



Financial Statements

Nellie Mae Education Foundation, Inc.

December 31, 2021 and 2020



NELLIE MAE EDUCATION FOUNDATION, INC.

Financial Statements

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Independent Auditors' Report

To the Board of Directors
Nellie Mae Education Foundation, Inc.

Opinion

We have audited the financial statements of Nellie Mae Education Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for one year after the date that the financial statements are authorized to be issued.



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Maye Hoffman McCann P.C.

March 8, 2022
Boston, Massachusetts

NELLIE MAE EDUCATION FOUNDATION, INC.

Statements of Financial Position

December 31,
2021 **2020**
(in thousands)

Assets

Cash and cash equivalents	\$	228	\$	1,455
Investments		584,200		530,684
Accrued investment income		368		212
Other assets		<u>698</u>		<u>843</u>
Total assets	\$	<u>585,494</u>	\$	<u>533,194</u>

Liabilities and Net Assets

Accounts payable and accrued expenses	\$	1,796	\$	1,185
Grants payable		<u>15,427</u>		<u>21,935</u>
Total liabilities		<u>17,223</u>		<u>23,120</u>
Net assets:				
Without donor restrictions		<u>568,271</u>		<u>510,074</u>
Total net assets		<u>568,271</u>		<u>510,074</u>
Total liabilities and net assets	\$	<u>585,494</u>	\$	<u>533,194</u>

NELLIE MAE EDUCATION FOUNDATION, INC.

Statements of Activities

	Years Ended December 31,	
	2021	2020
	(in thousands)	
Revenues:		
Interest and dividend income (loss), net of fees	\$ 2,401	\$ (178)
Net realized gains on investments	90,673	27,310
Net unrealized gains (losses) on investments	(13,097)	28,688
Grants	100	10
	<u>80,077</u>	<u>55,830</u>
Expenses:		
Program services:		
Grants awarded, net	14,455	34,636
Program advancement	579	556
Program management expenses	3,344	3,290
Total program services	<u>18,378</u>	<u>38,482</u>
Administrative expenses	<u>3,502</u>	<u>3,148</u>
	<u>21,880</u>	<u>41,630</u>
Change in net assets without donor restrictions	58,197	14,200
Net assets without donor restrictions, beginning	<u>510,074</u>	<u>495,874</u>
Net assets without donor restrictions, ending	\$ <u>568,271</u>	\$ <u>510,074</u>

NELLIE MAE EDUCATION FOUNDATION, INC.

Statements of Cash Flows

	Years Ended December 31,	
	2021	2020
	<i>(in thousands)</i>	
Cash flows from operating activities:		
Change in net assets without donor restrictions	\$ 58,197	\$ 14,200
Adjustments to reconcile change in net assets without donor restrictions to net cash used in operating activities:		
Realized gains on investments	(90,673)	(27,310)
Unrealized gains on investments	13,097	(28,688)
Depreciation and amortization	214	210
Changes in operating assets and liabilities:		
Accrued investment income	(156)	90
Accounts payable, accrued expenses and other assets	621	(229)
Grants payable	(6,508)	10,485
	<u>(25,208)</u>	<u>(31,242)</u>
Net cash used in operating activities	(25,208)	(31,242)
Cash flows from investing activities:		
Purchases of fixed assets	(78)	(65)
Purchases of investments	(388,178)	(240,117)
Proceeds from sale of investments	412,237	269,956
	<u>23,981</u>	<u>29,774</u>
Net cash provided by investing activities	23,981	29,774
Net decrease in cash and cash equivalents	(1,227)	(1,468)
Cash and cash equivalents, beginning	<u>1,455</u>	<u>2,923</u>
Cash and cash equivalents, ending	\$ <u>228</u>	\$ <u>1,455</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:

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 \$642 and \$777 at December 31, 2021 and 2020, 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, 2021 or 2020.

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 an 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.

Revenues

The Foundation primarily generates revenues from investments. Revenues primarily include interest, dividends, and net realized gains (losses) on the sale of investments as well as the net change in fair value of investments held at the end of the year. Interest and dividend income is net of investment management fees. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

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, 2021 and 2020, therefore grants were determined to be unconditional when made and thus fully recorded as unobligated. In 2020, the Board approved an additional \$20 million in grant funding to support work addressing anti-Black racism and Covid relief.

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. 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.

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.

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.

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.

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 Effective in Future Years

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) No. 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 year 2022 for the Foundation. The Foundation is evaluating the impact of the new guidance 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 8, 2022, 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.

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, 2021 and 2020 (in thousands):

	2021	2020
Financial assets at year end:		
Cash and cash equivalents	\$ 228	\$ 1,455
Investments	584,200	530,684
Accrued investment income	368	212
	<u>584,796</u>	<u>532,351</u>
Total financial assets at year end	584,796	532,351
Less amounts not available to be used within one year:		
Illiquid investments	59,938	39,641
	<u>59,938</u>	<u>39,641</u>
Financial assets available to meet general expenditures within one year	\$ <u>524,858</u>	\$ <u>492,710</u>

NELLIE MAE EDUCATION FOUNDATION, INC.

Notes to Financial Statements
(in thousands)

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:

	2021		
	Investments		
	Measured		
	at NAV	Level 1	Total
Cash equivalents	\$ -	\$ 4,426	\$ 4,426
Domestic equity funds	87,412	41,572	128,984
Foreign equity funds	121,233	43,156	164,389
Fixed income - U.S. Treasury securities	-	80,056	80,056
Alternative strategies:			
Investment funds - distressed credit	49,699	-	49,699
Investment funds - long/short equity	14,204	-	14,204
Investment fund - multi-strategy	46,774	-	46,774
Investment fund - global fixed income	10,800	-	10,800
Real estate fund	15,787	24,932	40,719
Direct real asset - timber	59	-	59
Private commodity	6,252	-	6,252
Private equity	35,565	-	35,565
Natural resources fund-of-funds	2,273	-	2,273
	\$ 390,058	\$ 194,142	\$ 584,200

NELLIE MAE EDUCATION FOUNDATION, INC.

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

Note 3 - Fair Values of Financial Instruments (Continued)

	2020		
	Investments Measured at NAV	Level 1	Total
Cash equivalents	\$ -	\$ 5,218	\$ 5,218
Domestic equity funds	93,056	31,954	125,010
Foreign equity funds	168,722	-	168,722
Fixed income - U.S. Treasury securities	-	48,407	48,407
Fixed income - Global bonds	19,117	-	19,117
Alternative strategies:			
Investment funds - distressed credit	51,700	-	51,700
Investment funds - long/short equity	17,374	-	17,374
Investment fund - multi-strategy	44,015	-	44,015
Real estate fund	15,943	11,479	27,422
Direct real asset - timber	86	-	86
Private commodity	5,569	-	5,569
Private equity	16,194	-	16,194
Natural resources fund-of-funds	1,850	-	1,850
	\$ 433,626	\$ 97,058	\$ 530,684

The redemption frequency of investments is as follows for the year ended December 31, 2021:

Daily	\$ 194,142
Weekly	14,097
Bi-Monthly	39,174
Monthly	35,137
Quarterly	149,605
Semi Annual	35,591
Annual	56,516
Illiquid	59,938
Total	\$ 584,200

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:

	2021	2020
Investments, at beginning of year	\$ <u>530,684</u>	\$ <u>504,525</u>
Investment return:		
Interest and dividend income	3,811	1,344
Net unrealized gains (losses)	(13,097)	28,688
Net realized gains	<u>90,673</u>	<u>27,310</u>
Reinvested income and gains	81,387	57,342
Transfer to operations	(26,500)	(30,000)
Management fees and other deductions	<u>(1,371)</u>	<u>(1,183)</u>
Investments, at end of year	\$ <u><u>584,200</u></u>	\$ <u><u>530,684</u></u>

Investment activity in the table above does not include the activity of accrued investment income.

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 \$23 million at December 31, 2021.

NELLIE MAE EDUCATION FOUNDATION, INC.

Notes to Financial Statements
(in thousands)

Note 4 - Functional Expenses

The tables below present expenses by natural and functional classifications for the years ended December 31:

	2021		
	Program Services	Administrative	Total
Salaries and wages	\$ 2,049	\$ 2,226	\$ 4,275
Payroll taxes and benefits	586	451	1,037
Professional fees for service	798	451	1,249
Rent and utilities	143	135	278
Travel and conferences	14	8	22
Office expense	40	34	74
Technology	65	62	127
Insurance	27	26	53
Other expenses	91	5	96
Depreciation and amortization	110	104	214
Grants awarded, net	14,455	-	14,455
	\$ 18,378	\$ 3,502	\$ 21,880
	\$ 18,378	\$ 3,502	\$ 21,880
	2020		
	Program Services	Administrative	Total
Salaries and wages	\$ 2,009	\$ 1,885	\$ 3,894
Payroll taxes and benefits	566	414	980
Professional fees for service	739	410	1,149
Convenings and conferences	5	-	5
Rent and utilities	144	141	285
Travel and conferences	18	4	22
Office expense	40	39	79
Technology	86	85	171
Insurance	32	32	64
Other expenses	101	34	135
Depreciation and amortization	106	104	210
Grants awarded, net	34,636	-	34,636
	\$ 38,482	\$ 3,148	\$ 41,630
	\$ 38,482	\$ 3,148	\$ 41,630

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 \$278 and \$285 for the years ended December 31, 2021 and 2020, respectively.

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

2022	\$	334
2023		342
2024		351
2025		<u>29</u>
	\$	<u><u>1,056</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 \$387 and \$334 for the years ended December 31, 2021 and 2020, respectively.