Gunnip & company LLP
Certified Public Accountants and Consultants

STROUD WATER RESEARCH CENTER, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2018

CONTENTS

Gunnip&company LLP
Certified Public Accountants and Consultants

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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, 2018 and 2017, and the related statements of activities, cash flows and functional expenses for the years 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.

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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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 14, the financial statements as of and for the year ended December 31, 2017 have been restated to correct an error in the classification of donor restricted funds. Our opinion is not modified with respect to that matter.

Gunnip & Company LLP

August 20, 2019

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash	$ 6,095,646	$ 1,179,269
Accounts and grants receivable	1,426,551	1,974,555
Pledges receivable	780,699	531,279
Prepaid expenses	51,602	15,176
	8,354,498	3,700,279
PROPERTY AND EQUIPMENT		
Land	2,357,839	2,357,839
Buildings and improvements	12,496,708	12,443,046
Equipment	3,077,005	2,977,873
Vehicles	325,242	325,242
	18,256,794	18,104,000
Less accumulated depreciation	6,915,189	6,362,153
	11,341,605	11,741,847
CONSTRUCTION IN PROGRESS	6,252	20,000
PLEDGES RECEIVABLE	2,443,789	2,237,718
INVESTMENTS (NOTE 5)	20,016,744	26,392,342
BENEFICIAL INTEREST IN PERPETUAL TRUST	9,486,419	10,384,656
Total assets	$ 51,649,307	$ 54,476,842

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS

	2018	RESTATED 2017
CURRENT LIABILITIES		
Current portion of bonds payable	$ 255,268	$ 250,358
Accounts payable and accrued expenses	656,934	774,986
Taxes payable - payroll	6,660	6,358
	918,862	1,031,702
BONDS PAYABLE	4,982,999	5,238,268
PENSION BENEFIT OBLIGATION	2,915,409	2,787,371
Total liabilities	8,817,270	9,057,341
NET ASSETS		
Without donor restrictions		
Board designated	17,498,135	20,219,492
Undesignated	4,553,520	4,175,444
	22,051,655	24,394,936
With donor restrictions	20,780,382	21,024,565
Total net assets	42,832,037	45,419,501
Total liabilities and net assets	$ 51,649,307	$ 54,476,842

See accompanying notes to financial statements.

STATEMENT OF ACTIVITIES

STROUD WATER RESEARCH CENTER, INC.

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			RESTATED 2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE						
Research programs	$ 1,145,809	$ 1,567,601	$ 2,713,410	$ 1,935,760	$ 1,396,841	$ 3,332,601
Education/public programs	489,332	149,150	638,482	480,134	74,098	554,232
Watershed restoration programs	937,010	557,512	1,494,522	2,022,268	253,962	2,276,230
Annual fund	459,232		459,232	512,806	0	512,806
Contributions	607,863	1,891,133	2,498,996	840,310	4,492,405	5,332,715
Contribution from beneficial interest in perpetual trust	422,142		422,142	419,577	0	419,577
Other income	139,252	10,125	149,377	66,722	100,000	166,722
Special events	345,851		345,851	378,774	0	378,774
	4,546,491	4,175,521	8,722,012	6,656,351	6,317,306	12,973,657
Net assets released from restriction	3,521,467	(3,521,467)	0	3,236,487	(3,236,487)	0
Total operating revenue	8,067,958	654,054	8,722,012	9,892,838	3,080,819	12,973,657
OPERATING EXPENSES						
Program services						
Research	3,976,276	0	3,976,276	4,612,921	0	4,612,921
Education	546,469	0	546,469	561,863	0	561,863
Watershed restoration	1,362,276	0	1,362,276	1,762,969	0	1,762,969
Total program services	5,885,021	0	5,885,021	6,937,753	0	6,937,753
Supporting services						
Finance and administrative	606,038	0	606,038	671,239	0	671,239
Information services	410,308	0	410,308	339,377	0	339,377
Facilities	874,683	0	874,683	867,412	0	867,412
Communications and marketing	49,530	0	49,530	88,282	0	88,282
Other expenses	209,129	0	209,129	144,419	0	144,419
Total supporting services	2,149,688	0	2,149,688	2,110,729	0	2,110,729
Development and outreach	517,450	0	517,450	498,694	0	498,694
Total operating expenses	8,552,159	0	8,552,159	9,547,176	0	9,547,176
NET INCOME (LOSS) FROM OPERATIONS	(484,201)	654,054	169,853	345,662	3,080,819	3,426,481

See accompanying notes to financial statements.

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			RESTATED 2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
OTHER CHANGES						
Pension-related changes other than net periodic pension cost	(17,960)	0	(17,960)	(626,771)	0	(626,771)
Investment income	849,600	0	849,600	613,466	0	613,466
Net realized and unrealized gains (losses) on:						
Beneficial interest in perpetual trust	0	(898,237)	(898,237)	0	1,041,128	1,041,128
Investments	(2,690,720)	0	(2,690,720)	2,325,404	0	2,325,404
Total other changes	(1,859,080)	(898,237)	(2,757,317)	2,312,099	1,041,128	3,353,227
CHANGE IN NET ASSETS	(2,343,281)	(244,183)	(2,587,464)	2,657,761	4,121,947	6,779,708
NET ASSETS, BEGINNING OF YEAR AS RESTATED (NOTE 14)	24,394,936	21,024,565	45,419,501	21,737,175	16,902,618	38,639,793
NET ASSETS, END OF YEAR	$ 22,051,655	$ 20,780,382	$ 42,832,037	$ 24,394,936	$ 21,024,565	$ 45,419,501

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS **STROUD WATER RESEARCH CENTER, INC.**

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	**2017**
OPERATING ACTIVITIES		
Change in net assets	$ (2,587,464)	$ 6,779,708
Adjustments to reconcile change in net assets to net cash flow used by operating activities		
Depreciation	553,036	535,538
Amortization of debt issuance costs	1,754	1,674
Net realized and unrealized (gains) losses	3,588,957	(3,366,532)
Contributed investments	(769,338)	(1,851,065)
(Increase) decrease in -		
Accounts and grants receivable	548,004	68,088
Pledges receivable	(1,035,045)	(3,152,935)
Prepaid expenses	(36,426)	22,364
Increase (decrease) in -		
Accounts payable and accrued expenses	(118,052)	267,524
Pension benefit obligation	128,038	693,941
Taxes payable - payroll	302	(10)
Net cash flow from (used by) operating activities	273,766	(1,705)
INVESTING ACTIVITIES		
Purchase of property and equipment	(139,046)	(371,145)
Purchase of investment securities	(12,402,968)	(3,477,487)
Proceeds on sale of investment securities	16,857,184	2,258,086
Net cash flow from (used by) investing activities	4,315,170	(1,590,546)
FINANCING ACTIVITIES		
Pledge payments received	579,554	547,810
Repayment of bond payable	(252,113)	(247,348)
Net cash flow from financing activities	327,441	300,462
NET CHANGE IN CASH	4,916,377	(1,291,789)
CASH, BEGINNING OF YEAR	1,179,269	2,471,058
CASH, END OF YEAR	$ 6,095,646	$ 1,179,269
CASH PAID FOR INTEREST	$ 231,661	$ 241,946
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Contributed investments	$ 769,338	$ 1,851,065

See accompanying notes to financial statements.

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	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	357,923	102,087	1,131,596
Professional fees	0	36,900	0	36,900
Advertising and promotion	91	7,350	99	7,540
Office and lab expenses	237,412	72,346	7,567	317,325
Travel	102,104	1,239	4,151	107,494
Conferences, conventions and meeting	39,459	602	20	40,081
Interest	0	233,415	0	233,415
Depreciation	198,641	354,312	83	553,036
Insurance	0	100,302	0	100,302
Subawards	1,039,635	0	0	1,039,635
Outside services	452,491	40,269	6,729	499,489
Participant support	426,866	0	0	426,866
Laboratory equipment	292,287	408	0	292,695
Other expenses	203,354	140,576	72,627	416,557
Total operating expenses	$ 5,885,021	$ 2,149,688	$ 517,450	$ 8,552,159

	2017			
	Program Services	Supporting Services	Development and Outreach	Total
Salaries and wages	$ 2,134,107	$ 816,133	$ 313,163	$ 3,263,403
Fringe benefits	648,517	316,950	98,646	1,064,113
Professional fees	12,367	36,000	0	48,367
Advertising and promotion	2,513	7,350	0	9,863
Office and lab expenses	192,339	69,977	9,033	271,349
Travel	88,301	0	4,256	92,557
Conferences, conventions and meeting	13,210	0	464	13,674
Interest	0	243,620	0	243,620
Depreciation	192,034	343,009	495	535,538
Insurance	0	86,041	0	86,041
Subawards	1,650,819	0	0	1,650,819
Outside services	1,294,928	50,103	10,986	1,356,017
Participant support	436,127	0	0	436,127
Laboratory equipment	95,093	404	0	95,497
Other expenses	177,398	141,142	61,651	380,191
Total operating expenses	$ 6,937,753	$ 2,110,729	$ 498,694	$ 9,547,176

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.

New accounting pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of financial statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Corporation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Basis of presentation

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which requires the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions:

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Corporation. These net assets may be used at the discretion of the Corporation 's management and the board of directors.

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

Basis of presentation (cont'd)

Net assets with donor restrictions:

Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Corporation or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

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.

Contributions and revenue recognition

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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

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

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.

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 account policies (cont'd)

Endowment investment and spending policies (cont'd)

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

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

The spending policy calculates the amount of money annually distributed from the Corporation's various endowed funds to fund Corporation operations and capital acquisitions. The current spending policy is to distribute an amount equal to 5% of a thirteen quarter weighted average of the value of endowment assets. In addition to this distribution, the Corporation's finance committee has the authority to distribute additional funds as they are deemed necessary. The spending policy called for a budgeted distribution of $ 1,530,978 in 2018. Actual distributions from the endowment based on operating funds needed were $ 1,480,137 in 2018 ($ 419,577 in 2017).

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 account 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 $ 553,035 in 2018 ($ 535,538 in 2017).

Deferred fees and amortization

Debt issuance costs of $ 58,670, net of accumulated amortization of $ 11,977, 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, 2018 and 2017 was $ 1,754 and $1,674, respectively.

Beneficial interest in perpetual trust

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

Changes in the fair value of the trust's assets are recognized as permanently restricted unrealized gains or losses in the period the change occurs. The change in value recognized was an unrealized loss of $ 898,237 in 2018 (unrealized gain of $1,041,128 in 2017).

The Corporation records income, in the period it is received from the trust, as an unrestricted contribution. Contributions received from the trust were $ 422,142 in 2018 ($ 419,577 in 2017).

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. Accordingly, certain costs have been allocated among the programs and supporting services benefited. These expenses are all allocated on the basis of time records and on estimates made by management.

Reclassification

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

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

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, 2018 and 2017, 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, 2018 and 2017, the Corporation did not incur any interest and penalties from taxing authorities.

The federal income tax returns of the Corporation for 2015, 2016 and 2017 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 $ 540 in 2018 ($ 363 in 2017).

Subsequent events

The date to which events occurring after December 31, 2018, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is August 20, 2019, which is the date on which the financial statements were available to be issued.

Note 2 Liquidity and availability

The following represents the Corporation's financial assets at December 31, 2018 and 2017:

Financial assets at year end:	2018	2017
Cash and cash equivalents	$ 6,095,646	$ 1,179,269
Account and grants receivable	1,426,551	1,974,555
Pledges receivable	3,224,488	2,768,997
Investments	20,016,744	26,392,342
Beneficial interest in perpetual trust	9,486,419	10,384,656
Total financial assets	$ 40,249,848	$ 42,699,819

Note 2 Liquidity and availability (cont'd)

Less amounts not available to be used within one year:	2018	2017
Total net assets with donor restrictions	$ 20,780,382	$ 21,024,565
Less net assets with purpose restrictions to be met in less than a year	(1,664,219)	(2,343,444)
Noncurrent pledges receivable	2,443,789	2,237,718
Less noncurrent pledges receivable with donor restrictions	(2,045,915)	(1,862,914)
Quasi endowment established by the board	17,498,135	20,219,492
	37,012,172	39,275,417
Total financial assets available to meet general expenditures over the next twelve months	$ 3,237,676	$ 3,424,402

As part of the Organization'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.

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 3 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 3 Financial instruments (cont'd)

Fair value measurement of financial instruments (cont'd)

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

	Fair Value Measurement at Reporting Date Using		
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Cash management fund	$ 203,687	$ 203,687	$ 0
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	
Investment in limited partnership	8,129,285		8,129,285
Total investments	$ 20,016,744	$ 11,887,459	$ 8,129,285
Beneficial interest in perpetual trust	$ 9,486,419	$ 0	$ 9,486,419

Note 3 Financial instruments (cont'd)

Fair value measurement of financial instruments (cont'd)

Fair values of assets measured on a recurring basis at December 31, 2017 are as follows:

	Fair Value Measurement at Reporting Date Using		
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Cash management fund	$ 145,195	$ 145,195	$ 0
Mutual funds			
Domestic blended equities	2,022,503	2,022,503	
Domestic large cap equities	3,901,493	3,901,493	
Domestic small cap equities	3,187,375	3,187,375	
Fixed income	5,603,783	5,603,783	
International equities			
Developed	2,386,604	2,386,604	
Emerging markets	1,487,637	1,487,637	
Investment in limited partnership	7,657,752		7,657,752
Total investments	$ 26,392,342	$ 18,734,590	$ 7,657,752
Beneficial interest in perpetual trust	$ 10,384,656	$ 0	$ 10,384,656

Note 4 Pledges receivable

Pledges receivable consisted of the following at December 31:

	2018	2017
Receivable in less than one year	$ 780,699	$ 531,279
Receivable in one to five years	2,137,127	1,762,361
Receivable in greater than five years	701,500	950,000
Total pledges	3,619,326	3,243,640
Less discounts to net present value	394,838	474,643
Less allowance for uncollectible pledges receivable	0	0
	$ 3,224,488	$ 2,768,997

Note 5 Investments

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

2018

	Cost	Fair Value	Unrealized Appreciation
Cash management fund	$ 203,687	$ 203,687	$ 0
Mutual funds	11,886,060	11,683,772	(202,288)
Investment in limited partnership	6,604,773	8,129,285	1,524,512
Total investments	$ 18,694,520	$ 20,016,744	$ 1,322,224

2017

	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Cash management fund	$ 145,195	$ 145,195	$ 0
Mutual funds	15,269,045	18,589,395	3,320,350
Investment in limited partnership	5,654,979	7,657,752	2,002,773
Total investments	$ 21,069,219	$ 26,392,342	$ 5,323,123

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

	2018	2017
Interest and dividends	$ 652,656	$ 564,089
Partnership income (loss)	253,515	96,309
Fees and other expenses	(56,571)	(46,932)
	$ 849,600	$ 613,466

In addition to the above, the Corporation held $ 5,000,000 with an investment advisor that is classified as cash on the statement of financial position as of December 31, 2018. Subsequent to year-end, these funds were used to purchase investments.

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").

Note 6 Bonds payable (cont'd)

Bonds payable totaled $ 5,238,267 as of December 31, 2018 ($ 5,488,626 as of December 31, 2017). The first $ 3,250,000 of the bond issue bears interest at 4.70% until December 23, 2035. The second $ 3,250,000 of the bond issue bears interest at 3.65% until December 23, 2035. Payments of interest and principal are due in accordance with the schedule outlined in the bond issue through December 2035.

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

	Bonds Payable	Unamortized Loan Costs	Net
Current portion	$ 257,106	$ 1,838	$ 255,268
Long-term portion	5,027,854	44,855	4,982,999
Total	$ 5,284,960	$ 46,693	$ 5,238,267

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

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

Components of interest expense on the bonds payable for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Interest expense	$ 231,661	$ 241,946
Amortization of loan costs	1,754	1,674
Total interest expense	$ 233,415	$ 243,620

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

2019	$ 257,106
2020	262,338
2021	262,820
2022	273,565
2023	279,585
Thereafter	3,949,546
	$ 5,284,960

Note 6 Bond payable (cont'd)

Covenants

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

The Corporation's 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, 2018 and 2017.

Note 7 Net assets with donor restrictions

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

	2018	RESTATED 2017
Research programs	$ 640,909	$ 1,493,802
Education/public programs	56,208	45,261
Watershed Restoration	293,523	97,790
Other programs	115,725	121,627
Endowment – temporary restriction for the following purposes:		
New Building	429,642	913,415
Executive Director	2,264,366	2,011,923
Assistant Director	240,173	341,364
Research	838,766	645,099
Restoration	2,992,415	1,769,470
Education	433,629	211,551
Endowment – permanent restriction	12,475,026	13,373,263
	$ 20,780,382	$ 21,024,565

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:

	2018	2017
Research programs	$ 2,420,493	$ 2,340,111
Education/public programs	138,203	70,839
Watershed Restoration	361,779	185,082
Other Programs	16,028	1,147
Assistant director's fund	101,191	150,015
New building	483,773	489,293
	$ 3,521,467	$ 3,236,487

Note 9 Major contributors

Of the $ 2,958,228 in contributions received in 2018, approximately 30%, or $ 900,000 was received from two major contributors (approximately 52%, or $3,039,658 of $ 5,845,521 was received from major contributors in 2017). Pledges receivable from major contributors was $ 800,000 as of December 31, 2018 ($ 1,950,000 as of December 31, 2017).

Note 10 Major grantors

Of the $ 4,846,414 in program grants and contracts received in 2018, approximately 68%, or $ 3,264,807 of these program grants and contracts were received from four grantors (approximately 72%, or $ 4,397,601 of $ 6,110,581 were received from three grantors in 2017). Grants receivable from major grantors was $ 740,358 and $ 987,979 as of December 31, 2018 and 2017, respectively.

Note 11 Pension plan

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

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

Note 11 Pension plan (cont'd)

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

Pension plan obligations and funded status:

	2018	2017
Projected benefit obligation	$ 10,034,722	$ 10,469,507
Fair value of plan assets	7,119,313	7,682,136
Funded status	$ (2,915,409)	$ (2,787,371)
Accumulated benefit obligation	$ 8,893,418	$ 9,230,520
Employer contributions	$ 335,000	$ 305,000
Participant contributions	$ 0	$ 0
Benefits paid	$ (350,344)	$ (166,691)

Amounts recognized in the statement of financial position:

	2018	2017
Pension benefit obligation	$ 2,915,409	$ 2,787,371

Amounts recognized in the statement of activities:

	2018	2017
Components of net periodic benefit cost		
Service cost	$ 425,214	$ 333,749
Interest cost	369,902	360,383
Amortization of net loss	112,925	85,485
Expected return on plan assets	(462,963)	(407,447)
Net periodic benefit cost	445,078	372,170
Changes in plan assets and benefit obligations recognized in other changes in net assets without donor restrictions		
Net loss	130,885	712,256
Amortization of net loss	(112,925)	(85,485)
Total recognized in other changes in net assets without donor restrictions	17,960	626,771
Total recognized in net periodic benefit costs and other changes in net assets without donor restrictions	$ 463,038	$ 998,941

Note 11 Pension plan (cont'd)

The estimated net loss and prior service cost for the defined benefit pension plan that will be amortized from other changes in net assets without donor restrictions into the net periodic benefit over the next year are $ 112,925 and $ 85,485, respectively.

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

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

	2018	2017
Discount rate	4.25%	3.60%
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:

	2018	2017
Discount rate	3.60%	4.15%
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 percentage of the fair value of total pension plan assets held as of December 31, 2018 by asset category is as follows:

Cash and alternatives	1.7%
Equities	56.3%
Fixed income securities	42.0%
Other	0.0%
	100.0%

The Corporation expects to contribute approximately $ 365,000 to the pension plan in the year ended December 31, 2019. No plan assets are expected to be returned to the Corporation during the year ended December 31, 2019. Future benefit payments, which reflect expected service as appropriate, are expected to be paid as follows:

2019	$ 468,008
2020	$ 462,338
2021	$ 462,764
2022	$ 466,914
2023	$ 468,944
2024 – 2027	$ 2,647,742

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:

2019	$ 15,983
2020	15,751
2021	13,200
2022	13,200
2023	3,300
Thereafter	0
	$ 61,434

Rent expense related to these leases was $ 14,775 in 2018 ($ 13,342 in 2017).

Note 13 Endowment assets

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 01, 2018	$ 20,219,492	$ 16,557,506	$ 36,776,998
Investment return:			
Investment income, net of fees	849,600	0	849,600
Net realized/unrealized gains (losses)	(2,690,720)	(898,237)	(3,588,957)
Total investment return	(1,841,120)	(898,237)	(2,739,357)
Contributions transferred into endowment	599,900	1,345,761	1,945,661
Appropriation of assets for expenditure	(1,480,137)	0	(1,480,137)
Endowment net assets, December 31, 2018	$ 17,498,135	$ 17,005,030	$ 34,503,165

Note 13 Endowment assets (cont'd)

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

	Without donor restrictions (board designated)	With donor restrictions	Total
Endowment net assets, January 01, 2017	$ 16,132,012	$ 14,371,860	$ 30,503,872
Investment return:			
Investment income, net of fees	613,466	0	613,466
Net realized/unrealized gains	2,325,404	1,041,128	3,366,532
Total investment return	2,938,870	1,041,128	3,979,998
Contributions transferred into endowment	928,879	1,783,826	2,712,705
Appropriation of assets for expenditure	(419,577)	(639,308)	(1,058,885)
Other changes:			
Transfers to board-designated endowment	639,308	0	639,308
Endowment net assets, December 31, 2017	$ 20,219,492	$ 16,557,506	$ 36,776,998

Note 14 Prior period adjustment

Net assets for the year ended December 31, 2017 are being restated to correct an error in the classification of donor restricted funds. The effect of the restatement is a $ 145,638 increase in the beginning balance of net assets with donor restrictions and a corresponding decrease of the same amount to net asset without donor restrictions. The effect of the restatement on the change in net assets for the year ended December 31, 2017 is a $ 4,492,405 increase in contributions with donor restrictions and a corresponding decrease of the same amount to contributions without donor restrictions. There was no change in total beginning net assets or total change in net assets for the year ended December 31, 2017.