



FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NEW PROFIT INC.

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December 31, 2016 and 2015

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Independent Auditor's Report

To the Board of Directors of
New Profit Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of New Profit Inc. (a Massachusetts corporation, not-for-profit), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 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 New Profit Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Alexander, Brown, Pinning & Co., P.C.

Boston, Massachusetts
June 19, 2017

NEW PROFIT INC.

Statements of Financial Position
December 31, 2016 and 2015

Assets	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Current Assets:						
Cash and cash equivalents	\$ 2,607,600	\$ 13,880,225	\$ 16,487,825	\$ 2,113,673	\$ 12,289,060	\$ 14,402,733
Grant receivable	190,349	-	190,349	964,631	-	964,631
Current portion of commitments receivable	-	18,562,281	18,562,281	-	14,194,800	14,194,800
Prepaid expenses and other	158,943	-	158,943	650,897	-	650,897
Total current assets	2,956,892	32,442,506	35,399,398	3,729,201	26,483,860	30,213,061
Commitments Receivable, net of current portion and discount	-	20,903,790	20,903,790	-	14,993,446	14,993,446
Total assets	<u>\$ 2,956,892</u>	<u>\$ 53,346,296</u>	<u>\$ 56,303,188</u>	<u>\$ 3,729,201</u>	<u>\$ 41,477,306</u>	<u>\$ 45,206,507</u>
Liabilities and Net Assets						
Current Liabilities:						
Accounts payable and accrued expenses	\$ 993,009	\$ -	\$ 993,009	\$ 1,420,060	\$ -	\$ 1,420,060
Commitments payable	503,172	-	503,172	1,708,317	-	1,708,317
Total current liabilities	1,496,181	-	1,496,181	3,128,377	-	3,128,377
Net Assets:						
Unrestricted	1,460,711	-	1,460,711	600,824	-	600,824
Temporarily restricted	-	53,346,296	53,346,296	-	41,477,306	41,477,306
Total net assets	1,460,711	53,346,296	54,807,007	600,824	41,477,306	42,078,130
Total liabilities and net assets	<u>\$ 2,956,892</u>	<u>\$ 53,346,296</u>	<u>\$ 56,303,188</u>	<u>\$ 3,729,201</u>	<u>\$ 41,477,306</u>	<u>\$ 45,206,507</u>

The accompanying notes are an integral part of these statements.

NEW PROFIT INC.

Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2016 and 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and Support:						
Grants and contributions	\$ 3,874,125	\$ 33,329,968	\$ 37,204,093	\$ 4,869,069	\$ 27,728,809	\$ 32,597,878
Donated services	2,778,257	-	2,778,257	2,258,399	-	2,258,399
Contract revenue	1,697,913	-	1,697,913	4,623,470	-	4,623,470
Program fees and miscellaneous	306,776	-	306,776	76,141	-	76,141
Net assets released from restrictions:						
Payments to portfolio organizations	8,581,760	(8,581,760)	-	10,528,765	(10,528,765)	-
Satisfaction of time restrictions	3,035,000	(3,035,000)	-	2,115,000	(2,115,000)	-
Satisfaction of purpose restrictions	9,687,142	(9,687,142)	-	6,232,237	(6,232,237)	-
Total revenue and support	<u>29,960,973</u>	<u>12,026,066</u>	<u>41,987,039</u>	<u>30,703,081</u>	<u>8,852,807</u>	<u>39,555,888</u>
Expenses:						
Program	25,282,882	-	25,282,882	28,918,256	-	28,918,256
General and administrative	3,058,094	-	3,058,094	2,557,361	-	2,557,361
Development and communications	760,110	-	760,110	1,261,426	-	1,261,426
Total expenses	<u>29,101,086</u>	<u>-</u>	<u>29,101,086</u>	<u>32,737,043</u>	<u>-</u>	<u>32,737,043</u>
Changes in net assets before other losses	859,887	12,026,066	12,885,953	(2,033,962)	8,852,807	6,818,845
Other Losses:						
Cancelled commitments receivable	-	157,076	157,076	-	-	-
Changes in net assets	859,887	11,868,990	12,728,877	(2,033,962)	8,852,807	6,818,845
Net Assets:						
Beginning of year	<u>600,824</u>	<u>41,477,306</u>	<u>42,078,130</u>	<u>2,634,786</u>	<u>32,624,499</u>	<u>35,259,285</u>
End of year	<u>\$ 1,460,711</u>	<u>\$ 53,346,296</u>	<u>\$ 54,807,007</u>	<u>\$ 600,824</u>	<u>\$ 41,477,306</u>	<u>\$ 42,078,130</u>

NEW PROFIT INC.Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 12,728,877	\$ 6,818,845
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	-	12,815
Change in discount on commitments receivable	186,935	(55,977)
Cancelled commitments receivable	157,076	-
Changes in operating assets and liabilities:		
Grant receivable	774,282	775,291
Commitments receivable	(10,621,836)	260,195
Prepaid expenses and other	491,954	(278,195)
Accounts payable and accrued expenses	(427,051)	571,409
Commitments payable	(1,205,145)	(1,350,318)
Net cash provided by operating activities	<u>2,085,092</u>	<u>6,754,065</u>
Cash Flows from Investing Activities:		
Proceeds from sale of marketable securities	-	140,175
Net Change in Cash and Cash Equivalents	2,085,092	6,894,240
Cash and Cash Equivalents:		
Beginning of year	<u>14,402,733</u>	<u>7,508,493</u>
End of year	<u>\$ 16,487,825</u>	<u>\$ 14,402,733</u>

NEW PROFIT INC.

Statement of Functional Expenses

For the Year Ended December 31, 2016

(With Summarized Comparative Totals for the Year Ended December 31, 2015)

	2016										2015		
	Program Expenses												
	Portfolio Investing												
	Innovation Fund	Reimagine Learning Fund	Pathways Fund	Early Learning Fund	Reimagine School Systems Fund	Learn to Earn Fund	Portfolio Support Services	Field Leadership	Total Program Expenses	General and Administrative	Development and Communications	Total Expenses	Total Expenses
Program Investments:													
Program investments	\$ 3,640,000	\$ 3,609,001	\$ 2,984,118	\$ 546,154	\$ 1,020,800	\$ 450,000	\$ -	\$ -	\$ 12,250,073	\$ -	\$ -	\$ 12,250,073	\$ 16,615,286
Donated consulting and technical assistance to portfolio organizations	1,119,560	322,164	-	-	704,786	-	-	-	2,146,510	-	-	2,146,510	1,564,000
Total program investments	4,759,560	3,931,165	2,984,118	546,154	1,725,586	450,000	-	-	14,396,583	-	-	14,396,583	18,179,286
Operating Expenses:													
Personnel and related costs	1,099,368	1,119,582	252,283	492,363	499,440	612,601	890,070	1,407,464	6,373,171	1,909,166	529,828	8,812,165	8,450,298
Professional fees (including donated legal services)	329,182	1,183,709	95,650	150,557	14,258	38,065	213,967	555,822	2,581,210	255,813	39,746	2,876,769	2,747,203
Conferences and convenings	18,019	142,272	2,418	12,108	13,310	4,494	78,695	728,351	999,667	46,843	4,741	1,051,251	1,449,597
Donated management consulting	-	-	-	-	-	-	-	-	-	430,649	-	430,649	450,000
Occupancy	35,172	38,068	8,767	15,807	16,060	21,747	28,105	102,694	266,420	121,079	24,176	411,675	570,381
Travel	55,669	68,972	7,320	14,998	38,446	25,158	33,530	73,349	317,442	28,783	17,025	363,250	347,854
Office	14,263	18,600	2,460	5,808	7,908	9,589	14,532	66,502	139,662	101,336	37,611	278,609	141,757
Recruiting and talent	5,806	21,665	-	-	3,300	55,868	178	9,501	96,318	122,354	5,924	224,596	142,034
Design and printing	825	9,178	-	18	324	216	-	75,539	86,100	153	100,419	186,672	191,392
Miscellaneous	640	4,372	-	232	1,221	2,140	178	17,526	26,309	41,918	640	68,867	54,426
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	12,815
Allocated portfolio support services	419,088	239,047	159,366	53,122	79,681	-	(950,304)	-	-	-	-	-	-
Total operating expenses	1,978,032	2,845,465	528,264	745,013	673,948	769,878	308,951	3,036,748	10,886,299	3,058,094	760,110	14,704,503	14,557,757
Total expenses	\$ 6,737,592	\$ 6,776,630	\$ 3,512,382	\$ 1,291,167	\$ 2,399,534	\$ 1,219,878	\$ 308,951	\$ 3,036,748	\$ 25,282,882	\$ 3,058,094	\$ 760,110	\$ 29,101,086	\$ 32,737,043

NEW PROFIT INC.

Statement of Functional Expenses
For the Year Ended December 31, 2015

	Program Expenses							Total Program Expenses	General and Administrative	Development and Communications	Total Expenses	
	Portfolio Investing											
	Innovation Fund	Reimagine Learning Fund	Pathways Fund	Early Learning Fund	Reimagine School Systems Fund	Learn to Earn Fund	Portfolio Support Services	Field Leadership				
Program Investments:												
Program investments	\$ 3,940,000	\$ 2,758,000	\$ 8,248,776	\$ 718,510	\$ 750,000	\$ 200,000	\$ -	\$ -	\$ 16,615,286	\$ -	\$ -	\$ 16,615,286
Donated consulting and technical assistance to portfolio organizations	1,025,000	539,000	-	-	-	-	-	-	1,564,000	-	-	1,564,000
Total program investments	4,965,000	3,297,000	8,248,776	718,510	750,000	200,000	-	-	18,179,286	-	-	18,179,286
Operating Expenses:												
Personnel and related costs	799,096	1,144,640	509,641	331,576	332,167	487,366	832,018	1,505,072	5,941,576	1,615,180	893,542	8,450,298
Professional fees (including donated legal services)	16,285	653,888	306,535	807,739	28,868	44,219	278,030	350,202	2,485,766	174,512	86,925	2,747,203
Conferences and convenings	9,281	427,639	29,278	38,905	40,803	20,970	87,243	734,685	1,388,804	50,177	10,616	1,449,597
Donated management consulting	-	-	-	-	-	-	-	-	-	450,000	-	450,000
Occupancy	38,866	64,938	36,730	19,561	23,042	13,342	44,063	146,361	386,903	119,480	63,998	570,381
Travel	55,295	46,680	28,960	27,791	31,200	22,806	33,111	56,584	302,427	18,221	27,206	347,854
Office	4,689	7,192	4,071	2,188	2,750	2,299	8,034	42,401	73,624	28,053	40,080	141,757
Recruiting and talent	3,618	-	10,440	36,495	-	-	2,547	38,321	91,421	50,613	-	142,034
Design and printing	128	103	60	-	216	359	204	52,886	53,956	1,889	135,547	191,392
Miscellaneous	361	1,617	745	328	344	68	1,297	1,286	6,046	46,392	1,988	54,426
Depreciation	1,974	1,546	874	466	549	318	-	2,720	8,447	2,844	1,524	12,815
Allocated portfolio support services	445,415	242,953	242,953	80,954	121,477	-	(1,133,752)	-	-	-	-	-
Total operating expenses	1,375,008	2,591,196	1,170,287	1,346,003	581,416	591,747	152,795	2,930,518	10,738,970	2,557,361	1,261,426	14,557,757
Total expenses	\$ 6,340,008	\$ 5,888,196	\$ 9,419,063	\$ 2,064,513	\$ 1,331,416	\$ 791,747	\$ 152,795	\$ 2,930,518	\$ 28,918,256	\$ 2,557,361	\$ 1,261,426	\$ 32,737,043

The accompanying notes are an integral part of these statements.

NEW PROFIT INC.

Notes to Financial Statements
December 31, 2016 and 2015

1. OPERATIONS AND NONPROFIT STATUS

New Profit Inc. (the Organization) is a nonprofit social innovation organization and venture philanthropy fund seeking to increase social mobility for families and communities by accelerating the best ideas across the nation. The Organization collaborates with a diverse group of investors and partners from across sectors to advance social innovations and drive systemic change, ultimately transforming the lives of children, families, and communities.

Through its portfolio investment program, the Organization invests financial and intellectual capital in a portfolio of social entrepreneur-led organizations (such organizations are described as Portfolio Organizations in the accompanying financial statements) and helps them to grow their organizations, increase the scale and quality of their impact, expand their networks, and transform their fields. The portfolio investment team supports these organizations in navigating challenges and tracking their progress in five major areas - impact and innovation, growth, leadership and governance, organizational strategy, and metrics.

In 2016, the Personalized Learning Initiative was launched as a part of the Innovation Fund. This Initiative is an effort to invest in promising new approaches and technologies that can give students more agency in their own learning journey and provide teachers with tools to tailor classroom instruction to the unique needs of each student. A variety of new and emerging models rising in the young personalized learning field will be supported by the Initiative. These models include on-the-ground school models implementing a personalized learning curriculum in classrooms; tools and platforms for teachers, parents, and students to adopt for more individualized supports; technical assistance that provides deep implementation support for schools and district; policy and advocacy efforts for best practices in personalized learning; and knowledge dissemination and network connections of learnings for the overall field.

Certain components of the Organization's portfolio investment program, expanding beyond the portfolio support described above, are executed through the Organization's issue-based focus funds, which bring like-minded social entrepreneurs, philanthropists and institutional donors, researchers, policy experts, and other cross-sector partners together for intensive collaboration aimed at catalyzing new approaches and breaking through on intractable challenges. As of December 31, 2016 and 2015, the Organization has the following focus funds:

- **Reimagine Learning Fund** - The Reimagine Learning Fund is a collaborative effort established to create a community of learning and action in order to eliminate silos between areas on the outskirts of education reform and to nurture a comprehensive movement that addresses the holistic needs of every child, particularly those with learning disabilities or social-emotional or mental health issues. The vision for this fund is that every child is equipped with the skills to master learning and realize his or her potential.
- **Pathways Fund** - The Pathways Fund was a public/private funding partnership amongst the Organization, the Corporation for National and Community Service's (CNCS) Social Innovation Fund, and several corporate foundations. The mission of the Pathways Fund was to strengthen the bridge between education and workforce development, so that more low-income youth have opportunities to build sustainable livelihoods. The Pathways Fund represented an unprecedented collective effort by a cross-section of network of investors and high performing nonprofit organizations to deliver measurable, sustainable impact for individuals, communities, and education to employment pipelines. Each of the six Pathways Fund sub-grantee organizations provided a set of comprehensive, targeted supports for vulnerable, high-risk youth getting them to and through college and into the economic mainstream. The Organization partnered closely with each organization to strengthen its operations, improve its programmatic impact, and scale its interventions nationally. This program ended on December 31, 2016.

NEW PROFIT INC.

Notes to Financial Statements
December 31, 2016 and 2015

1. OPERATIONS AND NONPROFIT STATUS (Continued)

- **Early Learning Fund** - The Early Learning Fund seeks a world where all children have a start in their earliest years of life that sets them on a course to fulfill their potential. Extraordinary advances in neurobiology and behavioral science, together with increasing public recognition of the importance of a strong start, have created a dynamic opportunity for transformative change in the early learning field. The Fund is working to connect and align researchers, practitioners, funders, and policymakers to pursue a shared action agenda and investing in organizations, pilots and partnerships that have the potential to lift up new approaches to whole-child development and enable effective early learning for all children at scale.
- **Reimagine School Systems Fund** - The Reimagine School Systems Fund seeks to rapidly increase the number of high performing schools serving low-income students by changing the way school systems work and lifting up new reform models that can be used at scale across the country. This fund seeks to change this situation and create new opportunity in low-income communities by investing in strategies to: (1) influence school districts to create conditions and demand for partnerships between districts and non-profit charter school operators, and (2) increase the supply of great non-profit charter school operators to meet that demand.
- **Learn to Earn Fund** - The Learn to Earn Fund is focused on accelerating progress in efforts to develop ten million more career-ready Americans by 2025. The core of this effort is reaching more low-income students by building and scaling collaboration between large employers who need qualified employees and nonprofit organizations working in K-12 and post-secondary education. The fund seeks to catalyze disruptive innovation in the space, engage in policy advocacy to help create conditions for those innovations to scale, and collaborate directly with large employers who can create powerful job pipelines.
- **Portfolio Support Services** include costs relating to developing and maintaining consistent portfolio organization management, investment selection and program evaluation practices throughout the Organization's portfolio. Certain components are allocated to each of the Organization's portfolio investment programs.

The Organization also conducts a variety of field leadership activities that constantly push the social sector to embrace innovation and generate new solutions. Included in Field Leadership are America Forward and *Gathering of Leaders* Initiatives. America Forward is the Organization's nonpartisan policy arm that unites policymakers with social entrepreneurs to advance a public policy agenda that champions innovative and effective solutions to our country's most pressing social problems. America Forward works with policymakers to foster social entrepreneurship, spur innovation, identify more effective and efficient solutions, reward results, and catalyze partnerships across sectors. In addition, the Organization has created communities of learning for social entrepreneurs to collaborate, share, and network for maximum impact. This ecosystem approach provides the opportunity for social entrepreneurs to learn from each other and collaborate with philanthropists, researchers, policymakers, and other essential contributors who are aligned in pursuing systemic change in education, jobs, community health, poverty alleviation, and other areas critical to social mobility. The *Gathering of Leaders*, the Organization's annual convening, is the signature platform for this work.

The Organization is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Organization is also exempt from state income taxes. Donors may deduct contributions made to the Organization within IRC requirements.

NEW PROFIT INC.

Notes to Financial Statements
December 31, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES

The Organization prepares its financial statements on the accrual basis of accounting in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). The following significant accounting policies are described to enhance the usefulness of the financial statements to the reader. References to generally accepted accounting principles (U.S. GAAP) in these notes are to the FASB Accounting Standards Codification (ASC).

Estimates

The preparation of financial statements in accordance with U.S. 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.

Net Assets

Unrestricted net assets represent the portion of the Organization's net assets that bear no external restrictions and are generally available for use by the Organization.

Temporarily restricted net assets represent contributions that are designated by donors for specific purposes or future time periods. These contributions are recorded as temporarily restricted net assets until expended for their designated purposes or the time restriction has lapsed.

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

	<u>2016</u>	<u>2015</u>
Personalized Learning	\$ 11,759,715	\$ -
Innovation Fund	11,626,642	12,855,225
Learn to Earn Fund	10,296,563	1,340,967
Restricted as to time (commitments receivable without a purpose restriction)	5,278,731	4,135,706
Reimagine Learning Fund	5,214,412	11,714,130
Early Learning Fund	4,703,443	4,822,820
Reimagine School Systems Fund	4,214,783	4,969,457
Portfolio Performance	235,199	660,815
America Forward	16,808	728,186
Pathways Fund	-	250,000
	<u>\$ 53,346,296</u>	<u>\$ 41,477,306</u>

Cash and Cash Equivalents

Cash and cash equivalents consist of the Organization's operating cash and money market accounts.

NEW PROFIT INC.

Notes to Financial Statements
December 31, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Doubtful Accounts and Commitments

The allowance for doubtful accounts is recorded based upon management's analysis of specific accounts and commitments and their estimate of amounts that may be uncollectible, if any (see Note 3). Future commitments cancelled by a donor are reported as cancelled commitments receivable in the accompanying statements of activities and changes in net assets.

Income Taxes

The Organization accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. The Organization has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at December 31, 2016 and 2015. The Organization's information returns are subject to examination by the Federal and various state jurisdictions.

Donated Services

Donated services are recorded at fair market value as determined by the donors on the date the services are provided if the services create or enhance non-financial assets or are provided by persons possessing certain skills that would typically need to be purchased if not provided by donation.

Revenue Recognition and Expense Allocation

Contract revenue is recorded as expenses are incurred over the contract period. Unrestricted grants and contributions are recorded as revenue when received or unconditionally pledged. Restricted grants and contributions are recorded as temporarily restricted revenues and net assets when received or unconditionally pledged. Transfers are made to unrestricted net assets as costs are incurred or time restrictions or program restrictions lapse. All other revenue is recorded when earned.

Expenses related directly to a function are distributed to that function, while other expenses are allocated based upon management's estimate of the percentage attributed to each function.

Fair Value Measurements

The Organization follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Organization would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

NEW PROFIT INC.

Notes to Financial Statements
December 31, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

The Organization uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Organization. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. All qualifying assets and liabilities are valued using Level 1 inputs.

Property and Equipment and Depreciation

Purchased property and equipment are recorded at cost when purchased or at fair value on the date of donation. Major additions, renewals and betterments are capitalized as additions to the related asset accounts, while repairs and maintenance are expensed as they are incurred. Depreciation is computed using the straight-line method over an estimated useful life of three years. Property and equipment were fully depreciated as of December 31, 2016 and 2015.

Subsequent Events

Subsequent events have been evaluated through June 19, 2017, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

NEW PROFIT INC.

Notes to Financial Statements
December 31, 2016 and 2015

3. COMMITMENTS RECEIVABLE

Commitments receivable represent unconditional promises by individuals and foundations to give contributions or to direct charitable trusts or foundations to give contributions to the Organization. Commitments receivable that will be received in one year are recorded at net realizable value. Commitments receivable that will not be received within one year are recorded at the present value of future cash flows. Commitments have been discounted using a risk-free interest rate of 1.47% to 1.70%. As of December 31, 2016 and 2015, there were no allowances for doubtful commitments.

Commitments receivable are expected to be received as follows as of December 31:

	<u>2016</u>	<u>2015</u>
Due in one year	\$ 18,562,281	\$ 14,194,800
Due in one to five years	<u>21,413,018</u>	<u>15,315,739</u>
	39,975,299	29,510,539
Less - current portion	18,562,281	14,194,800
Less - unamortized discount	<u>509,228</u>	<u>322,293</u>
Commitments receivable, net of current portion	<u>\$ 20,903,790</u>	<u>\$ 14,993,446</u>

4. PROGRAM INVESTMENTS AND PROMISES TO GIVE

During 2016 and 2015, the Organization granted \$11,379,272 and \$15,661,586, respectively, to various portfolio organizations. In addition to the portfolio organization grants, the Organization has made conditional promises to give to certain Portfolio Organizations totaling \$9,150,000 and \$10,941,794 as of December 31, 2016 and 2015, respectively. Included in conditional promises to give as of December 31, 2015 was \$3,102,794 of grant awards that were partially funded by the Federal Social Innovation Fund (see Note 5). These promises are conditional on the Portfolio Organizations meeting certain performance or fundraising objectives and the Organization having adequate funds to make the commitment payments. If these conditions are met, the payments will be made during 2017. In accordance with U.S. GAAP, the Organization's conditional promises to give will be recorded in its financial statements when the conditions have been substantially met by the Portfolio Organizations and the Organization has adequate funds to make the payments.

The Organization has made investments in certain companies and holds equity, warrants, options or securities convertible into equity of these companies. There is no market for these instruments and as the fair value of these investments is unknown, no investment asset is reported in the accompanying 2016 or 2015 statements of financial position.

5. SOCIAL INNOVATION FUND

In 2010, the Organization was awarded a five-year, \$25,000,000 Federal grant, subject to annual appropriations, from the Corporation for Community and National Services Social Innovation Fund (the "Corporation"). As part of the grant terms and conditions, the Organization was required to match these funds, dollar-for-dollar, resulting in total funding of \$50,000,000 for the program. Under the grant, the Organization selected six organizations and programs (sub-grantees) to fund and collaborate for the purpose of helping youth navigate the path from high school to college and ultimately to the workforce. The grant ended in December 2016.

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5. SOCIAL INNOVATION FUND (Continued)

Upon the completion of the investment selection process, the Organization entered into one-year agreements with each sub-grantee. These agreements were renewed annually upon the completion of an annual review process. Funds were distributed based on certain conditions, as indicated in each agreement. During 2016 and 2015, the Organization disbursed \$1,697,913 and \$4,623,470 of match funds and \$1,418,435 and \$3,869,553 of Federal funds, respectively, related to the Social Innovation Fund. As of December 31, 2016 and 2015, the Organization had amounts due totaling \$190,349 and \$964,631, respectively, from the Corporation representing costs incurred by the Organization that are reimbursable under the terms and conditions of the grant agreement. These amounts, combined with the Organization's matching grants, are included in commitments payable in the accompanying statements of financial position.

The Organization and its sub-grantees are subject to audit by the appropriate government agency. In the opinion of management, the results of such audits, if any, will not have a material effect on the financial position of the Organization as of December 31, 2016 and 2015, or on the changes in its net assets for the years then ended.

6. DONATED SERVICES

The Organization and Deloitte Consulting LLP (Deloitte) have entered into a multi-year, multi-million dollar collaboration that provides pro bono strategic support from Deloitte to help portfolio organizations pursue impact at scale by focusing on leadership and board development, monitoring and evaluation, financial sustainability, impact modeling and growth strategy. This collaboration also allows the Organization and Deloitte to work together to jointly pursue a number of efforts to advance the field of social innovation and social entrepreneurship. Deloitte has committed up to \$3,000,000 per year of pro bono support through May 2018. A principal of Deloitte serves on the Organization's Board of Directors (see Note 7).

The Organization received donated consulting services from Deloitte and donated legal services from a law firm with the following fair values that have been recognized as donated services revenue and included the following expense categories in the accompanying statements of activities and changes in net assets and functional expenses:

	<u>2016</u>	<u>2015</u>
Consulting and technical assistance to portfolio organizations	\$ 2,146,510	\$ 1,564,000
Management consulting	430,649	450,000
Legal services	<u>201,098</u>	<u>244,399</u>
	<u>\$ 2,778,257</u>	<u>\$ 2,258,399</u>

7. RELATED PARTY TRANSACTIONS

Members of the Organization's Board of Directors are members of Deloitte's management in 2016 and 2015. During the years ended December 31, 2016 and 2015, the Organization incurred \$345,000 and \$730,500, respectively, for consulting services from Deloitte to conduct landscape analysis, network assessment, and other programmatic support. These services are reported in professional fees in the accompanying statements of functional expenses. The Organization owed Deloitte \$192,744 and \$441,885 for these services as of December 31, 2016 and 2015, respectively, which is included in accounts payable and accrued expenses in the accompanying statements of financial position. Deloitte also provided donated services to the Organization (see Note 6) and valued the donated services at \$2,577,159 and \$2,014,000 for the years ended December 31, 2016 and 2015, respectively.

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7. RELATED PARTY TRANSACTIONS (Continued)

Members of the Organization's Board of Directors contribute funds to the Organization. During the years ended December 31, 2016 and 2015, members contributed \$5,120,154 and \$8,550,000, respectively, to the Organization. As of December 31, 2016 and 2015, commitments receivable includes \$3,916,660 and \$6,358,330, respectively, that has been committed by Board members.

Certain members of the Organization's management and Board of Directors also serve on the Boards of Directors of certain Portfolio Organizations. During the years ended December 31, 2016 and 2015, the Organization made payments totaling \$1,414,134 and \$3,384,028, respectively, to such Portfolio Organizations.

The Organization's office in Boston is sub leased from a company where certain members of the Organization's Board of Directors are employed as senior managers. The Organization's office space in Washington, D.C. is sub leased from an agency where the Founder and CEO is the spouse of the Organization's CEO and Board Member (see Note 10).

8. AMOUNT DESIGNATED BY DONOR FOR OTHER ORGANIZATIONS

Under U.S. GAAP, if the Organization accepts assets from a donor and agrees to transfer those assets to another entity specified by the donor, the transaction must be recorded as a liability. The subsequent transfer to the specified entity is recorded as a reduction of the liability. At certain times during the year, the Organization accepts assets from donors to be transferred to other entities. As of December 31, 2016 and 2015, there was \$971 and \$124,315, respectively, of funds designated for other organizations, which are included in accounts payable and accrued expenses in the accompanying statements of financial position.

9. CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash balances in one bank and with an investment company. The Federal Deposit Insurance Corporation (FDIC) insures balances at the bank up to certain amounts. At times during the year, the cash balances exceeded the FDIC insured limit. The Organization has not experienced any losses in such accounts. The Organization believes they are not exposed to any significant credit risk with cash. The money market funds of approximately \$16 million and \$14 million as of December 31, 2016 and 2015, respectively, held with the investment company are not insured.

The Organization had the following concentrations in grant receivable commitments, contributions revenue and donated services:

- The entire grant receivable balance as of December 31, 2016 and 2015, was due from one government agency.
- Approximately 45% and 49% of commitments receivable was due from two and three donors, respectively, at December 31, 2016 and 2015, respectively.
- Approximately 41% and 48% of total revenue and support was contributed by three and two donors, respectively, for the years ended December 31, 2016 and 2015, respectively.
- Approximately 93% and 89% of donated services were received from a related party for the years ended December 31, 2016 and 2015, respectively (see Notes 2, 6 and 7).

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10. LEASES

Through December 31, 2015, the Organization leased office space in Boston, Massachusetts under an agreement requiring monthly payments of \$49,538. In December 2015, the lease was amended upon floor relocation and the monthly lease payments were reduced to \$36,580 through December 2016. In November 2016 the lease was amended again and extended through December 2017, with monthly lease payments of \$42,677, commencing on January 1, 2017. The Organization is also responsible for its proportionate share of certain utility and operating costs. The sub landlord under this lease is a company where certain members of the Organization's Board of Directors are employed as senior managers (see Note 7).

The Organization entered into a five year and four month sublease agreement with an agency for office space in Washington, D.C. commencing March 1, 2015. Base rent increases from \$4,969 a month to \$5,690 a month over the lease term. The Organization is also liable for its proportionate share of utilities and increases in operating expenses and real estate taxes. The sub lessor has the right to terminate its lease after year three or four and, if exercised, the Organization may be liable for a portion of the lease termination fee. The Founder and CEO of the sub landlord is the spouse of the Organization's CEO and Board Member (see Note 7).

Rent expense is included in occupancy in the accompanying statements of functional expenses and totaled \$307,865 and \$377,814 for the years ended December 31, 2016 and 2015, respectively.

Future lease payments due under these agreements are as follows:

2017	\$ 574,787
2018	64,390
2019	66,161
2020	<u>33,838</u>
	<u>\$ 739,176</u>

11. PENSION PLAN

The Organization sponsors an IRC Section 401(k) pension plan (the Plan). Under the Plan, eligible employees may elect to defer compensation up to the maximum amount permitted under the IRC. The Organization matches a percentage (based on years of service) of an employee's eligible compensation up to a maximum of \$6,000. Additionally, the Organization may elect to make discretionary contributions in addition to the Plan's matching contribution provisions. The Organization made contributions of \$146,266 and \$154,640 for the years ended December 31, 2016 and 2015, respectively, which are included in personnel and related costs in the accompanying statements of functional expenses.

12. RECLASSIFICATIONS

Certain amounts in the 2015 financial statements have been reclassified to conform with the 2016 presentation.