UNITED NEGRO COLLEGE FUND, INC.

Financial Statements

March 31, 2019 and 2018

(With Independent Auditors’ Report Thereon)

UNITED NEGRO COLLEGE FUND, INC.

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KPMG LLP
1676 International Drive
McLean, VA 22102

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the United Negro College Fund, Inc., which comprise the statement of financial position as of March 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization'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 organization'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United Negro College Fund, Inc. as of March 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 2(t) to the financial statements, in 2019 the United Negro College Fund, Inc. adopted new accounting guidance, Accounting Standards Update 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.

Report on Summarized Comparative Information

We have previously audited the United Negro College Fund, Inc.'s 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 30, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived before the adjustments to adopt ASU 2016-14. As part of our audit of the 2019 financial statements, we also audited the adjustments described in Note 2(t) that were applied to adopt ASU 2016-14 retrospectively in the 2018 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

KPMG LLP

McLean, Virginia
July 29, 2019

UNITED NEGRO COLLEGE FUND, INC.

Statements of Financial Position

March 31, 2019 and 2018

Assets		**2019**	**2018**
Cash and cash equivalents	$	11,057,845	14,966,607
Short-term investments (notes 5 and 9)		14,883,611	14,091,990
GMSP short-term investments (notes 5 and 9)		57,036,415	48,066,010
Receivable for unsettled investment trades (notes 7 and 8)		12,938	—
Pledges receivable, net (note 6)		35,769,594	31,785,052
Accrued investment income		1,510,848	2,708,141
Long term investments (notes 7 and 9)		179,380,474	188,117,352
GMSP long term investments (notes 8 and 9)		271,882,601	349,618,250
Property and equipment, net (note 10)		26,205,796	27,054,396
Collections acquired (note 11)		1,414,250	1,414,250
Other assets		4,974,708	6,342,727
Total assets	$	604,129,080	684,164,775
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	6,347,218	6,132,991
Accrued wages, vacation, and other related expenses		2,951,417	2,673,172
Payable for unsettled investment trades (notes 7 and 8)		—	14,297
Accrued distribution to member institutions		7,651,660	7,288,830
Notes payable (note 13)		889,620	1,925,455
Bonds payable (note 14)		28,032,770	28,876,518
Total liabilities		45,872,685	46,911,263
Net assets (deficit): (note 16)			
Without donor restrictions		(2,278,596)	(3,909,847)
With donor restrictions (note 15)		560,534,991	641,163,359
Total net assets		558,256,395	637,253,512
Commitments and contingencies (note 20)			
Total liabilities and net assets	$	604,129,080	684,164,775

See accompanying notes to financial statements.

UNITED NEGRO COLLEGE FUND, INC.

Statement of Activities

Year ended March 31, 2019
(with summarized financial information for fiscal year 2018)

	2019			2018
	Without donor restrictions	**With donor restrictions**	**Total**	**Total**
Revenue, gains, and other support:				
Support:				
Contributions for grants and scholarships	$ —	22,984,325	22,984,325	29,134,387
Contributions and gifts (notes 2 and 18)	33,056,594	31,104	33,087,698	31,861,166
Bequests and legacies	3,803,607	910,662	4,714,269	6,943,709
Gifts-in-kind and donated services (note 17)	—	912,233	912,233	1,105,047
Total support	36,860,201	24,838,324	61,698,525	69,044,309
Investment Income:				
Interest and dividends	410,080	11,225,404	11,635,484	13,080,748
Amortization of investment premium and discount	—	2,311,670	2,311,670	2,128,865
Realized gains/(losses)	94,031	(2,065,719)	(1,971,688)	4,538,105
Unrealized gains/(losses)	441,414	5,987,970	6,429,384	(2,137,585)
Total investment income	945,525	17,459,325	18,404,850	17,610,133
Net assets released from restrictions (note 15)	122,926,017	(122,926,017)	—	—
Total revenue, gains, and other support	160,731,743	(80,628,368)	80,103,375	86,654,442
Expenses:				
Program services:				
GMSP	81,511,729	—	81,511,729	97,137,103
Scholarships and special projects	41,528,867	—	41,528,867	36,046,087
Distributions to member institutions	14,565,561	—	14,565,561	14,163,241
Institutional services	1,885,649	—	1,885,649	2,022,170
Other program services	705,423	—	705,423	795,566
Total program services	140,197,229	—	140,197,229	150,164,167
Supporting services:				
Management and general	5,493,407	—	5,493,407	6,411,504
Fundraising	13,409,856	—	13,409,856	13,789,183
Total supporting services	18,903,263	—	18,903,263	20,200,687
Total expenses	159,100,492	—	159,100,492	170,364,854
Change in net assets	1,631,251	(80,628,368)	(78,997,117)	(83,710,412)
Net assets, beginning of year	(3,909,847)	641,163,359	637,253,512	720,963,924
Net assets (deficit), end of year	$ (2,278,596)	560,534,991	558,256,395	637,253,512

See accompanying notes to financial statements.

UNITED NEGRO COLLEGE FUND, INC.

Statement of Functional Expenses

Year ended March 31, 2019
(with summarized financial information for 2018)

	Program services – assistance to member and nonmember institutions					
	GMSP	**Scholarships and special projects**	**Distribution to member institutions**	**Institutional services**	**Other program services**	**Total program services**
Distributions:						
Capital and operational support	$ —	—	14,565,561	—	—	14,565,561
Grants and scholarships	77,211,833	25,019,007	—	—	—	102,230,840
Total distributions	77,211,833	25,019,007	14,565,561	—	—	116,796,401
Expenses before depreciation, amortization, and bad debts:						
Salaries and wages	1,364,517	3,473,387	—	1,142,907	192,274	6,173,085
Employee benefits	352,626	815,558	—	312,906	53,371	1,534,461
Advertisements and promotions	364	159,361	—	14,974	7,648	182,347
Professional and consulting fees	243,512	2,575,911	—	230,375	84,834	3,134,632
Information technology support	565,223	1,046,023	—	(445,172)	6,668	1,172,742
Office expenses	63,365	85,720	—	8,868	4,678	162,631
Telephone	1,765	623	—	2,840	—	5,228
Postage and shipping	7,535	29,775	—	718	9	38,037
Occupancy	301,903	646,435	—	195,392	83,400	1,227,130
Printing and publications	62,875	190,743	—	35,512	10,327	299,457
Travel	401,660	2,028,943	—	38,239	50,476	2,519,318
Meetings	406,023	1,848,297	—	15,263	207,108	2,476,691
Equipment rental and maintenance	9,859	25,616	—	7,340	1,295	44,110
Interest expense	—	—	—	—	—	—
Indirect cost recovery	217,641	2,799,884	—	—	3,335	3,020,860
Total expenses before depreciation, amortization, and bad debts	81,210,701	40,745,283	14,565,561	1,560,162	705,423	138,787,130
Depreciation and amortization expense	301,028	—	—	325,487	—	626,515
Bad debt expense	—	783,584	—	—	—	783,584
Total expenses	$ 81,511,729	41,528,867	14,565,561	1,885,649	705,423	140,197,229

See accompanying notes to financial statements.

UNITED NEGRO COLLEGE FUND, INC.

Statement of Functional Expenses

Year ended March 31, 2019
(with summarized financial information for 2018)

	Supporting services			Total program service and supporting service expenses	
	Management and general	Fund-raising	Total supporting services	2019	2018
Distributions:					
Capital and operational support	$ —	—	—	14,565,561	14,163,241
Grants and scholarships	—	—	—	102,230,840	116,106,913
Total distributions	—	—	—	116,796,401	130,270,154
Expenses before depreciation, amortization, and bad debts:					
Salaries and wages	4,611,619	5,597,945	10,209,564	16,382,649	16,011,174
Employee benefits	1,228,309	1,440,987	2,669,296	4,203,757	4,097,799
Advertisements and promotions	17,008	64,286	81,294	263,641	296,771
Professional and consulting fees	1,782,101	724,124	2,506,225	5,640,857	5,516,835
Information technology support	(1,747,457)	574,715	(1,172,742)	—	—
Office expenses	160,783	249,794	410,577	573,208	839,985
Telephone	729,095	12,178	741,273	746,501	888,373
Postage and shipping	38,293	1,065,403	1,103,696	1,141,733	1,993,413
Occupancy	(610,879)	983,491	372,612	1,599,742	1,636,472
Printing and publications	58,951	2,123,742	2,182,693	2,482,150	1,787,530
Travel	124,738	333,626	458,364	2,977,682	1,646,485
Meetings	35,494	128,665	164,159	2,640,850	1,654,240
Equipment rental and maintenance	85,997	95,844	181,841	225,951	246,408
Interest expense	1,126,193	—	1,126,193	1,126,193	1,188,372
Indirect cost recovery	(3,020,860)	—	(3,020,860)	—	—
Total expenses before depreciation, amortization, and bad debts	4,619,385	13,394,800	18,014,185	156,801,315	168,074,011
Depreciation and amortization expense	874,022	—	874,022	1,500,537	1,456,553
Bad debt expense	—	15,056	15,056	798,640	834,290
Total expenses	$ 5,493,407	13,409,856	18,903,263	159,100,492	170,364,854

See accompanying notes to financial statements.

UNITED NEGRO COLLEGE FUND, INC.

Statements of Cash Flows

Years ended March 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ (78,997,117)	(83,710,412)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Realized gains/(losses) on investments	1,971,688	(4,538,105)
Unrealized losses (gains) on investments	(6,429,384)	2,137,585
Amortization of investment premium and discount	(2,311,670)	(2,128,865)
Bad debt expense	798,640	834,290
Depreciation and amortization	1,500,537	1,456,553
Collections and gifts-in-kind	—	175,000
Contributions restricted for investment in endowment funds	(675,106)	(1,804,776)
(Increase) decrease in assets:		
Pledges receivable	(4,101,178)	(8,330,914)
Accrued investment income	1,197,293	540,409
Other assets	2,002,846	607,717
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	214,227	938,882
Accrued wages, vacation, and other related personnel expenses	278,243	(131,898)
Accrued distributions to member institutions	362,830	40,788
Net cash used in operating activities	(84,188,151)	(93,913,746)
Cash flows from investing activities:		
Purchases of investments	(2,181,984,986)	(1,965,948,824)
Proceeds from sales of investments	2,263,231,443	2,062,197,002
With donor restrictions (note 15)	237,409	(471,149)
Net cash provided by investing activities	81,483,866	95,777,029
Cash flows from financing activities:		
Repayments of note payable	(1,035,835)	(1,002,304)
Repayments of bonds payable	(843,748)	(818,748)
Contributions restricted for investment in endowment funds	675,106	1,804,776
Net cash used in financing activities	(1,204,477)	(16,276)
(Decrease) increase in cash and cash equivalents	(3,908,762)	1,847,007
Cash and cash equivalents, beginning of year	14,966,607	13,119,600
Cash and cash equivalents, end of year	$ 11,057,845	14,966,607
Cash paid for interest	$ 1,099,941	1,214,624

See accompanying notes to financial statements.

(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 the regular and joint campaigns.

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

(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 and Cash Equivalents

Cash and 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. All other highly liquid instruments, which are to be used for the long-term purposes of UNCF, are classified as investments. Cash and 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. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, net asset value is used as a practical expedient to estimate fair value of these funds. Net asset value, in many instances may not equal fair value that would be calculated pursuant to FASB Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures* (see note 9).

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 is 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 remaining life of the lease or the estimated useful life of the improvements. 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 expense 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 in accordance with FASB ASC Topic 350-40, *Accounting for the Costs of Software for Internal Use*. After all substantial testing and deployment is completed and the software is ready for its intended use, internally developed software costs are amortized using the straight-line method over the estimated useful life of the software.

The balance of capitalized software at March 31, 2019 and 2018, included in other assets in the accompanying statements of financial position pertains largely to the costs incurred for the Gates Millennium Scholars Program (GMSP) project implementation of its Enterprise Scholarship Application and UNCF Student Tracking, Award and Response (STAR) system. Amortization expense for the years ended March 31, 2019 and 2018 amounted to $634,828 and $632,057, respectively.

(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 carrying amount of the asset is reduced, by a charge to the accompanying statements of activities, to its current fair value.

(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, exceeds program, fundraising, and administrative expenses. Regular distributions and other distributions, such as joint campaign 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 that are currently available to support UNCF’s daily operations. Board designated net assets consist of unrestricted funds designated by the Board of Directors for scholarships and capital projects.

(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.

Donor restricted contributions and gifts whose restrictions are met in the same year of receipt are classified as revenues without donor restrictions in the accompanying statement of activities.

Included in net assets with donor restrictions category are gifts and bequests where donors have stipulated that the principal be maintained permanently by UNCF. These gifts are invested by UNCF’s management. Generally, there have been no permanent restrictions placed upon UNCF’s investment earnings. However, most of the earnings are specified by the donors 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.

(Continued)

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 at March 31, 2019 and 2018.

(l) 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 polices 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 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, deigned to deliver superior risk adjusted returns in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). UNCF targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

UNCF's fiscal policy governs the use of resources in the various endowed funds for program expenses and administrative costs. Endowment funds are used for the 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. These funds are used, with respect to any endowment restrictions, 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.

(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 have been reflected in the financial statements (see note 17). Additionally, a substantial number of volunteers have donated significant amounts of time to UNCF's program services and to its fund-raising campaigns. Although the value of these services is significant, UNCF does not record such value in its financial statements since the criteria for recognition is not met in accordance with FASB ASC Topic 958-605-25, *Not-For-Profit Entities – Revenue Recognition*.

(o) Expenses

Expenses are recognized by UNCF 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 expenses that are allocated include occupancy, salaries and benefits, and cost of technology, which are allocated based on a square-footage, estimates of time and effort, and direct consumption methodology, respectively.

(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, these investments are kept within authorized limits designed to prevent 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 52% and 67% of pledges receivable for fiscal years ended March 31, 2019 and 2018, respectively, were from two major donors.

As of March 31, 2019, 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 May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 requires an entity to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services. Five key steps will be required to assess revenue recognition along with enhanced disclosures. The amendment is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. UNCF is currently evaluating the effect that the provisions of ASU 2014-09 will have on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all not-for-profits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of not-for-profit financial statements. UNCF adopted this ASU for the fiscal year ended March 31, 2019 with a retrospective application for fiscal year 2018.

Implementation of ASU 2016-14 did not require reclassification or restatement of any opening balances. UNCF net assets previously reported in 2017 as temporarily restricted of $570,929,962 and permanently restricted of $70,233,397 are now reported as net assets with donor restrictions. Likewise, UNCF net assets previously reported as unrestricted of ($3,909,847) are now reported as net assets without donor restrictions. In addition, new disclosures were added regarding liquidity and the availability of resources.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contribution Made of Not-for-Profit Entities* (Topic 958). ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and made, primarily by not-for-profit organizations. It provides guidance for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. In addition, it clarifies whether a contribution is conditional and better distinguishes a donor-imposed condition from a donor-imposed restriction. The standard is effective for annual reporting periods beginning after December 15, 2018. UNCF has not elected to early adopt the guidance and is currently evaluating the impact on financial statements and related disclosures.

(u) Summarized Financial Information for 2018

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, 2018, from which the summarized information was derived.

(v) Reclassifications

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

(3) Income Taxes

UNCF has been granted exemption by the Internal Revenue Service (IRS) from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The IRS has also determined that UNCF is not a private foundation. UNCF is required to report and pay taxes on unrelated business income to the IRS and other local jurisdictions. There was no liability for unrelated business income taxes as of March 31, 2019 and 2018.

UNCF also follows the provisions of FASB ASC Topic 740-10, *Income Taxes*. Management believes it has no material uncertain tax positions or any related penalties and interest to accrue for the years ended March 31, 2019 and 2018, and, accordingly, there is no liability for unrecognized tax benefits. UNCF files IRS Form 990 annually with the Federal Government and is still open to examination by taxing authorities for fiscal year 2012 and later.

On December 22, 2017, the President of the United States of America signed H.R.1, the Tax Cuts and Jobs Act, which includes several changes relevant to tax exempt organizations, primarily related to unrelated business income, net operating losses, certain new excise taxes, and changes affecting the deductibility of certain expenses. Management has determined that the new law does not have a significant impact on the organization's financial statements.

(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 for $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 $9,775,534 and $13,466,246 at March 31, 2019 and 2018, respectively. Amounts held in excess of the SIPC limits were $8,798,009 and $8,289,114 at March 31, 2019 and 2018, respectively. UNCF has not experienced any 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:

	2019	
	UNCF	**GMSP**
Money market funds	$ 14,206,684	57,036,415
Certificates of deposit, commercial paper, and other short-term investments	676,927	—
Total short-term investments	$ 14,883,611	57,036,415

	2018	
	UNCF	**GMSP**
Money market funds	$ 13,417,511	48,066,010
Certificates of deposit, commercial paper, and other short-term investments	674,479	—
Total short-term investments	$ 14,091,990	48,066,010

(6) Pledges Receivable

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

		2019	2018
Unconditional pledges receivable before unamortized discount and allowance for uncollectible amounts	$	36,891,174	33,322,440
Less:			
Unamortized discount		251,764	522,117
Allowance for uncollectible amounts		869,816	1,015,271
Net unconditional pledges receivable	$	35,769,594	31,785,052

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 0.85% to 2.73%. The discount will be recognized as contributions and gifts revenue in fiscal years 2020 through 2026, 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:

		2019	2018
Amounts due in:			
Less than one year	$	24,428,682	17,604,060
One to five years		12,462,492	15,718,380
Pledges receivable before discount and allowance	$	36,891,174	33,322,440

(7) Long-Term Investments

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

		2019	2018
Fixed income	$	11,488,656	11,586,096
U.S. and global equities		63,634,082	63,772,200
Portfolio cash		913,894	2,790,727
Hedge funds		21,804,392	20,420,383
Designated fixed income		40,412,629	51,454,536
Private equities		41,126,821	38,093,410
Total long-term investments	$	179,380,474	188,117,352

(Continued)

Investments held for long-term purposes include investments for which the Board of Directors and member institutions have earmarked the proceeds from the liquidation of 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 underlying investment portfolios are valued by the respective investment managers 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, 2019 and 2018 was $35,297,711 and $33,610,405, respectively.

(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:

	2019	2018
U.S. government securities	$ 137,484,089	174,138,639
Commercial mortgage-backed securities	804,741	1,018,097
Asset-backed securities	290,790	384,166
Corporate debt securities	124,792,589	165,985,621
Cash and cash equivalents	8,510,392	8,091,727
Total investments held for long-term purposes	271,882,601	349,618,250
Receivable for unsettled investment trades	12,938	—
Payable for unsettled GMSP investment trades	—	(14,297)
Total GMSP investments held for long-term purposes – net of receivable and payable for unsettled investment trades	$ 271,895,539	349,603,953

As a dedicated defeasance portfolio, all of 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 $12,938 receivable for unsettled trades at March 31, 2019 and $14,297 payable for unsettled trades at March 31, 2018. This investment receivable is 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.

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 of the investment.

UNCF has a target allocation of approximately 20% nonmarketable alternative investments (private equity). Further, 46% and 20% of the UNCF long-term portfolio has monthly or better liquidity while approximately 22% and 50% of this portfolio has quarterly liquidity via its marketable alternative investments held at March 31, 2019 and 2018, respectively. UNCF carefully monitors these positions as it conducts periodic reviews of both asset allocation and performance.

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, 2019 and 2018:

		Level 1	Level 2	Level 3	NAV	2019 Totals
Investments:						
U.S. and global equities	$	11,408,632	—	—	—	11,408,632
Designated fixed income		40,412,629	—	—	—	40,412,629
Portfolio cash		913,894	—	—	—	913,894
Investments valued using NAV as a practical expedient		—	—	—	126,645,319	126,645,319
Total	$	52,735,155	—	—	126,645,319	179,380,474

		Level 1	Level 2	Level 3	NAV	2018 Totals
Investments:						
U.S. and global equities	$	11,947,857	—	—	—	11,947,857
Designated fixed income		51,454,536	—	—	—	51,454,536
Portfolio cash		2,790,727	—	—	—	2,790,727
Investments valued using NAV as a practical expedient		—	—	—	121,924,232	121,924,232
Total	$	66,193,120	—	—	121,924,232	188,117,352

The following table presents the GMSP's long-term investments (see note 8) that are measured at fair value on recurring basis as of March 31, 2019 and 2018:

		Level 1	Level 2	Level 3	2019 Totals
Investments:					
U.S. government securities	$	137,484,089	—	—	137,484,089
Commercial mortgage-backed securities		—	804,741	—	804,741
Asset-backed securities		—	290,790	—	290,790
Corporate debt securities		124,792,589	—	—	124,792,589
Cash and cash equivalents		8,510,392	—	—	8,510,392
Total	$	270,787,070	1,095,531	—	271,882,601

		Level 1	Level 2	Level 3	2018 Totals
Investments:					
U.S. government securities	$	174,138,639	—	—	174,138,639
Commercial mortgage-backed securities		—	1,018,097	—	1,018,097
Asset-backed securities		—	384,166	—	384,166
Corporate debt securities		165,985,621	—	—	165,985,621
Cash and cash equivalents		8,091,727	—	—	8,091,727
Total	$	348,215,987	1,402,263	—	349,618,250

For both years ended March 31, 2019 and 2018, there were no transfers in and out of Level 3 measurements. 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. A portion 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 & Cash Equivalents – *Cash & Cash Equivalents* are invested in traditional money market funds that target a stable, daily net asset value and that are regulated under the Investment Company Act of 1940. These traditional 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.

Investment Derivatives – UNCF's investment managers may employ derivatives in order to manage market risks, arbitrage mispricing of securities, or replicate long or short positions in a cost-effective manner. 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 fair value of $($5,714,063) and $(7,389,578) at March 31, 2019 and 2018, respectively. The fair value for these contracts are reported as GMSP long-term investments.

Methodology and Process

UNCF's Management and UNCF's investment advisor, both working in conjunction, (i) performs on-going 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 management of the outside fund managers, conduct intermittent in-person and on-site meetings, and conduct periodic 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 with a view towards improving the overall management and performance of the portfolio.

(Continued)

The following table summarizes UNCF's investments with a reported NAV as of March 31, 2019:

Investment type		Fair value	Redemption frequency	Redemption notice period (days)
U.S. and global equities	$	52,225,450	Monthly, quarterly	1–180 days
Hedge funds		21,804,392	Quarterly, monthly, annually	8–95 days
Fixed income		11,488,656	Daily, annually	10–90 days
Private equities		41,126,821	N/A	N/A
	$	126,645,319		

The following table summarizes UNCF's investments with a reported NAV as of March 31, 2018:

Investment type		Fair value	Redemption frequency	Redemption notice period (days)
U.S. and global equities	$	51,824,343	Monthly, quarterly	1–180 days
Hedge funds		20,420,383	Quarterly, monthly, annually	8–95 days
Fixed income		11,586,096	Daily, quarterly annually	10–90 days
Private equities		38,093,410	N/A	N/A
	$	121,924,232		

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 appreciation of capital while limiting down-side 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 and 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 that lead to varying withdrawal restrictions or possible redemptions of capital. 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 entire period, capital is both periodically called and distributed according to the realization/distribution of investment earnings and/or returns.

UNCF does not intend to sell any of the funds at an amount different from net asset value per share at March 31, 2019 and 2018. Outstanding funding commitments for nonmarketable alternative investments, based on the terms of the underlying investment agreements, amounted to $8,820,233 and $1,369,000 as of March 31, 2019 and 2018, respectively.

(10) Property and Equipment

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

		2019	2018
Land	$	6,350,000	6,350,000
Building		23,281,722	22,958,557
Furniture and fixtures		950,755	950,755
Computers and equipment		3,441,363	3,367,109
Construction in progress		7,294	387,603
Total property and equipment		34,031,134	34,014,024
Less accumulated depreciation and amortization		(7,825,338)	(6,959,628)
	$	26,205,796	27,054,396

Depreciation and amortization expense for the years ended March 31, 2019 and 2018, was approximately $1,500,537 and $1,456,553.

(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 date of gift. During the fiscal year ended March 31, 2019 and 2018, in accordance with the donor's intent, UNCF distributed $5,340,000 and $175,000 of this artwork to member colleges and other entities. As of March 31, 2019, 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 a 20-year period or approximately $50,000,000 per year to administer the GMSP.

The purpose of the grant is 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 ended March 31, 2004, the original grant agreement was restated to increase the grant amount by $42,000,000 and eliminate the previous arrangement of annual installments, replacing it with a lump-sum payment and a series of annual payments. The cumulative payments through March 31, 2005, were $1,042,000,000. During the fiscal year ended March 31, 2006, the Foundation approved enhancements to the original program and awarded the GMSP an additional amount not to exceed $58,003,043, of which $35,000,000 was received during fiscal year 2006. The balance of $23,003,043 was received during the fiscal year ended March 31, 2007. An additional enhancement grant of $10,681,794 to support Early Outreach, Male Initiative, Alumni Development, and other leadership initiatives was awarded and received as of the fiscal year ended March 31, 2007. Cumulative enhancement grant payments through March 31, 2007 were $68,684,837. Additionally, during the fiscal year ended March 31, 2007, the original cost estimates for the GMSP were evaluated, and it was determined that additional funding would be required in order for the GMSP to achieve its original objectives. Consequently, the Foundation agreed to provide additional funding up to a maximum of $472,699,156. The cumulative payments received through March 31, 2012 totaled $1,322,879,941.

At a meeting with the Foundation in December 2012, the Foundation determined that no further funding was required based on an anticipated value for the program of $439,032,187. If the terminal surplus does not accrue as anticipated, the payment dates and amounts of future installments, if any, will be determined by the Foundation in collaboration with UNCF. The Foundation will provide UNCF with no less than thirty (30) days prior written notice of the date and amount of each disbursement.

During the fiscal year 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 terminus in the spring 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, 2019, the plan accepted by the Foundation, anticipates $230,608,973 in scholarship expenses and $40,649,888 in administrative expenses. When compared against long-term investment, the plan anticipates a terminal surplus of $18.0 million, including future interest earnings through 2029.

GMSP funds are invested and held in separate investment accounts by UNCF, and all investment gains and losses and interest and dividends earned are restricted for the purpose of 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 rather as a liability (refundable advances from donor) with revenue being recognized in the year in which the conditions are met. Returns on the GMSP investments are recognized as revenue and an increase in temporarily restricted net assets in the period such returns are generated by the underlying investments. 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, Term Loan, and Note Payable

Line of Credit and Term Loan

With the Board of Directors authorization, in December 2015, UNCF transferred a term loan with an outstanding balance of $4,337,396 for a term of four years with an interest rate of 3.25% per annum from JP Morgan Chase N.A. to Investors Bank. Under this arrangement, UNCF is required to make monthly principal and interest payments of $90,319.

As a result of this modification, UNCF also established a revolving line of credit (LOC) for a maximum amount of $4,000,000 with Investors Bank, with a yearly renewable cycle, subject to no material changes in UNCF’s financial condition. Amendment No. 1 of the LOC expired on the maturity date of January 1, 2019, and was renewed under the original agreement, with a maturity date of January 1, 2020. There were no borrowings against the line of credit at March 31, 2019 and 2018.

Both the line of credit and term loan arrangement have 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 funded long term debt ratio of 1.25. 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, 2019 and 2018.

Total incurred interest expense on the term loan arrangement amounted to $47,997 and $81,527 for the fiscal years 2019 and 2018, respectively.

At March 31, 2019, the total outstanding principal balance on the term loan arrangement was $889,620, due to be fully paid on December 1, 2019.

(14) Bonds Payable

(a) Series 2010 Bonds

On June 14, 2010, UNCF signed a Purchase and Sale Agreement for the acquisition of approximately 50,000 square feet of commercial condominium units in a building to be constructed for the relocation of its headquarters. The total net acquisition cost was expected to be $28,965,000. The acquisition and build out of the space has 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 $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 debt service payments on the bonds 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

Investors Bank purchased the Series 2015 Bonds, pursuant to and upon the terms and conditions set forth in the Bond Purchase and Continuing Covenants Agreement as of August 6, 2015 between Investors Bank and UNCF. 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. Actual interest expenses incurred in 2019 amounted to $1,049,323 and is 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 both 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.

At March 31, 2019, the total amounts outstanding on the Series 2015 Bonds were as follows:

Year ending March 31:		
2020	$	900,000
2021		930,000
2022		970,000
2023		1,055,000
2024		1,035,000
Thereafter		23,142,770
	$	28,032,770

(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 was in compliance with all of its financial covenants as of March 31, 2019 and 2018.

(d) Deferred Financing Costs

UNCF's bond financing costs for the years ended March 31, 2019 and 2018, such as underwriter fees, legal fees, and other direct costs, amounted to $562,230 and $588,482, respectively, and are included in the accompanying statements of financial position. These costs are being amortized using the straight-line method, which approximates the effective interest method, over the maturity of the respective debt. Amortization expense amounted to $26,252 for the years ended March 31, 2018 and 2019.

(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:

		2019	2018
Scholarships and special projects	$	161,292,987	171,407,189
Perpetual in nature		70,310,029	70,233,397
GMSP (note 12)		328,931,975	399,522,773
	$	560,534,991	641,163,359

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

	2019	2018
Scholarships and special projects	$ 41,414,288	28,415,601
GMSP (note 12)	81,511,729	97,137,102
	$ 122,926,017	125,552,703

(16) Endowment Net Asset Classifications

UNCF’s endowments consist of 171 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, 2019, are as follows:

	Without donor restrictions	With donor restrictions		
	Board designated	Purpose restricted	Perpetual in nature	Total
Net assets, beginning of year	$ 4,779,321	28,721,368	70,233,397	103,734,086
Investment return:				
Investment income (loss)	2,459	74,151	—	76,610
Net realized and unrealized gains	79,759	1,495,421	—	1,575,180
Total investment return	82,218	1,569,572	—	1,651,790
Contributions	2,564	—	672,543	675,107
Transfers	—	—	(595,911)	(595,911)
Appropriation of endowment income for expenditure	(242,905)	(4,480,332)	—	(4,723,237)
Net assets, end of year	$ 4,621,198	25,810,608	70,310,029	100,741,835

Changes in endowment net assets for the year ended March 31, 2018, are as follows:

	Without donor restrictions	With donor restrictions		
	Board designated	Purpose restricted	Perpetual in nature	Total
Net assets, beginning of year	$ 4,566,857	24,535,072	68,412,365	97,514,294
Investment return:				
Investment income (loss)	(4,625)	(69,121)	—	(73,746)
Net realized and unrealized gains	454,224	8,512,737	—	8,966,961
Total investment return	449,599	8,443,616	—	8,893,215
Contributions	—	—	1,804,776	1,804,776
Transfers	—	—	16,256	16,256
Appropriation of endowment income for expenditure	(237,135)	(4,257,320)	—	(4,494,455)
Net assets, end of year	$ 4,779,321	28,721,368	70,233,397	103,734,086

(17) Gifts-In-Kind and Donated Services

Donated services represent certain specialized services provided to UNCF for the various annual events and other UNCF programs and are comprised of advertising services, mailing, and marketing services. For the years ended March 31, 2019 and 2018, the fair value of these specialized services amounted to $912,233 and $1,105,047, respectively.

(18) Other Fundraising Activities

(a) Special Events

UNCF raised $16,494,857 and $14,083,466 in contributions from special fund-raising events and incurred related direct expenses of $5,278,019 and $5,298,007 in fiscal years 2019 and 2018, 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 $7,567,407 and $7,347,400 in contributions through its direct mail campaigns and incurred related direct expenses of $3,251,033 and $3,292,434 in fiscal years 2019 and 2018, respectively.

(19) Retirement Plans

All full-time 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 AXA-Equitable and 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. In order to meet these obligations, UNCF maintains annuity contracts amounting to $1,838,364 and $1,891,375 as of March 31, 2019 and 2018, respectively, and these are included within other assets in the accompanying statements of financial position. The liabilities associated with these agreements amounted to $1,143,234 and $1,065,734 as of March 31, 2019 and 2018, 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 $774,951 and $847,299 for 2019 and 2018, respectively.

(20) Commitments and Contingencies

Operating Leases

UNCF leases space for its 21 regional field offices at various locations throughout the United States. Generally, the leases carry renewal provisions and require UNCF to pay maintenance costs. The lease for the various office leases for the regional locations expire at varying times through fiscal year 2025.

On February 22, 2012, UNCF entered into a lease agreement for a portion of its new headquarters space commencing in November 2012 for a five-year period through October 2017 at an annual escalation rate of 5%. In November 2017, the lease was extended for an additional five years under the same agreement through October 2022.

At March 31, 2019, 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:

	Rental commitment	Rental income	Net minimum annual rental
Year ending March 31:			
2020	$ 899,314	265,715	633,599
2021	715,413	300,802	414,611
2022	515,711	—	515,711
2023	286,191	—	286,191
2024	295,638	—	295,638
Thereafter	8,965	—	8,965
Total	$ 2,721,232	566,517	2,154,715

Rent expense under these leases amounted to $1,537,640 and $1,583,807 for the years ended March 31, 2019 and 2018, respectively.

Other

UNCF is 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 have a material adverse effect on UNCF's financial position or results of its operations.

(21) Liquidity and Availability of Resources

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

		March 31, 2019
Cash and cash equivalents	$	11,057,845
Short-Term investments		71,920,026
Long-Term investments		451,263,075
Accrued investment income		1,523,786
Receivables, net		35,769,594
Assets held for supplemental employee benefits, net		505,540
Other receivables		600,000
Total financial assets, end of year		572,639,866
Less those unavailable for general expenditure within one year, due to:		
Time restricted pledges due in greater than one year		(12,462,492)
Perpetual and term endowments and accumulated earnings, net		(96,120,637)
Purpose restricted grants, net		(442,295,607)
Unfunded capital commitments		(8,820,233)
Distribution commitments to UNCF member institutions		(7,651,660)
Refunds to partner organizations, net		(1,322,820)
Total financial assets unavailable for general expenditures within one year		(568,673,449)
Total financial assets available for general expenditures within one year	$	3,966,417

UNCF's current year revenue adequately covers current year operating expenditures. The Board has approved the fiscal year 2020 operating budget which projects $35 million in unrestricted revenue. UNCF maintains cash and highly liquid securities sufficient to meet anticipated cash needs for operations, capital commitments and member distributions. To help manage unanticipated liquidity needs, UNCF has a committed line of credit in the amount of $4,000,000, which it could draw upon. UNCF will pay off its existing term loan by December 2019 with the goal of setting aside equivalent amounts in future budgets to enhance its cash position.

(22) Related Parties

UNCF receives contributions from donor organizations that have representatives on UNCF's Board of Directors and from Board members themselves. UNCF received $8,402,178 and $12,867,120 in contributions from such related parties during the years ended March 31, 2019 and 2018, respectively. The contributions receivable from these related parties were $2,568,690 and $10,423,484 as of March 31, 2019 and 2018, respectively.

Commencing on November 5, 2018, UNCF entered into a lease agreement with a major donor for a portion of its office space for a five-year period through November 2023 at an annual escalation rate of 3%. The total revenues earned under this agreement for the fiscal year ended March 31, 2019, was $27,501.

(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, 2019 and 2018.

However, management is of the belief that the diversification of UNCF's invested assets among various asset classes should mitigate the impact of dramatic change on any one class. Further, because the values of UNCF's individual investments have and will fluctuate in response to changing market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. These trends may also have an effect on the ability of donors to fulfill their pledges on a timely basis. Management has reviewed its contributions and gifts outstanding at March 31, 2019 and does not believe that the effects of the market conditions will have a material effect on the financial position of UNCF.

In May of 2019, the original grant agreement between the Bill and Melinda Gates Foundation (the Foundation) and UNCF to administer the Gates Millennium Scholars Program (GMSP) was amended and restated. The purpose of the original grant was 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. The revised agreement kept the purpose of the original grant and modified the reporting schedule and due dates as well as added a payment schedule for the return of terminal surplus funds. UNCF agreed to return terminal surplus funds in the amount of $39,000,000 over five years. The funds are to be paid to the Foundation in August of each year as follows: $5M in 2020, $8M in 2021, $10M in 2022, $10M in 2023, $6M in 2024 with any remaining surplus to be paid at the terminus of the program in 2029.

Management's Evaluation

In accordance with FASB ASC Topic 855, Subsequent Events, management has evaluated any events or transactions occurring after March 31, 2019, the statement of financial position date, through July 29, 2019, 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, 2019.