

**RESEARCH CORPORATION FOR
SCIENCE ADVANCEMENT**

YEARS ENDED DECEMBER 31, 2019 AND 2018

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

YEARS ENDED DECEMBER 31, 2019 AND 2018

CONTENTS

	Page
Independent auditors' report	1
Financial statements:	
Statements of financial position	2
Statements of activities	3
Statement of functional expenses - 2019	4
Statement of functional expenses - 2018	5
Statements of cash flows	6
Notes to financial statements	7 - 13

Independent Auditors' Report

Board of Directors and Management
Research Corporation for Science Advancement
Tucson, Arizona

We have audited the accompanying financial statements of Research Corporation for Science Advancement (the Foundation), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation'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 Foundation'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 Research Corporation for Science Advancement as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



Tucson, Arizona
April 24, 2020

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

ASSETS

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 4,559,869	\$ 2,940,455
Investments	185,203,386	161,639,838
Other receivables	-	678,703
Other assets	186,945	207,698
Property and equipment, net of accumulated depreciation (\$813,162, 2019; \$809,003, 2018)	<u>51,014</u>	<u>29,920</u>
	<u><u>\$ 190,001,214</u></u>	<u><u>\$ 165,496,614</u></u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$ 147,732	\$ 136,029
Grants and awards payable	505,000	525,002
Postretirement benefits obligation	487,400	525,718
LBT liability	<u>378,222</u>	<u>397,636</u>
	1,518,354	1,584,385
Commitments and contingencies		
Net assets:		
Without donor restrictions	<u>188,482,860</u>	<u>163,912,229</u>
	<u><u>\$ 190,001,214</u></u>	<u><u>\$ 165,496,614</u></u>

See notes to financial statements.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Changes in net assets without donor restrictions:		
Revenues and support:		
Net investment income (loss):		
Net capital gains (losses)	\$ 30,286,678	\$ (2,718,026)
Interest and dividend income	<u>1,875,218</u>	<u>1,388,404</u>
	32,161,896	(1,329,622)
Contributions	<u>105,000</u>	<u>300,000</u>
	<u>32,266,896</u>	<u>(1,029,622)</u>
Expenses:		
Program services	6,725,582	6,394,533
General and administrative	<u>1,095,683</u>	<u>999,656</u>
	<u>7,821,265</u>	<u>7,394,189</u>
Other income:		
Reduction in LBT liability	<u>125,000</u>	<u>500,000</u>
Change in net assets without donor restrictions	24,570,631	(7,923,811)
Net assets without donor restrictions, beginning	<u>163,912,229</u>	<u>171,836,040</u>
Net assets without donor restrictions, ending	<u>\$ 188,482,860</u>	<u>\$ 163,912,229</u>

See notes to financial statements.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

	Program services				
	Grants and awards	Conferences and convening	Communications and outreach	Total program services	General and administrative
					Total expenses
Grants and awards approved	\$ 4,057,972	\$ -	\$ -	\$ 4,057,972	\$ -
Salaries	497,688	213,690	245,984	957,362	516,501
Employee benefits	189,784	81,348	86,322	357,454	197,182
Conferences and meetings	55,918	770,392	41,242	867,552	179,962
Consultants and other expenses	110,617	11,701	144,275	266,593	79,568
Professional services	57,484	-	-	57,484	33,595
Rent and occupancy costs	83,763	42,327	35,075	161,165	86,564
Taxes	-	-	-	-	2,311
	<u>\$ 5,053,226</u>	<u>\$ 1,119,458</u>	<u>\$ 552,898</u>	<u>\$ 6,725,582</u>	<u>\$ 1,095,683</u>
					<u>\$ 7,821,265</u>

See notes to financial statements.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Program services				
	Grants and awards	Conferences and convening	Communications and outreach	Total program services	General and administrative
					Total expenses
Grants and awards approved	\$ 4,028,850	\$ -	\$ -	\$ 4,028,850	\$ -
Salaries	428,528	184,464	239,574	852,566	477,883
Employee benefits	174,731	68,363	82,849	325,943	172,170
Conferences and meetings	39,472	703,577	37,590	780,639	121,059
Consultants and other expenses	80,986	10,224	84,336	175,546	96,835
Professional services	58,988	-	-	58,988	41,330
Rent and occupancy costs	92,866	39,942	39,193	172,001	87,624
Taxes	-	-	-	-	2,755
	<u>\$ 4,904,421</u>	<u>\$ 1,006,570</u>	<u>\$ 483,542</u>	<u>\$ 6,394,533</u>	<u>\$ 999,656</u>
					<u>\$ 7,394,189</u>

See notes to financial statements.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 24,570,631	\$ (7,923,811)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	4,159	9,083
Net realized and unrealized (gains) losses on investments	(33,900,334)	153,173
Changes in operating assets and liabilities:		
Other receivables	678,703	1,085,297
Other assets	20,753	40,161
Accounts payable and accrued expenses	11,703	61,539
Grants and awards payable	(20,002)	(139,998)
Postretirement benefits obligation	(38,318)	(45,949)
LBT liability	(19,414)	(973,732)
Net adjustments	(33,262,750)	189,574
Net cash used in operating activities	(8,692,119)	(7,734,237)
Cash flows from investing activities:		
Purchases of investments	(17,087,500)	(12,437,500)
Proceeds from sale/maturity of investments	27,424,286	20,841,646
Purchases of property and equipment	(25,253)	-
Net cash provided by investing activities	10,311,533	8,404,146
Net increase in cash and cash equivalents	1,619,414	669,909
Cash and cash equivalents, beginning	2,940,455	2,270,546
Cash and cash equivalents, ending	\$ 4,559,869	\$ 2,940,455

See notes to financial statements.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

1. Description of foundation and summary of significant accounting policies:

Organization:

Research Corporation is a private operating foundation incorporated in New York doing business as Research Corporation for Science Advancement (the Foundation). The Foundation is dedicated to the advancement of science.

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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.

Net assets:

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

- *Net assets without donor restrictions* - Net assets available for use in general operations and not subject to donor restrictions.
- *Net assets with donor restrictions* - Net assets subject to donor-imposed time and/or purpose restrictions.

Cash and cash equivalents:

All highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash equivalents. All cash and cash equivalents are placed with various credit institutions. At times, such amounts may be in excess of the FDIC and SIPC insurance limits; however, management does not believe they are exposed to any significant credit risk on cash and cash equivalents.

Investments:

Investments are carried at fair value. All of the Foundation's investments are held in professionally managed mutual funds, unconsolidated limited partnerships or special purpose entities.

Investment transactions are recorded on the trade date. Investment gains and losses include both realized and unrealized gains and losses and are included in the change in net assets in the accompanying statements of activities as increases or decreases in net assets without donor restrictions unless their use is temporarily or permanently restricted by explicit donor-imposed stipulations or legal requirements net of related investment fees. Realized gains or losses are recognized in the period sales or other transactions occur and are computed using the first-in, first-out method. Dividends and interest income are accrued when earned. Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2019 AND 2018

1. Description of foundation and summary of significant accounting policies (continued):

Fair value measurements:

Fair value is defined as the price to sell an asset or transfer a liability between market participants in an orderly exchange in the principal or most advantageous market for that asset or liability. Mutual funds are valued at quoted market prices. The fair value for the commingled funds and qualifying alternative investments is determined based on the investment's net asset value as a practical expedient. Considerable judgment is required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented in the financial statements are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and estimation methodologies may have a material effect on the estimated fair value.

Fair value financial instruments:

The Foundation's cash and cash equivalents, receivables, payables and other financial assets and liabilities not remeasured at fair value are carried at cost, which approximates fair value. These assets and liabilities are valued based on quoted prices for similar assets, quoted interest rates and other readily available market information (level 1 inputs). There have been no changes in the valuation methods or significant assumptions used to estimate the fair value. The fair value measurements for assets remeasured at fair value in the accompanying financial statements are disclosed in Note 3.

Other receivables:

The Foundation has sold or granted to astronomy research institutions all of its viewing rights in the Large Binocular Telescope (LBT) observatory along with the obligation to pay related operating costs associated with those rights. Other receivables consist of amounts owed to the Foundation from other institutions for costs that were paid by the Foundation on their behalf.

Grants and awards payable:

The Foundation accounts for its unconditional promises to give, which are normally in the form of grants or awards, as an expense in the year the unconditional promise is made. Any unpaid promises to give are reported as grants and awards payable.

Program expense allocation:

Expenses that can be identified with a specific program or supporting service are charged directly to the program according to their natural expense classification. Costs incurred that share a common purpose are allocated based upon estimates made by management of time spent by employees on various activities. Investment expenses include an allocation of internal expenses, such as compensation and occupancy costs, for the Foundation's staff as well as amounts paid to third parties.

Income taxes:

The Foundation qualifies as a tax-exempt private operating foundation under Internal Revenue Code Section 4940(d). Income from certain activities not directly related to the Foundation's tax-exempt purpose may be subject to taxation as unrelated business taxable income (UBTI).

From time to time, the Foundation may be subject to penalties and interest assessed by various taxing authorities, which are classified as general and administrative expenses, if they occur.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2019 AND 2018

1. Description of foundation and summary of significant accounting policies (continued):

Subsequent events:

The Foundation's management has evaluated the events that have occurred subsequent to December 31, 2019 through April 24, 2020, the date that the financial statements were available to be issued. Management has no responsibility to update these financial statements for events and circumstances occurring after this date.

2. Liquidity and availability of financial assets:

The Foundation manages its liquidity by maintaining adequate working capital, allocating a portion of its investments equal to 3 years of operating cash needs in highly liquid investments, and maintaining an available \$5 million line of credit with a financial institution. The following table shows a determination of the Foundation's financial assets that are available to meet cash needs for program and general expenditures within one year:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 4,559,869	\$ 2,940,455
Investments (less outstanding commitments of \$12,925,000 and \$8,725,000)	89,583,633	87,622,617
Other receivables	<u>-</u>	<u>678,703</u>
	<u>\$ 94,143,502</u>	<u>\$ 91,241,775</u>

3. Investments and fair value measurements:

The investment goal of the Foundation is to maintain or grow its spending power in real (inflation adjusted) terms with risk at a level appropriate to the Foundation's programmatic spending and objectives. The Foundation diversifies its investments among various financial instruments and asset categories, including both active and passive approaches. The investments of the Foundation are managed by external management firms. The cost presented in the following table consists of cash invested less cash returned.

ASC 820 Fair Value Measurement establishes a fair value disclosure framework, which prioritizes and ranks the level of observable inputs used in measuring investments at fair value. The levels of the fair value hierarchy are as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 - Inputs to the valuation methodology include the following items. If the asset has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets or active markets that the Foundation does not have access to;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2019 AND 2018

3. Investments and fair value measurements (continued):

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Practical Expedient - Investments for which fair value is measured at net asset value per share (or its equivalent). Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed. Investments that are included in this category generally include private fund investment structures and limited party interest, without quoted prices.

The investment's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

At December 31, 2019, the Foundation's investments consist of the following (in thousands):

	Cost	Fair value	Practical expedient	Level 1	Unfunded commitments	Redemption frequency	Redemption notice period
Global equity:							
Mutual funds	\$ 47,572	\$ 76,085	\$ -	\$ 76,085	\$ -		
Equity investment funds (a)	23,000	39,822	39,822	-	-	3-year lock	N/A
Private equity fund	750	660	660	-	4,250	None	N/A
Global fixed income:							
Money market funds	26,176	26,424	-	26,424	-		
Limited partnerships (c)	6,024	9,328	9,328	-	4,675	None	N/A
Diversifying strategy:							
Open-ended multi strategy fund (b)	-	23,090	23,090	-	-	Annually	90 days
Real assets:							
Limited partnership (c)	<u>5,894</u>	<u>9,794</u>	<u>9,794</u>	<u>-</u>	<u>4,000</u>	None	N/A
	<u>\$ 109,416</u>	<u>\$ 185,203</u>	<u>\$ 82,694</u>	<u>\$ 102,509</u>	<u>\$ 12,925</u>		

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2019 AND 2018

3. Investments and fair value measurements (continued):

At December 31, 2018, the Foundation's investments consist of the following (in thousands):

	Cost	Fair value	Practical expedient	Level 1	Unfunded commitments	Redemption frequency	Redemption notice period
Global equity:							
Mutual funds	\$ 55,502	\$ 68,471	\$ -	\$ 68,471	\$ -		
Equity investment funds							
(a)	17,000	23,838	23,838	-	-	3-year lock	N/A
Private equity fund	-	-	-	-	5,000	None	N/A
Global fixed income:							
Money market fund	28,176	27,877	-	27,877	-		
Limited partnerships (c)	6,354	9,469	9,469	-	2,225	None	N/A
Diversifying strategy:							
Open-ended multi- strategy fund (b)	2,000	24,283	24,283	-	-	Annually	90 days
Real assets:							
Limited partnership (c)	4,916	7,702	7,702	-	1,500	None	N/A
	<u>\$ 113,948</u>	<u>\$ 161,640</u>	<u>\$ 65,292</u>	<u>\$ 96,348</u>	<u>\$ 8,725</u>		

- (a) This category consists of offshore investment funds that invest in global public equities on a long/short basis in a highly concentrated fashion or in a very targeted sector fashion. The funds have a lock-up period of 2-3 years after which each has various liquidity or redeemability features.
- (b) This category consists of an open-end fund which invests in various strategies including investments in special situations, financially distressed issuers, convertible hedging and real estate.
- (c) This category consists of various closed-end limited partnerships with finite lives up to 15 years, which do not permit redemption before termination. These investments consist of various debt related strategies including whole loan origination, commercial and residential mortgage backed securitized lending, European real estate and key facility corporate lease lending. Substantially all of the value of the investments in this category can never be redeemed with the funds. Instead, due to the nature of these investments, distributions are received through the liquidation of the underlying assets of the funds. It is estimated that the underlying assets will be liquidated over the next 10 years.

The Foundation's equity investments are invested with independent managers with a global strategy, including exposure to emerging markets.

Net capital gains (losses) consists of the following:

	2019	2018
Net realized and unrealized gains (losses) on investments	\$ 33,900,334	\$ (153,173)
Investment advisory fees	(3,390,847)	(2,370,725)
Internal investment management costs	(222,809)	(194,128)
	<u>\$ 30,286,678</u>	<u>\$ (2,718,026)</u>

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2019 AND 2018

4. Line of credit:

The Foundation has a \$5,000,000 uncollateralized revolving line of credit with a major commercial bank with interest at the daily one-month LIBOR (1.76% and 2.52% at December 31, 2019 and 2018) plus 1.5%. The line expires in February 2021 and is renewable annually. There were no borrowings, repayments, amounts outstanding on the line or interest expense incurred for 2019 and 2018.

5. Benefit plans:

Defined contribution plan:

The Foundation has a noncontributory defined contribution plan for all eligible employees. The Foundation makes fully vested contributions ranging from 10% - 15% of compensation, based on years of service. The Foundation incurred defined contribution plan expense of \$169,343 and \$148,775 for 2019 and 2018.

Flexible benefits plan:

The Foundation has a flexible benefits plan whereby it contributes 10% of compensation for eligible employees to be used for medical, retirement, education and other expenses. The Foundation contributed \$138,123 and \$132,784 to the plan for 2019 and 2018.

Postretirement benefits plan:

The Foundation maintains a postretirement benefit plan, which provides certain health care benefits to retired employees and their spouses, as defined by the plan. During 2006, the Foundation froze eligibility for participation in its postretirement benefit plan to those employees hired before June 1, 2005. The Foundation made contributions and the Plan paid benefits of \$38,318 and \$45,950 during 2019 and 2018.

6. Commitments and contingencies:

Large binocular telescope project:

The Foundation was a partner with a 12.5% interest in the Large Binocular Telescope Project, which is building and managing an astronomical observatory. The Foundation had sold or granted to other astronomy institutions, under various agreements, all of its viewing rights in the observatory along with the obligation to pay related operating costs associated with those rights. The Foundation remains liable for its proportionate share of observatory construction and certain other project development costs and has accrued its best estimate of these costs as LBT liability. Effective January 1, 2019, the Foundation has executed an agreement to transfer its 12.5% interest in the LBT to The Ohio State University (OSU) along with the obligation of assuming the viewing rights contracts with the other astronomy institutions. OSU and three of the other four astronomy institutions have signed agreements recognizing the transfer and relieving the Foundation of any further obligation. Until the last astronomy organization has signed new agreements, the Foundation will remain contingently liable under that institution's original contracts.

Legal contingency:

The Company is involved in legal proceedings in the normal course of its business operations. Management does not believe that any pending or threatened proceeding would have a material adverse effect on its financial position or results of operations.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2019 AND 2018

6. Commitments and contingencies (continued):

Operating leases:

The Foundation leases its office space under a noncancelable operating lease expiring in 2024. Rental expense was \$208,161 and \$224,737 in 2019 and 2018.

Future minimum rental payments under the lease at December 31, 2019 are as follows:

Year ending <u>December 31,</u>	
2020	\$ 208,947
2021	209,159
2022	215,257
2023	221,523
2024	<u>227,959</u>
	<u>\$ 1,082,845</u>

7. Pending pronouncement:

In February 2016, the FASB issued ASU 2016-02 "Leases." ASU 2016-02 requires a lessee to recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term, along with additional qualitative and quantitative disclosures. ASU 2016-02 is effective for reporting periods beginning after December 15, 2020, with early adoption permitted.

Management is currently evaluating the effect that this standard will have on the financial statements.

8. Subsequent events:

The COVID-19 outbreak in the United States has caused business disruption. The extent of the impact of COVID-19 on operational and financial performance will depend on certain developments, including duration and spread of the outbreak, impact on employees and the academic community all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the financial statements is uncertain.

As of April 24, 2020, physical conferences and programs scheduled to be held through the end of the summer have been or are expected to be cancelled or postponed. The Foundation is exploring various options to hold some programming events on a virtual basis.

As of April 24, 2020, the Foundation has drawn down its \$5 million line of credit to ensure liquid funds are available to fund current operations and to avoid any possible disruption to the long-term investment program.