

LUMINA FOUNDATION FOR EDUCATION, INC.

FINANCIAL STATEMENTS
December 31, 2018 and 2017

LUMINA FOUNDATION FOR EDUCATION, INC.
Indianapolis, Indiana

FINANCIAL STATEMENTS
December 31, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Foundation has adopted ASU 2016-14 - *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. Our opinion is not modified with respect to this matter.

Crowe LLP

Crowe LLP

Indianapolis, Indiana
June 20, 2019

LUMINA FOUNDATION FOR EDUCATION, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|-------------------------------------------------------------|-------------------------|-------------------------|
| | (\$ in thousands) | |
| ASSETS | | |
| Cash and cash equivalents | \$ 27,292 | \$ 17,765 |
| Investments (Notes 2 and 5) | 1,172,303 | 1,250,129 |
| Accrued interest and dividends | 723 | 507 |
| Property and equipment, net | 1,101 | 1,358 |
| Beneficial interest in charitable remainder trusts (Note 8) | 589 | - |
| Other assets | <u>910</u> | <u>1,031</u> |
| Total assets | <u>\$ 1,202,918</u> | <u>\$ 1,270,790</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Grants payable | \$ 19,649 | \$ 26,236 |
| Accounts payable and accrued expenses | 1,618 | 1,572 |
| Pension, payroll, and related liabilities | 3,929 | 4,115 |
| Federal excise tax payable | <u>2,794</u> | <u>3,232</u> |
| Total liabilities | 27,990 | 35,155 |
| Net assets without donor restrictions | <u>1,174,928</u> | <u>1,235,635</u> |
| Total liabilities and net assets | <u>\$ 1,202,918</u> | <u>\$ 1,270,790</u> |

See accompanying notes to financial statements.

LUMINA FOUNDATION FOR EDUCATION, INC.
 STATEMENTS OF ACTIVITIES
 Years ended December 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|----------------------------------------------------------|---------------------|---------------------|
| | (\$ in thousands) | |
| Revenues | | |
| Interest and dividends, net of expenses | \$ 5,495 | \$ 1,598 |
| Contributions and other | <u>2,128</u> | <u>26</u> |
| | 7,623 | 1,624 |
| Expenses | | |
| Grants and program related contracts | 52,199 | 67,023 |
| Salaries and related benefits | 9,641 | 8,993 |
| Federal excise tax | 917 | 1,132 |
| Consulting and professional fees | 2,585 | 2,223 |
| Convening | 2,434 | 1,884 |
| Travel and communication | 970 | 875 |
| Sponsorships and dues | 320 | 424 |
| Occupancy | 627 | 625 |
| Printing and supplies | 596 | 323 |
| Depreciation and amortization | 364 | 359 |
| Technology services and equipment | 580 | 571 |
| Other | <u>632</u> | <u>469</u> |
| | 71,865 | 84,901 |
| Expenses in excess of revenues | (64,242) | (83,277) |
| Investment realized/unrealized gains | <u>3,535</u> | <u>141,453</u> |
| Change in net assets | (60,707) | 58,176 |
| Net assets without donor restrictions, beginning of year | <u>1,235,635</u> | <u>1,177,459</u> |
| Net assets without donor restrictions, end of year | <u>\$ 1,174,928</u> | <u>\$ 1,235,635</u> |

See accompanying notes to financial statements.

LUMINA FOUNDATION FOR EDUCATION, INC.
 STATEMENTS OF CASH FLOWS
 Years ended December 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|-----------------------------------------------------------------------------------------|-------------------|------------------|
| | (\$ in thousands) | |
| Operating activities | | |
| Change in net assets | \$ (60,707) | \$ 58,176 |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Depreciation and amortization | 394 | 395 |
| Net realized gain on sale of investments | (53,622) | (82,393) |
| Net unrealized (gain) loss on investments | 50,087 | (59,060) |
| Changes in operating assets and liabilities: | | |
| Accrued interest and dividends | (216) | 75 |
| Beneficial interest in charitable remainder trusts | (589) | - |
| Other assets | 121 | 826 |
| Grants payable | (6,587) | 10,665 |
| Accounts payable and accrued expenses | 46 | 846 |
| Pension, payroll and related liabilities | (186) | 1,068 |
| Federal excise tax payable | <u>(438)</u> | <u>(713)</u> |
| Net cash from operating activities | (71,697) | (70,115) |
| Investing activities | | |
| Proceeds from sale of investments | 479,593 | 495,425 |
| Purchase of investments | (398,232) | (432,587) |
| Purchase of property and equipment | <u>(137)</u> | <u>(333)</u> |
| Net cash from investing activities | 81,224 | 62,505 |
| Net change in cash and cash equivalents | 9,527 | (7,610) |
| Cash and cash equivalents, beginning of year | <u>17,765</u> | <u>25,375</u> |
| Cash and cash equivalents, end of year | <u>\$ 27,292</u> | <u>\$ 17,765</u> |

See accompanying notes to financial statements.

LUMINA FOUNDATION FOR EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
(\$ in thousands)
Years ended December 31, 2018 and 2017

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, 2018 and 2017 represents deferred excise taxes of \$2,794 and \$3,232, respectively, on unrealized appreciation of investments. The Foundation has also recorded a tax-related asset at December 31, 2018 and 2017 of \$250 and \$536, 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, 2018 and 2017.

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, 2018, the Foundation has met the minimum distribution requirements. No additional distributions are required prior to January 1, 2019. Further, as of January 1, 2019, the Foundation has \$57,900 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, and interest and dividends, net of investment expenses) is included in the statements of activities, which are prepared on an accrual basis.

(Continued)

LUMINA FOUNDATION FOR EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
(\$ in thousands)
Years ended December 31, 2018 and 2017

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 84% and 81% of fair value of investments at December 31, 2018 and 2017, respectively).

Contributions: Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions, however, no such gifts have been received by the Foundation.

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, 2018 and 2017 outstanding commitments on program related contracts totaled \$4,115 and \$6,018, respectively.

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 \$989,373 and \$1,012,338 as of December 31, 2018 and 2017, 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.

New Accounting Pronouncement: On August 18, 2016, FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net assets classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation implemented this guidance for the year ended December 31, 2018, but it did not have an impact on total net assets or the change in net assets. As is permitted by the ASU, the Foundation elected to not apply comparative disclosure for the presentation of functional expenses.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2018, to determine the need for any adjustments or disclosures to the financial statements for the year ended December 31, 2018. Management has performed their analysis through June 20, 2019, the date the financial statements were available to be issued. See Note 6 for additional disclosure.

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LUMINA FOUNDATION FOR EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
(\$ in thousands)
Years ended December 31, 2018 and 2017

NOTE 2 - INVESTMENTS

Following is a summary of investments at fair value:

| | <u>2018</u> | <u>2017</u> |
|---------------------------------------------|---------------------|---------------------|
| Short-term bond mutual fund | \$ 27,764 | \$ 49,560 |
| US Government and government agency bonds | 33,204 | 36,013 |
| Corporate bonds and asset-backed securities | 54,933 | 46,826 |
| Equities | 407,185 | 490,601 |
| Marketable alternative investments | 275,381 | 274,143 |
| Partnerships | <u>373,836</u> | <u>352,986</u> |
| | <u>\$ 1,172,303</u> | <u>\$ 1,250,129</u> |

NOTE 3 - EMPLOYEE BENEFIT PLANS

The Foundation sponsors a noncontributory, defined-benefit pension plan, a discretionary plan, and a savings investment plan. During 2018 and 2017, the Foundation recognized expenses for the discretionary plan of \$368 and \$343, respectively. During 2018 and 2017, for the defined-benefit pension plan, the Foundation recognized a net actuarial change, resulting in a decrease in the liability of \$261 and \$769, 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 \$622 and \$695 for 2018 and 2017, respectively. Future minimum lease commitments under the leases at December 31, 2018 are as follows:

| | | |
|------------|----|-----------------|
| 2019 | \$ | 740 |
| 2020 | | 755 |
| 2021 | | 756 |
| 2022 | | 317 |
| 2023 | | 163 |
| Thereafter | | <u>13</u> |
| | | <u>\$ 2,744</u> |

(Continued)

LUMINA FOUNDATION FOR EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
(\$ in thousands)
Years ended December 31, 2018 and 2017

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.

(Continued)

LUMINA FOUNDATION FOR EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
(\$ in thousands)
Years ended December 31, 2018 and 2017

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, 2018</u> | | | | |
|------------------------------------------------|-----------------------------------------------------|------------------|------------------|-----------------|--------------------------------------|
| | Total <u>Investments</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | Valued Using <u>NAV Expedient</u> |
| Investments: | | | | | |
| Short-term bond mutual fund | \$ 27,764 | \$ 27,764 | \$ - | \$ - | \$ - |
| U.S. Government and government agency bonds | 33,204 | - | 33,204 | - | - |
| Corporate bonds and asset-backed securities | 54,933 | - | 54,933 | - | - |
| Equities: | | | | | |
| Consumer discretionary | 12,511 | 12,511 | - | - | - |
| Energy | 4,952 | 4,952 | - | - | - |
| Health Care | 1,473 | 1,473 | - | - | - |
| Industrials | 3,184 | 3,184 | - | - | - |
| Information and other technology | 20,340 | 20,340 | - | - | - |
| Materials | 15,495 | 15,495 | - | - | - |
| Domestic exchange-traded fund | 624 | 624 | - | - | - |
| Pooled domestic | 82,999 | - | - | - | 82,999 |
| Pooled international | 113,402 | - | - | - | 113,402 |
| Pooled global | 97,111 | - | - | - | 97,111 |
| Pooled emerging and- frontier markets | 46,180 | - | - | - | 46,180 |
| Pooled real estate | 464 | - | - | - | 464 |
| Private education related | 8,450 | - | - | 8,450 | - |
| Marketable alternative investments | 275,381 | - | - | - | 275,381 |
| Partnerships: | | | | | |
| Buyout and venture capital | 158,489 | - | - | - | 158,489 |
| Real estate and resource related | 144,854 | - | - | - | 144,854 |
| Other strategies | 44,657 | - | - | - | 44,657 |
| Education related | <u>25,836</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>25,836</u> |
| Total investments | <u>\$ 1,172,303</u> | <u>\$ 86,343</u> | <u>\$ 88,137</u> | <u>\$ 8,450</u> | <u>\$ 989,373</u> |

(Continued)

LUMINA FOUNDATION FOR EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
(\$ in thousands)
Years ended December 31, 2018 and 2017

NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

| <u>Fair Value Measurements at December 31, 2017</u> | | | | | |
|-----------------------------------------------------|----------------------------|--------------------------|-------------------------|------------------------|----------------------------|
| | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Valued Using</u> |
| Investments: | <u>Investments</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>NAV Expedient</u> |
| Short-term bond mutual fund | \$ 49,560 | \$ 49,560 | \$ - | \$ - | \$ - |
| U.S. Government and government agency bonds | 36,013 | - | 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> |

Inputs and Valuation Techniques:

Bond Mutual Fund, Government Bonds, Corporate Bonds and Asset-Backed Securities: The short-term bond mutual fund is valued at the closing price reported in the active market in which the bond fund is traded (Level 1 inputs). Government bonds and agency bonds, 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 the 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.

(Continued)

LUMINA FOUNDATION FOR EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
(\$ in thousands)
Years ended December 31, 2018 and 2017

NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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).

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: Private education related equities consist of equity ownership interests in ten entities operating in the education sector. The investments in 2018 and 2017 are valued at estimated market values of \$8,450 and \$6,000, respectively, (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 150 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 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, 2018 and 2017

NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Unfunded commitments:

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

| | <u>2018</u> | <u>2017</u> |
|-----------------------------------------------|-------------------|-------------------|
| Buyout and venture capital partnerships | \$ 76,926 | \$ 74,899 |
| Real estate and resource related partnerships | 78,776 | 91,931 |
| Other strategies partnerships | 19,399 | 25,174 |
| Education related partnerships | <u>8,468</u> | <u>11,571</u> |
| | <u>\$ 183,569</u> | <u>\$ 203,575</u> |

The Foundation has no other unfunded commitments to make investments.

NOTE 6 - LIQUIDITY AND AVAILABILITY

The Foundation's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

| | <u>2018</u> | <u>2017</u> |
|--------------------------------------------------------|-------------------|-------------------|
| Cash | \$ 27,292 | \$ 17,765 |
| Investments | 1,172,303 | 1,250,129 |
| Accrued interest and dividends | <u>723</u> | <u>507</u> |
| | 1,200,318 | 1,268,401 |
| Less: investments with liquidity in excess of one year | <u>(459,660)</u> | <u>(433,190)</u> |
| | <u>\$ 740,658</u> | <u>\$ 835,211</u> |

As part of the Foundation's liquidity management, the Foundation invests its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

To help manage unanticipated liquidity needs, the Foundation has committed lines of credit in the total amount of \$75 million, which it could draw upon to facilitate operations. The use of these lines of credit is generally restricted to the extent that the Foundation is in need of liquidity to fund program-related obligations and administrative functions.

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, 2018 and 2017, the Foundation did not have any outstanding borrowings.

Effective April 1, 2019, The Foundation increased the lines of credit facility to two committed lines totaling \$100 million with two banking institutions. The Foundation obtained substantially similar terms on the borrowings. The facilities will mature on April 1, 2022.

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LUMINA FOUNDATION FOR EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
(\$ in thousands)
Years ended December 31, 2018 and 2017

NOTE 7 - 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, and steps are taken by the Board to ensure that the transactions are appropriate. For the years ended December 31, 2018 and 2017, disbursements to the entities described above primarily included grants paid totaling approximately \$7,822 and \$6,307, respectively.

Under the Foundation's grant matching program, current and retired 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. Matching gifts may not be credited toward participant pledges and may not be credited to a participant controlled donor-advised fund. 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, 2018 and 2017, amounts paid to related entities as described above were \$520 and \$567, 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, 2018 and 2017, 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, 2018 and 2017, amounts contributed under this program to related entities as described above totaled \$140 and \$179, respectively.

NOTE 8 – BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUSTS

During 2018, the Foundation became a designated beneficiary of two charitable remainder unitrusts (trusts). The trusts provide for the payment of distributions to other designated beneficiaries over the lifetimes of the named beneficiaries. At the end of the trusts' terms, the Foundation is designated to receive 50% of the remaining assets. A discount rate of 4% was applied to calculate the portion of the trusts attributable to the beneficial interest of the Foundation of \$589 as of December 31, 2018.

NOTE 9 – FUNCTIONAL EXPENSES

Grants and program costs are considered the activities focused on the Foundation mission of learning beyond high school and include direct and indirect costs such as salaries, benefits, professional fees and others. Management and general expenses are defined as general overhead expenses providing direct support to operations.

The majority of expenses are directly applied to functions based upon the nature of the expense. Expenses that are allocated are allocated based upon total salaries and benefits applied to the respective functions.

(Continued)

LUMINA FOUNDATION FOR EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
(\$ in thousands)
Years ended December 31, 2018 and 2017

NOTE 9 – FUNCTIONAL EXPENSES (Continued)

Expenses categorized by their function and type for the year ended December 31, 2018 are as follows:

| | <u>Grants and Programs</u> | <u>Management and General</u> | <u>Total</u> |
|--------------------------------------|--------------------------------|-----------------------------------|------------------|
| Grants and program related contracts | \$ 52,199 | \$ - | \$ 52,199 |
| Salaries and related benefits | 7,170 | 2,471 | 9,641 |
| Federal excise tax | - | 917 | 917 |
| Consulting and professional fees | 1,546 | 1,039 | 2,585 |
| Convening | 2,434 | - | 2,434 |
| Communication and travel | 721 | 249 | 970 |
| Sponsorships and dues | 238 | 82 | 320 |
| Occupancy | 466 | 161 | 627 |
| Printing and supplies | 444 | 152 | 596 |
| Depreciation and amortization | 271 | 93 | 364 |
| Technology services and equipment | 432 | 148 | 580 |
| Other | 470 | 162 | 632 |
| | <u>\$ 66,391</u> | <u>\$ 5,474</u> | <u>\$ 71,865</u> |