



Certified Public Accountants and Consultants

**STROUD WATER RESEARCH CENTER, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2015**

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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, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stroud Water Research Center, Inc. as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited Stroud Water Research Center, Inc.'s 2014 financial statements, and our report dated September 4, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Gunnip & Company LLP*

September 8, 2016

## **FINANCIAL STATEMENTS**

# STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2015 AND 2014

	2015	2014
<b>ASSETS</b>		
CURRENT ASSETS		
Cash	\$ 2,195,202	\$ 728,137
Accounts receivable	957,555	486,371
Grants receivable	564,711	880,439
Pledges receivable	191,865	456,000
Prepaid expenses	16,743	64,123
	<u>3,926,076</u>	<u>2,615,070</u>
PROPERTY AND EQUIPMENT		
Land	2,357,839	2,357,839
Buildings and improvements	12,295,883	12,157,075
Equipment	2,686,069	2,606,151
Vehicles	204,424	204,424
	<u>17,544,215</u>	<u>17,325,489</u>
Less accumulated depreciation	<u>5,293,896</u>	<u>4,782,700</u>
	<u>12,250,319</u>	<u>12,542,789</u>
PLEDGES RECEIVABLE	84,590	346,682
LOAN ACQUISITION COSTS, LESS ACCUMULATED AMORTIZATION OF \$ 6,952 IN 2015 (\$ 5,428 IN 2014)	51,718	53,242
INVESTMENTS	20,305,989	21,518,595
BENEFICIAL INTEREST IN PERPETUAL TRUST	<u>9,265,177</u>	<u>9,772,502</u>
Total assets	<u>\$ 45,883,869</u>	<u>\$ 46,848,880</u>

See accompanying notes to financial statements.

**STROUD WATER RESEARCH CENTER, INC.**

	<b>2015</b>	<b>2014</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of bonds payable	\$ 242,799	\$ 238,459
Accounts payable and accrued expenses	635,964	659,482
Taxes payable - payroll	5,671	5,971
	<u>884,434</u>	<u>903,912</u>
<b>BOND PAYABLE</b>	5,784,422	6,027,222
<b>PENSION BENEFIT OBLIGATION</b>	<u>1,540,586</u>	<u>1,487,397</u>
Total liabilities	<u>8,209,442</u>	<u>8,418,531</u>
<b>NET ASSETS</b>		
Unrestricted		
Board designated	15,343,668	17,224,876
Undesignated	5,529,195	4,772,675
	<u>20,872,863</u>	<u>21,997,551</u>
Temporarily restricted	4,547,780	3,671,689
Permanently restricted	<u>12,253,784</u>	<u>12,761,109</u>
Total net assets	<u>37,674,427</u>	<u>38,430,349</u>
Total liabilities and net assets	<u><u>\$ 45,883,869</u></u>	<u><u>\$ 46,848,880</u></u>

See accompanying notes to financial statements.

## STATEMENT OF ACTIVITIES

## STROUD WATER RESEARCH CENTER, INC.

## FOR THE YEAR ENDED DECEMBER 31, 2015 WITH COMPARATIVE TOTALS FOR 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015	Total 2014
<b>OPERATING REVENUE</b>					
Research programs	\$ 1,542,266	\$ 2,866,262	\$ 0	\$ 4,408,528	\$ 3,051,468
Education/public programs	916,395	45,414	0	961,809	307,508
Watershed restoration programs	721,567	423,656	0	1,145,223	792,715
Annual fund	567,745	0	0	567,745	452,809
Contributions	292,284	363,745	0	656,029	2,496,205
Contribution from beneficial interest in perpetual trust	396,401	0	0	396,401	372,405
Other income	100,557	0	0	100,557	64,225
Special event	261,934	0	0	261,934	264,199
	<u>4,799,149</u>	<u>3,699,077</u>	<u>0</u>	<u>8,498,226</u>	<u>7,801,534</u>
Net assets released from restriction	<u>2,822,986</u>	<u>(2,822,986)</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>7,622,135</u>	<u>876,091</u>	<u>0</u>	<u>8,498,226</u>	<u>7,801,534</u>
Total operating revenue					
<b>OPERATING EXPENSES</b>					
Program services					
Research	3,679,278	0	0	3,679,278	3,068,875
Education	831,486	0	0	831,486	310,078
Watershed restoration	<u>1,082,814</u>	<u>0</u>	<u>0</u>	<u>1,082,814</u>	<u>625,312</u>
	<u>5,593,578</u>	<u>0</u>	<u>0</u>	<u>5,593,578</u>	<u>4,004,265</u>
Total program services					
Supporting services					
Outreach	324,236	0	0	324,236	256,911
Finance and administrative	624,664	0	0	624,664	629,783
Information services	344,845	0	0	344,845	362,160
Facilities	845,158	0	0	845,158	873,605
Communications and marketing	134,328	0	0	134,328	147,832
Special event	<u>39,990</u>	<u>0</u>	<u>0</u>	<u>39,990</u>	<u>39,710</u>
	<u>2,313,221</u>	<u>0</u>	<u>0</u>	<u>2,313,221</u>	<u>2,310,001</u>
Total supporting services					
Total operating expenses	<u>7,906,799</u>	<u>0</u>	<u>0</u>	<u>7,906,799</u>	<u>6,314,266</u>
	<u>(284,664)</u>	<u>876,091</u>	<u>0</u>	<u>591,427</u>	<u>1,487,268</u>
<b>NET INCOME (LOSS) FROM OPERATIONS</b>					

See accompanying notes to financial statements.



## STATEMENT OF ACTIVITIES (cont'd)

## STROUD WATER RESEARCH CENTER, INC.

## FOR THE YEAR ENDED DECEMBER 31, 2015 WITH COMPARATIVE TOTALS FOR 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015	Total 2014
OTHER CHANGES					
Pension-related changes other than net periodic pension cost	(288,979)	0	0	(288,979)	(955,401)
Investment income	728,127	0	0	728,127	1,175,910
Net realized and unrealized gains (losses) on: Beneficial interest in perpetual trust Investments	0 (1,279,172)	0 0	(507,325) 0	(507,325) (1,279,172)	51,884 (248,598)
Total other changes	(840,024)	0	(507,325)	(1,347,349)	23,795
CHANGE IN NET ASSETS	(1,124,688)	876,091	(507,325)	(755,922)	1,511,063
NET ASSETS, BEGINNING OF YEAR	21,997,551	3,671,689	12,761,109	38,430,349	36,919,286
NET ASSETS, END OF YEAR	<u>\$ 20,872,863</u>	<u>\$ 4,547,780</u>	<u>\$ 12,253,784</u>	<u>\$ 37,674,427</u>	<u>\$ 38,430,349</u>

See accompanying notes to financial statements.

**STATEMENT OF CASH FLOWS**
**STROUD WATER RESEARCH CENTER, INC.**
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
OPERATING ACTIVITIES		
Change in net assets	\$ (755,922)	\$ 1,511,063
Adjustments to reconcile change in net assets to net cash flow used by operating activities		
Depreciation and amortization	512,719	513,892
Net realized and unrealized gains	1,786,497	196,714
Contributed investments	(923,397)	(1,039,324)
(Increase) decrease in -		
Accounts receivable	(471,184)	(199,588)
Grants receivable	315,728	(243,003)
Pledges receivable	(27,992)	(447,128)
Prepaid expenses	47,380	(49,469)
Increase (decrease) in -		
Accounts payable and accrued expenses	(23,518)	135,604
Pension benefit obligation	53,189	760,034
Taxes payable - payroll	(300)	523
Net cash flow from operating activities	<u>513,200</u>	<u>1,139,318</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(218,725)	(181,657)
Purchase of investment securities	(4,137,756)	(9,178,930)
Proceeds on sale of investment securities	<u>4,994,587</u>	<u>7,920,647</u>
Net cash flow from (used by) investing activities	<u>638,106</u>	<u>(1,439,940)</u>
FINANCING ACTIVITIES		
Pledge payments received	554,219	1,077,410
Repayment of bond payable	<u>(238,460)</u>	<u>(234,319)</u>
Net cash flow from financing activities	<u>315,759</u>	<u>843,091</u>
NET CHANGE IN CASH	1,467,065	542,469
CASH, BEGINNING OF YEAR	<u>728,137</u>	<u>185,668</u>
CASH, END OF YEAR	<u>\$ 2,195,202</u>	<u>\$ 728,137</u>
CASH PAID FOR INTEREST	<u>\$ 261,885</u>	<u>\$ 271,558</u>
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Contributed investments	<u>\$ 923,397</u>	<u>\$ 1,039,324</u>

See accompanying notes to financial statements.

Note 1      Summary of Corporation activities and significant accounting policies

Corporation activities

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

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a complete presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

Basis of presentation

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

Contributions and revenue recognition

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in 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 significant accounting policies (cont'd)

Contributions and revenue recognition (cont'd)

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

Contributions with restrictions met in the same year

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

Net asset classifications

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

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

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

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

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

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

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

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

Net asset classifications (cont'd)

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

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

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

Endowment investment and spending policies

The Corporation's endowment consists of individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Corporation has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, and (d) changes in the fair value of the beneficial interest in perpetual trust. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Corporation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Corporation, and (7) the Corporation's investment policies.

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

Endowment investment and spending policies (cont'd)

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

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

The spending policy calculates the amount of money annually distributed from the Corporation's various endowed funds to fund Corporation operations and capital acquisitions. The current spending policy is to distribute an amount equal to 5% of a thirteen quarter weighted average of the value of endowment assets. In addition to this distribution, the Corporation's finance committee has the authority to distribute additional funds as they are deemed necessary. Distributions from the endowment were \$ 2,249,323 in 2015 (\$ 2,078,444 in 2014), which included \$ 1,210,612 in funds authorized by the finance committee.

Investments

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

Property and equipment

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

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

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

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

Property and equipment (cont'd)

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

Depreciation expense was \$ 511,195 in 2015 (\$ 512,438 in 2014).

Amortization of loan acquisition costs

Loan acquisition costs on the tax-exempt bond financing which settled on December 23, 2010, are being amortized over twenty-five years, which is the original final maturity. Total initial costs incurred were \$ 58,670. The Corporation has determined use of the interest method based on the terms of the bond. Amortization expense was \$ 1,524 in 2015 (\$ 1,454 in 2014). Expected amortization for each of the next five years is as follows:

2016	\$ 1,597
2017	\$ 1,674
2018	\$ 1,754
2019	\$ 1,838
2020	\$ 1,927

Beneficial interest in perpetual trust

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

Changes in the fair value of the trust's assets are recognized as permanently restricted unrealized gains or losses in the period the change occurs. The change in value recognized was an unrealized loss of \$ 507,325 in 2015 (unrealized gain of \$ 51,884 in 2014).

The Corporation records income, in the period it is received from the trust, as an unrestricted contribution. Contributions received from the trust were \$ 396,401 in 2015 (\$ 372,405 in 2014).

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, 2015 and 2014, the Corporation has determined it did not have a material tax liability for uncertain tax positions.

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

Income taxes (cont'd)

The Corporation's policy for penalties and interest assessed by income taxing authorities is to include them in other expenses. For the years ended December 31, 2015 and 2014, the Corporation did not incur any interest and penalties from taxing authorities.

The federal income tax returns of the Corporation for 2012, 2013 and 2014 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

Advertising costs

Advertising costs are charged to operations when incurred. Total advertising costs were \$ 1,365 in 2015 (\$ 0 in 2014).

Subsequent events

The date to which events occurring after December 31, 2015, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is September 8, 2016, 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.

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, 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.



Note 2      Financial instruments (cont'd)

Fair value measurement of financial instruments

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

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

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

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

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

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

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

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

Note 2 Financial instruments (cont'd)

Fair value measurement of financial instruments (cont'd)

Fair values of assets measured on a recurring basis at December 31, 2015 are as follows:

	<u>Fair Value Measurement at Reporting Date Using</u>		
	<u>Fair Value</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>
Cash management fund	\$ 242,663	\$ 242,663	\$ 0
Mutual funds			
Domestic blended equities	1,595,470	1,595,470	
Domestic large cap equities	2,589,715	2,589,715	
Domestic small cap equities	2,209,716	2,209,716	
Fixed income	4,487,697	4,487,697	
International equities			
Developed	1,700,643	1,700,643	
Emerging markets	1,005,891	1,005,891	
Alternative investment	38,905		38,905
Investment in limited partnership	<u>6,435,289</u>	<u>                    </u>	<u>6,435,289</u>
Total investments	<u>\$ 20,305,989</u>	<u>\$ 13,831,795</u>	<u>\$ 6,474,194</u>
Beneficial interest in perpetual trust	<u>\$ 9,265,177</u>	<u>\$ 0</u>	<u>\$ 9,265,177</u>

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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, 2014 are as follows:

	<u>Fair Value Measurement at Reporting Date Using</u>		
	<u>Fair Value</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>
Cash management fund	\$ 310,244	\$ 310,244	\$ 0
Mutual funds			
Domestic blended equities	1,782,001	1,782,001	
Domestic large cap equities	2,800,175	2,800,175	
Domestic small cap equities	2,512,417	2,512,417	
Fixed income	4,664,689	4,664,689	
International equities			
Developed	1,686,049	1,686,049	
Emerging markets	1,055,241	1,055,241	
Alternative investment	55,538		55,538
Investment in limited partnership	<u>6,652,241</u>		<u>6,652,241</u>
Total investments	<u>\$ 21,518,595</u>	<u>\$ 14,810,816</u>	<u>\$ 6,707,779</u>
Beneficial interest in perpetual trust	<u>\$ 9,772,502</u>	<u>\$ 0</u>	<u>\$ 9,772,502</u>

Note 3 Pledges receivable

Pledges receivable consisted of the following at December 31:

	<b>2015</b>	<b>2014</b>
Receivable in less than one year	\$ 191,865	\$ 456,000
Receivable in one to five years	100,000	390,084
Receivable in greater than five years	<u>0</u>	<u>0</u>
Total pledges	291,865	846,084
Less discounts to net present value	15,410	43,402
Less allowance for uncollectible pledges receivable	<u>0</u>	<u>0</u>
	<u>\$ 276,455</u>	<u>\$ 802,682</u>

Note 4 Investments

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

	<b>2015</b>		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Cash management fund	\$ 242,663	\$ 242,663	\$ 0
Mutual funds	12,440,207	13,589,132	1,148,925
Alternative investment	106,677	38,905	(67,772)
Investment in limited partnership	<u>5,733,298</u>	<u>6,435,289</u>	<u>701,991</u>
Total investments	<u>\$ 18,522,845</u>	<u>\$ 20,305,989</u>	<u>\$ 1,783,144</u>

  

	<b>2014</b>		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Cash management fund	\$ 310,244	\$ 310,244	\$ 0
Mutual funds	12,313,906	14,500,572	2,186,666
Alternative investment	106,677	55,538	(51,139)
Investment in limited partnership	<u>5,245,811</u>	<u>6,652,241</u>	<u>1,406,430</u>
Total investments	<u>\$ 17,976,638</u>	<u>\$ 21,518,595</u>	<u>\$ 3,541,957</u>

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

	<b>2015</b>	<b>2014</b>
Interest and dividends	\$ 407,226	\$ 359,473
Partnership income	364,652	864,214
Fees and other expenses	<u>(43,751)</u>	<u>(47,777)</u>
	<u>\$ 728,127</u>	<u>\$ 1,175,910</u>

Note 5      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 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").

The outstanding balance on the bond payable was \$ 6,027,221 as of December 31, 2015 (\$ 6,265,681 as of December 31, 2014). 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.

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

2016	\$ 242,799
2017	247,347
2018	252,112
2019	257,106
2020	262,338
Thereafter	<u>4,765,519</u>
	<u>\$ 6,027,221</u>

Covenants

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

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

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

The Corporation met the covenants described above as of December 31, 2015 and 2014.

**Note 6**      Temporarily restricted net assets

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

	<b>2015</b>	<b>2014</b>
Research programs	\$ 2,200,714	\$ 929,426
Education/public programs	48,467	71,737
Watershed Restoration	34,344	128,195
Other programs	22,774	22,774
Assistant director's fund	641,394	782,871
New building	<u>1,600,087</u>	<u>1,736,686</u>
	<u><b>\$ 4,547,780</b></u>	<u><b>\$ 3,671,689</b></u>

**Note 7**      Permanently restricted net assets

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

	<b>2015</b>	<b>2014</b>
Investments	\$ 2,988,607	\$ 2,988,607
Beneficial interest in perpetual trust	<u>9,265,177</u>	<u>9,772,502</u>
	<u><b>\$ 12,253,784</b></u>	<u><b>\$ 12,761,109</b></u>

**Note 8**      Net assets released from restriction

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

	<b>2015</b>	<b>2014</b>
Research programs	\$ 1,594,974	\$ 486,385
Education/public programs	68,684	29,758
Watershed Restoration	517,507	255,738
Other programs	0	33,531
Assistant director's fund	141,477	132,789
New building	<u>500,344</u>	<u>505,632</u>
	<u><b>\$ 2,822,986</b></u>	<u><b>\$ 1,443,833</b></u>

Note 9 Major contributors

Of the \$ 1,052,430 in contributions received in 2015, approximately 28%, or \$ 298,476, of these contributions were received from two contributors (approximately 53%, or \$ 1,523,002 of \$ 2,868,610 was received from four contributor in 2014). Pledges receivable from major contributors was \$ 150,000 and \$ 650,084 as of December 31, 2015 and 2014, respectively.

Note 10 Major grantors

Of the \$ 6,515,560 in program grants and contracts received in 2015, approximately 80%, or \$ 5,193,617, of these program grants and contracts were received from three grantors (approximately 72%, or \$ 2,985,243 of \$ 4,504,199 were received from four grantors in 2014). Grants receivable from major grantors was \$ 907,589 and \$ 695,443 as of December 31, 2015 and 2014, respectively.

Note 11 Pension plan

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

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

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:

	2015	2014
Projected benefit obligation	\$ 7,637,294	\$ 7,397,976
Fair value of plan assets	<u>6,096,708</u>	<u>5,910,579</u>
Funded status	<u>\$ (1,540,586)</u>	<u>\$ (1,487,397)</u>
Accumulated benefit obligation	\$ 7,082,535	\$ 6,758,065
Employer contributions	\$ 422,000	\$ 330,000
Participant contributions	\$ 0	\$ 0
Benefits paid	\$ (159,461)	\$ (144,699)

Note 11 Pension plan (cont'd)

Amounts recognized in the statement of financial position:

	2015	2014
Pension benefit obligation	\$ 1,540,586	\$ 1,487,397

Amounts recognized in the statement of activities:

	2015	2014
Components of net periodic benefit cost		
Service cost	\$ 259,910	\$ 228,652
Interest cost	292,730	290,874
Amortization of net loss	41,729	0
Expected return on plan assets	(408,159)	(384,893)
Net periodic benefit cost	186,210	134,633
Changes in plan assets and benefit obligations recognized in other changes in unrestricted net assets		
Net loss (gain)	330,708	955,401
Amortization of net loss	(41,729)	0
Total recognized in net periodic benefit costs and other changes in unrestricted net assets	\$ 475,189	\$ 1,090,034

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 \$ 54,895 and \$ 0, respectively.

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

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

	2015	2014
Discount rate	4.25%	4.00%
Rate of compensation increase	2.00%	2.00%

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

	2015	2014
Discount rate	4.00%	4.75%
Rate of compensation increase	2.00%	2.00%
Expected return on plan assets	7.00%	7.00%



Note 11 Pension plan (cont'd)

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, 2015 by asset category is as follows:

Cash and alternatives	0.8%
Equities	0.0%
Fixed income securities	99.2%
Other	<u>0.0%</u>
	<u>100.0%</u>

The Corporation expects to contribute approximately \$ 422,000 to the pension plan in the year ended December 31, 2016. No plan assets are expected to be returned to the Corporation during the year ended December 31, 2015. Future benefit payments, which reflect expected service as appropriate, are expected to be paid as follows:

2016	\$ 326,794
2017	\$ 323,557
2018	\$ 398,604
2019	\$ 422,068
2020	\$ 416,488
2021 – 2024	\$ 2,220,644

Note 12 Commitments - copier leases

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

2016	\$ 13,780
2017	13,342
2018	4,875
2019	2,783
2020	<u>2,551</u>
	<u>\$ 37,331</u>

Rent expense was \$ 9,137 in 2015 (\$ 11,700 in 2014).

Note 13 Endowment assets

Endowment net asset composition by type of fund as of December 31, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds				
Donor-restricted	\$ 0	\$ 2,250,169	\$ 12,253,784	\$ 14,503,953
Board-designated	<u>15,343,668</u>	<u>0</u>	<u>0</u>	<u>15,343,668</u>
	<u>\$ 15,343,668</u>	<u>\$ 2,250,169</u>	<u>\$ 12,253,784</u>	<u>\$ 29,847,621</u>

Changes in endowment net assets for the year ended December 31, 2015 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 01, 2015	\$ 16,813,113	\$ 2,519,557	\$ 12,761,109	\$ 32,093,779
Investment return:				
Investment income, net of fees	728,127	0	0	728,127
Net realized/unrealized gains	<u>(1,279,172)</u>	<u>0</u>	<u>(507,325)</u>	<u>(1,786,497)</u>
Total investment return	<u>(551,045)</u>	<u>0</u>	<u>(507,325)</u>	<u>(1,058,370)</u>
Contributions transferred into endowment	697,790	363,745	0	1,061,535
Appropriation of assets for expenditure	(2,249,323)	(633,133)	0	(2,882,456)
Other changes:				
Transfers to board- designated endowment	<u>633,133</u>	<u>0</u>	<u>0</u>	<u>633,133</u>
Endowment net assets, December 31, 2015	<u>\$ 15,343,668</u>	<u>\$ 2,250,169</u>	<u>\$ 12,253,784</u>	<u>\$ 29,847,621</u>

Note 13 Endowment assets (cont'd)

Endowment net asset composition by type of fund as of December 31, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds				
Donor-restricted	\$ 0	\$ 2,519,557	\$ 12,761,109	\$ 15,280,666
Board-designated	<u>16,813,113</u>	<u>0</u>	<u>0</u>	<u>16,813,113</u>
	<u>\$ 16,813,113</u>	<u>\$ 2,519,557</u>	<u>\$ 12,761,109</u>	<u>\$ 32,093,779</u>

Changes in endowment net assets for the year ended December 31, 2014 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 01, 2014	\$ 16,352,928	\$ 1,561,015	\$ 12,709,225	\$ 30,623,168
Investment return:				
Investment income, net of fees	1,175,910	0	0	1,175,910
Net realized/unrealized losses	<u>(248,598)</u>	<u>0</u>	<u>51,884</u>	<u>(196,714)</u>
Total investment return	927,312	0	51,884	979,196
Contributions transferred into endowment	963,855	1,596,963	0	2,560,818
Appropriation of assets for expenditure	(2,069,403)	(638,421)	0	(2,707,824)
Other changes:				
Transfers to board- designated endowment	<u>638,421</u>	<u>0</u>	<u>0</u>	<u>638,421</u>
Endowment net assets, December 31, 2014	<u>\$ 16,813,113</u>	<u>\$ 2,519,557</u>	<u>\$ 12,761,109</u>	<u>\$ 32,093,779</u>