# Thurgood Marshall College Fund and Affiliates

Consolidated Financial Statements
Including Uniform Guidance Reports
and Independent Auditors' Report

December 31, 2019 and 2018

**Thurgood Marshall College Fund and Affiliates**

Consolidated Financial Statements
December 31, 2019 and 2018

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ROGERS & COMPANY

**Rogers & Company PLLC**
Certified Public Accountants

8300 Boone Boulevard
Suite 600
Vienna, Virginia 22182

703.893.0300 voice
703.893.4070 facsimile
www.rogerspllc.com

# INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Thurgood Marshall College Fund and Affiliates

***Report on the Consolidated Financial Statements***

We have audited the accompanying consolidated financial statements of the Thurgood Marshall College Fund and Affiliates (collectively, "the Organization"), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018; the related consolidated statements of activities, functional expenses, and cash flows for the years then ended; and the related notes to the consolidated financial statements.

***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

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***Auditor's Responsibility (continued)***

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 2 to the consolidated financial statements, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606) and FASB ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information as of and for the years ended December 31, 2019 and 2018 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

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***Other Reporting Required by* Government Auditing Standards**

In accordance with *Government Auditing Standards,* we have also issued our report dated August 3, 2020, on our consideration of the Organization'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 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 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 Organization's internal control over financial reporting and compliance.

Rogers + Company PLLC

Vienna, Virginia
August 3, 2020

**Thurgood Marshall College Fund and Affiliates**

Consolidated Statements of Financial Position
December 31, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 4,057,302 | $ 957,510 |
| Accounts receivable | 24,691 | 24,691 |
| Government grants receivable | 2,753,731 | 3,145,041 |
| Grants and contributions receivable, net | 5,226,179 | 7,649,516 |
| Notes receivable | 1,575,000 | 900,000 |
| Investments | 212,996 | - |
| Prepaid expenses and other assets | 840,692 | 700,421 |
| Property and equipment, net | 14,904 | 26,052 |
| Security deposit | 3,218 | 3,218 |
| Total assets | $ 14,708,713 | $ 13,406,449 |
| **Liabilities and Net Assets (Deficit)** | | |
| **Liabilities** | | |
| Accounts payable and accrued expenses | $ 1,152,486 | $ 686,734 |
| Deferred revenue | 754,002 | 1,403,875 |
| Deferred rent | 41,726 | 20,722 |
| Loan payable | 988,798 | 1,038,704 |
| Line of credit | 800,000 | - |
| Total liabilities | 3,737,012 | 3,150,035 |
| **Net Assets (Deficit)** | | |
| Without donor restriction | (3,318,172) | (2,579,715) |
| With donor restrictions: | | |
| Purpose restrictions | 14,039,873 | 12,586,129 |
| Perpetual in nature | 250,000 | 250,000 |
| Total with donor restrictions | 14,289,873 | 12,836,129 |
| Total net assets | 10,971,701 | 10,256,414 |
| Total liabilities and net assets | $ 14,708,713 | $ 13,406,449 |

*See accompanying notes.*

**Thurgood Marshall College Fund and Affiliates**

Consolidated Statement of Activities
For the Year Ended December 31, 2019

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **Operating Revenue and Support** | | | |
| Grants and contributions | $ 6,245,251 | $ 15,608,902 | $ 21,854,153 |
| Government grants | 1,396,793 | - | 1,396,793 |
| In-kind contributions | 1,157,543 | - | 1,157,543 |
| Contract income | 15,103 | - | 15,103 |
| Membership fees | 18,750 | - | 18,750 |
| Interest income | 43,589 | - | 43,589 |
| Other income | 22,609 | - | 22,609 |
| Released from restrictions: | | | |
| Satisfaction of program restrictions | 14,155,158 | (14,155,158) | - |
| Total operating revenue and support | 23,054,796 | 1,453,744 | 24,508,540 |
| **Expenses** | | | |
| Program services | 18,466,179 | - | 18,466,179 |
| Supporting services: | | | |
| Management and general | 3,378,603 | - | 3,378,603 |
| Development | 1,948,565 | - | 1,948,565 |
| Total expenses | 23,793,347 | - | 23,793,347 |
| **Change in Net Assets from Operations** | (738,551) | 1,453,744 | 715,193 |
| **Non-Operating Activity** | | | |
| Realized gain on investments | 94 | - | 94 |
| **Change in Net Assets** | (738,457) | 1,453,744 | 715,287 |
| **Net (Deficit) Assets,** beginning of year | (2,579,715) | 12,836,129 | 10,256,414 |
| **Net (Deficit) Assets,** end of year | $ (3,318,172) | $ 14,289,873 | $ 10,971,701 |

**Thurgood Marshall College Fund and Affiliates**

Consolidated Statement of Activities
For the Year Ended December 31, 2018

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **Operating Revenue and Support** | | | |
| Contributions and grants | $ 3,826,222 | $ 15,371,946 | $ 19,198,168 |
| Government grants | 5,831,618 | - | 5,831,618 |
| In-kind contributions | 1,042,719 | - | 1,042,719 |
| Contract income | 153,865 | - | 153,865 |
| Registration fees | 800 | - | 800 |
| Membership fees | 82,500 | - | 82,500 |
| Interest income | 68,057 | - | 68,057 |
| Other income | 19,567 | - | 19,567 |
| Released from restrictions: | | | |
| Satisfaction of program restrictions | 12,818,633 | (12,818,633) | - |
| Total operating revenue and support | 23,843,981 | 2,553,313 | 26,397,294 |
| **Expenses** | | | |
| Program services | 23,048,983 | - | 23,048,983 |
| Supporting services: | | | |
| Management and general | 2,006,099 | - | 2,006,099 |
| Development | 751,839 | - | 751,839 |
| Total expenses | 25,806,921 | - | 25,806,921 |
| **Change in Net Assets from Operations** | (1,962,940) | 2,553,313 | 590,373 |
| **Non-Operating Activities** | | | |
| Unrealized loss on investments | (77,218) | - | (77,218) |
| Realized gain on investments | 6,681 | - | 6,681 |
| Investment fees | (8,309) | - | (8,309) |
| **Change in Net Assets** | (2,041,786) | 2,553,313 | 511,527 |
| **Net (Deficit) Assets,** beginning of year | (537,929) | 10,282,816 | 9,744,887 |
| **Net (Deficit) Assets,** end of year | $ (2,579,715) | $ 12,836,129 | $ 10,256,414 |

*See accompanying notes.*

**Thurgood Marshall College Fund and Affiliates**

Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2019

| | Program Services | Supporting Services: Management and General | Supporting Services: Development | Total Expenses |
|---|---|---|---|---|
| Salaries and fringe benefits | $ 5,349,100 | $ 1,449,609 | $ 775,490 | $ 7,574,199 |
| Travel and conferences | 3,555,767 | 561,915 | 526,128 | 4,643,810 |
| Scholarships and awards | 6,953,171 | 2,768 | 15,022 | 6,970,961 |
| Consultants and professionals | 1,273,780 | 332,324 | 572,306 | 2,178,410 |
| Promotion and advertising | 532,323 | 74,450 | 8,376 | 615,149 |
| Rent (office and equipment) | 134,273 | 346,977 | - | 481,250 |
| Technology | 363,355 | 232,927 | 5,158 | 601,440 |
| Subscriptions and dues | 38,379 | 84,453 | 5,986 | 128,818 |
| Office expense and supplies | 126,422 | 64,620 | 10,767 | 201,809 |
| Miscellaneous | 60,121 | 96,335 | 2,704 | 159,160 |
| Printing and publications | 41,937 | 18,109 | 26,628 | 86,674 |
| Insurance | 11,181 | 33,978 | - | 45,159 |
| Depreciation and amortization | 2,760 | 8,388 | - | 11,148 |
| Interest | 23,610 | 71,750 | - | 95,360 |
| **Total Expenses** | $ 18,466,179 | $ 3,378,603 | $ 1,948,565 | $ 23,793,347 |

*See accompanying notes.*

**Thurgood Marshall College Fund and Affiliates**

Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2018

| | | Supporting Services | | |
|---|---|---|---|---|
| | Program Services | Management and General | Development | Total Expenses |
| Salaries and fringe benefits | $ 7,112,158 | $ 1,307,485 | $ 618,856 | $ 9,038,499 |
| Travel and conferences | 4,854,915 | 3,838 | 75,262 | 4,934,015 |
| Scholarships and awards | 6,651,888 | 1,258 | 3,750 | 6,656,896 |
| Consultants and professionals | 2,381,756 | 218,314 | 15,500 | 2,615,570 |
| Promotion and advertising | 933,847 | 5,777 | 3,077 | 942,701 |
| Rent (office and equipment) | 300,223 | 220,682 | - | 520,905 |
| Technology | 319,116 | 113,722 | 1,265 | 434,103 |
| Subscriptions and dues | 99,812 | 25,757 | 9,463 | 135,032 |
| Office expense and supplies | 182,996 | 32,580 | 10,113 | 225,689 |
| Miscellaneous | 109,961 | 19,456 | - | 129,417 |
| Printing and publications | 40,934 | 8,008 | 14,553 | 63,495 |
| Insurance | 29,202 | 23,270 | - | 52,472 |
| Depreciation and amortization | 8,957 | 7,225 | - | 16,182 |
| Interest | 23,218 | 18,727 | - | 41,945 |
| **Total Expenses** | $ 23,048,983 | $ 2,006,099 | $ 751,839 | $ 25,806,921 |

*See accompanying notes.*

**Thurgood Marshall College Fund and Affiliates**

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Change in net assets | $ 715,287 | $ 511,527 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 11,148 | 16,182 |
| Change in discount on multi-year receivables | - | (79,585) |
| Net realized and unrealized (gain) loss on investments | (94) | 70,537 |
| Donated stocks | (212,902) | - |
| Conversion of donated stocks to notes receivable | - | 1,000,000 |
| Change in operating assets and liabilities: | | |
| Decrease (increase) in: | | |
| Grants receivable | 391,310 | (2,193,455) |
| Contributions receivable | 2,423,337 | (3,233,868) |
| Prepaid expenses and other assets | (140,271) | (644,515) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 465,752 | 18,613 |
| Deferred revenue | (649,873) | (1,993,458) |
| Deferred rent | 21,004 | (5,018) |
| Net cash provided by (used in) operating activities | 3,024,698 | (6,533,040) |
| **Cash Flows from Investing Activities** | | |
| Purchase of investments | - | (41,554) |
| Proceeds from sales of investments | - | 1,060,365 |
| Issuance of notes receivable | (1,000,000) | (1,000,000) |
| Receipts on notes receivable | 325,000 | 300,000 |
| Net cash (used in) provided by investing activities | (675,000) | 318,811 |
| **Cash Flows from Financing Activities** | | |
| Principal payments under loan payable | (49,906) | (40,230) |
| Proceeds from line of credit | 800,000 | - |
| Net cash provided by (used in) financing activities | 750,094 | (40,230) |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | 3,099,792 | (6,254,459) |
| **Cash and Cash Equivalents,** beginning of year | 957,510 | 7,211,969 |
| **Cash and Cash Equivalents,** end of year | $ 4,057,302 | $ 957,510 |
| **Supplementary Disclosure of Cash Flow Information** | | |
| Cash paid during the year for interest | $ 95,360 | $ 41,945 |
| **Supplementary Disclosure of Non-Cash Operating Activity** | | |
| Conversion of donated stocks to notes receivable | $ - | $ 1,000,000 |

*See accompanying notes.*

## 1. Nature of Operations

The Thurgood Marshall College Fund (TMCF) was organized in 1987 as a not-for-profit organization that provides scholarships, leadership training, and career development. TMCF also promotes student development and programmatic and capacity-building support to students who attend any of the forty-seven (47) historically black public colleges and universities (HBCU) that it serves. Member colleges and universities receive scholarships and programmatic and capacity-building grants from TMCF. TMCF also provides donor-restricted funds to colleges from workplace campaigns and grants and contributions from corporations, foundations, and individual donors.

Opportunity Funding Corporation, Inc. (OFCI) was created in 1984 by Opportunity Funding Corporation (OFC) to serve as the financing vehicle for the hundreds of minority entrepreneurs who have successfully launched business enterprises nationwide. Pursuant to an Agreement and Plan of Merger, OFC was merged into TMCF, effective August 30, 2013. As part of the merger, TMCF acquired OFC's wholly-owned interest in its subsidiary OFCI.

On January 19, 2016, TMCF founded TM2 Search, LLC (TM2), a limited liability company, under the laws of Delaware, to identify, match, and support the unique leadership needs of the Black College Community. TM2's sole member is TMCF, and its vision is to build sustainable institutions by identifying and supporting creative and competent leadership.

## 2. Summary of Significant Accounting Policies

Principles of Consolidation

TMCF's financial statements have been consolidated with those of OFCI and TM2 (collectively, "the Organization"). All significant intercompany balances and transactions have been eliminated in consolidation. As a wholly-owned subsidiary, any dividends paid by OFCI are netted against TMCF's investment in OFCI, with the net investment eliminated in consolidation. As a single-member managed liability company with TMCF as its sole member, TM2 is included in the accompanying consolidated financial statements.

## 2. Summary of Significant Accounting Policies (continued)

Basis of Accounting and Presentation

The Organization's consolidated financial statements are prepared on the accrual basis of accounting. Net assets are reported based on the presence or absence of donor-imposed restrictions, as follows:

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

- *Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash Equivalents

For the purpose of the consolidated statements of cash flows, the Organization considers as cash equivalents all highly liquid investments, which can be converted into known amounts of cash and have a maturity period of ninety (90) days or less at the time of purchase. Excluded from this definition are amounts held for investments.

Accounts Receivable

Accounts receivable are recorded at net realizable value. Uncollectible accounts are written-off in the year in which they are identified. The Organization does not maintain an allowance for doubtful accounts, but does monitor and estimate the amount of any uncollectible balances throughout the year.

Government Grants Receivable

Grants receivable consist of amounts due to be reimbursed to the Organization for expenses incurred under grant agreements with the U.S. government. The entire amount is expected to be collected within one year, and is recorded at net realizable value at December 31, 2019 and 2018. No allowance for doubtful accounts is recorded, as management believes that all receivables are fully collectible.

## 2. Summary of Significant Accounting Policies (continued)

Grants and Contributions Receivable

Grants and contributions receivable represent unconditional amounts committed to the Organization. Grants and contributions receivable are reflected at their net realizable value. Grants and contributions receivable due in more than one year are discounted to present value based on management's estimate of the risk adjusted rate of return. The discount on grants and contributions receivable was $30,941 at both December 31, 2019 and 2018. Management determines the allowance for uncollectible grants and contributions receivable by identifying troubled accounts and by using historical experience. The allowance for uncollectible grants and contributions receivable was $61,059 at both December 31, 2019 and 2018.

Notes Receivable

Notes receivable consists of notes from a private corporation for the repurchase of donated stocks back from the Organization.

Investments

Investments are recorded at fair value based on quoted market prices. All realized and unrealized gains and losses, net of investment fees, are included in the accompanying consolidated statements of activities.

Property and Equipment

Property and equipment purchased at a cost of $1,000 or more are capitalized and recorded at cost. Leasehold improvements are stated at cost and are amortized using the straight-line method over the shorter of their estimated useful lives or the lease term. Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance costs are expensed as incurred.

Property and equipment are depreciated or amortized on a straight-line basis over their estimated useful lives as follows:

| | |
|---|---|
| Office equipment | 7 years |
| Furniture and fixtures | 10 years |
| Computer hardware | 7 years |
| Computer software | 5 years |

## 2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Grants and contributions, including unconditional promises to give, are considered to be available for unrestricted use unless specifically restricted by the donor. The Organization reports them as net assets with donor restrictions if they are received or promised with donor stipulations that limit the use of the donated assets to one of the Organization's programs or to a future year. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Revenue from government grants that are cost reimbursable in nature are recognized as revenue as the allowable costs are incurred. Costs incurred in excess of cash received are reflected as government grants receivable in the accompanying consolidated statements of financial position. Unspent grant funds from previous years that were not returned to the funding federal agencies as of December 31, 2019 and 2018 are included in deferred revenue in the accompanying consolidated statements of financial position.

Revenue from all other sources is recognized when earned.

In-Kind Contributions

The Organization receives in-kind contributions from various donors that benefit both program and supporting services. Services are recognized only when they create or enhance nonfinancial assets, or require specialized skills, are provided by qualified individuals, and would typically be purchased if not donated. In-kind contributions are recognized as revenue and support and expenses in the accompanying consolidated statements of activities at their estimated fair value, as provided by the donor at the date of donation.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

## 2. Summary of Significant Accounting Policies (continued)

Promotion and Advertising Costs

The Organization expenses promotion and advertising costs as incurred. These expenses totaled $615,149 and $942,701 for the years ended December 31, 2019 and 2018, respectively.

Measure of Operations

Realized and unrealized gains and losses on investments and investment fees are considered non-operating activities. The Organization does not consider these items to be part of normal operating activities and, accordingly, separately identifies them in the accompanying consolidated statements of activities.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Adopted Accounting Pronouncements

Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended, supersedes or replaces nearly all revenue recognition guidance under accounting principles generally accepted in the United States of America. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. The Organization has implemented Topic 606 and has adjusted, if applicable, the presentation in these consolidated financial statements accordingly. The amendments have been applied retrospectively to all periods presented. The implementation had no impact on the previously reported net assets.

## 2. Summary of Significant Accounting Policies (continued)

Adopted Accounting Pronouncements (continued)

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Organization has implemented ASU 2018-08 applicable to both contributions received and to contributions made in these consolidated financial statements under a modified prospective basis. The implementation had no impact on the previously reported net assets.

Recently Issued Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02, *Leases*. The update requires a lessee to recognize a right-of-use asset and lease liability, initially measured at the present value of the lease payments, in its consolidated statements of financial position. The guidance also expands the required quantitative and qualitative lease disclosures. The guidance is effective beginning in 2021.

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through August 3, 2020, the date the consolidated financial statements were available to be issued.

The COVID-19 outbreak in the United States and around the world has caused business disruption due to mandatory lockdowns implemented in most states in order to slow down the spread of the virus. The Organization's management has been monitoring the situation and implementing certain changes in its operations and upcoming events in order to mitigate the impact of this pandemic, including establishing a COVID-19 HBCU Emergency Fund to address the needs of HBCU students. Management is following the ongoing impact of travel restrictions, stay-at-home orders, the economic shutdown, and the uncertainty of this pandemic in general, as it relates to the Organization's ongoing operations.

## 3. Liquidity and Availability

The Organization strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Management periodically reviews the Organization's liquid asset needs and adjusts the cash and cash equivalent balances as necessary. Amounts in excess of operating liquidity needs are invested in various short-term and highly liquid securities. As described in Note 10 to the consolidated financial statements, the Organization also has a committed line of credit in the amount of $1,000,000, which it could draw upon in the event of an unanticipated liquidity need.

Additionally, the Organization considers net assets with donor restrictions for use in current programs that are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. Excluded from total available for general expenditures is the portion of the endowments that is donor-restricted and held in perpetuity.

These financial assets that are available for general expenditures within one year of the consolidated statements of financial position date comprise the following at December 31:

| | 2019 | 2018 |
|---|---|---|
| Cash and cash equivalents | $ 4,057,302 | $ 957,510 |
| Accounts receivable | 24,691 | 24,691 |
| Government grants receivable | 2,753,731 | 3,145,041 |
| Grants and contributions receivable, current portion | 5,102,179 | 7,019,516 |
| Notes receivable, current portion | 450,000 | 225,000 |
| Investments | 212,996 | - |
| Less: endowment corpus restricted by donors in perpetuity | (250,000) | (250,000) |
| Total available for general expenditures | $ 12,350,899 | $ 11,121,758 |

## 4. Concentration of Risks

Credit Risk

Financial instruments that potentially subject the Organization to significant concentrations of credit risk consist of cash and cash equivalents, and investments. The Organization maintains cash deposit and transaction accounts, along with investments, with various financial institutions and these values, from time to time, exceed insurable limits under the Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). The Organization has not experienced any credit losses on its cash and cash equivalents, and investments to date as it relates to FDIC and SIPC insurance limits. Management periodically assesses the financial condition of these financial institutions and believes that the risk of any credit loss is minimal.

Revenue Risk

For the years ended December 31, 2019 and 2018, a substantial portion of the Organization's revenue was generated from a small number of donors. For the year ended December 31, 2019, $11,411,293 was received from four donors, and for the year ended December 31, 2018, $10,480,945 was received from four donors. These contributions approximate 47% and 40% of the Organization's total operating revenue and support for the years ended December 31, 2019 and 2018, respectively.

## 5. Grants and Contributions Receivable

Grants and contributions receivable represent amounts due from individual and corporate donors, as well as foundations, and are due as follows at December 31:

| | 2019 | 2018 |
|---|---|---|
| Due in less than one year | $ 5,102,179 | $ 7,019,516 |
| Due in one to five years | 216,000 | 722,000 |
| Total grants and contributions receivable | 5,318,179 | 7,741,516 |
| Less: allowance for uncollectible grants and contributions | (61,059) | (61,059) |
| Less: discount on grants and contributions | (30,941) | (30,941) |
| Grants and contributions receivable, net | $ 5,226,179 | $ 7,649,516 |

## 5. Grants and Contributions Receivable (continued)

The Organization was owed $3,347,250 and $4,344,250 from three donors, which accounted for 64% and 56% of grants and contributions receivable at December 31, 2019 and 2018, respectively.

## 6. Notes Receivable

Notes receivable consists of a note issued in April 2018 to a private corporation for the repurchase of donated stocks back from the Organization, over the next four years, with $100,000 down payment and four equal installments of $225,000, plus accrued interest at the rate of 3.75% per year. The initial payment was received by the Organization in April 2018. The outstanding amount on this note was $675,000 and $900,000 at December 31, 2019 and 2018, respectively.

Additionally, notes receivable consists of a note issued in May 2019 to a private corporation, for the repurchase of donated stocks back from the Organization, over the next four years, with $100,000 down payment and four equal installments of $225,000, plus accrued interest at the rate of 4.50% per year. The initial payment was received by the Organization in May 2019. The outstanding amount on this note was $900,000 and $-0- at December 31, 2019 and 2018, respectively.

Notes receivable are due as follows for the years ended December 31:

| | 2019 | 2018 |
|---|---|---|
| Due in less than one year | $ 450,000 | $ 225,000 |
| Due in one to five years | 1,125,000 | 675,000 |
| Total notes receivable | $ 1,575,000 | $ 900,000 |

## 7. Investments and Fair Value Measurements

The Organization follows FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures,* for its financial assets. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument.

## 7. Investments and Fair Value Measurements (continued)

The inputs used in measuring fair value are categorized into three levels. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 is based upon observable inputs other than quoted market prices, and Level 3 is based on unobservable inputs. The Organization recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

In general, and where applicable, the Organization uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments.

The following table presents the Organization's fair value hierarchy for those investments measured on a recurring basis at December 31, 2019:

| | Level 1 | Level 2 | Level 3 | Total fair value |
|---|---|---|---|---|
| Common stocks | $ 212,996 | $ - | $ - | $ 212,996 |
| Total investments | $ 212,996 | $ - | $ - | $ 212,996 |

The Organization did not have any investments at December 31, 2018.

Net investment return consists of the following for the years ended December 31:

| | 2019 | 2018 |
|---|---|---|
| Interest income | $ 43,589 | $ 68,057 |
| Unrealized loss | - | (77,218) |
| Realized gain | 94 | 6,681 |
| Investment fees | - | (8,309) |
| Net investment return | $ 43,683 | $ (10,789) |

## 8. Property and Equipment

Property and equipment consists of the following at December 31:

| | 2019 | 2018 |
|---|---|---|
| Office equipment | $ 340,736 | $ 340,736 |
| Computer hardware and software | 310,506 | 310,506 |
| Furniture and fixtures | 166,486 | 166,486 |
| Leasehold improvements | 51,536 | 51,536 |
| Total property and equipment | 869,264 | 869,264 |
| Less: accumulated depreciation and amortization | (854,360) | (843,212) |
| Property and equipment, net | $ 14,904 | $ 26,052 |

## 9. Loan Payable

In December 2014, the Organization obtained a loan for $1,200,000 with a 5-year term including a balloon payment initially due on December 9, 2018. In December 2018, the Organization renewed this loan. Interest accrues at 5.24% per annum. The Organization is required to make interest and principal payments of $8,386 on a monthly basis based on a 47-month amortization schedule commencing on January 9, 2019, with a balloon payment of $845,502 due on December 9, 2022.

Interest expense associated with the loan payable totaled $59,109 and $41,945 for the years ended December 31, 2019 and 2018, respectively. The amount outstanding on the loan payable totaled $988,798 and $1,038,704 at December 31, 2019 and 2018, respectively.

Principal payments on the loan payable are as follows for the years ending December 31:

| | |
|---|---|
| 2020 | $ 48,944 |
| 2021 | 51,757 |
| 2022 | 888,097 |
| Total future principal payments | $ 988,798 |

## 9. Loan Payable (continued)

Additionally, the loan contains certain financial reporting covenants. The Organization was in compliance with all of these financial reporting covenants at both December 31, 2019 and 2018.

## 10. Line of Credit

The Organization maintains a $1,000,000 line of credit with United Bank, payable on demand, with a maturity date of December 1, 2020. This line of credit bears interest at a variable rate equal to the bank's prime rate. The outstanding balances on this line of credit were $800,000 and $-0- at December 31, 2019 and 2018, respectively. Interest expense associated with the line of credit totaled $36,251 and $-0- for the years ended December 31, 2019 and 2018, respectively.

## 11. Commitments and Contingencies

Operating Leases

The Organization has a noncancelable operating lease agreement with several amendments for its office space in Washington, D.C. that is scheduled to expire on March 31, 2025. The lease called for annual rent increases of 2.5%. The unamortized portion of the cumulative difference between the actual rent paid and the straight-line rent is reflected as deferred rent in the accompanying consolidated statements of financial position.

In August 2011, the Organization entered into an annual lease agreement for office space in Houston, Texas. During 2015, the lease was amended to include additional office space and extended through October 2018. The base rate was subject to annual rental increases of 2%. In August 2018, the landlord and the Organization entered into an agreement to terminate the office lease as of September 1, 2018 with no termination fee. As of September 1, 2018, the Organization was released of all further obligations to the lease.

Rent expense for the office leases totaled $451,335 and $494,377 for the years ended December 31, 2019 and 2018, respectively.

The Organization has an agreement with a residential building to lease an apartment for use by the President and CEO. The terms of the lease require fixed monthly rent payments and the lease is set to expire in December 2020.

## 11. Commitments and Contingencies (continued)

Operating Leases (continued)

Additionally, the Organization leases office equipment under an operating lease, which began in January 2015 and expired in February 2018. In 2018, the Organization began leasing office equipment under a new operating lease, which began in March 2018 and expires in February 2021. The lease requires fixed monthly payments of $616.

Rent expense for the equipment leases was $7,392 for both years ended December 31, 2019 and 2018.

Total future minimum lease payments under all operating leases are as follows for the years ending December 31:

| | |
|---|---|
| 2020 | $ 407,235 |
| 2021 | 379,366 |
| 2022 | 387,588 |
| 2023 | 397,277 |
| 2024 | 407,209 |
| Thereafter | 102,427 |
| Total future minimum lease payments | $ 2,081,102 |

Service Organization

The Organization has contracted with Insperity PEO Services, L.P. ("Insperity") as their professional employer organization. As such, Insperity is the employer of record for tax, benefits, and insurance purposes for the Organization's employees. This co-employment relationship allows the Organization to maintain direct control of the day-to-day activities of employees, while Insperity assumes the administrative functions of human resources and absorbs many employer-related liabilities.

Office of Management and Budget

Funds that the Organization receives from the Department of Defense, Department of Agriculture, and Department of Energy are subject to audit under the provisions of the cooperative agreements. The ultimate determination of amounts received under the U.S. government cooperative agreements and grants is based upon the allowance of costs reported to and accepted by the oversight agencies. Until such cooperative agreements are closed out, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability exists.

## 11. Commitments and Contingencies (continued)

Hotel Contracts

TMCF is committed under agreements for hotel and conference facilities for future events. The total commitment under the agreements is not determinable as it depends upon attendance and other unknown factors. In the event that TMCF cancels its agreements with the hotels, it can be held liable for liquidated damages up to the amount of lost profit less the hotel's mitigation, depending upon the date of cancellation. Management believes that no material liability is likely.

Employment Agreement

The Organization has an employment agreement with the President and CEO, which contains terms that require payments upon the occurrence of certain contractual events.

## 12. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following at December 31:

| | 2019 | 2018 |
|---|---|---|
| Purpose restricted: | | |
| Scholarships and grants | $ 8,409,561 | $ 5,955,204 |
| Leadership training and seminars | 5,630,312 | 6,630,925 |
| Perpetual in nature | 250,000 | 250,000 |
| Total net assets with donor restrictions | $ 14,289,873 | $ 12,836,129 |

## 13. Endowment Funds

The Organization's endowment has been funded by donor-restricted contributions to be held in perpetuity, the earnings of which can be used to fund either specific programs or general operations. The portion of perpetual endowment funds that is required to be retained permanently, either by explicit donor stipulation or by Delaware's Uniform Prudent Management of Institutional Funds Act (UPMIFA), is $250,000.

## 13. Endowment Funds (continued)

Interpretation of Relevant Law

The Organization's Board of Directors has interpreted Delaware's UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions to be held in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted funds: (1) duration and preservation of the fund; (2) purposes of the Organization and the donor-restricted endowment fund; (3) general economic conditions; (4) possible effect of inflation and deflation; (5) expected total return from income and the appreciation or depreciation of investments; (6) other resources of the Organization; and (7) investment policies of the Organization.

Funds with Deficiencies

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 organization to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature would be reported by the Organization in net assets without donor restrictions. There were no fund deficiencies for the years ended December 31, 2019 and 2018.

Return Objectives, Risk Parameters, and Strategies

The Organization has adopted investment and spending policies for endowment funds that attempt to provide a predictable stream of funding to programs supported by its endowment while protecting the principal balance. The objective of the net assets with donor restrictions to be held in perpetuity is the preservation of capital. To achieve the return objectives within the risk parameters, the Organization has elected to invest in money market funds.

## 13. Endowment Funds (continued)

Return Objectives, Risk Parameters, and Strategies (continued)

The Organization follows a conservative investment policy for endowment assets that attempts to preserve fully the original corpus and optimize returns. Considering the current relatively small size of the endowment, funds are held within cash and cash equivalents and treated as a component thereof.

Should significant, new donations be made to the endowment assets, the Organization's investment policy would permit a strategy of long-term growth of the endowment assets. Under such a policy, the endowment assets would be invested in a manner that is intended to produce results exceeding major investment benchmarks while assuming a moderate level of risk.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization currently allocates budgeted interest and dividends based on a current rate of return for spending on operations. If the budgeted interest and dividends exceed actual interest and dividends for the budget year, the full amount of the actual interest and dividends is deemed to be appropriated. If no amounts are allocated, no appropriations are made from the endowment.

Composition of Endowment Funds

Endowment net asset composition was as follows at December 31, 2019:

| | Without Donor Restriction | With Donor Restrictions | Total |
|---|---|---|---|
| Donor-restricted endowment funds | $ - | $ 250,000 | $ 250,000 |

Endowment net asset composition was as follows at December 31, 2018:

| | Without Donor Restriction | With Donor Restrictions | Total |
|---|---|---|---|
| Donor-restricted endowment funds | $ - | $ 250,000 | $ 250,000 |

## 13. Endowment Funds (continued)

Changes in Endowment Net Assets

There were no changes in endowment net assets for the years ended December 31, 2019 and 2018, as no budgeted interest and dividends were allocated to the endowment.

## 14. In-Kind Contributions

For the year ended December 31, 2019, in-kind contributions consisted of $981,478 for promotions and advertising, and $176,065 for legal services. For the year ended December 31, 2018, in-kind contributions consisted of $560,000 for promotions and advertising, $328,099 for travel and conferences, and $154,620 for legal services.

These contributions have been reflected in the accompanying consolidated statements of activities as revenue and support, and program expenses.

## 15. Functionalized Expenses

The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include natural expenses reported on the consolidated statements of functional expenses, which are allocated on the basis of estimates of time and effort.

## 16. Retirement Plan

The Organization sponsors a 403(b) retirement plan ("the Plan") for employees who have attained age 21 and have one year of continuous service at the Organization. The Plan is a voluntary, contributory annuity plan with the Teachers Insurance and Annuity Association – College Retirement Equities Fund. The Organization contributes to the Plan at its discretion. The Organization contributed $84,759 and $64,281 to the Plan for the years ended December 31, 2019 and 2018, respectively.

## 17. Income Taxes

TMCF is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). Pursuant to IRC Section 509(a), TMCF was determined to be a public charity. TMCF follows the authoritative guidance relating to accounting for uncertainty in income taxes included in the FASB ASC Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's consolidated financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return.

OFCI is a for-profit corporation that is subject to income tax and had no taxable net income for the years ended December 31, 2019 and 2018.

TM2 is a disregarded entity for income tax purposes. As a single member LLC, all items of income and expenditure are attributable to TMCF, and are reported on its annual Form 990. All activities are related to the mission of TMCF.

The Organization performed an evaluation of uncertain tax positions for the years ended December 31, 2019 and 2018, and determined that there were no matters that would require recognition in the consolidated financial statements or that may have any effect on its tax-exempt status. It is the Organization's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of December 31, 2019 and 2018, the Organization had no accrual for interest and/or penalties.

# SUPPLEMENTARY INFORMATION

**Thurgood Marshall College Fund and Affiliates**

Consolidating Schedule of Financial Position
December 31, 2019
(With Comparative Totals for December 31, 2018)

| | TMCF | OFCI | TM2 | Eliminations | 2019 Total | 2018 Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | $ 4,048,908 | $ 5,544 | $ 2,850 | $ - | $ 4,057,302 | $ 957,510 |
| Accounts receivable | 5,189 | - | 19,502 | - | 24,691 | 24,691 |
| Government grants receivable | 2,753,731 | - | - | - | 2,753,731 | 3,145,041 |
| Grants and contributions receivable, net | 5,226,179 | - | - | - | 5,226,179 | 7,649,516 |
| Notes receivable | 1,575,000 | - | - | - | 1,575,000 | 900,000 |
| Due from related entities | 3,896 | 220,920 | - | (224,816) | - | - |
| Investments | 212,996 | - | - | - | 212,996 | - |
| Investment in subsidiary | 226,464 | - | - | (226,464) | - | - |
| Prepaid expenses and other assets | 840,692 | - | - | - | 840,692 | 700,421 |
| Property and equipment, net | 14,904 | - | - | - | 14,904 | 26,052 |
| Security deposit | 3,218 | - | - | - | 3,218 | 3,218 |
| Total assets | $ 14,911,177 | $ 226,464 | $ 22,352 | $ (451,280) | $ 14,708,713 | $ 13,406,449 |
| **Liabilities, Net Assets (Deficit), and Stockholder's Equity** | | | | | | |
| **Liabilities** | | | | | | |
| Accounts payable and accrued expenses | $ 1,142,902 | $ - | $ 9,584 | $ - | $ 1,152,486 | $ 686,734 |
| Due to related entities | - | - | 224,816 | (224,816) | - | - |
| Deferred revenue | 754,002 | - | - | - | 754,002 | 1,403,875 |
| Deferred rent | 41,726 | - | - | - | 41,726 | 20,722 |
| Loan payable | 988,798 | - | - | - | 988,798 | 1,038,704 |
| Line of credit | 800,000 | - | - | - | 800,000 | - |
| Total liabilities | 3,727,428 | - | 234,400 | (224,816) | 3,737,012 | 3,150,035 |
| **Net Assets (Deficit) and Stockholder's Equity** | | | | | | |
| Without donor restriction | (3,106,124) | - | (212,048) | - | (3,318,172) | (2,579,715) |
| With donor restrictions: | | | | | | |
| Purpose restrictions | 14,039,873 | - | - | - | 14,039,873 | 12,586,129 |
| Perpetual in nature | 250,000 | - | - | - | 250,000 | 250,000 |
| Common stock and retained earnings | - | 226,464 | - | (226,464) | - | - |
| Total net assets and stockholder's equity | 11,183,749 | 226,464 | (212,048) | (226,464) | 10,971,701 | 10,256,414 |
| Total liabilities, net assets, and stockholder's equity | $ 14,911,177 | $ 226,464 | $ 22,352 | $ (451,280) | $ 14,708,713 | $ 13,406,449 |

**Thurgood Marshall College Fund and Affiliates**

Consolidating Schedule of Activities
For the Year Ended December 31, 2019
(With Comparative Totals for the Year Ended December 31, 2018)

| | TMCF | OFCI | TM2 | Eliminations | 2019 Total | 2018 Total |
|---|---|---|---|---|---|---|
| **Operating Revenue and Support** | | | | | | |
| Grants and contributions | $ 21,854,153 | $ - | $ - | $ - | $ 21,854,153 | $ 19,198,168 |
| Government grants | 1,396,793 | - | - | - | 1,396,793 | 5,831,618 |
| In-kind contributions | 1,157,543 | - | - | - | 1,157,543 | 1,042,719 |
| Contract income | 15,103 | - | - | - | 15,103 | 153,865 |
| Registration fees | - | - | - | - | - | 800 |
| Membership fees | 18,750 | - | - | - | 18,750 | 82,500 |
| Interest income | 43,138 | 451 | - | - | 43,589 | 68,057 |
| Other income | 22,609 | - | - | - | 22,609 | 19,567 |
| Total operating revenue and support | 24,508,089 | 451 | - | - | 24,508,540 | 26,397,294 |
| **Expenses** | | | | | | |
| Program services | 18,455,154 | - | 11,025 | - | 18,466,179 | 23,048,983 |
| Management and general | 3,363,720 | 14,883 | - | - | 3,378,603 | 2,006,099 |
| Development | 1,948,565 | - | - | - | 1,948,565 | 751,839 |
| Total expenses | 23,767,439 | 14,883 | 11,025 | - | 23,793,347 | 25,806,921 |
| **Change in Net Assets from Operations** | 740,650 | (14,432) | (11,025) | - | 715,193 | 590,373 |
| **Non-Operating Activities** | | | | | | |
| Unrealized loss on investments | - | - | - | - | - | (77,218) |
| Realized gain on investments | 94 | - | - | - | 94 | 6,681 |
| Investment fees | - | - | - | - | - | (8,309) |
| Net loss from investment in subsidiary | (14,432) | - | - | 14,432 | - | - |
| **Change in Net Assets** | 726,312 | (14,432) | (11,025) | 14,432 | 715,287 | 511,527 |
| **Net Assets and Stockholder's Equity,** beginning of year | 10,457,437 | 240,896 | (201,023) | (240,896) | 10,256,414 | 9,744,887 |
| **Net Assets and Stockholder's Equity,** end of year | $ 11,183,749 | $ 226,464 | $ (212,048) | $ (226,464) | $ 10,971,701 | $ 10,256,414 |

# SUPPLEMENTARY SCHEDULE AND REPORTS REQUIRED BY THE UNIFORM GUIDANCE

ROGERS & COMPANY

**Rogers & Company PLLC**
Certified Public Accountants

8300 Boone Boulevard
Suite 600
Vienna, Virginia 22182

703.893.0300 voice
703.893.4070 facsimile
www.rogerspllc.com

# 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*

To the Board of Directors of
Thurgood Marshall College Fund and Affiliates

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 consolidated financial statements of the Thurgood Marshall College Fund and Affiliates (collectively, "the Organization"), which comprise the consolidated statement of financial position as of December 31, 2019; the related consolidated statements of activities, functional expenses, and cash flows for the year then ended; and the related notes to the consolidated financial statements, and have issued our report thereon dated August 3, 2020.

***Internal Control over Financial Reporting***

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

### *Internal Control over Financial Reporting (continued)*

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, as described in the accompanying schedule of findings and questioned costs as item 2019-001, which we consider to be a significant deficiency.

### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the Organization's consolidated 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 determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### *Purpose of this Report*

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Rogers + Company PLLC

Vienna, Virginia
August 3, 2020

ROGERS & COMPANY

**Rogers & Company PLLC**
Certified Public Accountants

8300 Boone Boulevard
Suite 600
Vienna, Virginia 22182

703.893.0300 voice
703.893.4070 facsimile
www.rogerspllc.com

# INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of
Thurgood Marshall College Fund and Affiliates

***Report on Compliance for Each Major Federal Program***

We have audited the Thurgood Marshall College Fund and Affiliates' (collectively, "the Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2019. The Organization's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

***Auditor's Responsibility (continued)***

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

***Opinion on the Major Federal Program***

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

***Other Matters***

The results of our auditing procedures disclosed two instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2019-002 and 2019-003. Our opinion on each major federal program is not modified with respect to these matters.

The Organization's responses to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

***Report on Internal Control over Compliance***

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal programs and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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.

***Report on Internal Control over Compliance (continued)***

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify deficiencies in internal control, as described in the accompanying schedule of findings and questions costs as items 2019-002 and 2019-003, which we consider to be significant deficiencies.

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.

Rogers + Company PLLC

Vienna, Virginia
August 3, 2020

**Thurgood Marshall College Fund and Affiliates**

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Agency or Pass-Through Grant Number | Passed Through to Subrecipients | Total Federal Expenditures |
|---|---|---|---|---|
| **Research and Development Cluster:** | | | | |
| **U.S. Department of Defense** | | | | |
| Basic Scientific Research | 12.431 | W911NF-16-1-0107 | $ - | $ 669,748 |
| Total U.S. Department of Defense | | | - | 669,748 |
| **U.S. Department of Agriculture** | | | | |
| Plant and Animal Disease, Pest Control, and Animal Care | 10.025 | OAO-1890-19-1 | - | 416,195 |
| Total U.S. Department of Agriculture | | | - | 416,195 |
| **Total Research and Development Cluster** | | | - | 1,085,943 |
| **U.S. Department of Agriculture** | | | | |
| Soil and Water Conservation | 10.902 | 68-3A75-17-137 | - | 258,101 |
| Total U.S. Department of Agriculture | | | - | 258,101 |
| **U.S. Department of Energy** | | | | |
| Minority Economic Impact | 81.137 | DE-ED000605 | - | 46,824 |
| Total U.S. Department of Energy | | | - | 46,824 |
| **National Credit Union Administration** | | | | |
| Student Intern Program | 44.U01 | NCUA-17-D-00010 | - | 5,925 |
| Total National Credit Union Administration | | | - | 5,925 |
| **Total Expenditures of Federal Awards** | | | $ - | $ 1,396,793 |

*See accompanying notes to this schedule.*

**Thurgood Marshall College Fund and Affiliates**

Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019

## 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal award activity of the Organization under the programs of the federal government for the year ended December 31, 2019. The information in the SEFA is presented in accordance with the 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). Because the SEFA presents only a selected portion of the operations of the Organization, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of the Organization.

## 2. Summary of Significant Accounting Policies

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance. For existing awards prior to December 26, 2014, the expenditures follow the cost principles contained in OMB Circular A-122, *Cost Principles for Nonprofit Organizations*. The cost principles indicate that certain types of expenditures are not allowable or reimbursements of allowable costs are limited as to reimbursement.

## 3. Indirect Cost Rates

The Organization records its expenditures of federal awards using the indirect cost and fringe benefit rates per the nonprofit rate agreement with the federal government, which was approved in accordance with the authority in the Uniform Guidance.

In this manner, the Organization has elected not to use the 10% *de minimis* indirect cost rate, which is allowed in accordance with the Uniform Guidance.

**Thurgood Marshall College Fund and Affiliates**

Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2019

## Section I – Summary of Auditors' Results

### *Financial Statements*

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ____ Yes __X__ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? __X__ Yes ____ None reported

Noncompliance material to financial statements noted? ____ Yes __X__ No

### *Federal Awards*

Internal control over the major federal programs:

- Material weakness(es) identified? ____ Yes __X__ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? __X__ Yes ____ None reported

Type of auditors' report issued on compliance for the major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? __X__ Yes ____ No

Identification of major federal programs:

| CFDA Number | Name of Federal Program or Cluster |
|---|---|
| 12.431, 10.025 | Research and Development Cluster |

Dollar threshold used to distinguish between type A and type B programs: $750,000

Auditee qualified as low-risk auditee? __X__ Yes ____ No

**Section II – Financial Statement Finding**

**Finding No. 2019-001 – Significant Deficiency – Tracking of Net Assets With Donor Restrictions**

| | |
|---|---|
| Criteria: | In accordance with U.S. generally accepted accounting principles, reconciliation of net assets should be performed timely at the end of each year. Tracking and identifying activities of net assets with donor restrictions ensures that all transactions that satisfy a restricted purpose are properly met and reflected in the consolidated financial statements. |
| Condition: | We noted that the Organization receives certain contributions with donor stipulations that limit its use to certain programs or to a future year. We noted that some of these contributions were not appropriately tracked and the purpose of certain restricted funds was sometimes unclear, and in other cases, qualifying expenses that met the donor restrictions were not identified and released against the corresponding restricted funds. |
| Questioned Costs: | None. |
| Context: | While the Organization prepares a schedule of net assets activity for the purpose of the audit, the schedule is not complete and does not include all restricted activity. Additionally, this schedule is not maintained and updated during the fiscal year as restricted activity is received and spent. This results in a lack of controls related to the tracking of the net assets with donor restrictions. |
| Effect: | There were misclassifications to the net assets without donor restrictions, and the schedule of net assets was incomplete. |
| Cause: | The Organization did not perform a timely and thorough reconciliation of net assets with donor restrictions during the fiscal year. |
| Identification as a Repeat Finding: | Finding 2019-001 is a repeat finding of finding number 2018-002. |

**Section II – Financial Statement Finding (continued)**

**Finding No. 2019-001 – Significant Deficiency – Tracking of Net Assets With Donor Restrictions (continued)**

| | |
|---|---|
| Recommendation: | We recommend that the Organization evaluate policies and procedures for tracking net assets with donor restrictions. Further, management should periodically review the balances in the restricted funds to ensure the balances accurately reflect expenditures of those funds and available balances remaining. These procedures will ensure accurate and consistent financial reporting and will also ensure that donor-restricted funds are spent on the purposes intended by the donor. |
| Views of Responsible Officials and Planned Corrective Action: | See Corrective Action Plan. |

**Section III – Federal Award Findings and Questioned Costs**

**<u>Finding No. 2019-002 – Significant Deficiency – Advance Drawdown of Federal Funds</u>**

**Research and Development Cluster – U.S. Department of Defense; Basic Scientific Research Program – CFDA No. 12.431; Grant No. W911NF-16-1-0107; Grant Period: Year Ended December 31, 2019**

| | |
|---|---|
| <u>Criteria:</u> | Under the Uniform Guidance, recipients that draw funds in advance should maintain or demonstrate the willingness to maintain: (1) written procedures that minimize the time elapsing between the transfer of funds and disbursement by the recipient and (2) financial management systems that meet the standards for fund control and accountability. Cash advances drawn by a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs. |
| <u>Condition:</u> | There was a large gap between the time the advanced funds were drawn down by the Organization and the disbursement of cash under the grant. |
| <u>Questioned Costs:</u> | None. |
| <u>Context:</u> | CFDA 12.431 – The Organization had funds drawn down in advance from the grant, which were not completely depleted as of December 31, 2019. A draw down of $2,175,000 was completed on May 10, 2016. As of December 31, 2019, the outstanding balance of this grant was $754,002 and is recorded under deferred revenue in the accompanying consolidated statements of financial position. |
| <u>Effect:</u> | The program was not in compliance with the Uniform Guidance. |
| <u>Cause:</u> | The Organization did not prepare a detailed analysis of the anticipated costs. |
| <u>Identification as a Repeat Finding:</u> | Finding number 2019-002 is a repeat of finding number 2018-003. |

**Section III – Federal Award Findings and Questioned Costs (continued)**

**Finding No. 2019-002 – Significant Deficiency – Advance Drawdown of Federal Funds (continued)**

**Research and Development Cluster – U.S. Department of Defense; Basic Scientific Research Program – CFDA No. 12.431; Grant No. W911NF-16-1-0107; Grant Period: Year Ended December 31, 2019 (continued)**

Recommendation: We recommend that management anticipate future costs for the next month and request a cash advance based on these anticipated future costs. Further, once cash is received, we recommend that management disburse the expenses within the next month to minimize the time elapsed between the date the cash advance is received and the disbursement of expenses. Interest earned on the advances shall be remitted back to the federal awarding agencies.

Views of Responsible Officials and Planned Corrective Action: See Corrective Action Plan.

**Finding No. 2019-003 – Significant Deficiency – Timely Submission of Quarterly SF-425 Report**

**Research and Development Cluster – U.S. Department of Agriculture; Plant and Animal Disease, Pest Control, and Animal Care – CFDA No. 10.025; Grant No. OAO-1890-19-1; Grant Period: Year Ended December 31, 2019**

Criteria: Under the Uniform Guidance and terms of the federal award agreement, the Organization is required to submit the quarterly SF-425 report at the end of each quarter within 30 days from the last day of service for each internship session.

Condition: Due to additional time required by the Organization to assemble information and complete the quarterly SF-425 report, the submission of the report was delayed by almost 2 months to the federal agency.

Questioned Costs: None.

**Section III – Federal Award Findings and Questioned Costs (continued)**

**<u>Finding No. 2019-003 – Significant Deficiency – Timely Submission of Quarterly SF-425 Report (continued)</u>**

**Research and Development Cluster – U.S. Department of Agriculture; Plant and Animal Disease, Pest Control, and Animal Care – CFDA No. 10.025; Grant No. OAO-1890-19-1; Grant Period: Year Ended December 31, 2019 (continued)**

| | |
|---|---|
| <u>Context:</u> | The Organization is required to submit the quarterly SF-425 report at the end of each quarter within 30 days from the last day of service for each internship session. For the reporting period ending June 30, 2019, the quarterly SF-425 report was due on July 30, 2019. Management submitted the report with a delayed filing on September 26, 2019, without a requested extension from the federal agency. |
| <u>Effect:</u> | The quarterly SF-425 report was filed late and was not in compliance with the Uniform Guidance and the federal award requirements. |
| <u>Cause:</u> | The Organization did not have an effective monitoring and reporting process in place for oversight of reporting deadlines for the federal award. |
| <u>Identification as a Repeat Finding:</u> | No. |
| <u>Recommendation:</u> | We recommend that the Organization review its monitoring process for the quarterly reporting of SF-425 reports, and ensure reports are filed timely within the requirements of the reporting deadlines. If an extension is necessary for any instances of reporting, a request for extension should be filed with the federal agency, along with a justified explanation for the additional time needed. Otherwise, all quarterly reports should be filed timely within 30 days from the last day of service for each internship session at the end of each quarter. |
| <u>Views of Responsible Officials and Planned Corrective Action:</u> | See Corrective Action Plan. |

THURGOOD MARSHALL COLLEGE FUND
901 F Street NW, Suite 700
Washington, DC 20004
202.507.4851
tmcf.org

## SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended December 31, 2019

August 3, 2020

Thurgood Marshall College Fund and Affiliates (collectively, "the Organization") respectfully submits the following Schedule of Prior Audit Findings for the year ended December 31, 2019.

**Name and address of independent public accounting firm:**
Rogers and Company, PLLC
8300 Boone Blvd, Suite 600
Vienna, Virginia 22182

**Audit period:**
01/01/2019 to 12/31/2019

**Finding No. 2018-001 – Significant Deficiency – Timely Year-End Reporting Procedures and Accounts Reconciliations**

Current Status: During the current year, the Organization took appropriate measures to implement our recommendations. No additional follow up recommendations are being made as a result of our current audit.

**Finding No. 2018-002 – Significant Deficiency – Tracking of Net Assets With Donor Restrictions**

Current Status: Finding still applicable, see Finding No. 2019-001 under Schedule of Findings and Questioned Costs.

Reason for Finding's Recurrence: While management provides a schedule of annual activity for the audit, there needs to be a deeper analysis performed during the year. The net assets schedule did not appropriately track several contributions for restricted activity, and the schedule was incomplete. Management continues to implement better practices

| | |
|---|---|
| | and properly codify its procedures around this deficiency for review during the next audit. |
| Planned Corrective Action: | See Corrective Action Plan. |

**Finding No. 2018-003 – Advance Drawdown of Federal Funds**

**Research and Development Cluster – U.S. Department of Defense; Basic Scientific Research Program – CFDA No. 12.431; Grant No. W911NF-16-1-0107; Grant Period: Year Ended December 31, 2018**

| | |
|---|---|
| Current Status: | Finding still applicable, see Finding No. 2019-002 under Schedule of Findings and Questioned Costs. |
| Reason for Finding's Recurrence: | The Organization had funds drawn down in advance from the grant, which were not completely depleted as of the current year ending December 31, 2019. A draw down of $2,175,000 was completed on May 10, 2016. As of December 31, 2019, the outstanding balance of this grant was $754,002 and is recorded under deferred revenue in the consolidated statement of financial position. This finding will continue to be a repeat finding until all funds balances are fully depleted. |
| Planned Corrective Action: | See Corrective Action Plan. |

**Finding No. 2018-004 – Significant Deficiency – Preparation of the Schedule of Expenditures of Federal Awards**

| | |
|---|---|
| Current Status: | During the current year, the Organization took appropriate measures to implement our recommendations. No additional follow up recommendations are being made as a result of our current audit. |

**THURGOOD MARSHALL COLLEGE FUND AND AFFILIATES**

Aisha T. Brown

Ms. Aisha T. Brown
Vice President of Finance
aisha.brown@tmcf.org
202-747-7184

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**CORRECTIVE ACTION PLAN**
For the Year Ended December 31, 2019

August 3, 2020

Thurgood Marshall College Fund and Affiliates (collectively, "the Organization") respectfully submits the following Corrective Action Plan for the year ended December 31, 2019.

**Name and address of independent public accounting firm:**
Rogers and Company, PLLC
8300 Boone Blvd, Suite 600
Vienna, Virginia 22182

**Audit period:**
01/01/2019 to 12/31/2019

The findings from the Schedule of Findings and Questioned Costs for the year ended December 31, 2019 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

**Section II - Financial Statement Findings:**

**Finding No. 2019-001 – Significant Deficiency – Tracking of Net Assets With Donor Restrictions**

| | |
|---|---|
| Recommendation: | The Organization should evaluate policies and procedures for tracking net assets with donor restrictions. Further, management should periodically review the balances in the restricted funds to ensure the balances accurately reflect expenditures of those funds and available balances remaining. These procedures will ensure accurate and consistent financial reporting and will also ensure that donor-restricted funds are spent on the purposes intended by the donor. |
| Views of Responsible Officials and Planned Corrective Action: | Management acknowledges the need for corrective action around reconciling the release of donor-restricted activity throughout the year. The Finance department contemporaneously reviews aggregate donor-restricted activity at year-end; and while management provides a schedule of annual activity for the audit, there needs to be deeper analysis performed during the year. In the subsequent fiscal period, |

management will implement better practices and properly codify its procedures around this deficiency for review during the next audit.

| | |
|---|---|
| Person Responsible: | Vice President of Finance |
| Planned Completion Date: | December 31, 2019 |

**Section III - Federal Award Findings and Questioned Costs:**

**Finding No. 2019-002 – Significant Deficiency – Advance Drawdown of Federal Funds**

**Research and Development Cluster – U.S. Department of Defense; Basic Scientific Research Program – CFDA No. 12.431; Grant No. W911NF-16-1-0107; Grant Period: Year Ended December 31, 2019**

| | |
|---|---|
| Recommendation: | Management should anticipate future costs for the next month and request a cash advance based on these anticipated future costs. Further, once cash is received, management should disburse the expenses within the next month to minimize the time elapsed between the date the cash advance is received and the disbursement of expenses. Interest earned on the advances shall be remitted back to the federal awarding agencies. |
| Views of Responsible Officials and Planned Corrective Action: | Management noted that advanced funds were authorized and subsequently disbursed by the awarding agency prior to the beginning of the grant year term for the aforementioned award. The payments occurred at the commencement of each respective award because of the exigent circumstances of capital needed at the beginning of each grant to fund programmatic benchmarks early on in the grant. Once management was in receipt of the advance payments, funds were held in an interest-bearing account and properly recording as a restricted asset in the accounting system. Interest on the advance funds were remitted to the awarding agency quarterly. At December 31, 2019, $754,002 of unspent funds remains, and is expected to be fully expended in the next fiscal period. Management further agrees to implement more formal procedures in subsequent fiscal years to prevent the advance drawdown of federal funds and be in compliance with the Uniform Guidance. |
| Person Responsible: | Vice President of Finance |
| Planned Competition Date: | December 31, 2019 |

**Section III - Federal Award Findings and Questioned Costs (continued):**

**Finding No. 2019-003 – Significant Deficiency – Timely Submission of Quarterly SF-425 Report**

**Research and Development Cluster – U.S. Department of Agriculture; Plant and Animal Disease, Pest Control, and Animal Care – CFDA No. 10.025; Grant No. OAO-1890-19-1; Grant Period: Year Ended December 31, 2019**

| | |
|---|---|
| Recommendation: | Management should review its monitoring process for the quarterly reporting of SF-425 reports, and ensure reports are filed timely within the requirements of the reporting deadlines. If an extension is necessary for any instances of reporting, a request for extension should be filed with the federal agency, along with a justified explanation for the additional time needed. Otherwise, all quarterly reports should be filed timely within 30 days from the last day of service for each internship session at the end of each quarter. |
| Views of Responsible Officials and Planned Corrective Action: | Going forward, management will review the reporting deadlines for each federal award, and ensure reporting and monitoring processes are in place to file all reports timely by the necessary deadlines for each reporting period. Management will also file any extensions directly with the federal agency, if additional time is needed to complete and file the required reports. |
| Person Responsible: | Vice President of Finance |
| Planned Competition Date: | December 31, 2019 |

**THURGOOD MARSHALL COLLEGE FUND AND AFFILIATES**

Aisha T. Brown

Ms. Aisha T. Brown
Vice President of Finance
aisha.brown@tmcf.org
202-747-7184