

**RESEARCH CORPORATION FOR
SCIENCE ADVANCEMENT**

YEARS ENDED DECEMBER 31, 2020 AND 2019

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

YEARS ENDED DECEMBER 31, 2020 AND 2019

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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, 2020 and 2019, 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 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 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, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

BeachFleischman PC

Tucson, Arizona
May 3, 2021

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2020 AND 2019

ASSETS

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 3,537,791	\$ 4,559,869
Investments	213,041,083	185,203,386
Other assets	148,873	186,945
Property and equipment, net of accumulated depreciation (\$822,025, 2020; \$813,162, 2019)	<u>42,151</u>	<u>51,014</u>
	<u><u>\$ 216,769,898</u></u>	<u><u>\$ 190,001,214</u></u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$ 41,921	\$ 147,732
Grants and awards payable	340,000	505,000
Other liabilities	<u>827,355</u>	<u>865,622</u>
	1,209,276	1,518,354
Commitments and contingencies		
Net assets:		
Without donor restrictions	<u>215,560,622</u>	<u>188,482,860</u>
	<u><u>\$ 216,769,898</u></u>	<u><u>\$ 190,001,214</u></u>

See notes to financial statements.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Changes in net assets without donor restrictions:		
Revenues and support:		
Net investment income:		
Net capital gains	\$ 33,594,284	\$ 30,286,678
Interest and dividend income	<u>1,386,773</u>	<u>1,875,218</u>
	34,981,057	32,161,896
Other support	<u>385,655</u>	<u>105,000</u>
	<u>35,366,712</u>	<u>32,266,896</u>
Expenses:		
Program services	7,180,978	6,725,582
General and administrative	<u>1,107,972</u>	<u>1,095,683</u>
	<u>8,288,950</u>	<u>7,821,265</u>
Other income:		
Reduction in LBT liability	<u>-</u>	<u>125,000</u>
Change in net assets without donor restrictions	27,077,762	24,570,631
Net assets without donor restrictions, beginning	<u>188,482,860</u>	<u>163,912,229</u>
Net assets without donor restrictions, ending	<u>\$ 215,560,622</u>	<u>\$ 188,482,860</u>

See notes to financial statements.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2020

	Program services			General and administrative	Total expenses
	Grants and awards	Conferences and convening	Communications and outreach	Total program services	
Grants and awards	\$ 5,306,030	\$ -	\$ -	\$ 5,306,030	\$ 5,306,030
Salaries	577,042	211,565	193,738	982,345	1,553,026
Employee benefits	259,798	83,356	64,894	408,048	634,934
Conferences and meetings	43,880	35,036	18,789	97,705	144,025
Consultants and other expenses	114,505	31,588	26,737	172,830	260,182
Professional services	60,615	-	-	60,615	104,717
Rent and occupancy costs	94,829	8,880	49,696	153,405	283,696
Taxes	-	-	-	2,340	2,340
	<u>\$ 6,456,699</u>	<u>\$ 370,425</u>	<u>\$ 353,854</u>	<u>\$ 7,180,978</u>	<u>\$ 8,288,950</u>

See notes to financial statements.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

	Program services			General and	Total expenses
	Grants and awards	Conferences and convening	Communications and outreach	administrative	
Grants and awards	\$ 4,057,972	\$ -	\$ -	\$ -	\$ 4,057,972
Salaries	497,688	213,690	245,984	516,501	1,473,863
Employee benefits	189,784	81,348	86,322	197,182	554,636
Conferences and meetings	55,918	770,392	41,242	179,962	1,047,514
Consultants and other expenses	110,617	11,701	144,275	79,568	346,161
Professional services	57,484	-	-	33,595	91,079
Rent and occupancy costs	83,763	42,327	35,075	86,564	247,729
Taxes	-	-	-	2,311	2,311
	<u>\$ 5,053,226</u>	<u>\$ 1,119,458</u>	<u>\$ 552,898</u>	<u>\$ 1,095,683</u>	<u>\$ 7,821,265</u>

See notes to financial statements.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 27,077,762	\$ 24,570,631
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	8,863	4,159
Net realized and unrealized gains on investments	(37,679,982)	(33,900,334)
Changes in operating assets and liabilities:		
Other receivables	-	678,703
Other assets	38,072	20,753
Accounts payable and accrued expenses	(105,811)	11,703
Grants and awards payable	(165,000)	(20,002)
Other liabilities	<u>(38,267)</u>	<u>(57,732)</u>
Net adjustments	<u>(37,942,125)</u>	<u>(33,262,750)</u>
Net cash used in operating activities	<u>(10,864,363)</u>	<u>(8,692,119)</u>
Cash flows from investing activities:		
Purchases of investments	(36,970,000)	(17,087,500)
Proceeds from sale/maturity of investments	46,812,285	27,424,286
Purchases of property and equipment	<u>-</u>	<u>(25,253)</u>
Net cash provided by investing activities	<u>9,842,285</u>	<u>10,311,533</u>
Net increase (decrease) in cash and cash equivalents	(1,022,078)	1,619,414
Cash and cash equivalents, beginning	<u>4,559,869</u>	<u>2,940,455</u>
Cash and cash equivalents, ending	<u>\$ 3,537,791</u>	<u>\$ 4,559,869</u>

See notes to financial statements.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

1. Description of organization 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.

COVID-19:

In 2020, the novel coronavirus (COVID-19) pandemic caused havoc around the world and in particular to the colleges and universities that the Foundation supports. As of December 31, 2020, the Foundation's financial position has not been adversely affected by the pandemic. All of the Foundation's programs were affected as all conferences were either deferred or held virtually. Any savings from conferences not being held or awards being deferred were repurposed into temporary initiatives to address COVID-19 or its impacts. The Foundation expects to continue the repurposing of budgeted spending during 2021. The final impact on the Foundation's financial statements from COVID-19 remains uncertain.

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 and assumptions.

Net assets:

Net assets, support, 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.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2020 AND 2019

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

Investments (continued):

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.

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 support:

Other support consists of funding from other foundations and government awards all earmarked for use by the Foundation in funding its programs.

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.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2020 AND 2019

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

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.

Subsequent events:

The Foundation's management has evaluated the events that have occurred subsequent to December 31, 2020 through May 3, 2021, 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 2 years of operating cash needs in highly liquid investments, and maintaining an available line of credit with a financial institution (see Note 4). 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>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 3,537,791	\$ 4,559,869
Investments (less outstanding commitments of \$14,062,500 and \$12,925,000)	<u>111,269,310</u>	<u>89,583,633</u>
	<u><u>\$ 114,807,101</u></u>	<u><u>\$ 94,143,502</u></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.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2020 AND 2019

3. Investments and fair value measurements (continued):

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.

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, 2020, 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	\$ 55,752	\$ 104,567	\$ -	\$ 104,567	\$ -		
Equity investment funds (a)	17,000	38,829	38,829	-	-	3-year lock	N/A
Private equity fund	1,800	1,878	1,878	-	8,200	None	N/A
Global fixed income:							
Money market funds	12,676	13,327	-	13,327	-		
Limited partnerships (c)	10,873	14,929	14,929	-	2,138	None	N/A
Diversifying strategy:							
Open-ended multi strategy fund (b)	-	11,178	11,178	-	-	Annually	90 days
Long Short Hedge Funds (a)	15,000	19,845	19,845	-	-	3-year lock	N/A
Real assets:							
Limited partnership (c)	4,596	8,488	8,488	-	3,725	None	N/A
	<u>\$ 117,697</u>	<u>\$ 213,041</u>	<u>\$ 95,147</u>	<u>\$ 117,894</u>	<u>\$ 14,063</u>		

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2020 AND 2019

3. Investments and fair value measurements (continued):

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	\$ 48,565	\$ 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 fund	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)	5,894	9,794	9,794	-	4,000	None	N/A
	<u>\$ 110,409</u>	<u>\$ 185,203</u>	<u>\$ 82,694</u>	<u>\$ 102,509</u>	<u>\$ 12,925</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 consists of the following:

	2020	2019
Net realized and unrealized gains on investments	\$ 37,679,982	\$ 33,900,334
Investment advisory fees	(3,889,757)	(3,390,847)
Internal investment management costs	(195,941)	(222,809)
	<u>\$ 33,594,284</u>	<u>\$ 30,286,678</u>

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2020 AND 2019

4. Line of credit:

The Foundation had a \$5,000,000 uncollateralized revolving line of credit with a major commercial bank with interest at the daily one-month LIBOR (0.14% and 1.76% at December 31, 2020 and 2019) plus 1.5%. The Foundation borrowed and repaid \$5,000,000 in 2020 and incurred interest expense of \$45,363. There were no borrowings, repayments, amounts outstanding on the line or interest expense incurred for 2019. The line expired in February 2021 and was not renewed.

In March 2021, the Foundation entered into a \$7,500,000 uncollateralized revolving line of credit with a major commercial bank with interest at the Daily Simple SOFR plus 1.5%.

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 \$160,530 and \$169,343 for 2020 and 2019.

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 \$158,353 and \$138,123 to the plan for 2020 and 2019.

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 \$38,660 and \$38,318 during 2020 and 2019. The Foundation's estimated remaining obligation under this plan is included in other liabilities on the statements of financial position.

6. Commitments and contingencies:

Large binocular telescope project:

Through December 31, 2018, the Foundation had a 12.5% interest in the Large Binocular Telescope (LBT) project. In connection with its LBT interest, the Foundation had sold or granted to other universities, under various agreements, all of its viewing rights in the LBT along with the obligation to pay the related operating costs associated with those rights. The Foundation transferred its interest in the LBT to The Ohio State University along with the underlying viewing rights contracts for three other universities. One of the other universities has not signed an agreement recognizing the transfer and relieving the Foundation of any further obligation. Accordingly, the Foundation remains contingently liable under that institution's original contract and has accrued its best estimate of this liability, which is included in other liabilities on the statements of financial position.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2020 AND 2019

6. Commitments and contingencies (continued):

Legal contingency:

From time to time, the Foundation may be party to certain pending or threatened lawsuits arising out of or incident to the ordinary course of business for which it carries general liability and other insurance coverages. In the opinion of management and based upon consultation with legal counsel, resolution of any pending or threatened lawsuits will not have a material adverse effect on the Foundation's financial statements.

Operating leases:

The Foundation leases its office space under a noncancelable operating lease expiring in 2024. Rental expense was \$206,865 and \$208,161 in 2020 and 2019.

Future minimum rental payments under the lease at December 31, 2020 are as follows:

Year ending <u>December 31,</u>	
2021	\$ 209,159
2022	215,257
2023	221,523
2024	<u>227,959</u>
	<u>\$ 873,898</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, 2021, with early adoption permitted.

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

8. Reclassifications:

The 2019 financial statements have been reclassified in order to conform to the 2020 financial statement presentation. The reclassifications had no effect on net assets at December 31, 2019 or on changes in net assets for the year then ended.

9. Subsequent event:

In March 2021, the Foundation committed to invest an additional \$7 million with two investment managers.