



Financial Statements

Nellie Mae Education Foundation, Inc.

December 31, 2018 and 2017



NELLIE MAE EDUCATION FOUNDATION, INC.

Financial Statements

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Independent Auditors' Report

Board of Directors
Nellie Mae Education Foundation, Inc.
Quincy, Massachusetts

We have audited the accompanying financial statements of Nellie Mae Education Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the 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 Foundation'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 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 financial statements referred to above present fairly, in all material respects, the financial position of Nellie Mae Education Foundation, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2018, the Foundation adopted Financial Accounting Standards Board Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Maye Heyman McCann P.C.

March 12, 2019
Boston, Massachusetts

NELLIE MAE EDUCATION FOUNDATION, INC.

Statements of Financial Position

December 31,
2018 **2017**
(in thousands)

Assets

Cash and cash equivalents	\$ 1,461	\$ 795
Investments	472,025	540,784
Accrued investment income	295	331
Other assets	<u>1,129</u>	<u>1,469</u>
Total assets	\$ <u>474,910</u>	\$ <u>543,379</u>

Liabilities and Net Assets

Accounts payable and accrued expenses	\$ 1,387	\$ 1,652
Grants payable	<u>19,473</u>	<u>23,657</u>
Total liabilities	<u>20,860</u>	<u>25,309</u>
Net assets:		
Without donor restrictions	<u>454,050</u>	<u>518,070</u>
Total net assets	<u>454,050</u>	<u>518,070</u>
Total liabilities and net assets	\$ <u>474,910</u>	\$ <u>543,379</u>

NELLIE MAE EDUCATION FOUNDATION, INC.

Statements of Activities

Years Ended December 31,
2018 **2017**
(in thousands)

Revenues:

Investment income, net	\$	752	\$	2,156
Net realized gains on investments		25,218		14,970
Net unrealized gains (losses) on investments		(55,468)		52,138
		(29,498)		69,264

Expenses:

Program services:				
Grants awarded, net		25,718		30,436
Program advancement		2,191		1,673
Program management expenses		4,032		3,984
Total program services		31,941		36,093
Administrative expenses		2,581		2,434
		34,522		38,527

Change in net assets without donor restrictions

(64,020) **30,737**

Net assets without donor restrictions, beginning		518,070		487,333
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Net assets without donor restrictions, ending

\$ 454,050 **\$ 518,070**

NELLIE MAE EDUCATION FOUNDATION, INC.

Statements of Cash Flows

	Years Ended December 31,	
	2018	2017
	<i>(in thousands)</i>	
Cash flows from operating activities:		
Change in net assets without donor restrictions	\$ (64,020)	\$ 30,737
Change in net assets without donor restrictions to net cash used in operating activities:		
Realized gains on investments	(25,218)	(14,970)
Unrealized (gains) losses on investments	55,468	(52,138)
Depreciation and amortization	241	74
Loss on sale of assets	-	4
Changes in operating assets and liabilities:		
Accrued investment income	36	(54)
Accounts payable, accrued expenses and other assets	(134)	774
Grants payable	(4,184)	4,057
	<u>(37,811)</u>	<u>(31,516)</u>
Net cash used in operating activities		
Cash flows from investing activities:		
Purchases of fixed assets	(32)	(1,204)
Purchases of investments	(128,268)	(117,710)
Proceeds from sale of investments	166,777	150,859
	<u>38,477</u>	<u>31,945</u>
Net cash provided by investing activities		
Net increase in cash and cash equivalents	666	429
Cash and cash equivalents, beginning	<u>795</u>	<u>366</u>
Cash and cash equivalents, ending	\$ <u>1,461</u>	\$ <u>795</u>

NELLIE MAE EDUCATION FOUNDATION, INC.

Notes to Financial Statements (in thousands)

Note 1 - Nature of Operations and Summary of Significant Accounting Policies

Nellie Mae Education Foundation, Inc. (the "Foundation") is a Massachusetts not-for-profit corporation. The mission of the Foundation is to champion efforts that prioritize community goals that challenge racial inequities and advance excellent, student-centered public education for all New England youth and is operated as a Massachusetts not-for-profit corporation to support educational organizations.

A summary of significant accounting policies consistently applied in the preparation of the financial statements follows:

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from those estimates and assumptions. Significant management estimates included in the financial statements include the fair value of investments.

Financial Statement Presentation

The accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting.

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. The Foundation currently has net assets without donor restrictions and, from time to time, net assets with donor restrictions which are defined as follows:

Net Assets Without Donor Restrictions – Net assets available for general use and not subject to donor restrictions. The assets may be designated for specific purposes by action of the Board or may otherwise be limited by contractual agreements with outside parties.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions that may or will be met, either by the passage of time or the events specified by the donor, or which may be perpetual. There are no net assets with donor restrictions at December 31, 2018 or 2017.

Grant Awards

Grant awards are expensed when the grant is awarded and all significant conditions are met. Grants payable represents unpaid amounts associated with grants that have been awarded. Such amounts are generally payable in one year or less.

NELLIE MAE EDUCATION FOUNDATION, INC.

Notes to Financial Statements (in thousands)

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The Foundation considers cash equivalents to include highly liquid instruments that have a maturity of ninety days or less when purchased. The Foundation utilizes an overnight sweep account with its depository institution with such sweep account purchasing U.S. Treasury obligations and repurchase agreements secured by U.S. Treasury obligations. Cash held by investment managers is considered part of investments given the expectation of near term reinvestment. The Foundation monitors its exposure associated with cash and cash equivalents and has not experienced any losses in such accounts.

Investments and Fair Value Measurements

The Foundation reports required types of financial instruments in accordance with fair value standards. Investments are carried at fair value. Fair value standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. Fair value standards allow for certain investments to be valued at the net asset value ("NAV") per share if certain criteria are met. In addition, the fair value standards also require the Foundation to classify and report recurring fair values of financial instruments (but for those measured using NAV which are separately stated) into a three-level hierarchy, based on the priority of inputs to the valuation technique, as follows:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments which are generally included in this category include listed equity and debt securities actively traded on a public stock exchange.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument, as well as the effects of market, interest and credit risk. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements.

NELLIE MAE EDUCATION FOUNDATION, INC.

Notes to Financial Statements (in thousands)

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)

Investments and Fair Value Measurements (Continued)

For more information on the fair value of the Foundation's financial instruments, see Note 3 - Fair Values of Financial Instruments.

Investment return consists of interest and dividend income, realized and unrealized gains and losses, less external and direct internal investment expenses.

Fixed Assets

Fixed assets are recorded at cost less accumulated depreciation. Depreciation of business equipment, furniture and fixtures, and software is computed on the straight-line method over the estimated useful life of each asset type, which ranges from five to seven years. Leasehold improvements are amortized over the term of the lease or useful life as described in the range above, whichever is shorter. Fixed assets are reported within Other assets on the Statements of Financial Position.

Deferred Rent Liability

Rent expense is recorded on a straight-line basis over the life of the lease. Deferred rent liability, included in Accounts payable and accrued expenses, results from built in rental increases being recorded as expense in advance of the actual payment of the related rent under the lease agreement.

Functional Allocation of Expenses

The costs of providing the various programs and activities and supporting services have been summarized on a functional basis in the Statements of Activities. Note 4 presents the natural classification detail of expenses by function. Certain costs are attributed to both program services and administrative expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on time and effort percentages.

Income Taxes

The Foundation is organized and operated as an organization exempt from taxation under Internal Revenue Code ("IRC") Section 501(c)(3). It is not a private foundation because it is a supporting organization as described in IRC Section 509(a)(3).

NELLIE MAE EDUCATION FOUNDATION, INC.

Notes to Financial Statements (in thousands)

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

Pursuant to its Articles of Organization, the Foundation operates exclusively for the benefit of, and to promote the charitable and educational purposes of, educational organizations, including universities, colleges, secondary schools, elementary schools, and other educational organizations which are described in IRC Section 501(c)(3) and which are not private foundations as described in IRC Section 509(a). The Foundation's activities include making grants to the public charities it supports and providing services to those organizations. A majority of the Foundation's directors are representatives of organizations that would be eligible to receive support from the Foundation. In certain cases, grants are made to organizations with which officers and directors are affiliated. In this case, the Foundation operates to support many of the non-profit organizations which are represented on the Foundation's board and grants are made on a regular basis by the Foundation to those supported organizations consistent with its status as a supporting organization. The Foundation has a conflict of interest policy to prevent any officer or director from receiving any economic benefit from any grant or grant payment made by the Foundation. In addition, the committee that nominates board members is composed entirely of directors who are also officers, directors, key employees or persons serving in a leadership role in public charities that would be eligible to receive support from the Foundation. All directors recuse themselves during votes that would grant monies to their respective organizations.

Given the limited taxable activities of the Foundation, management has concluded that disclosures relative to tax provisions are not necessary.

Uncertain Tax Positions

The Foundation accounts for the effect of any uncertain tax positions based on a "more likely than not" threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a "cumulative probability assessment" that aggregates the estimated tax liability for all uncertain tax positions. Interest and penalties assessed, if any, are accrued as income tax expense.

The Foundation has identified its tax status as a tax exempt entity and its determinations as to its income being related or unrelated as its only significant tax positions and has determined that such tax positions do not result in an uncertainty requiring recognition. The Foundation is not currently under examination by any taxing jurisdiction. Federal and state income tax returns are generally open for three years following the date filed.

NELLIE MAE EDUCATION FOUNDATION, INC.

Notes to Financial Statements (in thousands)

Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncement

The Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. In 2018 the Foundation adopted ASU 2016-14 and has adjusted the presentation of these financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

Reclassifications

Certain reclassifications have been made to the prior year financial statements in order to conform with the current year presentation.

Subsequent Events

The Foundation has evaluated subsequent events through March 12, 2019, the date the financial statements were issued.

Note 2 - Available Resources and Liquidity

The Foundation regularly monitors liquidity to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Foundation has various sources of liquidity at its disposal, including cash and cash equivalents and investments.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing activities of awarding grants as well as the conduct of services undertaken to support those activities to be general expenditures.

The Foundation’s Grants Policy and Program Committee (the “Committee”) meets quarterly to review and approve and recommend action on grant requests to the Board. The Foundation strives to maintain financial assets available to meet general expenditures at a level that represents 100% of annual expenses for program advancement, management expenses and administrative expenses plus an amount that represents the expected payment for grant commitments.

NELLIE MAE EDUCATION FOUNDATION, INC.

Notes to Financial Statements (in thousands)

Note 2 - Available Resources and Liquidity (Continued)

The table below presents financial assets available for general expenditures within one year at December 31, 2018 (in thousands):

Financial assets at year end:	
Cash and cash equivalents	\$ 1,461
Investments	472,025
Accrued investment income	295
Total financial assets at year end	473,781
Less amounts not available to be used within one year:	
Illiquid investments	32,826
Financial assets available to meet general expenditures within one year	\$ 440,955

Note 3 - Fair Values of Financial Instruments

The valuation of the Foundation's instruments using the fair value hierarchy consisted of the following at December 31:

	2018		
	<i>Investments Measured at NAV</i>	<i>Level 1</i>	<i>Total</i>
Cash equivalents	\$ -	\$ 6,427	\$ 6,427
Domestic equity funds	72,811	25,331	98,142
Foreign equity funds	141,209	9,171	150,380
Fixed income - U.S. Treasury securities	-	65,836	65,836
Alternative strategies:			
Multi-strategy investment funds-of-funds	21,428	-	21,428
Investment funds - distressed credit	35,803	-	35,803
Investment funds - long/short equity	23,339	-	23,339
Investment fund - multi-strategy	18,230	-	18,230
Real asset	19,614	-	19,614
Real estate fund	10,318	-	10,318
Direct real asset - timber	621	-	621
Private commodity	9,201	-	9,201
Private equity	9,156	-	9,156
Natural resources fund-of-funds	3,530	-	3,530
	\$ 365,260	\$ 106,765	\$ 472,025

NELLIE MAE EDUCATION FOUNDATION, INC.

**Notes to Financial Statements
(in thousands)**

Note 3 - Fair Values of Financial Instruments (Continued)

	2017		
	Investments		
	Measured at NAV	Level 1	Total
Cash equivalents	\$ -	\$ 3,549	\$ 3,549
Domestic equity funds	75,874	50,483	126,357
Foreign equity funds	130,416	40,569	170,985
Fixed income - U.S. Treasury securities	-	65,537	65,537
Alternative strategies:			
Multi-strategy investment funds-of-funds	27,396	-	27,396
Investment funds - distressed credit	38,791	-	38,791
Investment funds - fixed income	2,009	-	2,009
Investment funds - long/short equity	38,514	-	38,514
Investment fund - multi-strategy	17,420	-	17,420
Real asset	21,955	-	21,955
Real estate fund	8,334	-	8,334
Direct real asset - timber	1,084	-	1,084
Private commodity	8,255	-	8,255
Private equity	6,050	-	6,050
Natural resources fund-of-funds	4,548	-	4,548
	\$ 380,646	\$ 160,138	\$ 540,784

The Foundation did not have any Level 2 or Level 3 investments at December 31, 2018 or 2017.

The redemption frequency of investments is as follows for the year ended December 31, 2018:

Daily	\$ 97,594
Weekly	12,371
Tri-Monthly	9,171
Bi-Monthly	40,995
Monthly	128,885
Quarterly	112,408
Annual	37,775
Illiquid	32,826
Total	\$ 472,025

NELLIE MAE EDUCATION FOUNDATION, INC.

Notes to Financial Statements (in thousands)

Note 3 - Fair Values of Financial Instruments (Continued)

Custodial investment portfolio activity was as follows for the years ended December 31:

	2018	2017
Investments, at beginning of year	\$ <u>540,784</u>	\$ <u>506,825</u>
Investment return:		
Investment income	2,436	3,698
Net unrealized gains (losses)	(55,468)	52,138
Net realized gains	<u>25,218</u>	<u>14,970</u>
Reinvested income and gains (losses)	(27,814)	70,806
Transfer to operations	(39,500)	(35,500)
Management fees and other deductions	<u>(1,445)</u>	<u>(1,347)</u>
Investments, at end of year	\$ <u><u>472,025</u></u>	\$ <u><u>540,784</u></u>

Management fees and other deductions in the custodial investment portfolio activities represent cash expenditures only in 2018 and 2017. At December 31, 2018 and 2017, investment income on the Statements of Activities is net of accrued management and consulting fees which result in total fees of \$1,717 and \$1,555, respectively. Certain investment managers net their investment fees against returns and, accordingly, such amounts are not included in the aforementioned fees.

On an annual basis, spending policy guidelines are presented to the Board of Directors for review and acceptance.

Management has no intentions or plans to liquidate any NAV practical expedient investments at other than NAV per share.

Unfunded commitments under various investment vehicles amount to approximately \$32 million at December 31, 2018.

Many of the Foundation's investment funds contain clauses that under certain unusual circumstances Trustee and Fund Managers may limit distributions from the related fund. The Foundation has not experienced such limitations over distributions from its funds during 2018 and 2017.

NELLIE MAE EDUCATION FOUNDATION, INC.

**Notes to Financial Statements
(in thousands)**

Note 4 - Allocation of Natural Expenses to Functional Classifications

The table below presents expenses by natural and functional classifications for the year ended December 31, 2018:

	Program Services	Administrative	Total
Salaries and wages	\$ 2,132	\$ 1,345	\$ 3,477
Payroll taxes and benefits	648	384	1,032
Professional fees for service	2,381	431	2,812
Convenings and conferences	256	-	256
Rent and utilities	177	111	288
Travel and conferences	114	36	150
Office expense	57	36	93
Technology	110	69	179
Insurance	29	18	47
Other expenses	171	58	229
Depreciation and amortization	148	93	241
Grants awarded, net	25,718	-	25,718
	\$ 31,941	\$ 2,581	\$ 34,522
	\$ 31,941	\$ 2,581	\$ 34,522

Note 5 - Commitments

Office Lease

The Foundation leases office space under an operating lease expiring January 31, 2025. The lease payments are subject to annual escalations for increase in real estate taxes and operating expenses. Total rent expense amounted to \$288 and \$360 for the years ended December 31, 2018 and 2017, respectively. Future minimum rental commitments under the lease are as follows:

2019	\$	311
2020		319
2021		328
2022		336
2023		345
Thereafter		383
	\$	2,022

NELLIE MAE EDUCATION FOUNDATION, INC.

Notes to Financial Statements *(in thousands)*

Note 6 - Retirement Plan

The Foundation sponsors a qualified 401(k) defined contribution plan (the "Plan") for its employees. Employees are eligible to participate in the Plan upon meeting criteria of age, service, and minimum hours of work, among other criteria. Under the Plan, the Foundation makes a contribution of 8% of compensation in addition to matching salary reduction elections by employees on a dollar for dollar basis, up to 6% of annual compensation. The Plan also provides for additional employer contributions in certain circumstances. The Foundation's policy is to fund all costs on a current basis. Expenses incurred related to the Plan were \$388 and \$399 for the years ended December 31, 2018 and 2017, respectively.