



UNITED NEGRO COLLEGE FUND, INC.

Financial Statements

March 31, 2020 and 2019

(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.:

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, 2020, 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, 2020, 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.



Report on Summarized Comparative Information

We have previously audited the United Negro College Fund, Inc.'s 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 29, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

McLean, Virginia
August 6, 2020

UNITED NEGRO COLLEGE FUND, INC.

Statements of Financial Position

March 31, 2020 and 2019

Assets	2020	2019
Cash and cash equivalents	\$ 23,685,359	11,057,845
Short-term investments (notes 5 and 9)	14,083,802	14,883,611
GMSP short-term investments (notes 5 and 9)	64,131,704	57,036,415
Receivable for unsettled investment trades (note 8)	5,766	12,938
Pledges receivable, net (note 6)	37,473,029	35,769,594
Accrued investment income	1,203,489	1,510,848
Long term investments (notes 7 and 9)	154,022,441	179,380,474
GMSP long term investments (notes 8 and 9)	205,932,255	271,882,601
Property and equipment, net (note 10)	25,377,576	26,205,796
Collections acquired (note 11)	1,414,250	1,414,250
Other assets	4,992,441	4,974,708
	\$ 532,322,112	604,129,080
	\$ 532,322,112	604,129,080
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 4,855,768	6,347,218
Accrued wages, vacation, and other related expenses	2,398,847	2,951,417
Accrued distribution to member institutions	5,450,254	7,651,660
Accrued return of funds to the Gates Foundation (note 12)	13,000,000	—
Notes payable (note 13)	—	889,620
Bonds payable (note 14)	27,159,022	28,032,770
	52,863,891	45,872,685
Net assets (deficit): (note 16)		
Without donor restrictions	1,343,562	(2,278,596)
With donor restrictions (note 15)	478,114,659	560,534,991
	479,458,221	558,256,395
Commitments and contingencies (note 20)		
	\$ 532,322,112	604,129,080
	\$ 532,322,112	604,129,080

See accompanying notes to financial statements.

UNITED NEGRO COLLEGE FUND, INC.

Statement of Activities

Year ended March 31, 2020

with summarized financial information for fiscal year 2019)

	2020			2019
	Without donor restrictions	With donor restrictions	Total	Total
Revenue, gains, and other support:				
Support:				
Contributions for grants and scholarships	\$ —	39,253,651	39,253,651	22,984,325
Contributions and gifts (notes 2 and 18)	30,812,158	15,349	30,827,507	33,087,698
Bequests and legacies	8,470,851	1,783,575	10,254,426	4,714,269
Gifts-in-kind and donated services (note 17)	28,435	1,049,297	1,077,732	912,233
Total support	<u>39,311,444</u>	<u>42,101,872</u>	<u>81,413,316</u>	<u>61,698,525</u>
Investment income:				
Interest and dividends	418,981	7,594,209	8,013,190	11,635,484
Amortization of investment premium and discount	(67,159)	1,943,387	1,876,228	2,311,670
Realized gains/(losses)	459,785	(666,459)	(206,674)	(1,971,688)
Unrealized gains/(losses)	(923,644)	(8,679,191)	(9,602,835)	6,429,384
Total investment income	<u>(112,037)</u>	<u>191,946</u>	<u>79,909</u>	<u>18,404,850</u>
Net assets released from restrictions (note 15)	<u>124,714,150</u>	<u>(124,714,150)</u>	<u>—</u>	<u>—</u>
Total revenue, gains, and other support	<u>163,913,557</u>	<u>(82,420,332)</u>	<u>81,493,225</u>	<u>80,103,375</u>
Expenses:				
Program services:				
GMSP	79,899,214	—	79,899,214	81,511,729
Scholarships and special projects	43,606,270	—	43,606,270	41,528,867
Distributions to member institutions	13,389,193	—	13,389,193	14,565,561
Institutional services	1,827,415	—	1,827,415	1,885,649
Other program services	1,208,666	—	1,208,666	705,423
Total program services	<u>139,930,758</u>	<u>—</u>	<u>139,930,758</u>	<u>140,197,229</u>
Supporting services:				
Management and general	6,897,818	—	6,897,818	5,493,407
Fundraising	13,462,823	—	13,462,823	13,409,856
Total supporting services	<u>20,360,641</u>	<u>—</u>	<u>20,360,641</u>	<u>18,903,263</u>
Total expenses	<u>160,291,399</u>	<u>—</u>	<u>160,291,399</u>	<u>159,100,492</u>
Change in net assets	3,622,158	(82,420,332)	(78,798,174)	(78,997,117)
Net assets (deficit), beginning of year	<u>(2,278,596)</u>	<u>560,534,991</u>	<u>558,256,395</u>	<u>637,253,512</u>
Net assets, end of year	\$ <u>1,343,562</u>	<u>478,114,659</u>	<u>479,458,221</u>	<u>558,256,395</u>

See accompanying notes to financial statements.

UNITED NEGRO COLLEGE FUND, INC.

Statement of Functional Expenses

Year ended March 31, 2020

(with summarized financial information for 2019)

	Program services – assistance to member and nonmember institutions					Total program services
	GMSP	Scholarships and special projects	Distribution to member institutions	Institutional services	Other program services	
Distributions:						
Capital and operational support	\$ —	—	13,389,193	—	—	13,389,193
Grants and scholarships	62,847,006	27,142,037	—	—	—	89,989,043
Total distributions	62,847,006	27,142,037	13,389,193	—	—	103,378,236
Expenses before depreciation, amortization, and bad debts:						
Salaries and wages	1,294,424	3,165,329	—	1,186,319	464,930	6,111,002
Employee benefits	339,421	857,173	—	261,671	125,200	1,583,465
Advertisements and promotions	45	102,316	—	306	8,367	111,034
Professional and consulting fees	444,340	3,248,315	—	180,946	85,352	3,958,953
Information technology support	630,522	763,669	—	(553,730)	70,193	910,654
Office supplies and other expenses	53,882	418,151	—	139,304	9,607	620,944
Telephone	2,249	4,154	—	—	184	6,587
Postage and shipping	3,214	22,225	—	665	2,004	28,108
Occupancy	291,241	552,174	—	191,266	60,581	1,095,262
Printing and publications	51,709	190,985	—	36,476	2,692	281,862
Travel	342,650	1,778,573	—	49,910	64,371	2,235,505
Meetings	388,879	1,474,923	—	6,159	240,845	2,110,806
Equipment rental and maintenance	7,353	79,608	—	2,636	10,276	99,872
Interest expense	—	—	—	—	—	—
Indirect cost recovery	202,279	2,755,075	—	—	64,064	3,021,418
Total expenses before depreciation, amortization, and bad debts	66,899,214	42,554,707	13,389,193	1,501,928	1,208,666	125,553,708
Accrued Return of funds to the Gates Foundation	13,000,000	—	—	—	—	13,000,000
Depreciation and amortization expense	—	—	—	325,487	—	325,487
Bad debt expense	—	1,051,563	—	—	—	1,051,563
Total expenses	\$ 79,899,214	43,606,270	13,389,193	1,827,415	1,208,666	139,930,758

See accompanying notes to financial statements.

UNITED NEGRO COLLEGE FUND, INC.

Statement of Functional Expenses

Year ended March 31, 2020

(with summarized financial information for 2019)

	Supporting services			Total program service and supporting service expenses	
	Management and general	Fund-raising	Total supporting services	2020	2019
Distributions:					
Capital and operational support	\$ —	—	—	13,389,193	14,565,561
Grants and scholarships	—	—	—	89,989,043	102,230,840
Total distributions	—	—	—	103,378,236	116,796,401
Expenses before depreciation, amortization, and bad debts:					
Salaries and wages	5,059,366	5,286,263	10,345,629	16,456,631	16,382,649
Employee benefits	1,403,588	1,240,659	2,644,247	4,227,712	4,203,757
Advertisements and promotions	57,152	57,709	114,861	225,895	263,641
Professional and consulting fees	2,178,280	761,038	2,939,318	6,898,271	5,640,857
Information technology support	(1,399,549)	488,895	(910,654)	—	—
Office supplies and other expenses	170,513	346,479	516,992	1,137,936	573,208
Telephone	519,949	10,886	530,835	537,422	746,501
Postage and shipping	28,957	1,285,491	1,314,448	1,342,556	1,141,733
Occupancy	(407,374)	976,420	569,046	1,664,308	1,599,742
Printing and publications	38,837	2,214,683	2,253,520	2,535,382	2,482,150
Travel	147,677	392,677	540,354	2,775,859	2,977,682
Meetings	27,679	102,994	130,673	2,241,479	2,640,850
Equipment rental and maintenance	191,882	100,703	292,585	392,457	225,951
Interest expense	1,060,061	—	1,060,061	1,060,061	1,126,193
Indirect cost recovery	(3,021,418)	—	(3,021,418)	—	—
Total expenses before depreciation, amortization, and bad debts	6,055,600	13,264,897	19,320,497	144,874,205	156,801,315
Accrued Return of funds to the Gates Foundation	—	—	—	13,000,000	—
Depreciation and amortization expense	842,218	—	842,218	1,167,705	1,500,537
Bad debt expense	—	197,926	197,926	1,249,489	798,640
Total expenses	\$ <u>6,897,818</u>	<u>13,462,823</u>	<u>20,360,641</u>	<u>160,291,399</u>	<u>159,100,492</u>

See accompanying notes to financial statements.

UNITED NEGRO COLLEGE FUND, INC.

Statements of Cash Flows

Years ended March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ (78,798,174)	(78,997,117)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Realized losses on investments	206,674	1,971,688
Unrealized losses (gains) on investments	9,602,835	(6,429,384)
Amortization of investment premium and discount	(1,876,228)	(2,311,670)
Bad debt expense	1,249,489	798,640
Depreciation and amortization	1,167,705	1,500,537
Contributions restricted for investment in endowment funds	(1,386,192)	(675,106)
(Increase) decrease in assets:		
Pledges receivable	(1,703,435)	(4,101,178)
Accrued investment income	307,359	1,197,293
Other assets	(316,067)	2,002,846
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(1,491,450)	214,227
Accrued wages, vacation, and other related personnel expenses	(552,569)	278,243
Accrued return of funds to the Gates Foundation	13,000,000	—
Accrued distributions to member institutions	(2,201,406)	362,830
Net cash used in operating activities	<u>(62,791,459)</u>	<u>(84,188,151)</u>
Cash flows from investing activities:		
Purchases of investments	(2,417,951,391)	(2,181,984,986)
Proceeds from sales of investments	2,493,760,519	2,263,231,443
Purchase of property and equipment	<u>(12,979)</u>	<u>237,409</u>
Net cash provided by investing activities	<u>75,796,149</u>	<u>81,483,866</u>
Cash flows from financing activities:		
Repayments of note payable	(889,620)	(1,035,835)
Repayments of bonds payable	(873,748)	(843,748)
Contributions restricted for investment in endowment funds	<u>1,386,192</u>	<u>675,106</u>
Net cash used in financing activities	<u>(377,176)</u>	<u>(1,204,477)</u>
Increase(decrease) in cash and cash equivalents	12,627,514	(3,908,762)
Cash and cash equivalents, beginning of year	<u>11,057,845</u>	<u>14,966,607</u>
Cash and cash equivalents, end of year	\$ <u>23,685,359</u>	\$ <u>11,057,845</u>
Cash paid for interest	\$ 1,060,061	1,099,941

See accompanying notes to financial statements.

UNITED NEGRO COLLEGE FUND, INC.

Notes to Financial Statements

March 31, 2020 and 2019

(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 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.

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.

UNITED NEGRO COLLEGE FUND, INC.

Notes to Financial Statements

March 31, 2020 and 2019

(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, 2020 and 2019, 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, 2020 and 2019 amounted to \$333,799 and \$634,828, 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.

UNITED NEGRO COLLEGE FUND, INC.

Notes to Financial Statements

March 31, 2020 and 2019

(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 funds without restriction 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.

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

UNITED NEGRO COLLEGE FUND, INC.

Notes to Financial Statements

March 31, 2020 and 2019

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, 2020 and 2019.

(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 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

UNITED NEGRO COLLEGE FUND, INC.

Notes to Financial Statements

March 31, 2020 and 2019

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% of pledges receivable for fiscal years ended March 31, 2020 and 2019 were from two major donors.

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As of March 31, 2020, 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 (Topic 606)*. 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. The effective date of this ASU was delayed one year through ASU 2020-05 to become effective for the fiscal years beginning after December 15, 2019 and subsequent interim periods. UNCF plans to adopt this ASU in fiscal year 2021.

(u) Summarized Financial Information for 2019

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, 2019, 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. At March 31, 2020 and 2019, UNCF has determined that no 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 2012 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 \$22,303,249 and \$9,775,534 at March 31, 2020 and 2019, respectively. Amounts held in excess of the SIPC limits were \$21,475,668 and \$8,798,009 at March 31, 2020 and 2019, respectively.

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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:

	<u>2020</u>	
	<u>UNCF</u>	<u>GMSP</u>
Money market funds	\$ 13,404,398	64,131,704
Certificates of deposit, commercial paper, and other short-term investments	<u>679,404</u>	<u>—</u>
Total short-term investments	<u>\$ 14,083,802</u>	<u>64,131,704</u>

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

(6) Pledges Receivable

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

	<u>2020</u>	<u>2019</u>
Unconditional pledges receivable before unamortized discount and allowance for uncollectible amounts	\$ 38,552,990	36,891,174
Less:		
Unamortized discount	(298,028)	(251,764)
Allowance for uncollectible amounts	<u>(781,933)</u>	<u>(869,816)</u>
Net unconditional pledges receivable	<u>\$ 37,473,029</u>	<u>35,769,594</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 0.85% to 2.73%. The discount will be recognized as contributions and gifts revenue in fiscal years 2021 through 2026, as the discount is amortized using an effective yield over the duration of the contributions.

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The expected future cash receipts for UNCF are as follows:

	<u>2020</u>	<u>2019</u>
Amounts due in:		
Less than one year	\$ 23,214,750	24,428,682
One to five years	<u>15,338,240</u>	<u>12,462,492</u>
Pledges receivable before discount and allowance	\$ <u><u>38,552,990</u></u>	<u><u>36,891,174</u></u>

(7) Long-Term Investments

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

	<u>2020</u>	<u>2019</u>
Fixed income	\$ 10,568,456	11,488,656
U.S. and global equities	55,272,355	63,634,082
Cash equivalents	2,626,490	913,894
Hedge funds	19,943,719	21,804,392
Designated fixed income	30,622,882	40,412,629
Private equities	<u>34,988,539</u>	<u>41,126,821</u>
Total long-term investments	\$ <u><u>154,022,441</u></u>	<u><u>179,380,474</u></u>

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, 2020 and 2019 was \$26,802,411 and \$35,297,711, 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:

	2020	2019
U.S. government securities	\$ 81,486,210	137,484,089
Commercial mortgage-backed securities	596,010	804,741
Asset-backed securities	183,358	290,790
Corporate debt securities	113,569,264	124,792,589
Cash equivalents	10,097,413	8,510,392
Total investments held for long-term purposes	205,932,255	271,882,601
Receivable for unsettled investment trades	5,766	12,938
Total GMSP investments held for long-term purposes – net of receivable	\$ 205,938,021	271,895,539

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 \$5,766 and \$12,938 receivable for unsettled trades at March 31, 2020 and March 31, 2019, 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.

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:

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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, 45% and 46% of the UNCF long-term portfolio has monthly or better liquidity while approximately 23% and 22% of this portfolio has quarterly liquidity via its marketable alternative investments held at March 31, 2020 and 2019, 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, 2020 and 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>2020 Totals</u>
Investments:					
U.S. and global equities	\$ 9,339,759	—	—	—	9,339,759
Designated fixed income	30,622,882	—	—	—	30,622,882
Cash equivalents	2,626,490	—	—	—	2,626,490
Investments valued using NAV as a practical expedient	—	—	—	111,433,310	111,433,310
Total	<u>\$ 42,589,131</u>	<u>—</u>	<u>—</u>	<u>111,433,310</u>	<u>154,022,441</u>

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	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>2019 Totals</u>
Investments:					
U.S. and global equities	\$ 11,408,632	—	—	—	11,408,632
Designated fixed income	40,412,629	—	—	—	40,412,629
Cash equivalents	913,894	—	—	—	913,894
Investments valued using NAV as a practical expedient	—	—	—	126,645,319	126,645,319
Total	<u>\$ 52,735,155</u>	<u>—</u>	<u>—</u>	<u>126,645,319</u>	<u>179,380,474</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, 2020 and 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>2020 Totals</u>
Investments:				
U.S. government securities	\$ 81,486,210	—	—	81,486,210
Commercial mortgagebacked securities	—	596,010	—	596,010
Asset-backed securities	—	183,358	—	183,358
Corporate debt securities	113,569,264	—	—	113,569,264
Cash equivalents	10,097,413	—	—	10,097,413
Total	<u>\$ 205,152,887</u>	<u>779,368</u>	<u>—</u>	<u>205,932,255</u>

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

For both years ended March 31, 2020 and 2019, 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

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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.

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 (\$5,686,188) and (\$5,714,063) at March 31, 2020 and 2019, 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

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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, 2020:

<u>Investment type</u>	<u>Fair value</u>	<u>Redemption frequency</u>	<u>Redemption notice period (days)</u>
U.S. and global equities	\$ 45,932,596	Monthly, quarterly	1–180 days
Hedge funds	19,943,719	Quarterly, monthly, annually	8–95 days
Fixed income	10,568,456	Daily, annually	10–90 days
Private equities	34,988,539	N/A	N/A
	<u>\$ 111,433,310</u>		

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

<u>Investment type</u>	<u>Fair value</u>	<u>Redemption frequency</u>	<u>Redemption notice period (days)</u>
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
	<u>\$ 126,645,319</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.

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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, 2020 and 2019. Outstanding funding commitments for nonmarketable alternative investments, based on the terms of the underlying investment agreements, amounted to \$10,812,046 and \$8,820,233 as of March 31, 2020 and 2019, respectively.

(10) Property and Equipment

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

	<u>2020</u>	<u>2019</u>
Land	\$ 6,350,000	6,350,000
Building and improvements	23,294,701	23,281,722
Furniture and fixtures	950,755	950,755
Computers and equipment	3,441,363	3,441,363
Construction in progress	—	7,294
	<u>34,036,819</u>	<u>34,031,134</u>
Total property and equipment	34,036,819	34,031,134
Less accumulated depreciation and amortization	<u>(8,659,243)</u>	<u>(7,825,338)</u>
	<u>\$ 25,377,576</u>	<u>26,205,796</u>

Depreciation and amortization expense for the years ended March 31, 2020 and 2019, was approximately \$1,167,705 and \$1,500,537.

(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

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date of gift. Through March 31, 2019, 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, 2020, 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 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, 2020 and 2019, the plan accepted by the Foundation, anticipates \$163,777,150 and \$230,608,973 in scholarship expenses and \$38,283,653 and \$46,633,070 in administrative expenses respectively.

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

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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 a portion of the anticipated terminal surplus funds in the amount of \$39,000,000 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, \$6 million in 2024 with any remaining surplus to be paid at the terminus of the program in 2029. As of March 31, 2020, the installment payments due in September 2020 and 2021 of \$13 million were accrued in the statement of financial position. Per the agreement with the Foundation, the amounts due after 2021 are open for re-negotiation; as such, they were not accrued.

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 was required to make monthly principal and interest payments of \$90,319. This term loan was fully paid off on the maturity date of January 1, 2020. There are no further payments due to the lender by UNCF pursuant to the Term Loan or the Term loan note.

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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.3 of the LOC expired on the maturity date of January 1, 2020. The LOC was reestablished on February 25, 2020 as Amendment No.4 under the original agreement, with a maturity date of October 31, 2021. There were no borrowings against the line of credit at March 31, 2020 and 2019.

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, 2020 and 2019.

Total incurred interest expense on the term loan arrangement amounted to \$13,573 and \$47,997 for the fiscal years 2020 and 2019, respectively.

(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

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and outstanding. Actual interest expenses incurred in 2020 amounted to \$1,020,236 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, 2020, the total amounts outstanding on the Series 2015 Bonds were as follows:

Year ending March 31:	
2021	\$ 930,000
2022	970,000
2023	1,005,000
2024	1,035,000
2025	1,080,000
Thereafter	<u>22,139,022</u>
	<u>\$ 27,159,022</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, 2020 and 2019.

(d) Deferred Financing Costs

UNCF's bond financing costs for the years ended March 31, 2020 and 2019, such as underwriter fees, legal fees, and other direct costs, amounted to \$535,978 and \$562,230, 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, 2020 and 2019.

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(15) Net Assets with Donor Restrictions

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

	<u>2020</u>	<u>2019</u>
Scholarships and special projects	\$ 148,107,524	161,292,987
Perpetual in nature	71,654,149	70,310,029
GMSP (note 12)	<u>258,352,986</u>	<u>328,931,975</u>
	<u>\$ 478,114,659</u>	<u>560,534,991</u>

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

	<u>2020</u>	<u>2019</u>
Scholarships and special projects	\$ 44,814,936	41,414,288
GMSP (note 12)	<u>79,899,214</u>	<u>81,511,729</u>
	<u>\$ 124,714,150</u>	<u>122,926,017</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.

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Changes in endowment net assets for the year ended March 31, 2020, 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	\$ 4,621,198	25,810,608	70,310,029	100,741,835
Investment return:				
Investment income (loss)	7,425	170,688	—	178,113
Net realized and unrealized (loss)	(144,340)	(2,877,272)	—	(3,021,612)
Total investment return	<u>(136,915)</u>	<u>(2,706,584)</u>	<u>—</u>	<u>(2,843,499)</u>
Contributions	—	—	1,386,192	1,386,192
Transfers	—	—	(42,072)	(42,072)
Appropriation of endowment income for expenditure	<u>(245,236)</u>	<u>(4,583,963)</u>	<u>—</u>	<u>(4,829,199)</u>
Net assets, end of year	\$ <u>4,239,047</u>	<u>18,520,061</u>	<u>71,654,149</u>	<u>94,413,257</u>

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Changes in endowment net assets for the year ended March 31, 2019, are as follows:

	Without donor restrictions	With donor restrictions		Total
	Board designated	Purpose restricted	Perpetual in nature	
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	<u>79,759</u>	<u>1,495,421</u>	<u>—</u>	<u>1,575,180</u>
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	<u>(242,905)</u>	<u>(4,480,332)</u>	<u>—</u>	<u>(4,723,237)</u>
Net assets, end of year	\$ <u>4,621,198</u>	<u>25,810,608</u>	<u>70,310,029</u>	<u>100,741,835</u>

(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, 2020 and 2019, the fair value of these specialized services amounted to \$1,077,732 and \$912,233, respectively.

(18) Other Fundraising Activities

(a) Special Events

UNCF raised \$15,527,835 and \$16,494,857 in contributions from special fund-raising events and incurred related direct expenses of \$5,160,361 and \$5,278,019 in fiscal years 2020 and 2019, respectively. These amounts are reported in the accompanying statements of activities as contributions and gifts, net of the related direct expenses.

At the Annual Board meeting held March 4-5, 2020, UNCF management reported a robust total revenue projection of \$98 million for its annual campaign, including net revenue of \$14.2 million from special fundraising events. Within a week following the Board meeting, the COVID-19 virus was declared a global pandemic requiring the closure of physical locations of every non-essential business for what may be an extended period. On March 13, 2020, UNCF closed all twenty-three field offices and headquarters and canceled nine major fundraising events scheduled for the last three weeks of its

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fiscal year which ended March 31, 2020. As a result, net special event revenue sustained a decline from projections.

(b) Direct Mail

UNCF raised \$7,752,340 and \$7,567,407 in contributions through its direct mail campaigns and incurred related direct expenses of \$3,625,527 and \$3,251,033 in fiscal years 2020 and 2019, 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 \$1,665,068 and \$1,838,364 as of March 31, 2020 and 2019, respectively, and these are included within other assets in the accompanying statements of financial position. The liabilities associated with these agreements amounted to \$945,734 and \$1,143,234 as of March 31, 2020 and 2019, 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 \$753,298 and \$774,951 for 2020 and 2019, 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.

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At March 31, 2020, 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:			
2021	\$ 754,151	300,802	453,349
2022	485,284	73,020	412,264
2023	251,349	43,330	208,019
2024	153,013	—	153,013
2025	8,965	—	8,965
Thereafter	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u>\$ 1,652,762</u>	<u>417,152</u>	<u>1,235,610</u>

Rent expense under these leases amounted to \$1,565,541 and \$1,537,640 for the years ended March 31, 2020 and 2019, 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.

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(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, 2020</u>
Cash and cash equivalents	\$ 23,685,359
Short-term investments	78,215,509
Long-term investments	359,919,176
Accrued investment income	1,244,775
Receivables, net	37,473,029
Assets held for supplemental employee benefits, net	441,073
Assets held for partner organizations, net	<u>462,031</u>
Total financial assets, end of year	<u>501,440,952</u>
Less those unavailable for general expenditure within one year, due to:	
Time restricted pledges due in greater than one year	(15,338,240)
Perpetual and term endowments and accumulated earnings, net	(90,174,209)
Purpose restricted grants, net	(371,989,855)
Unfunded capital commitments	(10,812,046)
Distribution commitments to UNCF member institutions	<u>(5,450,254)</u>
Total financial assets unavailable for general expenditures within one year	<u>(493,764,604)</u>
Total financial assets available for general expenditures within one year	<u>\$ 7,676,348</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. Additionally, to help manage unanticipated liquidity needs, UNCF maintains a \$4,000,000 line of credit, as discussed in more detail in Note (13). As of March 31, 2020, \$4 million remained available on the UNCF's line of credit.

UNCF paid off its existing term loan on January 1, 2020 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 \$3,607,348 and \$8,402,178 in contributions from such related parties during the years ended March 31, 2020 and 2019, respectively. The contributions receivable from these related parties were \$454,216 and \$2,568,690 as of March 31, 2020 and 2019, respectively.

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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, 2020, was \$70,586.

(23) Subsequent Events

Risks and Uncertainties

At the Annual Board meeting held March 4-5, 2020, UNCF management reported a robust total revenue projection of \$78 million for its FY21 annual campaign. Within a week following the Board meeting, the coronavirus (COVID-19) was declared a global pandemic requiring the closure of physical locations of every non-essential business for what may be an extended period. On March 13, 2020, UNCF closed all twenty-three field offices and headquarters and canceled nine major fundraising events scheduled for the last three weeks of its fiscal year, which ended March 31, 2020. The duration of the virus, employee health and safety, vaccine development, social distancing, and working from home were all unknown variables. Future potential impacts may, therefore, include continued impairment of our ability to obtain contributions and volunteers.

As a result of these uncertainties and out of an abundance of caution, subsequent to year-end, UNCF Leadership, a) reduced the FY21 general operating revenue projection by 43% to \$20.2 million and general operating expenses by 45% to \$19.1 million. The reduction in the general operating expenses included employee salaries and benefits, and was approved by the Executive Committee of the Board in May 2020; b) engaged outside consultants to develop and implement new fundraising strategies to ensure stable performance; c) established an internal team to carefully monitor monthly cashflows and evaluate options for recommendation to Management.

In March 2020, UNCF's investment values have experienced a temporary decline. The impact of the COVID-19 outbreak on the financial performance of the UNCF's investments will depend on future developments, including the duration and spread of the outbreak and related advisories and restrictions. These developments and the impact of COVID-19 on the financial markets and the overall economy are highly uncertain and cannot be predicted. If the financial markets and/or the overall economy are impacted for an extended period, the UNCF's investment results may be materially adversely affected.

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 influence the ability of donors to fulfill their pledges on a timely basis. Management has reviewed its contributions and gifts outstanding at March 31, 2020. It does not believe that the effects of the market conditions will have a material impact on UNCF's financial position.

Subsequent revenues are trending in a positive direction. At the end of its first quarter, UNCF reached 53% and 271% of its revised budget set for without-donor restrictions and with-donor restrictions revenues, respectively. UNCF management will continue to be vigilant in exercising heightened scrutiny of revenues for the duration of the fiscal year and beyond. Appropriate changes and adjustments will also be enforced to ensure the financial health, sustainability and successful going concern of the organization.

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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, 2020, the statement of financial position date, through August 6, 2020, 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, 2020.