Keegan, Linscott & Kenon, PC
Certified Public Accountants
Certified Fraud Examiners
Certified Insolvency & Restructuring Advisors

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RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

AUDITED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Research Corporation for Science Advancement
Tucson, AZ

Report on the Financial Statements
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, 2012 and 2011, and the related statements of activities and changes in net assets, 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.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. 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 of material misstatement.

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Research Corporation for Science Advancement as of December 31, 2012 and 2011, 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.

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Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Keegan, Linscott & Kenon, PC

Tucson, Arizona
April 25, 2013

AUDITED FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31,

	2012	2011
Assets		
Cash and cash equivalents	$ 1,584,904	$ 2,283,531
Investments	142,862,286	123,588,591
Accrued dividends and interest receivable	153,968	165,061
Other receivables	1,841,045	1,718,267
Property and equipment, net	53,260	119,961
Other assets	229,033	286,346
Total assets	$ 146,724,496	$ 128,161,757
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 615,172	$ 186,905
Grants payable	1,309,249	2,157,582
LBT liability	1,383,859	1,383,859
Pension liability	1,078,946	1,574,059
Postretirement benefit obligation	1,012,582	1,070,110
Total liabilities	5,399,808	6,372,515
Unrestricted net assets		
Board designated	278,525	-
Undesignated	140,463,120	121,789,242
Total unrestricted net assets	140,741,645	121,789,242
Temporarily restricted net assets	37,043	-
Permanently restricted net assets	546,000	-
Total net assets	141,324,688	121,789,242
Total liabilities and net assets	$ 146,724,496	$ 128,161,757

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31,

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012	Total 2011
Revenues					
Investment income (loss):					
Net realized and unrealized gains (losses) on investments	$ 24,208,541	$ 33,707	$ -	$ 24,242,248	$ (3,235,989)
Interest and dividends, net	2,353,290	3,336	-	2,356,626	1,712,749
Total investment income (loss)	26,561,831	37,043	-	26,598,874	(1,523,240)
Less investment management costs	(213,906)	-	-	(213,906)	(321,693)
Net investment income (loss)	26,347,925	37,043	-	26,384,968	(1,844,933)
Fundraising and contributions	118,306	-	546,000	664,306	258,180
Total revenues	26,466,231	37,043	546,000	27,049,274	(1,586,753)
Expenses					
Program expenses:					
Grants and awards approved	3,104,186	-	-	3,104,186	3,430,496
Grant administration	779,833	-	-	779,833	993,842
Conferences and convening	361,333	-	-	361,333	366,144
Advocacy	600,134	-	-	600,134	655,810
Total program expenses	4,845,486	-	-	4,845,486	5,446,292
Supporting services:					
General and administrative	1,069,538	-	-	1,069,538	1,205,624
Partnership development and fundraising	364,188	-	-	364,188	422,801
Interest expense	-	-	-	-	31
Taxes	31,112	-	-	31,112	(132,058)
Total supporting services	1,464,838	-	-	1,464,838	1,496,398
Centennial programs:	1,203,504	-	-	1,203,504	1,024,471
Total expenses	7,513,828	-	-	7,513,828	7,967,161
Change in net assets	18,952,403	37,043	546,000	19,535,446	(9,553,914)
Net assets at beginning of year	121,789,242	-	-	121,789,242	131,343,156
Net assets at end of year	$ 140,741,645	$ 37,043	$ 546,000	$ 141,324,688	$ 121,789,242

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2012	2011
Cash Flows from Operating Activities		
Change in net assets	$ 19,535,446	$ (9,553,914)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized gain on sale of investments	(2,870,792)	(4,724,672)
Unrealized (appreciation) depreciation of investments	(21,371,456)	7,983,713
Depreciation	66,701	66,600
Collections of contributions restricted for permanent investment	(296,000)	-
Change in operating assets and liabilities:		
Accrued dividends and interest receivable	11,093	(24,268)
Other receivables	(122,778)	(214,740)
Other assets	57,313	30,440
Accounts payable and accrued expenses	428,267	(527,303)
Grants payable	(848,333)	(1,343,472)
LBT liability	-	(32,235)
Pension liability	(495,113)	560,101
Postretirement benefit obligation	(57,528)	(28,874)
Net cash used in operating activities	(5,963,180)	(7,808,624)
Cash Flows from Investing Activities		
Proceeds from sale of investments	12,593,553	30,239,717
Purchase of investments	(7,625,000)	(20,157,222)
Net cash provided by investing activities	4,968,553	10,082,495
Cash Flows from Financing Activities		
Borrowings on line of credit	-	559,848
Repayments on line of credit	-	(559,848)
Collections of contributions restricted for permanent investment	296,000	-
Net cash provided by financing activities	296,000	-
Net (decrease) increase in cash and cash equivalents	(698,627)	2,273,871
Cash and cash equivalents at beginning of year	2,283,531	9,660
Cash and cash equivalents at end of year	$ 1,584,904	$ 2,283,531
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	$ -	$ 31
Cash paid during the year for taxes	$ 31,112	$ 167,942

NOTES TO FINANCIAL STATEMENTS

1. Organization

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

2. Summary of Significant Accounting Policies

Basis of Presentation
The Foundation follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets accounting principles generally accepted in the United States of America ("GAAP") that the Foundation follows to ensure the consistent reporting of its financial condition, changes in net assets and cash flows. References to GAAP issued by the FASB in the notes are to the FASB Accounting Standards Codification ("ASC").

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with standards set forth in ASC 958, *Not-for-Profit Entities*. Under this authoritative guidance, the Foundation is required to provide financial statements which are prepared to focus on the Foundation as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets having similar characteristics have been combined into similar categories as follows:

- **Unrestricted** – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

- **Temporarily Restricted** – Net assets whose use by the Foundation is subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations or that expire through the passage of time.

- **Permanently Restricted** – Net assets that are subject to donor-imposed stipulations that assets be maintained permanently by the Foundation. The donors of these assets permit the Foundation to use all or part of the investment return of these assets for furthering the Foundation's mission through continued operations which may be subject to certain restrictions.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the support as unrestricted. Contributions of long-lived assets not having donor imposed time or purpose restrictions are reported as unrestricted contributions in amounts equal to the fair value of the contributed asset. The Foundation accounts for pledges receivable to be made in future years as unconditional promises to give in the year the promise is made.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash on hand, demand deposits, savings accounts and highly liquid debt investments purchased with an original maturity of three months or less that are not carried in the Foundation's portfolio of investments. Cash equivalents are stated at cost plus accrued interest, which approximates their fair value, and are classified as Level 1 inputs in the fair value hierarchy.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

***Cash and Cash Equivalents* (continued)**
The Foundation places its cash and cash equivalents with high credit, quality institutions. At times, such investments may be in excess of the FDIC insurance limit; however, management does not believe it is exposed to any significant credit risk on cash and cash equivalents. As part of its cash management process, the Foundation regularly monitors the relative credit standing of these institutions.

Investments
The Foundation carries its investments in the common trust fund at fair value. Realized gains and losses are computed based on the difference between the net proceeds received and cost at time of acquisition using the average cost method. Unrealized net appreciation or depreciation of investments in the common trust fund represents the change in the difference between acquisition cost and current fair value at the beginning of the year versus the end of the year, and is recognized currently in the statement of activities and changes in net assets.

The Foundation also invests in professionally managed portfolios that contain fixed income securities, which are carried at fair value. Securities transactions and the related gain or loss are recorded on a trade date basis, using the average cost method. Unrealized gains or losses represent the change in the fair value of the investments from the previous measurement date.

The Foundation follows the provisions of Accounting Standards Update ("ASU") No. 2011-04, *Fair Value Measurement* ("ASU 2011-04"), to value the other investments. The other investments consist of unconsolidated limited partnership interests. ASU 2011-04 allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determined fair value, using net asset value per share or its equivalent, as provided by the investment managers. The cost of investments sold is determined using the specific identification method.

Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. The Foundation employs a systematic methodology on an annual basis that considers available quantitative and qualitative evidence in evaluating potential impairment of its investments. If the cost of an investment exceeds its fair value, management evaluates, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, and the Foundation's intent and ability to hold the investment. The Foundation also considers specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, operational and financing cash flow factors, and rating agency actions. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis in the investment is established.

Other Receivables
The Foundation has sold or granted to other astronomy research institutions (the "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 nights. Other receivables primarily consist of amounts owed to the Foundation from each of the Institutions for costs paid on their behalf.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Property and Equipment
Property and equipment are stated at cost. Depreciation is calculated using the straight-line method over estimated useful lives as follows:

Tenant improvements	10 years
Furniture, fixtures and equipment	5 years
Software	5 years

Maintenance and repairs are charged to expense as incurred. Major renewals and improvements are capitalized.

In accordance with ASC 360-10, *Property, Plant and Equipment*, the Foundation periodically reviews the carrying value of long-lived assets held and used, and assets to be disposed of, for possible impairment when events and circumstances warrant such a review. Through December 31, 2012, the Foundation had not experienced impairment losses on its long-lived assets.

Grants Payable
The Foundation accounts for unconditional promises to give, which are normally in the form of grants, as an expense in the year the unconditional promise is made and approved by the Board of Directors, and unpaid promises to give are reported as grants payable in the accompanying statements of financial position.

Revenue Recognition
Interest income is recorded as earned; dividends are accrued as of the ex-dividend date.

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, however may be subject to taxation as unrelated business income.

The Foundation accounts for uncertainty in income taxes in accordance with ASC 740, *Income Taxes* (“ASC 740”). ASC 740 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Management evaluated the Foundation’s tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Furthermore, in the opinion of management, any liability resulting from taxing authorities imposing income taxes on the net taxable income from activities deemed to be unrelated to the Foundation's non-taxable status is not expected to have a material effect on the Foundation’s financial position or results of operations. Accordingly, no provision is made for uncertain income tax positions in the accompanying financial statements. In general, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2008.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Endowment Funds
In 2012, as a result of a matching endowment gift from the Frederick Gardner Cottrell Foundation, the Foundation created the Schaefer Award Endowment Fund (the "Schaefer Award Fund"). The purpose of the Schaefer Award Fund is to allow the recognition of innovative science by a scientist through the selection of a recipient for receipt of a monetary award.

In 2006, the Uniform Law Commission approved a model act, the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), to serve as a guideline for states to use in enacting new legislation to govern the investment and use of endowment funds. In September 2010, the State of New York enacted the New York Prudent Management of Institutional Funds Act ("NYPMIFA"), its version of UPMIFA, effective immediately. Among NYPMIFA's most significant changes was the elimination of UPMIFA's concept of the historical dollar-value threshold, the amount below which an organization could not spend from the fund, in favor of a more robust set of guidelines about what constitutes prudent spending. The Foundation accounts for endowment funds in accordance with the NYPMIFA.

The Foundation interprets NYPMIFA as allowing the Foundation to appropriate for expenditure or accumulate endowment funds, as the Foundation deems prudent for the uses, benefits, purposes and duration for which the endowment fund was established, subject to the intent of the donor as expressed in the gift instrument.

The Foundation maintains an investment pool for all of its investments. The pool is managed to achieve the maximum prudent long-term total return while providing a predictable stream of funding to programs supported by the endowment and other operations of the Foundation. The Foundation's Board of Directors has authorized spending and investment policies designed to support these goals. Under the investment policy, the investment assets are invested in a manner that is intended to earn, over the long term, a compound annual rate of return in excess of inflation and the spending rate. The Foundation seeks to achieve competitive returns when compared with other comparable foundations and measured against the appropriate benchmark for each asset class in the Foundation's portfolio. The spending policy permits the use of the total return at a rate (spending rate) of 5% of the average quarterly fair value during the three preceding calendar years for the permanently restricted and board-designated portions of the pool.

In accordance with NYPMIFA, the Foundation considers the duration and preservation of the fund, the purposes of the Foundation and endowment funds, general economic conditions, the possible effect of inflation and deflation, and the expected total return from income and the appreciation of investments, the Foundation's investment policy, and certain other factors in making a determination to appropriate or accumulate endowment funds.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or current law requires the Foundation to retain for a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2012.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Significant estimates pertain to the determination of fair value for alternative investments held in the Angelo Gordon funds, the Foundation's liability related to the LBT project, and the pension and other postretirement pension liabilities.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses
The costs of providing the various programs have been summarized on a functional basis in the statements of activities and changes in net assets. Expenses that can be identified with a specific program are allocated directly according to their natural classification. Other expenses that are common to several functions are allocated by other reasonable methods.

Investment Risk
The Foundation utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the statements of financial position.

Reclassifications
Certain amounts in the prior years' financial statements have been reclassified to conform to the current year presentation, with no effect on net assets.

3. Fair Value Measurements

The Foundation utilizes the fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1: Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.

Level 2: Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Capital Guardian and PIMCO investments are given Level 1 status as a fair value per share for these instruments is determined and published as the basis for current transactions.

In accordance with ASC 820-10-35-59, the Foundation uses net asset value per share ("NAV") as a practical expedient to estimate the fair value of the Angelo Gordon alternative investments. Classification within the fair value hierarchy depends on whether the Foundation has the ability to redeem its investments at NAV and if so, when that redemption can take place. If the Foundation has no ability to redeem, then the NAV is considered a Level 3 fair value measurement. If the Foundation has the ability to redeem on the measurement date, then the NAV is considered a Level 2 fair value measurement. If the Foundation has the ability to redeem on a future date, then the length of time until the investment becomes redeemable will determine whether the investment is classified as a Level 2 or a Level 3 fair value measurement. A redemption period of 90 days or less from the measurement period is generally considered near term and would result in the investment being classified as a Level 2 fair value measurement.

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurements (continued)

The following table presents the Foundation's financial assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2012:

	Fair Value Measurements as of December 31, 2012 Using:			
Description	12/31/2012	Level 1	Level 2	Level 3
Mutual funds – Capital Guardian	$ 66,290,504	$ 66,290,504	$ -	$ -
Mutual funds - PIMCO	26,447,423	26,447,423	-	-
Angelo Gordon Super Fund L.P.	20,358,806	-	20,358,806	-
Angelo Gordon Real Estate Strategies	1,860,707	-	-	1,860,707
Angelo Gordon Credit Strategies	5,335,785	-	-	5,335,785
Angelo Gordon CLO & Other Debt Strategies	22,569,061	-	-	22,569,061
Total	$ 142,862,286	$ 92,737,927	$ 20,358,806	$ 29,765,553

The following table presents reconciliations for all Level 3 assets measured at fair value for the period January 1, 2012 to December 31, 2012:

	Level 3			
Description	Angelo Gordon Real Estate Strategies	Angelo Gordon Credit Strategies	Angelo Gordon CLO & Other Debt Strategies	Total
Fair value as of January 1, 2012	$ 2,981,106	$ 6,729,448	$ 13,433,084	$ 23,143,638
Total gains or losses (realized/unrealized) included in changes in net assets	229,604	1,174,412	10,087,679	11,491,695
Purchases	-	-	2,625,000	2,625,000
Settlements	(1,350,003)	(2,568,075)	(3,576,702)	(7,494,780)
Fair value as of December 31, 2012	$ 1,860,707	$ 5,335,785	$ 22,569,061	$ 29,765,553

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurements (continued)

The following table presents the Foundation's financial assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2011:

	Fair Value Measurements as of December 31, 2011 Using:			
Description	12/31/2011	Level 1	Level 2	Level 3
Mutual funds – Capital Guardian	$ 57,539,734	$ 57,539,734	$ -	$ -
Mutual funds – PIMCO	19,994,535	19,994,535	-	-
Angelo Gordon Super Fund L.P.	22,910,684	-	22,910,684	-
Angelo Gordon Real Estate Strategies	2,981,106	-	-	2,981,106
Angelo Gordon Credit Strategies	6,729,448	-	-	6,729,448
Angelo Gordon CLO & Other Debt Strategies	13,433,084	-	-	13,433,084
Total	$ 123,588,591	$ 77,534,269	$ 22,910,684	$ 23,143,638

The following table presents reconciliations for all Level 3 assets measured at fair value for the period January 1, 2011 to December 31, 2011:

	Level 3			
Description	Angelo Gordon Real Estate Strategies	Angelo Gordon Credit Strategies	Angelo Gordon CLO & Other Debt Strategies	Total
Fair value as of January 1, 2011	$ 4,073,539	$ 8,926,158	$ 10,544,279	$ 23,543,976
Total gains or losses (realized/unrealized) included in changes in net assets	295,067	(351,206)	3,824,024	3,767,885
Purchases	-	-	150,000	150,000
Settlements	(1,387,500)	(1,845,504)	(1,085,219)	(4,318,223)
Fair value as of December 31, 2011	$ 2,981,106	$ 6,729,448	$ 13,433,084	$ 23,143,638

There were no non-recurring measurements of fair value during 2012 and 2011.

NOTES TO FINANCIAL STATEMENTS

4. Investments

A. Investments Held in Common Trust Fund

The Foundation invests in various special purpose funds within the Capital Guardian Common Trust Fund (the "Trust"). The Trust operates as a mutual fund invested in marketable securities and is available only to participants that are exempt from taxation under Internal Revenue Code of 1986 and are qualified institutional buyers and qualified purchasers as defined by applicable securities rules.

Investments consist of the following as of December 31:

	2012		2011	
	Fair Value	Cost	Fair Value	Cost
Capital Guardian Trust Funds:				
Global Equity Fund	$ 53,795,338	$ 42,954,518	$ 46,304,847	$ 40,235,923
Emerging Markets Growth Fund	12,495,166	16,296,387	11,234,887	16,242,961
Total	$ 66,290,504	$ 59,250,905	$ 57,539,734	$ 56,478,884

Net gain (loss) on investments consists of the following for the year ended December 31:

	2012	2011
Net realized gain on sales of investments	$ 2,870,792	$ 4,724,672
Unrealized net appreciation (depreciation) of investments	5,978,750	(11,679,745)
Net gain (loss) on marketable investments	$ 8,849,542	$ (6,955,073)

Proceeds from sales of investments were either reinvested, used to fund purchases of other investments, used to repay line of credit borrowings or to pay grants payable.

Investment fees incurred for the year ended December 31, 2012 and 2011 were $144,406 and $174,149, respectively. These fees are reported as a reduction of investment interest and dividend income in the statements of activities and changes in net assets.

NOTES TO FINANCIAL STATEMENTS

Investments (continued)

B. Investments in Fixed Income Mutual Funds

The Foundation invests in mutual funds managed by PIMCO. The funds consist of various publicly traded fixed income securities.

Investments consist of the following as of December 31:

	2012		2011	
	Fair Value	Cost	Fair Value	Cost
PIMCO Total Return Inst	$ 13,367,509	$ 12,500,000	$ 10,111,628	$ 10,000,000
PIMCO Global Advantage Strategic Bond Inst	13,079,914	12,500,000	9,882,907	10,000,000
Total	$ 26,447,423	$ 25,000,000	$ 19,994,535	$ 20,000,000

Net realized and unrealized gain (loss) on the PIMCO investments totaled $1,452,888 and ($5,465) for the years ended December 31, 2012 and 2011 respectively.

C. Other Investments

Other investments consist of the following as of December 31:

	2012	2011
Angelo Gordon Super Fund L.P.	$ 20,358,806	$ 22,910,684
Angelo Gordon Real Estate Strategies	1,860,707	2,981,106
Angelo Gordon Credit Strategies	5,335,785	6,729,448
Angelo Gordon CLO & Other Debt Strategies	22,569,061	13,433,084
Total other investments	$ 50,124,359	$ 46,054,322

Annual activity for other investments consists of the following for the year ended December 31, 2012:

	AG Super Fund L.P.	AG Real Estate Strategies	AG Credit Strategies	AG CLO & Other Debt Strategies	Total
Fair value at January 1, 2012	$ 22,910,684	$ 2,981,106	$ 6,729,448	$ 13,433,084	$ 46,054,322
Capital contributions	-	-	-	2,625,000	2,625,000
Distributions	(5,000,000)	(1,350,003)	(2,568,075)	(3,576,702)	(12,494,780)
Appreciation	2,448,122	229,604	1,174,412	10,087,679	13,939,817
Fair value at December 31, 2012	$ 20,358,806	$ 1,860,707	$ 5,335,785	$ 22,569,061	$ 50,124,359

NOTES TO FINANCIAL STATEMENTS

Investments (continued)

C. Other Investments (continued)

A description of the Angelo Gordon ("AG") funds is as follows:

Angelo Gordon Super Fund L.P.
The AG Superfund L.P. ("AGSF") is an open-end fund that was established to engage in various strategies including investments in special situations, financially distressed issuers, convertible hedging and real estate. Capital withdrawals may be made annually on December 31st, upon not less than 60 days' notice. AG Superfund designates certain illiquid investments as Special Investments (i.e., side pocket investments). Redemption proceeds from capital balances related to the Special Investments are distributed over time as each investment is realized. The Foundation has contributed $10 million of capital to AGSF. There are no remaining commitments as of December 31, 2012. The Foundation has the ability to redeem this investment on the measurement date; accordingly, as of December 31, 2012, all investments are classified as Level 2 within the fair value hierarchy.

Angelo Gordon Real Estate Strategies
AG Realty IV, L.P. ("AGRIV") is a closed-end fund that is in the process of undergoing an orderly liquidation of its investments, with some residual assets still being managed by the general partner. The Foundation has contributed $4.75 million to AGRIV. There are no remaining commitments as of December 31, 2012. The Foundation has received cumulative distributions of $7,237,500 through December 31, 2012. The estimated fair value of AGRIV as of December 31, 2012 was $27,232. The Foundation has no ability to redeem this investment; accordingly, as of December 31, 2012, all investments are classified as Level 3 within the fair value hierarchy.

AG Realty V, L.P. ("AGRV") is a closed-end fund that is in the process of undergoing an orderly liquidation of its investments, with some residual assets still being managed by the general partner. AGRV's principle investment objective is current income and capital appreciation through investments in distressed real estate assets and sub-performing and non-performing mortgages. The Foundation has contributed $4.5 million to AGRV. There are no remaining commitments as of December 31, 2012. The Foundation has received cumulative distributions of $7,075,000 through December 31, 2012. The estimated fair value of AGRV as of December 31, 2012 was $107,023. The Foundation has no ability to redeem this investment; accordingly, as of December 31, 2012, all investments are classified as Level 3 within the fair value hierarchy.

NOTES TO FINANCIAL STATEMENTS

Investments (continued)

C. Other Investments (continued)

Angelo Gordon Real Estate Strategies (continued
AG Realty VI, L.P. ("AGRVI") is a closed-end fund without redemption rights. AGRVI's principle investment objective is current income and capital appreciation through investments in distressed real estate assets, sub-performing and non-performing mortgages. On January 10, 2013, AGRVI exercised the first of two available one-year extensions to facilitate the orderly liquidation of its investments. An additional one-year extension is available. The Foundation has contributed $5 million to AGRVI. There are no remaining commitments as of December 31, 2012. The Foundation has received cumulative distributions of $4,450,000 through December 31, 2012. The estimated fair value of AGRVI as of December 31, 2012 was $992,756. The Foundation has no ability to redeem this investment; accordingly, as of December 31, 2012, all investments are classified as Level 3 within the fair value hierarchy.

AG Core Plus Realty Fund L.P. ("AGCPR") is a closed-end fund without redemption rights. AGCPR's principle investment objective is current income and capital appreciation through investments in real estate assets. The primary term of the AGCPR expires on May 27, 2013. Two one-year extensions are available. The Foundation has contributed $4.75 million to AGCPR. There are no remaining commitments as of December 31, 2012. The Foundation has received cumulative distributions of $6,337,504 through December 31, 2012. The estimated fair value of AGCPR as of December 31, 2012 was $733,696. The Foundation has no ability to redeem this investment; accordingly, as of December 31, 2012, all investments are classified as Level 3 within the fair value hierarchy.

Angelo Gordon Credit Strategies
AG Capital Recovery Partners V, L.P. ("AGCRPV") is a closed-end fund without redemption rights. AGCRPV was established primarily to invest in financially distressed issuers. The primary term of the AGCRPV expires on June 30, 2013. Two one-year extensions are available. The Foundation has contributed $5 million of capital to AGCRPV. There are no remaining commitments as of December 31, 2012. The Foundation has received cumulative distributions of $4,443,420 through December 31, 2012. An additional distribution of $174,770 was received during the first quarter of 2013. The estimated fair value of AGCRPV as of December 31, 2012 was $1,111,108. The Foundation has no ability to redeem this investment; accordingly, as of December 31, 2012, all investments are classified as Level 3 within the fair value hierarchy.

AG Capital Recovery Partners VI, L.P. ("AGCRPVI") is a closed-end fund without redemption rights. AGCRPVI was established primarily to invest in financially distressed issuers. The primary term of the AGCRPVI expires on June 30, 2015. Two one-year extensions are available. The Foundation has contributed $5 million of capital to AGCRPVI. There are no remaining commitments as of December 31, 2012. The Foundation has received cumulative distributions of $2,549,219 through December 31, 2012. An additional distribution of $374,800 was received during the first quarter of 2013. The estimated fair value of AGCRPVI as of December 31, 2012 was $4,224,677. The Foundation has no ability to redeem this investment; accordingly, as of December 31, 2012, all investments are classified as Level 3 within the fair value hierarchy.

NOTES TO FINANCIAL STATEMENTS

Investments (continued)

C. Other Investments (continued)

Angelo Gordon CLO & Other Debt Strategies
AG Diversified Credit Strategies Fund Ltd ("AGDCS") is an open-end fund that was established to execute an absolute, total return investment strategy through investments in non-investment grade credit instruments. Capital withdrawals may be made annually as of the close of business on the last day of the quarter in which the anniversary of the investment occurs, upon not less than 60 days' notice. The Foundation has contributed $4 million of capital to AGDCS. There are no remaining commitments as of December 31, 2012. The estimated fair value of AGDCS as of December 31, 2012 was $5,123,370. The Foundation has the ability to redeem this investment; however, the redemption period is not considered to be near term. Accordingly, as of December 31, 2012, all investments are classified as Level 3 within the fair value hierarchy.

AG Commercial Real Estate Debt Fund, L.P. ("AGREDF") is a closed-end fund without redemption rights. AGREDF was established primarily to invest in commercial real estate debt securities including commercial mortgage backed securities, REIT debt, real estate operating company debt, and collateralized debt obligations. The primary term of the AGREDF expires on March 28, 2017. Two one-year extensions are available. The Foundation has contributed $5 million of capital to AGREDF. There are no remaining commitments as of December 31, 2012. The Foundation has received cumulative distributions of $2,315,000 through December 31, 2012. Additional distributions of $550,000 were received during the first quarter of 2013. The estimated fair value of AGREDF as of December 31, 2012 was $2,804,832. The Foundation has no ability to redeem this investment; accordingly, as of December 31, 2012, all investments are classified as Level 3 within the fair value hierarchy.

AG Securitized Asset Recovery Holdings, L.P. ("AGSARH") is a closed-end fund without redemption rights. AGSARH was established primarily to invest in a diversified portfolio of residential mortgage-backed securities, commercial mortgage-backed securities, and collateralized debt obligations. The primary term of the AGSARH expires on July 31, 2017. Two one-year extensions are available. The Foundation has contributed $2.625 million of capital to AGSARH. There is $2,375,000 in remaining capital commitments as of December 31, 2012. Additional contributions of $750,000 were made in the first quarter of 2013. The estimated fair value of AGSARH as of December 31, 2012 was $2,675,859. The Foundation has no ability to redeem this investment; accordingly, as of December 31, 2012, all investments are classified as Level 3 within the fair value hierarchy.

Northwoods Capital VII, Ltd ("NCVII") and Northwoods Capital VIII, Ltd ("NCVIII") are collateralized debt obligations having maturity dates of October 22, 2021 and July 28, 2022 respectively. The Foundation has contributed $5 million and $2 million of capital to NCVII and NCVIII, respectively. There are no remaining commitments as of December 31, 2012. The Foundation has received cumulative distributions of $4,071,683 and $1,469,321 from NCVII and NCVIII, respectively, through December 31, 2012. Additional distributions of $472,411 and $177,761 were received during the first quarter of 2013 by NCVII and NCVIII, respectively. The estimated fair values of the Foundation's investments in NCVII and NCVIII as of December 31, 2012 are $8,500,000 and $3,465,000 respectively. The Foundation has no ability to redeem this investment; accordingly, as of December 31, 2012, all investments are classified as Level 3 within the fair value hierarchy.

In March 2013, the Foundation committed $5 million to the AG Net Lease Realty Fund III, L.P.

NOTES TO FINANCIAL STATEMENTS

5. Property and Equipment

Property and equipment consist of the following as of December 31:

	2012	2011
Tenant improvements	$ 496,312	$ 496,312
Furniture, fixtures and equipment	193,478	193,478
Software	108,401	108,401
	798,191	798,191
Less accumulated depreciation	(744,931)	(678,230)
Property and equipment, net	$ 53,260	$ 119,961

Depreciation expense totaled $66,701 and $66,600 for 2012 and 2011, respectively.

6. Line of Credit

The Foundation has a $10,000,000 uncollateralized revolving line of credit with interest at LIBOR plus 1.5% (1.71% at December 31, 2012). Borrowings against the line of credit totaled $0 as of December 31, 2012 and 2011. The Foundation incurred interest expense of $0 and $31 for the years ended December 31, 2012 and 2011, respectively.

The revolving line of credit agreement contains certain covenants, the most restrictive of which requires the Foundation to maintain a tangible net worth of $100 million as defined by the agreement. At December 31, 2012, the Foundation was in compliance with the loan covenants.

7. Benefit Plans

Defined Contribution Pension Plan
The Foundation maintains a noncontributory defined contribution plan, eligible to all employees hired after June 1, 2005 who have completed one year of employment. The Foundation makes fully vested contributions ranging from 10% - 15%, based on years of experience, for all participating employees. The Foundation incurred defined contribution plan expenses of $68,685 and $36,607 for the years ended December 31, 2012 and 2011, respectively.

Defined Benefit Pension Plan
The Foundation maintains a noncontributory defined benefit pension plan (the "Plan"), which covers 33% of its employees at the 2012 measurement date. The benefits provided by the Plan are generally based on years of service and employees' salary history. It is the Foundation's policy to contribute amounts sufficient to at least meet the Employee Retirement Income Security Act's minimum funding requirements.

In 2006, the Foundation froze entry into its noncontributory defined benefit pension plan to all employees hired after June 1, 2005.

In November 2012, the Plan was amended to terminate the Plan and fully freeze any further benefit and service accruals as of December 31, 2012. The Plan's benefit obligations as of December 31, 2012 were prepared including the effect of a gain from curtailment of $580,241.

NOTES TO FINANCIAL STATEMENTS

Benefit Plans (continued)

Defined Benefit Pension Plan (continued)
In accordance with ASC 715-30, *Compensation – Retirement Benefits - Defined Benefit Plans,* the Foundation recognizes the funded status of a benefit plan in the statement of financial position and recognize changes in the funded status through beginning net assets.

The following table sets forth the funded status of the Plan and amounts recognized in the Foundation's accompanying statements of financial position as of December 31:

	2012	2011
Benefit obligations for services rendered to date	$ (3,097,889)	$ (3,055,774)
Fair value of Plan assets	2,018,943	1,481,715
Funded status (net amount recognized in the statements of financial position)	$ (1,078,946)	$ (1,574,059)

The following table reflects the components of net periodic benefit cost for the years ended December 31:

	2012	2011
Service cost	$ 198,613	$ 297,167
Interest cost	127,045	122,464
Expected return on assets	(123,520)	(103,635)
Net loss due to change in actuarial assumptions	202,481	378,507
Net periodic benefit cost	$ 404,619	$ 694,503

The following table shows a summary of benefit obligations for the years ended December 31:

	2012	2011
Beginning benefit obligation	$ 3,055,774	$ 2,315,001
Curtailment gain	(580,241)	-
Service cost	198,613	297,167
Interest cost	127,045	122,464
Benefits paid	(6,164)	(5,984)
Actuarial loss	29,357	4,296
Effects of actuarial assumption change	273,505	322,830
Ending benefit obligation	$ 3,097,889	$ 3,055,774

The following table shows a summary of the fair value of Plan assets for the years ended December 31:

	2012	2011
Beginning fair value of plan assets	$ 1,481,715	$ 1,301,043
Foundation contributions	319,491	134,402
Distributions	(6,164)	(5,984)
Expected investment return	123,520	103,635
Investment gain (loss)	100,381	(51,381)
Ending fair value of plan assets	$ 2,018,943	$ 1,481,715

NOTES TO FINANCIAL STATEMENTS

Benefit Plans (continued)

Defined Benefit Pension Plan (continued)

Assumptions used in the accounting for the Plan as of December 31:

	2012	2011
Discount rate	3.50%	4.125%
Rate of increase in compensation levels	4.25%	4.25%
Expected long-term rate of return on assets	7.50%	7.50%

Pertinent information related to the Plan is as follows:

	2012	2011
Projected benefit obligation	$ 3,097,889	$ 3,055,774
Accumulated benefit obligation	3,097,889	2,470,301
Net periodic benefit cost	404,619	694,503
Foundation contributions	319,491	134,402
Benefits paid	6,164	5,984

Benefit payments expected to be paid in each of the next five years, and in the aggregate for the next five years are as follows:

2013	$ 1,121,332
2014	6,453
2015	10,550
2016	14,658
2017	14,996
2018 through 2022	123,727
Total	$ 1,291,716

The Foundation expects to contribute $0 to the Plan in 2013.

The investment policy of the Plan is to provide for professional fund management and to invest in a conservative portfolio consisting of balanced mutual funds. The expected long term rate of return of Plan assets was 7.5% in 2012 and 2011, derived using the Plan's asset mix, historical returns by asset class, and expectations for future capital market performance. Both the Plan's investment policy and the expected long term rate of return assumption are reviewed periodically.

The asset allocations as of December 31 are as follows:

	2012	2011
Asset category		
Mutual funds	97%	89%
Cash and cash equivalents	3%	11%
	100%	100%

NOTES TO FINANCIAL STATEMENTS

Benefit Plans (continued)

Defined Benefit Pension Plan (continued)
The fair values of the Foundation's Plan assets weighted-average asset allocations as of December 31, 2012 by asset category is as follows:

	Assets at Fair Value as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
Mutual funds	$ -	$ 1,954,555	$ -	$ 1,954,555
Cash and cash equivalents	64,388	-	-	64,388
Total assets at fair value	$ 64,388	$ 1,954,555	$ -	$ 2,018,943

The fair values of the Foundation's Plan assets weighted-average asset allocations as of December 31, 2011 by asset category is as follows:

	Assets at Fair Value as of December 31, 2011			
	Level 1	Level 2	Level 3	Total
Mutual funds	$ -	$ 1,312,518	$ -	$ 1,312,518
Cash and cash equivalents	169,197	-	-	169,197
Total assets at fair value	$ 169,197	$ 1,312,518	$ -	$ 1,481,715

Postretirement Benefits Plan
In addition to providing pension benefits, the Foundation maintains a postretirement benefit plan, which provides certain health care benefits to retired employees and their spouses.

During the year ended December 31, 2006, the Foundation froze eligibility for participation in its postretirement benefit plan to those employees hired before June 1, 2005.

The Foundation accounts for its postretirement benefit plan in accordance with ASC 715-60, *Compensation – Retirement Benefits – Defined Benefit Plans – Other Postretirement*. This Standard requires employers to recognize the funded status of a postretirement benefit plan in the statement of financial position and recognize changes in the funded status through beginning net assets.

The following table sets forth the funded status of the postretirement benefit plan and amounts recognized in the accompanying statements of financial position as of December 31:

	2012	2011
Accumulated postretirement benefit obligation	$ (1,012,582)	$ (1,070,110)
Plan assets at fair value	-	-
Funded status	(1,012,582)	(1,070,110)
Unrecognized net gain subsequent to transition	-	-
Unrecognized transition obligations	-	-
Accrued postretirement benefit obligation	$ (1,012,582)	$ (1,070,110)

NOTES TO FINANCIAL STATEMENTS

Benefit Plans (continued)

Postretirement Benefits Plan (continued)
The following table reflects the components of net periodic postretirement benefit cost for the years ended December 31:

	2012	2011
Service cost	$ -	$ -
Interest cost	38,681	44,493
Actuarial gain	(45,520)	(10,285)
Net periodic benefit (gain) cost	$ (6,839)	$ 34,208

The following table shows a summary of postretirement benefit obligations for the years ended December 31:

	2012	2011
Beginning projected accumulated postretirement benefit obligation	$ 1,070,110	$ 1,098,984
Service cost	-	-
Interest cost	38,681	44,493
Benefits paid	(50,689)	(63,082)
Actuarial gain	(45,520)	(10,285)
Ending projected accumulated postretirement benefit obligation	$ 1,012,582	$ 1,070,110

The following table shows a summary of the fair value of postretirement benefit plan assets for the years ended December 31:

	2012	2011
Beginning fair value of plan assets	$ -	$ -
Foundation contributions	50,689	63,082
Benefits paid	(50,689)	(63,082)
Ending fair value of plan assets	$ -	$ -

Pertinent information related to benefits for the postretirement benefit plan is as follows:

	2012	2011
Net periodic postretirement benefit (gain) cost	$ (6,839)	$ 34,208
Foundation contributions	50,689	63,082
Benefits paid	50,689	63,082

NOTES TO FINANCIAL STATEMENTS

Benefit Plans (continued)

Postretirement Benefits Plan (continued)
Postretirement benefit payments expected to be paid in each of the next five years, and in the aggregate for the next five years are as follows:

2013	$	122,260
2014		123,923
2015		113,876
2016		80,837
2017		50,805
2018 through 2022		251,548
Total	$	743,249

Estimated contributions to the postretirement benefit plan for 2013 are $122,260.

The actuarial calculations in 2012 assume a dental inflation assumption of 5% and a medical inflation assumption of 9% decreasing uniformly to 5% over 8 years. The assumed discount rate is 3.40%. The health care cost trend rate assumptions impact the service and interest cost and the accumulated benefit obligation. A 1% increase in these rates would increase service and interest cost by approximately $3,200 and the accumulated benefit obligation by approximately $127,700, while a 1% decrease would decrease service and interest cost by approximately $2,800 and decrease the accumulated benefit obligation by approximately $77,800.

The actuarial calculations in 2011 assume a dental inflation assumption of 5% and a medical inflation assumption of 9.5% decreasing uniformly to 5% over 9 years. The assumed discount rate is 4.25%. The health care cost trend rate assumptions impact the service and interest cost and the accumulated benefit obligation. A 1% increase in these rates would increase service and interest cost by approximately $3,500 and the accumulated benefit obligation by approximately $94,300, while a 1% decrease would decrease service and interest cost by approximately $3,000 and decrease the accumulated benefit obligation by approximately $80,300.

Flexible Benefits Plan
During the year ended December 31, 2006, the Foundation established a flexible benefits plan whereby it will contribute 10% of employee compensation on behalf of employees to be used for medical, retirement, education and other expenses. Employees hired after June 1, 2005 are automatically enrolled in the new plan after completion of six months service. Employees hired before June 1, 2005 who chose to elect out of the postretirement benefit plan are eligible for this new plan.

8. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following as of December 31:

	2012	2011
Schaefer Award Fund	$ 37,043	$ -

NOTES TO FINANCIAL STATEMENTS

9. Endowment Funds

Permanently restricted net assets consist of the following as of December 31:

	2012	2011
Schaefer Award Fund	$ 546,000	$ -

Endowment net asset composition by type of fund as of December 31, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 37,043	$ 546,000	$ 583,043
Board designated endowment funds	278,525	-	-	278,525
	$ 278,525	$ 37,043	$ 546,000	$ 861,568

Changes in endowment net assets for the year ended December 31, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2011	$ -	$ -	$ -	$ -
Investment return:				
Investment income	3,893	3,336	-	7,229
Net appreciation (realized and unrealized)	24,632	33,707	-	58,339
Total investment return	28,525	37,043	-	65,568
Donor contributions	-	-	546,000	546,000
Board designated funds	250,000	-	-	250,000
Appropriation of endowment funds for expenditure	-	-	-	-
Endowment net assets, December 31, 2012	$ 278,525	$ 37,043	$ 546,000	$ 861,568

Endowment assets are included in investments in the accompanying statements of financial position. The Foundation collected $296,000 of the $546,000 Schaefer Award Fund endowment as of December 31, 2012. The remaining $250,000 pledge is included in other receivables in the accompanying statement of financial position and was collected during the first quarter of 2013.

10. Operating Leases

The Foundation leases the facility that houses its corporate headquarters under a non-cancelable operating lease, with current lease terms which expire in 2019. In March 2004, the Foundation entered into an arrangement to lease an additional 17% of the building and sublet the additional space at identical terms to the LSST Corporation, a related party through November 30, 2013. Rental expense, net of sublease income was $236,772 and $279,834 in 2012 and 2011, respectively.

NOTES TO FINANCIAL STATEMENTS

Operating Leases (continued)

LSST early vacated the premises during April 2008. Pursuant to its sublease, the Foundation held a rent deposit from LSST (the Foundation recouped lost rents and re-leasing costs against the rent deposit). The rent deposit of $0 and $7,745 as of December 31, 2012 and 2011, respectively, was reported as a liability in the accompanying financial statements.

In July 2009, the Foundation entered into an agreement with an outside party to sublease the empty space which expires in 2013. Pursuant to its sublease, the Foundation held a rent deposit of $3,602 as of December 31, 2012 and 2011.

Future minimum rental payments under the Foundation's leases and sublease as of December 31, 2012 are as follows:

Year Ending	Original Lease Expense	Sublease Income	Net Lease Expense
2013	$ 299,344	$ 57,461	$ 241,883
2014	230,462	-	230,462
2015	236,440	-	236,440
2016	242,598	-	242,598
2017	247,309	-	247,309
Thereafter	511,148	-	511,148

11. Income Taxes

In accordance with applicable provisions of the Internal Revenue Code, the Foundation is a private foundation and qualifies as a tax-exempt organization. Income from certain activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. The Foundation incurred $31,112 and $162,942 in income taxes for the years ended December 31, 2012 and 2011, respectively. In addition, during 2011, the Foundation recognized $300,000 in income related to an excise tax recovery matter with the Internal Revenue Service (See Note 12). Deferred taxes are not recognized in the accompanying financial statements as the amounts are considered immaterial.

12. Commitments and Contingencies

Large Binocular Telescope ("LBT") Project

The Foundation is a partner with a 12.5% interest in the Large Binocular Telescope Project, a related party, which is building and managing an astronomical observatory. The Foundation has sold or granted to other astronomy research institutions (the "Institutions"), under various agreements, all of its viewing rights in the observatory along with the obligation to pay related operating costs associated with those nights. 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.

The Foundation remains contingently liable for its proportionate share of future commissioning, operating and instrumentation costs, to the extent the Institutions become unable to pay and forfeit their viewing rights or in the event these costs exceed any caps specified in the agreements with the Institutions.

NOTES TO FINANCIAL STATEMENTS

Commitments and Contingencies (continued)

Excise Taxes

During 2003, the Foundation terminated a pension plan, and replaced it with its current plan, the Research Corporation Employee's Replacement Plan (the "Replacement Plan"). Accumulated benefits totaling approximately $3,600,000 under the terminated plan were paid out to participants. The remaining terminated plan assets of $5,061,653 reverted to the Foundation, of which $1,470,818 was contributed to fund the Replacement Plan. In 2005, the Internal Revenue Service ("IRS") sent the Foundation a draft verification of facts letter that the Foundation might owe approximately $879,000 in additional excise tax with respect to the reversion, plus interest and penalties. On December 12, 2007, the Foundation received a 30-day letter from the IRS claiming a deficiency of $879,000. The management of the Foundation in consultation with its external legal counsel believed they were exempt from the reversion tax and timely notified the IRS of such, including a request for appeal. The Foundation believed that a settlement of approximately $300,000 was reasonably possible, and an accrual was recorded. During 2008, the IRS requested an extension of the examination period until December 31, 2009, which the Foundation granted. A resolution was issued by the courts ruling in favor of the Foundation in February of 2012; consequently, the $300,000 accrual was reversed and recognized as tax recovery within the statements of activities and changes in net assets during the year ended December 31, 2011.

13. Centennial Programs

The Foundation celebrated its 100th anniversary in February 2012. Beginning in 2011 and continuing through 2012, the Foundation undertook activities to celebrate the milestone by hosting events in Tucson, Washington DC, and New York as well as publishing commemorative information in book, video and website forms to highlight the importance of the Foundation's mission. These efforts and activities are seen not only as a means of highlighting the Foundation's many successes, they are also an important component in the Foundation's increasing the use of advocacy, through public speaking, publishing thought pieces and supporting related efforts, that will help highlight the serious need for additional funding to support basic scientific research in the United States of America.

14. Partnership Development and Fundraising Expenses

In 2009, the Foundation began to assess the feasibility of partnering with other organizations and / or engaging in fundraising activities with philanthropists and private foundations to increase the funding being made available to early career faculty for uses consistent with the Foundation's mission. In 2010, primarily working with consultants, it was determined that such efforts appeared to be feasible. In 2011, the Foundation hired a Director of Strategic Partnerships to begin efforts at identifying and screening organizations to determine suitability for possible collaborations. The goal of these efforts is to significantly increase the funds currently being made available from the Foundation to the Foundation's community of early career faculty. It is very possible that such increased funding may go directly to awardees and not be reflected in the Foundation's financial statements as revenues.

15. Subsequent Events

The Foundation evaluated subsequent events through April 25, 2013, which represents the date the financial statements were available to be issued, and concluded that no additional disclosures are required.

SUPPLEMENTAL SCHEDULES

SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Grants and Awards Approved	Grant Administration	Conferences and Convening	Advocacy	G&A	Partnership Development and Fundraising	Taxes	Centennial Programs	Total Unrestricted Expenses	Investment Management Costs	Total
Grants and awards approved	$ 3,104,186	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,104,186	$ -	$ 3,104,186
Salaries & employee benefits	-	422,628	169,441	285,196	508,952	195,488	-	305,384	1,887,089	32,225	1,919,314
Consultants fees and expenses	-	148,172	34,584	216,403	133,484	101,489	-	424,776	1,058,908	-	1,058,908
Conferences and meetings	-	46,247	116,995	38,872	113,242	19,231	-	306,734	641,321	6,380	647,701
Rent and occupancy costs	-	129,446	40,313	59,663	165,984	47,980	-	113,634	557,020	5,270	562,290
Professsional services	-	33,340	-	-	124,504	-	-	-	157,844	25,625	183,469
Investment advisory and custody fees	-	-	-	-	-	-	-	-	-	144,406	144,406
Publications : print, online and video	-	-	-	-	23,372	-	-	52,976	76,348	-	76,348
Taxes	-	-	-	-	-	-	31,112	-	31,112	-	31,112
Total	**$ 3,104,186**	**$ 779,833**	**$ 361,333**	**$ 600,134**	**$ 1,069,538**	**$ 364,188**	**$ 31,112**	**$ 1,203,504**	**$ 7,513,828**	**$ 213,906**	**$ 7,727,734**

SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Grants and Awards Approved	Grant Administration	Conferences and Convening	Advocacy	G&A	Partnership Development and Fundraising	Interest Expense	Taxes	Centennial Programs	Total Unrestricted Expenses	Investment Management Costs	Total
Grants and awards approved	$ 3,430,496	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,430,496	$ -	$ 3,430,496
Salaries & employee benefits	-	514,770	186,995	354,781	802,591	223,745	-	-	304,354	2,387,236	56,750	2,443,986
Consultants fees and expenses	-	179,032	11,000	198,031	42,820	137,218	-	-	420,167	988,268	50,000	1,038,268
Conferences and meetings	-	69,788	122,880	33,720	81,852	23,660	-	-	-	331,900	5,000	336,900
Rent and occupancy costs	-	171,707	45,269	69,278	180,990	38,178	-	-	106,354	611,776	6,000	617,776
Professsional services	-	31,060	-	-	80,283	-	-	-	-	111,343	25,794	137,137
Investment advisory and custody fees	-	-	-	-	-	-	-	-	-	-	178,149	178,149
Publications : print, online and video	-	27,485	-	-	17,088	-	-	-	193,596	238,169	-	238,169
Interest expense	-	-	-	-	-	-	31	-	-	31	-	31
Taxes	-	-	-	-	-	-	-	(132,058)	-	(132,058)	-	(132,058)
Total	**$ 3,430,496**	**$ 993,842**	**$ 366,144**	**$ 655,810**	**$ 1,205,624**	**$ 422,801**	**$ 31**	**$ (132,058)**	**$ 1,024,471**	**$ 7,967,161**	**$ 321,693**	**$ 8,288,854**