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

33 N Stone Avenue • Suite 1100 • Tucson, Arizona 85701
(520) 884-0176 • www.klkcpa.com

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

AUDITED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013
(WITH SUMMARIZED COMPARATIVE TOTALS
FOR THE YEAR ENDED DECEMBER 31, 2012)

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

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

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, 2013 and 2012, the related statements of cash flows for the years then ended, and the related statement of activities and changes in net assets for the year ended December 31, 2013, 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, 2013 and 2012, and cash flows for the years then ended and the changes in its net assets for the year ended December 31, 2013, in accordance with accounting principles generally accepted in the United States of America.

33 N. Stone Avenue, Suite 1100 | Tucson, Arizona 85701 | PHN 520.884.0176 | FAX 520.884.8767 | www.klkcpa.com

Report on Summarized Comparative Information

We have previously audited Research Corporation for Science Advancement's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 25, 2013. In our opinion, the summarized comparative statement of activities and changes in net assets presented herein for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Keegan, Linscott & Kenon, PC

Tucson, Arizona
May 3, 2014

AUDITED FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31,

	2013	2012
Assets		
Cash and cash equivalents	$ 1,264,220	$ 1,584,904
Investments	157,157,409	142,862,286
Accrued dividends and interest receivable	375,475	153,968
Other receivables	1,664,500	1,841,045
Property and equipment, net	46,568	53,260
Other assets	233,665	229,033
Total assets	$ 160,741,837	$ 146,724,496
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 115,607	$ 615,172
Grants payable	924,875	1,309,249
LBT liability	1,383,859	1,383,859
Pension liability	-	1,078,946
Postretirement benefit obligation	944,570	1,012,582
Total liabilities	3,368,911	5,399,808
Unrestricted net assets		
Board designated	828,819	278,525
Undesignated	155,634,625	140,463,120
Total unrestricted net assets	156,463,444	140,741,645
Temporarily restricted net assets	147,482	37,043
Permanently restricted net assets	762,000	546,000
Total net assets	157,372,926	141,324,688
Total liabilities and net assets	$ 160,741,837	$ 146,724,496

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2013
(WITH COMPARATIVE SUMMARIZED TOTALS FOR THE YEAR ENDED DECEMBER 31, 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2013	Summarized Total 2012
Revenues					
Investment income					
Net realized and unrealized gains on investments	$ 20,032,069	$ 98,117	$ -	$ 20,130,186	$ 24,242,248
Interest and dividends, net	1,963,021	12,322	-	1,975,343	2,356,626
Total investment income	21,995,090	110,439	-	22,105,529	26,598,874
Less investment management costs	(258,335)	-	-	(258,335)	(213,906)
Net investment income	21,736,755	110,439	-	21,847,194	26,384,968
Fundraising and contributions	1,327	-	216,000	217,327	664,306
Total revenues	21,738,082	110,439	216,000	22,064,521	27,049,274
Expenses					
Program expenses					
Grants and awards approved	2,583,254	-	-	2,583,254	3,104,186
Grant administration	794,548	-	-	794,548	779,833
Conferences and convening	412,960	-	-	412,960	361,333
Advocacy	300,866	-	-	300,866	600,134
Total program expenses	4,091,628	-	-	4,091,628	4,845,486
Supporting services					
General and administrative	1,704,411	-	-	1,704,411	1,069,538
Partnership development and fundraising	215,359	-	-	215,359	364,188
Taxes	4,885	-	-	4,885	31,112
Total supporting services	1,924,655	-	-	1,924,655	1,464,838
Centennial programs	-	-	-	-	1,203,504
Total expenses	6,016,283	-	-	6,016,283	7,513,828
Change in net assets	15,721,799	110,439	216,000	16,048,238	19,535,446
Net assets at beginning of year	140,741,645	37,043	546,000	141,324,688	121,789,242
Net assets at end of year	$ 156,463,444	$ 147,482	$ 762,000	$ 157,372,926	$ 141,324,688

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	$ 16,048,238	$ 19,535,446
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized gains on investments	(20,130,186)	(24,242,248)
Depreciation	31,312	66,701
Collections of contributions restricted for permanent investment	(466,000)	(296,000)
Change in operating assets and liabilities:		
Accrued dividends and interest receivable	(221,507)	11,093
Other receivables	176,545	(122,778)
Other assets	(4,632)	57,313
Accounts payable and accrued expenses	(499,565)	428,267
Grants payable	(384,374)	(848,333)
Pension liability	(1,078,946)	(495,113)
Postretirement benefit obligation	(68,012)	(57,528)
Net cash used in operating activities	(6,597,127)	(5,963,180)
Cash Flows from Investing Activities		
Proceeds from sale of investments	12,070,599	15,365,574
Purchase of investments	(6,235,536)	(10,397,021)
Purchase of property and equipment	(24,620)	-
Net cash provided by investing activities	5,810,443	4,968,553
Cash Flows from Financing Activities		
Collections of contributions restricted for permanent investment	466,000	296,000
Net cash provided by financing activities	466,000	296,000
Net decrease in cash and cash equivalents	(320,684)	(698,627)
Cash and cash equivalents at beginning of year	1,584,904	2,283,531
Cash and cash equivalents at end of year	$ 1,264,220	$ 1,584,904
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for taxes	$ 4,885	$ 31,112

NOTES TO FINANCIAL STATEMENTS

1. Organization

Research Corporation is a private operating foundation incorporated in the State of New York. Research Corporation doing business as Research Corporation for Science Advancement (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 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 considered 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
Investments are carried at fair value. All of the Foundation's investments are held in professionally managed commingled funds, mutual funds or in unconsolidated limited partnerships and/or special purpose entities for its alternative investments.

The commingled funds and mutual funds are valued at amounts reported by the investment managers, which are based on the quoted price of the underlying securities held by such funds.

Since there is no readily available market for the Foundation's alternative investments, such investments are stated at fair values as estimated in an inactive market. These investments include assets that may not be immediately liquid, such as private debt securities, residual CLO interests, real estate or other assets. The December 31 valuations of these investments are based upon year-end values provided by the investment managers, based on guidelines established by those investment managers, and consideration of other factors related to the Foundation's interests in these investments. The Foundation obtains and considers the audited financial statements of such investments when evaluating the overall reasonableness of carrying value. The Foundation believes this method provides a reasonable estimate of fair value. However, the recorded value may differ from the fair value had a readily available market existed for such investments, and those differences could be material.

Investment transactions are recorded on the trade date. Realized gains or losses are recognized in the period sales or other transactions occur and are computed using the average cost 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. 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 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.

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, 2013, the Foundation had not experienced impairment losses on its long-lived assets.

Grants Payable
The Foundation accounts for its 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 may be subject to taxation as unrelated business income.

Management has considered its tax positions in accordance with the accounting standard for uncertainty in income taxes and believes that all of the positions taken in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Foundation’s returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed. 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.

Endowment Funds
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, whenever required.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Endowment Funds (continued)

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, there were no such deficiencies as of December 31, 2013 and 2012.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results and outcomes may differ from management's estimates and assumptions, and such differences could be material.

Functional Allocation of Expenses

The costs of providing the various programs have been summarized on a functional basis in the statement 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.

Prior Year Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2012, from which the summarized information was derived.

NOTES TO FINANCIAL STATEMENTS

3. Investments

Investments consist of the following as of December 31:

	2013		2012	
	Fair Value	Cost	Fair Value	Cost
Public equity investments:				
Commingled funds	$ 67,414,410	46,591,310	$ 53,795,338	42,954,518
Mutual funds	12,389,381	16,770,131	12,495,166	16,296,387
Fixed income investments – Mutual funds	25,260,400	25,000,000	26,447,423	25,000,000
Alternative investments	52,093,218	21,890,454	50,124,359	24,911,953
Total	$ 157,157,409	$ 110,251,895	$ 142,862,286	$ 109,162,858

Public Equity Investments

Commingled Funds – The Foundation invests in marketable global equity securities through a commingled fund. Participation in the commingled fund is limited to institutional buyers and qualified purchasers that are exempt from taxation under the Internal Revenue Code of 1986. Net realized and unrealized gains on the investment totaled $13,619,072 and $7,589,263 for the years ended December 31, 2013 and 2012, respectively.

Mutual Funds – The Foundation invests in common stock and other equity securities of issuers in developing countries through a publicly traded mutual fund. Net realized and unrealized gains/(losses) on the investment totaled ($105,785) and $1,260,279 for the years ended December 31, 2013 and 2012, respectively.

Fixed Income Investments

The Foundation invests in publicly traded mutual funds consisting of fixed income securities. Net realized and unrealized gains/(losses) on the investments totaled ($1,187,023) and $1,452,888 for the years ended December 31, 2013 and 2012, respectively.

Alternative Investments

The Foundation invests in various alternative investments. Net realized and unrealized gains from the alternative investments totaled $7,803,922 and $13,939,818 for the years ended December 31, 2013 and 2012, respectively.

4. 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.

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurements (continued)

Mutual fund 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.

Commingled funds are categorized as Level 2 because the fair value of the funds is based on NAVs per fund share (the unit of account), primarily derived from the quoted prices in active markets on the underlying equity securities.

The Foundation uses net asset value per share (or its equivalent) as a practical expedient to estimate the fair value of alternative investments. Classification within the fair value hierarchy depends on whether the Foundation has the ability to redeem its investments at net asset value (or its equivalent) and if so, when that redemption can take place. If the Foundation has the ability to redeem the investment at the net asset value per share (or its equivalent) at the measurement date or in the near term, then the fair value of the investment is generally considered as Level 2. If the Foundation has no ability to redeem the investment at the net asset value per share (or its equivalent) at the measurement date or in the near term, then the fair value of the investment is considered as Level 3.

The following table presents the Foundation's investments that are measured at fair value on a recurring basis as of December 31:

Description	12/31/2013	Level 1	Level 2	Level 3
Public equity investments:				
Commingled funds – Global Equity Fund	$ 67,414,410	$ -	$ 67,414,410	$ -
Mutual funds – Emerging Markets Growth Fund	12,389,381	12,389,381	-	-
	79,803,791	12,389,381	67,414,410	-
Fixed income investments – Mutual funds:				
Total Return Fund INSTL	12,797,870	12,797,870	-	-
Global Advantage Strategy Bond Fund INSTL	12,462,530	12,462,530	-	-
	25,260,400	25,260,400	-	-
Alternative investments:				
AG Superfund, L.P.	23,720,799	-	23,720,799	-
AG Real Estate Strategies	1,472,963	-	-	1,472,963
AG Credit Strategies	3,413,819	-	-	3,413,819
AG CLO & Other Debt Strategies	23,485,637	-	-	23,485,637
	52,093,218	-	23,720,799	28,372,419
Total	$ 157,157,409	$ 37,649,781	$ 91,135,209	$ 28,372,419

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurements (continued)

Description	12/31/2012	Level 1	Level 2	Level 3
Public equity investments:				
Commingled funds – Global Equity Fund	$ 53,795,338	$ -	$ 53,795,338	$ -
Mutual funds – Emerging Markets Growth Fund	12,495,166	12,495,166	-	-
	66,290,504	12,495,166	53,795,338	-
Fixed income investments – Mutual funds:			-	-
Total Return Fund INSTL	13,367,509	13,367,509	-	-
Global Advantage Strategy Bond Fund INSTL	13,079,914	13,079,914	-	-
	26,447,423	26,447,423	-	-
Alternative investments:				
AG Superfund, L.P.	20,358,806	-	20,358,806	-
AG Real Estate Strategies	1,860,707	-	-	1,860,707
AG Credit Strategies	5,335,785	-	-	5,335,785
AG CLO & Other Debt Strategies	22,569,061	-	-	22,569,061
	50,124,359	-	20,358,806	29,765,553
Total	$ 142,862,286	$ 38,942,589	$ 74,154,144	$ 29,765,553

The following table presents reconciliations for all Level 3 investments measured at fair value:

Description	2013	2012
Fair value as of January 1	$ 29,765,553	$ 23,143,638
Total gains or losses (realized/unrealized) included in changes in net assets	4,441,929	11,491,695
Purchases	2,125,000	2,625,000
Settlements	(7,960,063)	(7,494,780)
Fair value as of December 31	$ 28,372,419	$ 29,765,553

There were no non-recurring measurements of fair value during 2013 and 2012.

As discussed in Note 2, the Foundation values all of its alternative investments at amounts reported by the investment manager and as validated through consideration of the audited financial statements of such investments. Accordingly, the Foundation does not use separate quantitative information to value such investments.

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurements (continued)

The following table summarizes the investment strategy types of the alternative investments as of December 31, 2013:

	Fund Type	Redemption Frequency	Redemption Notice Period	Measurement Date	Unfunded Commitments
AG Super Fund L.P. (a)	Open-end	Annually	60 Days	December 31	$ -
AG Real Estate Strategies (b)	Closed- end	None	None	Not applicable	$ -
AG Credit Strategies (c)	Closed- end	None	None	Not applicable	$ -
AG CLO & Other Debt Strategies (d):					
Other CLO & Other Debt Strategies	Closed-end	None	None	Not applicable	$ 5,250,000
Diversified Credit Strategies Fund Ltd.	Open-end	Annually	60 Days	End of quarter in which anniversary of purchase occurs	$ -

(a) The AG Superfund L.P. invests in various strategies including investments in special situations, financially distressed issuers, convertible hedging and real estate. The fund designates certain illiquid investments as Special Investments (i.e., side pocket investments) and redemption proceeds from capital balances related to the Special Investments are distributed over time as each investment is realized.

(b) The AG Real Estate Strategies principal investment objective is current income and capital appreciation through investments in real estate assets, including distressed real estate and sub-performing and non-performing mortgages.

(c) The AG Credit Strategies primarily invests in financially distressed issuers.

(d) AG CLO & Other Debt Strategies primarily invests in non-investment grade credit instruments, commercial real estate debt securities including commercial and residential mortgage-backed securities, REIT debt, real estate operating company debt, and collateralized debt obligations.

5. Property and Equipment

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

	2013	2012
Tenant improvements	$ 496,312	$ 496,312
Furniture, fixtures and equipment	188,794	193,478
Software	133,021	108,401
	818,127	798,191
Less accumulated depreciation	(771,559)	(744,931)
Property and equipment, net	$ 46,568	$ 53,260

Depreciation expense totaled $31,312 and $66,701 for 2013 and 2012, respectively.

NOTES TO FINANCIAL STATEMENTS

6. Line of Credit

The Foundation has a $10,000,000 uncollateralized revolving line of credit with interest at LIBOR plus 1.5% (1.67% at December 31, 2013). There were no borrowings against the line of credit as of December 31, 2013 and 2012. There was no interest expense incurred for the years ended December 31, 2013 and 2012.

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. As of December 31, 2013, 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 full-time employees who have completed one year of employment. The Foundation makes fully vested contributions ranging from 10% - 15%, based on years of service, for all participating employees. The Foundation incurred defined contribution plan expenses of $160,842 and $68,685 for the years ended December 31, 2013 and 2012, respectively.

Defined Benefit Pension Plan
The Foundation maintained a noncontributory defined benefit pension plan (the "Plan"). 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. In connection with the Plan termination, benefits were distributed to participants in December 2013. All known liabilities were settled through lump sum payments or annuity contracts; accordingly, there was no benefit obligation related to the Plan as of December 31, 2013.

Postretirement Benefits Plan
The Foundation maintains a postretirement benefit plan, which provides certain health care benefits to retired employees and their spouses, as defined by the plan.

During 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 accounting standard requires employers to recognize the funded status of a postretirement benefit plan in the statements of financial position and recognize changes in the funded status through beginning net assets.

NOTES TO FINANCIAL STATEMENTS

Benefit Plans (continued)

Postretirement Benefits Plan (continued)

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:

	2013	2012
Accumulated postretirement benefit obligation	$ (944,570)	$ (1,012,582)
Plan assets at fair value	-	-
Funded status	(944,570)	(1,012,582)
Unrecognized net gain subsequent to transition	-	-
Unrecognized transition obligations	-	-
Accrued postretirement benefit obligation	$ (944,570)	$ (1,012,582)

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

	2013	2012
Service cost	$ -	$ -
Interest cost	32,765	38,681
Actuarial gain	(26,709)	(45,520)
Net periodic benefit cost (gain)	$ 6,056	$ (6,839)

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

	2013	2012
Beginning projected accumulated postretirement benefit obligation	$ 1,012,582	$ 1,070,110
Service cost	-	-
Interest cost	32,765	38,681
Benefits paid	(74,068)	(50,689)
Actuarial gain	(26,709)	(45,520)
Ending projected accumulated postretirement benefit obligation	$ 944,570	$ 1,012,582

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

	2013	2012
Beginning fair value of plan assets	$ -	$ -
Foundation contributions	74,068	50,689
Benefits paid	(74,068)	(50,689)
Ending fair value of plan assets	$ -	$ -

NOTES TO FINANCIAL STATEMENTS

Benefit Plans (continued)

Postretirement Benefits Plan (continued)
Pertinent information related to benefits for the postretirement benefit plan is as follows:

	2013	2012
Net periodic postretirement benefit cost (gain)	$ 6,056	$ (6,839)
Foundation contributions	74,068	50,689
Benefits paid	74,068	50,689

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:

2014	$ 129,733
2015	115,939
2016	118,018
2017	92,665
2018	49,628
2019 through 2023	230,978
Total	$ 736,961

Estimated contributions to the postretirement benefit plan for 2014 are $129,733.

The actuarial calculations in 2013 assume a dental inflation assumption of 5% and a medical inflation assumption of 8% decreasing uniformly to 5% over 6 years. The assumed discount rate is 4.10%. 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 $2,600 and the accumulated benefit obligation by approximately $71,300, while a 1% decrease would decrease service and interest cost by approximately $2,200 and decrease the accumulated benefit obligation by approximately $61,100.

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.

Flexible Benefits Plan
The Foundation also has a flexible benefits plan whereby it will contribute 10% of employee compensation on behalf of full-time employees to be used for medical, retirement, education and other expenses. Employees are automatically enrolled in the new plan after completion of six months service. The Foundation contributed $149,339 and $125,787 to the plan for the years ended December 31, 2013 and 2012, respectively.

NOTES TO FINANCIAL STATEMENTS

8. Temporarily Restricted Net Assets

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

	2013	2012
Schaefer Award Fund	$ 147,482	$ 37,043

9. Endowment Funds

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

	2013	2012
Schaefer Award Fund	$ 762,000	$ 546,000

Endowment net asset composition by type of fund as of December 31, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 147,482	$ 762,000	$ 909,482
Board designated endowment funds	828,819	-	-	828,819
	$ 828,819	$ 147,482	$ 762,000	$ 1,738,301

Changes in endowment net assets for the year ended December 31, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2012	$ 278,525	$ 37,043	$ 546,000	$ 861,568
Investment return:				
Investment income	11,228	12,322	-	23,550
Net appreciation (realized and unrealized)	89,066	98,117	-	187,183
Total investment return	100,294	110,439	-	210,733
Donor contributions	-	-	216,000	216,000
Board designated funds	450,000	-	-	450,000
Appropriation of endowment funds for expenditure	-	-	-	-
Endowment net assets, December 31, 2013	$ 828,819	$ 147,482	$ 762,000	$ 1,738,301

NOTES TO FINANCIAL STATEMENTS

Endowment Funds (continued)

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

In March 2014, the Foundation transferred a total of $1,625,000 consisting of all of the permanently and temporarily restricted net assets plus a portion of board designated funds to complete the total transfer amount. The funds were transferred to another organization to manage and maintain in accordance with the endowment's original purpose. The corpus and related accumulated earnings on these endowments were removed from the Foundation's net assets subsequent to year end.

10. Operating Leases

The Foundation leases the facility that houses its corporate headquarters under a non-cancelable operating lease, with current lease terms expiring in 2019. Rental expense was $242,714 and $236,772 in 2013 and 2012, respectively.

Future minimum rental payments under the Foundation's lease as of December 31, 2013 are as follows:

Year Ending	Amount
2014	$ 229,491
2015	235,619
2016	241,931
2017	248,432
2018	255,128
Thereafter	262,025

NOTES TO FINANCIAL STATEMENTS

11. Commitments and Contingencies

Large Binocular Telescope 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 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.

Centennial Programs

The Foundation celebrated its 100th anniversary in February 2012. Beginning in 2011 and concluding in 2012, the Foundation undertook activities to celebrate the milestone by hosting events in Tucson, Washington, D.C., and New York as well as publishing commemorative information in book, video and website forms to highlight the importance of the Foundation's mission. There were no such expenses in 2013.

12. Subsequent Events

The Foundation evaluated subsequent events through May 3, 2014, which represents the date the financial statements were available to be issued, and concluded that no additional disclosures are required.