BOSTON FOUNDATION, INC.

Consolidated Financial Statements

June 30, 2016 and 2015

(With Independent Auditors’ Report Thereon)

KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

The Board of Directors
Boston Foundation, Inc.:

We have audited the accompanying consolidated financial statements of Boston Foundation, Inc. and its affiliates, which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, 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 U.S. generally accepted accounting principles; 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.

Auditors' 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 audits 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 auditors' 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 Boston Foundation, Inc. and its affiliates 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 U.S. generally accepted accounting principles.

KPMG LLP

December 22, 2016

BOSTON FOUNDATION, INC.

Consolidated Statements of Financial Position

June 30, 2016 and 2015

(Dollars in thousands)

Assets		**2016**	**2015**
Cash and cash equivalents	$	5,500	24,765
U.S. Treasuries		23,132	—
Program-related receivables and other assets		8,823	6,739
Contributions receivable, net		2,136	1,608
Investments, at fair value		927,453	958,273
Noncash donations held for sale		397	434
Fixed assets, net		297	434
Total assets	$	967,738	992,253
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	5,876	5,894
Grants payable		1,220	668
Total liabilities		7,096	6,562
Net assets:			
Unrestricted		530,956	527,267
Temporarily restricted		196,418	228,561
Permanently restricted		233,268	229,863
Total net assets		960,642	985,691
Total liabilities and net assets	$	967,738	992,253

See accompanying notes to consolidated financial statements.

BOSTON FOUNDATION, INC.

Consolidated Statement of Activities

Year ended June 30, 2016

(Dollars in thousands)

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and investment activity:					
Contributions	$	103,125	39	4,005	107,169
Service fees		1,582	—	—	1,582
Interest and dividends, net of fees		4,453	2,763	—	7,216
Unrealized and realized net losses on investments and trusts		(8,947)	(8,933)	—	(17,880)
Reclassification of net assets		565	35	(600)	—
Net assets released from restrictions		26,047	(26,047)		—
Total revenues and investment activity		126,825	(32,143)	3,405	98,087
Expenses:					
Grants		101,862	—	—	101,862
Change in split-interest trusts		68	—	—	68
Program support		5,742	—	—	5,742
Operating expenses:					
Grantmaking and civic leadership		3,683	—	—	3,683
Development and donor services		3,886	—	—	3,886
Finance and administration		7,895	—	—	7,895
Total operating expenses		15,464	—	—	15,464
Total expenses		123,136	—	—	123,136
Change in net assets		3,689	(32,143)	3,405	(25,049)
Net assets, beginning of year		527,267	228,561	229,863	985,691
Net assets, end of year	$	530,956	196,418	233,268	960,642

See accompanying notes to consolidated financial statements.

BOSTON FOUNDATION, INC.

Consolidated Statement of Activities

Year ended June 30, 2015

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and investment activity:				
Contributions	$ 114,207	463	7,861	122,531
Service fees	1,896	—	—	1,896
Interest and dividends, net of fees	3,424	2,927	—	6,351
Unrealized and realized net gains on investments and trusts	7,193	7,045	—	14,238
Reclassification of net assets	48	(48)	—	—
Net assets released from restrictions	22,984	(22,984)	—	—
Total revenues and investment activity	149,752	(12,597)	7,861	145,016
Expenses:				
Grants	127,264	—	—	127,264
Change in split-interest trusts	197	—	—	197
Program support	4,954	—	—	4,954
Operating expenses:				
Grantmaking and civic leadership	3,471	—	—	3,471
Development and donor services	4,163	—	—	4,163
Finance and administration	7,217	—	—	7,217
Total operating expenses	14,851	—	—	14,851
Total expenses	147,266	—	—	147,266
Change in net assets	2,486	(12,597)	7,861	(2,250)
Net assets, beginning of year	524,781	241,158	222,002	987,941
Net assets, end of year	$ 527,267	228,561	229,863	985,691

See accompanying notes to consolidated financial statements.

BOSTON FOUNDATION, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2016 and 2015

(Dollars in thousands)

		2016	2015
Cash flows from operating activities:			
Cash received from contributions and service fees	$	104,217	114,987
Interest and dividends received, net of fees		6,763	6,100
Annuity and beneficiary payments		(244)	(22)
Grants paid		(101,004)	(135,471)
Cash paid:			
For program expenses		(5,742)	(4,504)
To employees and suppliers		(15,046)	(15,701)
Net cash used in operating activities		(11,056)	(34,611)
Cash flows from investing activities:			
Proceeds from sales of investments		271,600	181,933
Purchases of investments		(283,726)	(154,899)
Purchases of equipment		(88)	(236)
Net cash (used in) provided by investing activities		(12,214)	26,798
Cash flows from financing activities:			
Contributions to permanently restricted funds		4,005	7,861
Net cash provided by financing activities		4,005	7,861
Net change in cash and cash equivalents		(19,265)	48
Cash and cash equivalents, beginning of year		24,765	24,717
Cash and cash equivalents, end of year	$	5,500	24,765
Reconciliation of change in net assets to net cash used in operating activities:			
Change in net assets	$	(25,049)	(2,250)
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation		225	226
Change in annuity and beneficiary payables		(323)	(22)
Change in grants payable		552	(8,599)
Change in contributions receivable, net		(528)	(1,090)
Changes in other assets and liabilities, net		192	(777)
Contributions restricted for long-term investment		(4,005)	(7,861)
Unrealized and realized net loss (gain) on investments and trusts		17,880	(14,238)
Net cash used in operating activities	$	(11,056)	(34,611)

See accompanying notes to consolidated financial statements.

(1) Description of the Boston Foundation

(a) Organization

Founded in 1915, the Boston Foundation, Inc. (the Foundation) is one of the nation's oldest and largest community foundations – a major grantmaker, partner in philanthropy, provider of information, and civic leader addressing Greater Boston's most pressing challenges.

The Foundation is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is generally exempt from income taxes pursuant to Section 501(a) of the Code and qualifies as a public charity under Section 170(b)(1)(A)(vi) of the Code.

The Foundation has not taken any tax positions which would have a material effect, individually or in the aggregate, upon the Foundation's financial statements. The Foundation believes it has not taken any significant uncertain tax positions or any tax positions that would jeopardize the Foundation's tax-exempt status.

The Philanthropic Initiative, Inc. (TPI), an internationally recognized provider of customized philanthropic consulting, operates as a distinct unit of the Boston Foundation.

(b) Activity

As Greater Boston's community foundation, the Foundation devotes its resources to building and sustaining a vital and prosperous city and region, where justice and opportunity are extended to everyone. The Foundation's primary purposes are threefold: to make charitable grants to qualified recipients; to assist donors with their philanthropic goals; and to be a civic leader, convener, and information provider in the Boston community. The Foundation receives support directly from the public. Due to the generosity of donors, the Foundation is able to serve as a major grantmaker in Greater Boston, supporting hundreds of not-for-profit organizations that are helping to build a strong and healthy community.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying consolidated financial statements, which are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP), have been prepared to focus on the Foundation as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. The consolidated financial statements include the accounts of the Foundation and those of its affiliated supporting organizations, which are also 501(c)(3) exempt organizations. The total net assets of the supporting organizations were $19,897 and $20,592 as of June 30, 2016 and 2015, respectively. Inter-organizational transactions and balances have been eliminated in consolidation.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, as of the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

(c) Classification of Net Assets

The Foundation reports information regarding its financial position and activities in three classes of net assets based upon the existence or absence of donor-imposed restrictions, as follows:

- Unrestricted net assets have no donor-imposed or legal stipulations as to their use. Unrestricted net assets include donor-advised funds.
- Temporarily restricted net assets contain donor-imposed stipulations as to the timing of their availability or use for a particular purpose. These net assets are released from restrictions when the specified time elapses or actions have been taken to meet the restrictions.
- Permanently restricted net assets have donor-imposed stipulations that neither expire with the passage of time nor can be removed by actions of the Foundation and consist primarily of the historic dollar value of gifts to establish or add to the Foundation's donor-restricted endowment funds. Net assets of such funds in excess of their historic dollar value are classified as temporarily restricted net assets until appropriated by the Board of Directors (the Board) and spent in accordance with the standard of prudence imposed by state law.

The Articles of Organization of the Foundation include a variance power provision, which gives the Board the power to modify any purpose-related restriction or condition placed on gifts, if in its sole judgment the Board determines that the restriction becomes, in effect, incapable of fulfillment due to the changing needs of the community. During 2016, the Board utilized variance power to 1) grant out the $12 balance of a scholarship fund to a not-for-profit organization's scholarship program, 2) extend the terms of a designated fund to include conservation of any public art, 3) to grant out a $12 fund balance to a not-for-profit, 4) to grant out a $3 fund balance to a not-for-profit. During 2015, the Board 1) granted out the balance of $24 of an advised fund to two not-for-profit organizations, 2) amended the terms of a scholarship program to statewide eligibility, and 3) increased the maximum annual grant amount a specific eligible organization may receive from a specific field of interest fund.

(d) Spending Policy

Generally, the Foundation manages its funds using a total return concept, which emphasizes total investment return, including interest and dividends and realized and unrealized gains and losses. Annually the Foundation's Board determines the level of grantmaking based on two factors that serve to stabilize annual spending levels and preserve the real value of the endowment over time. In fiscal years 2016 and 2015, those factors are 70% of the prior year's spending, adjusted for inflation, plus 30% of a spending rate applied to the estimated fair value of its endowment. The discretionary endowment is made up of funds with no restrictions placed on the way income may be used. The

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(Dollars in thousands)

designated endowment is composed of funds created for specifically named agencies or projects. The spending policy rates were as follows:

	2016	2015
Discretionary endowment	6.4%	6.4%
Designated endowment	5.0	5.0
Endowed donor advised funds	5.0	5.0

For fiscal year 2017, the Board of Directors has approved the spending policy rate of 6.4% for its discretionary endowment and 5.0% for designated endowments and endowed donor advised funds.

(e) Cash and Cash Equivalents

Except for amounts included in the Foundation’s investment pools, the Foundation records liquid investments purchased with original maturities of less than 90 days as cash equivalents.

(f) Fair Value Measurements

Investments are reported at estimated fair value. GAAP defines fair value and requires certain disclosures about fair value measurements. Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. GAAP also establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels:

- Level 1 – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities;
- Level 2 – observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and
- Level 3 – inputs are derived from valuation methodologies, including pricing models, discounted cash flow models, and similar techniques, and are not based on market, exchange, dealer, or broker-traded transactions. In addition, Level 3 valuations incorporate assumptions and projections that are not observable in the market, and significant professional judgment is required in determining the fair value assigned to such assets or liabilities.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, the Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

The majority of the Foundation’s investments are held in entities for which fair value is estimated using net asset value (NAV) as reported by the fund manager as a practical expedient, unless it is probable that the investment will be sold for a different amount from NAV. As of June 30, 2016 and 2015, the Foundation had no plans or intention to sell investments at amounts different from NAV.

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Although the Foundation's managers adhere to fair value accounting as required by the Financial Accounting Standards Board Accounting Standards Codification (ASC) 820-10, *Fair Value Measurements and Disclosures*, because of the inherent uncertainties in valuation assumption, the estimated fair values for investments may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Such valuations are determined by fund managers and generally consider variables such as operating results, earnings of the underlying holdings, projected cash flows, recent sales prices, and other pertinent information.

The NAVs or their equivalent, as estimated and reported by the investment managers, are reviewed by the Foundation's Treasurer, Chief Investment Officer, and its investment consultant.

(g) U.S. Treasuries

In fiscal year 2016, the Foundation began investing available cash and cash equivalents in U.S. Treasuries. The total of cash and cash equivalents and U.S. Treasuries represent the Foundation's resources available to meet current operating needs. The U.S. Treasuries are carried at fair value and classified at Level 1 of the fair value hierarchy. The Treasuries have maturities at the date of purchase from one to five years.

(h) Contributions Receivable

Contributions receivable consist of unconditional promises to give that are expected to be collected within one year.

(i) Fixed Assets

The Foundation capitalizes expenditures over $5 incurred to purchase office equipment, computer systems, furniture, and leasehold improvements. Depreciation is recognized over the estimated useful life of the assets, typically from three to five years, on a straight-line basis. Leasehold improvements are amortized over the lesser of their useful lives or the remaining term of the lease.

(j) Grants Expense

The Foundation records grants as expenses when all conditions stipulated by the grant have been substantially met by the grantee. Grants issued with future payment dates and without substantive conditions are accrued and expensed when approved by the Board of Directors or committed to grantees. Grants scheduled to be paid after one year are discounted at a rate commensurate with the duration involved.

(k) Contributions and Bequests

Contributions, including unconditional promises from donors, are recorded as revenue at fair value when received. Promises to give subject to donor-imposed stipulations that the corpus be maintained permanently are shown as increases in permanently restricted net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Bequests generally are accrued as revenue when the respective will has been

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admitted to probate and all appeal periods have expired. Contributions to be received after one year are discounted at the appropriate rate commensurate with the risks and duration involved.

(l) Program Support

Program support consists primarily of additional expenses incurred related to individual programs or programs for which the funding is shared by others. These expenses are separate and distinct from the Foundation's operating expenses. Examples of current programs are the Boston Indicators Project, the Skillworks Initiative and Success Boston.

(m) Operating Expenses

Operating expenses include salaries and benefits, rent, and other overhead expenses that are incurred in the operation of the Foundation overall and are not specifically attributable to a particular fund or program. An administrative fee ranging from 0.5% to 1.2% of the net asset balance by fund is charged to each donor advised, discretionary and designated fund to cover operating expenses. Fees between 1% and 20% of contributions received by fund are charged to initiative and similar funds depending upon the relative level of support provided by the Foundation's operating resources. In addition, certain specific operating expenses are charged against income earned on specific funds prior to the time grants are paid. The Foundation also charges an investment support fee ranging from 0.15% to 0.19% to cover certain investment-related operating expenses.

(n) Changes in Accounting Policies

Effective in fiscal year 2016, the Foundation retroactively adopted the provisions of Accounting Standards Update (ASU) No. 2015-07, *Fair Value Measurement Disclosures for Investments in Certain Entities that Calculate Net Asset Value (NAV) per share (or its Equivalent)* (ASU 2015-07). ASU 2015-07 removes the requirement to classify within the fair value hierarchy table investments in certain funds measured at NAV as a practical expedient to estimate fair value. The ASU also requires that any NAV-measured investments excluded from the fair value hierarchy table be summarized as an adjustment to the table so that total investments can be reconciled to the Consolidated Statements of Financial Position. As a result of the adoption, the June 30, 2015 fair value hierarchy table was restated to reflect the removal of NAV-measured investments of $327,711 previously classified in Level 2 and $368,530 in Level 3. In addition, the July 1, 2014 opening balance on the 2015 Level 3 roll forward was restated to reflect the removal of NAV-measured investments aggregating $369,951.

(o) Reclassifications

Certain 2015 information has been reclassified to conform to the 2016 presentation.

(3) Program-Related Receivables and Other Assets

The Foundation invests a portion of its funds in projects that advance its philanthropic purposes by providing loans, known as "program-related investments", to certain not-for-profit organizations. At June 30, 2016 and 2015, respectively, these loans, included in program-related receivables and other assets, totaled $8,442 and $6,375 net of unamortized discounts of $1,397 and $1,340, respectively, with various repayment dates beginning in 2017 and ending in 2032.

In addition, the Foundation has a $4,000 loan guarantee expiring in 2021 for the purpose of building or improving charter schools in Massachusetts that have been funded by the Massachusetts Development Finance Agency and a $3,000 loan guarantee expiring in 2031 for the purpose of reducing the cash-funded reserves in credit projects that have a first mortgage financing from the Massachusetts Housing Partnership Fund Board. The Foundation's $4,000 loan guarantee serves as a backup to guarantees made by other entities and the Foundation's $3,000 guarantee is matched by the same amount from another foundation. As of June 30, 2016 and 2015, the Foundation's guarantees have not been drawn. The Foundation believes the estimated fair value of the guarantees and any potential liability is not material.

(4) U.S. Treasuries

As of June 30, 2016, U.S. Treasuries of $10,000 mature within one year, and $13,000 mature between one and five years. The net premium and unrealized gain on the notes as of June 30, 2016 is $165.

(5) Investments

The Foundation maintains three investment pools as part of its Fund for the 21st Century for investing its assets as follows:

- **Balanced Plus Pool** – Approximately 50 investment management firms manage the assets in this pool. Approximately 20% of this pool is allocated to private partnerships holding interests in private equity, venture capital, real estate, timber, and energy assets. This asset mix is intended to produce the highest long-term investment return. The Foundation invests its endowment assets in this pool.
- **Balanced Pool** – Approximately 25 investment management firms manage the assets in this pool. This pool does not include private partnerships, which use strategies that are generally expected to yield higher returns over time, and accordingly, this asset allocation is expected to produce a slightly lower investment return. Typically, donor advised funds desiring a higher allocation to U.S. Treasury bonds and limited exposure to illiquid investments are invested in this pool.
- **Short-Term Pool** – This pool is invested in money market funds and U.S. Treasury bills. Typically, donor advised funds intending to avoid equity market exposure and to make grants in the near term are invested in this pool.

(Dollars in thousands)

The following table summarizes the Foundation's investments in the fair value hierarchy as of June 30, 2016:

	June 30, 2016				
	Investments Measured at NAV	Investments Classified per Fair Market Hierarchy			
		Level 1	Level 2	Level 3	Total
Global equities	$ 279,389	80,170	—	—	359,559
Flexible capital	213,816	—	—	—	213,816
Private equity and venture capital	90,816	—	—	—	90,816
Real assets:					
Real estate	32,490	6,880	—	—	39,370
Timber	18,650	—	—	—	18,650
Energy	12,315	2,353	—	—	14,668
	63,455	9,233	—	—	72,688
Fixed income:					
Money markets	—	27,036	—	—	27,036
U.S. Treasuries	—	104,798	—	—	104,798
U.S. TIPS	—	—	23,684	—	23,684
	—	131,834	23,684	—	155,518
Other investments	4,145	22,384	—	8,527	35,056
Total investmer	$ 651,621	243,621	23,684	8,527	927,453

(Dollars in thousands)

The following table summarizes the Foundation's investments in the fair value hierarchy as of June 30, 2015:

	June 30, 2015				
	Investments measured at NAV	Investments classified per fair market hierarchy			Total
		Level 1	Level 2	Level 3	
Global equities	$ 302,411	94,929	—	—	397,340
Flexible capital	216,231	—	—	—	216,231
Private equity and venture capital	88,602	—	—	—	88,602
Real assets:					
Real estate	32,548	—	—	—	32,548
Timber	22,660	—	—	—	22,660
Energy	17,614	2,416	—	—	20,030
	72,822	2,416	—	—	75,238
Fixed income:					
Money markets	—	42,689	—	—	42,689
U.S. Treasuries	—	82,998	—	—	82,998
U.S. TIPS	—	—	23,282	—	23,282
Global Fixed Income	6,907	—	—	—	6,907
	6,907	125,687	23,282	—	155,876
Other investments	9,268	7,411	—	8,307	24,986
Total investments	$ 696,241	230,443	23,282	8,307	958,273

(Dollars in thousands)

(a) Level 3 Investment Activity

The following table presents the Foundation's activity for the fiscal years ended June 30, 2016 and 2015 for investments classified in Level 3:

		Other investments
Fair value as of July 1, 2014	$	9,365
Purchases		328
Sales and distributions		(860)
Net realized and unrealized gains		(526)
Fair value as of June 30, 2015	$	8,307
Fair value as of July 1, 2015	$	8,307
Purchases		510
Sales and distributions		(747)
Net realized and unrealized gains		457
Fair value as of June 30, 2016	$	8,527

There were no transfers between levels in 2016 and 2015.

(b) Liquidity

Investment fair values are aggregated below by redemption or liquidation period, availability, or sale in the case of marketable securities. Certain investments are redeemable at NAV under the original terms of the subscription agreement and entity agreements. The majority of such redemptions require ninety days or more written notice prior to the redemption period.

(Dollars in thousands)

	June 30, 2016					
	Daily	**Monthly**	**Quarterly**	**1 to 5 years**	**Illiquid**	**Total**
Balanced Plus Pool:						
Money markets	$ 9,175	—	—	—	—	9,175
U.S. Treasury notes	50,168	—	—	—	—	50,168
U.S. TIPS	21,762	—	—	—	—	21,762
Global equities	75,831	144,612	119,656	—	—	340,099
Flexible capital	—	—	28,602	146,996	25,811	201,409
Private equity and venture capital	—	—	—	—	90,816	90,816
Real assets	6,351	21,402	—	—	39,920	67,673
	163,287	166,014	148,258	146,996	156,547	781,102
Balanced Pool:						
Money markets	955	—	—	—	—	955
U.S. Treasury notes	9,669	—	—	—	—	9,669
U.S. TIPS	1,921	—	—	—	—	1,921
Global equities	4,339	8,274	6,847	—	—	19,460
Flexible capital	—	—	1,762	9,083	1,561	12,406
Real assets	2,882	2,134	—	—	—	5,016
	19,766	10,408	8,609	9,083	1,561	49,427
Short-Term Pool:						
Money markets	16,907	—	—	—	—	16,907
U.S. Treasuries	44,961	—	—	—	—	44,961
	61,868	—	—	—	—	61,868
Other investments	22,384	—	—	—	12,672	35,056
Total investments	$ 267,305	176,422	156,867	156,079	170,780	927,453

(c) Investment Returns

Investment returns for the years ended June 30 were as follows:

	2016	**2015**
Interest and dividends, net of fees	$ 7,216	6,351
Unrealized and realized net (losses)/gains on investments and trusts	(17,880)	14,238
Total return	$ (10,664)	20,589

Interest and dividends are shown net of investment management and custody fees. Investment management and custody fees paid directly to the managers for the years ended June 30, 2016 and 2015 were $4,354 and $3,199, respectively. Additional investment fees that were not paid directly to the managers have been netted against the return on certain investments. It is not practical to determine the amounts of such fees.

(Dollars in thousands)

Investment returns by investment pool for the years ended June 30 were as follows:

		2016	2015
Balance plus pool	$	(11,592)	18,069
Balance pool		(558)	(242)
Short-term pool		162	36
Other investments		1,148	2,726
U.S. treasury notes		176	—
Total return	$	(10,664)	20,589

(d) Commitments

Private equity, venture capital, and real asset investments are generally made through limited partnerships. Under the terms of these agreements, the Foundation is obligated to remit additional funding periodically as capital calls are exercised by the manager. These partnerships have a limited existence, generally around 10 years, and such agreements may provide for annual extensions for the purpose of disposing of portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, and other factors, a manager may extend the term of a fund beyond its originally anticipated existence or may wind down the fund prematurely. The Foundation cannot anticipate such changes because they are based on unforeseen events, but should they occur they may result in less liquidity or return from the investment than originally anticipated. As a result, the timing and amount of future capital calls expected to be exercised in any particular year is uncertain.

Unfunded commitments at June 30 were as follows:

		2016	2015
Private equity and venture capital	$	59,589	46,210
Real assets		6,976	7,723
Total unfunded commitments	$	66,565	53,933

The above amounts are generally payable within ten days of the receipt of a capital call notice. The Foundation has no control as to when a request for funding will be received. It is currently anticipated that the Foundation will be required to fund these commitments within the next three years, but the specific timing is ultimately subject to the discretion of the fund managers.

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(Dollars in thousands)

(6) Endowment Net Assets

Endowment net assets consist of the following:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
As of June 30, 2016:					
Endowment funds	$	406	179,002	233,268	412,676
As of June 30, 2015:					
Endowment funds	$	1,372	209,812	229,863	441,047

GAAP 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 the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and requires comprehensive disclosures regarding donor-restricted endowment funds.

The Foundation's endowment as of June 30, 2016 and 2015, respectively, consists of 251 and 236 individual funds established for a variety of purposes, including donor-restricted endowment funds.

The Foundation is subject to UPMIFA as adopted by the Commonwealth of Massachusetts. Under UPMIFA, the Board of Directors has discretion to determine appropriate expenditures of a donor-restricted endowment fund in accordance with a robust set of guidelines about what constitutes prudent spending. UPMIFA permits the Foundation to appropriate for expenditure or accumulate so much of an endowment fund as the Foundation determines to be prudent for the uses, benefits, purposes and duration for which the endowment fund is established. Seven criteria are to be used to guide the Foundation in its yearly expenditure decisions: 1) duration and preservation of the endowment fund; 2) the purposes of the Foundation and the endowment fund; 3) general economic conditions; 4) effect of inflation or deflation; 5) the expected total return from income and the appreciation of investments; 6) other resources of the Foundation; and 7) the investment policy of the Foundation.

Although UPMIFA offers short-term spending flexibility, the explicit consideration of the preservation of funds among factors for prudent spending suggests that a donor-restricted endowment fund is still perpetual in nature. Under UPMIFA, the Board is permitted to determine and continue a prudent payout amount, even if the market value of the fund is below historic dollar value. There is an expectation that, over time, the permanently restricted amount will remain intact. This perspective is aligned with the accounting standards definition that permanently restricted funds are those that must be held in perpetuity even though the historic-dollar-value may be expended on a temporary basis. At June 30, 2016 and 2015, the fair value of certain of these individual funds was less than their historic dollar value by $4,736 and $3,424, respectively, due to investment losses. Unrestricted net assets have been charged for the deficiency caused by these losses.

The Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the

(Continued)

(Dollars in thousands)

donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until appropriated for spending by the Board of Directors.

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2015	$	1,372	209,812	229,863	441,047
Investment return:					
Investment income, net		35	2,622	—	2,657
Realized and unrealized net losses		—	(8,567)	—	(8,567)
Total investment return		35	(5,945)	—	(5,910)
Contributions received		—	—	4,005	4,005
Grants paid		(20,335)	—	—	(20,335)
Operating expenses		(5,559)	—	—	(5,559)
Transfers and reclassifications		(7)	35	(600)	(572)
Change in underwater funds		(1,312)	1,312	—	—
Net assets released from restrictions		26,212	(26,212)	—	—
Endowment net assets, June 30, 2016	$	406	179,002	233,268	412,676

(Continued)

(Dollars in thousands)

Changes in endowment net assets for the year ended June 30, 2015 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2014	$ (2,919)	222,265	222,002	441,348
Investment return:				
Investment income, net	—	2,802	—	2,802
Net realized and unrealized gains	—	6,762	—	6,762
Total investment return	—	9,564	—	9,564
Contributions received	—	—	7,861	7,861
Grants paid	(20,047)	—	—	(20,047)
Operating expenses	(5,346)	—	—	(5,346)
Transfers and reclassifications	7,667	—	—	7,667
Change in underwater funds	(505)	505	—	—
Net assets released from restrictions	22,522	(22,522)	—	—
Endowment net assets, June 30, 2015	$ 1,372	209,812	229,863	441,047

(7) Fixed Assets

Fixed assets consisted of the following as of June 30:

	2016	2015
Office equipment, computer system, and furniture	$ 1,397	1,360
Leasehold improvements	2,830	2,779
	4,227	4,139
Less accumulated depreciation	(3,930)	(3,705)
	$ 297	434

Depreciation expense was $225 and $226 for the years ended June 30, 2016 and 2015, respectively.

 (Continued)

(Dollars in thousands)

(8) Grant Commitments

Grants payable of $1,220 and $668 as of June 30, 2016 and 2015, respectively, represent unconditional promises to other organizations.

		2016	2015
Grants subject to conditions to be met by external grantees	$	16,593	14,426
Grants subject to conditions to be met by internal grantees		6,553	7,728
Total grants subject to conditions to be met by grantees	$	23,146	22,154

In addition, as of June 30, 2016 and 2015, the Board of Directors had authorized the payment of certain grants in future periods, subject to certain conditions to be met by the grantees that have not yet met the conditions for accrual in the accompanying consolidated financial statements. Total grants subject to such conditions are as follows:

(9) Lease Commitments

The Foundation has a lease at 75 Arlington Street, the location of its headquarters, with an expiration date of September 30, 2018. In addition, in July 2012 the Foundation signed a lease for additional space at 420 Boylston Street, commencing on January 1, 2013, with an expiration date of September 30, 2018.

In October 2016, the Foundation amended its existing lease at 75 Arlington Street. The amended lease has an expiration date of September 30, 2030, which includes vacating the existing space and occupying new space in the same building.

The Foundation has calculated rent expense for the initial and amended terms of these leases on the straight-line basis. Amounts currently expensed for which payment is not yet due are included in accounts payable and accrued liabilities in the consolidated statements of financial position. Rent expense was $1,363 and $1,428 for the years ended June 30, 2016 and 2015, respectively. Minimum annual rent payments before real estate taxes and operating expense escalations are as follows:

		Original lease	Amended lease
Fiscal Year		**Minimum annual rent payments**	**Minimum annual rent payments**
2017	$	1,382	1,130
2018		1,389	1,389
2019		347	1,274
2020		—	1,255
2021		—	1,281
Thereafter		—	13,050

(Dollars in thousands)

(10) Employee Benefit Plans

The Foundation sponsors a 403(b) defined contribution plan. The current amount contributed by the Foundation for eligible employees is 6% of annual gross salary up to the IRS allowed maximum. All employees are eligible to participate after one year of service. The total cost of the plan charged to the Foundation's operations amounted to $428 and $383 for the years ended June 30, 2016 and 2015, respectively.

The Foundation provides deferred compensation plans for its executives as approved by the Compensation Committee of the Board of Directors. The amount contributed was $226 and $290 for the years ended June 30, 2016 and 2015, respectively.

(11) Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at June 30:

		2016	2015
Unappropriated appreciation on endowment funds for:			
Discretionary purposes	$	137,593	160,461
Designated purposes		40,362	47,410
Endowed donor advised funds		1,047	1,941
		179,002	209,812
Purpose restricted:			
Designated purpose		10,421	11,171
Field of interest		5,666	6,092
Scholarships		1,329	1,486
		17,416	18,749
Total	$	196,418	228,561

(12) Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following at June 30:

		2016	2015
Endowment funds for:			
Discretionary purposes	$	149,098	146,954
Designated purposes		63,483	62,925
Endowed donor advised funds		20,687	19,984
Total	$	233,268	229,863

(Dollars in thousands)

(13) Operating Expenses

A summary of the Foundation's operating expenses for the years ended June 30 is as follows:

	2016	2015
Salary and benefits	$ 10,079	9,564
Professional fees	1,491	1,523
Meetings, conference events and travel	1,097	676
Marketing	583	903
Office expense	194	158
Technology	413	363
Rent and related occupancy costs	1,607	1,664
	$ 15,464	14,851

The Foundation's operating expenses as presented above include $46 and $49 of operating expenses of its supporting organizations for the years ended June 30, 2016 and 2015, respectively.

(14) Subsequent Events

Management has evaluated events subsequent to June 30, 2016 and through December 22, 2016, the date on which the financial statements were available to be issued.