



UNITED NEGRO COLLEGE FUND, INC.

Financial Statements

March 31, 2023 and 2022

(With Independent Auditors' Report Thereon)

UNITED NEGRO COLLEGE FUND, INC.

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KPMG LLP
Suite 900
8350 Broad Street
McLean, VA 22102

Independent Auditors' Report

The Board of Directors and Members
United Negro College Fund, Inc.:

Opinion

We have audited the financial statements of the United Negro College Fund, Inc. (the Organization), which comprise the statement of financial position as of March 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of March 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.



- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

We have previously audited the Organization's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 22, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2022, is consistent in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

McLean, Virginia
August 11, 2023

UNITED NEGRO COLLEGE FUND, INC.

Statements of Financial Position

March 31, 2023 and 2022

Assets	2023	2022
Cash and cash equivalents (notes 2b and 4)	\$ 43,783,759	144,848,181
Short-term investments (notes 5 and 9)	133,572,075	13,819,284
GMSP short-term investments (notes 5 and 9)	60,308,295	62,751,058
Pledges receivable, net (note 6)	241,069,307	83,311,168
Accrued investment income	2,276,316	682,774
Long term investments (notes 7 and 9)	252,769,113	230,832,867
GMSP long term investments (notes 8 and 9)	81,226,659	112,731,288
Property and equipment, net (note 10)	27,829,222	24,860,087
Collections acquired (note 11)	1,414,250	1,414,250
Other assets	4,564,097	4,601,002
Total assets	\$ 848,813,093	679,851,959
 Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 14,006,217	9,835,733
Accrued wages, vacation, and other related expenses	5,957,162	4,959,156
Payable for unsettled investment trades (note 8)	14,320	13,750
Accrued distribution to member institutions	8,858,535	12,414,602
Accrued return of funds to the Gates Foundation (note 12)	16,000,000	26,000,000
Deferred revenue	7,571,107	8,210,781
Line of credit (note 13)	—	—
Bonds payable (note 14)	24,334,966	25,311,526
Total liabilities	76,742,307	86,745,548
Net assets:		
Without donor restrictions:		
Undesignated	29,108,497	27,140,131
Board designated – operating reserve (note 21)	17,580,453	16,920,571
Board designated – member distribution reserve (note 21)	4,849,654	4,807,367
Total without donor restrictions	51,538,604	48,868,069
With donor restrictions (note 15)	720,532,182	544,238,342
Total net assets	772,070,786	593,106,411
Commitments and contingencies (note 20)	—	—
Total liabilities and net assets	\$ 848,813,093	679,851,959

See accompanying notes to financial statements.

UNITED NEGRO COLLEGE FUND, INC.

Statement of Activities

Year ended March 31, 2023

(with summarized financial information for fiscal year 2022)

	2023			2022 Total
	Without donor restrictions	With donor restrictions	Total	
Revenue, gains, and other support:				
Support:				
Contributions for grants and scholarships	\$ —	300,026,632	300,026,632	153,083,173
Contributions and gifts (notes 2 and 18)	40,881,253	—	40,881,253	47,617,776
Bequests and legacies	8,896,387	2,706,857	11,603,244	11,669,874
Gifts-in-kind and donated services (note 17)	—	1,019,343	1,019,343	981,974
Total support	<u>49,777,640</u>	<u>303,752,832</u>	<u>353,530,472</u>	<u>213,352,797</u>
Investment income:				
Interest and dividends	2,234,764	3,712,119	5,946,883	3,268,407
Amortization of investment premium and discount	(27,186)	144,537	117,351	(255,792)
Realized gains	376,104	1,592,468	1,968,572	6,962,692
Unrealized losses	(1,675,652)	(10,266,491)	(11,942,143)	(685,136)
Total investment income (loss)	<u>908,030</u>	<u>(4,817,367)</u>	<u>(3,909,337)</u>	<u>9,290,171</u>
Net assets released from restrictions (note 15)	<u>122,641,625</u>	<u>(122,641,625)</u>	<u>—</u>	<u>—</u>
Total revenue, gains, and other support	<u>173,327,295</u>	<u>176,293,840</u>	<u>349,621,135</u>	<u>222,642,968</u>
Expenses:				
Program services:				
GMSP	27,106,499	—	27,106,499	36,976,337
Scholarships and special projects	94,603,486	—	94,603,486	105,974,019
Distributions to member institutions	21,029,880	—	21,029,880	23,180,395
Institutional services	1,565,605	—	1,565,605	1,667,454
Other program services	931,640	—	931,640	210,696
Total program services	<u>145,237,110</u>	<u>—</u>	<u>145,237,110</u>	<u>168,008,901</u>
Supporting services:				
Management and general	6,742,017	—	6,742,017	7,058,357
Fundraising	18,677,633	—	18,677,633	16,827,758
Total supporting services	<u>25,419,650</u>	<u>—</u>	<u>25,419,650</u>	<u>23,886,115</u>
Total expenses	<u>170,656,760</u>	<u>—</u>	<u>170,656,760</u>	<u>191,895,016</u>
Change in net assets	2,670,535	176,293,840	178,964,375	30,747,952
Net assets, beginning of year	<u>48,868,069</u>	<u>544,238,342</u>	<u>593,106,411</u>	<u>562,358,459</u>
Net assets, end of year	<u>\$ 51,538,604</u>	<u>720,532,182</u>	<u>772,070,786</u>	<u>593,106,411</u>

See accompanying notes to financial statements.

UNITED NEGRO COLLEGE FUND, INC.

Statement of Functional Expenses

Year ended March 31, 2023

(with summarized financial information for 2022)

	Program services – assistance to member and nonmember institutions					Total program services
	GMSP	Scholarships and special projects	Distribution to member institutions	Institutional services	Other program services	
Distributions:						
Capital and operational support	\$ —	—	21,029,880	—	—	21,029,880
Grants and scholarships	24,207,260	49,263,930	—	5,200	125,000	73,601,390
Total distributions	24,207,260	49,263,930	21,029,880	5,200	125,000	94,631,270
Expenses before depreciation, amortization, and bad debts:						
Salaries and wages	1,251,565	8,103,095	—	963,769	307,895	10,626,324
Employee benefits	355,937	2,295,808	—	142,120	88,132	2,881,997
Advertisements and promotions	20,000	259,362	—	10,354	15,988	305,704
Professional and consulting fees	272,960	21,505,074	—	245,113	208,702	22,231,849
Information technology support	407,435	1,464,680	—	(320,376)	—	1,551,739
Office supplies and other expenses	26,603	275,901	—	246,468	5,722	554,694
Telephone	1,065	10,701	—	10,691	379	22,836
Postage and shipping	852	32,508	—	792	—	34,152
Occupancy	141,816	798,978	—	167,058	14,884	1,122,736
Printing and publications	1,200	280,871	—	51,890	5,978	339,939
Travel	81,532	1,626,199	—	44,756	53,333	1,805,820
Meetings	154,356	1,864,618	—	3,056	8,260	2,030,290
Equipment rental and maintenance	3,918	18,135	—	2,107	—	24,160
Interest expense	—	—	—	—	—	—
Indirect cost recovery	180,000	6,803,626	—	(7,393)	97,367	7,073,600
Total expenses before depreciation, amortization, and bad debts	27,106,499	94,603,486	21,029,880	1,565,605	931,640	145,237,110
Depreciation and amortization expense	—	—	—	—	—	—
Bad debt expense	—	—	—	—	—	—
Total expenses	\$ 27,106,499	94,603,486	21,029,880	1,565,605	931,640	145,237,110

UNITED NEGRO COLLEGE FUND, INC.

Statement of Functional Expenses

Year ended March 31, 2023

(with summarized financial information for 2022)

	Supporting services			Total program service and supporting service expenses	
	Management and general	Fund- raising	Total supporting services	2023	2022
Distributions:					
Capital and operational support	\$ —	—	—	21,029,880	23,180,395
Grants and scholarships	4,500	—	4,500	73,605,890	101,167,405
Total distributions	4,500	—	4,500	94,635,770	124,347,800
Expenses before depreciation, amortization, and bad debts:					
Salaries and wages	7,697,278	8,146,945	15,844,223	26,470,547	22,646,443
Employee benefits	1,698,327	1,989,642	3,687,969	6,569,966	5,601,479
Advertisements and promotions	19,741	198,364	218,105	523,809	275,660
Professional and consulting fees	3,880,873	1,593,225	5,474,098	27,705,947	23,787,667
Information technology support	(1,907,071)	258,014	(1,649,057)	(97,318)	(174,246)
Office supplies and other expenses	431,583	449,070	880,653	1,435,347	1,216,174
Telephone	370,623	19,523	390,146	412,982	428,587
Postage and shipping	35,744	1,648,736	1,684,480	1,718,632	1,508,899
Occupancy	(614,378)	838,270	223,892	1,346,628	1,549,704
Printing and publications	75,912	2,977,118	3,053,030	3,392,969	2,859,366
Travel	309,058	366,380	675,438	2,481,258	358,576
Meetings	54,252	116,105	170,357	2,200,647	357,721
Equipment rental and maintenance	220,303	41,241	261,544	285,704	292,563
Interest expense	943,221	—	943,221	943,221	976,537
Indirect cost recovery	(7,073,600)	—	(7,073,600)	—	—
Total expenses before depreciation, amortization, and bad debts	6,146,366	18,642,633	24,788,999	170,026,109	186,032,930
Depreciation and amortization expense	595,651	—	595,651	595,651	861,838
Bad debt expense	—	35,000	35,000	35,000	5,000,250
Total expenses	\$ <u>6,742,017</u>	<u>18,677,633</u>	<u>25,419,650</u>	<u>170,656,760</u>	<u>191,895,018</u>

See accompanying notes to financial statements.

UNITED NEGRO COLLEGE FUND, INC.

Statements of Cash Flows

Years ended March 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ 178,964,375	30,747,952
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Realized gains on investments	(1,968,572)	(6,962,692)
Unrealized losses on investments	11,942,143	685,136
Amortization of investment premium and discount	(117,351)	255,792
Bad debt expense	111,498	5,000,250
Depreciation and amortization	595,651	861,838
Contributions restricted for investment in endowment funds	(4,559,029)	(25,970,929)
(Increase) decrease in assets:		
Pledges receivable	(157,758,139)	(8,107,540)
Provision for uncollectible	—	(4,959,250)
Accrued investment income	(1,593,542)	279,586
Other assets	36,904	275,385
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	4,170,484	4,126,569
Accrued wages, vacation, and other related personnel expenses	998,006	1,473,358
Accrued return of funds to the Gates Foundation	(10,000,000)	(8,000,000)
Deferred revenue	(639,674)	(3,317,167)
Accrued distributions to member institutions	(3,556,066)	2,325,842
Net cash provided by (used in) operating activities	<u>16,626,688</u>	<u>(11,285,870)</u>
Cash flows from investing activities:		
Purchases of investments	(351,789,056)	(251,555,153)
Proceeds from sales of investments	234,190,621	301,224,515
Purchase of property and equipment	(3,675,144)	(848,800)
Net cash (used in) provided by investing activities	<u>(121,273,579)</u>	<u>48,820,562</u>
Cash flows from financing activities:		
Repayments of bonds payable	(976,560)	(943,748)
Contributions restricted for investment in endowment funds	4,559,029	25,970,929
Net cash provided by financing activities	<u>3,582,469</u>	<u>25,027,181</u>
(Decrease) increase in cash and cash equivalents	(101,064,422)	62,561,873
Cash and cash equivalents, beginning of year	<u>144,848,181</u>	<u>82,286,308</u>
Cash and cash equivalents, end of year	\$ <u>43,783,759</u>	<u>144,848,181</u>
Cash paid for interest	\$ 943,221	976,537

See accompanying notes to financial statements.

UNITED NEGRO COLLEGE FUND, INC.

Notes to Financial Statements

March 31, 2023 and 2022

(1) Organization

The United Negro College Fund, Inc. (UNCF) is organized as a not-for-profit entity established to assist its 37 current member institutions of higher education to raise funds from the public for their mutual support.

All participating member institutions receive distributions of unrestricted support and revenues pursuant to a formula. Support and revenue, net of expenses, raised in accordance with joint campaign agreements, is distributed 75% to the member institutions conducting the campaign. The remaining 25% is included in the regular campaign formula distribution to all member institutions. Member institutions participate in both regular and joint campaigns.

In addition, UNCF administers grants, scholarships, and other programs benefiting students, member institutions, and nonmember institutions based on donor stipulations.

In the March 2022 meeting, the Board of Directors of UNCF approved a six-year capital campaign with a goal of \$1 billion. The funds raised will enhance UNCF's endowed scholarships, increase the endowments for member institutions, provide more support for institutional capacity building, and fortify UNCF's operations and programs. The campaign is currently in its silent phase, intending to go public once approximately 80% of the goal is achieved. During the "silent phase," solicitations will be limited to a select number of prospective donors. The campaign raised approximately \$231.9 million and \$85.6 million in fiscal years 2023 and 2022, respectively. As of the end of fiscal year 2023, \$397.2 million has been raised towards the \$1 billion goal. The funds raised that have met all the accounting recognition criteria are reported as revenue on the statement of activities.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying financial statements of UNCF are presented in conformity with accounting principles generally accepted in the United States of America and have been prepared on the accrual basis of accounting.

(b) Cash Equivalents

Cash equivalents are liquid investments with original maturities at the date of purchase of three months or less and consist primarily of money market funds and repurchase agreements used for overnight investment purposes. Cash equivalents that are to be used for the long-term purposes of UNCF are classified as investments. Cash equivalents are valued at their carrying amount, which approximates fair value due to their short maturities.

(c) Investments

Investments are reported at fair value based on quoted market prices, or, in the case of alternative investments, at estimated values provided by the fund managers or general partners based on quoted market prices, if available, at estimated fair value utilizing net asset values or other valuation methods. Net asset value is used as a practical expedient to estimate the fair value of certain of these funds. Net asset value, in many instances, may not equal fair value.

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Notes to Financial Statements

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Investments classified as short-term are available for operations in the next fiscal year. The cost assigned to investments received by gift is the fair value at the date the gift is received. Unrealized and realized gains and losses are included in the accompanying statements of activities.

UNCF has authorized its investment managers to utilize financial future derivative instruments to either hedge risk or alter the exposure to certain asset classes. UNCF has established procedures to monitor and manage the use of these derivative instruments and the related market, interest and counterparty credit risks. These derivative instruments are recognized at fair value, using quoted market prices for similar instruments, within investments in the statements of financial position.

Investment income is reported net of related expenses, such as custodial fees, commission, investment advisory fees, and direct internal investment expenses.

(d) Pledges Receivable

Pledges receivable consist primarily of amounts due from unconditional promises to give by various donors. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises to give are received. Amortization of the discounts is included in contributions and gifts revenue. An allowance for uncollectible pledges receivable is provided based on Management's judgment, including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

(e) Property and Equipment

Property and equipment are recorded at cost, or if donated, such assets are recorded at the estimated fair value at the date of receipt. Depreciation is computed using the straight-line method over estimated useful lives ranging from three to ten years. Buildings are depreciated over an estimated useful life of 40 years. Leasehold improvements are amortized over the lesser of the lease's remaining life or the improvements' estimated useful life. Property and equipment purchased with donor-restricted funds are reported as net assets without donor restriction upon acquisition of the assets, and the assets are placed in service.

Expenditures for repairs and maintenance are charged to expenses as incurred. UNCF follows the policy of capitalizing interest as a component of property and equipment constructed for its own use and depreciation or amortization of an asset begins when the asset is available for its intended use.

(f) Capitalized Software

Certain costs to develop or obtain internal-use software are capitalized under FASB ASC Topic 350-40, *Accounting for the Costs of Software for Internal Use*. After all substantial testing and deployment are completed and the software is ready for its intended use, internally developed software costs are amortized using the straight-line method over the software's estimated useful life.

The capitalized software in development included in the property and equipment section of the accompanied statement of position for FY2023 and 2022 were \$3,564,787 and \$848,800, respectively. These investments pertain to the costs incurred for developing the Enterprise Data Management Platform, which will serve as a centralized hub for all data distribution channels to support the

UNITED NEGRO COLLEGE FUND, INC.

Notes to Financial Statements

March 31, 2023 and 2022

organization's strategic goals and the HBCUv online community learning platform. The amortization will begin once the software is fully developed, tested, and operational.

(g) Impairment of Long-Lived Assets

UNCF reviews the carrying amounts of assets whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the asset's carrying amount is reduced by a charge to its current fair value to the accompanying statements of activities.

(h) Collections Acquired

Accessions of collection items are capitalized at cost if the items are purchased or at their fair value on the accession date if the items are contributed. Gains or losses from deaccessions of these items are reflected in the accompanying statement of activities as changes in the appropriate net asset classes, depending on the existence and type of donor-imposed restrictions.

(i) Distributions to Member Institutions

UNCF accrues expenses due to member institutions and, occasionally, nonmember institutions of higher education up to the amount by which support and collections of pledges, including the values attributed to gifts-in-kind, exceed program, fundraising, and administrative expenses. Regular distributions and other distributions, such as joint campaigns and designated gifts, are made on an ongoing basis.

(j) Net Assets – Without Donor Restrictions

Net assets without donor restrictions consist of undesignated and board-designated net assets and include gifts, grants, investment income, or other resources where donors have not specified any purpose for which such resources are to be used. Undesignated net assets are funds currently available to support UNCF's daily operations. Board-designated net assets consist of funds without restriction designated by the Board of Directors for member distribution and operating reserves.

(k) Net Assets – With Donor Restrictions

Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions. The organization is permitted to use or expend the donated assets in accordance with donor restrictions. When a time and/or purpose restriction expires or is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statement of activities as net assets released from restrictions.

The net assets with donor restrictions category include gifts and bequests where donors have stipulated that the principal be maintained permanently by UNCF. These gifts are invested by UNCF's Management. Generally, no permanent restrictions have been placed on UNCF's investment earnings. However, donors specify most of the earnings to support scholarships or program development. Net gains with no permanent restrictions and that are not specified by the donors to support scholarships or program development may be used for general purposes at the discretion of the Board of Directors.

UNITED NEGRO COLLEGE FUND, INC.

Notes to Financial Statements

March 31, 2023 and 2022

FASB ASC Topic 958-205, *Reporting Endowment Funds*, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UNCF is subject to the State of New York's UPMIFA and has adopted FASB ASC Topic 958-205, as required. UNCF has interpreted the State of New York's UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, UNCF classifies as net assets with donor restrictions held in perpetuity (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment.

The associated gains and income on donor-restricted endowment funds are classified as net assets with donor restrictions until those amounts are appropriated for expenditure by UNCF in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, UNCF considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of UNCF.
- (2) The purposes for which UNCF will appropriate funds from the donor-restricted endowment fund.
- (3) General economic conditions.
- (4) The possible effect of inflation and deflation.
- (5) The expected total return from income and the appreciation of investments.
- (6) Other resources of UNCF.
- (7) The investment policies of UNCF.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires UNCF to retain as a fund of perpetual duration. UNCF had no such deficits on March 31, 2023, and 2022.

(I) Endowment Investment and Spending Policies

Endowment assets include those assets of donor-restricted funds that UNCF must hold in perpetuity or for a donor-specified period. UNCF has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments.

Preservation of capital is foremost, followed by preservation of purchasing power and growth of assets. The investment policy establishes an achievable return objective through the diversification of asset classes. The current long-term return objective is to attain an average annual real return (net of investment and management fees) of 5% above the Consumer Price Index (CPI). It is recognized that the real return objective will be difficult to attain in every period, but it should be attainable over the long-term. To satisfy its long-term rate-of-return objectives, UNCF relies on a total return strategy designed to deliver superior risk-adjusted returns in which investment returns are achieved through

UNITED NEGRO COLLEGE FUND, INC.

Notes to Financial Statements

March 31, 2023 and 2022

both capital appreciation (realized and unrealized) and current yield (interest and dividends). UNCF targets a diversified asset allocation that emphasizes equity-based investments more to achieve its long-term return objectives within prudent risk parameters.

UNCF's fiscal policy governs using resources in the various endowed funds for program expenses and administrative costs. Endowment funds are used for specified purposes or over the specified time period designated by the donors. The amount of endowment funds available for use is based on the realized and unrealized cumulative investment income gains and losses in excess of the respective endowment's principal balance multiplied by 5% of the average 3-year market value. With respect to any endowment restrictions, these funds are used to support new initiatives or new one-time or short-term (2–3 years) activities, subject to the submission of a business plan that has been reviewed and endorsed by executive Management and approved by UNCF's Board of Directors. Once approval of an initiative or activity is obtained from the Board of Directors, the use of the endowment funds is incorporated into the operating budget process, and distributions are based on the budgeted amounts.

(m) Revenue Recognition

Revenue is recognized during the period in which it is earned. Revenue received in advance and not yet earned is deferred to the applicable period. Deferred revenue amounted to \$7,571,107 and \$8,210,781 as of the year ended March 31, 2023 and 2022.

(n) Donated Services

The value of certain services provided to and/or paid on behalf of UNCF's programs that are susceptible to objective measurement or valuation has been reflected in the financial statements (see note 17). Additionally, many volunteers have donated significant time to UNCF's program services and fundraising campaigns. Although the value of these services is significant, UNCF does not record such value in its financial statements since the criteria for recognition are not met in accordance with FASB ASC Topic 958-605-25, *Not-For-Profit Entities – Revenue Recognition*.

(o) Expenses

UNCF recognizes expenses during the period in which they are incurred. Expenses paid in advance and not yet incurred are deferred to the applicable period.

(p) Functional Allocation of Expenses

The costs of providing various programs and supporting services have been summarized on a functional basis in the accompanying statement of activities. The statement of functional expenses presents expenses by function and natural classification. Certain categories of expenses are attributable to both program services and supporting activities. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The allocated expenses include occupancy, salaries and benefits, and cost of technology, which are allocated based on square-footage, estimates of time and effort, and direct consumption methodology, respectively.

UNITED NEGRO COLLEGE FUND, INC.

Notes to Financial Statements

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(q) 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 and 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 differ from those estimates.

(r) Financial Instruments and Credit Risk

Financial instruments which potentially subject UNCF to concentrations of credit risk consist principally of investments, pledges receivable, and certain revenue sources. UNCF places its investments at creditworthy financial institutions. By policy, UNCF's approach has been to utilize Tier 1 banks, which are subject to greater regulatory scrutiny, possess ample capital, and have advanced risk management capabilities to minimize risks caused by concentration. Credit risk with respect to pledges receivable is generally limited, except as follows, because UNCF deals with a large number of donors and has maintained long-term relationships with these donors. Approximately 80% of pledges receivable for the fiscal year ended March 31, 2023, were from four major donors.

As of March 31, 2023, UNCF had no other significant concentration of credit risk, except as described in note 4.

(s) Fair Value Measurements

UNCF follows FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, which requires additional footnote disclosures about the inputs used to develop the measurements of fair value and the effect of certain measurements reported in the accompanying statements of activities and as described in note 9.

(t) Recent Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, as amended, which, along with related amendments, replaced existing capital and operating lease reporting and disclosure requirements. ASU No. 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on the statement of financial position through both a right-of-use asset and a corresponding lease liability and additional qualitative and quantitative disclosures. ASU No. 2016-02 is effective for UNCF in fiscal year 2023. UNCF has adopted this ASU as of and for the year ended March 31, 2023. The adoption of this standard did not materially impact the financial statements of UNCF.

In September 2020, the FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets, Not-For-Profit Entities (Topic 958)*. This ASU increases transparency around contributed nonfinancial assets (also known as "gifts-in-kind") received by not-for-profit organizations, including transparency on how those assets are used and how they are valued. It also addresses the presentation and disclosure of contributed nonfinancial assets. UNCF has adopted this ASU as of and for the year ended March 31, 2023. The adoption of this standard did not materially impact the financial statements of UNCF.

UNITED NEGRO COLLEGE FUND, INC.

Notes to Financial Statements

March 31, 2023 and 2022

(u) Summarized Financial Information for 2022

The accompanying financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with UNCF's financial statements for the year ended March 31, 2022, from which the summarized information was derived.

(v) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year's presentation.

(3) Income Taxes

UNCF is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. UNCF has analyzed its unrelated business activities for March 31, 2023 and 2022 and determined that no significant income taxes are due for such activities. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements. Management reviews its tax position under applicable laws and has determined that there are no material uncertain tax positions that require recognition in the financial statements. UNCF files IRS Form 990 annually and is still open to examination by taxing authorities for fiscal year 2018 and later.

(4) Uninsured Cash Balances

UNCF places its cash and cash equivalents with high-credit quality financial institutions that are federally insured for \$250,000 and \$500,000 under the Federal Depository Insurance Corporation Act (FDICA) and the Securities Investor Protection Corporation (SIPC), respectively. Amounts held in excess of the FDICA limits were \$42,087,431 and \$143,401,434 on March 31, 2023 and 2022, respectively. Amounts above the SIPC limits were \$40,761,146 and \$142,344,835 on March 31, 2023 and 2022, respectively. UNCF has not experienced losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

(5) Short-Term Investments

Short-term investments are held, invested, and managed by UNCF and financial institutions, subject to guidelines established by UNCF, GMSP, and its respective Investment Committees. Short-term investments, at fair value, consist of the following at March 31:

	2023	
	UNCF	GMSP
Money market funds	\$ 48,783,867	60,308,295
Certificates of deposit, commercial paper, and other short-term investments	84,788,208	—
Total short-term investments	<u>\$ 133,572,075</u>	<u>60,308,295</u>

UNITED NEGRO COLLEGE FUND, INC.

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	<u>2022</u>	
	<u>UNCF</u>	<u>GMSP</u>
Money market funds	\$ 13,138,428	62,751,058
Certificates of deposit, commercial paper, and other short-term investments	<u>680,856</u>	<u>—</u>
Total short-term investments	<u>\$ 13,819,284</u>	<u>62,751,058</u>

(6) Pledges Receivable

Pledges receivable are unconditional promises to pay certain amounts and consist of the following at March 31:

	<u>2023</u>	<u>2022</u>
Unconditional pledges receivable before unamortized discount and allowance for uncollectible amounts	\$ 263,832,371	91,118,613
Less:		
Unamortized discount	(15,274,715)	(319,100)
Allowance for uncollectible amounts	<u>(7,488,349)</u>	<u>(7,488,345)</u>
Net unconditional pledges receivable	<u>\$ 241,069,307</u>	<u>83,311,168</u>

Management evaluates the collectability of its receivables and records an allowance for estimated uncollectible amounts. Pledges due beyond one year were discounted at an annual rate ranging from 0.07% to 4.73%. The discount will be recognized as contributions and gifts revenue in fiscal years 2024 through 2030, as the discount is amortized using an effective yield over the duration of the contributions.

The expected future cash receipts for UNCF are as follows:

	<u>2023</u>	<u>2022</u>
Amounts due in:		
Less than one year	\$ 72,620,038	62,633,146
One to five years	<u>191,212,333</u>	<u>28,485,467</u>
Pledges receivable before discount and allowance	<u>\$ 263,832,371</u>	<u>91,118,613</u>

UNITED NEGRO COLLEGE FUND, INC.

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(7) Long-Term Investments

Investments held for long-term purposes and at fair value consist of the following at March 31:

	<u>2023</u>	<u>2022</u>
Fixed income	\$ 4,131,783	9,735,001
U.S. and global equities	97,172,606	81,610,081
Cash equivalents	5,046,126	7,456,129
Hedge funds	45,571,605	39,324,071
Designated fixed income	45,989,385	38,059,977
Private equities	<u>54,857,608</u>	<u>54,647,608</u>
Total long-term investments	<u>\$ 252,769,113</u>	<u>230,832,867</u>

Investments held for long-term purposes include investments for which the Board of Directors and member institutions have earmarked the proceeds from liquidating such investments to be utilized primarily for distribution equalization in low-income years and endowment funds for which donors have stipulated that the principal remain intact.

Investments in various funds held in fixed income, U.S. and global equities, hedge funds, designated fixed income and private equities are valued based on UNCF's share of net assets in the underlying investment portfolios. The respective investment managers value the underlying investment portfolios at quoted market prices or estimated fair values for positions for which there is a limited market. Management reviews and evaluates the values provided by the fund managers and general partners and agrees with the valuation methods and assumptions used in determining the fair value of these alternative investments.

During fiscal year 2016, UNCF received a restricted contribution in the form of private stock valued at \$29,967,200. This contribution is included in investments valued using NAV as a practical expedient (see note 9), along with UNCF's other holdings of illiquid private equities. The fair value of the stock at March 31, 2023 and 2022 was \$30,151,918 and \$31,947,186, respectively.

UNITED NEGRO COLLEGE FUND, INC.

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(8) GMSP Long-Term Investments

Investments in this portfolio are all fixed-income securities, are held for long-term purposes and at fair value, and are composed of the following at March 31:

	2023	2022
U.S. government securities	\$ 59,451,294	70,077,128
Commercial mortgage-backed securities	317,733	393,276
Asset-backed securities	50,851	80,474
Corporate debt securities	19,894,925	38,382,235
Cash equivalents	1,511,856	3,798,175
Total investments held for long-term purposes	81,226,659	112,731,288
(Payable) for unsettled investment trades	(14,320)	(13,750)
Total GMSP investments held for long-term purposes – net of receivable	\$ 81,212,339	112,717,538

As a dedicated defeasance portfolio, these securities have definite stated maturities and predictable cash flows. GMSP long-term investments are accounted for based on the trade date. Consequently, there were \$14,320 and \$13,750 payable for unsettled trades at March 31, 2023 and March 31, 2022, respectively. These investment payables are reported separately in the accompanying statements of financial position.

(9) Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). UNCF utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. UNCF primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best available information. Accordingly, UNCF utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

UNCF is able to classify fair value balances based on the observability of those inputs. UNCF's assessment of the significance of a particular input to the fair value measurements requires judgment and may affect the valuation of fair value of assets and liabilities and their placement within the fair value hierarchy levels. Also, the time between inception and performance of the contract may affect the fair value. The determination of fair value may, therefore, affect the timing of recognition of revenues and change in net assets.

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FASB ASC Topic 820 establishes a fair value hierarchy that gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as follows:

Level 1 Inputs: Valuation based on quoted prices in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date, and where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Inputs: Valuation based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions, prices are not current, or prices vary substantially over time.

Level 3 Inputs: Valuation based on inputs that are unobservable for an asset or liability and shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. This input, therefore, reflects UNCF's and other independent third parties if and where available, assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. This classification does not imply a lack of liquidity in the investment. UNCF has a target allocation of approximately 22% nonmarketable alternative investments (private equity). Further, 56% and 46% of the UNCF long-term portfolio have monthly or better liquidity, while approximately 22% and 30% of this portfolio has quarterly liquidity via its marketable alternative investments held at March 31, 2023 and 2022, respectively. UNCF carefully monitors these positions by conducting periodic asset allocation and performance reviews. There were no level 3 investments noted in the current year.

All short-term investments (see note 5) are classified as Level 1 investments under the FASB ASC Topic 820 hierarchy.

The following tables present UNCF's long-term investments (see note 7) that are measured at fair value on a recurring basis as of March 31, 2023 and 2022:

	<u>Level 1</u>	<u>NAV</u>	<u>2023 Totals</u>
Investments:			
U.S. and global equities	\$ 21,794,387	—	21,794,387
Designated fixed income	45,989,385	—	45,989,385
Cash equivalents	5,046,126	—	5,046,126
Investments valued using NAV as a practical expedient	—	179,939,215	179,939,215
Total	<u>\$ 72,829,898</u>	<u>179,939,215</u>	<u>252,769,113</u>

UNITED NEGRO COLLEGE FUND, INC.

Notes to Financial Statements

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	<u>Level 1</u>	<u>NAV</u>	<u>2022 Totals</u>
Investments:			
U.S. and global equities	\$ 8,447,941	—	8,447,941
Designated fixed income	38,059,976	—	38,059,976
Cash equivalents	7,456,128	—	7,456,128
Investments valued using NAV as a practical expedient	<u>—</u>	<u>176,868,822</u>	<u>176,868,822</u>
Total	\$ <u>53,964,045</u>	<u>176,868,822</u>	<u>230,832,867</u>

The following table presents the GMSP's long-term investments (see note 8) that are measured at fair value on a recurring basis as of March 31, 2023 and 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>2023 Totals</u>
Investments:			
U.S. government securities	\$ 59,451,294	—	59,451,294
Commercial mortgage backed securities	—	317,733	317,733
Asset-backed securities	—	50,851	50,851
Corporate debt securities	19,894,925	—	19,894,925
Cash equivalents	<u>1,511,856</u>	<u>—</u>	<u>1,511,856</u>
Total	\$ <u>80,858,075</u>	<u>368,584</u>	<u>81,226,659</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>2022 Totals</u>
Investments:			
U.S. government securities	\$ 70,077,128	—	70,077,128
Commercial mortgagebacked securities	—	393,276	393,276
Asset-backed securities	—	80,474	80,474
Corporate debt securities	38,382,235	—	38,382,235
Cash equivalents	<u>3,798,175</u>	<u>—</u>	<u>3,798,175</u>
Total	\$ <u>112,257,538</u>	<u>473,750</u>	<u>112,731,288</u>

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The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Equities – UNCF's holdings of equity securities refer to both *U.S.* and *Global Equities* and thus represent the publicly listed shares on regulated exchanges of various companies or commingled investment funds holding these types of securities. As publicly listed securities, prices and thus valuations are readily available via regular trading between specialists, market makers and multiple principals and agents. Bid and offer quotes are continuously available. The commingled investment funds are valued using net asset value.

Fixed Income – *Fixed Income* and *designated fixed income* securities are comprised of U.S. and global government bills, notes and bonds (including agency issues, Treasury Inflation Protection Securities and various zero-coupon issues) and also various types of corporate bonds (including asset-backed securities, both residential and commercial mortgage-backed securities and debentures) or commingled investment funds holding these types of securities. Some of the designated fixed-income securities are readily determinable marketable securities whose quoted prices are available in the open market. The remaining fixed-income securities are based on net asset values as a practical expedient for fair value.

Alternative Investments – UNCF's alternative investments fall into one of two categories – *Private Equity* and *Hedge Funds*. Individual holdings within the alternative investments may include investments in both nonmarketable (unlisted) and marketable (listed, publicly traded) securities. UNCF's alternative investments are held in various classes of investments. Given the absence of market quotations for some of these investments, fair value is estimated using net asset value as a practical expedient.

While these financial instruments contain varying degrees of risk, UNCF's exposure with respect to each such investment is limited to its carrying amount (fair value as described above) in each investment. The financial statements of the investees are audited annually by nationally recognized independent auditors. In addition, UNCF has implemented a system whereby its own master custodian performs monthly and/or quarterly reconciliations with all of its outside managers and a comprehensive annual review that is timed to coincide with UNCF's fiscal year-end.

Cash Equivalents – Cash Equivalents are invested in traditional money market funds that target a stable, daily net asset value and are regulated under the Investment Company Act 1940. These conventional money market funds are restricted to invest only in those securities permissible under Rule 2a-7 of the Investment Company Act of 1940 and typically refer to the high-quality rated debt instruments of various issuers that have maturities of 3-months or less, with a weighted average maturity of 60 days or less and with no more than 5% in any one issuer. These money market instruments include Treasury Bills, Certificates of Deposit, commercial paper, repurchase agreements and other acceptable short-term debt instruments.

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Investment Derivatives – UNCF's investment managers may employ derivatives to manage market risks, arbitrage mispricing of securities, or replicate long or short positions cost-effectively. In no instance are derivatives used to speculate or leverage positions. All derivative investments are carried at fair value and are reported in investments on the statement of financial position. The derivatives are held with two different counterparties and are subject to master netting agreements. The master netting agreements allow UNCF to offset net positions by counterparty and available collateral held. Financial futures contracts have a fair value of \$(4,821,305) and \$(6,758,125) at March 31, 2023 and 2022, respectively. The fair value for these contracts is reported as GMSP long-term investments.

Methodology and Process

UNCF's Management and UNCF's investment advisor, both working in conjunction, (i) perform ongoing due diligence on outside managers, including, among other things, vetting, monitoring developments involving operations, firewalls, and best practices, and compliance oversight; (ii) ensures proper benchmarking where applicable against certain indexes (e.g., MSCI EAFE, MSCI Emerging Markets, Barclays Aggregate Bond Index, HFR, S&P 500 Index, and Dow Jones Industrial Average, among others); and (iii) reports on changes in overall market conditions. The investment advisor and UNCF Management also have regular calls with the Management of the outside fund managers, conduct periodic in-person and on-site meetings, and conduct frequent and ad hoc meetings with the investment committee, as necessary.

UNCF's Management and the investment advisor also analyze and report to the investment committee on the portfolios' overall performance and compliance. Finally, the UNCF Management and the advisor make regular proactive recommendations for the investment committee to consider to improve the general Management and performance of the portfolio.

The following table summarizes UNCF's investments with a reported NAV as of March 31, 2023:

Investment type	Fair value	Redemption frequency	Redemption notice period (days)
U.S. and global equities	\$ 75,378,219	Daily, monthly, quarterly	1–60 days
Hedge funds	45,571,605	Monthly, quarterly, annually	8–95 days
Fixed income	4,131,783	Daily, quarterly, annually	10–90 days
Private equities	54,857,608	N/A	N/A
	<u>\$ 179,939,215</u>		

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The following table summarizes UNCF's investments with a reported NAV as of March 31, 2022:

<u>Investment type</u>	<u>Fair value</u>	<u>Redemption frequency</u>	<u>Redemption notice period (days)</u>
U.S. and global equities	\$ 73,162,140	Daily, monthly, quarterly	1–60 days
Hedge funds	39,324,072	Monthly, quarterly, annually	8–95 days
Fixed income	9,735,001	Daily, quarterly, annually	10–90 days
Private equities	<u>54,647,609</u>	N/A	N/A
	<u>\$ 176,868,822</u>		

UNCF's investments in U.S. and global equities, and fixed-income asset classes, which are recorded at net asset value, and represent investments in various commingled investment funds and other marketable securities.

UNCF's investments in hedge funds seek to provide investors with maximum capital appreciation while limiting downside risk. It does so by investing with a diversified group of hedge funds and fund-of-funds. Where hedge funds take direct positions, fund-of-funds invest with underlying sub-managers that employ various hedging strategies, typically by simultaneously investing in long and short positions in various securities. These funds may utilize leverage to magnify the effects of securities selection, especially price movements. Additionally, most of UNCF's hedge fund positions were out of the mandatory lock-up periods.

UNCF's investments in private equities seek to provide investors with reasonable returns compared to comparable market indexes utilizing a pool of nonmarketable private equity funds. The funds have different lock-up structures, leading to varying withdrawal restrictions or possible capital redemptions. The typical cycle provides for an initial investment period usually ranging anywhere from 1-5 years, followed by a growth and management phase that typically runs anywhere from 2-10 years or longer. Over this period, capital is periodically called and distributed according to the realization/distribution of investment earnings and/or returns.

UNCF does not intend to sell any funds at an amount different from the net asset value per share at March 31, 2023 and 2022. Outstanding funding commitments for nonmarketable alternative investments, based on the terms of the underlying investment agreements, amounted to \$14,762,150 and \$13,303,926 as of March 31, 2023 and 2022, respectively.

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(10) Property and Equipment

Property and equipment utilized at national headquarters and regional field offices are summarized as follows:

	2023	2022
Land	\$ 6,350,000	6,350,000
Building and improvements	23,294,701	23,294,701
Furniture and fixtures	950,755	950,755
Computers and equipment	3,441,363	3,441,363
Capital Project	4,413,587	848,800
Total property and equipment	38,450,406	34,885,619
Less accumulated depreciation and amortization	(10,621,184)	(10,025,532)
	\$ 27,829,222	24,860,087

Depreciation and amortization expenses for the fiscal years ended March 31, 2023 and 2022 were \$595,651 and \$861,838, respectively.

(11) Collections Acquired

UNCF's collection items amounting to \$6,929,250 consisted of donated works of art received from the Estate of Benny Andrews Foundation, Inc. An independent appraisal was used to measure the fair value at the date of the gift. Following the donor's intent through March 31, 2021, UNCF distributed \$5,515,000 of this artwork to member colleges and other entities. As of March 31, 2023, UNCF held the remaining \$1,414,250 of this collection within a secured environment for future planned distribution.

(12) Gates Millennium Scholars Program

During the fiscal year ended March 31, 2000, UNCF received a grant from the Bill and Melinda Gates Foundation (the Foundation) for \$1 billion over 20 years or approximately \$50,000,000 per year to administer the GMSP.

The grant aims to provide scholarships, fellowships, and leadership opportunities for approximately 20,000 outstanding low-income African-American, Native-American, Hispanic-American, and Asian-American students to attend the undergraduate and graduate educational institutions of their choice. This grant is conditioned on UNCF's successful annual administration of the GMSP as determined by the administration agreement and the Foundation.

During the fiscal year that ended March 31, 2015, the Gates Foundation asked UNCF, in its role as GMSP Administrator, to present a ramp-down plan for the program projecting student enrollment and scholarship and administrative expenditures through the program's termination in the spring of 2029. Working collaboratively with the GMSP partner organizations and UNCF's leadership, the GMSP staff submitted the final plan to the Foundation in February 2017. As of March 31, 2023 and 2022, the plan accepted by the Foundation anticipates \$51,760,202 and \$78,177,019 in scholarship expenses and \$16,384,935 and \$21,430,827 in administrative expenses, respectively.

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In May 2019, the original grant agreement between the Foundation and UNCF to administer the GMSP was amended and restated. The revised agreement kept the purpose of the original grant and modified the reporting schedule and due dates and added a payment schedule for the return of terminal surplus funds. UNCF agreed to return a portion of the anticipated terminal surplus funds of \$39 million over five years. The funds are to be paid to the Foundation in September of each year as follows: \$5 million in 2020, \$8 million in 2021, \$10 million in 2022, \$10 million in 2023, and \$6 million in 2024, with any remaining surplus at the terminus of the program in 2029. As of March 31, 2023, three installment payments totaling \$23 million were paid as scheduled, and the remaining \$16 million was accrued in the statement of financial position to be paid as they become due.

GMSP funds are invested and held in separate investment accounts by UNCF, and all investment gains, losses, interest, and dividends earned are restricted for the grant (see notes 8 and 9).

In accordance with FASB ASC Topic 958-605-25, revenue recognition is based on the unconditional/conditional promise to give. The restated grant agreement requires UNCF to abide by specific performance metrics. If performance metrics are not met, the grant agreement may be terminated, and any unspent funds, including the accumulated returns on invested assets, will be returned to the Foundation.

In addition, the agreement also outlines general conditions that stipulate (i) in the event of a modification, enlargement, frustration or the impossibility of achieving the purposes of the grant agreement and/or (ii) UNCF's continued failure to perform any of its duties under the restated grant agreement and/or (iii) UNCF's failure to submit an acceptable annual budget and/or (iv) a significant leadership or other material change that may adversely threaten the administration and success of the GMSP; the Foundation has the discretion to cancel the grant agreement, suspend any further payments outstanding under the grant agreement, and/or require that any portion of the funds, including the accumulated returns on invested assets, that were distributed but unexpended to be repaid or transferred to another administrator.

Due to the conditions placed in the restated grant agreement, the funding was treated as a conditional promise to give. Therefore, the funding received was not recorded as revenue in the year received but as a liability (refundable advances from a donor), with revenue being recognized in the year when the conditions are met. Returns on the GMSP investments are recognized as revenue and an increase in temporarily restricted net assets when the underlying investments generate such returns. As of March 31, 2017, all relevant conditions placed on the grant agreement had been met, or Management determined that it was remote that they would not be met, and therefore all amounts received from the Foundation had been recognized as revenue.

(13) Line of Credit

UNCF established a revolving line of credit (LOC) for a maximum amount of \$4,000,000 with Investors Bank, which became Citizens Bank in February of 2023 with a yearly renewable cycle, subject to no material changes in UNCF's financial condition. Amendment No. 4 of the LOC expired on the maturity date of October 31, 2021. The LOC was renewed on October 28, 2021, as Amendment No. 5 under the reestablished agreement, with a maturity date of October 31, 2023. There were no borrowings against the line of credit at March 31, 2023, and 2022.

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The line of credit arrangement has restrictive covenants. At the end of each fiscal year, UNCF must maintain unrestricted and temporarily restricted cash plus investments, excluding assets designated for the GMSP to fund long-term debt ratio of 1.25x. In addition, there are certain financial reporting covenants that UNCF must comply with. UNCF was in compliance with its financial covenants as of March 31, 2023, and 2022.

(14) Bonds Payable

(a) Series 2010 Bonds

On June 14, 2010, UNCF signed a Purchase and Sale Agreement to acquire approximately 50,000 square feet of commercial condominium units in a building to be constructed to relocate its headquarters. The total net acquisition cost was expected to be \$28,965,000. The acquisition and build-out of the space have been financed through the issuance of \$26,000,000 in tax-exempt bonds (Series 2010 Bonds) and a contribution of approximately \$2,900,000 drawn from UNCF's long-term investment fund.

These tax-exempt bonds were issued on December 23, 2010, and bear interest at a fixed percentage rate between 5% and 6.875%, with maturities ranging from one to thirty years.

As provided by the Indenture Trust, UNCF exercised the option of defeasance on the Series 2010 Bonds. On August 6, 2015, \$31,565,000 of the District of Columbia special obligation bonds (Series 2015 Bonds) with an interest rate of 3.61% were issued to advance refund of \$25,195,000 of the Series 2010 outstanding bonds. The net proceeds of \$30,931,769 (after payment of \$633,231 in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future bond debt service payments through July 1, 2020. As a result, the bonds are defeased and the liability for those bonds and related unamortized deferred financing costs have been removed from the financial statements.

(b) Series 2015 Bonds

The Series 2015 Bonds are special obligations of the District of Columbia (the District), the principal of, redemption premium, if any, and interest on which are payable solely from the revenues received under the Loan Agreement for the Series 2015 Bonds between the District and UNCF (Loan Agreement) and, to the extent provided in the Indenture Trust, dated August 1, 2015, between the District and the Trustee, pursuant to which the Series 2015 Bonds are currently issued and outstanding. Investors Bank purchased the Series 2015 Bonds under and upon the terms and conditions outlined in the Bond Purchase and Continuing Covenants Agreement as of August 6, 2015, between Investors Bank and UNCF. Investors Bank was acquired by Citizens Bank in FY2023. However, this acquisition did not affect the terms and conditions of the original agreement. Actual interest expenses incurred in 2023 amounted to \$943,221 and are included in the accompanying statements of activities.

To evidence and secure its obligations under the Loan Agreement, UNCF has executed a promissory note (Series 2015 Note) in the principal amount of \$31,565,000.

Commencing September 1, 2015, principal and interest payments are due monthly, with all outstanding amounts related to the 2015 Series Note due on August 1, 2040. The Series 2015 Note is an unconditional general obligation of UNCF.

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At March 31, 2023, the total amounts outstanding on the Series 2015 Bonds were as follows:

Year ending March 31:	
2024	\$ 1,035,000
2025	1,080,000
2026	1,120,000
2027	1,160,000
2028	1,200,000
Thereafter	19,195,000
Deferred financing cost	<u>(455,034)</u>
	<u>\$ 24,334,966</u>

(c) Restrictive Covenants

UNCF must maintain a liquidity ratio of 1.25 to 1. Compliance will be based solely on the assets of UNCF, exclusive of the GMSP. In addition, there are also certain financial reporting covenants that UNCF must comply with. UNCF complied with all of its financial covenants as of March 31, 2023 and 2022.

(d) Deferred Financing Costs

UNCF's bond financing costs for the years ended March 31, 2023 and 2022, such as underwriter fees, legal fees, and other direct expenses, amounted to \$455,034 and \$483,474, respectively, and are included in the accompanying statements of financial position. These costs are amortized using the straight-line method, which approximates the effective interest method over the maturity of the respective debt. Amortization expenses amounted to \$28,440 for the years ended March 31, 2023 and 2022.

(15) Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the unspent portion of contributions and gifts received by UNCF, which have been restricted by the donor to be used for the purposes summarized below:

	<u>2023</u>	<u>2022</u>
Scholarships and special projects	\$ 488,229,583	289,587,187
Perpetual in nature	110,124,497	105,565,468
GMSP	<u>122,178,102</u>	<u>149,085,687</u>
	<u>\$ 720,532,182</u>	<u>544,238,342</u>

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Notes to Financial Statements

March 31, 2023 and 2022

Net assets with donor restrictions were released from restrictions for the following purposes:

	2023	2022
Scholarships and special projects	\$ 95,535,126	106,184,715
GMSP	27,106,499	36,976,337
	\$ 122,641,625	143,161,052

(16) Endowment Net Asset Classifications

UNCF's endowments consist of 186 programs established for the purpose of funding scholarships. Net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Changes in endowment net assets for the year ended March 31, 2023, are as follows:

	Without donor restrictions	With donor restrictions		
	Board designated	Purpose restricted	Perpetual in nature	Total
Net assets, beginning of year	\$ 6,773,699	43,121,181	105,565,468	155,460,348
Investment return:				
Investment income	151,823	576,431	—	728,254
Net realized and unrealized losses	(1,083,312)	(3,841,066)	—	(4,924,378)
Total investment losses	(931,489)	(3,264,635)	—	(4,196,124)
Contributions	3,500,000	—	4,559,029	8,059,029
Transfers	—	—	—	—
Appropriation of endowment income for expenditure	(571,227)	(4,897,727)	—	(5,468,954)
Net assets, end of year	\$ 8,770,983	34,958,819	110,124,497	153,854,299

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March 31, 2023 and 2022

Changes in endowment net assets for the year ended March 31, 2022, are as follows:

	Without donor restrictions	With donor restrictions		
	Board designated	Purpose restricted	Perpetual in nature	Total
Net assets, beginning of year	\$ 5,318,917	39,892,650	79,394,539	124,606,106
Investment return:				
Investment income	6,653	27,182	—	33,835
Net realized and unrealized gains	<u>2,040,901</u>	<u>7,962,655</u>	<u>—</u>	<u>10,003,556</u>
Total investment return	2,047,554	7,989,837	—	10,037,391
Contributions	—	—	25,970,929	25,970,929
Transfers	—	—	200,000	200,000
Appropriation of endowment income for expenditure	<u>(592,772)</u>	<u>(4,761,306)</u>	<u>—</u>	<u>(5,354,078)</u>
Net assets, end of year	\$ <u>6,773,699</u>	<u>43,121,181</u>	<u>105,565,468</u>	<u>155,460,348</u>

(17) Gifts-In-Kind and Donated Services

UNCF has received renewable one-year subscriptions to Bloomberg Terminal services as donations for its member institutions. Currently, eight of these institutions are utilizing the services. The market value of these services is determined by Bloomberg annually. As of March 31, 2023, and 2022, the fair value of these specialized services was reflected in the statement of activities as \$1,019,343 and \$981,974, respectively.

(18) Other Fundraising Activities

(a) Special Events

UNCF raised \$18,540,415 and \$15,591,941 in contributions from special fundraising events and incurred related direct expenses of \$6,635,904 and \$3,614,017 in fiscal years 2023 and 2022, respectively. These amounts are reported in the accompanying statements of activities as contributions and gifts, net of the related direct expenses.

(b) Direct Mail

UNCF raised \$13,616,053 and \$15,851,637 in contributions through its direct mail campaigns and incurred related direct expenses of \$4,810,446 and \$4,467,222 in fiscal years 2023 and 2022, respectively.

UNITED NEGRO COLLEGE FUND, INC.

Notes to Financial Statements

March 31, 2023 and 2022

(19) Retirement Plans

All full- and part-time employees are eligible to participate in the retirement plan on the first day of employment. After completing one year of service, employees are eligible to receive employer contributions into the retirement plan. The plan consists of participant voluntary and contributory tax-deferred annuity plans through Teachers Insurance and Annuity Association and/or the College Retirement Equities Funds (TIAA-CREF). Based on the percentage an employee defers, UNCF makes an additional matching contribution of up to 7%.

UNCF also has supplemental agreements with certain current and past key executives. To meet these obligations, UNCF maintains annuity contracts amounting to \$2,032,264 and \$2,181,856 as of March 31, 2023 and 2022, respectively, and these are included within other assets in the accompanying statements of financial position. The liabilities associated with these agreements amounted to \$812,484 and \$604,484 as of March 31, 2023 and 2022, respectively, and are included within accrued wages, vacation, and other related personnel expenses in the accompanying statements of financial position. UNCF believes it has sufficient operating cash to account for any shortfalls between the annuity contracts and the liability owed under these agreements.

UNCF's expense related to the retirement plan and the supplemental agreements was \$1,144,017 and \$1,018,437 for 2023 and 2022, respectively.

(20) Commitments and Contingencies

UNCF leases space for its office facilities throughout the United States. One of the offices, amended in January 2023, has a term of 7 years. The other offices have remaining lease terms from month-to-month to approximately two years. None of the leases meet the requirements to be classified as finance leases, and they are, accordingly, accounted for as operating leases. UNCF has determined that it is not reasonably certain to exercise any extension options. Accordingly, the period covered by extension options is not recognized as part of the right-of-use assets and lease liabilities.

The individual lease contracts do not provide information about the rate implicit in the lease, and therefore, UNCF has elected to use a risk-free discount rate for all affected leases. UNCF has also elected to use the short-term lease practical expedient for all short-term leases.

Lease information as of and for the year ended March 31, 2023 is as follows:

Right-of-use lease assets under operating lease	\$ <u>775,222</u>
Lease liabilities under the operating lease:	
Current portion	\$ 302,994
Long-term portion	<u>489,524</u>
Total operating lease liabilities	\$ <u>792,518</u>

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Notes to Financial Statements

March 31, 2023 and 2022

Right-of-use lease assets and lease liabilities are recorded in other assets and accounts payable and accrued expenses in the statements of financial position, respectively.

At March 31, 2023, aggregate net minimum annual rental commitments under the noncancelable operating leases, having an initial or remaining term of more than one year, are as follows:

	<u>Rental commitment</u>
Year ending March 31:	
2024	\$ 325,015
2025	120,695
2026	84,909
2027	87,012
2028	89,124
Thereafter	<u>160,846</u>
Total operating lease	867,601
Less: present value adjustment	<u>(75,083)</u>
Total lease liabilities	<u>\$ 792,518</u>

Rent expenses under these leases amounted to \$711,894 and \$672,960 for the years ended March 31, 2023, and 2022, respectively.

Other

UNCF is a party to various legal actions and claims arising in the ordinary course of its business. UNCF's Management believes that their ultimate disposition will not adversely affect UNCF's financial position or the results of its operations.

UNITED NEGRO COLLEGE FUND, INC.

Notes to Financial Statements

March 31, 2023 and 2022

(21) Liquidity and Availability of Resources

UNCF's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

	<u>March 31, 2023</u>	<u>March 31, 2022</u>
Cash and cash equivalents	\$ 43,783,759	144,848,181
Short-term investments	193,880,370	76,570,342
Long-term investments	333,995,772	343,001,295
Accrued investment income	2,276,316	682,774
Receivables, net	241,069,307	83,311,168
Assets held for supplemental employee benefits, net	576,248	1,009,767
Assets held for partner organizations, net	<u>321,772</u>	<u>710,957</u>
Total financial assets, end of year	<u>815,903,544</u>	<u>650,134,484</u>
Less those unavailable for general expenditure within one year, due to:		
Time restricted pledges due in greater than one year	(191,212,333)	(28,485,467)
Perpetual and term endowments and accumulated earnings, net	(145,083,316)	(148,686,649)
Purpose restricted grants, net	(371,340,077)	(353,017,056)
Unfunded capital commitments	(14,762,150)	(13,303,926)
Distribution commitments to UNCF member institutions	(8,858,535)	(12,414,602)
Operating reserve	(17,580,453)	(16,920,571)
Member distribution reserve	(4,849,654)	(4,807,367)
Return of funds to the Gates Foundation	<u>(16,000,000)</u>	<u>(26,000,000)</u>
Total financial assets unavailable for general expenditures within one year	<u>(769,686,518)</u>	<u>(603,635,638)</u>
Total financial assets available for general expenditures within one year	<u>\$ 46,217,026</u>	<u>46,498,846</u>

UNCF's current-year revenue adequately covers current-year operating expenditure. UNCF has certain donor-restricted assets limited to use, which are available for general expenditure within one year in the ordinary course of operations. Accordingly, these assets have been included in the qualitative information above. UNCF maintains cash and highly liquid securities sufficient to meet anticipated cash needs for operations, capital commitments, and member distributions.

UNITED NEGRO COLLEGE FUND, INC.

Notes to Financial Statements

March 31, 2023 and 2022

As part of the liquidity management plan, the governing Board designated \$500,000 of the fiscal year 2023 operating surplus to the operating reserve, bringing the total operating and member distribution reserves to \$17.6 million and \$4.9 million, respectively, as of March 31, 2023, and \$16.9 million and \$4.8 million, respectively, as of March 1, 2022. These reserves are established with the objective of setting the funds aside to be drawn upon in the event of financial distress or an immediate liquidity need resulting from circumstances outside of the typical life cycle of converting financial assets to cash or settling financial liabilities. UNCF's target for the operating reserve is a total of \$40 million which was determined based on Management's judgment about the appropriate amount of funds to have set aside in addition to working capital. The operating recovery and member distribution reserve balances are held in the cash and cash equivalents and long-term investments lines and presented as Board designated net assets without restriction on the statements of financial position.

Additionally, UNCF maintains a \$4 million line of credit, as discussed in more detail in Note (13). As of March 31, 2023, \$4 million remained available on the UNCF's line of credit.

(22) Related Parties

UNCF receives contributions from donor organizations with representatives on UNCF's Board of Directors and from Board members themselves. UNCF received \$11,100,373 and \$9,653,468 in contributions from such related parties during the years ended March 31, 2023 and 2022, respectively. The contributions receivable from these related parties were \$2,650,847 and \$1,217,715 as of March 31, 2023 and 2022, respectively.

(23) Subsequent Events

Risks and Uncertainties

Due to the level of uncertainty related to changes in interest rates, market volatility, and credit risks, it is at least reasonably possible that changes in these risks could materially affect the fair value of investments reported in the accompanying statements of financial position as of March 31, 2023 and 2022.

Management has reviewed its outstanding contributions and gifts at March 31, 2023 and does not believe that the market conditions will have a material effect on the financial position of UNCF. However, Management believes that the diversification of UNCF's invested assets among various asset classes should mitigate the impact of dramatic change on any one category. Further, because the values of UNCF's individual investments have and will fluctuate in response to changing market conditions, the amount of losses recognized in subsequent periods, if any, cannot be determined. These trends may also affect donors' ability to fulfill their pledges on time.

Management's Evaluation

In accordance with FASB ASC Topic 855, *Subsequent Events*, Management has evaluated any events or transactions occurring after March 31, 2023, the statement of financial position date, through August 11, 2023, the date the financial statements were available to be issued, and noted that except for the above, there have been no such events or transactions which would require adjustments to or disclosure in UNCF's financial statements for the year ended March 31, 2023.