



Certified Public Accountants and Consultants

STROUD WATER RESEARCH CENTER, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2011

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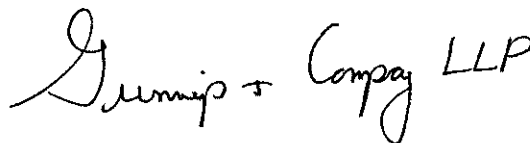
INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of Stroud Water Research Center, Inc. (a nonprofit corporation) as of December 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Corporation's 2010 financial statements and, in our report dated September 20, 2011 we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



August 24, 2012

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2011 AND 2010

ASSETS

	2011	2010
CURRENT ASSETS		
Cash	\$ 1,099,323	\$ 184,083
Accounts receivable	239,781	472,945
Grants receivable	737,201	953,563
Pledges receivable	602,601	336,463
Prepaid expenses	41,457	38,689
	<hr/>	<hr/>
Total current assets	2,720,363	1,985,743
PROPERTY AND EQUIPMENT		
Land	2,357,839	2,357,839
Buildings and improvements	3,935,295	3,910,974
Equipment	1,887,926	1,783,040
Vehicles	178,314	178,314
	<hr/>	<hr/>
	8,359,374	8,230,167
Less accumulated depreciation	3,384,743	3,100,467
	<hr/>	<hr/>
	4,974,631	5,129,700
CONSTRUCTION IN PROGRESS	5,618,395	1,321,724
PLEDGES RECEIVABLE	739,898	643,085
LOAN ACQUISITION COSTS, LESS ACCUMULATED AMORTIZATION OF \$ 1,263 IN 2011 (\$ 0 IN 2010)	57,407	58,670
LOAN RESERVES	1,708,133	2,140,880
INVESTMENTS	14,724,308	14,975,330
BENEFICIAL INTEREST IN PERPETUAL TRUST	7,868,786	8,292,026
	<hr/>	<hr/>
	\$ 38,411,921	\$ 34,547,158
	<hr/>	<hr/>

See accompanying notes to financial statements.

STROUD WATER RESEARCH CENTER, INC.

LIABILITIES AND NET ASSETS

	2011	2010
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 4,901	\$ 4,793
Accounts payable and accrued expenses	1,278,724	505,783
Taxes payable-payroll	<u>2,840</u>	<u>3,396</u>
Total current liabilities	1,286,465	513,972
LONG-TERM DEBT	0	4,633
BOND PAYABLE	6,500,000	3,250,000
PENSION BENEFIT OBLIGATION	<u>1,614,179</u>	<u>479,871</u>
Total liabilities	9,400,644	4,248,476
NET ASSETS		
Unrestricted		
Board designated	12,110,807	10,786,376
Undesignated	<u>4,797,030</u>	<u>5,856,474</u>
	16,907,837	16,642,850
Temporarily restricted	1,246,047	2,375,199
Permanently restricted	<u>10,857,393</u>	<u>11,280,633</u>
	29,011,277	30,298,682
	<u>\$ 38,411,921</u>	<u>\$ 34,547,158</u>

See accompanying notes to financial statements.

STATEMENT OF ACTIVITIES

STROUD WATER RESEARCH CENTER, INC.

FOR THE YEAR ENDED DECEMBER 31, 2011 WITH COMPARATIVE TOTALS FOR 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
OPERATING REVENUE					
Research programs	\$ 10,490	\$ 1,929,670	\$ 0	\$ 1,940,160	\$ 1,761,679
Education/public programs	16,155	578,224		594,379	435,511
Annual fund	392,649			392,649	342,586
Contributions	309,891	1,589,846		1,899,737	2,024,754
Contribution from beneficial interest in perpetual trust	303,821			303,821	356,500
Other income	52,461	55,423		107,884	59,589
Special event	157,496			157,496	132,351
	<u>1,242,963</u>	<u>4,153,163</u>	<u>0</u>	<u>5,396,126</u>	<u>5,112,970</u>
Net assets released from restriction	<u>5,282,315</u>	<u>(5,282,315)</u>		<u>0</u>	<u>0</u>
	<u>6,525,278</u>	<u>(1,129,152)</u>	<u>0</u>	<u>5,396,126</u>	<u>5,112,970</u>
Total operating revenue					
OPERATING EXPENSES					
Program services					
Research	2,614,324			2,614,324	2,334,375
Education	558,348			558,348	454,441
	<u>3,172,672</u>	<u>0</u>	<u>0</u>	<u>3,172,672</u>	<u>2,788,816</u>
Total program services					
Supporting services					
Outreach	201,155			201,155	195,462
Finance and administrative	595,037			595,037	521,130
Information services	318,293			318,293	291,773
Facilities	354,550			354,550	335,544
Communications and marketing	45,636			45,636	87,818
Special event	45,055			45,055	46,864
Other expenses	12,873			12,873	291,322
	<u>1,572,599</u>	<u>0</u>	<u>0</u>	<u>1,572,599</u>	<u>1,769,913</u>
Total supporting services					
Total operating expenses	<u>4,745,271</u>	<u>0</u>	<u>0</u>	<u>4,745,271</u>	<u>4,558,729</u>
	<u>1,780,007</u>	<u>(1,129,152)</u>	<u>0</u>	<u>650,855</u>	<u>554,241</u>
NET GAIN (LOSS) FROM OPERATIONS					

See accompanying notes to financial statements.

STATEMENT OF ACTIVITIES (cont'd)

STROUD WATER RESEARCH CENTER, INC.

FOR THE YEAR ENDED DECEMBER 31, 2011 WITH COMPARATIVE TOTALS FOR 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
NET GAIN (LOSS) FROM OPERATIONS (cont'd)	1,780,007	(1,129,152)	0	650,855	554,241
OTHER CHANGES					
Pension-related changes other than net periodic pension cost	(1,229,890)			(1,229,890)	428,999
Investment income	463,609			463,609	291,298
Net realized and unrealized gains (losses) on Beneficial interest in perpetual trust Investments	(748,739)		(423,240)	(423,240) (748,739)	610,018 1,313,834
Total other changes	(1,515,020)	0	(423,240)	(1,938,260)	2,644,149
CHANGE IN NET ASSETS	264,987	(1,129,152)	(423,240)	(1,287,405)	3,198,390
NET ASSETS, BEGINNING OF YEAR	16,642,850	2,375,199	11,280,633	30,298,682	27,100,292
NET ASSETS, END OF YEAR	\$ 16,907,837	\$ 1,246,047	\$ 10,857,393	\$ 29,011,277	\$ 30,298,682

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS

STROUD WATER RESEARCH CENTER, INC.

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
OPERATING ACTIVITIES		
Change in net assets	\$ (1,287,405)	\$ 3,198,390
Adjustment to reconcile change in net assets to net cash provided from operating activities		
Depreciation and amortization	285,539	334,100
Net realized and unrealized (gains) losses	1,171,979	(1,923,852)
Contributed investments	(450,405)	(636,024)
(Increase) decrease in operating assets		
Accounts receivable	233,164	(165,713)
Grants receivable	216,362	52,907
Pledges receivable	(788,037)	(981,835)
Prepaid expenses	(2,768)	(14,933)
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	772,941	169,863
Pension benefit obligation	1,134,308	(487,341)
Taxes payable-payroll	(556)	(1,824)
Net cash from (used by) operating activities	<u>1,285,122</u>	<u>(456,262)</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(4,273,755)	(1,370,952)
Purchase of investment securities	(5,667,662)	(1,968,839)
Proceeds from sale of investment securities	<u>5,620,350</u>	<u>3,058,940</u>
Net cash used by investing activities	<u>(4,321,067)</u>	<u>(280,851)</u>
FINANCING ACTIVITIES		
Proceeds from bond payable	1,502,741	374,037
Loan reserve advances	2,027,883	0
Loan acquisition costs	0	(14,295)
Pledge payments received	425,086	233,730
Repayment of notes payable	<u>(4,525)</u>	<u>(4,524)</u>
Net cash from financing activities	<u>3,951,185</u>	<u>588,948</u>
NET CHANGE IN CASH	915,240	(148,165)
CASH, BEGINNING OF YEAR	<u>184,083</u>	<u>332,248</u>
CASH, END OF YEAR	<u>\$ 1,099,323</u>	<u>\$ 184,083</u>
CASH PAID FOR		
Interest, net of capitalized amounts	<u>\$ 782</u>	<u>\$ 782</u>

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS (cont'd)

STROUD WATER RESEARCH CENTER, INC.

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Contributed investments	<u>\$ 450,405</u>	<u>\$ 636,024</u>
Loan acquisition costs acquired through bond payable	<u>\$ 0</u>	<u>\$ 44,375</u>
Capitalized interest paid through loan reserves	<u>\$ 152,123</u>	<u>\$ 0</u>
Loan reserves for bond payable	<u>\$ 1,747,259</u>	<u>\$ 2,140,880</u>

See accompanying notes to financial statements.

Note 1 Summary of Corporation activities and significant accounting policiesBackground

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, conservation leadership, and professional service.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America 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 reported period. Actual results could differ from those estimates.

Prior-year 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 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, 2010, from which the summarized information was derived.

Basis of presentation

In accordance with the 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 unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

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

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 improves 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 adheres to UPMIFA, the provisions of which apply to endowment funds existing on or established after that date. During the years ended December 31, 2011 and 2010, the Corporation has determined that its permanently restricted net assets meet the definition of endowment funds 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/losses, be used to support operations. The donor may further stipulate that the earnings be applied to specific operating purposes.

Temporarily restricted net assets – resources contributed by donors subject to use for stipulated purposes or in stipulated future time periods.

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. 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.

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

Net asset classifications (cont'd)

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.

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.

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

Net asset classifications (cont'd)

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. Distributions from the endowment in 2011 and 2010 to fund current operations were \$ 1,350,519 and \$ 1,208,405, respectively, which were in line with the 5% policy.

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 adheres to FASB ASC 740 – Income Taxes. For the years ended December 31, 2011 and 2010, 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, 2011 and 2010, the Corporation did not incur any interest and penalties from taxing authorities.

The federal Return of Organization Exempt from Income Tax (Form 990) of the Corporation for 2008, 2009 and 2010 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

Property and equipment

Buildings, improvements, equipment and vehicles are recorded at cost. Maintenance and repairs are charged to expense as incurred and major renewals and improvements are capitalized.

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

Depreciation

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

Buildings	20-30 years
Building improvements	5-20 years
Equipment	3-10 years
Vehicles	5 years

Depreciation expense was \$ 284,276 for the year ended December 31, 2011 (\$ 283,350 for the year ended December 31, 2010).

Loan acquisition costs

Loan acquisition costs are being amortized using the interest method based on the terms of the bond. Loan acquisition costs of \$ 50,750 as of December 31, 2009 were amortized in full in 2010 due to the replacement of the bond referenced in Note 6, which resulted in additional loan acquisition costs of \$ 58,670.

Amortization expense for the year ended December 31, 2011 was \$ 1,263 (\$ 50,750 in 2010).

Expected amortization for each of the next five years is as follows:

2012	\$	1,324
2013	\$	1,387
2014	\$	1,454
2015	\$	1,524
2016	\$	1,597

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 in the period the change occurs as permanently restricted unrealized gains or losses. The change in value recognized in 2011 was an unrealized loss of \$ 423,240 (\$ 610,018 unrealized gain in 2010).

The Corporation records income, in the period it is received from the trust, as an unrestricted contribution. Contributions received from the trust in 2011 and 2010 were \$ 303,821 and \$ 356,500, respectively.

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

Investments

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

Advertising costs

Advertising costs are charged to operations when incurred. Total expense for the years ended December 31, 2011 and 2010 were \$ 225 and \$ 160, respectively.

Subsequent events

The date to which events occurring after December 31, 2011, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is August 24, 2012, which is the date on which the financial statements were available to be issued.

Note 2 Financial instruments

Concentrations of credit risk

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

The Corporation's 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.

Receivables represent unsecured support and revenue and the collectability of these accounts is periodically reviewed by management; an allowance for doubtful accounts is established if required.

The 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 the type of investment.

Note 2 Financial instruments (cont'd)

Fair value measurement of financial instruments

The Corporation values its financial instruments in accordance 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. The adoption of FASB ASC 820 had no material effect on the financial statements.

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 fair value of Level 1 securities is determined by reference to quoted market prices. The fair value of Level 2 equity 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 fair value is determined by reference to quoted market prices and other relevant information generated by market transactions.

NOTES TO FINANCIAL STATEMENTS
(cont'd)

STROUD WATER RESEARCH CENTER, INC.

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, 2011 are as follows:

Fair Value Measurement at Reporting Date Using:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Cash management fund	\$ 83,688	\$ 83,688	\$ 0
Equities - common stock	87,853	87,853	
Mutual Funds			
Domestic blended equities	890,010	890,010	
Domestic large cap equities	1,657,600	1,657,600	
Domestic small cap equities	1,372,891	1,372,891	
Fixed income	2,462,524	2,462,524	
International equities - developed	992,921	992,921	
International equities - emerging markets	584,782	584,782	
Alternative investment	238,369		238,369
Investment in limited partnership	<u>6,353,670</u>		<u>6,353,670</u>
Total investments	<u>\$ 14,724,308</u>	<u>\$ 8,132,269</u>	<u>\$ 6,592,039</u>
Beneficial interest in perpetual trust	<u>\$ 7,868,786</u>	<u>\$ 0</u>	<u>\$ 7,868,786</u>

Note 2 Financial instruments (cont'd)

Fair values of assets measured on a recurring basis at December 31, 2010 are as follows:

Fair Value Measurement at Reporting Date Using:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Cash management fund	\$ 1,040,829	\$ 1,040,829	\$ 0
Equities - common stock	114,503	114,503	
Mutual Funds			
Domestic blended equities	764,771	764,771	
Domestic large cap equities	1,436,286	1,436,286	
Domestic small cap equities	1,250,983	1,250,983	
Fixed income	1,460,885	1,460,885	
International equities - developed	862,423	862,423	
International equities - emerging markets	500,453	500,453	
Alternative investment	423,938		423,938
Investment in limited partnership	<u>7,120,259</u>	<u> </u>	<u>7,120,259</u>
Total investments	<u>\$ 14,975,330</u>	<u>\$ 7,431,133</u>	<u>\$ 7,544,197</u>
Beneficial interest in perpetual trust	<u>\$ 8,292,026</u>	<u>\$ 0</u>	<u>\$ 8,292,026</u>

Note 3 Pledges receivable

Pledges receivable consisted of the following at December 31:

	2011	2010
Receivable in less than one year	\$ 602,601	\$ 336,463
Receivable in one to five years	797,213	705,437
Receivable in greater than five years	<u>0</u>	<u>0</u>
Total pledges	1,399,814	1,041,900
Less discounts to net present value	57,315	62,352
Less allowance for uncollectible pledges	<u>0</u>	<u>0</u>
	<u>\$ 1,342,499</u>	<u>\$ 979,548</u>

NOTES TO FINANCIAL STATEMENTS
(cont'd)

STROUD WATER RESEARCH CENTER, INC.

Note 4 Investments

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

	2011		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Common stock	\$ 87,853	\$ 87,853	\$ 0
Mutual funds	7,097,589	7,960,728	863,139
Alternative investment	270,649	238,369	(32,280)
Investment in limited partnership	5,376,271	6,353,670	977,399
Cash management fund	<u>83,688</u>	<u>83,688</u>	<u>0</u>
	<u>\$ 12,916,050</u>	<u>\$ 14,724,308</u>	<u>\$ 1,808,258</u>
	2010		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Common stock	\$ 114,353	\$ 114,503	\$ 150
Mutual funds	5,005,822	6,275,801	1,269,979
Alternative investment	492,804	423,938	(68,866)
Investment in limited partnership	5,567,476	7,120,259	1,552,783
Cash management fund	<u>1,040,829</u>	<u>1,040,829</u>	<u>0</u>
	<u>\$ 12,221,284</u>	<u>\$ 14,975,330</u>	<u>\$ 2,754,046</u>

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

	2011	2010
Interest and dividends	\$ 166,808	\$ 130,445
Partnership income (loss)	332,144	190,871
Fees and other expenses	<u>(35,343)</u>	<u>(30,018)</u>
	<u>\$ 463,609</u>	<u>\$ 291,298</u>

NOTES TO FINANCIAL STATEMENTS
(cont'd)

STROUD WATER RESEARCH CENTER, INC.

Note 5 Long-term debt

	2011	2010
Note payable, finance company, payable in monthly installments of \$ 442 including interest at 6.35%, secured by vehicle, due December 2012	\$ 4,901	\$ 9,426
Less current maturity	<u>4,901</u>	<u>4,793</u>
	<u>\$ 0</u>	<u>\$ 4,633</u>

Interest expense was \$ 782 for each of the years ended December 31, 2011 and 2010.

Note 6 Bond 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. The overall estimated cost to complete the project is approximately \$ 8,500,000. A portion of the funding for the project has been obtained from tax exempt bond financing in the amount of \$ 6,500,000 that was approved by the Central and Western Chester County Industrial Development Authority and is being advanced by Brown Brothers Harriman & Co (BBH). This bond has replaced the previous bond obtained for \$ 3,500,000 that was being funded by Wilmington Trust of Pennsylvania (WTP). The remaining funding for the new building is being obtained through a capital campaign. In December 2010, BBH made advances of \$ 1,064,747 to replace the WTP bond issue, \$ 44,375 in legal fees related to the new bond issue, as well as \$ 2,140,878 in loan reserves that BBH holds in an interest bearing account and the Corporation can draw upon for reimbursement of construction costs as they are incurred. In December 2011, BBH made additional advances of \$ 1,502,741 for reimbursements of construction costs incurred, as well as an additional \$ 1,747,259 in loan reserves. The outstanding balance on the bond payable as of December 31, 2011 was \$ 6,500,000 (\$ 3,250,000 at December 31, 2010).

The first \$ 3,250,000 of the bond issue bears interest at 4.70% until December 23, 2025. The second \$ 3,250,000 of the bond issue bears interest at 3.65% until December 23, 2025. Payments of interest only at these rates will be payable monthly until March 2014, at which point interest and principal payments will be due in accordance with the schedule outlined in the bond issue through December 2035.

\$ 152,125 of interest was capitalized in the year ended December 31, 2011 related to the construction of the new building (\$ 9,157 in 2010).

NOTES TO FINANCIAL STATEMENTS
(cont'd)

STROUD WATER RESEARCH CENTER, INC.

Note 6 Bond payable (cont'd)

Following are maturities of the bond payable for each of the next five years, thereafter and in the aggregate:

2012	\$	0
2013		0
2014		234,318
2015		238,459
2016		242,799
Thereafter		<u>5,784,424</u>
	\$	<u>6,500,000</u>

Covenants

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

The Corporation shall not incur an operating deficit for any fiscal year in an amount greater than \$ 200,000

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

At December 31, 2011, the Corporation met the covenants described above.

Note 7 Temporarily restricted net assets

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

	2011	2010
Research programs	\$ 182,116	\$ 125,104
Education/public programs	54,200	43,039
Other programs	42,338	27,161
Assistant Directors Fund	967,393	890,363
New building	<u>0</u>	<u>1,289,532</u>
	<u>\$ 1,246,047</u>	<u>\$ 2,375,199</u>

Note 8 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:

	2011	2010
Investments	\$ 2,988,607	\$ 2,988,607
Beneficial interest in perpetual trust	<u>7,868,786</u>	<u>8,292,026</u>
	<u>\$ 10,857,393</u>	<u>\$ 11,280,633</u>

Note 9 Net assets released from restrictions

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

	2011	2010
Research programs	\$ 1,872,658	\$ 1,875,194
Education/public programs	567,063	406,735
Other programs	59,246	595
Assistant Director's Fund	119,610	118,534
New building	<u>2,663,738</u>	<u>699,349</u>
	<u>\$ 5,282,315</u>	<u>\$ 3,100,407</u>

Note 10 Major contributors

Of the \$ 2,203,558 in contributions received during the year ended December 31, 2011, approximately 18%, or \$ 400,000, of these amounts were received from one contributor (approximately 63% of \$ 2,381,254, or \$ 1,501,835 from five contributors during 2010). There were no pledges receivable from major contributors as of December 31, 2011 (\$ 684,245 in 2010).

Note 11 Major grantors

Of the \$ 1,940,160 in program grants and contracts received during the year ended December 31, 2011, approximately 80%, or \$ 1,543,652 of these contributions were received from two grantors (approximately 78% of \$ 1,761,679, or \$ 1,376,480 from three grantors during 2010). Grants receivable from major grantors totaled \$ 473,108 at December 31, 2011 (\$ 539,569 at December 31, 2010).

Note 12 Pension plan

The Corporation follows 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.

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:

	2011	2010
Projected benefit obligation	\$ 5,645,684	\$ 4,403,331
Fair value of plan assets	<u>4,031,505</u>	<u>3,923,460</u>
Funded status	<u>\$ (1,614,179)</u>	<u>\$ (479,871)</u>
Accumulated benefit obligation	\$ 5,111,570	\$ 3,787,839
Employer contributions	\$ 250,000	\$ 275,000
Participant contributions	\$ 0	\$ 0
Benefits paid	\$ (76,530)	\$ (70,573)

Amounts recognized in the statement of financial position:

	2011	2010
Pension benefit obligation	<u>\$ 1,614,179</u>	<u>\$ 479,871</u>

Amounts recognized in the statement of activities:

Components of net periodic benefit cost	2011	2010
Service cost	\$ 180,506	\$ 199,866
Interest cost	251,042	238,800
Amortization of net gain	0	1,475
Expected return on plan assets	<u>(277,130)</u>	<u>(223,483)</u>
Net periodic benefit cost	154,418	216,658
Changes in plan assets and benefit obligations recognized in other changes in unrestricted net assets		
Net loss (gain)	1,229,890	(427,524)
Amortization of net gain	<u>0</u>	<u>(1,475)</u>
Total recognized in net periodic benefit cost and other changes in unrestricted net assets	<u>\$ 1,384,308</u>	<u>\$ (212,341)</u>

Note 12 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 \$ 36,746 and \$ 0, respectively.

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

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

	2011	2010
Discount rate	4.50%	5.75%
Rate of compensation increase	2.00%	3.00%

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

	2011	2010
Discount rate	5.75%	5.75%
Rate of compensation increase	3.00%	3.00%
Expected return on plan assets	7.00%	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, 2011 by asset category is as follows:

Cash and alternatives	5.4 %
Equities	54.4 %
Fixed income securities	39.2 %
Other	1.0 %
Total	<u>100.0 %</u>

The Corporation expects to contribute approximately \$ 250,000 to the pension plan in the year ended December 31, 2011. No plan assets are expected to be returned to the Corporation during the year ended December 31, 2011. Future benefit payments, which reflect expected service as appropriate, are expected to be paid as follows:

2012	\$ 80,182
2013	\$ 108,796
2014	\$ 138,049
2015	\$ 187,906
2016	\$ 321,798
2017 – 2021	\$ 1,932,576

NOTES TO FINANCIAL STATEMENTS
(cont'd)

STROUD WATER RESEARCH CENTER, INC.

Note 13 Commitments

The Corporation leases equipment under an operating lease that expires in August 2014.

At December 31, 2011, future minimum rental payments required are as follows:

2012	\$ 9,348
2013	9,348
2014	<u>6,232</u>
Total minimum lease payments	<u>\$ 24,928</u>

Rent expense for 2011 and 2010 was \$ 9,348 and \$ 6,248, respectively.

Note 14 Endowment assets

Endowment net asset composition by type of fund as of December 31, 2011 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Funds				
Donor-restricted	\$ 0	\$ 967,393	\$ 10,857,393	\$ 11,824,786
Board-designated	<u>11,735,701</u>	<u>0</u>	<u>0</u>	<u>11,735,701</u>
	<u>\$ 11,735,701</u>	<u>\$ 967,393</u>	<u>\$ 10,857,393</u>	<u>\$ 23,560,487</u>

Changes in endowment net assets for the year ended December 31, 2011 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2011	\$ 10,786,376	\$ 2,179,895	\$ 11,280,633	\$ 24,246,904
Investment return:				
Investment income, net of fees	463,609	0	0	463,609
Net realized/unrealized losses	<u>(748,739)</u>	<u>0</u>	<u>(423,240)</u>	<u>(1,171,979)</u>
Total investment return	(285,130)	0	(423,240)	(708,370)
Contributions transferred into endowment	100,000	1,570,846	0	1,670,846
Appropriation of assets for expenditure	(1,273,787)	(2,783,348)	0	(4,057,135)
Other changes:				
Transfers to board-designated endowment	<u>2,783,348</u>	<u>0</u>	<u>0</u>	<u>2,783,348</u>
Endowment net assets, December 31, 2011	<u>\$ 12,110,807</u>	<u>\$ 967,393</u>	<u>\$ 10,857,393</u>	<u>\$ 23,935,593</u>

Note 14 Endowment assets

Endowment net asset composition by type of fund as of December 31, 2010 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Funds				
Donor-restricted	\$ 0	\$ 2,179,895	\$ 11,280,633	\$ 13,460,528
Board-designated	<u>10,786,376</u>	<u>0</u>	<u>0</u>	<u>10,786,376</u>
	<u>\$ 10,786,376</u>	<u>\$ 2,179,895</u>	<u>\$ 11,280,633</u>	<u>\$ 24,246,904</u>

Changes in endowment net assets for the year ended December 31, 2010 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2010	\$ 10,351,120	\$ 1,007,289	\$ 10,670,615	\$ 22,029,024
Investment return:				
Investment income, net of fees	291,298	0	0	291,298
Net realized / unrealized gains	<u>1,313,834</u>	<u>0</u>	<u>610,018</u>	<u>1,923,852</u>
Total investment return	1,605,132	0	610,018	2,215,150
Contributions transferred into endowment	0	1,990,489	0	1,990,489
Appropriation of assets for expenditure	(1,987,759)	(817,883)	0	(2,805,642)
Other changes:				
Transfers to board-designated endowment	<u>817,883</u>	<u>0</u>	<u>0</u>	<u>817,883</u>
Endowment net assets, December 31, 2010	<u>\$ 10,786,376</u>	<u>\$ 2,179,895</u>	<u>\$ 11,280,633</u>	<u>\$ 24,246,904</u>