

Financial Statements

Nellie Mae Education Foundation, Inc.

December 31, 2016 and 2015



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, 2016 and 2015, and the related statements of activities and changes in net assets, 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.



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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, 2016 and 2015, 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.

Mayer Heffman McCann P.C.

March 14, 2017
Boston, Massachusetts

NELLIE MAE EDUCATION FOUNDATION, INC.

Statements of Financial Position

December 31,
2016 **2015**
(in thousands)

Assets

Cash and cash equivalents	\$	366	\$	433
Investments		506,825		505,246
Accrued investment income		277		252
Other assets		432		419
		<hr/>		<hr/>
Total assets	\$	507,900	\$	506,350
		<hr/> <hr/>		<hr/> <hr/>

Liabilities and Net Assets

Accounts payable and accrued expenses	\$	967	\$	820
Grants payable		19,600		11,444
		<hr/>		<hr/>
Total liabilities		20,567		12,264
		<hr/>		<hr/>
Net assets:				
Unrestricted net assets		487,033		494,086
Temporarily restricted net assets		300		-
		<hr/>		<hr/>
Total net assets		487,333		494,086
		<hr/>		<hr/>
Total liabilities and net assets	\$	507,900	\$	506,350
		<hr/> <hr/>		<hr/> <hr/>

NELLIE MAE EDUCATION FOUNDATION, INC.

Statements of Activities and Changes in Net Assets

	<i>Years Ended December 31,</i>			
	<i>(in thousands)</i>			
	<u>2016</u>			<u>2015</u>
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>	<i>Total</i>
Revenues:				
Investment income, net	\$ 2,349	\$ -	\$ 2,349	\$ 2,210
Net realized gains on investments	14,668	-	14,668	18,696
Net unrealized gains (losses) on investments	12,373	-	12,373	(32,734)
Grants	-	300	300	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	29,390	300	29,690	(11,828)
Expenses:				
Program services:				
Grants awarded, net	28,204	-	28,204	19,361
Program advancement	2,109	-	2,109	1,248
Program management expenses	3,675	-	3,675	3,235
Total program services	<hr/> 33,988	<hr/> -	<hr/> 33,988	<hr/> 23,844
Administrative expenses	2,349	-	2,349	2,534
Depreciation and amortization	106	-	106	101
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	36,443	-	36,443	26,479
Increase (decrease) in net assets	(7,053)	300	(6,753)	(38,307)
Net assets, beginning	494,086	-	494,086	532,393
	<hr/>	<hr/>	<hr/>	<hr/>
Net assets, ending	\$ 487,033	\$ 300	\$ 487,333	\$ 494,086
	<hr/>	<hr/>	<hr/>	<hr/>

NELLIE MAE EDUCATION FOUNDATION, INC.

Statements of Cash Flows

	<i>Years Ended December 31,</i>	
	2016	2015
	<i>(in thousands)</i>	
Cash flows from operating activities:		
Decrease in net assets	\$ (6,753)	\$ (38,307)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Realized gains on investments	(14,668)	(18,696)
Unrealized (gains) losses on investments	(12,373)	32,734
Depreciation and amortization	106	101
Changes in operating assets and liabilities:		
Accrued investment income	(25)	(71)
Accounts payable, accrued expenses and other assets	41	(209)
Grants payable	8,156	(129)
	<u>(25,516)</u>	<u>(24,577)</u>
Net cash used in operating activities	(25,516)	(24,577)
Cash flows from investing activities:		
Purchases of equipment	(13)	(51)
Purchases of investments	(208,304)	(118,225)
Proceeds from sale of investments	233,766	138,864
	<u>25,449</u>	<u>20,588</u>
Net cash provided by investing activities	25,449	20,588
Net decrease in cash and cash equivalents	(67)	(3,989)
Cash and cash equivalents, beginning	<u>433</u>	<u>4,422</u>
Cash and cash equivalents, ending	\$ <u>366</u>	\$ <u>433</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 stimulate transformative change of public education systems across New England by growing a greater variety of higher quality educational opportunities that enable all learners, especially and essentially underserved learners, to obtain the skills, knowledge and supports necessary to become civically engaged, economically self-sufficient life-long learners.

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 in accordance with not-for-profit accounting. The Foundation currently has unrestricted and, from time to time, temporarily restricted net assets which are defined as follows:

Unrestricted net assets are those net assets not subject to restrictions by donor or by law. Unrestricted net assets may be designated for specific purposes by action of the Board or may otherwise be limited by contractual agreements with outside parties.

Temporarily restricted net assets are those net assets subject to donor imposed stipulations that may or will be met by actions of the Foundation and/or the passage of time.

Grant Awards

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

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.

NELLIE MAE EDUCATION FOUNDATION, INC.

Notes to Financial Statements (in thousands)

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

Fair Value Measurements

The Foundation reports required types of financial instruments in accordance with fair value standards. 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 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.

For more information on the fair value of the Foundation's financial instruments, see Note 2 - Fair Values of Financial Instruments.

Investment income is presented net of investment management and custodial fees.

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.

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

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).

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 position 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)

Subsequent Events

The Foundation has evaluated subsequent events through March 14, 2017, the date the financial statements were issued.

Note 2 - Fair Values of Financial Instruments

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

	<i>2016</i>		
	<i>Investments Measured at NAV</i>	<i>Level 1</i>	<i>Total</i>
Cash equivalents	\$ -	\$ 1,754	\$ 1,754
Domestic equity funds	70,717	50,777	121,494
Foreign equity funds	107,317	34,717	142,034
Fixed income - U.S. Treasury securities	-	58,540	58,540
Alternative strategies:			
Multi-strategy investment funds-of-funds	30,471	-	30,471
Investment funds - distressed credit	36,976	-	36,976
Investment funds - fixed income	4,117	-	4,117
Investment funds - long/short equity	46,454	-	46,454
Investment fund - multi-strategy	15,930	-	15,930
Real asset	20,696	-	20,696
Real estate fund	8,103	-	8,103
Direct real asset - timber	1,023	-	1,023
Private commodity	8,702	-	8,702
Private equity	4,504	-	4,504
Natural resources fund-of-funds	6,027	-	6,027
	\$ 361,037	\$ 145,788	\$ 506,825

NELLIE MAE EDUCATION FOUNDATION, INC.

Notes to Financial Statements (in thousands)

Note 2 - Fair Values of Financial Instruments (Continued)

The redemption frequency of total investments is as follows for the year ended December 31, 2016:

Daily	\$	145,788
Monthly		127,800
Quarterly		148,265
Annual		56,401
Illiquid		28,571
Total	\$	506,825

\$269,429 of the investments measured at NAV have redemption periods of 90 days or less and \$91,608 have redemption periods of over 90 days at December 31, 2016.

				<i>2015</i>
				<i>Investments</i>
				<i>Measured</i>
				<i>at NAV</i>
		<i>Level 1</i>	<i>Total</i>	
Cash equivalents	\$	-	\$ 3,437	\$ 3,437
Domestic equity funds		72,581	57,658	130,239
Foreign equity funds		78,083	65,803	143,886
Fixed income - U.S. Treasury securities		-	59,852	59,852
Alternative strategies:				
Multi-strategy investment funds-of-funds		31,258	-	31,258
Investment funds - distressed credit		33,387	-	33,387
Investment funds - fixed income		6,053	-	6,053
Investment funds - long/short equity		38,390	-	38,390
Investment fund - multi-strategy		15,010	-	15,010
Real asset		17,167	-	17,167
Real estate fund		9,389	-	9,389
Direct real asset - timber		2,240	-	2,240
Private commodity		4,687	-	4,687
Private equity		3,705	-	3,705
Natural resources fund-of-funds		6,546	-	6,546
		\$ 318,496	\$ 186,750	\$ 505,246

\$232,977 of the investments measured at NAV have redemption periods of 90 days or less and \$85,519 have redemption periods of over 90 days at December 31, 2015.

The Foundation did not have any Level 2 or Level 3 investments at December 31, 2016 or 2015.

NELLIE MAE EDUCATION FOUNDATION, INC.

Notes to Financial Statements
(in thousands)

Note 2 - Fair Values of Financial Instruments (Continued)

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

	2016	2015
Investments, at beginning of year	\$ <u>505,246</u>	\$ <u>539,923</u>
Investment return:		
Investment income	3,562	3,419
Net unrealized gains (losses)	12,373	(32,734)
Net realized gains	<u>14,668</u>	<u>18,696</u>
Reinvested income and gains (losses)	30,603	(10,619)
Transfer to operations	(28,000)	(23,000)
Management fees and other deductions	<u>(1,024)</u>	<u>(1,058)</u>
Investments, at end of year	\$ <u><u>506,825</u></u>	\$ <u><u>505,246</u></u>

Management fees and other deductions in the custodial investment portfolio activities represent cash expenditures only in 2016 and 2015. At December 31, 2016 and 2015, investment income on the Statements of Activities and Changes in Net Assets is net of accrued management and consulting fees which result in total fees of \$1,235 and \$1,214 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 \$19 million at December 31, 2016.

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 2016 and 2015.

NELLIE MAE EDUCATION FOUNDATION, INC.

Notes to Financial Statements *(in thousands)*

Note 3 - Commitments

Office Lease

The Foundation leases office space under an operating lease. The Foundation has signed a letter of intent for new office space commencing December 1, 2017 and expiring January 31, 2025. The lease payments under the existing lease and the new lease are subject to annual escalations for increase in real estate taxes and operating expenses. Total rent expense amounts to \$363 and \$354 for the years ended December 31, 2016 and 2015, respectively. Future minimum rental commitments under the existing and new leases are as follows:

2017	\$	293
2018		268
2019		300
2020		309
2021		317
Thereafter		<u>1,029</u>
	\$	<u><u>2,516</u></u>

Note 4 - 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 \$431 and \$297 for the years ended December 31, 2016 and 2015, respectively.