

Research Corporation for Science Advancement

Year Ended December 31, 2022

Research Corporation for Science Advancement

Year Ended December 31, 2022

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Independent Auditors' Report

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

Opinion

We have audited the accompanying financial statements of Research Corporation for Science Advancement (the Foundation), which comprise the statement of financial position as of December 31, 2022, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Research Corporation for Science Advancement and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Implementation of New Accounting Standard

As discussed in Note 1 to the financial statements, on January 1, 2022, the Foundation adopted FASB Topic 842, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Research Corporation for Science Advancement's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Research Corporation for Science Advancement's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Research Corporation for Science Advancement's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated June 7, 2023, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Foundation's internal control over financial reporting and compliance.

BeachFleischman PLLC

Tucson, Arizona
June 7, 2023

Research Corporation for Science Advancement

Statement of Financial Position

December 31, 2022

Assets

Cash and cash equivalents	\$ 2,483,108
Investments	192,168,684
Grants and other receivables	186,765
Other assets	224,750
Property and equipment, net of accumulated depreciation of \$832,127	32,049
Operating lease asset	<u>388,759</u>
	<u>\$ 195,484,115</u>

Liabilities and Net Assets

Note payable, bank	\$ 3,000,000
Accounts payable and accrued expenses	330,130
Grants and awards payable	1,553,962
Other liabilities	845,704
Operating lease liability	<u>406,291</u>
	6,136,087
Contingencies	
Net assets:	
Without donor restrictions	<u>189,348,028</u>
	<u>\$ 195,484,115</u>

See notes to financial statements.

Research Corporation for Science Advancement

Statement of Activities

Year Ended December 31, 2022

Changes in net assets without donor restrictions:

Revenues and support:

Net investment loss:

Net capital losses

Interest and dividend income

\$ (42,099,050)

1,277,091

(40,821,959)

Support

2,813,895

(38,008,064)

Expenses:

Program services

10,333,818

General and administrative

1,361,347

11,695,165

Change in net assets without donor restrictions

(49,703,229)

Net assets without donor restrictions, beginning

239,051,257

Net assets without donor restrictions, ending

\$ 189,348,028

Research Corporation for Science Advancement

Statement of Functional Expenses

Year Ended December 31, 2022

	Program services				General and administrative	Total expenses
	Grants and awards	Conferences and convening	Communications and outreach	Total program services		
Grants and awards	\$ 7,071,751	\$ -	\$ -	\$ 7,071,751	\$ -	\$ 7,071,751
Salaries	667,839	277,366	216,735	1,161,940	613,314	1,775,254
Employee benefits	288,309	112,997	81,215	482,521	244,384	726,905
Conferences and meetings	16,968	1,024,140	16,779	1,057,887	139,178	1,197,065
Consultants and other	175,368	10,818	48,390	234,576	207,477	442,053
Professional services	122,094	-	-	122,094	62,006	184,100
Occupancy	128,974	45,498	28,577	203,049	91,818	294,867
Taxes	-	-	-	-	3,170	3,170
	<u>\$ 8,471,303</u>	<u>\$ 1,470,819</u>	<u>\$ 391,696</u>	<u>\$ 10,333,818</u>	<u>\$ 1,361,347</u>	<u>\$ 11,695,165</u>

See notes to financial statements.

Research Corporation for Science Advancement

Statement of Cash Flows

Year Ended December 31, 2022

Cash flows from operating activities:	
Change in net assets	\$ (49,703,229)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	5,051
Net realized and unrealized losses on investments	40,120,627
Change in operating lease	17,532
Changes in operating assets and liabilities:	
Grants and other receivables	130,910
Other assets	17,295
Accounts payable and accrued expenses	261,666
Grants and awards payable	(533,421)
Other liabilities	44,664
Net adjustments	40,064,324
Net cash used in operating activities	(9,638,905)
Cash flows from investing activities:	
Purchases of investments	(31,988,021)
Proceeds from sale/maturity of investments	37,179,452
Net cash provided by investing activities	5,191,431
Cash flows from financing activities:	
Proceeds from note payable, bank	3,000,000
Net cash provided by financing activities	3,000,000
Net decrease in cash and cash equivalents	(1,447,474)
Cash and cash equivalents, beginning	3,930,582
Cash and cash equivalents, ending	\$ 2,483,108

See notes to financial statements.

Research Corporation for Science Advancement

Notes to Financial Statements

Year Ended December 31, 2022

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

Organization:

Research Corporation is a tax-exempt private operating foundation incorporated in New York doing business as Research Corporation for Science Advancement (the Foundation). The Foundation provides catalytic funding for innovative scientific research and the development of academic scientists in the physical sciences at universities and colleges in the United States and Canada.

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. On an ongoing basis, management evaluates its estimates and assumptions, including those related to inputs used to recognize revenue over time. Actual results could differ from those estimates and assumptions.

Adoption of new accounting standard:

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842). Topic 842, which supersedes Topic 840, requires a lessee to recognize a lease asset and related lease liability on the statement of financial position. The Foundation adopted Topic 842 as of January 1, 2022 using the effective date method and recognized and measured leases existing at January 1, 2022 through a cumulative effect adjustment. The Foundation did not restate prior comparative periods as presented under Topic 840 and instead evaluated whether a cumulative effect adjustment to retained earnings as of January 1, 2022 was necessary for the cumulative impact of adoption of Topic 842. The Foundation elected the package of practical expedients permitted under the transition guidance within the new standard which, among other things, allowed the Foundation to carry forward the historical lease classification, not reassess whether any expired or existing contracts contain leases, and not reassess initial direct costs on existing leases. As a result of adopting Topic 842 effective January 1, 2022, the Foundation recorded additional net lease assets and related lease liabilities of \$580,818 and \$598,244. Adoption of the new standard did not materially impact the Foundation's net assets or changes in net assets, and had no impact on cash flows.

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.

Research Corporation for Science Advancement

Notes to Financial Statements (continued)

Year Ended December 31, 2022

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

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 statement 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.

Leases:

The Foundation leases its office space. The determination of whether an arrangement is a lease is made at the lease's inception. Under Topic 842, a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed.

Research Corporation for Science Advancement

Notes to Financial Statements (continued)

Year Ended December 31, 2022

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

Leases (continued):

Lease assets represent the Foundation's right to use an underlying asset for the lease term, and lease liabilities represent the Foundation's obligation to make lease payments. Lease assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Foundation uses the implicit rate when it is readily determinable. Since the Foundation's lease does not provide an implicit rate, to determine the present value of lease payments, management uses a risk-free rate based on the information available at lease commencement. The Foundation's lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Operating lease assets also include any lease payments made and exclude any lease incentives. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

The Foundation's lease agreement has lease and non-lease components, which are generally accounted for separately, with amounts allocated to the lease and non-lease components based on stand-alone prices.

Support:

Support consists of grants from governmental, nonprofit organizations, and private companies for use by the Foundation in funding its programs. All grants are nonexchange transactions. Support derived from grants, which are conditioned upon certain performance requirements or other barriers, is recognized when the conditions on which they depend have been substantially met in compliance with specific grant provisions.

Programs:

The Foundation has two major programs – the Scialog conference program and the Cottrell Scholars program. The Scialog program consists of multi-year thematic conferences administered by the Foundation and generally conducted with the participation of other private foundations and/or governmental agencies as collaborators and founders. Scialog collaborators have the option of participating in the conferences and 1) administering their own grants or 2) providing funding to the Foundation and having the Foundation administer the grants. In those conferences where the Foundation administers the grants, the accompanying financial statements present the outside funding as support and the related grants are included in program services in the statement of activities. Outside funding received for which program expenditures have not yet been approved or incurred are presented as part of other liabilities in the accompanying statement of financial position.

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. Grants provided under federal cost reimbursement funding are recorded as expense upon the Foundation's receipt of subrecipient expenditures.

Program expense allocation:

Expenses that can be identified with a specific program or supporting service are charged directly according to their natural expense classification. Costs incurred that share a common purpose, such as compensation and occupancy costs are allocated based upon estimates made by management of time spent by employees on various activities.

Investment expenses, which are netted with revenues 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)

Year Ended December 31, 2022

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, 2022 through June 7, 2023, 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 5). 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:

Cash and cash equivalents	\$ 2,483,108
Liquid investments without redemption restrictions (less outstanding commitments of \$35,268,000)	49,863,986
Grants and other receivables	<u>186,765</u>
	<u>\$ 52,533,859</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 tables 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)

Year Ended December 31, 2022

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 partnerships, 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, 2022, 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	\$ 49,491	\$ 65,385	\$ -	\$ 65,385	\$ -		
Equity investment funds (a)	17,000	39,286	39,286	-	-	3-year lock	N/A
Private equity funds	5,335	7,076	7,076	-	9,250	None	N/A
Global fixed income:							
Money market funds	10,264	20,246	-	20,246	-		
Limited partnerships (c)	10,515	13,793	13,793	-	19,541	None	N/A
Diversifying strategy:							
Open-ended multi strategy fund (b)	-	2,667	2,667	-	-	Annually	90 days
Long Short Hedge Funds (a)	21,650	20,892	20,892	-	5,052	3-year lock	N/A
Limited partnerships (c)	14,798	14,351	14,351	-	-	None	N/A
Real assets:							
Limited partnerships (c)	5,672	8,473	8,473	-	1,425	None	N/A
	<u>\$ 134,725</u>	<u>\$ 192,169</u>	<u>\$ 106,538</u>	<u>\$ 85,631</u>	<u>\$ 35,268</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.

Research Corporation for Science Advancement

Notes to Financial Statements (continued)

Year Ended December 31, 2022

3. Investments and fair value measurements (continued):

- (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. The fund has been in liquidation during 2022.
- (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 and other equity-like strategies not considered correlated with the broader market. The debt related strategies include whole loan origination, commercial and residential mortgage backed securitized lending, European real estate and key facility corporate lease lending. The other strategies include music, film and similar royalties, and crypto related strategies. Substantially all of the value of the investments in this category cannot be redeemed until 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 losses consist of the following:

Net realized and unrealized losses on investments	\$ (40,120,627)
Investment advisory fees	(1,767,674)
Internal investment management costs	<u>(210,749)</u>
	<u>\$ (42,099,050)</u>

4. Leases:

The Foundation leases its office space under a noncancelable operating lease expiring in 2024.

The components of lease cost are as follows:

Operating lease cost, included in operating expenses	195,913
Short-term lease cost, included in operating expenses	-
Variable lease payments, included in operating expenses	<u>32,494</u>
Total lease cost	<u>\$ 228,407</u>

Cash flow information related to leases is as follows:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 195,807
Lease assets obtained in exchange for lease liabilities:	
Operating leases	580,818

Research Corporation for Science Advancement

Notes to Financial Statements (continued)

Year Ended December 31, 2022

4. Leases (continued):

Other information related to leases is as follows:

Lease term (in years) and discount rate:

Weighted-average remaining lease term, operating leases	2
Weighted-average discount rate, operating leases	0.8 %

The maturities of operating lease liabilities as of December 31, 2022 were as follows:

Year ending <u>December 31,</u>	
2023	\$ 201,669
2024	<u>207,689</u>
Total lease payments	409,358
Less interest	<u>3,067</u>
Present value of lease liabilities	<u>\$ 406,291</u>

5. Line of credit:

The Foundation has a \$7,500,000 uncollateralized revolving line of credit with a major commercial bank with interest at the Daily Simple SOFR (4.3% at December 31, 2022) plus 1.5%. The Foundation borrowed \$3,000,000 during 2022 and incurred interest of \$77,418. The line expires in October 2023.

In May 2023, the Foundation revised the line of credit agreement above, increasing the line to \$10,000,000.

6. 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 \$212,154 for 2022.

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 \$187,058 to the plan for 2022.

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. No employees of the Foundation are or will be eligible to participate, as the plan was frozen to participation in 2006. The Foundation made contributions and the Plan paid benefits of \$33,254 during 2022. The Foundation's estimated remaining obligation under this plan is included in other liabilities on the statement of financial position.

Research Corporation for Science Advancement

Notes to Financial Statements (continued)

Year Ended December 31, 2022

7. 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 statement of financial position.

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.