



UNITED NEGRO COLLEGE FUND, INC.

Financial Statements

March 31, 2022 and 2021

(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, 2022, 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, 2022, 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 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 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 24, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2021 is consistent in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

McLean, Virginia
August 22, 2022

UNITED NEGRO COLLEGE FUND, INC.

Statements of Financial Position

March 31, 2022 and 2021

Assets	2022	2021
Cash and cash equivalents (notes 2b and 4)	\$ 144,848,181	82,286,308
Short-term investments (notes 5 and 9)	13,819,284	14,581,727
GMSP short-term investments (notes 5 and 9)	62,751,058	71,648,593
Receivable for unsettled investment trades (note 8)	—	6,750
Pledges receivable, net (note 6)	83,311,168	75,203,628
Accrued investment income	682,774	962,360
Long term investments (notes 7 and 9)	230,832,867	221,234,381
GMSP long term investments (notes 8 and 9)	112,731,288	156,337,893
Property and equipment, net (note 10)	24,860,087	24,629,010
Collections acquired (note 11)	1,414,250	1,414,250
Other assets	4,601,002	5,120,502
Total assets	\$ 679,851,959	653,425,402
 Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 9,835,733	5,709,164
Accrued wages, vacation, and other related expenses	4,959,156	3,485,798
Payable for unsettled investment trades (note 8)	13,750	—
Accrued distribution to member institutions	12,414,602	10,088,759
Accrued return of funds to the Gates Foundation (note 12)	26,000,000	34,000,000
Deferred revenue	8,210,781	11,527,948
Line of credit (note 13)	—	—
Bonds payable (note 14)	25,311,526	26,255,274
Total liabilities	86,745,548	91,066,943
Net assets:		
Without donor restrictions:		
Undesignated	27,140,131	19,589,416
Board designated – disaster recovery (note 21)	16,920,571	13,400,000
Board designated – member distribution reserve (note 21)	4,807,367	4,800,000
Total without donor restrictions	48,868,069	37,789,416
With donor restrictions (note 15)	544,238,342	524,569,043
Total net assets	593,106,411	562,358,459
Commitments and contingencies (note 20)	—	—
Total liabilities and net assets	\$ 679,851,959	653,425,402

See accompanying notes to financial statements.

UNITED NEGRO COLLEGE FUND, INC.

Statement of Activities

Year ended March 31, 2022

(with summarized financial information for fiscal year 2021)

	2022			2021 Total
	Without donor restrictions	With donor restrictions	Total	
Revenue, gains, and other support:				
Support:				
Contributions for grants and scholarships	\$ —	153,083,173	153,083,173	142,681,375
Contributions and gifts (notes 2 and 18)	47,617,776	—	47,617,776	66,489,205
Bequests and legacies	10,433,327	1,236,547	11,669,874	6,597,040
Gifts-in-kind and donated services (note 17)	24,250	957,724	981,974	952,787
Total support	<u>58,075,353</u>	<u>155,277,444</u>	<u>213,352,797</u>	<u>216,720,407</u>
Investment income:				
Interest and dividends	38,544	3,229,863	3,268,407	4,452,660
Amortization of investment premium and discount	(27,307)	(228,485)	(255,792)	38,143
Realized gains/(losses)	782,225	6,180,467	6,962,692	2,516,172
Unrealized gains/(losses)	943,802	(1,628,938)	(685,136)	33,414,447
Total investment income	<u>1,737,264</u>	<u>7,552,907</u>	<u>9,290,171</u>	<u>40,421,422</u>
Net assets released from restrictions (note 15)	<u>143,161,052</u>	<u>(143,161,052)</u>	<u>—</u>	<u>—</u>
Total revenue, gains, and other support	<u>202,973,669</u>	<u>19,669,299</u>	<u>222,642,968</u>	<u>257,141,829</u>
Expenses:				
Program services:				
GMSF	36,976,337	—	36,976,337	77,500,786
Scholarships and special projects	105,974,019	—	105,974,019	53,845,193
Distributions to member institutions	23,180,395	—	23,180,395	19,564,294
Institutional services	1,667,454	—	1,667,454	2,130,021
Other program services	210,696	—	210,696	1,035,421
Total program services	<u>168,008,901</u>	<u>—</u>	<u>168,008,901</u>	<u>154,075,715</u>
Supporting services:				
Management and general	7,058,357	—	7,058,357	7,004,189
Fundraising	16,827,758	—	16,827,758	13,161,687
Total supporting services	<u>23,886,115</u>	<u>—</u>	<u>23,886,115</u>	<u>20,165,876</u>
Total expenses	<u>191,895,016</u>	<u>—</u>	<u>191,895,016</u>	<u>174,241,591</u>
Change in net assets	11,078,653	19,669,299	30,747,952	82,900,238
Net assets, beginning of year	<u>37,789,416</u>	<u>524,569,043</u>	<u>562,358,459</u>	<u>479,458,221</u>
Net assets, end of year	\$ <u>48,868,069</u>	<u>544,238,342</u>	<u>593,106,411</u>	<u>562,358,459</u>

See accompanying notes to financial statements.

UNITED NEGRO COLLEGE FUND, INC.

Statement of Functional Expenses

Year ended March 31, 2022

(with summarized financial information for 2021)

	Program services – assistance to member and nonmember institutions					Total program services
	GMSF	Scholarships and special projects	Distribution to member institutions	Institutional services	Other program services	
Distributions:						
Capital and operational support	\$ —	—	23,180,395	—	—	23,180,395
Grants and scholarships	33,921,845	67,233,311	—	2,000	8,000	101,165,156
Total distributions	33,921,845	67,233,311	23,180,395	2,000	8,000	124,345,551
Expenses before depreciation, amortization, and bad debts:						
Salaries and wages	1,298,953	6,424,154	—	1,056,526	113,974	8,893,607
Employee benefits	306,724	1,705,495	—	213,895	29,164	2,255,278
Advertisements and promotions	1,575	115,306	—	17,955	992	135,828
Professional and consulting fees	181,161	18,307,255	—	346,588	7,644	18,842,648
Information technology support	530,374	1,058,210	—	(539,489)	—	1,049,095
Office supplies and other expenses	133,110	247,806	—	168,165	—	549,081
Telephone	7,618	12,725	—	11,513	909	32,765
Postage and shipping	1,987	6,504	—	1,094	—	9,585
Occupancy	337,965	686,328	—	100,627	24,737	1,149,657
Printing and publications	12,333	139,714	—	28,018	2,150	182,215
Travel	4,632	126,782	—	13,455	7,609	152,478
Meetings	39,618	270,007	—	620	2,216	312,461
Equipment rental and maintenance	1,488	9,743	—	2,372	—	13,603
Interest expense	—	—	—	—	—	—
Indirect cost recovery	196,954	4,630,679	—	—	13,301	4,840,934
Total expenses before depreciation, amortization, and bad debts	36,976,337	100,974,019	23,180,395	1,423,339	210,696	162,764,786
Accrued return of funds to the Gates Foundation						—
Depreciation and amortization expense	—	—	—	244,115	—	244,115
Bad debt expense	—	5,000,000	—	—	—	5,000,000
Total expenses	\$ 36,976,337	105,974,019	23,180,395	1,667,454	210,696	168,008,901

UNITED NEGRO COLLEGE FUND, INC.

Statement of Functional Expenses

Year ended March 31, 2022

(with summarized financial information for 2021)

	Supporting services			Total program service and supporting service expenses	
	Management and general	Fund- raising	Total supporting services	2022	2021
Distributions:					
Capital and operational support	\$ —	—	—	23,180,395	19,564,294
Grants and scholarships	2,250	—	2,250	101,167,405	79,661,261
Total distributions	2,250	—	2,250	124,347,800	99,225,555
Expenses before depreciation, amortization, and bad debts:					
Salaries and wages	6,952,190	6,800,646	13,752,836	22,646,443	19,141,633
Employee benefits	1,861,870	1,484,331	3,346,201	5,601,479	4,702,342
Advertisements and promotions	6,883	132,949	139,832	275,660	198,481
Professional and consulting fees	2,460,865	2,484,154	4,945,019	23,787,667	12,868,412
Information technology support	(1,673,091)	449,750	(1,223,341)	(174,246)	—
Office supplies and other expenses	110,636	556,457	667,093	1,216,174	1,058,848
Telephone	377,838	17,983	395,822	428,587	401,980
Postage and shipping	39,554	1,459,760	1,499,314	1,508,899	1,331,210
Occupancy	(263,037)	663,084	400,047	1,549,704	1,458,976
Printing and publications	67,440	2,609,711	2,677,151	2,859,366	2,619,780
Travel	121,970	84,128	206,098	358,576	27,802
Meetings	12,850	32,410	45,260	357,721	215,394
Equipment rental and maintenance	226,814	52,145	278,960	292,563	161,273
Interest expense	976,537	—	976,537	976,537	1,010,702
Indirect cost recovery	(4,840,935)	—	(4,840,935)	—	—
Total expenses before depreciation, amortization, and bad debts	6,440,634	16,827,508	23,268,144	186,032,930	144,422,388
Accrued return of funds to the Gates Foundation	—	—	—	—	26,000,000
Depreciation and amortization expense	617,723	—	617,723	861,838	1,076,824
Bad debt expense	—	250	250	5,000,250	2,742,379
Total expenses	\$ 7,058,357	16,827,758	23,886,117	191,895,018	174,241,591

See accompanying notes to financial statements.

UNITED NEGRO COLLEGE FUND, INC.

Statements of Cash Flows

Years ended March 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ 30,747,952	82,900,238
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Realized losses on investments	(6,962,692)	(2,516,173)
Unrealized losses (gains) on investments	685,136	(33,414,447)
Amortization of investment premium and discount	255,792	(38,143)
Bad debt expense	5,000,250	2,742,379
Depreciation and amortization	861,838	1,076,824
Contributions restricted for investment in endowment funds	(25,970,929)	(7,788,628)
(Increase) decrease in assets:		
Pledges receivable	(8,107,540)	(37,730,599)
Provision for uncollectible	(4,959,250)	(2,742,379)
Accrued investment income	279,586	241,129
Other assets	275,385	(458,289)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	4,126,569	1,284,520
Accrued wages, vacation, and other related personnel expenses	1,473,358	1,086,951
Accrued return of funds to the Gates Foundation	(8,000,000)	21,000,000
Deferred revenue	(3,317,167)	11,096,824
Accrued distributions to member institutions	2,325,842	4,638,505
Net cash (used in) provided by operating activities	<u>(11,285,870)</u>	<u>41,378,712</u>
Cash flows from investing activities:		
Purchases of investments	(251,555,153)	(331,199,573)
Proceeds from sales of investments	301,224,515	341,536,930
Purchase of property and equipment	<u>(848,800)</u>	<u>—</u>
Net cash provided by investing activities	<u>48,820,562</u>	<u>10,337,357</u>
Cash flows from financing activities:		
Repayments of note payable	—	—
Repayments of bonds payable	(943,748)	(903,748)
Contributions restricted for investment in endowment funds	25,970,929	7,788,628
Net cash provided by financing activities	<u>25,027,181</u>	<u>6,884,880</u>
Increase in cash and cash equivalents	62,561,873	58,600,949
Cash and cash equivalents, beginning of year	<u>82,286,308</u>	<u>23,685,359</u>
Cash and cash equivalents, end of year	\$ <u>144,848,181</u>	\$ <u>82,286,308</u>
Cash paid for interest	\$ 976,537	1,010,702

See accompanying notes to financial statements.

UNITED NEGRO COLLEGE FUND, INC.

Notes to Financial Statements

March 31, 2022 and 2021

(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.

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 with the intent of going public once approximately 80% of the goal is achieved. During "silent phase" solicitations will be limited to a select number of prospective donors. The campaign raised approximately \$79.7 million and \$85.6 million totaling \$165.3 million towards its \$1 billion goal in fiscal years 2021 and 2022, respectively. The funds raised that have met all of 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 which 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 fair value of certain of these funds. Net asset value, in many instances, may not equal fair value.

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.

UNITED NEGRO COLLEGE FUND, INC.

Notes to Financial Statements

March 31, 2022 and 2021

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, 2022 and 2021, 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, 2022 and 2021 amounted to \$244,115 and \$328,258, respectively.

UNITED NEGRO COLLEGE FUND, INC.

Notes to Financial Statements

March 31, 2022 and 2021

(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, exceed 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 funds without restriction designated by the Board of Directors for member distribution and disaster recovery 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.

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.

UNITED NEGRO COLLEGE FUND, INC.

Notes to Financial Statements

March 31, 2022 and 2021

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, 2022 and 2021.

(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 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 both

UNITED NEGRO COLLEGE FUND, INC.

Notes to Financial Statements

March 31, 2022 and 2021

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. Deferred revenue amounted to \$8,210,781 and \$11,527,948 as of the year ended March 31, 2022 and 2021.

(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.

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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, 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 57% of pledges receivable for fiscal years ended March 31, 2022, were from five major donors.

As of March 31, 2022, 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 June 2018, the FASB issued a standard on Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made, which aims to assist entities in (1) evaluating whether transactions should be accounted for as contributions or exchange transactions and (2) determining whether a contribution is conditional. This guidance is effective for fiscal years beginning after June 15, 2018. UNCF has adopted this ASU as of and for the year ended March 31, 2021 on a modified prospective basis. The adoption of this standard did not materially impact the financial statements of UNCF.

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. 2016-2 is effective for the UNCF in fiscal year 2023 and UNCF is in the process of assessing the impact on its financial statements.

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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 is expected to increase 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 presentation and disclosure of contributed nonfinancial assets. ASU 2020-07 is effective for the UNCF in fiscal year 2023 and is not expected to have a material impact on its financial statements.

(u) Summarized Financial Information for 2021

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, 2021, 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 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, 2022 and 2021 and determined that no significant amounts of 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 \$143,401,434 and \$80,967,985 on March 31, 2022 and 2021, respectively. Amounts held in excess of the SIPC limits were \$142,344,835 and \$80,141,002 on March 31, 2022 and 2021, 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.

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(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:

	<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>

	<u>2021</u>	
	<u>UNCF</u>	<u>GMSP</u>
Money market funds	\$ 13,901,125	71,648,593
Certificates of deposit, commercial paper, and other short-term investments	<u>680,602</u>	<u>—</u>
Total short-term investments	<u>\$ 14,581,727</u>	<u>71,648,593</u>

(6) Pledges Receivable

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

	<u>2022</u>	<u>2021</u>
Unconditional pledges receivable before unamortized discount and allowance for uncollectible amounts	\$ 91,118,613	78,171,632
Less:		
Unamortized discount	(319,100)	(454,155)
Allowance for uncollectible amounts	<u>(7,488,345)</u>	<u>(2,513,849)</u>
Net unconditional pledges receivable	<u>\$ 83,311,168</u>	<u>75,203,628</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 0.09% to 2.24%. The discount will be recognized as contributions and gifts revenue in fiscal years 2023 through 2030, as the discount is amortized using an effective yield over the duration of the contributions.

UNITED NEGRO COLLEGE FUND, INC.

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The expected future cash receipts for UNCF are as follows:

	2022	2021
Amounts due in:		
Less than one year	\$ 62,633,146	40,267,534
One to five years	28,485,467	37,904,098
Pledges receivable before discount and allowance	\$ 91,118,613	78,171,632

(7) Long-Term Investments

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

	2022	2021
Fixed income	\$ 9,735,001	9,991,827
U.S. and global equities	81,610,081	65,602,003
Cash equivalents	7,456,129	15,201,156
Hedge funds	39,324,071	22,646,212
Designated fixed income	38,059,977	63,034,895
Private equities	54,647,608	44,758,288
Total long-term investments	\$ 230,832,867	221,234,381

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, 2022 and 2021 was \$31,947,186 and \$28,919,972, respectively.

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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:

	2022	2021
U.S. government securities	\$ 70,077,128	48,261,998
Commercial mortgage-backed securities	393,276	530,458
Asset-backed securities	80,474	131,973
Corporate debt securities	38,382,235	89,158,118
Cash equivalents	3,798,175	18,255,346
Total investments held for long-term purposes	112,731,288	156,337,893
Receivable (payable) for unsettled investment trades	(13,750)	6,750
Total GMSP investments held for long-term purposes – net of receivable	\$ 112,717,538	156,344,643

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 \$13,750 payable and \$6,750 receivable for unsettled trades at March 31, 2022 and March 31, 2021, respectively. These investment receivables 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 of the investment. UNCF has a target allocation of approximately 24% nonmarketable alternative investments (private equity). Further, 46% and 52% of the UNCF long-term portfolio has monthly or better liquidity while approximately 30% and 22% of this portfolio has quarterly liquidity via its marketable alternative investments held at March 31, 2022 and 2021, respectively. UNCF carefully monitors these positions as it conducts periodic reviews of both asset allocation and performance. 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, 2022 and 2021:

	<u>Level 1</u>	<u>Level 2</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	—	—	176,868,822	176,868,822
Total	\$ <u>53,964,045</u>	<u>—</u>	<u>176,868,822</u>	<u>230,832,867</u>

UNITED NEGRO COLLEGE FUND, INC.

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	<u>Level 1</u>	<u>Level 2</u>	<u>NAV</u>	<u>2021 Totals</u>
Investments:				
U.S. and global equities	\$ 8,141,923	—	—	8,141,923
Designated fixed income	53,363,554	—	—	53,363,554
Cash equivalents	15,201,155	—	—	15,201,155
Investments valued using NAV as a practical expedient	—	—	144,527,749	144,527,749
Total	\$ <u>76,706,632</u>	<u>—</u>	<u>144,527,749</u>	<u>221,234,381</u>

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, 2022 and 2021:

	<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	3,798,175	—	3,798,175
Total	\$ <u>112,257,538</u>	<u>473,750</u>	<u>112,731,288</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>2021 Totals</u>
Investments:			
U.S. government securities	\$ 48,261,998	—	48,261,998
Commercial mortgagebacked securities	—	530,458	530,458
Asset-backed securities	—	131,973	131,973
Corporate debt securities	89,158,118	—	89,158,118
Cash equivalents	18,255,346	—	18,255,346
Total	\$ <u>155,675,462</u>	<u>662,431</u>	<u>156,337,893</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. 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 Equivalents – 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.

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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 \$(6,758,125) and \$(3,535,313) at March 31, 2022 and 2021, 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) 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.

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>		

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The following table summarizes UNCF's investments with a reported NAV as of March 31, 2021:

<u>Investment type</u>	<u>Fair value</u>	<u>Redemption frequency</u>	<u>Redemption notice period (days)</u>
U.S. and global equities	\$ 57,460,080	Monthly, quarterly	1–180 days
Hedge funds	22,646,212	Monthly, quarterly, annually	8–95 days
Fixed income	19,663,169	Daily, annually	10–90 days
Private equities	<u>44,758,288</u>	N/A	N/A
	<u>\$ 144,527,749</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 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, 2022 and 2021. Outstanding funding commitments for nonmarketable alternative investments, based on the terms of the underlying investment agreements, amounted to \$13,303,926 and \$12,262,031 as of March 31, 2022 and 2021, respectively.

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(10) Property and Equipment

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

	2022	2021
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	848,800	—
Total property and equipment	34,885,619	34,036,819
Less accumulated depreciation and amortization	(10,025,532)	(9,407,809)
	\$ 24,860,087	24,629,010

Depreciation and amortization expense for the years ended March 31, 2022 and 2021, was \$861,838 and \$1,076,824 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 date of gift. Through March 31, 2021, in accordance with the donor's intent, UNCF distributed \$5,515,000 of this artwork to member colleges and other entities. As of March 31, 2022, 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, 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 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, 2022 and 2021, the plan accepted by the Foundation anticipates \$78,177,019 and \$113,222,743 in scholarship expenses and \$21,430,827 and \$27,703,922 in administrative expenses respectively.

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In May of 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, 2022, the first and the second installment payments totaling \$13 million were paid as scheduled, and the remaining \$26 million was accrued in the statement of financial position for paying the installment payments as they come 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 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 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

UNCF 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. 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, 2022, and 2021.

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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 funded 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, 2022, and 2021.

(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 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 \$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. Actual interest expenses incurred in 2022 amounted to \$976,537 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, 2022, the total amounts outstanding on the Series 2015 Bonds were as follows:

Year ending March 31:		
2023	\$	1,005,000
2024		1,035,000
2025		1,080,000
2026		1,120,000
2027		1,160,000
Thereafter		<u>19,911,526</u>
	\$	<u>25,311,526</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 was in compliance with all of its financial covenants as of March 31, 2022 and 2021.

(d) Deferred Financing Costs

UNCF's bond financing costs for the years ended March 31, 2022 and 2021, such as underwriter fees, legal fees, and other direct costs, amounted to \$483,474 and \$509,726, 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 expense amounted to \$26,252 for the years ended March 31, 2022 and 2021.

(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:

	2022	2021
Scholarships and special projects	\$ 289,587,187	256,451,960
Perpetual in nature	105,565,468	79,394,539
GMSP	<u>149,085,687</u>	<u>188,722,544</u>
	<u>\$ 544,238,342</u>	<u>524,569,043</u>

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

	<u>2022</u>	<u>2021</u>
Scholarships and special projects	\$ 106,184,715	54,880,614
GMSP	<u>36,976,337</u>	<u>77,500,786</u>
	<u>\$ 143,161,052</u>	<u>132,381,400</u>

(16) Endowment Net Asset Classifications

UNCF's endowments consist of 179 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, 2022, are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>		
	<u>Board designated</u>	<u>Purpose restricted</u>	<u>Perpetual in nature</u>	<u>Total</u>
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>

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Changes in endowment net assets for the year ended March 31, 2021, are as follows:

	Without donor restrictions		With donor restrictions		Total
	Board designated	Purpose restricted	Perpetual in nature		
Net assets, beginning of year	\$ 4,239,047	18,520,061	71,654,149		94,413,257
Investment return:					
Investment income	(3,524)	(45,406)	—		(48,930)
Net realized and unrealized gains	1,312,445	25,674,882	—		26,987,327
Total investment return	1,308,921	25,629,476	—		26,938,397
Contributions	—	—	7,788,628		7,788,628
Transfers	—	—	(48,238)		(48,238)
Appropriation of endowment income for expenditure	(229,051)	(4,256,887)	—		(4,485,938)
Net assets, end of year	\$ 5,318,917	39,892,650	79,394,539		124,606,106

(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, 2022 and 2021, the fair value of these specialized services amounted to \$981,974 and \$952,787, respectively.

(18) Other Fundraising Activities

(a) Special Events

UNCF raised \$15,591,941 and \$12,315,926 in contributions from special fund-raising events and incurred related direct expenses of \$3,614,017 and \$1,518,862 in fiscal years 2022 and 2021, 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 \$15,851,637 and \$18,659,994 in contributions through its direct mail campaigns and incurred related direct expenses of \$4,467,222 and \$3,735,647 in fiscal years 2022 and 2021, respectively.

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(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 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 \$2,181,856 and \$2,128,524 as of March 31, 2022 and 2021, respectively, and these are included within other assets in the accompanying statements of financial position. The liabilities associated with these agreements amounted to \$604,484 and \$635,734 as of March 31, 2022 and 2021, 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 \$1,018,437 and \$631,474 for 2022 and 2021, respectively.

(20) Commitments and Contingencies

Operating Leases

UNCF leases space for its 21 regional field offices throughout the United States. Generally, the leases carry renewal provisions and require UNCF to pay maintenance costs. The lease for various office leases for the regional locations expires 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, 2022, 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>	<u>Rental income</u>	<u>Net minimum annual rental</u>
Year ending March 31:			
2023	\$ 416,291	178,545	237,746
2024	196,827	—	196,827
2025	20,872	—	20,872
Total	<u>\$ 633,990</u>	<u>178,545</u>	<u>455,445</u>

Rent expense under these leases amounted to \$1,118,148 and \$1,357,241 for the years ended March 31, 2022 and 2021, respectively.

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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 are as follows:

	<u>March 31, 2022</u>	<u>March 31, 2021</u>
Cash and cash equivalents	\$ 144,848,181	82,286,308
Short-term investments	76,570,342	86,230,321
Long-term investments	343,001,295	377,572,274
Accrued investment income	1,245,634	969,110
Receivables, net	83,311,168	75,203,628
Assets held for supplemental employee benefits, net	1,009,767	1,057,455
Assets held for partner organizations, net	<u>710,957</u>	<u>581,166</u>
Total financial assets, end of year	<u>650,697,344</u>	<u>623,900,262</u>
Less those unavailable for general expenditure within one year, due to:		
Time restricted pledges due in greater than one year	(28,485,467)	(37,904,098)
Perpetual and term endowments and accumulated earnings, net	(148,686,649)	(119,287,189)
Purpose restricted grants, net	(353,017,056)	(353,351,589)
Unfunded capital commitments	(13,303,926)	(12,262,031)
Distribution commitments to UNCF member institutions	(12,414,602)	(10,088,759)
Disaster recovery reserve	(16,920,571)	(13,400,000)
Member distribution reserve	(4,807,367)	(4,800,000)
Return of funds to the Gates Foundation	<u>(26,000,000)</u>	<u>(34,000,000)</u>
Total financial assets unavailable for general expenditures within one year	<u>(603,635,638)</u>	<u>(585,093,666)</u>
Total financial assets available for general expenditures within one year	<u>\$ 47,061,706</u>	<u>38,806,596</u>

UNCF's current year revenue adequately covers current year operating expenditures. UNCF has certain donor restricted assets limited to use, which are available for general expenditure within one year in the normal 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.

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As part of the liquidity management plan, the governing Board designated \$3.5 million of the fiscal year 2022 operating surplus to the disaster recovery reserve, bringing the total disaster recovery and member distribution reserves to \$16.9 million and \$4.8 million, respectively, as of March 31, 2022, and \$13.4 million and \$4.8 million, respectively, as of March 1, 2021. 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 disaster 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, 2022, \$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 \$8,435,753 and \$7,412,134 in contributions from such related parties during the years ended March 31, 2022 and 2021, respectively. The contributions receivable from these related parties were \$1,217,715 and \$14,377,496 as of March 31, 2022 and 2021, 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 lease terminated before its maturity on April 1, 2021.

(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, 2022 and 2021.

Management has reviewed its outstanding contributions and gifts at March 31, 2022 and does not believe that the market conditions will have a material effect on the financial position of UNCF. 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 affect donors' ability to fulfill their pledges on a timely basis.

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Management's Evaluation

In accordance with FASB ASC Topic 855, *Subsequent Events*, Management has evaluated any events or transactions occurring after March 31, 2022, the statement of financial position date, through August 22, 2022, 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, 2022.