

Consolidated Financial Statements and Report of
Independent Certified Public Accountants

THE FORSYTH INSTITUTE

June 30, 2015 and 2014

Contents

	Page
Report of Independent Certified Public Accountants	3
Consolidated Financial Statements:	
Consolidated Statements of Financial Position	5
Consolidated Statements of Activities	6
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9



Grant Thornton LLP
757 Third Avenue, 9th Floor
New York, NY 10017
T 212.599.0100
F 212.370.4520
GrantThornton.com
[linkd.in/GrantThorntonUS](https://www.linkedin.com/company/grantthorntonus)
twitter.com/GrantThorntonUS

Report of Independent Certified Public Accountants

Board of Directors
The Forsyth Institute

We have audited the accompanying consolidated financial statements of The Forsyth Institute and Affiliate (collectively the “Institute”), which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, and the related consolidated 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 consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute’s preparation and fair presentation of the consolidated 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 Institute’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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Forsyth Institute and Affiliate as of June 30, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

New York, New York

November 17, 2015

THE FORSYTH INSTITUTE
Consolidated Statements of Financial Position
As of June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 1,028,614	\$ 263,502
Restricted cash	393,940	899,978
Accounts receivable	6,172,915	3,963,886
Contributions receivable	556,534	367,952
Investments	2,002	5,770,274
Prepaid expenses and other current assets	109,798	75,440
Total current assets	<u>8,263,803</u>	<u>11,341,032</u>
Restricted cash	300,000	600,000
Beneficial interest in trust	58,466,801	61,378,494
Property and equipment, net	17,125,639	18,617,009
Investments, restricted	<u>225,000</u>	<u>225,000</u>
Total assets	<u>\$ 84,381,243</u>	<u>\$ 92,161,535</u>
Liabilities and net assets:		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,957,101	\$ 3,467,380
Deferred income	948,722	489,325
Deferred rent	277,701	201,933
Line of credit	-	350,000
Amounts held for the benefit of others	393,940	899,978
Total current liabilities	<u>4,577,464</u>	<u>5,408,616</u>
Deferred rent	<u>5,403,604</u>	<u>5,681,019</u>
Total liabilities	<u>9,981,068</u>	<u>11,089,635</u>
Commitments and contingencies (Note K)		
Net assets		
Unrestricted	15,079,085	18,982,718
Temporarily restricted	58,821,090	61,589,182
Permanently restricted	<u>500,000</u>	<u>500,000</u>
Total net assets	<u>74,400,175</u>	<u>81,071,900</u>
Total liabilities and net assets	<u>\$ 84,381,243</u>	<u>\$ 92,161,535</u>

The accompanying notes are an integral part of these consolidated financial statements.

THE FORSYTH INSTITUTE

Consolidated Statement of Activities

For the year ended June 30, 2015

(With summarized comparative information for the year ended June 30, 2014)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2015 Total</u>	<u>2014 Total</u>
Operating revenues:					
Research grants and contracts	\$ 22,947,408	\$ -	\$ -	\$ 22,947,408	\$ 22,538,825
Appreciation on beneficial interest in trust	-	280,367	-	280,367	8,934,086
Contributions	262,154	729,958	-	992,112	488,144
Investment return and other income	64,485	-	-	64,485	453,700
Trust distributions	3,192,060	(3,192,060)	-	-	-
Net assets released from restrictions	586,357	(586,357)	-	-	-
Total operating revenues	<u>27,052,464</u>	<u>(2,768,092)</u>	<u>-</u>	<u>24,284,372</u>	<u>32,414,755</u>
Operating expenses:					
Program expenses:					
Research	23,052,061	-	-	23,052,061	22,625,150
Dental	1,384,724	-	-	1,384,724	1,330,425
Total program expenses	<u>24,436,785</u>	<u>-</u>	<u>-</u>	<u>24,436,785</u>	<u>23,955,575</u>
Supporting expenses:					
General and administrative	6,198,509	-	-	6,198,509	5,621,226
Fundraising	320,803	-	-	320,803	282,750
Total supporting expenses	<u>6,519,312</u>	<u>-</u>	<u>-</u>	<u>6,519,312</u>	<u>5,903,976</u>
Total operating expenses	<u>30,956,097</u>	<u>-</u>	<u>-</u>	<u>30,956,097</u>	<u>29,859,551</u>
Change in net assets	<u>(3,903,633)</u>	<u>(2,768,092)</u>	<u>-</u>	<u>(6,671,725)</u>	<u>2,555,204</u>
Net assets at beginning of year	<u>18,982,718</u>	<u>61,589,182</u>	<u>500,000</u>	<u>81,071,900</u>	<u>78,516,696</u>
Net assets at end of year	<u>\$ 15,079,085</u>	<u>\$ 58,821,090</u>	<u>\$ 500,000</u>	<u>\$ 74,400,175</u>	<u>\$ 81,071,900</u>

The accompanying notes are an integral part of this consolidated financial statement.

THE FORSYTH INSTITUTE
Consolidated Statement of Activities
For the year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenues:				
Research grants and contracts	\$ 22,538,825	\$ -	\$ -	\$ 22,538,825
Appreciation on beneficial interest in trust	-	8,934,086	-	8,934,086
Contributions	457,456	30,688	-	488,144
Investment return and other income	453,700	-	-	453,700
Trust distributions	3,319,836	(3,319,836)	-	-
Net assets released from restrictions	376,546	(376,546)	-	-
	<u>27,146,363</u>	<u>5,268,392</u>	<u>-</u>	<u>32,414,755</u>
Operating expenses:				
Program expenses:				
Research	22,625,150	-	-	22,625,150
Dental	1,330,425	-	-	1,330,425
Total program expenses	<u>23,955,575</u>	<u>-</u>	<u>-</u>	<u>23,955,575</u>
Supporting expenses:				
General and administrative	5,621,226	-	-	5,621,226
Fundraising	282,750	-	-	282,750
Total supporting expenses	<u>5,903,976</u>	<u>-</u>	<u>-</u>	<u>5,903,976</u>
Total operating expenses	<u>29,859,551</u>	<u>-</u>	<u>-</u>	<u>29,859,551</u>
Change in net assets	(2,713,188)	5,268,392	-	2,555,204
Net assets at beginning of year	<u>21,695,906</u>	<u>56,320,790</u>	<u>500,000</u>	<u>78,516,696</u>
Net assets at end of year	<u>\$ 18,982,718</u>	<u>\$ 61,589,182</u>	<u>\$ 500,000</u>	<u>\$ 81,071,900</u>

The accompanying notes are an integral part of this consolidated financial statement.

THE FORSYTH INSTITUTEConsolidated Statements of Cash Flows
For the years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ (6,671,725)	\$ 2,555,204
Adjustments to reconcile change in net assets to net cash (used in)/ provided by operating activities:		
Depreciation	2,463,936	2,149,670
Appreciation on beneficial interest in trust	(280,367)	(8,934,086)
Realized and unrealized loss (gain) on investments	203,082	(148,560)
Change in operating assets and liabilities:		
Accounts receivable	(2,209,029)	321,272
Contributions receivable	(188,582)	290,909
Prepaid expenses and other current assets	(34,358)	391,028
Accounts payable and accrued expenses	(510,279)	860,164
Deferred income	459,397	(589,718)
Deferred rent	(201,647)	(126,481)
	<u>(6,969,572)</u>	<u>(3,230,598)</u>
Net cash used in operating activities		
Cash flows from investing activities:		
Decrease in restricted cash	806,038	22
Purchases of property and equipment	(972,866)	(2,335,107)
Proceeds from sale of equipment	300	59,091
Proceeds from sale of investments	5,782,381	363,408
Purchase of investments	(217,191)	(223,162)
	<u>5,398,662</u>	<u>(2,135,748)</u>
Net cash provided by/(used in) investing activities		
Cash flows from financing activities:		
Trust distributions	3,192,060	3,319,836
Net (payments)/proceeds from line of credit	(350,000)	350,000
Amounts held for the benefit of others	(506,038)	899,978
	<u>2,336,022</u>	<u>4,569,814</u>
Net cash provided by financing activities		
Net increase/(decrease) in cash and cash equivalents	765,112	(796,532)
Cash and cash equivalents at beginning of year	<u>263,502</u>	<u>1,060,034</u>
Cash and cash equivalents at end of year	<u>\$ 1,028,614</u>	<u>\$ 263,502</u>

The accompanying notes are an integral part of these consolidated financial statements.

THE FORSYTH INSTITUTE

Notes to Consolidated Financial Statements
June 30, 2015 and 2014

NOTE A - BACKGROUND OF ORGANIZATION

Forsyth Dental Infirmary for Children d/b/a The Forsyth Institute is a charitable institute created by a special act of the Massachusetts Legislature on March 25, 1910. It was the first philanthropic institution in the world devoted to dental service, education and research. The Institute performs governmental and non-governmental research dealing with the cure and prevention of oral and craniofacial disease and provides fellowships for graduate students pursuing studies in dentistry.

The Institute consolidates the accounts of Forsyth International, Inc., a controlled nonprofit corporation.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

The accompanying consolidated financial statements of the Institute have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of the Institute and its affiliate Forsyth International, Inc. (collectively the "Institute"). All inter organizational balances and transactions are eliminated in consolidation.

Classification and Reporting of Net Assets

The classification of the Institute's net assets is based on the existence or absence of donor-imposed restrictions. The categories are unrestricted, temporarily restricted, and permanently restricted.

- Unrestricted net assets are not subject to donor-imposed restrictions and include amounts available for the Institute's operations and net investment in plant.
- Temporarily restricted net assets are subject to donor-imposed or legal stipulations that will be satisfied by actions of the Institute and/or the passage of time. These net assets include all contributions for which the donor-imposed restrictions have not yet been met. Appreciation on beneficial interest in trust is classified as temporarily restricted until the Trustee distributes the funds, at which time they will be released to unrestricted revenues.
- Permanently restricted net assets are subject to donor-imposed or legal stipulations requiring that the principal be maintained in perpetuity. Donors generally permit the use of some or all of the investment earnings and appreciation for program operations in accordance with donor restrictions.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Realized and unrealized gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law.

Expirations of temporary restrictions on net assets, that is, when the donor-imposed stipulated purpose has been met and/or the stipulated time period has elapsed, are reported as releases from restriction between the applicable classes of net assets.

THE FORSYTH INSTITUTE

Notes to Consolidated Financial Statements - Continued
June 30, 2015 and 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

The Institute considers all highly liquid short-term investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents held in the investment portfolio are excluded from the cash and cash equivalents line item on the accompanying consolidated statements of financial position.

Restricted Cash and Investments

The Institute has cash which serves as collateral on the letter of credit from RBS Citizens Bank. This letter of credit is a requirement of the Cambridge facility lease discussed in Note K. The restricted balance in this account totaled \$300,000 and \$600,000 at June 30, 2015 and 2014, respectively.

The Institute has cash of \$393,940 and \$899,978 as of June 30, 2015 and 2014, respectively which was returned by a collaborating subcontractor on a National Institute of Health (NIH) project. Forsyth is working with the funder, NIH, to complete the project through a new collaborating subcontractor. The cash is held at Charter Bank, a subsidiary of RBS Citizens Bank. The corresponding liability is reflected as amounts held for the benefit of others in the accompanying consolidated statements of financial position.

The Institute also has investments of \$225,000 at June 30, 2015 and 2014, that are unavailable for withdrawal without approval of the Commonwealth of Massachusetts Department of Public Health Radiation Control Program which have been restricted for decommissioning of the facility.

Accounts Receivable

Accounts receivable are carried at their estimated collectible amounts. Credit is generally extended to customers on a short-term basis; thus accounts receivable do not bear interest. Accounts receivable are periodically evaluated for collectability based on past credit history with customers and their current financial condition. Provisions for uncollectible accounts on accounts receivable are determined on the basis of loss experience, known and inherent risks and current economic conditions. There was no allowance for doubtful accounts as of June 30, 2015 or 2014, as management anticipates full collection of all accounts receivable.

Contributions

Contributions represent non-reciprocal transfers of cash or other assets to the Institute or the cancellation of the Institute's liabilities. Contribution revenue is recorded at fair market value at the time of the transfer. Promises to give are recognized when the donor makes a pledge to the Institute that is in substance, unconditional. Conditional promises to give, which depend on the occurrence of a specified future and uncertain event to bind the donor, are recognized only when the conditions are substantially met. The Institute has adopted the policy of reporting contributions whose restrictions are met in the same reporting period as unrestricted revenues.

Contributions other than cash are recorded at market value on the date of the gift (or an estimate of fair value). Contributions to be received after one year are discounted at the appropriate rate commensurate with risk. Amortization of such discounts is recorded as additional contribution revenue in accordance with restrictions imposed by the donor on the original contribution, if applicable. Contributions and promises to give are classified as unrestricted, temporarily restricted or permanently restricted depending on the existence or nature of any donor imposed restrictions.

THE FORSYTH INSTITUTE

Notes to Consolidated Financial Statements - Continued
June 30, 2015 and 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments

Investments consist of certificates of deposit (which have initial maturities in excess of three months) and mutual funds. Investments are carried at fair value. Changes in fair values are reported in the accompanying consolidated statements of activities as investment return and other income.

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the consolidated statements of activities in the period in which the securities are sold. Dividends are accrued based on the ex-dividend date. Interest is recognized as earned.

All investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the consolidated statements of financial position.

Dividends, interest, reinvested gains, net realized gains and net unrealized appreciation, arising from investments, are reported:

- as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as increases in temporarily restricted net assets if the terms of the gift or state law impose restrictions on the current use of the income or net gains; and
- as increases in unrestricted net assets in all other cases.

Beneficial Interest in Trust

The Institute is the sole beneficiary of certain trusts created for its benefit. These trusts are held by outside parties (the Trustees). Included in these trusts were the John H. Forsyth and Thomas A. Forsyth Trust, the Forsyth Dental Infirmary Real Estate Trust, the John H. Forsyth Memorial Trust, the Mary EWD Forsyth Trust, the Scientific Trust, and the Rebuilding Fund. During the year ended June 30, 2013, with the permission of the courts and the Trustees, these trusts were consolidated into one trust. Though legally consolidated by June 30, 2014 some of the trusts had activity during Fiscal 2014 but as of June 30, 2014 there was only one remaining trust.

The Institute reports its beneficial interest in trust based upon the fair value of the underlying assets, which consists solely of investments. Trust assets include publicly traded securities (approximately \$47.7 million and \$50.3 million as of June 30, 2015 and 2014, respectively) as well as alternative investments (approximately \$10.8 million and \$11.1 million as of June 30, 2015 and 2014, respectively). The fair value of publicly traded securities is based upon quoted market prices. The value of alternative investments, such as interests in partnerships or other nonmarketable securities for which there are no market quotations available are valued by the managers of those entities and reviewed by the Trustee. As alternative investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed and such differences could be material.

THE FORSYTH INSTITUTE

Notes to Consolidated Financial Statements - Continued
June 30, 2015 and 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The investment allocation for the Institute's beneficial interest in trust at June 30, 2015 and 2014 was as follows:

	<u>2015</u>	<u>2014</u>
Equity	64%	64%
Hedge/Private equity	19%	18%
Real estate/Tangible Assets	12%	10%
Cash/Fixed income	<u>5%</u>	<u>8%</u>
	<u>100%</u>	<u>100%</u>

Property and equipment

The Institute's policy is to capitalize expenditures for property, equipment and leasehold improvements costing greater than \$5,000 and having a useful life of greater than a year. Acquisitions are recorded at cost or, if donated, at the estimated fair value at the date of donation. Repairs and maintenance are expensed as incurred.

Depreciation expense is calculated on a straight-line basis over the following estimated useful lives of the assets:

Leasehold improvements	Lesser of the term of the lease or 15 years
Furniture, fixtures and equipment	5-10 years
Vehicles and computer software	5 years

Deferred income

Deferred income represent amounts received by the Institute from corporations, foundations and other external sponsors under terms that generally require the exchange of assets, right, or privileges between the Institute and the sponsor. Revenue is recognized as expenses are incurred on sponsored projects.

Research grants and contracts

The Institute recognizes revenue from external organizations for services provided. Revenues earned on grants and contracts for research are recognized as related costs are incurred. Research grants and contracts provide for the recovery of direct and indirect costs. Direct and indirect costs charged to federal grants are subject to federal audit. Indirect costs are recorded at predetermined fixed rates negotiated with the federal government or grantor. Government research grants and contracts represent approximately 73% and 62% of total grant and contract revenue for the fiscal years ended June 30, 2015 and 2014, respectively.

THE FORSYTH INSTITUTE

Notes to Consolidated Financial Statements - Continued
June 30, 2015 and 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Expenses

Expenses are recognized when incurred and charged to the functions to which they are directly related. Expenses that relate to more than one function are allocated among functions based upon either total direct cost or square footage allocations.

Income Taxes

The Institute follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The Institute (and Forsyth International) are organizations described in Section 501(c)(3) of the Internal Revenue Code, as amended (the Code), and are generally exempt from income taxes pursuant to Section 501(a) of the Code. The Institute is responsible for the maintenance of its tax-exempt status; identifying and reporting unrelated income; determining its filing and tax obligations in jurisdictions for which it was nexus; and identifying and evaluating other matters that may be considered tax positions. The tax years ended June 30, 2012, 2013, 2014, and 2015 are still open to audit for federal and state purposes. The Institute has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications

Certain information in the fiscal 2014 consolidated financial statements has been reclassified to conform to the fiscal 2015 presentation. There were no changes in total assets, liabilities, revenues, expenses or changes in net assets as reflected in the fiscal 2014 consolidated financial statements.

THE FORSYTH INSTITUTENotes to Consolidated Financial Statements - Continued
June 30, 2015 and 2014**NOTE C - CONTRIBUTIONS RECEIVABLE**

Contributions receivable are expected to be realized as presented below. A discount to present value and an allowance for uncollectible contributions is computed to reflect the time value of promises and an estimate for uncollectible amounts, respectively. No discount or allowance was necessary at June 30, 2015 or June 30, 2014.

	<u>2015</u>	<u>2014</u>
Less than one year	\$ 556,534	\$ 367,952
Contributions receivable	<u>\$ 556,534</u>	<u>\$ 367,952</u>

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2015</u>	<u>2014</u>
Leasehold improvements	\$ 16,258,120	\$ 16,258,120
Technical equipment	10,000,553	9,056,439
Furniture and fixtures	715,670	715,670
Vehicles and computer software	153,769	137,514
	<u>27,128,112</u>	<u>26,167,743</u>
Less: Accumulated depreciation	<u>(10,002,473)</u>	<u>(7,550,734)</u>
	<u>\$ 17,125,639</u>	<u>\$ 18,617,009</u>

NOTE E - INVESTMENTS

Investments which are reported at fair market value consisted of the following at June 30:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 2,002	\$ 2,682
Mutual funds	-	5,767,592
Mutual funds - restricted	<u>225,000</u>	<u>225,000</u>
Total investments	<u>\$ 227,002</u>	<u>\$ 5,995,274</u>

THE FORSYTH INSTITUTE

Notes to Consolidated Financial Statements - Continued
June 30, 2015 and 2014

NOTE E - INVESTMENTS - Continued

Total return on investments for the years ended June 30, 2015 and 2014, consisted of the following:

	2015	2014
Investment income	\$ 212,500	\$ 230,453
Net realized (loss)/gain	(33,430)	27,529
Net unrealized (loss)/gain	<u>(169,652)</u>	<u>121,031</u>
Total return on investments	<u>\$ 9,418</u>	<u>\$ 379,013</u>

Return on investments is included in investment return and other income in the accompanying consolidated statements of activities.

NOTE F - FAIR VALUE MEASUREMENTS

The Institute measures the fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement price (an exit price). A fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described below.

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology are other observable inputs, including quoted prices for similar assets and liabilities in active or non-active markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are not directly observable, but are corroborated by the observable market data.

Level 3 inputs to the valuation methodology are unobservable for the asset or liability.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value, as well as the general classification pursuant to the valuation hierarchy.

Beneficial interest in trust

The Institute's beneficial interest in trust is valued using the fair value of the assets in the trust as a practical expedient unless facts and circumstances indicate that the fair value of the assets in the trust differs from the fair value of the beneficial interests. Beneficial interests in trust are classified within Level 3 of the fair value hierarchy.

THE FORSYTH INSTITUTE

Notes to Consolidated Financial Statements - Continued
June 30, 2015 and 2014

NOTE F - FAIR VALUE MEASUREMENTS - Continued

The following table sets forth the financial assets and liabilities carried at fair value, measured on a recurring basis as of June 30, 2015:

Assets	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	\$ 2,002	\$ -	\$ -	\$ 2,002
Mutual funds - restricted	225,000	-	-	225,000
Beneficial interest in trust	-	-	58,466,801	58,466,801
Total assets	<u>\$ 227,002</u>	<u>\$ -</u>	<u>\$ 58,466,801</u>	<u>\$ 58,693,803</u>

The following table sets forth the financial assets and liabilities carried at fair value, measured on a recurring basis as of June 30, 2014:

Assets	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	\$ 2,682	\$ -	\$ -	\$ 2,682
Mutual funds	5,767,592	-	-	5,767,592
Mutual funds - restricted	225,000	-	-	225,000
Beneficial interest in trust	-	-	61,378,494	61,378,494
Total assets	<u>\$ 5,995,274</u>	<u>\$ -</u>	<u>\$ 61,378,494</u>	<u>\$ 67,373,768</u>

The following is a reconciliation of the beginning and ending balances for assets measured at fair value using significant unobservable inputs (Level 3) during the years ended June 30, 2015 and 2014:

	2015	2014
Beginning balance	\$ 61,378,494	\$ 55,764,244
Return on investments	280,367	8,934,086
Distributions	<u>(3,192,060)</u>	<u>(3,319,836)</u>
Ending balance	<u>\$ 58,466,801</u>	<u>\$ 61,378,494</u>

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. There were no such transfers during 2015 or 2014.

THE FORSYTH INSTITUTE

Notes to Consolidated Financial Statements - Continued
June 30, 2015 and 2014

NOTE G - ENDOWMENT NET ASSETS

Interpretation of Relevant Law

The Institute complies with the accounting standard Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds. This standard provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA. UPMIFA requires that a not-for-profit organization disclose the governing board's interpretation of the law(s) that underlies the organization's net asset classification of donor-restricted endowment funds.

Net assets associated with the beneficial interest in trust are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors has interpreted relevant state laws as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowments funds absent explicit donor stipulations to the contrary, and the Trustee has concurred in that interpretation.

As a result of that interpretation, the Institute has classified as permanently restricted net assets (a) the original value of gifts donated to the trust, (b) the original value of subsequent gifts to the trust and (c) accumulations to the trust made in accordance with the direction of the applicable donor gift instrument at the time the accumulation was added to the trust. The remaining portion of the donor-restricted net assets that are not classified as permanently restricted net assets, are classified as temporarily restricted.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted permanent funds may fall below the market value at the time of donation. Such deficiencies are recorded as reductions in unrestricted net assets. There were no such deficiencies as of June 30, 2015 or 2014.

Endowment Investment Policy

The Institute's Board of Directors adopted an investment policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the permanent funds of the Institute. Such funds include those assets of donor-restricted funds that the Institute must hold in perpetuity or for donor-specified period(s), such as the trust.

Endowment Spending Policy

The Institute's Board of Directors has recommended, and the Trustee has approved of a spending policy equivalent to 5.25% of the five-year quarterly rolling average value of the trust. The application of the spending policy for the years ended June 30, 2015 and 2014, yielded a distribution of approximately \$3.2 million and \$3.3 million, respectively.

THE FORSYTH INSTITUTENotes to Consolidated Financial Statements - Continued
June 30, 2015 and 2014**NOTE G - ENDOWMENT NET ASSETS - Continued****Endowment Fund Activity**

Endowment net assets were classified as follows at June 30:

	2015		
	Temporarily Restricted	Permanently Restricted	Total
Beneficial interest in trust (donor restricted)	\$ 57,966,801	\$ 500,000	\$ 58,466,801
	2014		
	Temporarily Restricted	Permanently Restricted	Total
Beneficial interest in trust (donor restricted)	\$ 60,878,494	\$ 500,000	\$ 61,378,494

The classification and activity in the endowment net assets for years ended June 30, 2015 and 2014 are as follows:

	2015		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ 60,878,494	\$ 500,000	\$ 61,378,494
Return on investments	280,367	-	280,367
Trust distributions	(3,192,060)	-	(3,192,060)
Endowment net assets at end of year	\$ 57,966,801	\$ 500,000	\$ 58,466,801
	2014		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ 55,264,244	\$ 500,000	\$ 55,764,244
Return on investments	8,934,086	-	8,934,086
Trust distributions	(3,319,836)	-	(3,319,836)
Endowment net assets at end of year	\$ 60,878,494	\$ 500,000	\$ 61,378,494

THE FORSYTH INSTITUTE

Notes to Consolidated Financial Statements - Continued
June 30, 2015 and 2014

NOTE H - RESTRICTED NET ASSETS

The Institute's restricted net assets are available for the following purposes and consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Temporarily restricted		
Beneficial interest in trust - accumulated return	\$ 57,966,801	\$ 60,878,494
Purpose or time restricted	<u>854,289</u>	<u>710,688</u>
	<u>58,821,090</u>	<u>61,589,182</u>
Permanently restricted		
Beneficial interest in trust - corpus	<u>\$ 500,000</u>	<u>\$ 500,000</u>

NOTE I - RETIREMENT PLAN

The Institute participates in a defined contribution plan administered by Teachers Insurance and Annuity Association of America (TIAA), College Retirement Equities Fund (CREF) for its personnel. The 2015 and 2014 pension costs totaled \$1,230,996 and \$840,467, respectively.

NOTE J - CONCENTRATIONS OF RISK

The Institute maintains cash balances at banks at times in excess of federally insured limits. The Institute also maintains cash balances in money market funds which are not insured. The Institute has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk.

During fiscal 2015 and 2014, the Institute received approximately 73% and 64%, respectively, of its support from NIH and other federal agencies. Government research funding is subject to review and generally requires reapplication on a periodic basis (usually 3 -5 years).

NOTE K - COMMITMENTS AND CONTINGENCIES

Contingencies

In conducting its activities, the Institute from time to time is the subject of various claims. Management is not aware of any such claims would have a material adverse effect on the financial position of the Institute.

All funds expended by the Institute in connection with government grants are subject to review or audit by governmental agencies. Management believes that any claims resulting from such reviews or audits would not have a material adverse effect on the financial position of the Institute.

THE FORSYTH INSTITUTE

Notes to Consolidated Financial Statements - Continued
June 30, 2015 and 2014

NOTE L - OPERATING LEASE

The Institute entered into a non-cancelable lease for new scientific, lab and office space in Cambridge, Massachusetts on August 3, 2009. The lease is for fifteen years beginning on January 16, 2010 and expires on January 15, 2025. It has two options to renew for five years each at the current market rate at the time. The Institute is responsible for all operating expenses, real estate taxes and insurance. The lease payments began on July 1, 2010 and the difference between rent expense recognized on a straight-line basis and the payments is included in deferred rent within the accompanying consolidated statements of financial position.

Future minimum lease payments this lease for the years ending June 30 are as follows:

2016	\$ 3,001,669
2017	3,075,493
2018	3,149,333
2019	3,223,189
2020	3,298,165
Thereafter	<u>15,924,362</u>
	<u>\$ 31,672,211</u>

NOTE M - LINE OF CREDIT

The Institute has a line of credit with a bank which allows for borrowings up to \$2,000,000 at the LIBOR Advantage rate, plus 1.5%. The rate was 1.686% at June 30, 2015 and 1.651% at June 30, 2014. There was no outstanding balance at June 30, 2015. The Institute had an outstanding balance of \$350,000 at June 30, 2014. The line of credit has no stated maturity but can be called by the bank at any time.

NOTE N - SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 17, 2015, which is the date the consolidated financial statements were available for issuance. There were no subsequent events that require adjustments to or disclosure in the consolidated financial statements.