Consolidated Financial Statements Together with
Report of Independent Certified Public Accountants

THE FORSYTH INSTITUTE

June 30, 2017 and 2016

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, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated 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, 2017 and 2016, 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

Boston, Massachusetts
January 18, 2018

THE FORSYTH INSTITUTE
Consolidated Statements of Financial Position
As of June 30, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	$ 576,548	$ 999,615
Restricted cash	305,000	359,707
Accounts receivable	9,021,679	8,256,676
Contributions receivable, net	43,000	103,988
Investments	-	3,239,296
Prepaid expenses and other assets	177,165	116,677
Beneficial interest in trust	49,276,967	47,019,627
Property and equipment, net	14,230,870	16,171,750
Total assets	$ 73,631,229	$ 76,267,336
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 2,121,508	$ 3,671,453
Deferred income	440,700	808,654
Line of credit	2,000,000	-
Deferred rent	5,057,064	5,406,215
Total liabilities	9,619,272	9,886,322
Commitments and contingencies (Note 11)		
NET ASSETS		
Unrestricted	14,571,031	18,929,880
Temporarily restricted	48,940,926	46,951,134
Permanently restricted	500,000	500,000
Total net assets	64,011,957	66,381,014
Total liabilities and net assets	$ 73,631,229	$ 76,267,336

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, 2017
(With summarized comparative information for the year ended June 30, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
OPERATING REVENUES					
Research grants and contracts	$ 18,488,130	$ -	$ -	$ 18,488,130	$ 22,280,935
Appreciation (depreciation) on beneficial interest in trust	-	5,209,122	-	5,209,122	(1,362,958)
Contributions	188,786	380,537	-	569,323	581,579
Investment return and other income	546,410	-	-	546,410	160,489
Trust distributions	2,951,782	(2,951,782)	-	-	-
Net assets released from restrictions	648,085	(648,085)	-	-	-
Total operating revenues	22,823,193	1,989,792	-	24,812,985	21,660,045
OPERATING EXPENSES					
Program expenses:					
Research	18,552,147	-	-	18,552,147	21,163,066
Dental	1,454,937	-	-	1,454,937	1,394,560
Total program expenses	20,007,084	-	-	20,007,084	22,557,626
Supporting expenses:					
General and administrative	6,893,667	-	-	6,893,667	6,899,473
Fundraising	281,291	-	-	281,291	222,107
Total supporting expenses	7,174,958	-	-	7,174,958	7,121,580
Total operating expenses	27,182,042	-	-	27,182,042	29,679,206
Change in net assets	(4,358,849)	1,989,792	-	(2,369,057)	(8,019,161)
Net assets at beginning of year	18,929,880	46,951,134	500,000	66,381,014	74,400,175
Net assets at end of year	$ 14,571,031	$ 48,940,926	$ 500,000	$ 64,011,957	$ 66,381,014

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, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total
OPERATING REVENUES				
Research grants and contracts	$ 22,280,935	$ -	$ -	$ 22,280,935
Depreciation on beneficial interest in trust	-	(1,362,958)	-	(1,362,958)
Contributions	153,028	428,551	-	581,579
Investment return and other income	160,489	-	-	160,489
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
OPERATING EXPENSES				
Program expenses:				
Research	21,163,066	-	-	21,163,066
Dental	1,394,560	-	-	1,394,560
Total program expenses	22,557,626	-	-	22,557,626
Supporting expenses:				
General and administrative	6,899,473	-	-	6,899,473
Fundraising	222,107	-	-	222,107
Total supporting expenses	7,121,580	-	-	7,121,580
Total operating expenses	29,679,206	-	-	29,679,206
Change in net assets	3,850,795	(11,869,956)	-	(8,019,161)
Net assets at beginning of year	15,079,085	58,821,090	500,000	74,400,175
Net assets at end of year	$ 18,929,880	$ 46,951,134	$ 500,000	$ 66,381,014

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, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (2,369,057)	$ (8,019,161)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	2,765,217	2,506,977
(Appreciation) depreciation on beneficial interest in trust	(5,209,122)	1,362,958
Realized and unrealized loss (gain) on investments	1,910	(2,398)
Loss on disposal of equipment	41,154	-
Provision for bad debt	248,677	-
Change in operating assets and liabilities		
Accounts receivable	(1,013,680)	(2,083,761)
Contributions receivable	60,988	452,546
Prepaid expenses and other current assets	(60,488)	(6,879)
Accounts payable and accrued expenses	(1,566,740)	(305,888)
Deferred income	(349,151)	(140,068)
Deferred rent	(367,954)	(275,090)
Net cash used in operating activities	(7,818,246)	(6,510,764)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(848,696)	(650,555)
Proceeds from sale of equipment	-	63,000
Proceeds from sale of investments	3,246,522	927,002
Purchase of investments	(9,136)	(3,936,898)
Net cash provided by (used in) investing activities	2,388,690	(3,597,451)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in restricted cash	54,707	334,233
Trust distributions	2,951,782	10,084,216
Net proceeds from line of credit	2,000,000	-
Decrease in amounts held for the benefit of others	-	(339,233)
Net cash provided by financing activities	5,006,489	10,079,216
Net decrease in cash and cash equivalents	(423,067)	(28,999)
Cash and cash equivalents, beginning of year	999,615	1,028,614
Cash and cash equivalents, end of year	$ 576,548	$ 999,615
Supplemental information:		
Capital expenditures included in accrued expenses at year end	$ 16,795	$ 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

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, 2017 and 2016.

The Institute has cash of $0 and $54,707 as of June 30, 2017 and 2016, respectively which was returned by a collaborating subcontractor on a National Institute of Health ("NIH") project. Forsyth worked with the funder, NIH, to complete the project through a new collaborating subcontractor. The corresponding liability is included within accounts payable and accrued expenses in the accompanying consolidated statements of financial position.

The Institute has restricted cash of $5,000 at June 30, 2017 and 2016 which serves as a security deposit for certain equipment on loan from a third party.

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, 2017 or 2016, 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 $38.4 million and $36.5 million as of June 30, 2017 and 2016, respectively) as well as alternative investments (approximately $10.9 million and $10.5 million as of June 30, 2017 and 2016, 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, 2017 and 2016, respectively, was as follows:

	2017	**2016**
Equities	58 %	57 %
Hedge/private equity	22	23
Cash/fixed income	16	6
Real estate/tangible assets	4	14
	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 with carry-forward of over or under recoveries, which have been 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 carry-forward is included in the calculation of negotiated fixed rates in future years.

The Institute has a cumulative net under recovery of approximately $6.5 million and $2.8 million as of June 30, 2017 and 2016, respectively. These under recoveries are included in accounts receivable in the consolidated statements of financial position. Management anticipates collection of these accounts receivable beginning in fiscal year 2019.

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 (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 to identify uncertain tax positions and has determined that no such positions exist that are material to the 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 2017 and 2016, the Institute received approximately 73% and 72%, 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.

Reclassifications

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation.

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. Management has determined that no allowance for uncollectible contributions was necessary at June 30, 2017 or June 30, 2016.

	2017	2016
Less than one year	$ 43,000	$ 68,000
One to five years	-	40,000
Less: present value discount	-	(4,012)
Contributions receivable, net	$ 43,000	$ 103,988

4. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at June 30:

	2017	2016
Leasehold improvements	$ 16,774,746	$ 16,258,120
Technical equipment	11,389,875	10,350,919
Furniture and fixtures	715,670	715,670
Vehicles and computer software	130,409	153,769
Construction in progress	-	820,359
	29,010,700	28,298,837
Less: Accumulated depreciation	(14,779,830)	(12,127,087)
Property and equipment, net	$ 14,230,870	$ 16,171,750

Depreciation expense totaled $2,765,217 and $2,506,977 for the years ended June 30, 2017 and 2016, respectively.

5. INVESTMENTS

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

	2017	2016
Cash and cash equivalents	$ -	$ 1,700,897
Certificates of deposit	-	735,647
United States treasury notes	-	802,752
Investments	$ -	$ 3,239,296

Total return on investments for the years ended June 30, 2017 and 2016, respectively, consisted of the following:

	2017	2016
Investment income	$ 9,136	$ 5,898
Net realized gain	595	-
Net unrealized (loss) gain	(2,505)	2,398
Total return on investments	$ 7,226	$ 8,296

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, 2017:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Beneficial interest in trust	$ -	$ -	$ 49,276,967	$ 49,276,967
Total assets	$ -	$ -	$ 49,276,967	$ 49,276,967

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

Excluded from investments above are cash and cash equivalents and certificates of deposit of $0 and $2,436,544 as of June 30, 2017 and 2016, 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, 2017 and 2016:

	2017	2016
Beginning balance	$ 47,019,627	$ 58,466,801
Appreciation (depreciation) on beneficial interest in trust	5,209,122	(1,362,958)
Trust distributions	(2,951,782)	(10,084,216)
Ending balance	$ 49,276,967	$ 47,019,627

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 2017 or 2016.

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, 2017 or 2016.

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, 2017 and 2016, yielded a distribution of $3.0 million and $3.1 million, respectively.

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. The distribution initially allocated for the year ending June 30, 2018 was subsequently approved by the Board of Directors to fund operations for the year ended June 30, 2017.

Additionally, subsequent to June 30, 2017, the Institute's Board of Directors requested an additional distribution to fund future operations and strategic investments of the Institute (see Note 13).

Endowment Fund Activity

Endowment net assets were classified as follows at June 30:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beneficial interest in trust (donor restricted)	$ -	$ 48,776,967	$ 500,000	$ 49,276,967
Total	$ -	$ 48,776,967	$ 500,000	$ 49,276,967

	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

The classification and activity in the endowment net assets for years ended June 30, 2017 and 2016 are as follows:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ 3,239,296	$ 46,519,627	$ 500,000	$ 50,258,923
Appreciation on beneficial interest in trust	-	5,209,122	-	5,209,122
Trust distributions	-	(2,951,782)	-	(2,951,782)
Utilization of board designated net assets	(3,239,296)	-	-	(3,239,296)
Endowment net assets at end of year	$ -	$ 48,776,967	$ 500,000	$ 49,276,967

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ -	$ 57,966,801	$ 500,000	$ 58,466,801
Depreciation 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

8. RESTRICTED NET ASSETS

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

	2017	2016
Temporarily restricted:		
Beneficial interest in trust - accumulated return	$ 48,776,967	$ 46,519,627
Purpose or time restricted	163,959	431,507
	$ 48,940,926	$ 46,951,134
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 2017 and 2016 pension costs totaled $794,175 and $1,135,234, 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:

2018	$ 3,149,333
2019	3,223,189
2020	3,298,165
2021	3,373,359
2022	3,447,264
Thereafter	9,103,739
	$ 25,595,049

12. LINE OF CREDIT

The Institute has a revolving line of credit with a bank which allows for borrowings up to $2,000,000. Borrowings are due on demand and accrue interest at the LIBOR Advantage rate, plus 1.5%. The rate was 2.671% at June 30, 2017 and 1.953% at June 30, 2016. The outstanding balance was $2.0 million at June 30, 2017. There was no outstanding balance at June 30, 2016. The line of credit has no stated maturity but can be called by the bank at any time. Subsequent to year end the line of credit was amended to allow for total borrowings of up to $4,000,000 through April 2018, at which time the borrowing limit reverts to $2,000,000.

13. SUBSEQUENT EVENTS

Subsequent to June 30, 2017, the Institute's Board of Directors requested an additional distribution of $20 million to fund future operations and strategic investments of the Institute. In December 2017, the Trustee agreed to initially provide a distribution totaling $2.5 million by mid-February 2018, with further distributions being subject to additional review and approval. Management has evaluated subsequent events through January 18, 2018, which is the date the consolidated financial statements were available for issuance.