

**RESEARCH CORPORATION FOR SCIENCE
ADVANCEMENT**

YEARS ENDED DECEMBER 31, 2015 AND 2014

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

YEARS ENDED DECEMBER 31, 2015 AND 2014

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Independent Auditors' Report

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

We have audited the accompanying financial statements of Research Corporation for Science Advancement (the Foundation) which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities 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 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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

BeachFleischman PC

Tucson, Arizona
April 21, 2016

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2015 AND 2014

ASSETS

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 2,207,044	\$ 1,957,379
Investments	145,822,011	153,609,143
Accrued dividends and interest receivable	-	85,804
Other receivables	1,664,500	1,664,500
Other assets	249,671	231,080
Property and equipment, net of accumulated depreciation (\$781,754, 2015; \$776,483, 2014)	<u>57,169</u>	<u>41,644</u>
	<u>\$ 150,000,395</u>	<u>\$ 157,589,550</u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$ 69,875	\$ 60,463
Grants payable	1,250,569	1,192,576
Postretirement benefit obligation	734,791	889,856
LBT liability	<u>1,400,000</u>	<u>1,400,000</u>
	3,455,235	3,542,895
Commitments and contingencies		
Net assets:		
Unrestricted	<u>146,545,160</u>	<u>154,046,655</u>
	<u>\$ 150,000,395</u>	<u>\$ 157,589,550</u>

See notes to financial statements.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2015

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues:				
Net investment income (loss):				
Net capital loss	\$ (3,111,722)	\$ -	\$ -	\$ (3,111,722)
Interest and dividend income	1,931,835	-	-	1,931,835
Net investment loss	(1,179,887)	-	-	(1,179,887)
Other	201	-	-	201
	<u>(1,179,686)</u>	<u>-</u>	<u>-</u>	<u>(1,179,686)</u>
Expenses:				
Program services:				
Grants and awards approved	3,452,044	-	-	3,452,044
Program administration	752,582	-	-	752,582
Conferences and convening	802,693	-	-	802,693
Communications and outreach	479,237	-	-	479,237
	<u>5,486,556</u>	<u>-</u>	<u>-</u>	<u>5,486,556</u>
Supporting services:				
General and administration	792,916	-	-	792,916
Taxes	42,337	-	-	42,337
	<u>835,253</u>	<u>-</u>	<u>-</u>	<u>835,253</u>
Total program and supporting services expenses	<u>6,321,809</u>	<u>-</u>	<u>-</u>	<u>6,321,809</u>
Decrease in net assets	(7,501,495)	-	-	(7,501,495)
Net assets, beginning	154,046,655	-	-	154,046,655
Net assets, ending	<u>\$ 146,545,160</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 146,545,160</u>

See notes to financial statements.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2014

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues:				
Net investment income:				
Net capital gain	\$ 2,151,381	\$ 6,810	\$ -	\$ 2,158,191
Interest and dividend income	2,146,010	1,145	-	2,147,155
	<u>4,297,391</u>	<u>7,955</u>	<u>-</u>	<u>4,305,346</u>
Other	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	412,602	-	-	412,602
	<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	2,292	-	-	2,292
	<u>1,116,258</u>	<u>-</u>	<u>-</u>	<u>1,116,258</u>
Total program and supporting services expenses	<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

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Cash flows from operating activities:		
Decrease in net assets	\$ (7,501,495)	\$ (3,326,271)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	5,271	4,924
Net realized and unrealized (gains) losses on investments	2,190,332	(3,720,294)
Increase in LBT liability	-	16,141
Changes in operating assets and liabilities:		
Accrued dividends and interest receivable	85,804	289,671
Accounts payable and accrued expenses	9,412	(55,144)
Grants payable	57,993	267,701
Other assets	(18,591)	2,585
Post retirement benefit obligation	(155,065)	(54,714)
Net adjustments	2,175,156	(3,249,130)
Net cash used in operating activities	(5,326,339)	(6,575,401)
Cash flows from investing activities:		
Purchases of investments	(109,600,000)	(36,010,044)
Proceeds from sale/maturity of investments	115,196,800	43,278,604
Purchases of property and equipment	(20,796)	-
Net cash provided by investing activities	5,576,004	7,268,560
Net increase in cash and cash equivalents	249,665	693,159
Cash and cash equivalents, beginning	1,957,379	1,264,220
Cash and cash equivalents, ending	\$ 2,207,044	\$ 1,957,379

See notes to financial statements.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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 net of related investment fees. Realized gains or losses are recognized in the period sales or other transactions occur and are computed using the first-in, first-out method. During 2014, realized gains or losses were 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, 2015 AND 2014

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, 2015 and 2014 consist of amounts owed to the Foundation from five institutions for costs that were 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. 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 consisted of donor-restricted funds, and as required by GAAP, net assets associated with endowment funds were 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.

Expense allocation:

Expenses that can be identified with a specific program or supporting service are charged directly to the program according to their natural expense classification. Costs incurred that share a common purpose are allocated based upon estimates made by management of time spent by employees on various activities. Investment expenses include an allocation of internal expenses, such as compensation and occupancy costs, for the Foundation's staff as well as amounts paid to third parties.

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, 2015 AND 2014

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. 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.

New accounting pronouncements:

In May 2015, the Financial Accounting Standards Board issued ASU 2015-07 Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent). ASU 2015-07 updates existing fair value guidance and amends Accounting Standards Codification 820, Fair Value Measurement. Under the amendments of ASU 2015-07, investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient should not be categorized in the fair value hierarchy. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. ASU 2015-07 is effective for annual reporting periods beginning after December 15, 2016 and early adoption is permitted. The early adoption of ASU 2015-07 by the Foundation changed certain disclosures in Note 3, but did not have a material impact on its financial position, results of operations or cash flows.

Subsequent events:

The Foundation's management has evaluated the events that have occurred subsequent to December 31, 2015 through April 21, 2016, 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:

The investment goal of the Foundation is to maintain or grow its spending power in real (inflation adjusted) terms with risk at a level appropriate to the Foundation's programmatic spending and objectives. The Foundation diversifies its investments among various financial instruments and asset categories, including both active and passive approaches. The investments of the Foundation are managed by external investment management firms. The cost presented in the following table consists of cash invested less cash returned. The Foundation's investments consist of the following at December 31:

	2015		2014	
	Fair value	Cost	Fair value	Cost
Equity investments:				
Mutual funds	\$ 66,494,036	\$ 67,574,651	\$ 11,232,304	\$ 17,187,893
Commingled funds	-	-	67,731,133	53,486,662
Private investment funds	16,387,200	17,000,000	-	-
Fixed income investments:				
Money market funds	5,200,000	5,200,000	1,500,000	1,500,000
Short-term bond funds	12,841,977	12,975,849	15,947,598	16,000,000
Alternative investments:				
Multi strategy funds	27,900,349	7,886,532	29,689,222	8,238,644
Real estate strategy funds	3,790,993	3,475,000	3,215,510	2,637,500
CLO & other debt strategies funds	13,207,456	9,472,233	24,293,376	9,631,508
	<u>\$145,822,011</u>	<u>\$123,584,265</u>	<u>\$153,609,143</u>	<u>\$108,682,207</u>

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

2. Investments (continued):

The Foundation's equity investments are invested with independent managers with a global strategy, including exposure to emerging markets. In 2014 (and until liquidated in October 2015), the Foundation was invested in a mutual fund with an emerging markets only strategy. At December 31, 2015 and 2014, approximately 42% and 81%, respectively, of the Foundation's investments were invested in limited partnerships, commingled funds and private investment funds. Such investments generally have limited liquidity due to the structure, term and investment strategy of the investment.

Net capital gain (loss) consists of the following:

	<u>2015</u>	<u>2014</u>
Net realized and unrealized gains (losses) on investments	\$ (2,190,332)	\$ 3,720,294
Investment advisory fees	(707,918)	(1,424,306)
Internal investment management costs	<u>(213,472)</u>	<u>(137,797)</u>
	<u>\$ (3,111,722)</u>	<u>\$ 2,158,191</u>

3. Fair value:

ASC 820 Fair Value Measurement, establishes a fair value disclosure framework which prioritizes and ranks the level of observable inputs used in measuring investments at fair value. The levels of the fair value hierarchy are as follows:

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

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

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

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

Practical Expedient - Investments for which fair value is measured at net asset value per share (or its equivalent). Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed. Investments that are included in this category generally include private fund investment structures and limited party interest, without quoted prices.

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

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

3. Fair value (continued):

At December 31, 2015, the fair value of investments measured on a recurring basis is as follows:

	<u>Fair value</u>	<u>Practical expedient</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equity investments:					
Mutual funds	\$ 66,494,036	\$ -	\$ 66,494,036	\$ -	\$ -
Private investment funds	16,387,200	16,387,200		-	-
Fixed income investments:					
Money market funds	5,200,000	-	5,200,000	-	-
Short-term bond funds	12,841,977	-	12,841,977	-	-
Alternative investments:					
Multi strategy funds	27,900,349	27,900,349	-	-	-
Real estate strategy funds	3,790,993	3,790,993	-	-	-
CLO & other debt strategies funds	<u>13,207,456</u>	<u>13,207,456</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$145,822,011</u>	<u>\$ 61,285,998</u>	<u>\$ 84,536,013</u>	<u>\$ -</u>	<u>\$ -</u>

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

	<u>Fair value</u>	<u>Practical expedient</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Public equity investments:					
Mutual funds	\$ 11,232,304	\$ -	\$ 11,232,304	\$ -	\$ -
Commingled funds	67,731,133	67,731,133	-	-	-
Fixed income investments:					
Money Market Fund	1,500,000	-	1,500,000	-	-
Short-term bond funds	15,947,598	-	15,947,598	-	-
Alternative investments:					
Multi strategy funds	29,689,222	29,689,222	-	-	-
Real estate strategy funds	3,215,510	3,215,510	-	-	-
CLO & other debt strategies funds	<u>24,293,376</u>	<u>24,293,376</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$153,609,143</u>	<u>\$124,929,241</u>	<u>\$ 28,679,902</u>	<u>\$ -</u>	<u>\$ -</u>

The Foundation invested in marketable global equity securities through commingled funds that were limited to institutional and other qualified investors. The fair value of the commingled funds was 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 in which the individual funds are traded.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

3. Fair value (continued):

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

The Foundation's investments that employ the practical expedient consist of all the alternative investments and an equity investment which are structured as partnerships, limited liability companies and offshore investment funds. These investments have restrictions on redemptions. The following table summarizes the investment strategy types and redemption details of these investments at December 31, 2015:

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Public equity investments (a)	\$ 16,387,200	\$ -	3 year lock-up	N/A
Multi strategy funds (b)	27,900,349	-	Annually	90 days
Other alternative funds (c)	<u>16,998,449</u>	<u>10,625,000</u>	None	N/A
	<u>\$ 61,285,998</u>	<u>\$ 10,625,000</u>		

- (a) This category consists of an offshore investment fund that invests in global public equities in a highly concentrated fashion. There is liquidity of 10% during years 1 and 2 and 7.5% during year 3, with remainder available to redeem at end of lock. 2.5% may be taken each quarter. Unused entitlement rolls from one quarter to the next, but does not roll from one year to the next.
- (b) This category consists of two open-end funds. One invests in various strategies including investments in special situations, financially distressed issuers, convertible hedging and real estate. The other fund generally invests in non-investment grade credit instruments.
- (c) This category consists of various closed-end limited partnerships with finite lives up to 15 years which do not permit redemption before termination. These investments consist of various debt related strategies including whole loan origination, CMBS and RMBS securitized lending, Europe real estate and key facility corporate lease lending. Substantially all of the value of the investments in this category can never be redeemed with the funds. Instead, due to the nature of these investments, distributions are received through the liquidation of the underlying assets of the funds. It is estimated that the underlying assets will be liquidated over the next 10 years.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

4. Line of credit:

The Foundation has a \$5,000,000 uncollateralized revolving line of credit with interest at the daily one-month LIBOR (.43% and .17% at December 31, 2015 and 2014) plus 1.5%. There were no borrowings against the line of credit at December 31, 2015 and 2014. At December 31, 2015 and 2014, the Foundation was in compliance with all loan covenants.

5. 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 \$148,045 and \$120,648 for 2015 and 2014.

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 \$137,442 and \$105,940 to the plan for 2015 and 2014.

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:

	<u>2015</u>	<u>2014</u>
Beginning projected accumulated postretirement benefit obligations	\$ 889,856	\$ 944,570
Interest cost	28,736	33,621
Benefits paid	(42,170)	(56,103)
Actuarial gain	<u>(141,631)</u>	<u>(32,232)</u>
Ending projected accumulated postretirement benefit obligations	<u>\$ 734,791</u>	<u>\$ 889,856</u>

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

	<u>2015</u>	<u>2014</u>
Service cost	\$ -	\$ -
Interest cost	28,736	33,621
Actuarial gain	<u>(141,631)</u>	<u>(32,232)</u>
Net periodic benefit cost	<u>\$ (112,895)</u>	<u>\$ 1,389</u>

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

5. Benefit plans (continued):

Postretirement benefit plans (continued):

The actuarial calculation in 2015 includes a dental inflation assumption of 5% and a medical inflation assumption of 7% decreasing uniformly to 5% over 4 years. The actuarial calculation in 2014 includes 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 3.90% and 3.63% for 2015 and 2014. 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 the accumulated benefit obligation by approximately \$61,000 and \$83,500 for 2015 and 2014. A 1% decrease would decrease service and interest cost by approximately \$2,500 and decrease the accumulated benefit obligation by approximately \$52,000 and \$70,700 for 2015 and 2014. The Foundation made contributions and the Plan paid benefits of \$42,170 and \$56,103 during 2015 and 2014.

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

<u>Year ending</u> <u>December 31,</u>	
2016	\$ 91,902
2017	85,450
2018	86,365
2019	63,578
2020	33,525
2021 - 2025	<u>170,502</u>
	<u>\$ 531,322</u>

6. 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.

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.

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

6. Endowment funds (continued):

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:

	<u>Board designated unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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	<u>(128,908)</u>	<u>-</u>	<u>-</u>	<u>(128,908)</u>
Net assets, December 31, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

7. 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.

Operating leases:

The Foundation leases its office space under a noncancelable operating lease expiring in 2019. Rental expense was \$221,724 and \$224,498 in 2015 and 2014. In January 2016, the Foundation entered into an agreement to sublease a portion of its office space to a third party.

Future minimum rental payments under the lease at December 31, 2015 are as follows:

<u>Year ending December 31,</u>	<u>Rent payments</u>	<u>Sublease receipts</u>	<u>Net</u>
2016	\$ 234,591	\$ 14,025	\$ 220,566
2017	241,386	20,240	221,146
2018	248,382	20,680	227,702
2019	<u>255,584</u>	<u>21,120</u>	<u>234,464</u>
	<u>\$ 979,943</u>	<u>\$ 76,065</u>	<u>\$ 903,878</u>

RESEARCH CORPORATION FOR SCIENCE ADVANCEMENT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

8. Reclassifications:

The 2014 financial statements have been reclassified in order to conform to the 2015 financial statement presentation. The reclassifications had no effect on net assets at December 31, 2014 or on the increase in net assets for the year then ended.