



## **Financial Statements**

**Nellie Mae Education Foundation, Inc.**

**December 31, 2019 and 2018**



# 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, 2019 and 2018, 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, 2019 and 2018, 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 2019, the Foundation adopted Accounting Standards Update No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

*Mayer Hoffmann McCann P.C.*

March 10, 2020  
Boston, Massachusetts

**NELLIE MAE EDUCATION FOUNDATION, INC.**

***Statements of Financial Position***

**December 31,**  
**2019                      2018**  
**(in thousands)**

**Assets**

Cash and cash equivalents	\$	2,923	\$	1,461
Investments		504,525		472,025
Accrued investment income		301		295
Other assets		<u>1,087</u>		<u>1,129</u>
<b>Total assets</b>	<b>\$</b>	<b><u>508,836</u></b>	<b>\$</b>	<b><u>474,910</u></b>

**Liabilities and Net Assets**

Accounts payable and accrued expenses	\$	1,512	\$	1,387
Grants payable		<u>11,450</u>		<u>19,473</u>
<b>Total liabilities</b>		<b><u>12,962</u></b>		<b><u>20,860</u></b>
Net assets:				
Without donor restrictions		<u>495,874</u>		<u>454,050</u>
<b>Total net assets</b>		<b><u>495,874</u></b>		<b><u>454,050</u></b>
<b>Total liabilities and net assets</b>	<b>\$</b>	<b><u>508,836</u></b>	<b>\$</b>	<b><u>474,910</u></b>

# NELLIE MAE EDUCATION FOUNDATION, INC.

## Statements of Activities

**Years Ended December 31,**  
**2019**                      **2018**  
*(in thousands)*

**Revenues:**

Interest and dividend income, net of fees	\$	871	\$	752
Net realized gains on investments		11,103		25,218
Net unrealized gains (losses) on investments		57,402		(55,468)
		<hr/>		<hr/>
<b>Total revenues</b>		<b>69,376</b>		<b>(29,498)</b>
		<hr/>		<hr/>

**Expenses:**

Program services:				
Grants awarded, net		19,457		25,718
Program advancement		1,463		2,191
Program management expenses		4,017		4,032
Total program services		<hr/>		<hr/>
Administrative expenses		2,615		2,581
		<hr/>		<hr/>
<b>Total expenses</b>		<b>27,552</b>		<b>34,522</b>
		<hr/>		<hr/>

<b>Change in net assets without donor restrictions</b>		<b>41,824</b>		<b>(64,020)</b>
Net assets without donor restrictions, beginning		<hr/>		<hr/>
<b>Net assets without donor restrictions, ending</b>	<b>\$</b>	<b>495,874</b>	<b>\$</b>	<b>454,050</b>
		<hr/> <hr/>		<hr/> <hr/>

**NELLIE MAE EDUCATION FOUNDATION, INC.**

**Statements of Cash Flows**

	<b>Years Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<i>(in thousands)</i>	
<b>Cash flows from operating activities:</b>		
Change in net assets without donor restrictions	\$ 41,824	\$ (64,020)
Adjustments to reconcile change in net assets without donor restrictions to net cash used in operating activities:		
Realized gains on investments	(11,103)	(25,218)
Unrealized (gains) losses on investments	(57,402)	55,468
Depreciation and amortization	207	241
Changes in operating assets and liabilities:		
Accrued investment income	(6)	36
Accounts payable, accrued expenses and other assets	36	(134)
Grants payable	(8,023)	(4,184)
	<u>(34,467)</u>	<u>(37,811)</u>
<b>Net cash used in operating activities</b>		
<b>Cash flows from investing activities:</b>		
Purchases of fixed assets	(78)	(32)
Purchases of investments	(226,920)	(128,268)
Proceeds from sale of investments	262,927	166,777
	<u>35,929</u>	<u>38,477</u>
<b>Net cash provided by investing activities</b>		
<b>Net increase in cash and cash equivalents</b>	<b>1,462</b>	<b>666</b>
Cash and cash equivalents, beginning	<u>1,461</u>	<u>795</u>
<b>Cash and cash equivalents, ending</b>	<b>\$ <u>2,923</u></b>	<b>\$ <u>1,461</u></b>

# 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.

#### ***Financial Statement Presentation***

The accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. The Foundation's net assets are currently 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. Net assets without donor restrictions also includes the net investment in fixed assets which amounted to \$923 and \$1,052 at December 31, 2019 and 2018, respectively.

*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, 2019 or 2018.

#### ***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. Such amounts are carried at cost plus accrued interest. Certain of these accounts have limited deposit insurance while others may not have such insurance. 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.

# 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***

The Foundation reports required types of financial instruments in accordance with fair value standards. Investments are carried at fair value on a recurring basis. Fair value is defined 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 date. These 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.

It is possible that redemption rights may be restricted or eliminated by investment managers in the future in accordance with the underlying fund agreements.

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)**

#### ***Fixed Assets***

Fixed assets are recorded when the useful life is over one year at cost when such amounts exceed a management established threshold 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 once placed in service, 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 is included in accounts payable and accrued expenses and results from built in rental increases being recorded as expense in advance of the actual payment of the related rent under the lease agreement.

#### ***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. There were no grants made with significant unmet conditions at December 31, 2019 and 2018, therefore grants were effectively determined to be unconditional when made and thus fully recorded as unobligated.

#### ***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 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 generally exempt from taxation under Internal Revenue Code ("IRC") Section 501(c)(3). Given the limited taxable activities of the Foundation, management has concluded that disclosures related to tax provisions are not necessary.

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).

# 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)***

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.

#### ***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.

#### ***Accounting Pronouncements Adopted in 2019***

The Foundation adopted Accounting Standards Update ("ASU") No. 2018-08 - *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*.

The contribution standard addresses inconsistency in revenue and expense recognition when an item should be considered a contribution or an exchange type transaction. Exchanges would be accounted for using applicable revenue recognition standards. It also provides guidance as to when a contribution received or made should be considered conditional. Conditional contributions have different revenue and expense recognition when compared to non-reciprocal transfers of resources in that amounts are reflected as earned when barriers to entitlement are overcome with any difference being deferred or a receivable or payable, as applicable.

# NELLIE MAE EDUCATION FOUNDATION, INC.

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

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

#### ***Accounting Pronouncements Adopted in 2019 (Continued)***

The contribution standard was applied using the modified retrospective method. This method was applied to transactions that were not complete or had otherwise already been recognized as of the beginning of fiscal year 2019. The impact related to the adopting of the new standard did not have a material impact on 2019 results. In evaluating the effects of the change, contributions in process (grants) as of the date of adoption were considered. As such no disclosures have been provided on the effect on the December 31, 2019 financial statements.

#### ***Accounting Pronouncements Effective in Future Years***

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires a lessee to recognize a right-of-use asset and a lease liability for all leases, initially measured at the present value of the lease payments, in its statement of financial position. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The ASU is effective for fiscal years beginning after December 15, 2020, or fiscal year 2021 for the Foundation. Early adoption is permitted. In March 2019, the FASB issued ASU 2019-01, *Leases (ASC 842): Codification Improvements*, which provided clarifying guidance to the original ASU 2016-02. The Foundation is evaluating the impact of the new and clarified guidance on the financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. The amended guidance removes certain disclosure requirements from ASC 820 relating to transfers between Levels 1 and 2, and valuation processes and unrealized gains and losses disclosures relating to Level 3 fair value measurements. The new standard is effective for annual periods beginning after December 15, 2019, or fiscal year 2020 for the Foundation. The Foundation is evaluating the impact this will have on the financial statements.

Management believes that other pending accounting standards would have limited impact on the Foundation and, accordingly, have not outlined those standards here.

#### ***Subsequent Events***

The Foundation has evaluated subsequent events through March 10, 2020, the date the financial statements were authorized to be 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.

# NELLIE MAE EDUCATION FOUNDATION, INC.

## Notes to Financial Statements (in thousands)

### Note 2 - Available Resources and Liquidity (Continued)

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 table below presents financial assets available for general expenditures within one year at December 31, 2019 (in thousands):

Financial assets at year end:	
Cash and cash equivalents	\$ 2,923
Investments	504,525
Accrued investment income	<u>301</u>
<b>Total financial assets at year end</b>	<b><u>507,749</u></b>
Less amounts not available to be used within one year:	
Illiquid investments	<u>44,755</u>
<b>Financial assets available to meet general expenditures within one year</b>	<b><u>\$ 462,994</u></b>

### 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:

	<u>2019</u>		
	<i>Investments Measured at NAV</i>	<i>Level 1</i>	<i>Total</i>
Cash equivalents	\$ -	\$ 2,634	\$ 2,634
Domestic equity funds	88,034	31,751	119,785
Foreign equity funds	163,955	-	163,955
Fixed income - U.S. Treasury securities	-	73,358	73,358
Fixed income - Global bonds	20,329	-	20,329
Alternative strategies:			
Investment funds - distressed credit	51,418	-	51,418
Investment funds - long/short equity	17,561	-	17,561
Investment fund - multi-strategy	20,730	-	20,730
Real estate fund	13,797	-	13,797
Direct real asset - timber	425	-	425
Private commodity	6,393	-	6,393
Private equity	11,727	-	11,727
Natural resources fund-of-funds	<u>2,413</u>	<u>-</u>	<u>2,413</u>
	<b><u>\$ 396,782</u></b>	<b><u>\$ 107,743</u></b>	<b><u>\$ 504,525</u></b>



**NELLIE MAE EDUCATION FOUNDATION, INC.**

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

**Note 3 - Fair Values of Financial Instruments (Continued)**

Investment activity was as follows for the years ended December 31:

	<b>2019</b>	<b>2018</b>
Investments, at beginning of year	\$ <u>472,025</u>	\$ <u>540,784</u>
Investment return:		
Investment income	2,573	2,436
Net unrealized gains (losses)	57,402	(55,468)
Net realized gains	<u>11,103</u>	<u>25,218</u>
<b>Reinvested income and gains (losses)</b>	<b>71,078</b>	<b>(27,814)</b>
Transfer to operations	(37,000)	(39,500)
Management fees and other deductions	<u>(1,578)</u>	<u>(1,445)</u>
<b>Investments, at end of year</b>	<b>\$ <u>504,525</u></b>	<b>\$ <u>472,025</u></b>

Management fees and other deductions in the custodial investment portfolio activities represent cash expenditures only in 2019 and 2018. At December 31, 2019 and 2018, investment income on the Statements of Activities is net of accrued management and consulting fees which result in total fees of \$1,751 and \$1,717, 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 \$26 million at December 31, 2019.

**NELLIE MAE EDUCATION FOUNDATION, INC.**

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

**Note 4 - Functional Expenses**

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

	<b>2019</b>		
	<b>Program Services</b>	<b>Administrative</b>	<b>Total</b>
Salaries and wages	\$ 2,321	\$ 1,461	\$ 3,782
Payroll taxes and benefits	724	415	1,139
Professional fees for service	1,666	354	2,020
Convenings and conferences	52	-	52
Rent and utilities	179	113	292
Travel and conferences	74	29	103
Office expense	47	30	77
Technology	111	70	181
Insurance	21	13	34
Other expenses	158	50	208
Depreciation and amortization	127	80	207
Grants awarded, net	19,457	-	19,457
	<b>\$ 24,937</b>	<b>\$ 2,615</b>	<b>\$ 27,552</b>
	<b>2018</b>		
	<b>Program Services</b>	<b>Administrative</b>	<b>Total</b>
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
	<b>\$ 31,941</b>	<b>\$ 2,581</b>	<b>\$ 34,522</b>

# NELLIE MAE EDUCATION FOUNDATION, INC.

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

### **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 \$292 and \$288 for the years ended December 31, 2019 and 2018, respectively.

Future minimum rental commitments under its operating lease are as follows:

2020	\$	319
2021		328
2022		336
2023		345
2024		353
Thereafter		<u>30</u>
	\$	<u><u>1,711</u></u>

### **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 \$475 and \$388 for the years ended December 31, 2019 and 2018, respectively.