Consolidated Financial Statements Together with
Report of Independent Certified Public Accountants

THE FORSYTH INSTITUTE

June 30, 2018 and 2017

THE FORSYTH INSTITUTE

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Grant Thornton

Grant Thornton LLP
75 State Street, 13th Floor
Boston, MA 02109

T 617.723.7900
F 617.723.3640
www.GrantThornton.com
linkd.in/GrantThorntonUS
twitter.com/GrantThorntonUS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
The Forsyth Institute:

Report on the financial statements

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, 2018 and 2017, 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 consolidated 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, 2018 and 2017, 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
December 10, 2018

THE FORSYTH INSTITUTE
Consolidated Statements of Financial Position
As of June 30, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 914,752	$ 576,548
Restricted cash	305,000	305,000
Accounts receivable	3,435,250	9,021,679
Contributions receivable, net	-	43,000
Prepaid expenses and other assets	237,496	177,165
Beneficial interest in trust	44,278,955	49,276,967
Property and equipment, net	12,509,774	14,230,870
Total assets	$ 61,681,227	$ 73,631,229
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 2,461,533	$ 2,121,508
Deferred revenue	652,310	440,700
Line of credit	2,000,000	2,000,000
Deferred rent	4,634,392	5,057,064
Total liabilities	9,748,235	9,619,272
Commitments and contingencies (Note 11)		
NET ASSETS		
Unrestricted	7,588,886	14,571,031
Temporarily restricted	43,844,106	48,940,926
Permanently restricted	500,000	500,000
Total net assets	51,932,992	64,011,957
Total liabilities and net assets	$ 61,681,227	$ 73,631,229

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, 2018
(With summarized comparative information for the year ended June 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
OPERATING REVENUES					
Research grants and contracts	$ 13,524,750	$ -	$ -	$ 13,524,750	$ 18,488,130
Appreciation on beneficial interest in trust	-	4,245,291	-	4,245,291	5,209,122
Contributions	144,794	260,728	-	405,522	569,323
Investment return and other income	1,597,218	-	-	1,597,218	546,410
Trust distributions	9,243,303	(9,243,303)	-	-	-
Net assets released from restrictions	359,536	(359,536)	-	-	-
Total operating revenues	24,869,601	(5,096,820)	-	19,772,781	24,812,985
OPERATING EXPENSES					
Program expenses:					
Research	17,159,483	-	-	17,159,483	18,303,470
Dental	1,662,810	-	-	1,662,810	1,454,937
Total program expenses	18,822,293	-	-	18,822,293	19,758,407
Supporting expenses:					
General and administrative	6,511,116	-	-	6,511,116	6,893,667
Fundraising	241,637	-	-	241,637	281,291
Total supporting expenses	6,752,753	-	-	6,752,753	7,174,958
Total operating expenses	25,575,046	-	-	25,575,046	26,933,365
Change in net assets from operations	(705,445)	(5,096,820)	-	(5,802,265)	(2,120,380)
Non-operating expenses:					
Provision for bad debt	(6,276,700)	-	-	(6,276,700)	(248,677)
Change in net assets	(6,982,145)	(5,096,820)	-	(12,078,965)	(2,369,057)
Net assets at beginning of year	14,571,031	48,940,926	500,000	64,011,957	66,381,014
Net assets at end of year	$ 7,588,886	$ 43,844,106	$ 500,000	$ 51,932,992	$ 64,011,957

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, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Research grants and contracts	$ 18,488,130	$ -	$ -	$ 18,488,130
Appreciation on beneficial interest in trust	-	5,209,122	-	5,209,122
Contributions	188,786	380,537	-	569,323
Investment return and other income	546,410	-	-	546,410
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
OPERATING EXPENSES				
Program expenses:				
Research	18,303,470	-	-	18,303,470
Dental	1,454,937	-	-	1,454,937
Total program expenses	19,758,407	-	-	19,758,407
Supporting expenses:				
General and administrative	6,893,667	-	-	6,893,667
Fundraising	281,291	-	-	281,291
Total supporting expenses	7,174,958	-	-	7,174,958
Total operating expenses	26,933,365	-	-	26,933,365
Change in net assets from operations	(4,110,172)	1,989,792	-	(2,120,380)
Non-operating expenses:				
Provision for bad debt	(248,677)	-	-	(248,677)
Change in net assets	(4,358,849)	1,989,792	-	(2,369,057)
Net assets at beginning of year	18,929,880	46,951,134	500,000	66,381,014
Net assets at end of year	$ 14,571,031	$ 48,940,926	$ 500,000	$ 64,011,957

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, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (12,078,965)	$ (2,369,057)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	3,022,506	2,765,217
Appreciation on beneficial interest in trust	(4,245,291)	(5,209,122)
Realized and unrealized loss on investments	-	1,910
Loss on disposal of equipment	39,529	41,154
Provision for bad debt	6,276,700	248,677
Change in operating assets and liabilities		
Accounts receivable	(690,271)	(1,013,680)
Contributions receivable	43,000	60,988
Prepaid expenses and other current assets	(60,331)	(60,488)
Accounts payable and accrued expenses	324,275	(1,566,740)
Deferred revenue	211,610	(349,151)
Deferred rent	(422,672)	(367,954)
Net cash used in operating activities	(7,579,910)	(7,818,246)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(1,347,189)	(848,696)
Proceeds from sale of equipment	22,000	-
Proceeds from sale of investments	-	3,246,522
Purchase of investments	-	(9,136)
Net cash (used in) provided by investing activities	(1,325,189)	2,388,690
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in restricted cash	-	54,707
Trust distributions	9,243,303	2,951,782
Net proceeds from line of credit	-	2,000,000
Net cash provided by financing activities	9,243,303	5,006,489
Net increase (decrease) in cash and cash equivalents	338,204	(423,067)
Cash and cash equivalents, beginning of year	576,548	999,615
Cash and cash equivalents, end of year	$ 914,752	$ 576,548
Supplemental information:		
Capital expenditures included in accrued expenses at year end	$ 15,750	$ 16,795
Cash paid for interest	$ 80,788	$ 4,529

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, 2018 and 2017.

The Institute has restricted cash of $5,000 at June 30, 2018 and 2017 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, 2018 or 2017, 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.

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 $35.1 million and $38.4 million as of June 30, 2018 and 2017, respectively), as well as alternative investments (approximately $9.1 million and $10.9 million as of June 30, 2018 and 2017, 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, 2018 and 2017, respectively, was as follows:

	2018	2017
Equities	67 %	58 %
Hedge/private equity	21	22
Cash/fixed income	10	16
Real estate/tangible assets	2	4
	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 Revenue

Deferred revenue 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 had been recorded as an indirect cost carryforward. If the Institute over recovered on its indirect costs during the year, a liability was recorded. If the Institute under recovered, a receivable was recorded. The carry-forward is included in the calculation of negotiated fixed rates in future years.

The Institute had a cumulative net under recovery of approximately $6.5 million included in accounts receivable in the consolidated statements of financial position as of June 30, 2017. Collectibility of this receivable is dependent upon future funding and other factors. This receivable was written off to bad debt during 2018 based upon management's estimate of realizability.

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 2018 and 2017, the Institute received approximately 74% and 73%, respectively, of its Research grants and contracts 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 2017 financial statements have been reclassified to conform to the 2018 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.

	2018	2017
Less than one year	$ -	$ 43,000
One to five years	-	-
Less: present value discount	-	-
Contributions receivable, net	$ -	$ 43,000

4. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at June 30:

	2018	2017
Leasehold improvements	$ 16,774,746	$ 16,774,746
Technical equipment	11,572,640	11,389,875
Furniture and fixtures	715,670	715,670
Vehicles and computer software	130,409	130,409
Capital leases	754,659	-
	29,948,124	29,010,700
Less: Accumulated depreciation	(17,438,350)	(14,779,830)
Property and equipment, net	$ 12,509,774	$ 14,230,870

Depreciation expense totaled $3,022,506 and $2,765,217 for the years ended June 30, 2018 and 2017, respectively.

Accumulated depreciation on capital leases was $126,427 as of June 30, 2018.

5. 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, 2018:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Beneficial interest in trust	$ -	$ -	$ 44,278,955	$ 44,278,955
Total assets	$ -	$ -	$ 44,278,955	$ 44,278,955

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 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, 2018 and 2017:

	2018	2017
Beginning balance	$ 49,276,967	$ 47,019,627
Appreciation (depreciation) on beneficial interest in trust	4,245,291	5,209,122
Trust distributions	(9,243,303)	(2,951,782)
Ending balance	$ 44,278,955	$ 49,276,967

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 2018 or 2017.

6. 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, 2018 or 2017.

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, 2018 and 2017, yielded a distribution of $2.8 million and $3.0 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 ended June 30, 2018 was subsequently approved by the Board of Directors to fund operations for the year ended June 30, 2017.

Additionally, in September 2017, the Institute's Board of Directors requested an additional distribution to fund operations and strategic investments of the Institute of $20.0 million. Distributions totaling $6.4 million were approved by the Trustee and received during the fiscal year ended June 30, 2018.

Endowment Fund Activity

Endowment net assets were classified as follows at June 30:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beneficial interest in trust (donor restricted)	$ -	$ 43,778,955	$ 500,000	$ 44,278,955
Total	$ -	$ 43,778,955	$ 500,000	$ 44,278,955

	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

The classification and activity in the endowment net assets for years ended June 30, 2018 and 2017 are as follows:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ -	$ 48,776,967	$ 500,000	$ 49,276,967
Appreciation on beneficial interest in trust	-	4,245,291	-	4,245,291
Trust distributions	-	(9,243,303)	-	(9,243,303)
Endowment net assets at end of year	$ -	$ 43,778,955	$ 500,000	$ 44,278,955

	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

7. RESTRICTED NET ASSETS

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

	2018	2017
Temporarily restricted:		
Beneficial interest in trust - accumulated return	$ 43,778,955	$ 48,776,967
Purpose or time restricted	65,151	163,959
	$ 43,844,106	$ 48,940,926
Permanently restricted:		
Beneficial interest in trust - corpus	$ 500,000	$ 500,000

8. 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 2018 and 2017 pension costs totaled $713,352 and $794,175, respectively.

9. 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.

10. 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:

2019	$	3,223,189
2020		3,298,165
2021		3,373,359
2022		3,447,264
2023		3,521,187
Thereafter		5,582,552
	$	22,445,716

11. 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 approximately 3.5% at June 30, 2018 and 2.671% at June 30, 2017. The outstanding balance was $2.0 million at June 30, 2018 and 2017. The line of credit has no stated maturity but can be called by the bank at any time. During the year 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 reverted to $2,000,000.

12. SUBSEQUENT EVENTS

In August 2018, as the result of cooperative efforts of the Trustee, the Institute, and the Massachusetts Attorney General's Office, the Suffolk County Probate Court approved the $20 million distribution request from the Board of Directors, as well as the termination of the Trust and distribution of the remaining funds directly to the Institute. The Institute's Board has directed that its Investment Management Committee will manage the funds distributed from the Trust as a quasi-endowment and used in a manner consistent with the general charitable purposes of the Trust and with the Institute's charitable mission.

Management has evaluated subsequent events through December 10, 2018, which is the date the consolidated financial statements were available for issuance.