LUMINA FOUNDATION FOR EDUCATION, INC.

FINANCIAL STATEMENTS

December 31, 2015 and 2014

LUMINA FOUNDATION FOR EDUCATION, INC.
Indianapolis, Indiana

FINANCIAL STATEMENTS
December 31, 2015 and 2014

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Lumina Foundation for Education, Inc.
Indianapolis, Indiana

Report on Financial Statements

We have audited the accompanying financial statements of Lumina Foundation for Education, Inc. (the Foundation) which comprise the statements of financial position as of December 31, 2015 and 2014, 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.

Auditor's 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 audit 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 auditor's 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lumina Foundation for Education, Inc. as of December, 31, 2015 and 2014, 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.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
June 28, 2016

LUMINA FOUNDATION FOR EDUCATION, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2015 and 2014

	2015	2014
	($ in thousands)	
ASSETS		
Cash and cash equivalents	$ 18,717	$ 57,538
Investment proceeds receivable	24,860	62,572
Investments (Notes 2 and 5)	1,146,004	1,142,082
Accrued interest and dividends	551	973
Property and equipment, net	939	1,123
Other assets	2,247	1,643
Total assets	$ 1,193,318	$ 1,265,931
LIABILITIES AND NET ASSETS		
Liabilities		
Grants payable	$ 12,066	$ 26,394
Accounts payable and accrued expenses	1,094	1,034
Pension, payroll and related liabilities	5,043	2,865
Line of credit	15,000	-
Federal excise tax payable	1,688	1,479
Total liabilities	34,891	31,772
Unrestricted net assets	1,158,427	1,234,159
Total liabilities and net assets	$ 1,193,318	$ 1,265,931

See accompanying notes to financial statements.

LUMINA FOUNDATION FOR EDUCATION, INC.
STATEMENTS OF ACTIVITIES
Years ended December 31, 2015 and 2014

	2015	2014
	($ in thousands)	
Revenues		
Interest and dividends	$ 17,450	$ 22,355
Expenses		
Grants and program related contracts	39,283	50,199
Salaries and related benefits	11,969	11,068
Investment manager fees	4,924	8,460
Federal excise tax	460	2,347
Consulting and professional fees	2,502	3,300
Convening	1,976	1,599
Communication and travel	976	1,042
Sponsorships and dues	790	815
Occupancy	660	603
Printing and supplies	362	563
Depreciation and amortization	226	262
Equipment rental and maintenance	463	329
Other	581	504
	65,172	81,091
Change in net assets before net realized/unrealized (loss) gain on investments	(47,722)	(58,736)
Net realized/unrealized (loss) gain on investments	(28,010)	60,515
Change in net assets	(75,732)	1,779
Net assets, beginning of year	1,234,159	1,232,380
Net assets, end of year	$ 1,158,427	$ 1,234,159

See accompanying notes to financial statements.

LUMINA FOUNDATION FOR EDUCATION, INC.
STATEMENTS OF CASH FLOWS
Years ended December 31, 2015 and 2014

	2015	2014
	($ in thousands)	
Operating activities		
Change in net assets	$ (75,732)	$ 1,779
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	226	262
Net realized gain on sale of investments	(51,859)	(96,366)
Net unrealized loss on investments	79,869	35,851
Changes in operating assets and liabilities:		
Investment proceeds receivable	37,712	(61,803)
Accrued interest and dividends	422	(157)
Other assets	(604)	(639)
Grants payable	(14,328)	3,084
Accounts payable and accrued expenses	60	653
Pension, payroll and related liabilities	2,178	1,548
Federal excise tax payable	209	(74)
Net cash from operating activities	(21,847)	(115,862)
Investing activities		
Proceeds from sale of investments	469,938	595,353
Purchase of investments	(501,870)	(475,115)
Purchase of property and equipment	(42)	(74)
Net cash from investing activities	(31,974)	120,164
Financing activities		
Draws on line of credit	15,000	-
Net cash from financing activities	15,000	-
Net change in cash and cash equivalents	(38,821)	4,302
Cash and cash equivalents, beginning of year	57,538	53,236
Cash and cash equivalents, end of year	$ 18,717	$ 57,538

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Lumina Foundation for Education, Inc. (the Foundation) is a private, non-stock, not-for-profit corporation organized under and pursuant to the provisions of the General Corporation Law of the state of Delaware. The Foundation is committed to increasing the proportion of Americans who have high-quality, college-level learning. The Foundation's mission is defined by a specific goal: to increase the proportion of Americans with high-quality college degrees, certificates and credentials to 60 percent by 2025. Lumina's outcomes-based approach focuses on helping to design and build an accessible, responsive and accountable higher education system while fostering a national sense of urgency to achieve this goal, known as Goal 2025.

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

Income Taxes: The Internal Revenue Service has determined that the Foundation is exempt from federal income tax on related income under Section 501 (a) of the Internal Revenue Code. The Foundation is a private foundation subject to federal excise tax on net investment income. Federal excise tax payable at December 31, 2015 and 2014 represents deferred excise taxes of $1,688 and $1,479, respectively, on unrealized appreciation of investments. The Foundation has also recorded a tax-related asset at December 31, 2015 and 2014 of $1,927 and $1,288, respectively, in relation to estimated payments made in excess of estimated taxes due.

The Foundation is subject to guidance related to accounting for uncertainty in income taxes. This guidance requires the Foundation to recognize a tax benefit only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely- than-not test, no tax benefit is recorded. The Foundation has examined this issue and has determined there are no material contingent income tax liabilities or questionable income tax positions.

The Foundation does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. The Foundation recognizes interest and/or penalties related to income tax matters in income tax expense. The Foundation did not have any amounts accrued for interest and penalties at December 31, 2015 and 2014.

Required Distributions: The Internal Revenue Code provides that the Foundation generally must distribute for charitable purposes 5% of the average market value of its invested assets. At December 31, 2015, the Foundation has met the minimum distribution requirements. No additional distributions are required prior to January 1, 2016. Further, as of January 1, 2016 the Foundation has $28,700 of qualified distributions (grants and qualifying expenses) in excess of the required distributed amount to carry forward for use for up to five years.

Cash Equivalents: Cash equivalents include financial instruments with an original maturity of three months or less when purchased. The Foundation routinely invests in money market funds. These funds generally invest in highly liquid United States government obligations. Cash equivalents are carried at cost, which approximates fair value. The first $250 of deposits per financial institution is insured by a government agency.

Investment Proceeds Receivable: Investment proceeds receivable represents the sale of investments initiated prior to, but not settled as of December 31. At December 31, 2015 and 2014 this included the sales of limited partnerships and marketable alternative investments.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Effective December 31, 2014, the Foundation entered into an agreement of purchase and sale to sell partnership investments on the secondary market. The agreement included terms requiring payment of 50% of the sale proceeds upon closing of the individual partnership sales and 50% one year from the closing dates. As of December 31, 2015 and 2014, the Foundation had recorded investments proceeds receivable in the amount of $24,860 and $57,023, respectively for the secondary-market sales proceeds. The remaining balance was received prior to April 2016. There was no allowance recorded for investment proceeds receivable at December 31, 2015 and 2014.

Investments: Investments in securities are measured at fair value, which are generally determined by reference to quoted market prices. Securities traded in less active markets may be valued by reference to other inputs such as dealer quotes, transactions in less active markets or models using observable market information. Investment gain or loss (including realized and unrealized gains and losses on investments, equity earnings on investments, interest, and dividends) is included in the statements of activities, which are prepared on an accrual basis.

The fair value of investments in marketable alternatives, limited partnerships, limited liability companies, and certain pooled equities is estimated by management based upon net asset value per share or its equivalent provided by an independent investment advisor, or a partnership general partner or advisory committee (approximately 87% and 83% of fair value of investments at December 31, 2015 and 2014, respectively).

Grants and Program Related Contracts: Grants are recognized as expenses in the period approved. Grants payable over multiple years are discounted to present value. The Foundation contracts with various entities to further its mission. Program related contracts are expensed as the services are performed. As of December 31, 2015 and 2014 outstanding commitments on program related contracts totaled $6,880 and $10,723, respectively.

Line of Credit: During 2014, the Foundation entered into a line of credit agreement with a bank in the amount of $75,000 with a maturity date of May 8, 2016. During 2015, the Foundation extended the maturity date of the line of credit to April 1, 2017. The interest rate is prime plus 3% or LIBOR at the overnight, 30, 60, 90 day rate plus 45 basis points at the election of the Foundation upon borrowing. As of December 31, 2015, the Foundation had an outstanding balance of $15,000. As of December 31, 2014, there were no outstanding borrowings on the agreement.

Use of Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The financial statements include investments valued at $993,090 and $943,161 as of December 31, 2015 and 2014, respectively, whose values have been estimated by an independent investment manager or a partnership general partner or advisory committee in the absence of readily ascertainable market values. Due to the inherent uncertainty of the valuation process, the estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material to the financial statements.

Reclassifications: Certain reclassifications have been made to present last year's financial statements on a basis comparable to the current year's financial statements. These reclassifications had no effect on the change in net assets or total net assets.

(Continued)

($ in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2015 to determine the need for any adjustments or disclosures to the financial statements for the year ended December 31, 2015. Management has performed their analysis through June 28, 2016, the date the financial statements were available to be issued.

NOTE 2 - INVESTMENTS

Following is a summary of investments at fair value:

	2015	2014
US Government and government agency bonds	$ 20,805	$ 24,905
Corporate bonds and asset-backed securities	48,314	62,759
Equities	383,112	358,381
Marketable alternative investments	362,881	388,019
Partnerships	330,892	308,018
	$ 1,146,004	$ 1,142,082

NOTE 3 - EMPLOYEE BENEFIT PLANS

The Foundation sponsors a noncontributory, defined-benefit pension plan, a discretionary plan, and a savings investment plan. During 2015 and 2014, the Foundation recognized expenses for the discretionary and saving investment plans of $345 and $328, respectively. During 2015 and 2014, for the defined-benefit pension plan, the Foundation recognized a net actuarial change in the liability of $2,154 and $1,510, respectively. All benefit plans remain active during the period covered.

NOTE 4 - LEASES

The Foundation leases certain property and equipment under various non-cancelable operating leases. Rental expense under these leases was $678 and $612 for 2015 and 2014, respectively. Future minimum lease commitments under the leases at December 31, 2015 are as follows:

2016	$ 641
2017	635
2018	599
2019	547
2020	547
Thereafter	684
	$ 3,653

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NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Foundation's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

GAAP establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. GAAP describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

Certain investments are valued using the net asset value (NAV) (or its equivalent) provided by the fund as a practical expedient. Those investments include pooled equities, marketable alternative assets, and partnerships and are excluded from the valuation hierarchy, pursuant to the adoption of ASU 2015-07, *Fair Value Measurement*.

(Continued)

($ in thousands)

NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Assets measured at fair value on a recurring basis are summarized by major category below:

	Fair Value Measurements at December 31, 2015				
	Total Investments	Level 1	Level 2	Level 3	Valued Using NAV Expedient
Investments:					
U.S. Government and government agency bonds	$ 20,805	$ 14,780	$ 6,025	$ -	$ -
Corporate bonds and asset-backed securities	48,314	-	48,314	-	-
Equities:					
Consumer discretionary	5,036	5,036	-	-	-
Energy	20,111	20,111	-	-	-
Health Care	3,178	3,178	-	-	-
Industrials	13,862	13,862	-	-	-
Information and other technology	10,942	10,942	-	-	-
Materials	21,593	21,593	-	-	-
Commodities fund	9,072	9,072	-	-	-
Pooled domestic	36,427	-	-	-	36,427
Pooled international	95,709	-	-	-	95,709
Pooled global	117,443	-	-	-	117,443
Pooled emerging and frontier markets	36,525	-	-	-	36,525
Pooled real estate	13,214	-	-	-	13,214
Marketable alternative assets	362,881	-	-	-	362,881
Partnerships:					
Buyout and venture capital	137,421	-	-	-	137,421
Real estate and resource related	152,724	-	-	-	152,724
Other strategies	28,580	-	-	-	28,580
Education related	12,167	-	-	-	12,167
Total investments	$ 1,146,004	$ 98,574	$ 54,339	$ -	$ 993,091

(Continued)

($ in thousands)

NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Fair Value Measurements at December 31, 2014

	Total Investments	Level 1	Level 2	Level 3	Valued Using NAV Expedient
Investments:					
U.S. Government and government agency bonds	$ 24,905	$ 16,602	$ 8,303	$ -	$ -
Corporate bonds and asset-backed securities	62,759	-	62,759	-	-
Equities:					
Consumer discretionary	9,146	9,146	-	-	-
Energy	1,129	1,129	-	-	-
Health care	4,382	4,382	-	-	-
Industrials	25,369	25,369	-	-	-
Information and other technology	23,982	23,982	-	-	-
Materials	6,830	6,830	-	-	-
Commodities fund	12,211	12,211	-	-	-
Pooled domestic	37,471	1,089	-	-	36,382
Pooled international	78,686	16,505	-	-	62,181
Pooled global	98,946	7,467	-	-	91,479
Pooled emerging and frontier markets	46,788	3,147	-	-	43,641
Pooled real estate	13,441	-	-	-	13,441
Marketable alternative assets	388,019	-	-	-	388,019
Partnerships:					
Buyout and venture capital	121,425	-	-	-	121,425
Real estate and resource related	154,043	-	-	-	154,043
Other strategies	23,803	-	-	-	23,803
Education related	8,747	-	-	-	8,747
Total investments	$ 1,142,082	$ 127,859	$ 71,062	$ -	$ 943,161

Inputs and Valuation Techniques:

Government Bonds, Corporate Bonds and Asset-Backed Securities: U.S. government bonds are valued at the closing price reported in the active market in which the bond is traded (Level 1 inputs). Government agency, corporate bonds, and asset-backed securities are valued without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities or on models using market information (Level 2 inputs). There are no significant restrictions on redemption and no unfunded future commitments to these investments.

Equity Securities: Equity investments are separately managed accounts principally invested in common stocks. The fair values of common stocks are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs).

Commodities Fund: The commodities fund is a publicly traded fund with daily pricing and liquidity. The fund invests in commodity-linked derivative instruments, including commodity index-linked notes, swap agreements, options and futures that provide exposure to the investment returns of commodities without directly investing in physical commodities (Level 1 input). The fund may also invest in the equity of issuers in commodity related industries.

(Continued)

($ in thousands)

NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Pooled Equity: Pooled equity investments consist of mutual funds and common trust funds which are invested in equity securities in the specified geography or market strategy. These funds are valued by the managers utilizing standard valuation procedures and policies to assess the fair value of the underlying investment holdings to derive NAV. For holdings in marketable securities listed on national securities exchanges, the values represent the publicly traded values; Foundation management has full transparency to the holdings of these funds. NAVs are generally determined monthly and the Foundation possesses the ability to redeem its investment at the NAV. Certain funds are subject to lock-ups of up to 3 years.

Marketable Alternative Investments: Marketable alternative investments comprise investments in hedge funds that employ a variety of strategies which include U.S. and global long/short, event and diversified arbitrage, credit strategies and regional- focus. These funds may invest in a mixture of public and private securities. The funds seek to generate positive risk-adjusted returns across the market cycle. The Foundation uses the NAV expedient to determine fair value. The managers utilize standard valuation procedures and policies to assess the fair value of the underlying investment holdings to derive NAV. For holdings in marketable securities listed on national securities exchanges, the values represent the publicly traded values, and holdings in private securities are generally valued using the mark-to-market method, which attempts to apply a fair value standard by referring to meaningful third-party transactions, comparable public market valuations, appraisals and/or the income approach.

The Foundation possesses the ability to redeem its investment at the NAV. Redemptions may be made monthly, quarterly, or annually with notice periods ranging from 30 to 180 days. In a few instances, however, lock-ups of up to three years are in place, or the fund balance is in illiquid side pocket investments.

Partnerships: The fair values of the investments in partnerships have been estimated using the NAV of the Foundation's ownership interest in partners' capital under the market approach. For partnership holdings in marketable securities listed on national securities exchanges, the values represent the publicly traded values, and holdings in private securities are generally valued using the mark-to-market method, which attempts to apply a fair value standard by referring to meaningful third-party transactions, comparable public market valuations, appraisals and/or the income approach. The Foundation management has reviewed the valuations reported by investment managers and determined that NAV is a reasonable and prudent estimate of fair value. These investments cannot be redeemed at NAV with the fund managers. Partnership investments are not readily marketable and their estimated value is subject to uncertainty. Therefore, there may be a material difference between their estimated value and the value that received if sold.

Distributions from each partnership will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds will be liquidated over the next 10 years.

Unfunded commitments:

The Foundation's unfunded commitments to partnerships at December 31 are summarized below:

	2015	2014
Buyout and venture capital partnerships	$ 50,836	$ 75,023
Real estate and resource related partnerships	87,523	89,394
Other Strategies	23,135	19,978
Education related partnerships	18,705	8,571
	$ 180,199	$ 192,966

The Foundation has no other unfunded commitments to make investments.

(Continued)

NOTE 6 - RELATED PARTIES

The Foundation requires all covered persons to annually disclose all relationships in which a person has an interest or relationship, whether business, professional, charitable, or familial. Covered persons include Directors, officers of the Foundation, members of committees created by the Board of Directors and current and former employees. In all business or funding decisions made with respect to entities in which a covered member has a relationship, the covered member is excluded from the decision making process. Under Lumina's conflict of interest policy, all transactions between the Foundation and entities where a covered person has a key or influential role are tracked and reviewed by the Board of Directors, and steps are taken by the Board to ensure that the transactions are appropriate. For the years ended December 31, 2015 and 2014, disbursements to the entities described above primarily included grants paid totaling approximately $4,443 and $5,703.

Under the Foundation's grant matching program, current and former employees and Directors are eligible to have personal contributions matched by the Foundation to non-profit entities under Section 501(c)(3) of the Internal Revenue Code, and not a private foundation under Section 509(a) of the Code. Contributions are matched on a three to one basis with the total match amount paid by the Foundation in one year not to exceed $60 per person for the years ended December 31, 2015 and 2014, respectively. For the years ended December 31, 2015 and 2014, amounts paid to related entities as described above were $511 and $507.

Under the Foundation's grant designation program, members of the Foundation's Board of Directors may designate up to $25 in educational or charitable grants annually for the years ended December 31, 2015 and 2014, respectively. The donee organizations must meet the same requirements as the grant matching program. These grants may not satisfy a personal pledge or be in exchange for any goods, services or other benefits of the Director, such as use for payment for tuition or other personal obligation. For the years ended December 31, 2015 and 2014, amounts contributed under this program to related entities as described above totaled $163 and $113.