>Net</u>
Current Portion	\$ 257,106	\$ 1,838	\$ 255,268
Long-Term Portion	<u>5,027,854</u>	<u>44,855</u>	<u>4,982,999</u>
Total	<u>\$ 5,284,960</u>	<u>\$ 46,693</u>	<u>\$ 5,238,267</u>

STROUD WATER RESEARCH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 6: BONDS PAYABLE - CONTINUED

Components of interest expense on the bonds payable for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Interest Expense	\$ 221,125	\$ 231,661
Amortization of Loan Cost	1,838	1,754
	\$ 222,963	\$ 233,415

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

2020	\$	262,339
2021		262,820
2022		273,565
2023		279,585
2024		285,892
Thereafter		3,663,652
	\$	5,027,853

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

The Corporation's investments without donor restrictions 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, 2019 and 2018.

STROUD WATER RESEARCH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 7: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at December 31:

	2019	2018
Subject to Expenditure of a Specified Purpose		
Research Programs	\$ 593,530	\$ 640,909
Education/Public Programs	47,764	56,208
Watershed Restoration Programs	391,841	293,523
Other Programs	106,645	115,725
	1,139,780	1,106,365
 Endowment Assets		
Subject to Appropriation and Expenditure in Accordance with Spending Policy		
New Building	479,022	405,285
Executive Director	258,870	1,159,748
Assistant Director	1,673,507	215,816
Research Programs	702,910	502,946
Restoration Programs	2,867,291	2,314,115
Education Programs	418,429	332,094
Original Gifts to Endowment Funds	2,988,607	2,988,607
Beneficial Interest in Perpetual Trusts	10,447,650	9,486,419
	19,836,286	17,405,030
 Donor-restricted Pledges for the Future of Fresh Water Initiative		
New Building	16,252	24,357
Executive Director	778,668	1,104,618
Assistant Director	16,252	24,357
Research Programs	217,303	335,820
Restoration Programs	499,871	678,300
Education Programs	68,979	101,535
	1,597,325	2,268,987
 Total Net Assets with Donor Restrictions	\$ 22,573,391	\$ 20,780,382

STROUD WATER RESEARCH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 8: NET ASSETS RELEASED FROM RESTRICTION

Net assets 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:

	2019	2018
Research Programs	\$ 98,955	\$ 638,902
Education/Public Programs	42,500	-
Watershed Restoration	237,309	17,435
Other Programs	9,080	5,903
Executive Director	118,931	-
Assistant Director	22,132	101,191
New Building	41,561	483,773
	\$ 570,468	\$ 1,247,204

NOTE 9: REVENUE CONCENTRATIONS

During the years ended December 31, 2019 and 2018, approximately 83% and 68%, respectively, of program revenue was from grants and contracts with four organizations.

As of December 31, 2019 and 2018, approximately 80% and 66%, respectively, of total outstanding pledges receivable were from 4 donors.

NOTE 10: 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 that have attained 21 years of age 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.

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

STROUD WATER RESEARCH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 10: PENSION PLAN - CONTINUED

Pension Plan Obligations and Funded Status:

	2019	2018
Projected Benefit Obligation	\$ 12,197,304	\$ 10,034,722
Fair Value of Plan Assets	8,215,884	7,119,313
Funded Status	\$ (3,981,420)	\$ (2,915,409)
Accumulated Benefit Obligation	\$ 10,632,260	\$ 8,893,418
Employer Contributions	365,000	335,000
Participant Contributions	-	-
Benefits Paid	(350,344)	(350,344)

Amounts Recognized in the Statement of Financial Position:

	2019	2018
Pension Benefit Obligation	\$ 3,981,420	\$ 2,915,409

Amounts Recognized in the Statement of Activities:

	2019	2018
Components of Net Periodic Benefit Cost		
Service Cost	\$ 392,975	\$ 425,214
Interest Cost	415,702	369,902
Amortization of Net Loss	116,539	112,925
Expected Return on Plan Assets	(418,815)	(462,963)
Net Periodic Benefit Cost	506,401	445,078
Changes in Plan Assets and Benefit Obligations		
Recognized in Other Changes in Net Assets		
Without Donor Restrictions		
Net Loss	1,041,149	130,885
Amortization of Net Loss	(116,539)	(112,925)
Total Recognized in Other Changes in Net Assets		
Without Donor Restrictions	924,610	17,960
Total Recognized in Net Periodic Benefit Costs and		
Other Changes in Net Assets Without Donor Restrictions	\$ 1,431,011	\$ 463,038

STROUD WATER RESEARCH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 10: PENSION PLAN - CONTINUED

The estimated net gain and prior service cost for the defined benefit pension plan that will be amortized from other changes in net assets without donor restrictions into the net periodic benefit during the year ending December 31, 2020 is \$149,417.

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

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

	2019	2018
Discount Rate	3.30%	4.25%
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:

	2019	2018
Discount Rate	4.25%	3.60%
Rate of Compensation Increase	3.00%	3.00%
Expected Return on Plan Assets	6.10%	6.10%

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 Plan's overall investment strategy is to achieve a mix of approximately 60% of investments for long-term growth and 40% for near-term benefit payments with a wide global diversification of asset types. The target allocations for plan assets are 60% equities and 40% fixed income. Equity securities include investments in large-cap, mid-cap, and small-cap companies with broad global diversification and include diversified real estate. Fixed income securities include corporate bonds of companies from diversified industries, global bonds, and U.S. Treasuries.

STROUD WATER RESEARCH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 10: PENSION PLAN - CONTINUED

The fair values of the Plan's assets as of December 31, 2019 by asset class, are as follows:

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash Management Fund	\$ 603,337	\$ 603,337	\$ -	\$ -
Domestic Equities	2,479,875	2,479,875	-	-
Fixed Income	2,868,337	2,868,337	-	-
Real Estate Investment Trust	816,294	816,294	-	-
International Equities				
Developed	862,962	862,962	-	-
Emerging Markets	585,079	585,079	-	-
	<u>\$ 8,215,884</u>	<u>\$ 8,215,884</u>	<u>\$ -</u>	<u>\$ -</u>

The fair values of the Plan's assets as of December 31, 2018 by asset class, are as follows:

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash Management Fund	\$ 124,361	\$ 124,361	\$ -	\$ -
Domestic Equities	2,044,329	2,044,329	-	-
Fixed Income	2,988,034	2,988,034	-	-
Real Estate Investment Trust	711,190	711,190	-	-
International Equities				
Developed	734,046	734,046	-	-
Emerging Markets	517,353	517,353	-	-
	<u>\$ 7,119,313</u>	<u>\$ 7,119,313</u>	<u>\$ -</u>	<u>\$ -</u>

The Corporation expects to contribute approximately \$480,000 to the pension plan in the year ending December 31, 2020. No plan assets are expected to be returned to the Corporation during the year ending December 31, 2020.

STROUD WATER RESEARCH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 10: PENSION PLAN - CONTINUED

Future benefit payments, which reflect expected service as appropriate, are expected to be paid as follows during the years ending December 31:

2020	\$	479,887
2021		480,165
2022		484,233
2023		486,140
2024		507,205
2025 - 2029		2,842,918

NOTE 11: 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:

2020	\$	15,071
2021		15,071
2022		14,292
2023		13,200
2024		3,300
Thereafter		-
	\$	<u>60,934</u>

Rent expense related to these leases was \$14,212 and \$14,775 in December 31, 2019 and 2018, respectively.

NOTE 12: ENDOWMENT ASSETS

Endowment assets consisted of the following as of December 31:

	Without Donor Restrictions (Board Designated)	With Donor Restrictions	Total
<u>As of December 31, 2019</u>			
Investments	\$ 19,455,036	\$ 9,388,636	\$ 28,843,672
Beneficial Interest in Perpetual Trust	-	10,447,650	10,447,650
	<u>\$ 19,455,036</u>	<u>\$ 19,836,286</u>	<u>\$ 39,291,322</u>
<u>As of December 31, 2018</u>			
Investments	\$ 17,098,133	\$ 7,918,611	\$ 25,016,744
Beneficial Interest in Perpetual Trust	-	9,486,419	9,486,419
	<u>\$ 17,098,133</u>	<u>\$ 17,405,030</u>	<u>\$ 34,503,163</u>

STROUD WATER RESEARCH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 12: ENDOWMENT ASSETS - CONTINUED

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

	Without Donor Restrictions (Board Designated)	With Donor Restrictions	Total
Endowment Net Assets, January 1, 2019	\$ 17,098,133	\$ 17,405,030	\$ 34,503,163
Investment Return			
Investment Income Net of Fees	450,024	208,419	658,443
Net Gains on Investments	<u>2,365,461</u>	<u>2,056,740</u>	<u>4,422,201</u>
Total Investment Return	2,815,485	2,265,159	5,080,644
Contributions Transferred into Endowment	633,053	671,662	1,304,715
Appropriation of Assets for Expenditure	<u>(1,091,635)</u>	<u>(505,565)</u>	<u>(1,597,200)</u>
Endowment Net Assets, December 31, 2019	<u>\$ 19,455,036</u>	<u>\$ 19,836,286</u>	<u>\$ 39,291,322</u>

Changes in endowment net assets for the year ended December 31, 2018 were as follows:

	Without Donor Restrictions (Board Designated)	With Donor Restrictions	Total
Endowment Net Assets, January 1, 2018	\$ 20,219,492	\$ 16,557,506	\$ 36,776,998
Investment Return			
Investment Income Net of Fees	849,600	-	849,600
Net Losses on Investments	<u>(2,690,720)</u>	<u>(898,237)</u>	<u>(3,588,957)</u>
Total Investment Return	(1,841,120)	(898,237)	(2,739,357)
Contributions and Transfers into Endowment	199,900	1,745,761	1,945,661
Appropriation of Assets for Expenditure	<u>(1,480,139)</u>	<u>-</u>	<u>(1,480,139)</u>
Endowment Net Assets, December 31, 2018	<u>\$ 17,098,133</u>	<u>\$ 17,405,030</u>	<u>\$ 34,503,163</u>

STROUD WATER RESEARCH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 13: SUBSEQUENT EVENTS

In response to the uncertainty created by the COVID-19 pandemic, the federal government signed into law the Coronavirus Aid, Relief, and Economic Security (CARES) Act. A provision of the CARES Act allowed for loans to eligible small businesses, including nonprofit organizations, under its Paycheck Protection Program (PPP) administered by the U.S. Small Business Administration. PPP Loans have a maturity of 5 years and incur interest at a rate of 1%.

PPP Loans contain provisions to forgive all or a portion of the funds borrowed based on a calculation that considers the borrower's incurrence of eligible costs and ability to maintain employee and salary levels for a period of time after receipt of the loan funds. In April 2020, the Corporation received a PPP Loan in the amount of \$859,276.

NOTE 14: RESTATEMENTS OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

During the year ended December 31, 2019, the Corporation made adjustments to previously issued financial statements for the following:

Money Market Cash Funds Held in Endowment - The Corporation reclassified money market cash funds held in its endowment from cash, as previously reported, to investments. The Corporation determined that this more accurately presented the nature of the assets since utilization of the assets were subject to the Corporation's endowment spending policy.

Correction of Pledges Receivable - The Corporation determined that cash received on a pledge receivable in the amount of \$400,000 was incorrectly reported as contribution income for the year ended December 31, 2018. The Corporation restated its 2018 financial statements to reduce pledges receivable and reduce contribution income.

The following is a summary of changes made to the Corporation's 2018 financial statements:

	As Previously Reported	Adjustment	As Restated
As of December 31, 2018			
Cash	\$ 6,095,646	\$ (5,000,000)	\$ 1,095,646
Investments	20,016,744	5,000,000	25,016,744
Pledges Receivable	3,224,488	(400,000)	2,824,488
Total Assets	51,649,307	(400,000)	51,249,307
Total Net Assets	42,832,037	(400,000)	42,432,037
For the Year Ended December 31, 2018			
Contribution Revenue	2,498,996	(400,000)	2,098,996
Change in Net Assets	(2,587,464)	(400,000)	(2,987,464)

SUPPLEMENTARY INFORMATION

STROUD WATER RESEARCH CENTER, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-thru Entity Identification Number	Federal Expenditures	Amounts Passed Through to Subrecipients
Research and Development Cluster:				
National Science Foundation				
Direct Programs				
Geosciences	47.050	-	\$ 21,488	\$ -
Biological Sciences	47.074	-	293,719	-
Education and Human Resources	47.076	-	248,925	47,454
U.S. Department of Agriculture				
Direct Programs				
National Resources Conservation Service				
Environmental Quality Incentives Program	10.912	-	14,353	-
Pass-through Programs				
Agriculture and Food Research Initiative (AFRI)				
University of Delaware	10.310	-	75,377	-
United States Department of Commerce (DOC)				
Direct Programs				
National Oceanic and Atmospheric Administration				
Chesapeake Bay Studies	11.457	-	119,483	13,095
U.S. Department of the Interior National Park Service				
Direct Programs				
Cooperative Research and Training Programs				
Resources of the National Park Service	15.945	-	38,073	-
Pass-through Programs				
National Park Service				
Chesapeake Bay Gateways Network				
Sultana Education Foundation	15.930	P17AC00733	3,491	-
National Park Service Conservation, Protection, Outreach, and Education				
Kansas State University	15.954	S14141	10,405	-
U.S. Environmental Protection Agency				
Pass-through Programs				
Chesapeake Bay Trust				
Chesapeake Bay Program	66.466*	-	27,475	-
National Fish and Wildlife Foundation				
Chesapeake Bay Program	66.466*	-	339,982	61,629
Field Liaison - Northeastern Region	99-UNKNOWN	-	19,667	-
Soil Health Conservation, Engagement, and Technical Assistance (MD, PA, VA)	99-UNKNOWN	-	250,761	-
			<u>\$ 1,463,199</u>	<u>\$ 122,178</u>

STROUD WATER RESEARCH CENTER, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2019

NOTE A: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal award activity of Stroud Water Research Center, Inc. under programs of the federal government for the year ended December 31, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Stroud Water Research Center, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Stroud Water Research Center, Inc.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represents adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE C: INDIRECT COST RATE

Stroud Water Research Center, Inc. has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE D: NATIONAL FISH AND WILDLIFE FOUNDATION (NFWF): DELIVERING THE NATIONAL FISH AND WILDLIFE FOUNDATION REGIONAL CONSERVATION PARTNERSHIP PROGRAM IN LANCASTER COUNTY (PA)

During the year ended December 31, 2019, funds totaling \$339,982 were received from the National Fish and Wildlife Foundation. While the grant agreements indicate that the source of the funds includes federal (CFDA #66.466/10.932/10.678 and CFDA # 66.466/10.902), the National Fish and Wildlife Foundation has not provided the Corporation with the amount reimbursed by funding source. Because the amount by CFDA number cannot be separately identified, the full amount is included in the accompanying schedule of expenditures of federal awards under U.S. Environmental Protection Agency.



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***Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards***

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

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 the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Stroud Water Research Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 29, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Stroud Water Research Center, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Stroud Water Research Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Stroud Water Research Center, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified.

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

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Stroud Water Research Center, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Corporation's Response to Findings

The Corporation's response to the finding identified in our audit is described in the accompanying Corrective Action Plan. The Corporation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Belfint, Lyons & Shuman, P.A.

September 29, 2020
Wilmington, Delaware



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

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

Report on Compliance for Each Major Federal Program

We have audited Stroud Water Research Center, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Stroud Water Research Center, Inc.'s major federal programs for the year ended December 31, 2019. Stroud Water Research Center, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Stroud Water Research Center, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Stroud Water Research Center, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Stroud Water Research Center, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Stroud Water Research Center, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control over Compliance

Management of Stroud Water Research Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Stroud Water Research Center, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Stroud Water Research Center, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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.

Belfint, Lyons & Shuman, P.A.

September 29, 2020
Wilmington, Delaware

STROUD WATER RESEARCH CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2019

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of Auditors' Report Issued:	Unmodified	
Internal Control Over Financial Reporting:		
• Material Weaknesses Identified?	_____ Yes	_____ x _____ No
• Significant Deficiencies Identified that are Not Considered to be Material Weaknesses?	_____ x _____ Yes	_____ None Reported
Noncompliance Material to Financial Statements Noted?	_____ Yes	_____ x _____ No

Federal Awards

Internal Control Over Major Programs:		
• Material Weaknesses Identified?	_____ Yes	_____ x _____ No
• Significant Deficiencies Identified that are Not Considered to be Material Weaknesses?	_____ Yes	_____ x _____ None Reported
Type of Auditors' Report Issued on Compliance for Major Programs:	Unmodified	
Any Audit Findings Disclosed that are Required to be Reported in Accordance with 2 CFR section 200.516(a)?	_____ Yes	_____ x _____ No

Identification of Major Programs

CFDA Number(s) - Name of Federal Program or Cluster

Research and Development Cluster
 10.310, 10.912, 11.457, 15.930, 15.945, 15.954, 47.050, 47.074,
 47.076, 66.466

Dollar Threshold Used to Distinguish between Type A and Type B Programs:	\$	750,000
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Auditee Qualified as Low-Risk Auditee?	_____ Yes	_____ x _____ No
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STROUD WATER RESEARCH CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
DECEMBER 31, 2019

II. Financial Statement Findings

Reference Number: 2019-001

Type of Finding: Internal Controls over Financial Reporting
Significant Deficiency – Pledges Receivable/Contributions

Condition: During the year ended December 31, 2018, a \$400,000 pledge receivable payment was received and recorded as revenue.

Criteria: Payments received to satisfy a pledge receivable should be recorded as a reduction of the related pledge receivable in the period that the funds are received from the contributor.

Cause: Missed communication between the donor and Corporation failed to identify that the payment received related to a previously recognized pledge receivable.

Effect: The Corporation's December 31, 2018 Pledge Receivable and Contribution Revenue balances were overstated by \$400,000 resulting in the restatement of the December 31, 2018 financial statements.

Recommendation: We recommend the Corporation develop an internal control reconciliation process to reduce the risk that payments on previously recognized pledges are identified and communicated to those performing accounting functions.

Views of Responsible Officials and Planned Corrective Actions – See Corrective Action Plan

III. Federal Award Findings

None

STROUD WATER RESEARCH CENTER, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2019

Financial Statement Findings

Reference Number: 2018-001

Type of Finding: Material Weakness
Restriction of Contributions - With and Without Restriction

Condition: During our testing of contributions, we discovered that certain contributions reported in the fiscal 2017 financial statements were erroneously classified as contributions without donor restrictions when they should have been reported as contributions with donor restrictions.

Recommendation: We recommend that the Company perform an additional review of the financial statements' net asset balances to ensure all contributions have been properly rolled up into the correct net asset category.

Current Status: No similar findings in the current year.

Federal Award Findings

None

STROUD WATER RESEARCH CENTER, INC.
CORRECTIVE ACTION PLAN
DECEMBER 31, 2019

Corrective Action Plan

The finding to Pledges Receivable/Contributions occurred due to a miscommunication between the Stroud Water Research Center and a donor. Our corrective action plan requires that all pledges that are submitted and recorded to our internal accounting system must include a signed letter of intent/pledge from the donor that includes the total amount pledged, a schedule of anticipated future pledge payments, and any donor intent/restriction(s) for the use of funds provided. This letter must then be signed by the Director of Development, Executive Director and the Controller prior to recognizing/recording the pledge in the accounting system.