MOREHOUSE COLLEGE

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

June 30, 2023 and 2022

(With Independent Auditors' Reports Thereon)

MOREHOUSE COLLEGE

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KPMG LLP
Suite 2000
303 Peachtree Street, N.E.
Atlanta, GA 30308-3210

Independent Auditors' Report

The Board of Trustees
Morehouse College:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Morehouse College (the College), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the College as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the College and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2023 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 of internal control over financial reporting and compliance and the results of that 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 13, 2023

MOREHOUSE COLLEGE

Statements of Financial Position

June 30, 2023 and 2022

Assets		**2023**	**2022**
Cash and cash equivalents (note 1(g))	$	50,919,151	45,084,337
Restricted cash and cash equivalents		65,282	—
Accounts receivable, net (note 3)		5,523,596	6,835,934
Prepaid expenses, deferred charges, and other assets		907,874	631,835
Contributions receivable, net (note 4)		6,898,719	8,963,743
Investments (notes 2 and 13)		252,216,589	239,979,857
Student notes receivable, net (note 5)		1,480,257	2,034,799
Property, plant, and equipment, net (note 6)		168,941,161	165,918,611
Operating right-of-use lease assets		691,178	—
Financing right-of-use lease assets		132,290	—
Total assets	$	487,776,097	469,449,116
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	9,151,748	9,285,714
Margin credit facility (notes 7 and 17)		5,000,000	5,000,000
Refundable advances from federal government for student loans (note 5)		1,673,657	1,673,657
Deferred revenue		181,366	146,629
Deferred compensation (note 12)		282,780	248,268
Asset retirement obligations (note 8)		2,215,154	2,215,154
Bond payable, net (note 7)		473,037	—
Operating lease liabilities		691,515	—
Obligations under finance leases		210,352	32,615
Other liabilities		70,400	2,064,939
Total liabilities		19,950,009	20,666,976
Net assets:			
Without donor restrictions (note 15)		180,334,055	173,371,130
With donor restrictions (note 15)		287,492,033	275,411,010
Total net assets		467,826,088	448,782,140
Commitments and contingencies (notes 7, 8, and 18)			
Total liabilities and net assets	$	487,776,097	469,449,116

See accompanying notes to financial statements.

MOREHOUSE COLLEGE

Statement of Activities

Year ended June 30, 2023
(With summarized financial information for the year ended June 30, 2022)

	2023			2022
	Without donor restrictions	**With donor restrictions**	**Total**	**Total**
Revenue and support:				
Tuition and fees, excluding scholarships of $26,600,328 (in 2023) and $32,541,701 (in 2022)	$ 43,810,056	—	43,810,056	35,329,290
Government grants and contracts	14,824,139	—	14,824,139	32,743,085
Private gifts, grants, and contracts (note 9)	6,222,523	17,087,951	23,310,474	23,641,678
Investment income:				
Interest and dividends	887,887	7,275,837	8,163,724	1,988,066
Net realized losses	(143,028)	(1,009,391)	(1,152,419)	(159,793)
Net unrealized gains (losses)	2,272,871	16,250,944	18,523,815	(33,470,695)
Sales and services of auxiliary enterprises (note 9)	22,161,273	—	22,161,273	20,857,392
Other income	3,816,293	457,009	4,273,302	1,681,843
Net assets released from restrictions (note 16)	27,981,327	(27,981,327)	—	—
Total revenue and support	121,833,341	12,081,023	133,914,364	82,610,866
Expenses (note 10):				
Instruction	32,258,566	—	32,258,566	26,307,380
Research	5,934,426	—	5,934,426	6,030,482
Public service	3,754,088	—	3,754,088	3,277,818
Academic support	9,622,146	—	9,622,146	11,390,798
Student services	10,709,056	—	10,709,056	7,775,639
Institutional support	31,760,815	—	31,760,815	33,772,523
Auxiliary enterprises	20,831,319	—	20,831,319	18,919,844
Total expenses	114,870,416	—	114,870,416	107,474,484
Change in net assets	6,962,925	12,081,023	19,043,948	(24,863,618)
Net assets at beginning of year	173,371,130	275,411,010	448,782,140	473,645,758
Net assets at end of year	$ 180,334,055	287,492,033	467,826,088	448,782,140

See accompanying notes to financial statements.

MOREHOUSE COLLEGE

Statement of Activities

Year ended June 30, 2022

	2022		
	Without donor restrictions	**With donor restrictions**	**Total**
Revenue and support:			
Tuition and fees, excluding scholarships of $32,541,701	$ 35,329,290	—	35,329,290
Government grants and contracts	32,743,085	—	32,743,085
Private gifts, grants, and contracts (note 9)	5,903,224	17,738,454	23,641,678
Investment income:			
Interest and dividends	808,387	1,179,679	1,988,066
Net realized losses	(20,200)	(139,593)	(159,793)
Net unrealized losses	(4,019,524)	(29,451,171)	(33,470,695)
Sales and services of auxiliary enterprises (note 9)	20,857,392	—	20,857,392
Other income	1,569,329	112,514	1,681,843
Net assets released from restrictions (note 16)	13,994,723	(13,994,723)	—
Total revenue and support	107,165,706	(24,554,840)	82,610,866
Expenses (note 10):			
Instruction	26,307,380	—	26,307,380
Research	6,030,482	—	6,030,482
Public service	3,277,818	—	3,277,818
Academic support	11,390,798	—	11,390,798
Student services	7,775,639	—	7,775,639
Institutional support	33,772,523	—	33,772,523
Auxiliary enterprises	18,919,844	—	18,919,844
Total expenses	107,474,484	—	107,474,484
Change in net assets	(308,778)	(24,554,840)	(24,863,618)
Net assets at beginning of year	173,679,908	299,965,850	473,645,758
Net assets at end of year	$ 173,371,130	275,411,010	448,782,140

See accompanying notes to financial statements.

MOREHOUSE COLLEGE

Statements of Cash Flows

Years ended June 30, 2023 and 2022

		2023	2022
Cash flows from operating activities:			
Change in net assets	$	19,043,948	(24,863,618)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		6,027,251	5,129,563
Bad debt		782,196	947,050
Net realized loss on sales of investments		1,152,419	159,793
Net unrealized (gains) losses on investments		(18,523,815)	33,470,695
Decrease (increase) in accounts receivable, net		193,480	(2,422,182)
Decrease in contributions receivable, net		2,401,686	4,061,616
(Increase) decrease in prepaid expenses, deferred charges, and other assets		(276,039)	426,096
(Decrease) increase in accounts payable and accrued expenses and other liabilities		(1,180,022)	2,334,860
Increase in deferred revenue		34,737	146,629
Increase (decrease) in deferred compensation		34,512	(44,094)
Receipt of agency funds (Federal Direct Student Loans and Federal Pell Grants)		41,316,543	38,425,200
Disbursement of agency funds		(41,316,543)	(38,425,200)
Gifts and grants and investment income restricted for long-term investment		(673,705)	(6,365,202)
Right-of-use lease assets and lease liabilities		45,784	—
Net cash provided by operating activities		9,062,432	12,981,207
Cash flows from investing activities:			
Proceeds from the sales and maturities of investments		15,648,013	17,042,372
Purchases of investments		(10,513,349)	(14,608,317)
Purchases of property, plant, and equipment		(9,049,801)	(14,468,901)
Proceeds from repayment of student notes receivable		554,542	232,244
Net cash used in investing activities		(3,360,595)	(11,802,602)
Cash flows from financing activities:			
Principal repayments of capital lease obligation		(948,483)	(75,159)
Drawings from bond payable		1,290,445	—
Payment of bond issuance costs		(817,408)	—
Gifts and grants and investment income restricted for long-term investment		673,705	6,365,202
Net cash provided by financing activities		198,259	6,290,043
Net increase in cash and cash equivalents		5,900,096	7,468,648
Cash and cash equivalents at beginning of year		45,084,337	37,615,689
Cash and cash equivalents at end of year	$	50,984,433	45,084,337
Cash, cash equivalents, and restricted cash as reported in the statements of financial position:			
Cash and cash equivalents	$	50,919,151	45,084,337
Restricted cash and cash equivalents		65,282	—
	$	50,984,433	45,084,337
Supplemental data:			
Accrued capital obligation included in property, plant, and equipment	$	352,517	661,738

See accompanying notes to financial statements.

(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 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).

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.

(f) Novel Coronavirus Pandemic (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus a pandemic. The outbreak of the disease affected travel, commerce, and financial markets globally, including in the United States. From March 2020 to March 2021, as a response to the disruptions impacting operations and liquidity of various industries the Federal government enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA), and American Rescue Plan Act of 2021 (ARP), which provided higher education stimulus funding through the Higher Education Emergency Relief Fund (HEERF) in various phases (collectively, HEERF awards).

HEERF awards are considered conditional contributions within the scope of FASB Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. During 2023 and 2022, the College recorded $254,523 and $10,160,293, respectively, of HEERF revenues relating to reimbursements of lost revenues and qualifying expenses in government grants and contracts in the accompanying statements of activities.

The College continues to monitor its operations 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 has 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.

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, 2023 and 2022.

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 and building improvements	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, 2023 or 2022.

(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.

(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, 2023 or 2022. These funds are ultimately

(Continued)

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 2023 or 2022.

(o) Lessee Accounting

(Policy applicable beginning July 1, 2022)

The College is a lessee in certain noncancellable operating and financing leases. The College accounts for leases in accordance with Topic 842, *Leases (note 1(p))*. The College determines if an arrangement is or contains a lease at contract inception. The College recognizes a Right of Use (ROU) asset and a lease liability at the lease commencement date.

For operating leases, the lease liability is initially and subsequently measured at the present value of the unpaid lease payments at the lease commencement date. Key estimates and judgments include how the College determines (1) the discount rate it uses to discount the unpaid lease payments to present value, (2) lease term, and (3) lease payments.

- Topic 842 requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. However, a lessee that is not a public business entity is permitted to use a risk-free discount rate instead of its incremental borrowing rate as per ASC 842-20-30-3. Generally, the College cannot determine the interest rate implicit in the lease because it does not have access to the lessor's estimated residual value or the amount of the lessor's deferred initial direct costs. Therefore, the College generally uses a risk-free rated determined using a period comparable with that of the lease term as the discount rate for the lease for all classes of its leased asset portfolio.
- The lease term for all the College's leases includes the noncancellable period of the lease plus any additional periods covered by either a College option to extend (or not to terminate) the lease that the College is reasonably certain to exercise, or an option to extend (or not to terminate) the lease controlled by the lessor.
- Lease payments included in the measurement of the lease liability comprise of the following:
  - Fixed payments, including in-substance fixed payments, owed over the lease term (which includes termination penalties the College would owe if the lease term assumes the College's exercise of a termination option);
  - Variable lease payments that depend on an index or rate, initially measured using the index or rate at the lease commencement date;
  - Amounts expected to be payable under a College-provided residual value guarantee; and

– The exercise price of a College option to purchase the underlying asset if the College is reasonably certain to exercise the option.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred, less any lease incentives received.

For operating leases, the ROU asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

For finance leases, the ROU asset is subsequently amortized using the straight-line method from the lease commencement date to the earlier of the end of its useful life or the end of the lease term unless the lease transfers ownership of the underlying asset to the College or the College is reasonably certain to exercise an option to purchase the underlying asset. In those cases, the ROU asset is amortized over the useful life of the underlying asset. Amortization of the ROU asset is recognized and presented separately from interest expense on the lease liability.

Variable lease payments associated with the College's leases are recognized when the event, activity, or circumstance in the lease agreement on which those payments are assessed occurs. Variable lease payments are presented as operating expense in the College's statements of activities in the same line item as expense arising from fixed lease payments.

The College monitors for events or changes in circumstances that require a reassessment of one of its leases. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding ROU asset unless doing so would reduce the carrying amount of the ROU asset to an amount less than zero. In that case, the amount of the adjustment that would result in a negative ROU asset balance is recorded in profit or loss.

The College has elected not to recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less for all classes of leased assets. As such, the College recognizes any short-term lease payments as an expense on a straight-line basis over the lease term. Any variable lease payments associated with these leases are recognized and presented in the same manner as for all other College leases.

The College's leases can include non-lease maintenance and other related services. The College allocates the consideration in the contract to the lease and non-lease maintenance component based on each component's relative stand-alone price. The College determines stand-alone prices for the lease components based on the prices for which other lessors lease similar assets on a stand-alone basis. The College determines stand-alone prices for the non-lease components (i.e., maintenance services) based on the prices that other suppliers charge for maintenance services for similar assets on a stand-alone basis. If observable stand-alone prices are not readily available, the College has elected the practical expedient to account for the lease and non-lease maintenance components as a single lease component. Therefore, for those leases, the lease payments used to measure the lease liability include all the fixed consideration in the contract.

(p) Recently Adopted and Issued Accounting Pronouncements

Beginning in February 2016, the FASB issued ASU No. 2016-02, *Leases*, plus a number of related ASUs (Topic 842). Topic 842 requires lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements. Leases are classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the statement of activities.

The College adopted Topic 842 as of July 1, 2022, using a modified retrospective transition approach. As a result, the College was not required to adjust its comparative period financial information for effects of the standard or make the new required lease disclosures for periods before the date of adoption. The College elected to adopt the package of transition practical expedients and, therefore, has not reassessed (1) whether existing or expired contracts contain a lease, (2) lease classification for existing or expired leases or (3) the accounting for initial direct costs that were previously capitalized.

The adoption of Topic 842 did not have a material effect on the College's financial statements and related notes to the financial statements. The most significant change related to the statements of financial position for the recognition of new ROU assets totaling $220,862 and corresponding lease liabilities for operating leases as of July 1, 2022.

(2) Investments

The following table summarizes the College's investments as of June 30, 2023 and 2022:

	Fair value	
	2023	2022
Cash and cash equivalents	$ 3,463,642	22,930,410
Equity securities:		
U.S. equity	89,940,199	84,673,837
Fixed-income securities:		
Mutual funds	31,870,735	13,138,858
U.S. Treasury	5,126,178	8,448,886
Commingled funds	12,376,686	12,488,887
Alternative investments:		
Equity securities:		
Private equity funds	71,572,333	63,234,842
Real asset funds	158,240	367,259
Multistrategy hedge funds	37,708,576	34,696,878
Total investments at fair value	$ 252,216,589	239,979,857

Investment management expenses totaled $1,242,708 and $1,254,900 for the years ended June 30, 2023 and 2022, 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, 2023 and 2022 are as follows:

	Fair value at June 30		Unfunded commitments at June 30		Redemption	Redemption
	2023	2022	2023	2022	frequency	restrictions
Alternative investments:						
Private equity funds	$ 71,572,333	63,234,842	20,796,865	20,170,767	N/A	N/A
Real asset funds	158,240	367,259	N/A	N/A	N/A	N/A
Multistrategy hedge funds	37,708,576	34,696,878	N/A	N/A	Quarterly	90 Days
Total	$ 109,439,149	98,298,979	20,796,865	20,170,767		

(3) Accounts Receivable

Accounts receivable at June 30, 2023 and 2022 are summarized as follows:

	2023	2022
Student and other accounts receivable	$ 3,134,884	3,373,200
Grants receivable	2,352,484	3,680,414
Agency receivable	792,426	(3,146)
Total accounts receivable	6,279,794	7,050,468
Less allowance for doubtful accounts	(756,198)	(214,534)
Accounts receivable, net	$ 5,523,596	6,835,934

(4) Contributions Receivable

Contributions receivable at June 30, 2023 and 2022 are summarized as follows:

		2023	2022
Unconditional promises to give	$	9,452,431	11,854,117
Less allowance for doubtful accounts		(1,988,250)	(1,924,800)
		7,464,181	9,929,317
Less unamortized discount		(565,462)	(965,574)
Net contributions receivable	$	6,898,719	8,963,743
Amounts due in:			
Less than one year	$	1,539,900	1,448,240
One to five years		7,912,531	10,405,877
	$	9,452,431	11,854,117

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, 2023 using rates ranging from 4.50% to 9.72%.

At June 30, 2023, one donor's outstanding pledge balance represented 29% of the College's gross contributions receivable. At June 30, 2022, one donor's outstanding pledge balance represented 28% of the College's gross contributions receivable.

(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, 2023 and 2022, the outstanding loans for the Perkins Program totaled $2,140,763 and $2,597,473, respectively, net of allowance for doubtful accounts of $660,506 and $660,506 at June 30, 2023 and 2022, respectively. These balances are presented in student notes receivable, net on the accompanying statements of financial position.

(6) Property, Plant, and Equipment

Property, plant, and equipment consist of the following at June 30, 2023 and 2022:

		2023	2022
Land and other nondepreciable assets	$	27,505,488	27,505,488
Buildings and building improvements		223,116,707	213,995,157
Equipment		50,982,119	48,818,466
Construction in progress		894,598	3,130,000
		302,498,912	293,449,111
Less accumulated depreciation and amortization		(133,557,751)	(127,530,500)
	$	168,941,161	165,918,611

Depreciation expense totaled $6,027,251 and $5,129,563 for the years ended June 30, 2023 and 2022, respectively.

(7) Bond Payable and Margin Credit Facility

(a) Bond payable

During February 2023, the College issued the future advanced project funding bond, Series A 2023-4, through the Rice Capital Access Program, under the Historically Black College and University (HBCU) Capital Financing Program. The Series A 2023-4 has a maximum principal borrowing capacity of $58,500,000. The interest rate for each advance is established in accordance with the terms of the bond at the time such advance is made.

As of June 30, 2023, the College has borrowed $1,290,455 with a fixed interest rate of 4.01%. The cost of issuance totaled $817,408. Principal and interest payments are due semiannually, beginning on December 1, 2025, through the stated maturity date of June 1, 2053. The bond is secured with pledge collateral.

The Series A 2023-4 bond contains debt covenants that require the College to set rates and charges so that Net Income Available for Debt Service as defined in the agreement is equal to at least 120% of maximum annual debt service and such that revenues are equal to at least 100% of the sum of operating expenses, maximum annual debt service, escrow account payments, and replenishment funds required by the bond indenture.

(b) Margin credit facility

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, 2023 and 2022, this resulted in remaining margin availability of approximately $22,086,000 and $16,500,000, respectively, after taking into account the $5,000,000 outstanding on this margin credit facility as of both June 30, 2023 and 2022.

(Continued)

(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.

Asset retirement obligations for both years ended June 30, 2023 and 2022 were $2,215,154.

(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, 2023 and 2022:

	2023			2022		
	Gifts and grants	Contracts with customers	Total	Gifts and grants	Contracts with customers	Total
Private contributions	$ 12,992,622	—	12,992,622	18,110,792	—	18,110,792
Unrestricted contributions	2,139,674	—	2,139,674	2,750,571	—	2,750,571
Private grants	6,894,808	—	6,894,808	2,234,369	—	2,234,369
Private contracts	—	1,283,370	1,283,370	—	545,946	545,946
Total	$ 22,027,104	1,283,370	23,310,474	23,095,732	545,946	23,641,678

Sales and services of auxiliary enterprises consisted of the following for the years ended June 30, 2023 and 2022:

	2023	2022
Housing revenue	$ 12,076,046	11,172,589
Dining services	9,163,672	7,879,542
Other	921,555	1,805,261
Total	$ 22,161,273	20,857,392

(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 $8,685,185 and $8,312,246 in 2023 and 2022, respectively.

Expenses by natural and functional classifications for the year ended June 30, 2023 are as follows:

	Fiscal year 2023							
	Program activities							
	Instruction	Research	Public service	Academic support	Student services	Institutional support	Auxiliary enterprises	Total expenses
Salaries and wages	$ 18,100,203	2,751,276	2,193,451	3,294,426	4,882,910	9,292,124	3,089,490	43,603,880
Employee benefits	4,313,293	445,820	404,688	664,474	1,523,611	2,461,751	739,608	10,553,245
Professional fees	5,593,232	503,740	207,013	1,139,454	1,654,237	5,927,266	4,269,240	19,294,182
Occupancy	3,250	85,072	117,325	2,230	—	—	—	207,877
Interest	—	—	—	—	—	—	—	—
Depreciation	1,758,568	—	—	274,687	384,023	317,400	3,292,573	6,027,251
Other	2,490,020	2,148,518	831,611	4,246,875	2,264,275	13,762,274	9,440,408	35,183,981
Total expenses	$ 32,258,566	5,934,426	3,754,088	9,622,146	10,709,056	31,760,815	20,831,319	114,870,416

Expenses by natural and functional classifications for the year ended June 30, 2022 are as follows:

	Fiscal year 2022							
	Program activities							
	Instruction	Research	Public service	Academic support	Student services	Institutional support	Auxiliary enterprises	Total expenses
Salaries and wages	$ 15,602,613	3,027,915	1,901,918	4,357,511	3,691,389	9,325,455	2,524,108	40,430,909
Employee benefits	3,653,622	504,071	310,376	1,008,481	855,808	4,118,116	641,356	11,091,830
Professional fees	4,686,090	429,013	157,905	2,053,146	1,258,696	5,103,488	4,259,778	17,948,116
Occupancy	3,250	72,496	48,825	—	—	—	—	124,571
Interest	—	—	—	—	—	—	—	—
Depreciation	1,347,401	—	—	210,463	294,235	243,189	3,034,275	5,129,563
Other	1,014,404	1,996,987	858,794	3,761,197	1,675,511	14,982,275	8,460,327	32,749,495
Total expenses	$ 26,307,380	6,030,482	3,277,818	11,390,798	7,775,639	33,772,523	18,919,844	107,474,484

(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 $6,101,734 and $5,547,335 from the Federal Pell Grant program and $35,214,809 and $32,877,865 from the Federal Direct Student Loan program in fiscal years 2023 and 2022, 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, 2023 and 2022 totaled $1,826,205 and $2,730,162, 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 $282,780 and $248,268 at June 30, 2023 and 2022, 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.

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, 2023 and 2022 were $1,106,332 and $1,480,701, 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 $109,280,909 and $97,931,720 of investments at June 30, 2023 and 2022, 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.
- 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.

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, 2023 and 2022, as well as related strategy:

	June 30, 2023						
	Total	Investments measurements at NAV	Level 1	Level 2	Level 3	Redemption or liquidation	Notice period
Investments:							
Cash and cash equivalents	$ 3,463,642	—	3,463,642	—	—	Daily	None
U.S. equity securities	89,940,199	—	89,737,748	202,451	—	Daily	None–1 week
Fixed-income securities:							
Mutual funds	31,870,735	—	31,870,735	—	—	Daily	None
U.S. Treasury	5,126,178	—	—	5,126,178	—	Daily	None
Commingled funds	12,376,686	—	—	12,376,686	—	Daily	None
Total fixed-income securities	49,373,599	—	31,870,735	17,502,864	—		
Alternative investments:							
Equities:							
Private equity funds – (a)	71,572,333	71,572,333	—	—	—	N/A	N/A
Investments in limited partnerships:							
Real asset funds	158,240	—	—	—	158,240	N/A	N/A
Multistrategy hedge funds – (b)	37,708,576	37,708,576	—	—	—	Quarterly	90 Days
Total alternative investments	109,439,149	109,280,909	—	—	158,240		
Total investments	$ 252,216,589	109,280,909	125,072,125	17,705,315	158,240		

	June 30, 2022						
	Total	Investments measurements at NAV	Level 1	Level 2	Level 3	Redemption or liquidation	Notice period
Investments:							
Cash and cash equivalents	$ 22,930,410	—	22,930,410	—	—	Daily	None
U.S. equity securities	84,673,837	—	83,316,007	1,357,830	—	Daily	None–1 week
Fixed-income securities:							
Mutual funds	13,138,858	—	13,138,858	—	—	Daily	None
U.S. Treasury	8,448,886	—	—	8,448,886	—	Daily	None
Commingled funds	12,488,887	—	—	12,488,887	—	Daily	None
Total fixed-income securities	34,076,631	—	13,138,858	20,937,773	—		
Alternative investments:							
Equities:							
Private equity funds – (a)	63,234,842	63,234,842	—	—	—	N/A	N/A
Investments in limited partnerships:							
Real asset funds	367,259	—	—	—	367,259	N/A	N/A
Multistrategy hedge funds – (b)	34,696,878	34,696,878	—	—	—	Quarterly	90 Days
Total alternative investments	98,298,979	97,931,720	—	—	367,259		
Total investments	$ 239,979,857	97,931,720	119,385,275	22,295,603	367,259		

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.

(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 Investments

During fiscal years 2023 or 2022, there were no transfers in or out of Level 3.

(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 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.

(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 2023 and 2022 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, 2023 is summarized as follows:

		Without donor restriction	With donor restriction	Total
Donor-restricted endowment funds	$	—	224,103,674	224,103,674
Funds for long-term investment functioning as endowment		30,021,596	—	30,021,596
Total endowment net assets	$	30,021,596	224,103,674	254,125,270

Endowment fund composition by type of fund and net asset classification at June 30, 2022 is summarized as follows:

		Without donor restriction	With donor restriction	Total
Donor-restricted endowment funds	$	—	216,421,415	216,421,415
Funds for long-term investment functioning as endowment		29,596,344	—	29,596,344
Total endowment net assets	$	29,596,344	216,421,415	246,017,759

Changes in endowment net assets for the fiscal year ended June 30, 2023 are as follows:

		Without donor restriction	With donor restriction	Total
Endowment net assets, June 30, 2022	$	29,596,344	216,421,415	246,017,759
FY 2023 investment gain:				
Investment income		361,265	2,756,314	3,117,579
Realized losses		(143,028)	(1,009,391)	(1,152,419)
Unrealized gains		2,272,873	16,250,942	18,523,815
Total investment gain		2,491,110	17,997,865	20,488,975
Contributions		—	808,561	808,561
Transfers		—	(2,567,723)	(2,567,723)
Appropriation of endowment for expenditure		(2,065,858)	(8,556,444)	(10,622,302)
Endowment net assets, June 30, 2023	$	30,021,596	224,103,674	254,125,270

Changes in endowment net assets for the fiscal year ended June 30, 2022 are as follows:

		Without donor restriction	With donor restriction	Total
Endowment net assets, June 30, 2021	$	35,721,330	242,315,907	278,037,237
FY 2022 investment gain:				
Investment income		628,881	4,378,155	5,007,036
Realized losses		(20,200)	(139,593)	(159,793)
Unrealized losses		(4,019,524)	(29,451,171)	(33,470,695)
Total investment gain		(3,410,843)	(25,212,609)	(28,623,452)

(Continued)

		Without donor restriction	With donor restriction	Total
Contributions	$	—	6,422,837	6,422,837
Transfers		(1,496,143)	1,507,353	11,210
Appropriation of endowment for expenditure		(1,218,000)	(8,612,073)	(9,830,073)
Endowment net assets, June 30, 2022	$	29,596,344	216,421,415	246,017,759

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 $1,676,755 and $2,702,915 as of June 30, 2023 and 2022, respectively, with an original gift value of $14,948,927 and $16,602,267 as of June 30, 2023 and 2022, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of relatively new restricted contributions.

(15) Net Assets

Net assets for the fiscal year ended June 30, 2023 are available for the following purposes:

		2023		
Net assets		Without donor restrictions	With donor restrictions	Total
Endowment funds:				
Chairs and professorship	$	—	28,595,137	28,595,137
Facilities		—	1,399,092	1,399,092
Faculty development		—	4,468,198	4,468,198
Operations		—	4,177,237	4,177,237
Program and scholarship		—	46,394,185	46,394,185
Program support		—	19,449,566	19,449,566
Scholarships		—	121,297,014	121,297,014
Funds for long-term investment functioning as unrestricted endowments		30,021,596	—	30,021,596
Underwater endowment		—	(1,676,755)	(1,676,755)
Total endowment funds		30,021,596	224,103,674	254,125,270

Net assets		2023 Without donor restrictions	2023 With donor restrictions	2023 Total
Investment in plant, net	$	168,187,372	—	168,187,372
Retirement obligations		(2,215,154)	—	(2,215,154)
Refundable advance		(1,673,655)	—	(1,673,655)
Student notes receivable		1,480,257	—	1,480,257
Sinking fund		376,782	—	376,782
Unrestricted fund		(15,843,143)	—	(15,843,143)
Academic or program support and student financial aid:				
Donor pledges and gifts		—	40,803,794	40,803,794
Student aid funds		—	22,129,876	22,129,876
Student loan funds		—	454,689	454,689
Total net assets	$	180,334,055	287,492,033	467,826,088

Net assets for the fiscal year ended June 30, 2022 are available for the following purposes:

Net assets		2022 Without donor restrictions	2022 With donor restrictions	2022 Total
Endowment funds:				
Chairs and professorship	$	—	26,932,360	26,932,360
Facilities		—	1,307,775	1,307,775
Faculty development		—	4,321,723	4,321,723
Operations		—	4,162,922	4,162,922
Program and scholarship		—	48,448,448	48,448,448
Program support		—	18,112,811	18,112,811
Scholarships		—	115,838,290	115,838,290
Funds for long-term investment functioning as unrestricted endowments		29,596,345	—	29,596,345
Underwater endowment		—	(2,702,915)	(2,702,915)
Total endowment funds		29,596,345	216,421,414	246,017,759

		2022		
Net assets		**Without donor restrictions**	**With donor restrictions**	**Total**
Investment in plant, net	$	164,839,940	—	164,839,940
Retirement obligations		(2,215,154)	—	(2,215,154)
Refundable advance		(1,673,657)	—	(1,673,657)
Student notes receivable		2,034,799	—	2,034,799
Sinking fund		376,782	—	376,782
Unrestricted fund		(19,587,925)	—	(19,587,925)
Academic or program support and student financial aid:				
Donor pledges and gifts		—	40,092,621	40,092,621
Student aid funds		—	18,354,160	18,354,160
Student loan funds		—	542,815	542,815
Total net assets	$	173,371,130	275,411,010	448,782,140

(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, 2023 and 2022:

		2023	**2022**
Student aid	$	14,238,657	4,663,809
Instruction		2,943,820	3,011,397
Research		568,477	782,074
Public service		1,068,359	226,620
Academic support		3,077,267	1,173,100
Student services		2,188,833	399,272
Institutional support		3,199,297	959,590
Auxiliary enterprises		638	—
Revenue		—	111,210
Property, plant, and equipment acquired, placed in service, and capitalized		695,979	2,667,651
Total net assets released from restrictions	$	27,981,327	13,994,723

(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:

		2023	2022
Financial assets as of June 30, 2023 and 2022:			
Cash and cash equivalents and restricted cash	$	50,984,433	45,084,337
Accounts receivable, net		5,523,596	6,835,934
Contributions receivable, net		6,898,719	8,963,743
Investments		252,216,589	239,979,857
Student notes receivable, net		1,480,257	2,034,799
Total		317,103,594	302,898,670
Less amounts not available for general expenditures within one year due to restrictions as of June 30, 2023 and 2022:			
Donor-restricted endowment		224,103,674	216,421,414
Resources without donor-restriction invested as endowment		30,021,596	29,596,345
Contributions receivable due in greater than one year		5,169,598	7,616,288
Total		259,294,868	253,634,047
Total financial assets available to meet general expenditures within one year (excludes restrictions and self-imposed restrictions)	$	57,808,726	49,264,623

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).

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

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 $20,796,865 and $20,170,767 as of June 30, 2023 and 2022, 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) Related-Party Transactions

Members of the Board of Trustees, officers, and employees are subject to the College’s written conflict-of interest policy that requires annual disclosures from members of the Board, senior management and other designated employees of any actual or potential conflicts of interest, including business or employment relationships or significant financial interests in businesses with which the College conducts business. No such relationships have been disclosed that are considered to be material to the financial statements.

Additionally, certain gifts and pledges to the College are received annually by Board members. All such business activity is conducted in accordance with the College’s normal business practices.

We have a related organization, Howard Thurman Educational Trust, that is considered immaterial to the overall financial operations of the College. The Trust was transferred to the College in 1998 and has a current cash balance of $29,317 as of June 30, 2023.

(20) 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, 2023 through November 13, 2023, 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, 2023

	ALN	Passed through to subrecipients	Federal expenditures
Major programs:			
U.S. Department of Education:			
Student Financial Assistance cluster:			
Federal Pell Grant Program	84.063	$ —	6,101,734
Federal Supplemental Educational Opportunity Grant	84.007	—	1,085,622
Federal Work Study Program	84.033	—	105,171
Federal Perkins Student Loan Program (note 3)	84.038	—	1,826,665
Federal Direct Student Loan Program (note 3)	84.268	—	35,214,809
Total Student Financial Assistance cluster		—	44,334,001
Higher Education Institutional Aid:			
Strengthening Historically Black Colleges and Universities – P031E200050	84.031E	—	533,244
Strengthening Historically Black Colleges and Universities – P031B170017	84.031B	—	1,038,320
Strengthening Historically Black Colleges and Universities – P031B220015	84.031B	—	595,822
Total Higher Education Institutional Aid		—	2,167,386
Total U.S. Department of Education		—	46,501,387
Nonmajor programs:			
Research and Development cluster:			
U.S. Department of Health and Human Services:			
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 – 5U50MN000002-01-00	93.456	36,990	948,464
Office of Minority Health and Health Equity – CDC National Minority – NU50CD300864-01-00	93.456	—	341,731
Passed through Morehouse School of Medicine – Subaward # PRC 9.28	93.135	—	(273)
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	—	88,309
Morehouse College RISE to Excellence Program – 2R25GM070514-09A1	93.859	—	(13)
Passed through Brown University – Synergistic Network to Enhance Research That Grows Innovation – 1R25GM125707-01A1, Subaward # 00001427	93.859	—	33,832
Passed through Emory University – Subcontract # 2K12 GM00680-05	93.859	—	6,643
Total ALN 93.859		—	128,771
Total U.S. Department of Health and Human Services		36,990	1,418,693
National Science Foundation:			
Engineering Grants:			
Passed through Washington State University – Enhancing Cartilage Tissue Engineering of Co-Culture CBET – 1606226, Subaward # 127300	47.041	—	7,322
Passed through American Society for Engineering Education under Prime # EEC-2127509, Subaward # 769-2077	47.041	—	84,621
Total ALN 47.041		—	91,943
Mathematical and Physical Sciences:			
NSF Award # DMR-1900806	47.049	—	87,714
Total ALN 47.049		—	87,714
Computer and Information Science and Engineering:			
NSF Award # CNS-1831964	47.070	19,330	101,686
NSF Award # CNS-1837541	47.070	—	42,649
NSF Award # CNS-2022660	47.070	—	6,263
NSF Award # CNS-2216622	47.070	38,543	298,380
Passed through Virginia Polytechnic institute and State University – IIS-1922516, Subaward # 480292-19D71	47.070	—	20,755
Total ALN 47.070		57,873	469,733
Passed through Purdue University – Subaward # 10001908-014	47.074	—	108,578
Education and Human Resources:			
NSF Award # DUE-2111524	47.076	—	15,695
NSF Award # HRD-2025221	47.076	—	23,427
NSF Award # HRD-2000095	47.076	—	30,899
NSF Award # HRD-1900710	47.076	—	36,053
NSF Award # HRD-1900701	47.076	—	76,520
NSF Award # HRD-1818458	47.076	—	4,421
NSF Award # DRL-2131762	47.076	—	94,317
NSF Award # DRL-1850302	47.076	—	96,951
NSF Award # HRD-2011889	47.076	—	122,854
NSF Award # HRD-2010676	47.076	201,630	1,263,333
NSF Award # HRD-2048821	47.076	—	587,887
NSF Award # HRD-2010779	47.076	—	45,980
NSF Award # DUE-1821184	47.076	—	26,316
NSF Award # HRD-2011841	47.076	—	23,575
NSF Award # OMA-2231334	47.076	—	90,895
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	—	52,694
Total ALN 47.076		201,630	2,591,817
Total National Science Foundation		259,503	3,349,785
U.S. Department of Energy:			
National Nuclear Security Administration Minority Serving Institutions Program:			
Passed through Florida A&M University – DOE #DE-NA-0003984, Subaward # 5108/FAMU Project # 006785	81.123		242,043
Passed through Prairie View A&M University – DOE #DE-NA0003947, Subaward # M2000611-S200502	81.123		115,987
Total ALN 81.123		—	358,030
Total U.S. Department of Energy		—	358,030
Total Research and Development cluster		296,493	5,126,508

(Continued)

MOREHOUSE COLLEGE

Schedule of Expenditures of Federal Awards

Year ended June 30, 2023

	ALN	Passed through to subrecipients	Federal expenditures
U.S. Department of Education:			
Fund for the Improvement of Postsecondary Education:			
STEM Pipeline Program – P116Z220093	84.116Z	$ —	32,400
Environmental Justice – P116Z220097	84.116Z	—	20,734
Total Fund for the Improvement of Postsecondary Education:		—	53,134
Education Stabilization Fund:			
COVID-19 – Higher Education Emergency Relief Fund – Student Portion – P425E200330	84.425E	—	(1,678)
COVID-19 – Higher Education Emergency Relief Fund – Institutional Portion – P425F201513	84.425F	—	9,458
COVID-19 – Higher Education Emergency Relief Fund – HBCU Portion – P425J200041	84.425J	—	245,743
Total Education Stabilization Fund:		—	253,523
TRIO cluster:			
Talent Search Program – P044A210594	84.044A	—	634,103
Upward Bound Program – P047A170610	84.047A	—	92,543
Upward Bound Program – P047M170128	84.047M	—	81,795
Upward Bound Program – P047A170603	84.047A	—	137,873
Upward Bound Program – P047M170126	84.047M	—	81,776
Upward Bound Program – P047M170127	84.047M	—	79,420
Upward Bound Program – P047M220225	84.047M	—	295,959
Upward Bound Program – P047A220303	84.047A	—	218,352
Upward Bound Program – P047A220306	84.047A	—	205,598
Upward Bound Program – P047A220292	84.047A	—	212,329
Upward Bound Program – P047A220299	84.047A	—	295,680
Upward Bound Program – P047M220222	84.047M	—	235,359
Upward Bound Program – P047M220162	84.047M	—	251,587
Total ALN 84.047		—	2,822,374
McNair Post-Baccalaureate Achievement Program – P217A170107	84.217A	—	150,455
McNair Program – P217A220076	84.217A	—	242,948
Spelman McNair Program – P217A220077	84.217A	—	178,185
Total ALN 84.217		—	571,588
Total TRIO cluster		—	3,393,962
Total U.S. Department of Education		—	3,700,619
U.S. Department of State:			
Morehouse Glee Club Travel to Nigeria – SNI500211GR3048	19.040	—	(607)
Morehouse Glee Club Travel to Nigeria – SNI50022GR0015	19.040	—	95,034
U.S. Department of Agriculture:			
Passed through Georgia Office of the School of Readiness – TRIO Prog – 08162	10.559	—	99,317
U.S. Small Business Administration:			
Passed through University of Georgia – Prime # SBAHQ20B0052, Subaward # AWD0001289001	59.037	—	110,680
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	—	91,939
U.S. Department of Commerce:			
Passed through Georgia Institute of Technology – MBDA Inner City Innovation Hub – Prime # MB20OBD8020147, Subaward # AWD-001607-G1	11.802	—	90,791
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	—	80,977
Corporation for National and Community Service			
AmeriCorps VISTA – Grant # 22VSHGA006	94.013	—	2,044
Total expenditures of federal awards		$ 296,493	55,898,689

See accompanying notes to schedule of expenditures of federal awards.

(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 (FDSLP) (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, 2023 are as follows for the following student loan programs:

	ALN	Amount
FDSLP:		
Student loans advanced:		
Federal direct subsidized Stafford loans	84.268	$ 5,504,151
Federal direct unsubsidized Stafford loans	84.268	5,744,793
Federal direct parent loans for undergraduate students	84.268	23,965,865
		$ 35,214,809

The College is only responsible for the performance of certain administrative duties with respect to the FDSLP. 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, 2023. These loans are not included in the College's financial statements.

(Continued)

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 $1,374,507 at June 30, 2023. Perkins Loans advanced in 2023 totaled $0.

(4) Administrative Cost Allowance

The College claimed an administrative cost allowance of $0 under the Federal Work Study Program for the year ended June 30, 2023, which is included in the Federal Work Study Program and Federal Supplemental Educational Opportunity Grant balances in the accompanying Schedule.

KPMG LLP
Suite 2000
303 Peachtree Street, N.E.
Atlanta, GA 30308-3210

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 College's statement of financial position as of June 30, 2023, 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 13, 2023.

Report on 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 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 or significant deficiencies may exist that were not identified.

Report on 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*.

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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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Atlanta, Georgia
November 13, 2023

KPMG LLP
Suite 2000
303 Peachtree Street, N.E.
Atlanta, GA 30308-3210

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

Opinion on Each Major Federal Program

We have audited Morehouse College's (the College) compliance with the types of compliance requirements identified as subject to audit 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, 2023. The College's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the College complied, in all material respects, with the 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, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the College and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the College's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the College's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the College's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS,

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Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the College's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the College's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the College's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the College's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2023-001. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the College's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The College is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The College's response and corrective action plan were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or the corrective action plan.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a significant deficiency.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-001, to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the College's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The College is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The College's response and corrective action plan were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or the corrective action plan.

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, 2023, and have issued our report thereon dated November 13, 2023, which contained an unmodified opinion on those financial statements. Our audit was performed 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 GAAS. 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, GA
January 18, 2024

MOREHOUSE COLLEGE

Schedule of Findings and Questioned Costs

Year ended June 30, 2023

(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: **Yes – See finding 2023-001**

(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): **Yes – See finding 2023-001**

(g) Major programs:

- Student Financial Assistance Cluster – various Assistance Listing numbers
- Title III Cluster – Assistance Listing number 84.031

(h) Dollar threshold used to distinguish between Type A and Type B programs: **$750,000**

(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

Finding No. 2023-001

Reporting

Federal Program

Student Financial Assistance Cluster

Assistance Listing Number

84.268 Federal Direct Student Loans

Federal Agency

U.S. Department of Education

Federal Award Years

October 1, 2021 to September 30, 2022

October 1, 2022 to September 30, 2023

Criteria or Requirement

Institutions that implement an affirmative confirmation process (as described in 34 CFR 668.165 (a)(6)(i)) must make this notification to the student or parent no earlier than 30 days before, and no later than 30 days after, crediting the student's account at the institution with Direct Loan or TEACH Grants.

Condition and Context

During our testwork, we selected a sample of 40 students that were awarded federal loans during fiscal year 2023. Within our sample, we noted 10 out of 160 instances across 9 students in which the College did not make notification to the student or parent, no earlier than 30 days before, and no later than 30 days, after crediting the student's account with Direct Loan as required.

Cause and Potential Effect

Noncompliance due to no control in place to ensure that all notifications of loan disbursements are submitted promptly. The federal loan disbursement notification reporting exceptions are systemic in nature.

Questioned Cost

There were no questioned cost associated with the finding.

Statistically Valid Sample

The sample was not intended to be, and was not, a statistically valid sample.

Identification of Whether the Audit Finding is a Repeat Finding in the Immediately Prior Audit

This is not a repeat finding in the immediately prior year audit.

Recommendation

We recommend that the College strengthen its processes and controls to ensure timely reporting of loan disbursement notifications to students and that additional supervisory review procedures be implemented to monitor timely reporting of these notifications.

View of Responsible Officials

Management agrees with the finding. An enhanced internal control process will be implemented by the Office of Financial Aid and Scholarship Department to ensure that all disbursement notifications are reported to the student within the 30 day reporting requirement.