Consolidated Financial Statements Together with
Report of Independent Certified Public Accountants

THE FORSYTH INSTITUTE

June 30, 2016 and 2015

THE FORSYTH INSTITUTE

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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, 2016 and 2015, 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, 2016 and 2015, 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 14, 2016

THE FORSYTH INSTITUTE
Consolidated Statements of Financial Position
As of June 30, 2016 and 2015

	2016	2015
ASSETS		
Cash and cash equivalents	$ 999,615	$ 1,028,614
Restricted cash	359,707	693,940
Accounts receivable	8,256,676	6,172,915
Contributions receivable, net	103,988	556,534
Investments	3,239,296	227,002
Prepaid expenses and other assets	116,677	109,798
Beneficial interest in trust	47,019,627	58,466,801
Property and equipment, net	16,171,750	17,125,639
Total assets	$ 76,267,336	$ 84,381,243
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 3,616,746	$ 2,957,101
Deferred income	808,654	948,722
Amounts held for the benefit of others	54,707	393,940
Deferred rent	5,406,215	5,681,305
Total liabilities	9,886,322	9,981,068
Commitments and contingencies (Note 11)		
NET ASSETS		
Unrestricted	18,929,880	15,079,085
Temporarily restricted	46,951,134	58,821,090
Permanently restricted	500,000	500,000
Total net assets	66,381,014	74,400,175
Total liabilities and net assets	$ 76,267,336	$ 84,381,243

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, 2016
(With summarized comparative information for the year ended June 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
OPERATING REVENUES					
Research grants and contracts	$ 22,280,935	$ -	$ -	$ 22,280,935	$ 22,947,408
(Depreciation)/appreciation on beneficial interest in trust	-	(1,362,958)	-	(1,362,958)	280,367
Contributions	153,028	428,551	-	581,579	992,112
Investment return and other income	160,489	-	-	160,489	64,485
Trust distributions	10,084,216	(10,084,216)	-	-	-
Net assets released from restrictions	851,333	(851,333)	-	-	-
Total operating revenues	33,530,001	(11,869,956)	-	21,660,045	24,284,372
OPERATING EXPENSES					
Program expenses:					
Research	21,163,066	-	-	21,163,066	23,052,061
Dental	1,394,560	-	-	1,394,560	1,384,724
Total program expenses	22,557,626	-	-	22,557,626	24,436,785
Supporting expenses:					
General and administrative	6,899,473	-	-	6,899,473	6,198,509
Fundraising	222,107	-	-	222,107	320,803
Total supporting expenses	7,121,580	-	-	7,121,580	6,519,312
Total operating expenses	29,679,206	-	-	29,679,206	30,956,097
Change in net assets	3,850,795	(11,869,956)	-	(8,019,161)	(6,671,725)
Net assets at beginning of year	15,079,085	58,821,090	500,000	74,400,175	81,071,900
Net assets at end of year	$ 18,929,880	$ 46,951,134	$ 500,000	$ 66,381,014	$ 74,400,175

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, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Research grants and contracts	$ 22,947,408	$ -	$ -	$ 22,947,408
Appreciation on beneficial interest in trust	-	280,367	-	280,367
Contributions	262,154	729,958	-	992,112
Investment return and other income	64,485	-	-	64,485
Trust distributions	3,192,060	(3,192,060)	-	-
Net assets released from restrictions	586,357	(586,357)	-	-
Total operating revenues	27,052,464	(2,768,092)	-	24,284,372
OPERATING EXPENSES				
Program expenses:				
Research	23,052,061	-	-	23,052,061
Dental	1,384,724	-	-	1,384,724
Total program expenses	24,436,785	-	-	24,436,785
Supporting expenses:				
General and administrative	6,198,509	-	-	6,198,509
Fundraising	320,803	-	-	320,803
Total supporting expenses	6,519,312	-	-	6,519,312
Total operating expenses	30,956,097	-	-	30,956,097
Change in net assets	(3,903,633)	(2,768,092)	-	(6,671,725)
Net assets at beginning of year	18,982,718	61,589,182	500,000	81,071,900
Net assets at end of year	$ 15,079,085	$ 58,821,090	$ 500,000	$ 74,400,175

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

THE FORSYTH INSTITUTE
Consolidated Statements of Cash Flows
For the years ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (8,019,161)	$ (6,671,725)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	2,506,977	2,463,936
Depreciation (appreciation) on beneficial interest in trust	1,362,958	(280,367)
Realized and unrealized (gain) loss on investments	(2,398)	203,082
Change in operating assets and liabilities		
Accounts receivable	(2,083,761)	(2,209,029)
Contributions receivable	452,546	(188,582)
Prepaid expenses and other current assets	(6,879)	(34,358)
Accounts payable and accrued expenses	(305,888)	(510,279)
Deferred income	(140,068)	459,397
Deferred rent	(275,090)	(201,647)
Net cash used in operating activities	(6,510,764)	(6,969,572)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(650,555)	(972,866)
Proceeds from sale of equipment	63,000	300
Proceeds from sale of investments	927,002	5,782,381
Purchase of investments	(3,936,898)	(217,191)
Net cash (used in) provided by investing activities	(3,597,451)	4,592,624
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in restricted cash	334,233	806,038
Trust distributions	10,084,216	3,192,060
Payments on line of credit	-	(350,000)
Amounts held for the benefit of others	(339,233)	(506,038)
Net cash provided by financing activities	10,079,216	3,142,060
Net (decrease) increase in cash and cash equivalents	(28,999)	765,112
Cash and cash equivalents, beginning of year	1,028,614	263,502
Cash and cash equivalents, end of year	$ 999,615	$ 1,028,614
Supplemental information:		
Capital expenditures included in accrued expenses at year end	$ 965,533	$ -

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

1. 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 Forsyth 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.

2. 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 ("US GAAP"). The consolidated financial statements include the accounts of the Institute and its affiliate Forsyth International, Inc. (collectively, the "Institute"). All intercompany 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. These net asset classes are defined as follows:

- Unrestricted net assets are not subject to donor-imposed restrictions and may be expendable for any purpose in performing the primary objectives of the Institute.
- 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. Income earned from these investments is available for expenditures according to restrictions, if any, imposed by donors.

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.

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 11. The restricted balance totaled $300,000 at June 30, 2016 and 2015.

The Institute has cash of $54,707 and $393,940 as of June 30, 2016 and 2015, 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 corresponding liability is reflected as amounts held for the benefit of others in the accompanying consolidated statements of financial position.

The Institute has restricted cash of $5,000 at June 30, 2016 which serves as a security deposit for certain equipment on loan from a third party.

The Institute also had investments of $225,000 at June 30, 2015, that were unavailable for withdrawal without approval of the Commonwealth of Massachusetts Department of Public Health Radiation Control Program which had been restricted for decommissioning of the facility. Approval was obtained and these investments were liquidated during fiscal year 2016.

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, 2016 or 2015, 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.

Investments

Investments consist of cash, certificates of deposit, United States treasury notes, 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.

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.

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 $36.5 million and $47.7 million as of June 30, 2016 and 2015, respectively) as well as alternative investments (approximately $10.5 million and $10.8 million as of June 30, 2016 and 2015, 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 investment allocation for the Institute's beneficial interest in trust at June 30, 2016 and 2015, respectively, was as follows:

	2016	2015
Equities	57 %	64 %
Hedge/private equity	23	19
Real estate/tangible assets	14	12
Cash/fixed income	6	5
	100 %	100 %

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.

Recovery of Indirect Costs

The Institute receives indirect cost recovery on its contracts and grants. A fringe benefit assessment is applied to direct salaries. A general and administrative assessment ("G&A") is applied to direct costs less excluded costs per the Federal applicable rules. Therefore, both the fringe benefit and G&A rates are applied to projects incurring direct salaries and other direct costs.

The Institute bills for indirect cost recovery throughout the year based upon negotiated rates. At the end of each year, the Institute compares actual expenses incurred in each of its fringe benefit and G&A cost pools to the amounts recovered based on its negotiated rates. The difference is recorded as an indirect cost carryforward. If the Institute over recovers on its indirect costs during the year, a liability is recorded. If the Institute under records, a receivable is recorded.

The Institute has a cumulative net under recovery of approximately $2.8 million and a net over recovery of $0.3 million as of June 30, 2016 and 2015, respectively. The under recovery is included in the accounts receivable balance and the over recovery is included in the accounts payable and accrued expenses balance in the consolidated statements of financial position.

Functional Allocation of 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 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 has nexus; and identifying and evaluating other matters that may be considered tax positions. The tax years ended June 30, 2013, 2014, 2015, and 2016 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.

Concentrations of Credit

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 2016 and 2015, the Institute received approximately 72% and 73%, 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).

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.

3. CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable are expected to be realized as presented below. A discount to present value and an allowance for uncollectible contributions, if applicable, are computed to reflect the time value of promises and an estimate for uncollectible amounts, respectively. No allowance was necessary at June 30, 2016 or June 30, 2015.

	2016	2015
Less than one year	$ 68,000	$ 556,534
One to five years	40,000	-
Less: present value discount	(4,012)	-
Contributions receivable, net	$ 103,988	$ 556,534

4. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at June 30:

	2016	2015
Leasehold improvements	$ 16,258,120	$ 16,258,120
Technical equipment	10,350,919	10,000,553
Furniture and fixtures	715,670	715,670
Vehicles and computer software	153,769	153,769
Construction in progress	820,359	-
	28,298,837	27,128,112
Less: Accumulated depreciation	(12,127,087)	(10,002,473)
	$ 16,171,750	$ 17,125,639

5. INVESTMENTS

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

	2016	2015
Cash and cash equivalents	$ 1,700,897	$ 2,002
Certificates of deposit	735,647	-
United States treasury notes	802,752	-
Mutual funds - restricted	-	225,000
Total investments	$ 3,239,296	$ 227,002

Total return on investments for the years ended June 30, 2016 and 2015, respectively, consisted of the following:

	2016	2015
Investment income	$ 5,898	$ 212,500
Net realized loss	-	(33,430)
Net unrealized gain/(loss)	2,398	(169,652)
Total return on investments	$ 8,296	$ 9,418

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

6. 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 following table sets forth the financial assets and liabilities carried at fair value, measured on a recurring basis as of June 30, 2016:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
United States treasury notes	$ 802,752	$ -	$ -	$ 802,752
Beneficial interest in trust	-	-	47,019,627	47,019,627
Total assets	$ 802,752	$ -	$ 47,019,627	$ 47,822,379

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

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Mutual funds - restricted	$ 225,000	$ -	$ -	$ 225,000
Beneficial interest in trust	-	-	58,446,801	58,446,801
Total assets	$ 225,000	$ -	$ 58,446,801	$ 58,671,801

Excluded from investments above are cash and cash equivalents and certificates of deposit totaling $2,436,544 and $2,002 as of June 30, 2016 and 2015, respectively.

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, 2016 and 2015:

	2016	2015
Beginning balance	$ 58,466,801	$ 61,378,494
(Depreciation) appreciation on beneficial interest in trust	(1,362,958)	280,367
Trust distributions	(10,084,216)	(3,192,060)
Ending balance	$ 47,019,627	$ 58,466,801

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 2016 or 2015.

7. 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, 2016 or 2015.

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, 2016 and 2015, yielded a distribution of approximately $3.1 million and $3.2 million, respectively.

Additionally, during the fiscal year ended June 30, 2016, the Institute's Board of Directors requested and the Trustee approved an additional distribution of $7.0 million to fund operations for the years ended June 30, 2016, 2017 and 2018 of $3.8 million, $2.1 million, and $1.1 million, respectively.

Endowment Fund Activity

Endowment net assets were classified as follows at June 30:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beneficial interest in trust (donor restricted)	$ -	$ 46,519,627	$ 500,000	$ 47,019,627
Board-designated funds	3,239,296	-	-	3,239,296
Total	$ 3,239,296	$ 46,519,627	$ 500,000	$ 50,258,923

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beneficial interest in trust (donor restricted)	$ -	$ 57,966,801	$ 500,000	$ 58,466,801

The classification and activity in the endowment net assets for years ended June 30, 2016 and 2015 are as follows:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ -	$ 57,966,801	$ 500,000	$ 58,466,801
Appreciation on beneficial interest in trust	-	(1,362,958)	-	(1,362,958)
Trust distributions	-	(10,084,216)	-	(10,084,216)
Board designation of trust distributions	3,239,296	-	-	3,239,296
Endowment net assets at end of year	$ 3,239,296	$ 46,519,627	$ 500,000	$ 50,258,923

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ -	$ 60,878,494	$ 500,000	$ 61,378,494
Appreciation on beneficial interest in trust	-	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

8. RESTRICTED NET ASSETS

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

	2016	2015
Temporarily restricted:		
Beneficial interest in trust - accumulated return	$ 46,519,627	$ 57,966,801
Purpose or time restricted	431,507	854,289
	$ 46,951,134	$ 58,821,090
Permanently restricted:		
Beneficial interest in trust - corpus	$ 500,000	$ 500,000

9. 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 2016 and 2015 pension costs totaled $1,135,234 and $1,230,996, respectively.

10. 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 consolidated 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 consolidated financial position of the Institute.

11. 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 for the years ending June 30 are as follows:

2017	$ 3,075,493
2018	3,149,333
2019	3,223,189
2020	3,298,165
2021	3,373,359
Thereafter	12,551,003
	$ 28,670,542

12. 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 1.953%% at June 30, 2016 and 1.686% at June 30, 2015. There was no outstanding balance at June 30, 2016 and 2015. The line of credit has no stated maturity but can be called by the bank at any time.

13. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 14, 2016, 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.