

LUMINA FOUNDATION FOR EDUCATION, INC.

FINANCIAL STATEMENTS

December 31, 2017 and 2016

LUMINA FOUNDATION FOR EDUCATION, INC.
Indianapolis, Indiana

FINANCIAL STATEMENTS
December 31, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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 25, 2018

LUMINA FOUNDATION FOR EDUCATION, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
	(\$ in thousands)	
ASSETS		
Cash and cash equivalents	\$ 17,765	\$ 25,375
Investments (Notes 2 and 5)	1,250,129	1,171,514
Accrued interest and dividends	507	582
Property and equipment, net	1,358	1,420
Other assets	<u>1,031</u>	<u>1,857</u>
Total assets	<u>\$ 1,270,790</u>	<u>\$ 1,200,748</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Grants payable	\$ 26,236	\$ 15,571
Accounts payable and accrued expenses	1,572	726
Pension, payroll, and related liabilities	4,115	4,828
Federal excise tax payable	<u>3,232</u>	<u>2,164</u>
Total liabilities	35,155	23,289
Unrestricted net assets	<u>1,235,635</u>	<u>1,177,459</u>
Total liabilities and net assets	<u>\$ 1,270,790</u>	<u>\$ 1,200,748</u>

See accompanying notes to financial statements.

LUMINA FOUNDATION FOR EDUCATION, INC.
 STATEMENTS OF ACTIVITIES
 Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
	(\$ in thousands)	
Revenues		
Interest and dividends	\$ 8,210	\$ 11,972
Expenses		
Grants and program related contracts	67,023	59,156
Salaries and related benefits	9,907	10,557
Investment manager fees	5,035	4,238
Federal excise tax	1,132	1,472
Consulting and professional fees	2,493	2,107
Convening	1,884	1,318
Communication and travel	964	930
Sponsorships and dues	467	534
Occupancy	688	699
Printing and supplies	355	331
Depreciation and amortization	395	259
Technology services and equipment	629	568
Other	<u>515</u>	<u>471</u>
	<u>91,487</u>	<u>82,640</u>
Change in net assets before net realized/unrealized gain on investments	(83,277)	(70,668)
Net realized/unrealized gain on investments	<u>141,453</u>	<u>89,700</u>
Change in net assets	58,176	19,032
Net assets, beginning of year	<u>1,177,459</u>	<u>1,158,427</u>
Net assets, end of year	<u>\$ 1,235,635</u>	<u>\$ 1,177,459</u>

See accompanying notes to financial statements.

LUMINA FOUNDATION FOR EDUCATION, INC.
 STATEMENTS OF CASH FLOWS
 Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
	(\$ in thousands)	
Operating activities		
Change in net assets	\$ 58,176	\$ 19,032
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	395	259
Net realized gain on sale of investments	(82,393)	(2,683)
Net unrealized gain on investments	(59,060)	(87,017)
Changes in operating assets and liabilities:		
Investment proceeds receivable	-	24,860
Accrued interest and dividends	75	(31)
Other assets	826	390
Grants payable	10,665	3,505
Accounts payable and accrued expenses	846	(368)
Pension, payroll and related liabilities	1,068	(215)
Federal excise tax payable	(713)	476
Net cash from operating activities	(70,115)	(41,792)
Investing activities		
Proceeds from sale of investments	495,425	455,334
Purchase of investments	(432,587)	(391,144)
Purchase of property and equipment	(333)	(740)
Net cash from investing activities	62,505	63,450
Financing activities		
Payments on the line of credit	-	(15,000)
Net cash from financing activities	-	(15,000)
Net change in cash and cash equivalents	(7,610)	6,658
Cash and cash equivalents, beginning of year	25,375	18,717
Cash and cash equivalents, end of year	\$ 17,765	\$ 25,375

See accompanying notes to financial statements.

LUMINA FOUNDATION FOR EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
(\$ in thousands)
Years ended December 31, 2017 and 2016

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 works to make opportunities for learning beyond high school available to all. The Foundation is supporting the creation of a system that is easy to navigate, delivers fair results, and meets the nation's need for talent through a broad range of credentials. The goal is to prepare people for informed citizenship and for success in a global economy.

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, 2017 and 2016 represents deferred excise taxes of \$3,232 and \$2,164, respectively, on unrealized appreciation of investments. The Foundation has also recorded a tax-related asset at December 31, 2017 and 2016 of \$536 and \$1,378, 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, 2017 and 2016.

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, 2017, the Foundation has met the minimum distribution requirements. No additional distributions are required prior to January 1, 2018. Further, as of January 1, 2018, the Foundation has \$59,300 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.

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.

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LUMINA FOUNDATION FOR EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
(\$ in thousands)
Years ended December 31, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 81% and 86% of fair value of investments at December 31, 2017 and 2016, respectively).

Grants and Program Related Contracts: The full amount of 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, 2017 and 2016 outstanding commitments on program related contracts totaled \$6,018 and \$2,465, respectively.

Line of Credit: The Foundation has two fully committed credit lines totaling \$75,000. During 2017, the Foundation extended the maturity date of the facilities to December 21, 2019. The interest rate is prime plus 3% or LIBOR at the overnight, 7, 30, 60, 90 day rate plus 45 basis points at the election of the Foundation upon borrowing. As of December 31, 2017 and 2016, the Foundation did not have any outstanding borrowings.

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 \$1,012,338 and \$1,006,317 as of December 31, 2017 and 2016, 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.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2017 to determine the need for any adjustments or disclosures to the financial statements for the year ended December 31, 2017. Management has performed their analysis through June 25, 2018, the date the financial statements were available to be issued.

NOTE 2 - INVESTMENTS

Following is a summary of investments at fair value:

	<u>2017</u>	<u>2016</u>
US Government and government agency bonds	\$ 85,573	\$ 24,032
Corporate bonds and asset-backed securities	46,826	43,287
Equities	490,601	377,420
Marketable alternative investments	274,143	392,911
Partnerships	<u>352,986</u>	<u>333,864</u>
	<u>\$ 1,250,129</u>	<u>\$ 1,171,514</u>

(Continued)

LUMINA FOUNDATION FOR EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
(\$ in thousands)
Years ended December 31, 2017 and 2016

NOTE 3 - EMPLOYEE BENEFIT PLANS

The Foundation sponsors a noncontributory, defined-benefit pension plan, a discretionary plan, and a savings investment plan. During 2017 and 2016, the Foundation recognized expenses for the discretionary and saving investment plans of \$343 and \$377, respectively. During 2017 and 2016, for the defined-benefit pension plan, the Foundation recognized a net actuarial change, resulting in a decrease in the liability of \$769 and \$268, 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 \$695 and \$698 for 2017 and 2016, respectively. Future minimum lease commitments under the leases at December 31, 2017 are as follows:

2018	\$	686
2019		622
2020		622
2021		622
2022		173
Thereafter		<u>10</u>
	\$	<u>2,735</u>

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.

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LUMINA FOUNDATION FOR EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
(\$ in thousands)
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NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

	<u>Fair Value Measurements at December 31, 2017</u>				
	Total <u>Investments</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	Valued Using <u>NAV Expedient</u>
Investments:					
U.S. Government and government agency bonds	\$ 85,573	\$ 49,560	\$ 36,013	\$ -	\$ -
Corporate bonds and asset-backed securities	46,826	-	46,826	-	-
Equities:					
Consumer discretionary	12,830	12,830	-	-	-
Energy	24,918	24,918	-	-	-
Health Care	2,421	2,421	-	-	-
Industrials	13,805	13,805	-	-	-
Information and other technology	22,984	22,984	-	-	-
Materials	21,365	21,365	-	-	-
Domestic exchange-traded fund	1,069	1,069	-	-	-
Pooled domestic	95,368	-	-	-	95,368
Pooled international	134,293	-	-	-	134,293
Pooled global	95,201	-	-	-	95,201
Pooled emerging and- frontier markets	50,939	-	-	-	50,939
Pooled real estate	9,408	-	-	-	9,408
Private education related	6,000	-	-	6,000	-
Marketable alternative investments	274,143	-	-	-	274,143
Partnerships:					
Buyout and venture capital	141,644	-	-	-	141,644
Real estate and resource related	147,766	-	-	-	147,766
Other strategies	44,404	-	-	-	44,404
Education related	19,172	-	-	-	19,172
Total investments	<u>\$ 1,250,129</u>	<u>\$ 148,952</u>	<u>\$ 82,839</u>	<u>\$ 6,000</u>	<u>\$ 1,012,338</u>

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LUMINA FOUNDATION FOR EDUCATION, INC.
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NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Fair Value Measurements at December 31, 2016

	<u>Total</u> <u>Investments</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Valued Using</u> <u>NAV Expedient</u>
Investments:					
U.S. Government and government agency bonds	\$ 24,032	\$ 18,560	\$ 5,472	\$ -	\$ -
Corporate bonds and asset-backed securities	43,287	-	43,287	-	-
Equities:					
Consumer discretionary	6,766	6,766	-	-	-
Energy	28,670	28,670	-	-	-
Health Care	2,914	2,914	-	-	-
Industrials	12,644	12,644	-	-	-
Information and other technology	15,332	15,332	-	-	-
Materials	26,556	26,556	-	-	-
Utilities	2,996	2,996	-	-	-
Pooled domestic	30,846	-	-	-	30,846
Pooled international	114,662	-	-	-	114,662
Pooled global	79,927	-	-	-	79,927
Pooled emerging and frontier markets	45,746	-	-	-	45,746
Pooled real estate	8,361	-	-	-	8,361
Private education related	2,000	-	-	2,000	-
Marketable alternative investments	392,911	-	-	-	392,911
Partnerships:					
Buyout and venture capital	138,865	-	-	-	138,865
Real estate and resource related	145,577	-	-	-	145,577
Other strategies	35,418	-	-	-	35,418
Education related	14,004	-	-	-	14,004
Total investments	\$ 1,171,514	\$ 114,438	\$ 48,759	\$ 2,000	\$ 1,006,317

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

Public Equity: Public equity investments are held in 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).

(Continued)

LUMINA FOUNDATION FOR EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
(\$ in thousands)
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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.

Private Education Related: For the years ended December 31, 2017 and 2016, private education related equities consist of equity ownership interests in six and three private corporations operating in the education sector, respectively. The investments were acquired in 2017 and 2016 at a cost of \$4,000 and \$2,000, respectively, and are currently valued at cost due to the lack of availability of readily determinable fair market values (Level 3 inputs).

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.

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LUMINA FOUNDATION FOR EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
(\$ in thousands)
Years ended December 31, 2017 and 2016

NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Unfunded commitments:

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

	<u>2017</u>	<u>2016</u>
Buyout and venture capital partnerships	\$ 74,899	\$ 53,366
Real estate and resource related partnerships	91,931	87,187
Other strategies partnerships	25,174	17,430
Education related partnerships	<u>11,571</u>	<u>15,525</u>
	<u>\$ 203,575</u>	<u>\$ 173,508</u>

The Foundation has no other unfunded commitments to make investments.

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 person 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, 2017 and 2016, disbursements to the entities described above primarily included grants paid totaling approximately \$6,307 and \$8,527, respectively.

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, 2017 and 2016, respectively. For the years ended December 31, 2017 and 2016, amounts paid to related entities as described above were \$567 and \$578, respectively.

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, 2017 and 2016, 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, 2017 and 2016, amounts contributed under this program to related entities as described above totaled \$140 and \$179, respectively.