



MOREHOUSE COLLEGE

Financial Statements, Schedule of Expenditures of
Federal Awards, and Uniform Guidance Reports

June 30, 2021 and 2020

(With Independent Auditors' Reports Theron)

MOREHOUSE COLLEGE

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KPMG LLP
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Independent Auditors' Report

The Board of Trustees
Morehouse College:

Report on the Financial Statements

We have audited the accompanying financial statements of Morehouse College (the College), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audit contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 entity'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 entity'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 Morehouse College as of June 30, 2021 and 2020, and the changes in its net assets and the changes in its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Emphasis of Matters

As discussed in note 1(o) to the financial statements, in fiscal year 2020, Morehouse College adopted new accounting guidance, Accounting Standards Update (ASU) No. 2014–09, *Revenue from Contracts with Customers* (Topic 606), as amended; and ASU No. 2018–08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2021 on our consideration of the College’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing and not to provide an opinion on the effectiveness of the College’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College’s internal control over financial reporting and compliance.

KPMG LLP

Atlanta, Georgia
November 1, 2021

MOREHOUSE COLLEGE

Statements of Financial Position

June 30, 2021 and 2020

Assets	2021	2020
Cash and cash equivalents	\$ 37,615,689	65,158,950
Restricted cash and cash equivalents	—	5,437,724
Accounts receivable, net (note 3)	4,833,268	4,860,505
Prepaid expenses, deferred charges, and other assets	1,057,931	303,912
Contributions receivable, net (note 4)	13,552,893	13,827,120
Investments (notes 2 and 13)	276,044,396	157,409,574
Student notes receivable, net (note 5)	2,267,043	2,522,313
Property, plant, and equipment, net (note 6)	156,579,273	153,021,243
Total assets	\$ 491,950,493	402,541,341
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 6,006,921	7,734,351
Margin credit facility (notes 7 and 17)	5,000,000	5,000,000
Refundable advances from federal government for student loans (note 5)	1,673,652	1,673,652
Deferred revenue	—	5,709,003
Deferred compensation (note 12)	292,362	225,727
Asset retirement obligations (note 8)	2,215,154	2,096,883
Bonds payable, net (note 7)	—	55,094,515
Capital lease obligation	107,774	225,427
Other liabilities (note 18)	3,008,872	1,394,742
Total liabilities	18,304,735	79,154,300
Net assets:		
Without donor restrictions (note 15)	173,679,908	90,111,076
With donor restrictions (note 15)	299,965,850	233,275,965
Total net assets	473,645,758	323,387,041
Commitments and contingencies (notes 7, 8, and 18)		
Total liabilities and net assets	\$ 491,950,493	402,541,341

See accompanying notes to financial statements.

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Statement of Activities

Year ended June 30, 2021

(With summarized financial information for the year ended June 30, 2020)

	2021			2020 Total
	Without donor restrictions	With donor restrictions	Total	
Revenue and support:				
Tuition and fees, excluding scholarships of \$26,271,837 (in 2021) and \$24,462,198 (in 2020)	\$ 27,916,756	—	27,916,756	38,548,318
Government grants and contracts (note 7)	81,759,554	—	81,759,554	13,780,033
Private gifts, grants, and contracts (note 9)	23,467,323	33,044,784	56,512,107	105,425,674
Investment income:				
Interest and dividends	19,059	3,414,949	3,434,008	3,832,693
Net realized gains	—	1,576,946	1,576,946	274,679
Net unrealized gains (losses)	6,654,531	41,912,397	48,566,928	(3,743,076)
Sales and services of auxiliary enterprises (note 9)	6,970,584	—	6,970,584	17,134,926
Other income	570,030	1,081,447	1,651,477	2,744,373
Net assets released from restrictions (note 16)	14,340,638	(14,340,638)	—	—
Total revenue and support	<u>161,698,475</u>	<u>66,689,885</u>	<u>228,388,360</u>	<u>177,997,620</u>
Expenses (note 10):				
Instruction	20,919,674	—	20,919,674	22,558,505
Research	3,961,757	—	3,961,757	4,418,513
Public service	2,503,597	—	2,503,597	2,379,599
Academic support	8,649,410	—	8,649,410	8,385,400
Student services	5,863,045	—	5,863,045	42,361,149
Institutional support	22,137,658	—	22,137,658	21,853,103
Auxiliary enterprises	14,094,502	—	14,094,502	18,781,536
Total expenses	<u>78,129,643</u>	<u>—</u>	<u>78,129,643</u>	<u>120,737,805</u>
Change in net assets	83,568,832	66,689,885	150,258,717	57,259,815
Net assets at beginning of year	<u>90,111,076</u>	<u>233,275,965</u>	<u>323,387,041</u>	<u>266,127,226</u>
Net assets at end of year	<u>\$ 173,679,908</u>	<u>299,965,850</u>	<u>473,645,758</u>	<u>323,387,041</u>

See accompanying notes to financial statements.

MOREHOUSE COLLEGE

Statement of Activities

Year ended June 30, 2020

	2020		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenue and support:			
Tuition and fees, excluding scholarships of \$24,462,198	\$ 38,548,318	—	38,548,318
Government grants and contracts	13,780,033	—	13,780,033
Private gifts, grants, and contracts (note 9)	1,492,627	103,933,047	105,425,674
Investment income:			
Interest and dividends	240,251	3,592,442	3,832,693
Net realized gains	18,398	256,281	274,679
Net unrealized losses	(220,421)	(3,522,655)	(3,743,076)
Sales and services of auxiliary enterprises (note 9)	17,134,926	—	17,134,926
Other income	1,412,090	1,332,283	2,744,373
Net assets released from restrictions (note 16)	49,243,492	(49,243,492)	—
Total revenue and support	<u>121,649,714</u>	<u>56,347,906</u>	<u>177,997,620</u>
Expenses (note 10):			
Instruction	22,558,505	—	22,558,505
Research	4,418,513	—	4,418,513
Public service	2,379,599	—	2,379,599
Academic support	8,385,400	—	8,385,400
Student services	42,361,149	—	42,361,149
Institutional support	21,853,103	—	21,853,103
Auxiliary enterprises	18,781,536	—	18,781,536
Total expenses	<u>120,737,805</u>	<u>—</u>	<u>120,737,805</u>
Change in net assets	911,909	56,347,906	57,259,815
Net assets at beginning of year	<u>89,199,167</u>	<u>176,928,059</u>	<u>266,127,226</u>
Net assets at end of year	<u>\$ 90,111,076</u>	<u>233,275,965</u>	<u>323,387,041</u>

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 150,258,717	57,259,815
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	5,560,707	5,359,302
Bad debt	749,404	1,649,288
Amortization of bond issue costs	38,748	51,663
Accretion of asset retirement obligations	118,271	75,449
Net realized gain on sales of investments	(1,576,946)	(274,679)
Net unrealized loss (gain) on investments	(48,566,928)	3,743,076
Repayment of bonds payable by U.S. Secretary of Education	(55,133,263)	—
Increase in accounts receivable, net	(215,571)	(141,839)
Increase in contributions receivable, net	(232,369)	(9,879,450)
(Increase) decrease in prepaid expenses, deferred charges, and other assets	(754,019)	22,195
Decrease in accounts payable and accrued expenses and other liabilities	(113,300)	(1,288,102)
(Decrease) increase in deferred revenue	(5,709,003)	4,695,859
Increase in deferred compensation	66,635	1,825
Receipt of agency funds (Federal Direct Student Loans and Federal Pell Grants)	30,633,981	43,453,231
Disbursement of agency funds	(30,633,981)	(43,453,231)
Gifts and grants and investment income restricted for long-term investment	(6,594,682)	(14,347,475)
Net cash provided by operating activities	37,896,401	46,926,927
Cash flows from investing activities:		
Proceeds from the sales and maturities of investments	10,907,382	53,075,973
Purchases of investments	(79,398,330)	(57,813,538)
Purchases of property, plant, and equipment	(9,118,737)	(5,886,940)
Proceeds from repayment of student notes receivable	255,270	303,001
Net cash used in investing activities	(77,354,415)	(10,321,504)
Cash flows from financing activities:		
Principal repayments of capital lease obligation	(117,653)	(153,954)
Principal repayments of bonds payable	—	(2,560,883)
Additional draw from bonds payable	—	3,157,895
Gifts and grants and investment income restricted for long-term investment	6,594,682	14,347,475
Net cash provided by financing activities	6,477,029	14,790,533
Net (decrease) increase in cash and cash equivalents	(32,980,985)	51,395,956
Cash and cash equivalents at beginning of year	70,596,674	19,200,718
Cash and cash equivalents at end of year	\$ 37,615,689	70,596,674
Cash, cash equivalents, and restricted cash as reported in the statements of financial position:		
Cash and cash equivalents	\$ 37,615,689	65,158,950
Restricted cash and cash equivalents	—	5,437,724
	\$ 37,615,689	70,596,674
Noncash activity:		
Repayment of bonds payable by U.S. Secretary of Education	\$ 55,133,263	—
Supplemental data:		
Interest paid	\$ 506,236	1,643,058
Capital lease obligation included in property, plant, and equipment	79,108	137,646

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2021 and 2020

(1) Summary of Significant Accounting Policies

(a) Organization

Morehouse College (the College) is a private, not-for-profit undergraduate liberal arts college for men located in Atlanta, Georgia. The College provides educational programs in the arts and humanities, the natural sciences and mathematics, the social sciences, and business. Accredited by the Southern Association of Colleges and Schools, the College has an enrollment of approximately 2,100 students.

(b) Basis of Presentation

The financial statements of the College have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (U.S. GAAP), as promulgated by the Financial Accounting Standards Board (FASB).

(c) Management Estimates

Management of the College has made certain estimates and assumptions related to the reporting of allowances for doubtful accounts receivable, valuation of certain investments without readily determinable fair values, accrued expenses, and accruals for asset retirement obligations to prepare the financial statements in conformity with U.S. GAAP. Actual results could differ from those estimates.

(d) Classification of Net Assets

Net assets, revenue and support, and expenses are classified based on the existence or absence of donor-imposed purpose or time restrictions. Accordingly, net assets of the College are classified and reported as follows:

(i) Without Donor Restrictions

Net assets that are not subject to donor-imposed purpose or time stipulations.

(ii) With Donor Restrictions

Net assets subject to donor-imposed stipulations that will be met either by actions of the College and/or the passage of time or in perpetuity; the College reports gifts of cash and other assets as donor-restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are restricted as to timing of use. When a donor restriction expires, that is when a stipulated time restriction expires or purpose restriction is accomplished, donor-restricted net assets are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restriction. Net assets in this class include donor-restricted endowment funds and its earnings. The College is generally permitted to use or expend part or all of the income and gains derived from the donated assets based on donor-imposed designations.

Revenue from sources other than contributions is reported as increases in net assets without donor restrictions. Contributions are reported as increases in the appropriate net asset category. Contributions of assets other than cash and cash equivalents are recorded at their estimated fair value at the date of the gift, as determined by independent appraisal or other valuation methods as deemed appropriate by management. Contributions to be received after one year are discounted at rates commensurate with the risk involved as of the date of the promise to give. Amortization of the discount

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Notes to Financial Statements

June 30, 2021 and 2020

is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Expenses are reported as decreases in net assets without donor restrictions. Realized and unrealized gains and losses on investments are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulations or by law. Expirations of restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from net assets with donor restrictions to net assets without donor restrictions. Donor-imposed restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

Grants and contracts awarded by federal and other sponsors, which are generally considered nonreciprocal transactions restricted by sponsors for certain purposes, are recognized as revenue when qualifying expenditures are incurred and conditions under the agreements are met.

(e) Revenue Recognition

Under FASB Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*, revenue is recognized when control of the promised goods or services is transferred in an amount that reflects the consideration to which the College expects to be entitled in exchange for those goods or services (i.e., the transaction price) (note 1(o)).

The College's revenue and support are primarily derived from academic programs provided to students. Tuition and fees revenue is earned by the College for these educational services delivered during an academic term. As part of a student's course of instruction, certain fees, such as technology fees and laboratory fees, are billed to students. Tuition and fees are earned over the applicable academic term and are not considered separate performance obligations. Tuition scholarships awarded by the College represent a reduction of the tuition transaction price. The College awards both need-based and merit-based scholarships. Scholarships are generally awarded for the academic year and are applied to the students' account during each academic term.

Students pay tuition and fees (net of scholarships) through a variety of funding sources, including federal loan and grant programs, state grant programs, institutional payment plans, employer reimbursement, Veterans' Administration and other military funding and grants, private and institutional scholarships and borrowings, and cash payments.

Revenue from student education (reflected net of reductions from scholarships), residence, and dining services is recognized as the services are provided over the academic year, which generally aligns with the College's fiscal year. Aid in excess of a student's tuition and fees is reflected as a reduction of housing and dining charges. Disbursements made directly to students for living or other costs are reported as an expense.

Other sales and services of auxiliary enterprises include revenue from student health service and student athletic fees, parking permits, and other miscellaneous activities. Such revenue is generally recognized when goods or services are provided to customers.

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Notes to Financial Statements

June 30, 2021 and 2020

(f) Novel Coronavirus Pandemic (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus a pandemic. The outbreak of the disease has affected travel, commerce, and financial markets globally, including in the United States. The continued spread of COVID-19 and its impact on social interaction, travel, economies, and financial markets may significantly affect operations and financial condition, including, among other things, (i) the ability of the College to conduct its operations and/or the cost of operations, (ii) government and nongovernment funding, and (iii) financial markets impacting investments valuation and interest rates.

On March 20, 2020, the College postponed commencement until December 2020, and soon thereafter, the decision was made by the College to continue offering instruction in all its courses in a virtual format only for the remainder of the spring 2020 academic term. Students continued to meet their academic requirements for the remainder of the 2020–2021 academic year. The College has continued to operate virtually for the fall 2020 academic semester as the College works with state medical officials, public health experts, and scientists to create a viable plan that could bring students back to campus. The College operated hybrid for the spring 2021 academic semester under guidance with state medical officials, public health experts, and scientists to safely bring a limited number of students back to campus.

While the financial impact on the College cannot be quantified at this time, the pandemic may have a material adverse effect on the current and future financial profile and operating performance of the College. The College continues to monitor the course of the pandemic and is prepared to take additional measures to protect the health of the College community and promote the continuity of its academic mission.

(g) Cash and Cash Equivalents and Restricted Cash and Cash Equivalents

Cash equivalents consist primarily of interest-bearing checking accounts, savings accounts, and investments with a maturity at date of purchase of three months or less. The College had restricted cash and cash equivalents held in escrow accounts as required by bonded indebtedness.

(h) Contributions Receivable, Net

The College records commitments from donors to make future contributions, recognizing these unconditional promises to give as revenue in the period the commitments are made, discounted to their present value at a risk-adjusted market interest rate. An allowance for uncollectible contributions receivable is provided based upon management's judgment, considering such factors as prior collection history, type of contribution, relationship with donor, and other relevant factors.

(i) Investments

Investments are carried at fair value, with the difference between fair value and cost (or fair value at date of gift) being recorded as unrealized gains (losses). The fair value of publicly traded fixed-income and equity securities is based upon quoted market prices and exchange rates, if applicable. Fair values for marketable alternative investments (often referred to as hedge funds and typically in the form of limited partnerships) are not as readily ascertainable. Investments in these asset classes are valued using the most current information provided by the investment manager, which is reviewed and evaluated by the College.

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Notes to Financial Statements

June 30, 2021 and 2020

Investment managers typically value public companies using quoted market prices and exchange rates, if applicable. Real estate partnerships and funds are valued based on appraisals of properties held and conducted by third-party appraisers retained by the general partner or investment manager. Investment managers of marketable alternatives provide values based on quoted market prices and exchange rates for publicly traded securities and valuation estimates of derivative instruments. Valuations provided by the investment managers are evaluated by management, and management believes such values are reasonable estimates of fair value at June 30, 2021 and 2020.

The College's investments include various types of investment securities and investment vehicles. Investment securities are exposed to a number of risks, such as interest rate, currency, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the College's financial statements.

(j) Property, Plant, and Equipment, Net

Property, plant, and equipment are recorded at cost at the date of acquisition less accumulated depreciation. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis. A summary of depreciable lives is as follows:

Building	40–70 Years
Equipment	5–10 Years

(k) Asset Retirement Obligations and Impairment of Long-Lived Assets

The College has identified asbestos and lead paint abatement as conditional asset retirement obligations. The College recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the College capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the recorded liability is recognized as a gain or loss in the statements of activities.

The College periodically assesses the realizability of its long-lived assets and evaluates such assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. There were no impairment losses for the year ended June 30, 2021 or 2020.

(l) Deferred Revenue

Deferred revenue consists primarily of deferred tuition and fee revenue and sales and services of auxiliary enterprises revenue for which performance obligations are fulfilled over time and recognized on a pro rata basis proportional to the number of days of the related academic term that pertain to each fiscal year. Revenue is recognized in the period in which the services are provided.

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Notes to Financial Statements

June 30, 2021 and 2020

Deferred revenue as of June 30, 2020 also includes amounts deferred from fiscal year 2020 sales and services of auxiliary enterprises revenue (housing and dining services revenue) due to the campus closure discussed in note 1(f) above.

(m) Refundable Advances from the Federal Government for Student Loans

Funds provided by the federal government under the Federal Perkins Student Loan Program are loaned to qualified students who meet the eligibility criteria specified under the program. Under federal law, the authority for schools to make new Perkins Loans ended on September 30, 2017, and final disbursements were permitted through June 30, 2018. As a result, no new Perkins Loans were awarded during either of the years ended June 30, 2021 or 2020. These funds are ultimately refundable to the government and are presented as a liability in the accompanying statements of financial position.

(n) Income Taxes

The College is recognized as an organization exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3) whereby only unrelated business income, as defined by Section 512(a) of the Code, is subject to federal income tax. The College's management has reviewed its tax positions and determined that it does not have material uncertain tax positions that should be reflected in the financial statements for 2021 or 2020.

(o) Recently Adopted and Issued Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which is intended to improve the financial reporting requirements for revenue from contracts with customers. The ASU established a five-step model and application guidance for determining the timing and amount of revenue recognition. The related application guidance in the ASU replaced most existing revenue recognition guidance in U.S. GAAP. An entity also should disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In June 2020, the original effective dates of ASU 2014-09 were further deferred by one year through the issuance of ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*. The College early adopted ASU 2014-09 and all subsequent amendments during fiscal year 2020 using the modified retrospective approach applied to all contracts not completed as of July 1, 2019. The College applied the practical expedients to account for revenue with similar characteristics as a collective group rather than individually and to not disclose the remaining (unsatisfied or partially unsatisfied) performance obligations for contracts with customers as of the end of the reporting period that have an original expected duration of one year or less, or for contracts where the performance obligation is recognized in the amount invoiced (right to invoice).

The College's adoption of this ASU did not materially change the timing or amount of revenue recognized by the College. However, the ASU requires that tuition, fees, and auxiliary student revenue be presented in the statements of activities at the transaction price that is net of any scholarships. Previously, such revenue was presented gross, at published rates, followed by a reduction for scholarships.

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Notes to Financial Statements

June 30, 2021 and 2020

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). The new ASU is intended to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonexchange transactions) within the scope of ASC Topic 958, *Not-for-Profit Entities*, or as exchange transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 clarifies that a contribution is conditional if the agreement includes both (a) a barrier or barriers that must be overcome for the recipient to be entitled to the assets transferred and (b) a right of return for the transferred assets or a right of release of the promisor's obligation to transfer assets. The College adopted ASU 2018-08 during fiscal year 2020. The College's adoption of this ASU did not have a material effect on its financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Liabilities* (ASU 2016-01). ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU is effective for not-for-profit entities for fiscal years beginning after December 15, 2018, with early adoption restricted to certain provisions and within certain time periods. Under the ASU, not-for-profit and private entities are no longer required to disclose fair value information concerning financial instruments measured at amortized cost such as long-term debt. This provision of ASU 2016-01 may be early adopted for financial statements that have not yet been issued or made available for issuance. The College early adopted this provision of ASU 2016-01 as of June 30, 2016. The College adopted the remaining provisions that were not allowed to be early adopted during fiscal year 2020. The adoption of ASU 2016-01 did not have a material effect on the College's financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02). The amendments in ASU 2016-02 create FASB ASC Topic 842, *Leases*, and supersede the requirements in ASC Topic 840, *Leases*. ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under ASC Topic 840. Under the guidance of ASU 2016-02, a lessee should recognize in the balance sheet a liability to make lease payments (lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The accounting applied by a lessor under ASU 2016-02 is largely unchanged from that applied under ASC Topic 840. In June 2020, the FASB issued ASU No. 2020-05, which further delayed the effective date of ASU 2016-02. The ASU is effective, as deferred, for the College for fiscal years beginning after December 15, 2021, and the College plans to implement the provisions of ASU 2016-02 during fiscal year 2023. The College has not yet determined the impact of the new standard on its current policies for lessee accounting.

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Notes to Financial Statements
June 30, 2021 and 2020

(2) Investments

The following table summarizes the College's investments as of June 30, 2021 and 2020:

	Fair value	
	2021	2020
Cash and cash equivalents	\$ 1,944,295	1,439,081
Equity securities:		
U.S. equity	120,734,190	67,993,279
Fixed-income securities:		
Mutual funds	13,082,161	7,402,630
U.S. Treasury	39,105,997	16,459,644
Commingled funds	12,596,549	6,896,666
Alternative investments:		
Equity securities:		
Private equity funds	64,972,691	43,029,512
Real asset funds	442,499	1,018,033
Multistrategy hedge funds	23,166,014	13,170,729
Total investments at fair value	<u>\$ 276,044,396</u>	<u>157,409,574</u>

Investment management expenses totaled \$1,019,886 and \$560,630 for the years ended June 30, 2021 and 2020, respectively, and are netted against investment income in the accompanying statements of activities.

Unfunded commitments, redemption frequency, and notice period relative to the College's alternative investments for which the College utilized net asset value (NAV) or its equivalent relative to the determination of fair value at June 30, 2021 and 2020 are as follows:

	Fair value at June 30		Unfunded commitments		Redemption frequency	Redemption restrictions
	2021	2020	at June 30	at June 30		
			2021	2020		
Alternative investments:						
Private equity funds	\$ 64,972,691	43,029,512	15,600,751	14,178,954	N/A	N/A
Multistrategy hedge funds	<u>23,166,014</u>	<u>13,170,729</u>	N/A	N/A	Quarterly	90 Days
Total	<u>\$ 88,138,705</u>	<u>56,200,241</u>	<u>15,600,751</u>	<u>14,178,954</u>		

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(3) Accounts Receivable

Accounts receivable at June 30, 2021 and 2020 are summarized as follows:

	<u>2021</u>	<u>2020</u>
Student and other accounts receivable	\$ 1,337,310	2,513,848
Grants receivable	3,289,111	2,403,365
Agency receivable	<u>647,097</u>	<u>442,424</u>
Total accounts receivable	5,273,518	5,359,637
Less allowance for doubtful accounts	<u>(440,250)</u>	<u>(499,132)</u>
Accounts receivable, net	<u>\$ 4,833,268</u>	<u>4,860,505</u>

(4) Contributions Receivable

Contributions receivable at June 30, 2021 and 2020 are summarized as follows:

	<u>2021</u>	<u>2020</u>
Unconditional promises to give	\$ 15,915,733	16,183,364
Less allowance for doubtful accounts	<u>(762,394)</u>	<u>(1,010,100)</u>
	15,153,339	15,173,264
Less unamortized discount	<u>(1,600,446)</u>	<u>(1,346,144)</u>
Net contributions receivable	<u>\$ 13,552,893</u>	<u>13,827,120</u>
Amounts due in:		
Less than one year	\$ 1,746,840	11,320,430
One to five years	14,168,893	4,862,934
More than five years	<u>—</u>	<u>—</u>
	<u>\$ 15,915,733</u>	<u>16,183,364</u>

Contributions to be received after one year are discounted at an appropriate risk-adjusted discount rate commensurate with the risks involved. Estimated cash flows to be received after one year were discounted at June 30, 2021 using rates ranging from 4.50% to 7.28%.

At June 30, 2021, one donor's outstanding pledge balance represented 26% of the College's gross contributions receivable. At June 30, 2020, a different donor's outstanding pledge balance represented 40% of the College's gross contributions receivable, which was fully collected during fiscal year 2021.

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(5) Student Notes Receivable

The College provided uncollateralized loans to students based on financial need under the Federal Perkins Student Loan Program (Perkins Program). The U.S. government provides grants to the College for a portion of the funds loaned to students. The College is responsible for disbursements and subsequent collection of these loans. Advances from the federal government under the Perkins Program are distributable to the federal government upon liquidation of the program and, thus, are reflected as a liability in the accompanying statements of financial position. The availability of funds for ongoing loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. The U.S. government announced in December 2016 that it was liquidating the Perkins Program and, during fiscal year 2018, discontinued drawdowns from the program. For the years ended June 30, 2021 and 2020, the outstanding loans for the Perkins Program totaled \$3,093,262 and \$3,258,273, respectively, net of allowance for doubtful accounts of \$924,051 and \$829,662 at June 30, 2021 and 2020, respectively. These balances are presented in student notes receivable, net on the accompanying statements of financial position.

The College provides institutional loans to students from certain funds received from donors. For the years ended June 30, 2021 and 2020, the outstanding institutional loans totaled \$97,832 for both years.

(6) Property, Plant, and Equipment

Property, plant, and equipment consist of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Land and other nondepreciable assets	\$ 27,505,488	27,408,240
Buildings and building improvements	201,045,088	196,919,120
Equipment	47,299,635	45,534,082
Construction in progress	3,130,000	—
	278,980,211	269,861,442
Less accumulated depreciation and amortization	<u>(122,400,938)</u>	<u>(116,840,199)</u>
	<u>\$ 156,579,273</u>	<u>153,021,243</u>

Depreciation expense totaled \$5,560,707 and \$5,359,302 for the years ended June 30, 2021 and 2020, respectively.

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(7) Bonds Payable and Line of Credit

Bonds payable include the following at June 30, 2021 and 2020:

	<u>Date issued</u>	<u>Interest rate – fixed</u>	<u>Maturity</u>	<u>Original issue</u>	<u>Outstanding principal at June 30</u>	
					<u>2021</u>	<u>2020</u>
Rice Capital Access Program LLC – Series 2013	September 2013	3.18 %	2034	\$ 19,000,000	—	14,195,885
Rice Capital Access Program LLC – Series A 2018-3	June 2018	2.85	2037	38,750,000	—	35,942,828
Rice Capital Access Program LLC – Series A 2018-4	June 2018	1.80–2.85	2037	6,250,000	—	5,951,196
Total bonds payable, gross					—	56,089,909
Less bond issuance costs					—	(995,394)
Total bonds payable, net					\$ —	<u>55,094,515</u>

During September 2013 and June 2018, the College issued the future advanced project funding bonds Series 2013 and Series A 2018-3 and Series A 2018-4 (2018 bonds), respectively, through the Rice Capital Access Program, under the Historically Black College and University (HBCU) Capital Financing Program. Principal and interest payments were due quarterly through the stated maturity dates.

During September 2020, the Series 2013 and 2018 bonds were modified under the Coronavirus Aid, Relief, and Economic Security (CARES) Act to defer principal and interest payments retroactively to April 1, 2020. During the deferment period, the College was not required to pay periodic installment of principal or interest required under the Series 2013 and 2018 bonds agreement.

Section 706 of the Consolidated Appropriations Act, 2021 (2021 Appropriations Act) directs the Secretary of Education to repay, for each institution of higher education that is a participant in the HBCU Capital Financing Program, the institution's outstanding balance of principal, interest, and fees on the disbursed loan amounts on closed loan agreements as of December 27, 2020. This repayment by the Secretary of Education also applies to closed loan agreements relating to deferments for public and private HBCUs under the CARES Act. During fiscal year 2021, as a result of the aforementioned provision of the 2021 Appropriations Act, the College reduced outstanding bonds payable to zero and recognized \$55,133,263 in government grants and contracts in the accompanying 2021 statement of activities. Additionally, as a result of this provision, approximately \$1,800,000 of principal and interest payments made during fiscal year 2020 were refunded to the College during fiscal year 2021.

The College secured a margin account with Charles Schwab on May 30, 2019 to assist with the College's working capital needs during nonpeak periods. The terms of this credit facility permit the College to borrow up to 50% of the value of marginable securities (defined as common stock/equity securities) held in the margin account. As of June 30, 2021 and 2020, this resulted in remaining margin availability of approximately \$18,600,000 and \$9,700,000, respectively, after taking into account the \$5,000,000 outstanding on this margin credit facility as of both June 30, 2021 and 2020.

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(8) Asset Retirement Obligations

The College's asset retirement obligations arise primarily from contractual commitments to remove asbestos and lead paint in certain College facilities at the time of major renovation or demolition.

Activities for the College's asset retirement obligations for the years ended June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Balance at beginning of year	\$ 2,096,883	2,021,434
Accretion expense	<u>118,271</u>	<u>75,449</u>
Balance at the end of year	<u>\$ 2,215,154</u>	<u>2,096,883</u>

(9) Revenue and Support

The following table presents the College's sources of private gifts, grants, and contracts revenue for the years ended June 30, 2021 and 2020:

	<u>2021</u>			<u>2020</u>		
	<u>Gifts and grants</u>	<u>Contracts with customers</u>	<u>Total</u>	<u>Gifts and grants</u>	<u>Contracts with customers</u>	<u>Total</u>
Private contributions	\$ 30,072,536	—	30,072,536	101,437,144	—	101,437,144
Unrestricted contributions	22,938,478	—	22,938,478	1,492,627	—	1,492,627
Private grants	2,677,426	—	2,677,426	2,151,855	—	2,151,855
Private contracts	—	823,667	823,667	—	344,048	344,048
Total	<u>\$ 55,688,440</u>	<u>823,667</u>	<u>56,512,107</u>	<u>105,081,626</u>	<u>344,048</u>	<u>105,425,674</u>

During fiscal year 2021, the College received and recorded unrestricted contributions from one donor in the amount of \$20,000,000, which is included in private gifts, grants, and contracts revenue without donor restrictions in the accompanying 2021 statement of activities. During fiscal year 2020, the College received and recorded contributions designated to support the College's Student Success Program from two donors in the amounts of \$34,000,000 and \$40,000,000, which are included in private gifts, grants, and contracts revenue with donor restrictions in the accompanying 2020 statement of activities.

Sales and services of auxiliary enterprises consisted of the following for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Housing revenue	\$ 3,807,888	9,172,303
Dining services	2,548,539	6,298,294
Other	<u>614,157</u>	<u>1,664,329</u>
Total	<u>\$ 6,970,584</u>	<u>17,134,926</u>

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Notes to Financial Statements

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(10) Expenses

Expenses are reported in the accompanying statements of activities in functional categories in accordance with the overall service mission of the College, as recommended by the National Association of College and University Business Officers. The College's primary program services are instruction, research, and public service. Expenses reported as academic support, student services, institutional support, and auxiliary enterprises are incurred in support of these primary program services. Plant operation and maintenance are allocated to program and supporting activities based upon facilities usage. Other natural expenses attributed to more than one functional expense category are allocated using square footage as a cost allocation technique. Institutional support includes fundraising expenses of approximately \$5,200,000 and \$5,700,000 in 2021 and 2020, respectively.

Expenses by natural and functional classifications for the year ended June 30, 2021 are as follows:

	Fiscal year 2021							Total expenses
	Program activities							
	Instruction	Research	Public service	Academic support	Student services	Institutional support	Auxiliary enterprises	
Salaries and wages	\$ 13,099,433	2,042,082	1,685,461	3,122,011	3,406,843	7,468,817	1,951,317	32,775,964
Employee benefits	3,155,048	291,875	284,453	791,520	1,116,157	3,054,699	527,180	9,220,932
Professional fees	2,415,600	321,522	95,155	578,633	758,384	4,465,078	3,530,686	12,165,058
Occupancy	—	2,000	—	—	—	—	100,060	102,060
Interest	—	—	—	—	—	—	506,236	506,236
Depreciation	1,507,704	—	—	235,502	329,240	272,122	3,216,139	5,560,707
Other	741,889	1,304,278	438,528	3,921,744	252,421	6,876,942	4,262,884	17,798,686
Total expenses	<u>\$ 20,919,674</u>	<u>3,961,757</u>	<u>2,503,597</u>	<u>8,649,410</u>	<u>5,863,045</u>	<u>22,137,658</u>	<u>14,094,502</u>	<u>78,129,643</u>

Expenses by natural and functional classifications for the year ended June 30, 2020 are as follows:

	Fiscal year 2020							Total expenses
	Program activities							
	Instruction	Research	Public service	Academic support	Student services	Institutional support	Auxiliary enterprises	
Salaries and wages	\$ 13,959,960	2,391,507	1,618,769	3,065,077	4,198,762	7,321,794	2,331,521	34,887,390
Employee benefits	3,160,662	287,236	288,711	722,633	1,272,338	35,142	560,106	6,326,828
Professional fees	870,730	189,112	29,235	320,227	293,217	1,700,799	304,613	3,707,933
Occupancy	40,970	20,572	18,421	—	487,352	5,200	—	572,515
Interest	—	—	—	—	—	—	1,643,058	1,643,058
Depreciation	1,436,445	—	—	224,372	313,680	259,261	3,125,544	5,359,302
Student Success Program	—	—	—	—	34,000,000	—	—	34,000,000
Other	3,089,738	1,530,086	424,463	4,053,091	1,795,800	12,530,907	10,816,694	34,240,779
Total expenses	<u>\$ 22,558,505</u>	<u>4,418,513</u>	<u>2,379,599</u>	<u>8,385,400</u>	<u>42,361,149</u>	<u>21,853,103</u>	<u>18,781,536</u>	<u>120,737,805</u>

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(11) Agency Funds

Activity of the Federal Pell Grant program and the Federal Direct Student Loan program are reflected as agency transactions in the College's accompanying financial statements and, thus, are not included in the accompanying statements of activities. Students received \$5,189,152 and \$5,287,527 from the Federal Pell Grant program and \$25,444,829 and \$38,165,704 from the Federal Direct Student Loan program in fiscal years 2021 and 2020, respectively.

(12) Retirement Plans

The College maintains defined-contribution and deferred compensation retirement plans that cover substantially all full-time employees with one year's service or greater, under which the contributions are made to the Teacher's Insurance and Annuity Association (TIAA) for the purchase of retirement annuities or other investment assets for employees. Total pension expense under these plans for the years ended June 30, 2021 and 2020 totaled \$1,363,961 and \$1,389,417, respectively.

The College also has a 457(b) Deferred Compensation Plan, limited to executive management. The deferred compensation is invested with TIAA-CREF and is considered the College's property until the employee withdraws the funds due to emergency, termination, or retirement. The participants' contributions are subject to the general creditors of the College. Accordingly, the invested assets are recorded at fair value in investments in the accompanying statements of financial position, with a corresponding liability in the amount of \$292,362 and \$225,727 at June 30, 2021 and 2020, respectively. The College does not record any related-transaction activity as revenue or expense.

(13) Fair Value of Financial Instruments

The College's estimates of fair value for financial assets and liabilities are based on a framework that establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1: Valuations based on unadjusted quoted prices available in active markets for identical assets or liabilities as of the report date; a quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
- Level 2: Valuations based on pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable as of the financial reporting date; the nature of these securities include investments for which quoted prices are available but traded less frequently and investments for which fair value is estimated using other securities, the parameters of which can be directly observed.
- Level 3: Valuations derived from other valuation methodologies, including pricing models, discounted cash flow models, and similar techniques; Level 3 valuations incorporate certain assumptions and projections that are not observable in the market and require significant professional judgment in determining the fair value assigned to such assets.

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The carrying amount of cash and cash equivalents, accounts receivable, and accounts payable and accrued expenses approximates fair value because of the nature and/or relatively short maturity of these financial instruments. Investments are reported at fair value as of the date of the financial statements. Donated assets are recorded at fair value at the date of donation or, if sold immediately after receipt, at the amount of sales proceeds received (which are considered a fair measure of the value at the date of donation). Cash and cash equivalents are classified as Level 1 within the fair value hierarchy.

Contributions receivable for current-year gifts are initially measured at fair value in the year the receivable is recorded based on the present value of future cash flows discounted at a rate commensurate with risks involved, which is an application of the income approach. Current-year gifts included in contributions receivable reflected at fair value at June 30, 2021 and 2020 were \$8,023,396 and \$10,050,253, respectively.

A reasonable estimate of the fair value of the notes receivable from students under government loan programs and refundable advances from federal government for student loans could not be made because the notes receivables are not marketable and can only be assigned to the U.S. government or its designees. The carrying value of notes receivable from students under the College's loan programs and from others approximates fair value.

The College has \$88,138,705 and \$56,200,241 of investments at June 30, 2021 and 2020, respectively, which are reported at estimated fair value using NAV per share as a practical expedient. Unless it is probable that all or a portion of the investment will be sold for an amount different from NAV, the College has applied a practical expedient and concluded that the NAV reported by the underlying fund approximates the fair value of these investments.

Investments made directly by the College whose values are based on quoted market prices in active markets and are, therefore, classified within Level 1, include actively traded common and preferred stock, U.S. government fixed-income instruments, and non-U.S. government fixed-income instruments. Level 1 investments may also include listed mutual funds, exchange-traded funds, and money market funds.

Investments that trade in markets that are considered to be active but are valued based on dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. Alternative pricing sources include quotations from market participants and pricing models, which are based on accepted industry modeling techniques.

Investments with estimated fair value not using NAV as a practical expedient that are classified within Level 3 have significant unobservable inputs as they trade infrequently or not at all. Level 3 investments include estate fund investments. Inputs used may include the original transaction price, recent transactions in the same or similar market, completed or pending third-party transactions in the underlying investment or comparable issuers, and subsequent rounds of financing. When observable prices are not available, these investments are valued using one or more valuation techniques described below.

- Market approach: This approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- Income approach: This approach determines a valuation by discounting future cash flows.

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- **Cost approach:** This approach is based on the principle of substitution and the concept that a market participant would not pay more than the amount that would currently be required to replace the asset.

Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported NAV.

The following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value, as well as the general classification pursuant to the valuation hierarchy.

Equity Securities

Investments in equity securities valued at the quoted prices in an active market are classified within Level 1 of the fair value hierarchy. Investments in equity securities valued at quoted prices in inactive markets or estimated using other similar securities are classified within Level 2 of the hierarchy.

Fixed-Income Securities

When quoted prices are available in an active market, fixed-income securities are classified within Level 1 of the fair value hierarchy. Quoted prices in markets with pricing inputs that are not directly observable are classified within Level 2. If quoted market prices are not available or accessible, then fair values are estimated using pricing models, matrix pricing, or discounted cash flows models. The fair values of fixed-income securities estimated using pricing models or matrix pricing based on observable prices of fixed-income securities that trade in inactive markets are generally classified within Level 2 of the fair value hierarchy. Securities are classified within Level 3 when there is limited activity or less transparency around inputs to the valuation.

Alternative Investments

Alternative investments consist primarily of investments in various partnership funds. These investments are aggregated into private equity, real assets, domestic fixed income, equity index, and hedge funds based on the characteristics of their underlying investments. These investments are valued at fair value estimated using the NAV reported by the investment managers as a practical expedient. In accordance with ASC Subtopic 820-10, *Fair Value Measurements – Overall*, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying statements of financial position.

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Assets and liabilities recorded at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. The following tables are summary of the College's investments within the fair value hierarchy as of June 30, 2021 and 2020, as well as related strategy:

	June 30, 2021						Redemption or liquidation	Notice period
	Total	Investments measurements at NAV	Level 1	Level 2	Level 3			
Investments:								
Cash and cash equivalents	\$ 1,944,295	—	1,944,295	—	—	Daily	None	
Equity securities:								
U.S. equity	120,734,190	—	101,461,046	19,273,144	—	Daily	None–1 week	
Total equity securities	120,734,190	—	101,461,046	19,273,144	—			
Fixed-income securities:								
Mutual funds	13,082,161	—	13,082,161	—	—	Daily	None	
U.S. Treasury	39,105,997	—	—	39,105,997	—	Daily	None	
Commingled funds	12,596,549	—	—	12,596,549	—	Daily	None	
Total fixed-income securities	64,784,707	—	13,082,161	51,702,546	—			
Alternative investments:								
Equities:								
Private equity funds – (a)	64,972,691	64,972,691	—	—	—	N/A	N/A	
Investments in limited partnerships:								
Real asset funds	442,499	—	—	—	442,499	N/A	N/A	
Multistrategy hedge funds – (b)	23,166,014	23,166,014	—	—	—	Quarterly	90 Days	
Total alternative investments	88,581,204	88,138,705	—	—	442,499			
Total investments	\$ 276,044,396	88,138,705	116,487,502	70,975,690	442,499			

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	June 30, 2020						
	Total	Investments measurements at NAV	Level 1	Level 2	Level 3	Redemption or liquidation	Notice period
Investments:							
Cash and cash equivalents	\$ 1,439,081	—	1,439,081	—	—	Daily	None
Equity securities:							
U.S. equity	67,993,279	—	62,486,161	5,507,118	—	Daily	None–1 week
Total equity securities	67,993,279	—	62,486,161	5,507,118	—		
Fixed-income securities:							
Mutual funds	7,402,630	—	7,402,630	—	—	Daily	None
U.S. Treasury	16,459,644	—	—	16,459,644	—	Daily	None
Commingled funds	6,896,666	—	—	6,896,666	—	Daily	None
Total fixed-income securities	30,758,940	—	7,402,630	23,356,310	—		
Alternative investments:							
Equities:							
Private equity funds – (a)	43,029,512	43,029,512	—	—	—	NA	NA
Investments in limited partnerships:							
Real asset funds	1,018,033	—	—	—	1,018,033	NA	NA
Multistrategy hedge funds – (b)	13,170,729	13,170,729	—	—	—	Quarterly	90 Days
Total alternative investments	57,218,274	56,200,241	—	—	1,018,033		
Total investments	\$ 157,409,574	56,200,241	71,327,872	28,863,428	1,018,033		

The following is a description of the valuation methodologies and inputs used for alternative investments measured at NAV per share and valuations based on appraisals.

(a) Private Equity Funds

This class includes investments in limited partnerships or other pooled investment vehicles organized by independent sponsors (the Partnerships) primarily to make investments in nonpublic companies consisting primarily of equity and equity-related ownership interests in such companies. The funds may also invest directly in nonpublic entities in which the Partnerships invest. Investments in limited partnerships are valued at fair value based on the NAV of the limited partnership. The Partnerships value securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the underlying limited partnerships, which may include private placements and other securities for which prices are not readily available, are determined by the general partner or sponsor of the Partnerships and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized.

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(b) Multistrategy Hedge Funds

This class includes investments in funds that invest in different strategies, shifting capital among them according to their profitability and outlook. The underlying investment managers employ event-driven and diversified strategies, seeking to generate risk-adjusted returns across market and business cycles. In determining fair value, the fund managers utilized the valuations provided by the Partnerships. The Partnerships value securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the underlying limited partnerships, which may include private placements and other securities for which prices are not readily available, are determined by the general partner or sponsor of the Partnerships and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. These fair values of these funds have been estimated using the NAV per share.

(c) Level 3 Rollforward

The following table summarizes the changes in fair values associated with Level 3 assets for the years ended June 30, 2021 and 2020:

	Real asset funds
Fair value as of June 30, 2019	\$ 1,716,079
Distributions	(3,580)
Dividends	6,110
Realized gains	58,144
Unrealized losses	<u>(758,720)</u>
Fair value as of June 30, 2020	1,018,033
Distributions	(445,025)
Dividends	879
Realized gains	696
Unrealized losses	<u>(132,084)</u>
Fair value as of June 30, 2021	<u>\$ 442,499</u>

During fiscal years 2021 or 2020, there were no transfers between Level 1 and Level 2.

(14) Endowments

The College's endowment consists of approximately 300 individual funds established for a variety of purposes. It includes both donor-restricted funds received and funds designated by the Board of Trustees to function as endowment. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The College has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA or the Act), as adopted in Georgia, as providing, among other things, expanded flexibility by allowing the

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College, subject to a standard of prudence, to spend from an endowment fund without regard to the book value of the corpus of the fund. This flexibility under UPMIFA allows an expenditure that reduces the book value of the corpus of an endowment fund below its book value, which was previously not allowed. As a result of this interpretation, the College classified as net assets with donor restrictions (1) the original value of gifts donated to the endowment, (2) the original value of subsequent gifts to the endowment, and (3) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. If the endowment assets earn investment returns beyond the amount necessary to maintain the endowment assets' real value, the excess is available for appropriation and, therefore, classified as net assets with donor restrictions until appropriated for expenditure. The College currently records the investment returns on the specific-purpose endowment funds in net assets with restrictions and makes those earnings available for expenditure for the donor-restricted purpose. In accordance with the Act, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the donor-restricted endowment fund
3. The expected total return from income and the appreciation of investments
4. Other resources of the College
5. The investment policies of the College
6. Possible effect of inflation or deflation
7. General economic conditions

(b) Return Objectives and Risk Parameters

The College has adopted investment and spending policies for endowment assets intended to provide a predictable stream of funding for programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those donor-restricted funds that the College must hold in perpetuity. Under these policies, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed price and yield results of appropriate indexed benchmarks while assuming a prudent level of investment risk.

(c) Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation strategy across global equities, fixed income, marketable alternatives, and private investments to achieve its long-term return objectives within prudent risk constraints.

MOREHOUSE COLLEGE

Notes to Financial Statements

June 30, 2021 and 2020

(d) Spending Policy and How the Investment Objectives Relate to Spending Policy

The College employs a total return endowment spending policy that establishes the amount of endowment investment return available to support current operating and capital needs. The distribution of endowment income in 2021 and 2020 was based on a maximum target of 5% of the preceding three years' average fair value. In establishing these policies, the College considered the expected return on its endowment. Accordingly, the College expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate at least equal to or greater than planned payouts. Additional real growth will be provided through new gifts and any excess investment return.

Endowment fund composition by type of fund and net asset classification at June 30, 2021 is summarized as follows:

	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	242,315,907	242,315,907
Funds for long-term investment functioning as endowment	<u>35,721,330</u>	<u>—</u>	<u>35,721,330</u>
Total endowment net assets	<u>\$ 35,721,330</u>	<u>242,315,907</u>	<u>278,037,237</u>

Endowment fund composition by type of fund and net asset classification at June 30, 2020 is summarized as follows:

	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	147,418,171	147,418,171
Funds for long-term investment functioning as endowment	<u>9,662,602</u>	<u>—</u>	<u>9,662,602</u>
Total endowment net assets	<u>\$ 9,662,602</u>	<u>147,418,171</u>	<u>157,080,773</u>

MOREHOUSE COLLEGE
Notes to Financial Statements
June 30, 2021 and 2020

Changes in endowment net assets for the fiscal year ended June 30, 2021 are as follows:

	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
Endowment net assets, June 30, 2020	\$ 9,662,602	147,418,171	157,080,773
FY 2021 investment gain:			
Investment income	345,303	2,471,731	2,817,034
Realized gain	201,095	1,375,851	1,576,946
Unrealized gain	<u>5,985,098</u>	<u>42,581,878</u>	<u>48,566,976</u>
Total investment gain	6,531,496	46,429,460	52,960,956
Contributions	20,000,000	54,204,172	74,204,172
Appropriation of endowment for expenditure	<u>(472,768)</u>	<u>(5,735,896)</u>	<u>(6,208,664)</u>
Endowment net assets, June 30, 2021	<u>\$ 35,721,330</u>	<u>242,315,907</u>	<u>278,037,237</u>

Changes in endowment net assets for the fiscal year ended June 30, 2020 are as follows:

	<u>Without donor restriction</u>	<u>With donor restriction</u>	<u>Total</u>
Endowment net assets, June 30, 2019	\$ 10,120,489	145,961,971	156,082,460
FY 2020 investment gain (loss):			
Investment income	184,900	2,896,905	3,081,805
Realized gain	18,398	256,281	274,679
Unrealized loss	<u>(220,421)</u>	<u>(3,522,655)</u>	<u>(3,743,076)</u>
Total investment loss	(17,123)	(369,469)	(386,592)
Contributions	—	7,989,579	7,989,579
Appropriation of endowment for expenditure	<u>(440,764)</u>	<u>(6,163,910)</u>	<u>(6,604,674)</u>
Endowment net assets, June 30, 2020	<u>\$ 9,662,602</u>	<u>147,418,171</u>	<u>157,080,773</u>

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 the College to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature that are reported in net assets with donor restrictions totaled \$1,115,871 and \$1,614,540 as of June 30, 2021 and 2020, respectively, with an original gift value of \$2,373,225 and \$3,953,615 as of June 30, 2021 and 2020, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of relatively new restricted contributions.

MOREHOUSE COLLEGE
Notes to Financial Statements
June 30, 2021 and 2020

(15) Net Assets

Net assets for the fiscal year ended June 30, 2021 are available for the following purposes:

<u>Net assets</u>	<u>2021</u>		<u>Total</u>
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	
Endowment funds:			
Chairs and professorship	\$ —	28,027,215	28,027,215
Facilities	—	1,455,886	1,455,886
Faculty development	—	5,166,246	5,166,246
Operations	—	1,159,938	1,159,938
Program and scholarship	—	57,703,230	57,703,230
Program support	—	20,875,385	20,875,385
Scholarships	—	129,043,878	129,043,878
Funds for long-term investment functioning as unrestricted endowments	35,721,330	—	35,721,330
Underwater endowment	—	(1,115,871)	(1,115,871)
Total endowment funds	35,721,330	242,315,907	278,037,237
Investment in plant, net	155,425,444	—	155,425,444
Retirement obligations	(2,215,154)	—	(2,215,154)
Refundable advance	(1,673,652)	—	(1,673,652)
Student notes receivable	2,267,043	—	2,267,043
Sinking fund	376,782	—	376,782
Unrestricted fund	(16,221,885)	—	(16,221,885)
Academic or program support and student financial aid:			
Donor pledges and gifts	—	43,797,254	43,797,254
Student aid funds	—	13,309,875	13,309,875
Student loan funds	—	542,814	542,814
Total net assets	\$ <u>173,679,908</u>	<u>299,965,850</u>	<u>473,645,758</u>

MOREHOUSE COLLEGE
Notes to Financial Statements
June 30, 2021 and 2020

Net assets for the fiscal year ended June 30, 2020 are available for the following purposes:

<u>Net assets</u>	2020		<u>Total</u>
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	
Endowment funds:			
Chairs and professorship	\$ —	21,906,048	21,906,048
Facilities	—	1,214,068	1,214,068
Faculty development	—	4,034,856	4,034,856
Program support	—	23,515,352	23,515,352
Scholarships	—	98,362,387	98,362,387
Funds for long-term investment functioning as unrestricted endowments	9,662,602	—	9,662,602
Underwater endowment	—	(1,614,540)	(1,614,540)
Total endowment funds	9,662,602	147,418,171	157,080,773
Investment in plant, net	96,306,559	—	96,306,559
Retirement obligations	(2,096,883)	—	(2,096,883)
Refundable advance	(1,673,652)	—	(1,673,652)
Student notes receivable	2,522,313	—	2,522,313
Sinking fund	376,782	—	376,782
Unrestricted fund	(14,986,645)	—	(14,986,645)
Academic or program support and student financial aid:			
Donor pledges and gifts	—	36,946,959	36,946,959
Student aid funds	—	48,368,020	48,368,020
Student loan funds	—	542,815	542,815
Total net assets	\$ <u>90,111,076</u>	<u>233,275,965</u>	<u>323,387,041</u>

(16) Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expense satisfying the restricted purposes or by occurrence of other events specified by donors. Net assets released from restrictions consist of the following for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Student aid	\$ 6,606,050	6,393,922
Instruction	2,048,049	3,461,048
Research	380,887	230,503
Public service	476,676	548,478
Academic support	1,377,568	1,274,430
Student services	267,617	34,536,673

MOREHOUSE COLLEGE
Notes to Financial Statements
June 30, 2021 and 2020

	2021	2020
Institutional support	\$ 2,506,600	1,118,977
Auxiliary enterprises	104,171	222,448
Property, plant, and equipment acquired, placed in service, and capitalized	573,020	1,457,013
Total net assets released from restrictions	\$ 14,340,638	49,243,492

(17) Liquidity and Availability of Financial Assets

The College's financial assets available for general expenditure within one year of June 30 are as follows:

	2021	2020
Financial assets as of June 30, 2021 and 2020:		
Cash and cash equivalents	\$ 37,615,689	65,158,950
Restricted cash and cash equivalents	—	5,437,724
Accounts receivable, net	4,833,268	4,860,505
Contributions receivable, net	13,552,893	13,827,120
Investments	276,044,396	157,409,574
Student notes receivable, net	2,267,043	2,522,313
Total	334,313,289	249,216,186
Less amounts not available for general expenditures within one year due to restrictions as of June 30, 2021 and 2020:		
Donor-restricted endowment	242,315,907	147,418,171
Resources without donor-restriction invested as endowment	35,721,330	9,662,602
Contributions receivable due in greater than one year	11,990,323	4,862,934
Total	290,027,560	161,943,707
Total financial assets available to meet general expenditures within one year (excludes restrictions and self-imposed restrictions)	\$ 44,285,729	87,272,479

The College's working capital and cash flows have seasonal variations throughout the year, which are primarily attributable to concentration of tuition cash receipts and gifts received near calendar and fiscal year-ends. To assist in managing its liquidity, the College maintains a margin account with Charles Schwab (note 7).

MOREHOUSE COLLEGE

Notes to Financial Statements

June 30, 2021 and 2020

The above reflects the College's financial assets as of the statements of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual, donor-imposed restrictions or internal designations. Amounts available include the Board-approved appropriations from the endowment fund for the following year as well as donor-restricted amounts that are available for general expenditure in the following year. Amounts not available include amounts set aside for operating and other reserves that could be drawn upon if the Board of Trustees approves that action.

(18) Commitments and Contingencies

In consideration of the 10-year agreement awarded to Aramark in fiscal year 2015 to provide the College with meals, including a la carte items and nonalcoholic beverages for the College to resell to its students, faculty, staff, and guests, Aramark made a commitment to the College in an amount of \$3,351,075 for food service facility renovations and for the purchase and installation of food service equipment, area treatment, signage and marketing materials, and other costs associated with the Dining Services Program on the College's premises. Under the agreement, the College is required to have all resident students purchase a meal plan and provide a minimum of 238 full-service billing days per operating year over the 10-year period. If this minimum is not met, the College will have the financial obligation for the unamortized amount of the agreement. Due to the campus closure associated with COVID-19, Aramark agreed to waive this minimum for the duration of the pandemic, and instead, the College is charged on a cost-plus basis while COVID-19 is ongoing. The accumulated assets and related liability associated with the renovation totaling \$1,046,056 and \$1,394,742 as of June 30, 2021 and 2020, respectively, are included in property, plant, and equipment and other liabilities in the accompanying statements of financial position, respectively, and are being amortized straight line over 10 years.

Certain federally funded financial aid programs are routinely subject to audit. The reports on examinations conducted pursuant to specific regulatory requirements by the auditors for the College are required to be submitted to both the College and federal granting agencies. Such agencies have the authority to determine liabilities as well as to limit, suspend, or terminate federal programs. Such audits could result in claims against the resources of the College.

The College has outstanding commitments of \$15,600,751 and \$14,178,954 as of June 30, 2021 and 2020, respectively, for future investments of endowment assets in limited partnerships. Although the College is obligated to fund these commitments, many of these agreements allow "exit with penalty" and/or resale. Funds to meet these commitments will be generated from rebalancing the investment asset allocation, as well as donor gifts and existing investment assets, over the next 10–15 years.

The College is involved in legal proceedings and claims that have arisen in the ordinary course of business and have not been finally adjudicated. These actions, when finally concluded and determined, will not, in the opinion of management, have a material adverse effect upon the financial position of the College.

(19) Subsequent Events

In connection with the preparation of the financial statements, the College's management reviewed subsequent events after the statement of financial position date of June 30, 2021 through November 1, 2021, the date on which the financial statements were available to be issued, and determined that there were no additional matters requiring disclosure through this date.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND UNIFORM GUIDANCE REPORTS**

MOREHOUSE COLLEGE
Schedule of Expenditures of Federal Awards
Year ended June 30, 2021

	CFDA number	Passed through to subrecipients	Federal expenditures
Major programs:			
U.S. Department of Education:			
Student Financial Assistance cluster:			
Federal Pell Grant Program	84.063	\$ —	5,189,152
Federal Supplemental Educational Opportunity Grant	84.007	—	781,950
Federal Work Study Program	84.033	—	175,959
Federal Perkins Student Loan Program (note 3)	84.038	—	2,495,337
Federal Direct Student Loan Program (note 3)	84.268	—	25,445,278
Total Student Financial Assistance cluster		—	34,087,676
Education Stabilization Fund:			
COVID-19 – Higher Education Emergency Relief Fund – Student Portion – P425E200330	84.425E	—	2,071,563
COVID-19 – Higher Education Emergency Relief Fund – Institutional Portion – P425F201513	84.425F	—	1,475,469
COVID-19 – Higher Education Emergency Relief Fund – HBCU Portion – P425J200041	84.425J	—	8,385,382
Total U.S. Department of Education		—	11,932,414
Research and Development cluster:			
U.S. Department of Health and Human Services:			
Centers for Disease Control and Prevention – Investigations and Technical Assistance – Public Health Leader Fellowship Program – 1U14PS005070-01	93.283	—	48,730
CDC Undergraduate Public Health Scholars Program: A Public Health Experience to Expose Undergraduates Interested in Minority Health to Public Health and the Public Health Professions – 5U50MN00002-01-00	93.456	89,012	858,619
Biomedical Research and Research Training:			
National Institutes of Health – National Institute of General Medical Sciences – Leaders in Science MARC-U STAR Program – 1T34GM096954-01	93.859	—	143,775
Morehouse College RISE to Excellence Program – 2R25GM070514-09A1	93.859	—	67,187
Passed through Brown University – Synergistic Network to Enhance Research That Grows Innovation – 1R25GM125707-01A1, Subaward # 00001427	93.859	—	17,472
Passed through Emory University – Subcontract # 5K12 GM00680-05	93.859	—	14,320
Passed through Emory University – Subcontract # 2K12 GM00680-05	93.859	—	11,069
Total CFDA # 93.859		—	253,843
Total U.S. Department of Health and Human Services		89,012	1,161,192
National Science Foundation:			
Engineering Grants:			
NSF Award # EEC-1742942	47.041	—	761
Passed through Washington State University – Enhancing Cartilage Tissue Engineering of Co-Culture CBET – 1606226, Subaward # 127300	47.041	—	2,250
Passed through Georgia Institute of Technology – HRD-1744500, Subaward # D8309-G1	47.041	—	17,037
Total CFDA # 47.041		—	20,048
Mathematical and Physical Sciences:			
NSF Award # DMR-1900806	47.049	—	107,316
NSF Award # DMR-1839339	47.049	—	8,796
Total CFDA # 47.049		—	116,112
Computer and Information Science and Engineering:			
NSF Award # CNS-1831964	47.070	22,701	192,317
NSF Award # CNS-1837541	47.070	—	76,135
Passed through Computing Research Association – 2030859, Subaward # CIF2020-MC-34	47.070	—	64,250
Total CFDA # 47.070		22,701	332,702
Passed through Morehouse School of Medicine – Biomedical Sciences – Excellence in Research: Neuroanatomy and Development of Mammalian Homeostatic Sleep Regulation – IOS-1832069, Subaward # MCHummer-01	47.074	—	16,431
Education and Human Resources:			
NSF Award # DUE-1723752	47.076	—	2,534
NSF Award # HRD-2000095	47.076	—	31,434
NSF Award # HRD-1900710	47.076	—	37,479
NSF Award # HRD-1900701	47.076	—	22,824
NSF Award # HRD-1818458	47.076	8,000	233,580
NSF Award # HRD-1818618	47.076	—	113,408
NSF Award # DRL-1850302	47.076	—	360,564
NSF Award # HRD-2011889	47.076	—	66,864
NSF Award # HRD-2010676	47.076	178,571	789,366
NSF Award # HRD-2048821	47.076	—	118,453
NSF Award # HRD-2010779	47.076	—	43,061
NSF Award # DUE-1821184	47.076	—	616
NSF Award # HRD-2011841	47.076	—	83,766
Passed through Spelman College – Targeted Infusion Project: Data Science Extension; Incorporating Data Science Fundamental in Computing Curriculum at Spelman and Morehouse Colleges – HRD-1623362, Subaward # 24325-1	47.076	—	2,311
Passed through Clark Atlanta University – Collaborative Research between Clark Atlanta University and Morehouse College – The Georgia Louis Stokes Alliances for Minority Participation – HRD-1826797, Subaward # RSP-2018-215051-005	47.076	—	32,669
Total CFDA # 47.076		186,571	1,938,929
Total National Science Foundation		209,272	2,424,222
U.S. Department of Energy:			
Minority Educational Institution Assistance – STEM Scholarship Program – DOE #DE-ED0000364	81.094	—	81,240
National Nuclear Security Administration Minority Serving Institutions Program:			
Passed through Florida A&M University – DOE #DE-NA-0003866, Subaward # 5002/FAMU Project # 005994	81.123	—	126,414
Passed through Prairie View A&M University – DOE #DE-NA0003947, Subaward # M2000611-S200502	81.123	—	133,861
Total CFDA # 81.123		—	260,275
Total U.S. Department of Energy		—	341,515
National Aeronautics and Space Administration:			
Passed through Georgia Institute of Technology – Education – Space Grant College Fellowship Program – NNX14AP85H, Subaward # RF964-G10	43.008	—	19,105
Total Research and Development cluster		298,284	3,946,034

MOREHOUSE COLLEGE

Schedule of Expenditures of Federal Awards

Year ended June 30, 2021

	<u>CFDA</u> <u>number</u>	<u>Passed</u> <u>through to</u> <u>subrecipients</u>	<u>Federal</u> <u>expenditures</u>
Nonmajor programs:			
U.S. Department of Education:			
TRIO cluster:			
Talent Search Program – P044A110088	84.044A	\$ —	571,206
Upward Bound Program – P047A170610	84.047A	—	280,340
Upward Bound Program – P047M170128	84.047M	—	280,717
Upward Bound Program – P047A170603	84.047A	—	314,739
Upward Bound Program – P047M170126	84.047M	—	382,442
Upward Bound Program – P047M170127	84.047M	—	283,225
Total CFDA # 84.047		—	2,112,669
McNair Post-Baccalaureate Achievement Program – P217A170107	84.217A	—	293,386
Total TRIO cluster		—	2,406,055
Higher Education Institutional Aid:			
Strengthening Historically Black Colleges and Universities – P031B150080	84.031B	—	1,118,783
Strengthening Historically Black Colleges and Universities – P031E200050	84.031E	—	188,034
Strengthening Historically Black Colleges and Universities – P031B170017	84.031B	—	2,792,252
Total Higher Education Institutional Aid		—	4,099,069
Total U.S. Department of Education		—	6,505,124
U.S. Small Business Administration:			
Passed through University of Georgia – Prime # SBAHQ20B0052, Subaward # AWD0001140801	59.037	—	77,295
U.S. Department of Defense:			
Passed through Virginia Polytechnic Institute and State University – Intelligence Community Center for Academic Excellence – HHM402-19-1-0004, Subaward # 321573-19D71	12.598	—	51,260
U.S. Department of Commerce:			
Passed through Georgia Institute of Technology – MBDA Inner City Innovation Hub - Prime # MB20OBD8020147, Subaward # AWD-001607-G1	11.802	—	58,011
National Endowment for the Humanities:			
Promotion of the Humanities – Division of Preservation and Access – Africana Digital Ethnography Project Collection Accessibility Program – PW-264175-19	45.149	—	67,747
Promotion of the Humanities – Office of Digital Humanities – Algorithmic Thinking, Analysis, and Visualization in Music – HAA-263831	45.169	—	8,220
Total National Endowment for the Humanities		—	75,967
National Park Service - State, Tribal, Local, Plans and Grants:			
Samuel T. Graves Hall Exterior Repair and Restoration Project - Grant # P20AP00173	15.904	—	220,395
Total expenditures of federal awards		\$ 298,284	56,954,176

See accompanying notes to schedule of expenditures of federal awards.

MOREHOUSE COLLEGE

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2021

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Morehouse College (the College) and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost of Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Expenditures include a portion of costs associated with general college activities (indirect costs), which are allocated to federal awards under negotiated formulas commonly referred to as indirect cost rates. Indirect costs and related revenue applicable to these cost recoveries are classified as unrestricted expenditures and revenue in the College's basic financial statements. Restricted grants and contracts and other agreements are recognized in the Schedule when funds are expended and receivable from the federal government.

(2) Indirect Cost Rate

The College did not elect to use the 10% de minimis indirect cost rate, as allowed in accordance with Uniform Guidance Section 200.414.

(3) Noncash Federal Assistance

Most federal financial assistance is in the form of cash awards. However, there are a number of federal programs that do not involve cash transactions with the College. These noncash awards include the Federal Direct Student Loan Program (FDSLSP) (which includes the Federal Stafford Student Loan Program and the Federal Parent Loans for Undergraduate Students) and the Federal Perkins Student Loan Program.

Loans advanced and related expenditures for the year ended June 30, 2021 are as follows for the following student loan programs:

	<u>CFDA number</u>	<u>Amount</u>
FDSLSP:		
Student loans advanced:		
Federal direct subsidized Stafford loans	84.268	\$ 4,037,173
Federal direct unsubsidized Stafford loans	84.268	3,343,548
Federal direct parent loans for undergraduate students	84.268	<u>18,064,557</u>
		<u>\$ 25,445,278</u>

The College is only responsible for the performance of certain administrative duties with respect to the FDSLSP. Therefore, it is not practicable to determine the balance of loans outstanding to students and former students of the College under these programs as of June 30, 2021. These loans are not included in the College's financial statements.

MOREHOUSE COLLEGE

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2021

The Federal Perkins Student Loan Program is administered directly by the College, and balances and transactions relating to this program are included in the College's financial statements. The balance of loans outstanding under the Federal Perkins Student Loan Program is \$2,325,327 at June 30, 2021. Perkins Loans advanced in 2021 totaled \$0.

(4) Administrative Cost Allowance

The College claimed an administrative cost allowance of \$47,516 under the Federal Work Study Program for the year ended June 30, 2021, which is included in the Federal Work Study Program and Federal Supplemental Educational Opportunity Grant balances in the accompanying Schedule.



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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
Morehouse College:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Morehouse College (the College), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 1, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Atlanta, Georgia
November 1, 2021



KPMG LLP
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Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Trustees
Morehouse College:

Report on Compliance for Each Major Federal Program

We have audited Morehouse College's (the College) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2021. The College's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the College's compliance.

Opinion on Each Major Federal Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each



major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the College as of and for the year ended June 30, 2021, and have issued our report thereon dated November 1, 2021, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

Atlanta, Georgia
August 04, 2022

MOREHOUSE COLLEGE

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

(1) Summary of Auditors' Results

- (a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
 - Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- (c) Noncompliance which is material to the financial statements: **No**
- (d) Internal control deficiencies over major programs disclosed by the audit:
 - Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- (e) Type of report issued on compliance for major programs: **Unmodified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **None**
- (g) Major programs:
 - Student Financial Assistance Cluster – various CFDA numbers
 - Research and Development Cluster – various CFDA numbers
 - Education Stabilization Fund – CFDA No. 84.425
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$1,708,625**
- (i) Auditee qualified as a low-risk auditee: **Yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None

(3) Findings and Questioned Costs Relating to Federal Awards

None

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Status of Prior Year Findings

Finding No. 2020-001

SFA – Pell Disbursement Reporting

Federal Programs

Student Financial Assistance Cluster

CFDA Nos.:

84.063 – Federal Pell Grant Program

Federal Agency:

U.S. Department of Education

Federal Award Years:

Criteria

Condition, Cause, and Effect

7 instances across 5 students for whom Pell disbursements were not reported to COD within 15 days of the date of disbursement as required.

Recommendation

Contact person for corrective actions: Charmaine Daniels/AVP-Student Financial Services

Anticipated completion date: June 30, 2021

Management Response

Management agrees with the finding. A new process will be implemented within Financial Aid Department to meet the 15-day reporting requirement.

Corrective Action Plan:

The College plans to implement the following:

Beginning with the 21-22 aid year, the Financial Aid Department will begin reporting Pell disbursements to COD on a weekly basis to remain compliant with the 15-day reporting requirement.

Status of Prior Year Finding:

This finding has been corrected.

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Finding No. 2020-002

HEERF – Student Portion Reporting

Federal Programs

CFDA Nos.:

Federal Agency:

Federal Award Years:

Criteria

Condition, Cause, and Effect

The reports posted to the Morehouse website to satisfy the HEERF student portion reporting requirement did not reconcile/tie back to the supporting schedules and accounting records.

Recommendation

Contact person for corrective actions: Haskell B. Ruff, AVP/Controller

Anticipated completion date: June 30, 2021

Management Response

Management agrees with the finding. Steps have been taken within Business and Finance to reconcile the support to the memo before it is posted to the website.

The College plans to implement the following:

- The data used to support the memo will be reviewed by several Business and Finance personnel.
- Final review is performed by Grants Compliance Specialist.
- Copy of memo and support are saved into Box folder on the network.

Status of Prior Year Finding:

This finding has been corrected.