

**RESEARCH CORPORATION FOR
SCIENCE ADVANCEMENT**

YEARS ENDED DECEMBER 31, 2014 AND 2013

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

YEARS ENDED DECEMBER 31, 2014 AND 2013

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Independent Auditors' Report

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

We have audited the accompanying financial statements of Research Corporation for Science Advancement (the Foundation) which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and cash flows for the year 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 U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards established by the AICPA Auditing Standards Board. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Research Corporation for Science Advancement as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

Prior Period Financial Statements

The financial statements of Research Corporation for Science Advancement as of December 31, 2013, were audited by other auditors whose report dated May 2, 2014, expressed an unmodified opinion on those statements.

BeachFleischman PC

Tucson, Arizona
April 17, 2015

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2014 AND 2013

ASSETS

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 1,957,379	\$ 1,264,220
Investments	153,609,143	157,157,409
Accrued dividends and interest receivable	85,804	375,475
Other receivables	1,664,500	1,664,500
Other current assets	231,080	233,665
Property and equipment (net of accumulated depreciation (\$776,483, 2014; \$771,559, 2013))	<u>41,644</u>	<u>46,568</u>
	<u>\$ 157,589,550</u>	<u>\$ 160,741,837</u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$ 60,463	\$ 115,607
Grants payable	1,192,576	924,875
Post retirement benefit obligation	889,856	944,570
LBT liability	<u>1,400,000</u>	<u>1,383,859</u>
	<u>3,542,895</u>	<u>3,368,911</u>
Commitments and contingencies		
Net assets:		
Unrestricted:		
Undesignated	154,046,655	155,634,625
Board designated for endowment purposes	-	828,819
Temporarily restricted	-	147,482
Permanently restricted	<u>-</u>	<u>762,000</u>
	<u>154,046,655</u>	<u>157,372,926</u>
	<u>\$ 157,589,550</u>	<u>\$ 160,741,837</u>

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2014

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues:				
Investment income:				
Net gains on investments	\$ 2,477,196	\$ 6,810	\$ -	\$ 2,484,006
Interest and dividend income	2,146,010	1,145	-	2,147,155
Less investment management costs	<u>(325,815)</u>	<u>-</u>	<u>-</u>	<u>(325,815)</u>
Net investment income	4,297,391	7,955	-	4,305,346
Fundraising and contributions	5,048	-	-	5,048
Net assets released from restrictions	<u>917,437</u>	<u>(155,437)</u>	<u>(762,000)</u>	<u>-</u>
	<u>5,219,876</u>	<u>(147,482)</u>	<u>(762,000)</u>	<u>4,310,394</u>
Expenses:				
Program services:				
Grants and awards approved	4,905,968	-	-	4,905,968
Program administration	770,905	-	-	770,905
Conferences and convening	430,932	-	-	430,932
Communications and outreach	<u>412,602</u>	<u>-</u>	<u>-</u>	<u>412,602</u>
	<u>6,520,407</u>	<u>-</u>	<u>-</u>	<u>6,520,407</u>
Supporting services				
General and administration	1,113,966	-	-	1,113,966
Taxes	<u>2,292</u>	<u>-</u>	<u>-</u>	<u>2,292</u>
	<u>1,116,258</u>	<u>-</u>	<u>-</u>	<u>1,116,258</u>
Total program and supporting services expense	<u>7,636,665</u>	<u>-</u>	<u>-</u>	<u>7,636,665</u>
Decrease in net assets	(2,416,789)	(147,482)	(762,000)	(3,326,271)
Net assets, beginning	<u>156,463,444</u>	<u>147,482</u>	<u>762,000</u>	<u>157,372,926</u>
Net assets, ending	<u>\$ 154,046,655</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 154,046,655</u>

See notes to financial statements.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2013

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues:				
Investment income:				
Net gains on investments	\$ 20,032,069	\$ 98,117	\$ -	\$ 20,130,186
Interest and dividend income	1,963,021	12,322	-	1,975,343
Less investment management costs	<u>(258,335)</u>	<u>-</u>	<u>-</u>	<u>(258,335)</u>
Net investment income	21,736,755	110,439	-	21,847,194
Fundraising and contributions	<u>1,327</u>	<u>-</u>	<u>216,000</u>	<u>217,327</u>
	<u>21,738,082</u>	<u>110,439</u>	<u>216,000</u>	<u>22,064,521</u>
Expenses:				
Program services:				
Grants and awards approved	2,583,254	-	-	2,583,254
Program administration	794,548	-	-	794,548
Conferences and convening	412,960	-	-	412,960
Communications and outreach	<u>300,866</u>	<u>-</u>	<u>-</u>	<u>300,866</u>
	<u>4,091,628</u>	<u>-</u>	<u>-</u>	<u>4,091,628</u>
Supporting services:				
General and administration	1,704,411	-	-	1,704,411
Partnership development and fundraising	215,359	-	-	215,359
Taxes	<u>4,885</u>	<u>-</u>	<u>-</u>	<u>4,885</u>
	<u>1,924,655</u>	<u>-</u>	<u>-</u>	<u>1,924,655</u>
Total program and supporting services expense	<u>6,016,283</u>	<u>-</u>	<u>-</u>	<u>6,016,283</u>
Increase in net assets	15,721,799	110,439	216,000	16,048,238
Net assets, beginning	<u>140,741,645</u>	<u>37,043</u>	<u>546,000</u>	<u>141,324,688</u>
Net assets, ending	<u>\$ 156,463,444</u>	<u>\$ 147,482</u>	<u>\$ 762,000</u>	<u>\$ 157,372,926</u>

See notes to financial statements.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (3,326,271)	\$ 16,048,238
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation	4,924	31,312
Net realized and unrealized gains on investments	(2,484,006)	(20,130,186)
Increase in LBT liability	16,141	-
Contributions restricted for long-term investment	-	(466,000)
Changes in operating assets and liabilities:		
Accrued dividends and interest receivable	289,671	(221,507)
Other receivables	-	176,545
Other current assets	-	(4,632)
Accounts payable and accrued expenses	(55,144)	(499,565)
Grants payable	267,701	(384,374)
Pension liability	-	(1,078,946)
Other current assets	2,585	-
Post retirement benefit obligation	(54,714)	(68,012)
Net adjustments	(2,012,842)	(22,645,365)
Net cash used in operating activities	(5,339,113)	(6,597,127)
Cash flows from investing activities:		
Purchases of investments	(36,010,044)	(6,235,536)
Proceeds from sale/maturity of investments	42,042,316	12,070,599
Purchases of property and equipment	-	(24,620)
Net cash provided by investing activities	6,032,272	5,810,443
Cash flows from financing activities:		
Collection of contributions restricted for long-term investment	-	466,000
Net cash provided by financing activities	-	466,000
Net increase (decrease) in cash and cash equivalents	693,159	(320,684)
Cash and cash equivalents, beginning	1,264,220	1,584,904
Cash and cash equivalents, ending	\$ 1,957,379	\$ 1,264,220

See notes to financial statements.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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

Organization:

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

Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial statement presentation:

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions.

Cash and cash equivalents:

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

Investments:

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

Investment transactions are recorded on the trade date. Investment gains and losses include both realized and unrealized gains and losses and are included in the change in net assets in the accompanying statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor-imposed stipulations or legal requirements. 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.

Fair value measurements:

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

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

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

Other receivables:

The Foundation has sold or granted to astronomy research institutions all of its viewing rights in the Large Binocular Telescope (LBT) observatory along with the obligation to pay related operating costs associated with those nights. Other receivables at December 31, 2014 and 2013 consist of amounts owed to the Foundation from five institutions for costs that are paid by the Foundation on their behalf.

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. Any unpaid promises to give are reported as grants payable.

Endowment:

The Foundation's endowment consisted of one fund established to provide awards for innovative scientific advancement. Its endowment consists of donor-restricted funds, and as required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation adheres to New York's version, titled the "Prudent Management of Institutional Funds Act" (NYPMIFA), of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and follows GAAP rules pertaining to donor restricted endowment funds absent explicit donor stipulations to the contrary. The Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that was not classified as permanently restricted net assets was classified as temporarily restricted net assets until those amounts were appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the Act.

Program expense allocation:

Expenses that can be identified with a specific program or supporting service are charged directly to the program according to their natural expense classification. Costs incurred that share a common purpose are allocated based upon other reasonable methods.

Income taxes:

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

GAAP requires management to perform an evaluation of all tax positions taken or expected to be taken in the course of preparing the Foundation's tax returns to determine whether the tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. This evaluation is required to be performed for all open tax years, as defined by the various statutes of limitations, for federal and state purposes.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

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

Income taxes (continued):

The Foundation is only subject to income taxes on UBTI as applicable. As a result, the Foundation is required to file informational returns for federal and state purposes and, if it has UBTI, federal and state income tax returns. With limited exceptions, the Foundation is no longer subject to tax examination for any years earlier than 2011 for federal and 2010 for state. Management has performed its evaluation of tax positions taken on all open tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard.

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

Subsequent events:

The Foundation's management has evaluated the events that have occurred subsequent to December 31, 2014 through April 17, 2015, the date that the financial statements were available to be issued, and concluded that no additional disclosures are required. Management has no responsibility to update these financial statements for events and circumstances occurring after this date.

2. Investments at fair value:

At December 31, 2014, the fair value of investments measured on a recurring basis is as follows:

	<u>Fair value</u>	<u>Quoted prices (level 1)</u>	<u>Significant other observable inputs (level 2)</u>	<u>Significant unobservable inputs (level 3)</u>
Public equity investments:				
Commingled funds - Global Equity Fund	\$ 67,731,133	\$ -	\$ 67,731,133	\$ -
Mutual funds - Emerging Markets Growth Fund	11,232,304	11,232,304	-	-
Fixed income investments:				
Prime Money Market Fund	1,500,000	1,500,000	-	-
Short Term Bond Index	7,992,374	7,992,374	-	-
Short Term Investment Growth INSTL	7,955,224	7,955,224	-	-
Alternative investments:				
AG Superfund, L.P.	24,506,901	-	24,506,901	-
AG Real Estate Strategies	3,215,510	-	-	3,215,510
AG Credit Strategies	2,320,207	-	-	2,320,207
AG CLO & Other Debt Strategies	27,155,490	-	-	27,155,490
	<u>\$153,609,143</u>	<u>\$ 28,679,902</u>	<u>\$ 92,238,034</u>	<u>\$ 32,691,207</u>

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

2. Investments at fair value (continued):

At December 31, 2013, the fair value of investments measured on a recurring basis is as follows:

	<u>Fair value</u>	<u>Quoted prices (level 1)</u>	<u>Significant other observable inputs (level 2)</u>	<u>Significant unobservable inputs (level 3)</u>
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	-	-
Fixed income investments:				
Total Return Fund INSTL	12,797,870	12,797,870	-	-
Global Advantage Strategy Bond Fund INSTL	12,462,530	12,462,530	-	-
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	<u>23,485,637</u>	<u>-</u>	<u>-</u>	<u>23,485,637</u>
	<u>\$157,157,409</u>	<u>\$ 37,649,781</u>	<u>\$ 91,135,209</u>	<u>\$ 28,372,419</u>

The preceding tables are based on the following hierarchy of observable independent market inputs and unobservable market assumptions:

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

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

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

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

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

The Foundation invests in marketable global equity securities through commingled funds that are limited to institutional and other qualified investors. The fair value of the commingled funds are based on the net asset value primarily derived from quoted prices in active markets of the underlying equity securities. Investments in mutual funds are valued at the closing price reported on the active market the individual securities are traded.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

2. Investments at fair value (continued):

The Foundation uses the net asset value per share as a practical expedient to estimate the fair value of alternative investments. Since there is no readily available market for 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 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.

Classification of the alternative investments within the fair value hierarchy depends on whether the Foundation has the ability to redeem its investments at net asset value at the measurement date or in the near term. If the investment can be redeemed, then its fair value is generally considered valued using level 2 inputs. If the Foundation has no ability to redeem the investment at the net asset value per share at the measurement date or in the near term, the fair value of the investment is considered valued using level 3 inputs.

The alternative investments consist of funds with the following investment strategies:

The AG Superfund L.P. is an open-ended fund that 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 and redemption proceeds from capital balances related to the special investments are distributed over time as each investment is realized. The fund allows for annual redemption upon 60 days notice.

The AG Real Estate Strategies funds principal investment objective is current income and capital appreciation through investments in real estate assets, including distressed real estate and subperforming and nonperforming mortgages.

The AG Credit Strategies funds primarily invest in financially distressed issuers.

AG CLO & Other Debt Strategies funds primarily invest in noninvestment 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.

The Real Estate, Credit and Other AG funds typically are structured as limited partnerships with finite lives up to fifteen years and do not permit redemption before termination. Included in the financial statements are investments in these funds at various dates beginning in June 1999. Aggregate unfunded commitments of \$7,525,000 exist at December 31, 2014 related to these funds.

In February 2015, the Foundation entered into an additional \$5,000,000 commitment related to its investment in a new AG fund.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

2. Investments at fair value (continued):

A reconciliation of assets measured at fair value on a recurring basis with the use of significant unobservable inputs is as follows:

	2014	2013
Balance at January 1	\$ 28,372,419	\$ 29,765,553
Gains included in changes in net assets	1,811,380	4,441,929
Purchases	7,724,008	2,125,000
Settlements	(5,216,600)	(7,960,063)
Balance at December 31	\$ 32,691,207	\$ 28,372,419

3. Line of credit:

The Foundation has a \$5,000,000 uncollateralized revolving line of credit with interest at daily one-month LIBOR (.17% at December 31, 2014) plus 1.5%. There were no borrowings against the line of credit at December 31, 2014 and 2013. At December 31, 2014, the Foundation was in compliance with all loan covenants.

4. Benefit plans:

Defined contribution pension plan:

The Foundation has a noncontributory defined contribution plan for all eligible employees. The Foundation makes fully vested contributions ranging from 10% - 15%, based on years of service. The Foundation incurred defined contribution plan expense of \$120,648 and \$160,842 for 2014 and 2013.

Flexible benefits plan:

The Foundation has a flexible benefits plan whereby it contributes 10% of compensation for eligible employees to be used for medical, retirement, education and other expenses. The Foundation contributed \$105,940 and \$149,339 to the plan for 2014 and 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 2006, the Foundation froze eligibility for participation in its postretirement benefit plan to those employees hired before June 1, 2005.

The following table shows a summary of postretirement benefit obligations for the year:

	2014	2013
Beginning projected accumulated postretirement benefit obligations	\$ 944,570	\$ 1,012,582
Interest cost	33,621	32,765
Benefits paid	(56,103)	(74,068)
Actuarial gain	(32,232)	(26,709)
Ending projected accumulated postretirement benefit obligations	\$ 889,856	\$ 944,570

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

4. Benefit plans (continued):

Postretirement benefit plans (continued):

The following table reflects the components of net periodic postretirement benefit cost for the year:

	<u>2014</u>	<u>2013</u>
Service cost	\$ -	\$ -
Interest cost	33,621	32,765
Actuarial gain	<u>(32,232)</u>	<u>(26,709)</u>
Net periodic benefit cost	<u>\$ 1,389</u>	<u>\$ 6,056</u>

The actuarial calculations in 2014 and 2013 include 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 3.63% and 4.1% for 2014 and 2013. 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 \$3,000 and \$2,600 and the accumulated benefit obligation by approximately \$83,500 and \$71,300 for 2014 and 2013. A 1% decrease would decrease service and interest cost by approximately \$2,500 and \$2,200 and decrease the accumulated benefit obligation by approximately \$70,700 and \$61,100 for 2014 and 2013. The Foundation made contributions and the Plan paid benefits of \$56,103 and \$74,068 during 2014 and 2013.

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:

<u>Year ending</u> <u>December 31,</u>	
2015	\$ 98,213
2016	98,056
2017	90,041
2018	62,677
2019	38,034
2020 - 2024	<u>198,846</u>
	<u>\$ 585,867</u>

5. Endowment funds:

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 spending rate of 5% of the average quarterly fair value during the three preceding years for the permanently restricted and board-designated portions of the pool.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

5. Endowment funds (continued):

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, 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.

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.

Changes in endowment net assets are as follows:

	Board designated unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, December 31, 2012	\$ 278,525	\$ 37,043	\$ 546,000	\$ 861,568
Net investment return	100,294	110,439	-	210,733
Donor contributions	-	-	216,000	216,000
Appropriation of endowment funds for expenditure	450,000	-	-	450,000
Net assets, December 31, 2013	828,819	147,482	762,000	1,738,301
Net investment return	7,652	7,955	-	15,607
Appropriation of endowment funds for expenditure	(707,563)	(155,437)	(762,000)	(1,625,000)
Release of board designation	(128,908)	-	-	(128,908)
Net assets, December 31, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

6. Commitments and contingencies:

Large binocular telescope project:

The Foundation is a partner with a 12.5% interest in the Large Binocular Telescope Project, 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 rights. The Foundation remains liable for its proportionate share of observatory construction and certain other project development costs and has accrued its best estimate of these costs as LBT liability.

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.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

6. Commitments and contingencies (continued):

Operating leases:

The Foundation leases its office space under a noncancelable operating lease expiring in 2019. Rental expense was \$224,498 and \$242,714 in 2014 and 2013.

Future minimum rental payments under the lease at December 31, 2014 are as follows:

<u>Year ending December 31,</u>	
2015	\$ 226,945
2016	237,403
2017	244,311
2018	251,424
2019	<u>258,748</u>
	<u>\$ 1,218,831</u>