The Annie E. Casey Foundation, Inc. and Subsidiaries

Consolidated Financial Statements as of and for the Years Ended December 31, 2022 and 2021, and Independent Auditor's Report

THE ANNIE E. CASEY FOUNDATION, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1–2
CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6–21

Deloitte & Touche LLP
Suite 500
500 East Pratt Street
Baltimore, Maryland 21202

Tel: + 1 410 576 6700
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
The Annie E. Casey Foundation, Inc.:

Opinion

We have audited the consolidated financial statements of The Annie E. Casey Foundation, Inc. and subsidiaries (the "Foundation"), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 accounting principles generally accepted in the United States of America, 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 Foundation's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's 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 auditor's 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 Foundation'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 Foundation'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.

Deloitte + Touche LLP

May 25, 2023

THE ANNIE E. CASEY FOUNDATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
CASH	$ 2,517,037	$ 2,896,061
RESTRICTED CASH	311,271	404,103
INVESTMENTS	3,256,172,337	3,968,183,947
PROGRAM RELATED INVESTMENTS, net	73,263,166	68,364,160
OTHER ASSETS:		
Collateral under securities lending program	1,642,704	1,809,438
Security sales receivable	19,980,359	42,177,959
Interest and dividends receivable	1,695,853	1,952,116
Note receivable	17,886,950	17,886,950
Property and equipment, net	34,785,835	37,575,981
Beneficial interest in charitable remainder trusts	16,828,675	20,665,932
Other assets	7,467,347	3,897,844
Total other assets	100,287,723	125,966,220
TOTAL ASSETS	$ 3,432,551,534	$ 4,165,814,491
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and other current liabilities	$ 8,100,035	$ 4,872,767
Debt	74,497,826	42,465,026
Payable under securities lending program	1,642,704	1,809,438
Security purchases payable	940,677	2,040,265
Deferred federal excise tax	14,207,206	25,680,533
Postretirement benefit obligation	34,264,931	44,664,307
Total liabilities	133,653,379	121,532,336
NET ASSETS:		
Without donor restrictions	3,282,069,480	4,023,616,223
With donor restrictions	16,828,675	20,665,932
Total net assets	3,298,898,155	4,044,282,155
TOTAL LIABILITIES AND NET ASSETS	$ 3,432,551,534	$ 4,165,814,491

See notes to consolidated financial statements.

THE ANNIE E. CASEY FOUNDATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
REVENUE AND SUPPORT:		
Donations, grants and other income	$ 899,143	$ 376,252
Investment (losses) return, net	(601,736,001)	680,820,177
Total revenue and support	(600,836,858)	681,196,429
GRANTS AND OTHER EXPENSES:		
Grants and direct charitable activities	97,684,159	93,277,804
Administrative and grants management expenses:		
General	50,213,912	46,339,139
Postretirement benefit service cost	864,182	895,434
Total administrative and grants management expenses	51,078,094	47,234,573
Other expenses (income):		
Other components of net periodic postretirement benefit cost	(2,059,396)	(2,037,569)
Postretirement changes other than net periodic benefit cost	(7,751,125)	889,414
Loss on swap termination	-	507,300
Interest expense	1,758,153	825,567
Total grants and other expenses	140,709,885	140,697,089
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(741,546,743)	540,499,340
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:		
Change in value of charitable remainder trusts	(3,837,257)	2,447,239
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:	(3,837,257)	2,447,239
CHANGES IN NET ASSETS	(745,384,000)	542,946,579
NET ASSETS—Beginning of year	4,044,282,155	3,501,335,576
NET ASSETS—End of year	$ 3,298,898,155	$ 4,044,282,155

See notes to consolidated financial statements.

THE ANNIE E. CASEY FOUNDATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ (745,384,000)	$ 542,946,579
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization of fixed assets	3,254,381	3,581,214
Net realized and unrealized loss (gain) on investments	823,094,511	(353,247,259)
Change in allowance for losses on program related investments	(17,438,210)	(198,901)
Decrease in interest and dividends receivable	256,263	337,665
Decrease (increase) in charitable remainder trusts	3,837,257	(2,447,239)
(Increase) decrease in other assets	(3,569,503)	155,939
Increase (decrease) in payables and other liabilities	3,227,268	(1,502,131)
(Decrease) increase in deferred federal excise tax	(11,473,327)	4,879,478
Decrease in postretirement benefit obligation	(10,399,376)	(1,899,975)
Net cash provided by operating activities	45,405,264	192,605,370
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments and cash distributions	1,301,654,407	1,331,070,022
Purchases of investments	(1,400,339,888)	(1,519,229,634)
Loans disbursed for program related investments	(7,086,000)	(7,902,030)
Repayments from program related investments	28,325,796	4,030,056
Capital expenditures	(464,235)	(2,309,821)
Net cash used in investing activities	(77,909,920)	(194,341,407)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Debt proceeds	61,000,000	-
Repayment of debt	(28,967,200)	(967,200)
Swap termination payment	-	(507,300)
Net cash provided by (used in) financing activities	32,032,800	(1,474,500)
NET DECREASE IN CASH AND RESTRICTED CASH	(471,856)	(3,210,537)
CASH AND RESTRICTED CASH—Beginning of year	3,300,164	6,510,701
CASH AND RESTRICTED CASH—End of year	$ 2,828,308	$ 3,300,164
Cash	$ 2,517,037	$ 2,896,061
Restricted cash	311,271	404,103
Total cash and restricted cash	$ 2,828,308	$ 3,300,164

See notes to consolidated financial statements.

1. ORGANIZATION OF THE FOUNDATION

The Annie E. Casey Foundation, Inc. and subsidiaries' (the "Foundation") work focuses on strengthening families, building stronger communities and ensuring access to opportunity, because children need all three to succeed.

The Annie E. Casey Foundation, Inc. is a nonprofit organization founded in 1948 devoted to developing a brighter future for children at risk of poor educational, economic, social and health outcomes across the country.

AECF Atlanta Realty LLC ("Atlanta Realty") is a limited liability company organized under the laws of the State of Georgia. Atlanta Realty was formed on November 12, 2005 and the Foundation is its sole member. Atlanta Realty maintains 31 acres of undeveloped real property in the Neighborhood Planning Unit V ("NPU-V") in the City of Atlanta, Georgia. On December 15, 2015, Atlanta Realty established a wholly owned nonprofit subsidiary, 352 University Avenue Associates LLC ("Atlanta 352"), a limited liability company organized under the laws of the State of Georgia. Atlanta 352 works to address the unemployment and underemployment within NPU-V. During 2017, Atlanta Realty established a wholly owned nonprofit subsidiary, UA Associates I LLC ("UA"). UA's purpose is to develop 13.2 acres of the land transferred to it by Atlanta Realty. This development is financed with a New Market Tax Credit ("NMTC") transaction.

AECF Atlanta Homes LLC ("Atlanta Homes") is a limited liability company organized under the laws of the State of Georgia. Atlanta Homes was formed on December 6, 2012 and the Foundation is its sole member. Atlanta Homes was formed to own, hold and manage real property in NPU-V in the City of Atlanta, Georgia.

In 2017, AECF-ECLF Leverage Lender I LLC ("Leverage Lender") was established as a joint venture through total capital contributions of $10,000. The entity is owned 95% by the Foundation and 5% by Enterprise Community Loan Fund, a nonprofit organization. Leverage Lender's sole purpose is to provide a leveraged loan in the NMTC transaction. The joint venture is consolidated in the Foundation's consolidated financial statements. The non-controlling interest of $3,018 is not considered significant and is included in net assets without donor restrictions on the Consolidated Statements of Financial Position.

The Annie E. Casey Foundation, Inc.'s subsidiaries are included in the accompanying consolidated financial statements. These subsidiaries are engaged primarily to support program activities.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—The Foundation's consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Principles of Consolidation—The accompanying consolidated financial statements include the accounts of the Foundation and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Cash—Cash consists of funds held in commercial interest-bearing accounts for operating purposes.

Restricted Cash—Restricted cash consists of amounts set aside by contractual agreements as it relates to the NMTC transaction (as described in Note 7) as well as other security deposits.

Investments—Investments are stated at fair value where a readily determinable fair value exists. Fair value is determined using the closing prices for investments traded on any global stock exchange. The Foundation utilizes a practical expedient for the estimation of the fair value of investments in limited partnerships and similar interests, with no readily determinable fair value. The practical expedient used by the Foundation to value these investments is the net asset value ("NAV") per share, or its equivalent. In using this practical expedient, the recorded fair value could differ from the fair value that would have been used had a readily available market existed for such investments.

Realized gains and losses on sales of investments in United Parcel Service, Inc. ("UPS") common stock, if any, are calculated based on the specific identification method. The realized gains and losses for other investments are calculated based on the first-in, first-out method.

Realized gains or losses, unrealized gains or losses and interest income and dividends are reported in the consolidated statements of activities within investment return, net.

Program Related Investments—The Foundation makes program related investments ("PRIs") that advance philanthropic purposes. These investments consist of various partnerships, bonds and loans. The partnerships, loans and bonds are stated at estimated fair value. At December 31, 2022 and 2021, the partnerships were valued at $34,616,331 and $25,915,738, with unfunded commitments totaling $11,838,237 and $14,278,726, respectively. The total par value of bonds outstanding was $0 and $23,595,000, with a fair value of $0 and $5,878,950 at December 31, 2022 and 2021, respectively. The interest rate for the bonds was 9% and the principal was paid in full to the Foundation during the year ended December 31, 2022. The total amount of loans outstanding was $41,200,043 and $38,844,839 with unfunded commitments of $598,285 and $8,612,284 as of December 31, 2022 and 2021, respectively. Interest rates range from 1% to 4.25% and principal is scheduled to be paid in full to the Foundation at maturity dates ranging from April 2023 through November 2030. The Foundation records a reserve for potentially uncollectible loans based on an analysis of its historical experience, quarterly and annual financial reports received, and the borrower's ability to meet financial covenants. Management has reviewed all program related investments and for the years ended December 31, 2022 and 2021, has recorded a reserve for potentially uncollectible loans in the amount of $2,553,208 and $2,295,168, respectively.

Charitable Remainder Trusts—The Foundation is the beneficiary of charitable remainder trusts that are administered by third parties and are donor restricted until the termination of the trust. At December 31, 2022 and 2021, the Foundation recognized the charitable remainder trust liabilities at their net present value based upon actuarially determined calculations using a discount rate of 6%. The discount rate used is commensurate with the risks involved. As of December 31, 2022 and 2021, the Foundation recorded a beneficial interest in charitable remainder trusts of $16,828,675 and $20,665,932, respectively, on the consolidated statements of position. These amounts also comprise the net assets with donor restrictions on the consolidated statements of position.

Under the terms of these trusts, payments of income are made from the trusts to the donees or other specified parties over the terms of the trusts. Upon termination of the trusts, the remaining net assets will be transferred to the Foundation for its unrestricted use. There were no funds transferred to the Foundation for the years ended December 31, 2022 and 2021.

Property and Equipment—Property and equipment, which consists primarily of buildings and building improvements, is recorded at cost. Depreciation of property is calculated using straight-line methods over 10 to 25 years for buildings and improvements, 5 years for furniture and fixtures, and 3 years for computer and equipment. Leasehold improvements are depreciated over the shorter of their estimated useful lives or lease terms. Repairs and maintenance costs are expensed as incurred. Property and equipment is assessed annually for impairment. Gains and losses on disposals of property and equipment are recorded in the period incurred and are included in general administrative expenses.

Derivatives—The Foundation uses derivative instruments to manage its exposure to market risks and to rebalance asset categories within the portfolio. The Foundation's management believes the use of such instruments in its investment management program is appropriate to provide for the long- and short-term financial needs of the Foundation. Though use of these instruments reduces certain investment risks and generally adds value to the portfolio, the instruments themselves do involve some investment and counterparty risk.

At December 31, 2020, the Foundation was a counterparty to an interest rate swap to manage interest cost and risk. As a nonprofit organization, the Foundation is not permitted to use cash flow hedge accounting. In accordance with authoritative guidance, the interest rate swap agreement was recorded in the Consolidated Statements of Financial Position at fair value with the related gains and losses reflected in the Consolidated Statements of Activities in the period of change. In September 2021, the Foundation made a payment of $507,300 to terminate the interest rate swap and as of December 31, 2021, the Foundation maintained no interest rate swap.

The Foundation may also enter into futures contracts to manage exposure to financial markets. Futures contracts are standardized contracts traded on an exchange to buy or sell a particular financial instrument at a predetermined price in the future. During the period futures contracts are open, changes in the values of the contracts are recognized as unrealized gains and losses. When the futures contracts are closed, the Foundation records a realized gain or loss equal to the difference between the proceeds from, or the cost of, the closeout and the original contract price. The futures contracts are recorded in the consolidated statements of financial position at fair value. At December 31, 2022 and 2021, the Foundation had futures contracts with notional amounts of $82,124,640 and $159,522,205, respectively. Such contracts involve centralized, third-party counterparties.

Use of Estimates—The preparation of consolidated financial statements in conformity with GAAP 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Management made significant estimates and assumptions in the valuation of certain investments, postretirement benefit costs and valuation allowances. Actual results could differ from those estimates.

Leases — The Foundation recognizes and measures its leases in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. The Foundation is a lessee in several noncancellable operating leases, for office space, storage space and office equipment. The Foundation determines if an arrangement is a lease, or contains a lease, at inception of a contract and when the terms of an existing contract are changed. The Foundation recognizes a lease liability and a right-of-use (ROU) asset at the commencement date of the lease. The lease liability is initially and subsequently recognized based on the present value of its future lease payments. The discount rate is the implicit rate if it is readily determinable or otherwise the Foundation uses the risk-free rate. The implicit rates of the Foundation's leases are not readily determinable and accordingly, the risk-free rate is used and is based on the information available at the commencement date for all leases. The ROU asset is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. Lease cost for lease payments is recognized on a straight-line basis over the lease term. The Foundation adopted Topic 842 effective January 1, 2022. The standard did not materially impact the Foundation's change in net assets and did not have a material impact on cash flows. The most significant impact was the recognition of right-of-use assets and lease liabilities for operating leases, which are included with Other Assets and Accounts Payable and Other Current Liabilities on the Consolidated Statements of Financial Position, respectively. Adoption of Topic 842 resulted in the recording of additional lease assets and lease liabilities for operating leases of $1,570,859 and $1,570,859, respectively, as of January 1, 2022.

The Foundation has elected, for all underlying classes of asset, to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement, and do not include an option to purchase the underlying asset that the Foundation is reasonably certain to exercise. The costs associated with our short-term leases are recognized on a straight-line basis over the lease term.

Recent Accounting Pronouncements Not Yet Adopted —In June 2016, the FASB issued ASU No. 2016-13, *Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which changes how companies will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The ASU should be applied as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the standard is effective. The ASU is effective for the Foundation for the fiscal year beginning after December 15, 2022. The Foundation is currently evaluating the impact that will result from adopting ASU 2016-13.

3. INVESTMENTS

The investment goal of the Foundation is to maintain or grow its assets to support the Foundation's grant-making and operations. In order to achieve this goal, the Foundation's assets are invested in accordance with a long-term asset allocation policy with a level of risk that is appropriate to the Foundation's spending objectives. The Foundation's investments are diversified across multiple asset classes and investment strategies, with the majority of assets managed by external investment management firms selected by the Foundation. All investments are held in custody at BNY Mellon, except for assets invested with partnerships, LLCs, and commingled funds, which have separate arrangements related to their legal structure.

The Foundation's custodian maintains a securities lending program on behalf of the Foundation and maintains collateral at all times in excess of the value of securities on loan. Under the terms of its securities lending agreement, the Foundation requires collateral of a value at least equal to 102% of the fair value of loaned investments. Securities lending is not subject to a master netting arrangement. Loaned investments consist of equity and exchange traded securities. Securities loaned are fully collateralized. Investment of this collateral is in accordance with specified guidelines and is part of a collateral pool that invests in high quality debt securities with a managed short-term duration. The Foundation maintains effective control of the loaned securities during the term of the arrangement wherein they may be recalled at any time. As of December 31, 2022 and 2021, the Foundation had loaned securities with a total market value of approximately $1,607,205 and $1,713,541, respectively, and received related collateral of $1,642,704 and $1,809,438, respectively. In accordance with authoritative guidance, the collateral amount is shown as both an asset and a liability on the consolidated statements of financial position.

Concentration of Risk—The Foundation is a holder of Class A and B UPS stock. The price per share of the Class A stock is equal to Class B stock. As of December 31, 2022 and 2021, the market value of UPS Class B common stock was $173.84 and $214.34 per share, respectively. UPS stock represented approximately 14.1% and 14.3% of the market value of the Foundation's investment portfolio at December 31, 2022 and 2021, respectively.

4. FAIR VALUE MEASUREMENTS

The Foundation accounts for assets and liabilities measured at fair value using Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements and Disclosures*. Under ASC Topic 820, fair value refers to 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. The guidance enables the reader of the consolidated financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Investments with readily available actively quoted prices, or for which fair value can be measured from actively quoted prices, generally, will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. In the absence of actively quoted prices and observable inputs, the Foundation estimates prices based on available historical data and near-term future pricing information that reflects its market assumptions. The guidance requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1—Quoted market prices in active markets for identical assets and liabilities.

Level 2—Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3—Unobservable inputs that are not corroborated by market data.

Level 1 investments include equities and UPS common stock. The value is based on quoted market prices in active markets.

Level 2 investments include short-term investments such as certificates of deposits, fixed income securities, and repurchase agreements. The fair value is estimated using third-party quotations. Level 2 investments also include interest rate swaps that are valued by referencing yield curves derived from observable interest rates and spreads to project and discount swap cash flows to present value.

Level 3 investments include bonds for which quoted market prices are not readily available.

For investments with little or no market data available, the determination of fair value is based on the best information available in the circumstances and incorporates management's own assumptions, including appropriate risk adjustments. Due to the fact that a quoted market exchange does not exist for the Level 2 and Level 3 investments, the fair value is generally based on management's estimate of fair value in the most advantageous exit market.

ASC Topic 820 permits the estimation of the fair value of an investment using NAV per share (or its equivalent) for certain investments that do not have readily determinable fair values. The inputs to value these investments may include the Foundation's capital accounts for its partnership interests in various alternative investments, including hedge funds, public equity, private equity, real estate and commodities. The various partnerships are investment companies, which record their underlying investments at fair value based on fair value policies established by management of the underlying fund. Fair value policies at the underlying fund generally require the fund to utilize pricing/valuation information from third-party sources, including independent appraisals. However, in some instances, current valuation information for illiquid securities or securities in markets that are not active may not be available from any third-party source or fund management may conclude that the valuations that are available from third-party sources are not reliable. In these instances, fund management may perform model-based analytical valuation that may be used as an input to value these investments. As disclosed in Note 2, *Significant Accounting Policies*, these investments are measured at fair value using NAV (or its equivalent) as a practical expedient and are not included in the fair value hierarchy.

At December 31, 2022, the redemption frequency for hedge funds is: quarterly (88%), annually (9%) and other (3%). With redemption notice periods ranging from 30 to 90 days, the Foundation has the ability to redeem 82% of these funds through the end of 2023, 8% through the end of 2024 and 7% through the end of 2025. An additional 3% are held in side pockets or restricted assets with no redemption rights. The hedge funds had additional unfunded capital commitments to various partnerships of $8,800,278 at December 31, 2022.

At December 31, 2021, the redemption frequency for hedge funds is: quarterly (81%), annually (16%) and other (3%). With redemption notice periods ranging from 30 to 90 days, the Foundation has the ability to redeem 85% of these funds through the end of 2022, 10% through the end of 2023, 1% through the end of 2024 and 1% through the end of 2025. An additional 3% are held in side pockets or restricted assets with no redemption rights. The hedge funds had additional unfunded capital commitments to various partnerships of $36,137,460 at December 31, 2021.

At December 31, 2022, the redemption frequency for public securities measured at NAV is: quarterly (68%), annually (27%) and other (5%). With redemption notice periods ranging from 30 to 150 days, the Foundation has the ability to redeem 79% of these funds through the end of 2023, and 21% through the end of 2024 and beyond.

At December 31, 2021, the redemption frequency for public securities measured at NAV is: quarterly (67%), annually (19%) and other (14%). With redemption notice periods ranging from 30 to 150 days, the Foundation has the ability to redeem 78% of these funds through the end of 2022, and 22% through the end of 2023 and beyond.

The private securities are not subject to redemption, however certain funds may be sold or transferred with general partner approval. Due to the nature of these investments, the fund values are reduced through distributions that are received from liquidation of the underlying assets. For the years ended December 31, 2022 and 2021, it is estimated that the underlying assets of these funds will be liquidated over a period of approximately 14 years. At December 31, 2022 and 2021, the private securities had unfunded capital commitments to various partnerships of $429,980,892 and $328,916,231, respectively.

The carrying amount of cash, accounts receivable, accounts payable and accrued expenses approximate fair value due to the short-term maturity of these investments.

The following tables present the fair value of the Foundation's financial instruments for each level at December 31, 2022 and 2021:

	Fair Value Measurement at December 31, 2022				
	Level 1	Level 2	Level 3	Investments Measured at NAV[1]	Total
ASSETS:					
Public Securities:					
U.S. Securities:					
Large Cap	$ 468,589,197	$ -	$ -	$ 183,927,593	$ 652,516,790
Fixed Income Fund	-	119,531,553	-	-	119,531,553
Small Cap	44,781,796	-	-	-	44,781,796
Foreign Securities:					
Emerging Markets	-	-	-	43,176,653	43,176,653
Developed Countries	208,208,388	-	-	-	208,208,388
Global Securities:	-				
Developed Countries	-	-	-	141,846,889	141,846,889
	721,579,381	119,531,553	-	368,951,135	1,210,062,069
Private Securities:					
Venture	-	-	-	897,667,430	897,667,430
Real Estate	-	-	-	33,478,839	33,478,839
Buyout	-	-	-	200,290,047	200,290,047
Commodities	-	-	-	93,854,443	93,854,443
Private Credit	-	-	-	50,153,587	50,153,587
Opportunistic	-	-	-	26,723,761	26,723,761
Secondary	-	-	-	44,496	44,496
	-	-	-	1,302,212,603	1,302,212,603
Hedge Funds:					
Long/Short	-	-	-	355,981,452	355,981,452
Opportunistic	-	-	-	62,803,772	62,803,772
Diversified Arbitrage	-	-	-	58,175,363	58,175,363
Tactical Trading	-	-	-	49,741,476	49,741,476
Distressed/Credit	-	-	-	32,387,699	32,387,699
	-	-	-	559,089,762	559,089,762
Short-Term Investments	-	184,807,903	-	-	184,807,903
Total Investments	721,579,381	304,339,456	-	2,230,253,500	3,256,172,337
Program Related Investments:					
Private Securities:					
Venture Cap	-	-	-	33,090,812	33,090,812
Private Credit	-	-	-	1,525,519	1,525,519
	-	-	-	34,616,331	34,616,331
TOTAL ASSETS	$ 721,579,381	$ 304,339,456	$ -	$ 2,264,869,831	$ 3,290,788,668

[1] Amounts are comprised of certain investments measured at fair value using NAV (or its equivalent) as a practical expedient. These investments have not been classified in the fair value hierarchy.

	Fair Value Measurement at December 31, 2021				
	Level 1	Level 2	Level 3	Investments Measured at NAV[1]	Total
ASSETS:					
Public Securities:					
U.S. Securities:					
Large Cap	$ 577,757,757	$ -	$ -	$ 244,373,138	$ 822,130,895
Fixed Income Fund	-	168,013,456	-	-	168,013,456
Small Cap	74,961,963	-	-	-	74,961,963
Foreign Securities:					
Emerging Markets	-	-	-	82,631,355	82,631,355
Developed Countries	295,551,014	-	-	16,259,799	311,810,813
Global Securities:					
Developed Countries	-	-	-	149,901,709	149,901,709
	948,270,734	168,013,456	-	493,166,001	1,609,450,191
Private Securities:					
Venture	-	-	-	1,187,313,588	1,187,313,588
Real Estate	-	-	-	37,550,776	37,550,776
Buyout	-	-	-	203,243,305	203,243,305
Commodities	-	-	-	67,558,813	67,558,813
Private Credit	-	-	-	42,340,320	42,340,320
Opportunistic	-	-	-	29,248,729	29,248,729
Secondary	-	-	-	48,785	48,785
	-	-	-	1,567,304,316	1,567,304,316
Hedge Funds:					
Long/Short	-	-	-	347,000,209	347,000,209
Opportunistic	-	-	-	47,955,550	47,955,550
Diversified Arbitrage	-	-	-	65,000,728	65,000,728
Tactical Trading	-	-	-	63,742,355	63,742,355
Distressed/Credit	-	-	-	39,491,998	39,491,998
	-	-	-	563,190,840	563,190,840
Short-Term Investments	-	228,238,600	-	-	228,238,600
Total Investments	948,270,734	396,252,056	-	2,623,661,157	3,968,183,947
Program Related Investments:					
Bonds	-	-	5,898,750	-	5,898,750
Private Securities:					
Venture Cap	-	-	-	23,733,967	23,733,967
Private Credit	-	-	-	2,181,772	2,181,772
	-	-	5,898,750	25,915,739	31,814,489
TOTAL ASSETS	$ 948,270,734	$ 396,252,056	$ 5,898,750	$ 2,649,576,896	$ 3,999,998,436

[1] Amounts are comprised of certain investments measured at fair value using NAV (or its equivalent) as a practical expedient. These investments have not been classified in the fair value hierarchy.

There were no transfers between levels for the years ended December 31, 2022 and 2021. There was no Level 3 activity for the years ended December 31, 2022 and 2021.

The tables above do not reflect the data associated with the securities lending program as there is no net impact on fair value. The collateral and securities on loan under this program are classified as Level 1 assets under ASC Topic 820.

5. PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following at December 31:

	2022	2021
Land	$ 3,526,668	$ 3,526,668
Buildings and improvements	58,465,447	58,020,203
Leasehold improvements	577,673	577,673
Furniture and fixtures	730,930	752,657
Computer and office equipment	4,062,784	4,043,794
	67,363,502	66,920,995
Less accumulated depreciation and amortization:	(32,577,667)	(29,345,014)
Total property and equipment, net	$ 34,785,835	$ 37,575,981

6. DEBT AND DERIVATIVE

On November 18, 2020, the Foundation entered into a line of credit agreement with BNY Mellon. The agreement has a credit limit of $80 million and bases the interest payable on the higher of the federal funds effective rate or the sum of 11.5 basis points plus the secured overnight financing rate plus 85 basis points (5.27% and 1.02% at December 31, 2022 and 2021, respectively). There were $33 million and $0 in borrowings outstanding on the line of credit at December 31, 2022 and 2021, respectively. Interest expense and fees related to the line of credit were $613,755 and $101,555 at December 31, 2022 and 2021, respectively. The expiration date of the line of credit is November 13, 2023.

On March 9, 2022, the Foundation entered into a line of credit agreement with Truist Bank. The agreement has a credit limit of $100 million and interest payable is based on the secured overnight financing rate plus 75 basis points (5.05% at December 31, 2022). There were $0 in borrowings outstanding on the line of credit at December 31, 2022. Interest expense and fees related to the line of credit were $475,143 at December 31, 2022. The expiration date of the line of credit is March 9, 2024.

On June 1, 2017, the Foundation entered into a note payable agreement (the “note”) with Compass Mortgage Corporation. The note proceeds were used solely to finance the renovation of the Foundation’s two office buildings in Baltimore, Maryland. In June 2021, Compass Mortgage Corporation was acquired by The PNC Financial Services Group, Inc. (“PNC”) and, as a result, the note was transferred to PNC. The note had a principal balance of $9,107,826 and $10,075,026 at December 31, 2022 and 2021, respectively, and matures on June 1, 2032. Interest is payable based on 1.12% plus 65% of the one-month LIBOR (3.97% and 1.19% at December 31, 2022 and 2021, respectively). The note was amended on May 17, 2023 to modify the interest rate to 65% of the secured overnight financing rate plus 10 basis points plus 1.12%.

As of December 31, 2022, scheduled annual principal payments on the note are as follows:

	Amount
2023	$ 967,202
2024	967,202
2025	967,202
2026	967,202
2027	967,202
Thereafter	4,271,816
	$ 9,107,826

The Foundation managed its interest rate exposure on the note with an interest rate swap agreement (the “swap”). The Foundation’s swap with BBVA Compass Bank exchanged the one-month LIBOR for the fixed rate of 2.66% and expired June 1, 2032. In September 2021, a payment of $507,300 was made to terminate the swap. Interest and swap expense related to this note was $193,956 and $248,712 for the years ended December 31, 2022 and 2021, respectively.

For each of the years presented, the notional amount of the swap and swap liability was $0. The Foundation’s two buildings located in Baltimore, MD were pledged as collateral for the note payable and related swap.

On July 24, 2018, the Foundation entered into two note payable agreements (“Northern notes”) with The Northern Trust Company for $4,000,000 (“Northern A”) and $3,000,000 (“Northern B”), respectively. The note proceeds were used solely to assist in financing UA’s development in Atlanta (as described in Note 1). There are no scheduled principal payments due on the Northern notes until the scheduled maturity date of June 30, 2025. Interest on the Northern A note is payable based on a fixed fee of 5.16%. Interest on the Northern B note is payable based on a fixed fee 0.5%. Interest expense related to the Northern notes was $221,400 and $221,400 at December 31, 2022 and 2021, respectively.

7. NEW MARKET TAX CREDIT TRANSACTION

During 2017, the Foundation entered into a debt transaction to make additional funds available to it through the NMTC Program. As part of this transaction, the Foundation created a new entity named UA Associates I LLC (as described in Note 1). The NMTC Program permits taxpayers to claim a credit against federal incomes taxes for Qualified Equity Investments (“QEIs”) in designated Community Development Entities (“CDEs”). These designated CDEs must use substantially all (85%) of the proceeds to make Qualified Low-Income Community Investments (“QLICIs”). The investor is provided with a tax credit, which is claimed over a seven-year period. The credit is equal to 5% of the total amount paid for the capital investment over the first three years and 6% annually for the final four years.

On December 21, 2017, the Foundation loaned $17,876,950 to AECF-ECLF Leverage Lender I LLC (the “Fund”)(as described in Note 1). The Fund then made QEIs, totaling $17,886,950, in ENMP 73 LP (“Enterprise”), Brownfield Revitalization 50 (“Brownfield”), LLC and AEMI Fund XVIII, LLC (“AEMI”)(collectively, “CDEs”). Finally, the CDEs made loans in the form of notes payable to UA Associates I LLC in the amount of $25,390,000.

Notes payable balances as December 31, 2022 and 2021, consisted of the following:

	2022	2021
AEMI Note A	$ 4,474,550	$ 4,474,550
AEMI Note B	1,895,450	1,895,450
Brownfield Note A	7,464,369	7,464,369
Brownfield Note B	2,825,631	2,825,631
Enterprise Note A	5,948,031	5,948,031
Enterprise Note B	2,781,969	2,781,969
Total notes payable	$ 25,390,000	$ 25,390,000

The loans between UA Associates I LLC and the CDEs require interest to be paid at the rate of 1% per annum, commencing on December 22, 2017. The full amount of the unpaid principal is required to be paid on December 1, 2047. There are no scheduled principal payments due on the notes payable balances until December 1, 2025. The Foundation is the guarantor of these debt obligations.

Total interest income on the loan totaled $248,875 for both years ended December 31, 2022 and 2021 and was classified in investment income.

As of December 31, 2022, scheduled annual principal payments on the note are as follows:

	Amount
2023	$ -
2024	-
2025	1,103,913
2026	1,103,913
2027	1,103,913
Thereafter	22,078,261
	$ 25,390,000

The Foundation has recorded the above loans receivable and payable in the consolidated financial statements of the Foundation at the face value of the notes, which is the amount of cash that was exchanged. The Foundation is recording interest income and capitalized interest as incurred.

As a part of the loan agreements, the Foundation is required to obtain approval from the CDEs prior to the payment of any costs, fees and other expenses. In 2022 and 2021, the Foundation obtained approval to expend a portion of the debt proceeds for related project costs. The remaining debt proceeds of $245,743 and $370,152 are included in restricted cash on the consolidated statements of financial position as of December 31, 2022 and 2021, respectively.

8. FEDERAL EXCISE TAX

The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income tax. However, the Foundation is classified as a private foundation and is subject to a federal excise tax of 1.39% on investment income less investment expenses, and on net realized taxable gains on capital transactions.

The total amount of cash paid for excise taxes was $3,575,000 and $4,215,000 for the years ended December 31, 2022 and 2021, respectively. In addition, during 2022 and 2021, the Foundation paid taxes on unrelated business income incurred through certain partnership investments. These taxes were not material to the consolidated financial statements as a whole.

Deferred federal excise tax arises from timing differences between consolidated financial statement and tax reporting related to investment income and the difference between the cost basis and market value of investments. Current income tax expense was $1,914,210 and $2,787,904, respectively, for the years ended December 31, 2022 and 2021. The deferred income tax benefit was $11,473,327 for the year ended December 31, 2022 and the deferred income tax expense was $4,879,478 for the year ended December 31, 2021. Income tax benefit/expense is included in investment return, net on the consolidated statements of activities.

9. DEFINED CONTRIBUTION AND OTHER POSTRETIREMENT PLANS

The Foundation maintains defined contribution plans for its employees. The Foundation recorded $2,845,066 and $3,170,326 in expense for the years ended December 31, 2022 and 2021, respectively.

In addition, the Foundation provides postretirement medical and dental benefits to all eligible employees. The benefit obligation for 2022 and 2021 is summarized as follows:

	2022	2021
Benefit obligation at December 31	$ 34,264,931	$ 44,664,307
Fair value of plan assets at December 31	-	-
Funded status and accrued benefit cost recognized in the consolidated statements of financial position	$ (34,264,931)	$ (44,664,307)

The following amounts not yet reflected in net periodic benefit cost are included in net assets as of December 31, 2022 and 2021:

	2022	2021
Net prior service cost	$ (31,160,312)	$ (34,298,360)
Accumulated loss	(16,581,847)	(5,691,640)
Change in net assets	$ (47,742,159)	$ (39,990,000)

Assumptions used to determine the postretirement benefit obligation at December 31, 2022 and 2021, are as follows:

	2022	2021
Weighted-average assumptions		
Discount rate (benefit obligation)	5.0 %	2.7 %
Discount rate (net periodic costs)	2.4 %	2.4 %
Expected return on plan assets	N/A	N/A
Health care cost trend rate assumptions		
Initial trend rate	5.8 %	6.0 %
Ultimate trend rate	3.5 %	3.5 %
Year ultimate trend rate is reached	2075	2075

The initial trend rate gradually grades down to the ultimate trend rate.

Benefit information for the years ended December 31, 2022 and 2021, is summarized as follows:

	2022	2021
Benefit cost	$ (1,195,214)	$ (1,142,135)
Employer contributions	$ 1,495,993	$ 1,720,095
Plan participants' contributions	(43,990)	(74,090)
Total benefits paid	$ 1,452,003	$ 1,646,005

The Foundation expects to make the following benefit disbursements:

2023	$ 2,195,257
2024	2,209,759
2025	2,218,294
2026	2,235,807
2027	2,242,700
2028 - 2032	11,587,836

10. LEASES

The Foundation has obligations as a lessee for office space with an initial noncancelable term in excess of one year. The Foundation classifies the office space lease as an operating lease. The Foundation's lease does not include a termination option for either party to the lease or restrictive covenants. Payments due under the lease contract include fixed payments plus variable payments, such as real estate taxes, common area maintenance and insurance. These components comprise the majority of our variable lease cost and are excluded from the present value of the lease obligations.

As of December 31, 2022, the Company does not have any finance leases or any additional operating and finance leases that have not yet commenced.

The Foundation's office space lease has a remaining lease term of 88 months and has an option which the Foundation can elect to extend the lease term. The Foundation has concluded it is not reasonably certain that it would exercise the option. Therefore, as of the lease commencement date, the

Foundation's lease term does not include the option. The Foundation will include the option to extend the lease when it is reasonably certain that it will exercise that option.

Supplemental information related to the Company's operating leases as of December 31, 2022, are as follows:

Weighted-average remaining lease term	7.33 years
Weighted-average discount rate	1.63%

Future minimum lease payments required and maturities of operating lease liabilities as of December 31, 2022, are as follows:

December 31	
2023	$ 189,046
2024	193,772
2025	198,616
2026	203,582
2027	208,671
Thereafter	506,801
	$ 1,500,488
Less imputed interest:	(89,642)
Total reported lease liability	$ 1,410,846

Supplemental balance sheet information related to leases as of and for the year ended December 31, 2022 was as follows:

Operating lease right-of-use assets	$ 1,393,090
Current operating lease liabilities	$ 167,287
Long-term operating lease liabilities	1,243,559
Total lease liabilities	$ 1,410,846

Lease expense for 2022 and 2021 was $219,441 and $185,595, respectively.

11. GRANT ALLOCATIONS

At December 31, 2022, the Foundation has approved grant funds for payments to various organizations and projects of up to approximately $113 million, contingent upon the organizations' performance of obligations specified in the grant agreements. Accordingly, grant expense is recorded when the obligations are substantially met and the resulting payments made. These grant funds are not considered board-designated and are a part of the normal business operations of the Foundation. Such payments are expected to be made during the period January 1 through December 31, 2023.

12. ANALYSIS OF EXPENSES

The Foundation allocates its expenses on a functional basis among grants awarded, program-related expenses, direct charitable activities and general & administrative expenses. Expenditures which can be identified with a specific function are allocated directly, according to their natural expenditure. Costs that are common to several functions are allocated among program-related expenses and general & administrative expenses on the basis of overall number of staff in the various functional categories, space utilized and estimates made by the Foundation's management. Program-related expenses pertain to the general grant-making activities of the Foundation, such as monitoring and evaluating grants. Direct charitable activities pertain to charitable activities for the benefit of others initiated and conducted in whole or in part by the Foundation. General & administrative expenses include costs related to overhead and managing the Foundation and are not directly identifiable with other categories. The Foundation's functional expenses, displayed by natural expense classification, for the years ended December 31, 2022 and 2021 were as follows:

Analysis of Expenses for the Year Ended December 31, 2022

	Grants awarded	Program-related expenses	Direct charitable activities	General & administrative expenses	Total
Grants awarded	$ 81,213,095	$ -	$ -	$ -	$ 81,213,095
Salaries and benefits	-	23,856,210	-	12,050,689	35,906,899
Office and occupancy	-	4,054,382	-	2,796,863	6,851,245
Services and professional fees	-	-	14,614,570	2,934,142	17,548,712
Travel, conferences and meetings	-	310,264	1,856,494	1,054,093	3,220,851
Depreciation	-	1,962,413	-	1,291,968	3,254,381
Other expenses	-	467,178	-	299,892	767,070
Interest expense	-	-	-	1,758,153	1,758,153
Postretirement benefit cost - interest and amortization	-	(1,254,260)	-	(805,136)	(2,059,396)
	$ 81,213,095	$ 29,396,187	$ 16,471,064	$ 21,380,664	$ 148,461,010

Analysis of Expenses for the Year Ended December 31, 2021

	Grants awarded	Program-related expenses	Direct charitable activities	General & administrative expenses	Total
Grants awarded	$ 82,105,883	$ -	$ -	$ -	$ 82,105,883
Salaries and benefits	-	23,688,300	-	10,661,747	34,350,047
Office and occupancy	-	3,174,094	-	2,137,809	5,311,903
Services and professional fees	-	-	10,984,286	2,705,382	13,689,668
Travel, conferences and meetings	-	143,815	187,635	249,165	580,615
Depreciation	-	2,159,493	-	1,421,719	3,581,212
Other expenses	-	545,231	-	347,819	893,050
Interest and swap expense	-	-	-	825,567	825,567
Postretirement benefit cost - interest and amortization	-	(1,243,989)	-	(793,580)	(2,037,569)
	$ 82,105,883	$ 28,466,943	$ 11,171,921	$ 17,555,628	$ 139,300,375

13. LIQUIDITY

The Foundation's financial assets available within one year of December 31, 2022 and 2021, to meet general expenditures include:

	2022	2021
Cash	$ 2,517,037	$ 2,896,061
Restricted cash	311,271	404,103
Interest and dividends receivable	1,695,853	1,952,116
Security sales receivable	19,980,359	42,177,959
Short-term investments	304,339,456	228,238,600
Public market equities	721,579,381	948,270,734
Fixed income securities	119,531,553	168,013,456
Available financial assets	$ 1,169,954,910	$ 1,391,953,029

The Foundation endeavors to structure its financial assets to be available and liquid as its general expenditures, liabilities and other obligations become due. The restricted cash (as described in Note 7) is restricted for the purposes of construction costs incurred in UA Associates I LLC. These constructions costs are considered to be the general expenditures for UA Associates I LLC and are available and liquid to meet those obligations in the next year. In addition to the available financial assets listed above, the Foundation has two lines of credit totaling $180 million (as described in Note 6), with $33 million in borrowings outstanding as of December 31, 2022. Therefore, the Foundation has $147 million as of December 31, 2022 which can be drawn upon to reinforce liquidity and cash position. Furthermore, there are likely to be additional components of the Foundation's investments that may be available and liquid within one year. These components include return of capital, income and realized gains from certain portions of the Foundation's alternative investment holdings.

14. SUBSEQUENT EVENTS

The Foundation has evaluated the impact of significant subsequent events through May 25, 2023, the date that the Foundation's consolidated financial statements were available to be issued. No subsequent events were identified that require recognition or disclosure.

* * * * * *