



**THE CORPORATION OF MERCER UNIVERSITY  
AND ITS SUBSIDIARIES**

Consolidated Financial Statements and Uniform Guidance Reports

June 30, 2021

(With Independent Auditors' Reports Thereon)

**THE CORPORATION OF MERCER UNIVERSITY  
AND ITS SUBSIDIARIES**

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## Independent Auditors' Report

The Board of Trustees  
The Corporation of Mercer University:

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Corporation of Mercer University and its subsidiaries (the University), which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these 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 auditors' 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. 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 consolidated financial position of The Corporation of Mercer University and its subsidiaries as of June 30, 2021 and 2020, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



*Emphasis of Matter*

As discussed in note 1(u) to the consolidated financial statements, in fiscal year 2021, the University adopted new accounting guidance, Accounting Standards Update No. 2016-02, *Leases* (Topic 842), as amended. Our opinion is not modified with respect to this matter.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2021 on our consideration of the University'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 University'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 University's internal control over financial reporting and compliance.

KPMG LLP

Atlanta, Georgia  
October 7, 2021

**THE CORPORATION OF MERCER UNIVERSITY  
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Consolidated Statements of Financial Position

June 30, 2021 and 2020

<b>Assets</b>	<b>2021</b>	<b>2020</b>
Cash and cash equivalents	\$ 51,402,212	43,367,994
Restricted cash	608,135	384,814
Accrued interest receivable	1,085,930	1,143,667
Accounts receivable, less allowance for uncollectible accounts of \$2,670,676 and \$2,760,515 at June 30, 2021 and 2020, respectively	14,506,083	14,381,600
Inventories	848,869	794,008
Contributions receivable, net (note 2)	2,037,552	2,335,318
Student loans receivable, net (note 3)	9,418,740	10,125,345
Note receivable (note 1(g))	12,250,000	12,250,000
Notes receivable from related entities (note 19)	3,980,008	10,408,104
Contributions receivable from remainder interest trusts	—	143,529
Investments (note 4)	387,824,514	297,522,860
Remainder interest trusts	6,874,392	5,840,237
Beneficial interests in perpetual trusts	87,177,911	71,127,483
Other assets	7,212,013	5,079,254
Property and equipment, net (notes 6 and 10)	390,244,208	359,128,337
Total assets	\$ 975,470,567	834,032,550
<b>Liabilities and Net Assets</b>		
Accounts payable, deposits, and accrued expenses	\$ 20,337,608	12,669,346
Accrued postretirement benefits (note 18)	826,158	875,128
Deferred revenue	12,843,189	9,052,193
Finance (in 2021) and capital (in 2020) lease obligations (note 10)	95,793	126,610
Notes payable (note 7)	69,034,015	69,741,565
Due to related entity (note 19)	—	113,811
Annuity obligations	3,039,230	2,802,455
Asset retirement obligations (note 6)	4,452,846	4,722,416
Interest rate swaps (note 9)	2,331,459	3,287,239
Bonds payable, net (note 8)	218,172,834	226,241,279
Other liabilities (note 16)	4,079,297	2,632,834
Advances from federal government and others	11,126,607	12,367,505
Advances from state government	—	9,873,172
Total liabilities	346,339,036	354,505,553
Net assets:		
Without donor restrictions	259,256,474	194,610,815
With donor restrictions (note 14)	369,875,057	284,916,182
Total net assets	629,131,531	479,526,997
Total liabilities and net assets	\$ 975,470,567	834,032,550

See accompanying notes to consolidated financial statements.

**THE CORPORATION OF MERCER UNIVERSITY  
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Consolidated Statements of Activities

Years ended June 30, 2021 and 2020

	<b>2021</b>	<b>2020</b>
Changes in net assets without donor restrictions:		
Operating revenue and other support:		
Tuition and fees	\$ 158,647,623	157,352,770
Government contracts	90,236,347	77,092,527
Private gifts and contracts	6,850,408	10,908,258
Sales and services of auxiliary enterprises	48,769,960	43,727,480
Investment income, net	6,586,967	3,865,509
Other revenue	1,806,846	6,139,865
Net assets released from restrictions (note 15)	16,866,301	11,391,580
Total operating revenue and other support	329,764,452	310,477,989
Operating expenses (note 13):		
Instruction	108,651,199	107,667,425
Research	45,215,907	44,981,475
Public service	2,345,817	2,270,244
Academic support	28,369,014	28,819,808
Student services	27,300,610	26,751,075
Institutional support	23,480,195	20,793,153
Auxiliary enterprises	63,299,628	58,263,295
Total operating expenses	298,662,370	289,546,475
Operating income	31,102,082	20,931,514
Nonoperating revenue (expenses):		
Net realized gains on investments	6,107,616	478,017
Net unrealized gains on investments	28,526,467	7,081,575
Postretirement benefit income	48,970	73,115
Change in fair value of interest rate swaps (note 9)	955,780	(1,026,611)
Loan administration and other expenses	(2,118,204)	(2,727,444)
Amortization of right-of-use assets	(415,201)	—
Amortization of bond premium/discount and issuance costs	175,742	175,743
Loss on disposal of fixed assets	(7,164)	(274,703)
Other	269,571	229,970
Total nonoperating revenue	33,543,577	4,009,662
Change in net assets without donor restrictions	64,645,659	24,941,176

**THE CORPORATION OF MERCER UNIVERSITY  
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Consolidated Statements of Activities  
Years ended June 30, 2021 and 2020

	<b>2021</b>	<b>2020</b>
Change in net assets with donor restrictions:		
Government grants and contracts	\$ 2,632,964	2,632,963
Private gifts, grants, and contracts	23,727,353	14,602,680
Net change in beneficial trusts	16,050,428	(656,794)
Income on investments	926,647	4,344,073
Other transfers	4,080,285	1,132,903
Change in split-interest obligations	(248,454)	214,589
Net realized gains (losses) on investments	5,094,171	(2,058,112)
Net unrealized gains (losses) on investments	49,561,782	(10,988,136)
Net assets released from restrictions	(16,866,301)	(11,391,580)
Change in net assets with donor restrictions	84,958,875	(2,167,414)
Total change in net assets	149,604,534	22,773,762
Net assets at beginning of year	479,526,997	456,753,235
Net assets at end of year	\$ 629,131,531	479,526,997

See accompanying notes to consolidated financial statements.

**THE CORPORATION OF MERCER UNIVERSITY  
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Consolidated Statements of Cash Flows

Years ended June 30, 2021 and 2020

	<b>2021</b>	<b>2020</b>
Cash flows from operating activities:		
Change in net assets	\$ 149,604,534	22,773,762
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	18,449,456	18,623,582
Net realized (gains) losses on investments	(11,046,776)	1,420,826
Net unrealized (gains) losses on investments	(77,829,811)	3,914,298
Net change in split-interest agreements	(248,454)	277,911
Net change in beneficial interests in perpetual trusts	(16,050,428)	656,794
Private gifts restricted for long-term use	(2,441,062)	(4,581,917)
Loss on disposal of property and equipment	7,164	274,703
Amortization of bond discount/premium	(231,202)	278,797
Amortization of bond issuance costs	55,460	55,458
Receipt of agency funds (Federal Direct Student Loans)	123,540,306	128,883,934
Disbursement of agency funds (Federal Direct Student Loans)	(123,540,306)	(128,883,934)
Changes in assets and liabilities:		
Decrease in asset retirement obligation	(269,570)	(229,970)
Change in fair value of interest rate swaps	(955,780)	1,026,611
(Increase) decrease in inventories	(54,861)	19,562
Decrease in accrued interest receivable	57,737	14,854
Increase in accounts receivable	(124,483)	(4,083,437)
Decrease in contributions receivable	441,295	611,943
Increase in other assets	(625,742)	(559,937)
Increase (decrease) in accounts payable, deposits, and accrued expenses	6,053,147	(3,150,036)
(Decrease) increase in advances from state government	(2,000,000)	2,873,172
Decrease in postretirement benefits obligation	(48,970)	(73,115)
Increase in deferred revenue	3,790,996	4,579,680
Net cash provided by operating activities	66,532,650	44,723,541
Cash flows from investing activities:		
Purchases of property and equipment	(42,368,509)	(21,229,577)
Student loans awarded	(2,116,613)	(1,250,611)
Issuance of note receivable	—	(12,250,000)
Proceeds from student loan repayments	2,823,218	2,134,765
Proceeds from (payments to) related parties	725,417	(34,577)
Proceeds from sales of investments	12,975,807	11,028,882
Purchases of investments	(15,186,574)	(11,272,957)
Net cash used in investing activities	(43,147,254)	(32,874,075)

**THE CORPORATION OF MERCER UNIVERSITY  
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Consolidated Statements of Cash Flows

Years ended June 30, 2021 and 2020

	<b>2021</b>	<b>2020</b>
Cash flows from financing activities:		
Payments on leases payable	\$ (30,817)	(102,379)
Payments on other liabilities/financing obligation	(60,554)	(60,012)
Payments on bonds payable	(7,892,703)	(7,724,378)
Payments on notes payable	(3,167,129)	(3,095,782)
Proceeds from notes payable	2,459,579	12,250,000
Payments on advances from federal government and others	(9,114,070)	(4,019,783)
Proceeds from private gifts and grants restricted for long-term investment	2,441,062	4,581,917
Proceeds from (payments on) annuity obligations	236,775	(218,779)
Net cash (used in) provided by financing activities	(15,127,857)	1,610,804
Net increase in cash and cash equivalents	8,257,539	13,460,270
Cash, cash equivalents, and restricted cash at beginning of year	43,752,808	30,292,538
Cash, cash equivalents, and restricted cash at end of year	\$ 52,010,347	43,752,808
Reconciliation of cash, cash equivalents, and restricted cash:		
Cash and cash equivalents	\$ 51,402,212	43,367,994
Restricted cash	608,135	384,814
Total cash, cash equivalents, and restricted cash	\$ 52,010,347	43,752,808
Supplemental disclosure:		
Cash paid for interest	\$ 10,947,726	11,768,165
Noncash activities:		
Property and equipment purchases included in accounts payable	\$ 2,914,262	253,956
Property and equipment transferred to related parties in exchange for notes receivable (note 19)	—	4,141,944
Historic Bell House, LLC and Tattnall Square Center for the Arts, LLC notes receivables assumed with acquisition of related party LLCs	(5,588,868)	—
Historic Bell House, LLC and Tattnall Square Center for the Arts, LLC property and equipment additions with acquisition of related party LLCs	6,494,153	—

See accompanying notes to consolidated financial statements.

**THE CORPORATION OF MERCER UNIVERSITY  
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Notes to Consolidated Financial Statements

June 30, 2021 and 2020

**(1) Summary of Significant Accounting Policies**

**(a) Description of the University**

The Corporation of Mercer University (the University) is a multicampus, private, faith-based, coeducational, not-for-profit institution of higher education and research. The University's programs include liberal arts, business, engineering, education, medicine, nursing, pharmacy, law, theology, music, and health professions.

The accompanying consolidated financial statements include the accounts of the University and its wholly owned subsidiaries. Significant intercompany balances and transactions have been eliminated in consolidation.

The University is the sole member of Bell House Manager, LLC, which was formed as a single-member limited liability company on July 14, 2014 to manage, maintain, invest in, and operate the Historic Bell House property through a 1% ownership interest in Historic Bell House, LLC (HBH), in such a manner that it qualifies for the historic rehabilitation tax credit allowed for qualified rehabilitation expenditures incurred in connection with the certified rehabilitation of a certified historic structure (the Historic Tax Credit) pursuant to Section 47 of the Internal Revenue Code (the Code) and for certain state historic tax credits by the State of Georgia. During December 2020, Bell House Manager, LLC acquired 100% ownership interest in HBH.

The University is the sole member of the Tattnall Arts Manager, LLC, which was formed as a single-member limited liability company on December 10, 2014 to manage, maintain, invest in, and operate the Tattnall Square Center for the Arts property through a 1% ownership interest in Tattnall Square Center for the Arts, LLC (TSCA), in such a manner that it qualifies for the Historic Tax Credit. During December 2020, Tattnall Arts Manager, LLC acquired 100% ownership interest in TSCA.

The University is the sole member of Mercer GSA, LLC, which was formed as a single-member limited liability company on September 30, 2015 to facilitate the assumption of debt and transfer of property and equipment that is described in more detail in note 6.

The University is the sole member of Historic Capricorn Studios Manager, LLC, which was formed as a single-member limited liability company on April 13, 2017 to manage, maintain, invest in, and operate the Historic Capricorn Studios property through a 1% ownership interest in Historic Capricorn Studios, LLC (HCS), in such a manner that it qualifies for the Historic Tax Credit.

The University is the sole member of Historic New York Café Manager, LLC, which was formed as a single-member limited liability company on February 15, 2018 to manage, maintain, invest in, and operate the Historic New York Café property through a 1% ownership interest in Historic New York Café, LLC (HNYC), in such a manner that it qualifies for the Historic Tax Credit.

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**(b) COVID-19 Impact and Response**

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a global pandemic. Commencing March 16, 2020, all of the University's undergraduate and most of the University's graduate course instruction was conducted online and a majority of students vacated the campus. At the conclusion of the spring 2020 semester, the University granted refunds of \$3.1 million in fiscal year 2020 for housing, dining services, and laboratory experiences not provided after March 16, 2020.

Even as the University focused on implementing this unanticipated transition to online course delivery in the spring 2020 semester, it began planning for a successful return to in-person instruction for the fall 2020 semester based on the advice of infectious disease experts within its medical school. COVID-19 protocols were developed, disseminated, and posted on the University's website. The University also undertook immediate steps to create a high volume, prompt turn-around testing facility on campus. In addition, the University identified and acquired helpful technology for the monitoring and early detection of COVID-19 symptoms, as well as enhanced sanitizing and disinfection resources for all campuses. Having a significant number of students remain on campus for the remainder of the spring 2020 semester provided practical experience in how to safely house, feed, and provide academic support to students during the pandemic.

The University reinstated in-person instruction in the second term of summer school in late June 2020. Experience showed that the above-described protocols were effective and plans and practices for the fall semester were refined. This included a restructuring of the fall semester academic calendar to reduce the number of times students might need to leave campus to go home.

Students returned to campus for the fall 2020 semester in predetermined segments so that move-in could be conducted safely and all undergraduate students could be tested as they returned. Other students were tested based on perceived need identified from completed surveys. The University established isolation space on campus and rented off-campus isolation space as well. Both types of isolation have been supported by remote learning technology and meal delivery from on campus.

When students have tested positive for COVID-19 infection, short-term isolation has gone smoothly, and students have been able to stay current in their course work by viewing their classes remotely. Medical personnel associated with the University's medical school determine the length of each student's isolation and returns to classes have been uneventful.

The overall response of students and their families to these coordinated efforts has been positive based on enrollment trends.

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**(c) Basis of Presentation**

Net assets and revenue, expenses, gains, and losses of the University are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

**Net assets without donor restrictions** – Net assets that are not subject to donor-imposed stipulations and include revenue, gains, and losses that are not restricted by donors; all expenses are reported as decreases in net assets without donor restrictions.

**Net assets with donor restrictions** – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the University and/or the passage of time; net assets included in this class include unconditional gifts for restricted purposes and donor-restricted endowment funds.

Generally, donor-imposed restrictions of endowment net assets permit the University to use all or part of the income earned on related investments only for certain general or specific purposes. Expirations of donor restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions in the consolidated statements of activities.

**(d) Revenue Recognition**

Under Financial Accounting Standards Board (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 University expects to be entitled in exchange for those goods or services (i.e., the transaction price).

The University's operating revenue is primarily derived from academic programs provided to students, including undergraduate, graduate, and professional degree granting programs. Tuition and fees revenue is earned by the University for these educational services delivered during an academic term. Tuition is charged at different rates depending on the program in which the student is enrolled. 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 and fees consisted of the following for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Undergraduate tuition and fees at stated rates	\$ 155,493,421	152,736,676
Graduate tuition and fees at stated rates	98,014,259	96,962,884
Institutional aid	(85,661,117)	(83,436,920)
Scholarships	<u>(9,198,940)</u>	<u>(8,909,870)</u>
Total	<u>\$ 158,647,623</u>	<u>157,352,770</u>

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Tuition scholarships awarded by the University represent a reduction of the tuition transaction price. The University 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, residence, and dining services is reflected net of reductions from institutional student aid and is recognized as the services are provided over the academic year, which generally aligns with the University's fiscal year. Aid in excess of a student's tuition and fees is reflected as a reduction of residence and dining charges. Scholarship disbursements made directly to students for living or other costs are reported as an expense.

Auxiliary enterprises revenue consisted of the following for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Residence and dining services, net of scholarships	\$ 23,774,712	21,073,943
Athletics and retail operations	2,786,675	3,815,798
General Services Administration lease income (note 6)	5,625,140	5,377,594
Clinic revenue	11,499,717	7,768,932
Other	<u>5,083,716</u>	<u>5,691,213</u>
Total	<u>\$ 48,769,960</u>	<u>43,727,480</u>

Other auxiliary sales and services include revenue from clinical operations, telecommunications, and other miscellaneous activities. Such revenue is recognized when goods or services are provided to customers.

Revenue from contracts entered into specifically with the U.S. Department of Defense is treated as exchange transactions as each party is receiving and sacrificing approximately commensurate value.

Revenue is reported as an increase in net assets without donor restrictions unless use of the related assets is limited by donor-imposed purpose or time restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation, time, or by law.

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Notes to Consolidated Financial Statements

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**(e) Contribution Revenue**

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. The University has elected the simultaneous release policy available under Accounting Standards Update (ASU) No. 2018-08, Not-for-Profit Entities: Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made, which allows a not-for-profit organization to recognize a restricted contribution directly in net assets without donor restrictions if the restriction is met in the same period that the revenue is recognized. Total revenue from grants recognized in net assets without donor restrictions under simultaneous release policy was \$52,610,405 and \$43,462,072 for the years ended June 30, 2021 and 2020, respectively, and is included in government contracts in the accompanying consolidated statements of activities.

All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are met. Contributions are initially recorded at their estimated fair value. Contributions to be received after one year are discounted at a rate commensurate with the risks involved to reflect the estimated present value of future cash flows. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based on management's judgment and analysis, including such factors as prior collection history, type of contribution, and other relevant factors.

**(f) Inventories**

Inventories consist primarily of books published by the University and are stated at the lower of cost or market.

**(g) Note Receivable**

The University is the 50% owner of Century Center Holdings, LLC (CCH), which was formed on January 28, 2019 with LaGrange College (LaGrange), the other 50% owner of the entity, solely for the purpose of holding land that was jointly received as part of a gift from an estate. The real estate assets from the gift were transferred into CCH on February 13, 2019, and the University has recorded its proportional share of the land at fair value of the underlying real estate assets in investments.

During fiscal year 2020, the University purchased LaGrange's 50% membership interest and then subsequently sold the 50% membership interest acquired from LaGrange to an unrelated third party in exchange for cash and a note receivable in the amount of \$12,250,000 bearing interest at a rate of 2% per annum. All accrued and unpaid interest on the note is due and payable in installments on the first day of each month commencing on May 1, 2020, and all accrued and unpaid interest and principal on the note is due and payable on March 26, 2030.

**THE CORPORATION OF MERCER UNIVERSITY  
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Notes to Consolidated Financial Statements

June 30, 2021 and 2020

**(h) Investments**

Marketable securities are carried at fair value, as determined by quoted market prices. Real estate investments are stated at fair value based on appraised value as of the financial reporting date. Private equities and other investments not publicly traded are recorded at estimated fair value based on information provided by the general partner, which is assessed by management. The net realized and unrealized gains and losses on investments are reflected in the consolidated statements of activities.

**(i) Beneficial Interests in Perpetual Trusts and Remainder Interest Trusts**

The University is the beneficiary of various trusts created by donors, the assets of which are not in the possession of the University. The University has legally enforceable rights or claims to such assets, including the sole right to income therefrom. The change in value of beneficial interests in perpetual trusts is reported as a change in net assets with donor restrictions in the consolidated statements of activities. The fair value of the trust is measured using the fair value of the underlying trust assets.

The University is the remainder beneficiary under agreements for certain trusts. At the time of receipt, a contribution is recorded based on the fair value of assets donated, less the estimated annuity payment liability. The liability is recognized at the present value of projected future distributions to be paid to the donor or other designee. The remainder interest of such gifts has been classified within net assets based on the existence or absence of donor restrictions.

**(j) Property and Equipment**

Property and equipment are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. Property and equipment owned by the federal government and used by the University for certain grants are not included in the accompanying consolidated financial statements. The University capitalizes interest cost as a component of construction in progress during the construction of its qualifying projects.

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:

Buildings, residences, and other structures	70 Years
Building components (roofing, HVAC, and other)	10–20 Years
Equipment, software, furniture, and other assets	5–20 Years

**(k) Leases**

The University is a lessee in several noncancelable (1) operating leases, primarily for medical and office equipment and office space and (2) finance leases, for medical equipment.

The University accounts for leases in accordance with FASB ASC Topic 842, Leases (note 10). The University determines if an arrangement is or contains a lease at contract inception. The University recognizes a right-of-use (ROU) asset and a lease liability at the lease commencement date.

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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 and as of June 30, respectively. For finance leases, the lease liability is initially measured in the same manner and date as for operating leases and is subsequently measured at amortized cost using the effective-interest method.

Key estimates and judgments include how the University determines the discount rate it uses to discount the unpaid lease payments to present value, lease term, and lease payments.

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 University or the University 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.

ROU assets for operating and finance leases are periodically reduced by impairment losses. The University uses the long-lived assets impairment guidance in ASC Subtopic 360-10, Property, Plant, and Equipment – Overall, to determine whether an ROU asset is impaired, and if so, the amount of the impairment loss to recognize. See note 1(l).

Under the short-term lease exemption under ASC 842, the University has elected not to recognize ROU assets and lease liabilities for short-term leases of office equipment and advertising structures that have a lease term of 12 months or less. The University recognizes the lease payments associated with its short-term equipment leases as an expense on a straight-line basis over the lease term. Variable lease payments associated with these leases are recognized and presented in the same manner as for all other the University leases.

The University made an election of recognition threshold under ASC 842. When recording a lease in consolidated financial statements. If an ROU asset is determined to be less than the lease threshold, the lease payments for the life of the lease are all expensed in the period that they are paid, and the ROU asset is not reflected on the consolidated statement of financial position.

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**(l) Impairment of Long-Lived Assets**

The University 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. For assets to be held, impairment is determined to exist if estimated future cash flows, undiscounted, and without interest charges are less than the carrying amount. There were no impairment losses for the years ended June 30, 2021 or 2020.

**(m) Asset Retirement Obligations**

The University has asset retirement obligations primarily related to regulatory requirements to remove and dispose of asbestos when certain buildings are renovated and/or demolished. The University records an asset retirement obligation when the liability is incurred at fair value and subsequently adjusts the asset retirement obligation for accretion expense and changes in the amount or timing of the estimated cash flows. The corresponding asset retirement costs are capitalized as part of the carrying amount of the related building and depreciated over the building's useful life.

**(n) Income Tax Status**

The University is recognized as an organization exempt from federal income tax 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)(1) of the Code, is subject to federal income tax. The University's management has reviewed its tax positions and determined that it does not have material unrecognized tax positions that should be reflected in the consolidated financial statements for fiscal year 2021 or 2020.

**(o) Derivative Financial Instruments**

The University will, from time to time, utilize interest rate swaps to hedge interest rate market exposure of the underlying debt. The University does not use derivative financial instruments for speculative or trading purposes. The University uses the accrual method to account for the interest rate swaps in connection with the underlying debt. The difference between amounts paid and received under such agreements is reported in interest expense on a functional basis in the accompanying consolidated statements of activities. Changes in the fair value of these swaps are recognized as changes in net assets without donor restrictions in the accompanying consolidated statements of activities.

**(p) Cash, Cash Equivalents, and Restricted Cash**

The University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Restricted cash represents amounts held in escrow accounts for debt service associated with the ground lease discussed in note 6.

**(q) Deferred Revenue**

Tuition and fee revenue are 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 related performance obligations are met. Deferred revenue consists primarily of tuition related to the second and third summer sessions, which occur subsequent to the University's fiscal year-end.

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**(r) Advances from State Government**

Advances from state government include unexpended amounts received from the State of Georgia related to the establishment of a new medical school campus in Columbus, Georgia and an operating grant received in a prior fiscal year. During fiscal year 2016, Mercer University School of Medicine was awarded and received \$35,000,000 in conjunction with a special one-time funding agreement with the Georgia Board for Physician Workforce for the development and implementation of programs to meet the primary care and other healthcare needs of rural and medically underserved areas of Georgia. The University records revenue as expenses relating to the purpose of the agreement are incurred, up to \$7,000,000 each year. As of June 30, 2021 and 2020, the University has recorded \$0 and \$2,000,000, respectively, of deferred revenue related to this grant, which is included in advances from state government in the accompanying consolidated statements of financial position.

**(s) Use of Estimates**

Management of the University has made certain estimates and assumptions relating to the reporting of assets, liabilities, revenue and expenses, and the disclosure of contingent assets and liabilities to prepare the consolidated financial statements in conformity with U.S. generally accepted accounting principles. Actual results could differ from those estimates. Significant estimates include the assumptions used in the determination of the fair value of certain investments without readily determinable fair values, allowances for receivables, and accruals for asset retirement obligations.

**(t) Operating Results**

Operating results in the accompanying consolidated statements of activities reflect all transactions that impact net assets without donor restrictions, except activity associated with endowment investments, loan administration costs, and certain other nonrecurring items.

**(u) Recently Adopted Accounting Standards**

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). The amendments in ASU No. 2016-02 create FASB ASC Topic 842 and supersede the requirements in ASC Topic 840, *Leases*. ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, amends ASC Topic 842 so that entities may elect not to recast their comparative periods in transition (the Comparatives Under 840 Option). The ASU allows entities to change their date of initial application to the beginning of the period of adoption. The University adopted ASC Topic 842 and the Comparatives Under 840 Option as of July 1, 2020, resulting in the following:

- The University has continued to apply ASC Topic 840 in the accompanying 2020 consolidated financial statements and related notes.
- The notes to the 2021 accompanying consolidated financial statements include disclosures required by Topic 840 as of and for the year ended June 30, 2020, which continue to be presented in accordance with ASC Topic 840.
- The effects of applying ASC Topic 842 resulted in the University recognizing additional lease liabilities of \$1,922,219 and corresponding ROU assets in the same amount at July 1, 2020. As a result, there was no cumulative-effect adjustment.

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The University adopted ASC Topic 842 using a modified retrospective transition approach as of the effective date as permitted by the amendments in ASU No. 2018-11. As a result, the University 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 (i.e., July 1, 2020). The University has 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 University did not elect the practical expedient to use hindsight for leases existing at the adoption date.

**(2) Contributions Receivable**

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

	<b>2021</b>	<b>2020</b>
Contributions receivable, gross	\$ 4,722,250	5,132,130
Less:		
Allowance for doubtful accounts	(2,110,188)	(2,115,825)
Unamortized discount	(574,510)	(680,987)
Net unconditional promises to give	\$ 2,037,552	2,335,318
Unconditional promises expected to be collected in:		
One year	\$ 380,000	310,880
Two to five years	3,092,250	1,226,250
More than five years	1,250,000	3,595,000
	\$ 4,722,250	5,132,130

The University discounts contributions expected to be received after one year. Accretion of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions on the contributions. Estimated future cash flows to be received after one year were discounted at June 30, 2021 and 2020 at rates ranging from 1.55% to 6.60%.

At June 30, 2021 and 2020, one donor's outstanding pledge balance represented 95% and 92%, respectively, of the University's gross contributions receivable.

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**(3) Student Loans Receivable**

Advances from the federal government under the Perkins student loan program are distributable to the federal government upon liquidation of the program and, thus, are reflected as a liability in the accompanying consolidated statements of financial position. At June 30, 2021 and 2020, the University has allowances for uncollectible Perkins student loan accounts of \$932,406 and \$1,152,329, respectively, and general allowances for other student loans of \$1,065,157 and \$1,033,828, respectively.

Student loans receivable consist of the following at June 30, 2021 and 2020:

	<b>2021</b>	<b>2020</b>
Perkins loans receivable	\$ 5,180,035	6,401,826
Other student loans receivable	6,236,268	5,909,676
	11,416,303	12,311,502
Less allowance for doubtful accounts	(1,997,563)	(2,186,157)
	\$ 9,418,740	10,125,345

**(4) Investments**

Investments are recorded at fair value. The fair value and historical cost of investments at June 30, 2021 and 2020 are as follows:

	<b>2021</b>		<b>2020</b>	
	<b>Fair value</b>	<b>Cost</b>	<b>Fair value</b>	<b>Cost</b>
Cash and cash equivalents	\$ 10,730,966	10,730,959	1,145,427	1,145,427
Fixed income	18,452,693	17,110,747	18,873,996	17,726,931
Domestic equities	121,431,291	42,569,135	89,326,699	41,406,496
Global equities	107,663,191	78,329,312	83,351,520	76,238,622
Hedged equity funds of funds	36,224,272	25,922,057	33,295,122	28,457,700
Private equity and venture capital funds	36,541,269	22,813,609	22,687,663	20,146,317
Real assets	56,189,280	48,986,439	48,240,973	48,073,317
Miscellaneous investments	591,552	591,628	601,460	601,531
Total investments	\$ 387,824,514	247,053,886	297,522,860	233,796,341

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Investment securities are exposed to a number of risks, including, but not limited to, the following:

**Liquidity risk** – Liquidity risk represents the possibility that the University may not be able to rapidly adjust the size of its portfolio holdings in times of high volatility and financial stress at a reasonable price. If the University was compelled to dispose of an illiquid investment at an inopportune time, it may be required to do so at a substantial discount to fair value.

The University invests in alternative investments that can be highly illiquid. Under adverse market or economic conditions, the secondary market for certain of these alternative investments could further contract. As a result, the University could find it more difficult to sell these securities or may only be able to sell the securities at prices lower than if such securities were more widely traded.

**Interest rate and credit risks** – The University's investment portfolio is subject to interest rate and credit risks for certain securities whose valuation would be impacted by changes in interest rates. The portfolio is also subject to the risk where the issuer of the security is not able to pay interest or repay principal when due.

**Market price risk** – The value of securities held by the University may decline in response to certain economic events, including those events impacting entities whose securities are owned and included in the investment portfolio. Those events impacting valuation may include (but are not limited to) economic and regulatory changes; market fluctuations; global and political instability; and currency, interest rate, and commodity price fluctuations. The University attempts to manage this risk through diversification, ongoing due diligence of fund managers, and monitoring of economic conditions.

Due to the risks 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 such changes could materially affect the amounts reported in the University's consolidated financial statements.

Investment management fees are included in the accompanying consolidated statements of activities as a reduction of investment income.

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As of June 30, 2021 and 2020, the estimated fair value of the University's alternative investments to which the University applied net asset value (NAV) or its equivalent as a practical expedient relative to the determination of fair value totaled \$119,053,437 and \$100,044,198, respectively. The limitations and restrictions on the University's ability to redeem or sell these investments vary by investment type. Based on the terms and conditions in effect at June 30, 2021 and 2020, these investments can be redeemed or sold as follows:

	<u>2021</u>	<u>2020</u>	<u>Unfunded commitments at June 30, 2021</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>
Fixed income:					
U.S. and global core fixed-income funds (a)	\$ 3,879,953	3,734,202	—	Daily to monthly	15 Days
Domestic equities:					
Collective trusts (b)	27,166,465	18,682,670	—	Daily to quarterly	0–60 Days
Global equities:					
Developed markets (c)	11,705,625	20,151,002	—	Daily to monthly	0–10 Days
Hedge strategies:					
Long-/short-equity strategy (d)	22,156,992	17,576,641	1,800,000	Daily to annual	0–90 Days
Distressed and event driven (e)	11,064,716	12,954,276	—	Quarterly to annual	45–90 Days
Private equity and venture capital funds (f)	33,411,407	18,998,590	16,890,847	N/A	N/A
Real assets:					
Real asset and real estate investment trusts (g)	5,383,010	4,905,111	10,151,148	N/A	N/A
Commodities (h)	4,285,269	3,041,706	4,135,863	Monthly to illiquid	5 Days
	<u>\$ 119,053,437</u>	<u>100,044,198</u>	<u>32,977,858</u>		

- (a) Investments in funds that invest both in domestic and global corporate bonds
- (b) Investments in collective trusts that invest in U.S. common stocks; management of the common and commingled trusts has the ability to shift investments from small to large capitalization stocks and from a growth to value strategy.
- (c) Investments in stocks within developed foreign economies and markets, targeted based on a value and growth strategy
- (d) Investments in hedge funds that invest both long and short in primarily U.S. common stocks; management of the hedge funds has the ability to shift investments from small to large capitalization stocks and from a net long to a net short position. These investments include restrictions that do not allow for redemption during the first month or quarter after acquisition.
- (e) Investments in hedge funds that invest in debt securities and securities in companies before or after a corporate event, such as mergers and acquisitions

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- (f) Includes a number of private equity and venture capital funds investing in a variety of companies; distributions are received through the liquidation of the underlying assets of the fund, and it is estimated that the underlying assets of the fund will be liquidated over the next 10 to 12 years.
- (g) Investments in real estate trust funds that invest in domestic and global real estate securities
- (h) Investments in funds that invest in derivatives and domestic, exchange-traded futures contracts

**(5) Financial Assets and Liquidity Resources**

The following are financial assets as of June 30, 2021 and 2020:

	<b>2021</b>	<b>2020</b>
Cash and cash equivalents	\$ 51,402,212	43,367,994
Restricted cash	608,135	384,814
Accounts and notes receivable	23,924,823	24,891,759
Endowment and other long-term investments	385,143,544	290,309,872
Beneficial interest trusts	87,177,911	71,127,483
Total	548,256,625	430,081,922
Less amounts not available for general expenditures within one year due to restrictions:		
Restricted cash	608,135	384,814
Federal and institutional student loans	13,981,778	14,680,397
Donor-restricted endowment	249,121,620	182,716,050
Resources without donor restriction invested as endowment	139,159,110	107,593,822
Beneficial interest trusts	87,177,911	71,127,483
Total	490,048,554	376,502,566
Total financial assets available to meet general expenditures within one year (excludes restrictions and self-imposed restrictions)	\$ 58,208,071	53,579,356

Total financial assets available to meet general expenditures within one year noted above are liquidity available to support ordinary operations of the University. However, the University also has an additional source of liquidity not included in total financial assets available to meet general expenditures within one year that could be utilized to address financial challenges. This additional source of liquidity is a beneficial interest in perpetual trust where the donor considered that a time might arise where the beneficiary of the trust (the University) might need access to some or all of the principal of the trust. The donor's will provided that "[t]he trustees of each of the above trusts shall, at all times, be Trust Company Bank and two persons appointed by the person who, from time to time, is the chief executive officer of the institution. A majority vote by the trustees shall be required in deciding all questions regarding the management, care, and disposition of the trust. *The Trustees, in their sole and uncontrolled discretion, shall be authorized to distribute some or all of the principal of each such trust to the charitable beneficiary*

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*thereof, if they deem such distribution to be in the best interest of the beneficiary.*” The fair market value of this beneficial interest in perpetual trust as of June 30, 2021 and 2020 was \$56,144,741 and \$45,813,060, respectively.

**(6) Property and Equipment**

Property and equipment are summarized as follows at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Land and improvements	\$ 56,661,071	52,497,884
Buildings	507,186,335	499,069,179
Equipment	121,435,441	120,668,610
Construction in progress	<u>36,824,419</u>	<u>4,412,001</u>
	722,107,266	676,647,674
Less accumulated depreciation	<u>(331,863,058)</u>	<u>(317,519,337)</u>
Property and equipment, net	<u>\$ 390,244,208</u>	<u>359,128,337</u>

Depreciation expense totaled \$18,449,456 and \$18,623,582 in 2021 and 2020, respectively.

During December 2015, the University (through Mercer GSA, LLC) entered into a ground lease with FD GSA Mercer, LLC, an unrelated third party that was formed solely to develop and finance (via the issuance of a note payable) the construction of a building on the University’s Atlanta campus that FD GSA Mercer, LLC intended to lease to the General Services Administration once completed. Construction of the building was completed, and it was subsequently occupied by the General Services Administration in September 2017. Effective November 15, 2018, the University (through Mercer GSA, LLC) was assigned 100% of the membership interests of FD GSA Mercer, LLC, which had the effect of transferring the aforementioned building constructed on the University’s Atlanta campus, the related building lease with the General Services Administration, the related note payable that financed construction of the building (note 7), and the related ground lease back to the University through Mercer GSA, LLC.

The amount of debt (notes payable) assumed in conjunction with this transaction was \$45,602,690, and the net book value of the assets acquired was \$44,955,936 and was included in property and equipment in the accompanying statements of financial position. As of June 30, 2021 and 2020, the remaining principal was \$40,918,187 and \$42,781,715, respectively, and is included in notes payable in the accompanying consolidated statements of financial position.

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The University has identified conditional asset retirement obligations, primarily for the cost of asbestos removal and disposal, which will result from current or future plans to renovate and/or demolish certain buildings. The following table presents the activity of the University's conditional asset retirement obligation for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Balance at beginning of year	\$ 4,722,416	4,952,386
Accretion expense	159,725	159,725
Obligations settled in current period	<u>(429,295)</u>	<u>(389,695)</u>
Balance at end of year	<u>\$ 4,452,846</u>	<u>4,722,416</u>

**(7) Notes Payable**

Notes payable consist of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Payable to a lending institution with a variable rate of LIBOR plus 0.75% (0.93% at June 30, 2020) through June 22, 2021; the note requires monthly payments and is secured by certain real property.	\$ —	478,600
Payable to a lending institution with a fixed rate of 1.75% through June 30, 2022; the note is secured by certain assets.	12,250,000	12,250,000
Payable to a lending institution with a variable rate of LIBOR plus 0.75% (0.87% at June 30, 2021) through September 30, 2021; the note requires monthly payments and is secured by certain real property and investments.	13,406,250	14,231,250
Payable to a lending institution with a variable rate of LIBOR plus 0.85% (2.00% at June 30, 2021) through December 15, 2025. This note is secured by pledge payments.	2,459,579	—
Payable to a lending institution with a fixed rate of 3.573% through July 15, 2037; the note is secured by certain real property (note 6).	<u>40,918,186</u>	<u>42,781,715</u>
	<u>\$ 69,034,015</u>	<u>69,741,565</u>

Interest expense related to notes payable totaled \$1,860,945 and \$1,948,250 in 2021 and 2020, respectively.

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At June 30, 2021, aggregate maturities of notes payable are as follows:

Year ending June 30:	
2022	\$ 28,780,917
2023	3,262,747
2024	2,069,119
2025	2,142,605
2026	2,218,720
Thereafter	<u>30,559,907</u>
	<u>\$ 69,034,015</u>

**(8) Bonds Payable**

Bonds payable consist of the following at June 30:

Series	Interest rate	Final maturity date	Original principal amount	Outstanding principal at June 30	
				2021	2020
2012A	Fixed: 4.00% to 5.25%	October 1, 2032	\$ 77,545,000	49,085,000	52,855,000
2012B	Fixed: 4.00% to 5.25%	October 1, 2032	9,790,000	5,760,000	6,260,000
2012C	Fixed: 3.75% to 5.25%	October 1, 2030	32,505,000	23,245,000	24,975,000
2013-1	Fixed with derivative	October 1, 2036	6,000,000	5,760,000	6,000,000
2013-2	Fixed with derivative	October 1, 2035	7,190,000	7,090,000	7,190,000
2013-3	Variable: 0.75% per loan statement at June 30, 2021	October 1, 2031	25,025,000	21,180,000	21,775,000
2013-4	Variable: 0.75% per loan statement at June 30, 2021	October 1, 2041	20,078,366	16,571,987	17,167,983
2013-5	Fixed with derivative	October 1, 2043	12,056,907	9,721,139	10,082,846
2015	Fixed: 4.25% to 5.00%	October 1, 2045	77,485,000	<u>77,485,000</u>	<u>77,485,000</u>
				215,898,126	223,790,829
	Less unamortized bond issuance costs			(882,111)	(937,571)
	Plus unamortized bond premiums, net			<u>3,156,819</u>	<u>3,388,021</u>
				<u>\$ 218,172,834</u>	<u>226,241,279</u>

On July 1, 2015, the University borrowed principal of \$77,485,000 through a public market offering and utilized the proceeds from the issuance of the 2015 series for the construction of new buildings, capital improvements to the University's Atlanta and Macon campuses, financing capitalized interest on the bonds, and to pay certain costs of issuance on the bonds.

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On May 30, 2013, the University borrowed principal of \$70,350,273 through a direct bank purchase and utilized the proceeds from the issuance of the 2013 series 1–5 to defease the 2006A, 2006C, and 2011 series bonds and for construction of new buildings. Interest on the 2013-1 series is fixed with a 3.85% swap through October 1, 2036 (note 9). Interest on the 2013-2 and 2013-5 series is fixed with a 2.46% swap through February 1, 2024 (note 9).

During 2012, the University borrowed principal of \$125,690,000 through a public market offering and utilized the proceeds to defease the 2003 and 2006B series bonds. The 2012D series bonds in the original amount of \$5,850,000 were repaid during fiscal year 2020.

Under the terms of the 2013 bond agreement, the University is required to maintain specified cash flow coverage and leverage ratios.

Interest expense related to bonds payable totaled \$8,892,034 and \$9,657,729 in 2021 and 2020, respectively.

At June 30, 2021, aggregate maturities of bonds payable are as follows:

Year ending June 30:		
2022	\$	8,243,388
2023		8,614,412
2024		9,028,100
2025		9,492,800
2026		9,970,243
Thereafter		<u>170,549,183</u>
	\$	<u><u>215,898,126</u></u>

**(9) Derivative Financial Instruments**

The University had three interest rate swap agreements outstanding at June 30, 2021 and 2020:

Related-debt issue	2013-1	2013-2	2013-5
Effective date	May 2, 2006	December 4, 2018	December 4, 2018
Counterparty	Deutsche Bank	BB&T Bank	BB&T Bank
Notional amount	\$ 6,000,000	7,190,000	10,082,846
Termination date	October 1, 2036	February 1, 2024	February 1, 2024
Rate paid by the University	3.854 %	2.460 %	2.460 %
Rate paid by the counterparty	69% LIBOR	79% LIBOR	79% LIBOR
Fair value, June 30, 2021	\$ (1,437,642)	(384,127)	(509,690)

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The following table summarizes the University's interest rate swaps not designated as hedging instruments as of June 30, 2021 and 2020:

	<u>2021</u>		<u>2020</u>	
	<u>Fair value <sup>(1)</sup></u>	<u>Change in fair value <sup>(2)</sup></u>	<u>Fair value <sup>(1)</sup></u>	<u>Change in fair value <sup>(2)</sup></u>
May 2, 2006 interest rate swap (2013-1)	\$ (1,437,642)	491,008	(1,928,650)	(475,102)
December 4, 2018 interest rate swap (2013-2)	(384,127)	196,357	(580,484)	(237,806)
December 4, 2018 interest rate swap (2013-5)	(509,690)	268,415	(778,105)	(313,703)
	<u>\$ (2,331,459)</u>	<u>955,780</u>	<u>(3,287,239)</u>	<u>(1,026,611)</u>

<sup>(1)</sup> Reported as interest rate swaps in the accompanying consolidated statements of financial position

<sup>(2)</sup> Reported as change in fair value of interest rate swaps in the accompanying consolidated statements of activities

The University is exposed to interest rate risk driven by factors influencing the spread between the taxable and tax-exempt market interest rates on its basis.

**(10) Leases**

**(a) Finance Leases in 2021 and Capital Leases in 2020**

The University has various lease agreements in effect that are classified as finance leases in 2021 and capital leases in 2020. Assets under finance leases and capital leases are included in property and equipment, net in the accompanying consolidated statements of financial position at June 30 as follows:

	<u>2021</u>	<u>2020</u>
Equipment	\$ 7,105,581	7,105,581
Less accumulated depreciation	<u>(6,434,388)</u>	<u>(6,115,956)</u>
	<u>\$ 671,193</u>	<u>989,625</u>

Amortization of assets held under finance leases in 2021 and capital leases in 2020 is included as depreciation in operating expense in the accompanying consolidated statements of operations.

**(b) Operating Leases**

The University has several noncancellable operating leases, primarily for office equipment and office space that expire over the next 12 years. These leases contain various renewal options for periods ranging from one to five years.

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The components of lease cost for the year ended June 30, 2021, which are included in operating expenses in the accompanying consolidated statement of operations, were as follows:

		<u>2021</u>
Operating lease cost	\$	505,561
Finance lease cost:		
Amortization of ROU assets		415,202
Interest on lease liabilities		<u>92,941</u>
Total finance lease cost		<u>508,143</u>
Total lease cost	\$	<u><u>1,013,704</u></u>

**(c) Other Lease Disclosures**

Other information related to leases as of June 30, 2021 was as follows:

		<u>2021</u>
Supplemental cash flow information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flow from operating leases	\$	1,014,283
Operating cash flow from finance leases		29,903
Financing cash flow from finance leases		91,371
ROU assets obtained in exchange for lease obligations:		
Operating leases		654,002
Finance leases		—
Weighted average remaining lease term (in years):		
Operating leases		3.33
Finance leases		24.00
Weighted average discount rate:		
Operating leases		2.98 %
Finance leases		3.36

Amounts disclosed for ROU assets obtained in exchange for lease obligations include amounts added to the carrying amount of ROU assets resulting from lease modifications and reassessments.

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Aggregate future payments under noncancelable operating and finance leases as of June 30, 2021 are as follows:

	<u>Operating leases</u>	<u>Finance leases</u>
2022	\$ 515,574	121,398
2023	516,288	123,424
2024	453,918	119,843
2025	135,569	91,566
2026	104,751	94,313
Thereafter	<u>—</u>	<u>2,453,733</u>
Total lease payments	1,726,100	3,004,277
Less amounts representing interest	<u>(223,797)</u>	<u>(336,205)</u>
Total obligations	<u>\$ 1,502,303</u>	<u>2,668,072</u>

Future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of June 30, 2020, are as follows:

Year ending June 30:	
2021	\$ 37,273
2022	37,398
2023	37,114
2024	30,744
2025	<u>—</u>
Total minimum lease payments	142,529
Less amount representing interest	<u>(15,919)</u>
Present value of net minimum lease payments	<u>\$ 126,610</u>

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Minimum future rental on noncancelable operating leases expiring through 2025 as of June 30, 2020 are as follows:

Year ending June 30:		
2021	\$	490,690
2022		391,392
2023		388,418
2024		323,852
2025		—
	\$	<u>1,594,352</u>

**(11) Fair Value of Financial Instruments**

The carrying amounts of accounts receivable and accounts payable approximate fair value due to the short maturity of these financial instruments. Cash and cash equivalents, restricted cash, investments, beneficial interests in perpetual trusts, remainder interest trusts, and interest rate swaps are reflected in the accompanying consolidated financial statements at fair value. The fair value of annuity obligations approximates carrying value due to discount rates and actuarial assumptions used in the calculation of the University's liability.

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.

Asset retirement obligations are initially measured at fair value when the liability is incurred based on the expected present value of future cash flows discounted at a rate commensurate with the risks involved.

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

The University's estimates of fair value for financial assets and liabilities are based on a framework that considers the inputs used in valuation and gives the highest priority to quoted prices in active markets and requires observable inputs to be used in the valuations when available. The disclosure of assets and liabilities in the fair value hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the University's significant market assumptions. The three levels of hierarchy are as follows:

Level 1 – Valuations are based on unadjusted quoted market prices for identical assets or liabilities in active markets at fiscal year-end.

Level 2 – Valuations are based on pricing inputs that are other than quoted prices in active markets, which are either directly or indirectly observable for substantially the full term of the asset or liability.

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Examples include quoted prices in active markets of the underlying assets, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in an inactive market, or valuations based on models where significant inputs are observable or can be corroborated by observable market data.

Level 3 – Valuations are based on unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability. 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 or liabilities.

The hierarchy requires the use of observable market data when available. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. The categorization of an investment not at NAV as a practical expedient within the hierarchy is based upon the pricing transparency of the investment to the investor and does not necessarily correspond to the perceived risk of that investment. The University uses inputs in applying various valuation techniques that are assumptions, which market participants would use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, operating statistics, specific and broad credit data, liquidity statistics, recent transactions, earnings forecasts, future cash flows, market multiples, discount rates, and other factors.

Underlying fund investments made directly by the University 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 not considered to be active but are valued based on quoted market prices, dealer quotations, or alternative pricing sources supported by observable inputs, which are classified within Level 2 and are redeemable within 90 days of the financial reporting date. Alternative pricing sources include quotations from market participants and pricing models, which are based on accepted industry modeling techniques. These investments include U.S. investment-grade and below investment-grade debt securities and international corporate bonds.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all, and are not redeemable within 90 days of the financial reporting date. Level 3 investments include private placement investments, oil and gas royalty trusts, and certain commingled fund investments. Inputs used may include the original transaction price, recent transactions in the same or similar market, completed or pending third-party transactions in the underlying investment or comparable issuers, and subsequent rounds of financing. When observable prices are not available, these investments are valued using one or more valuation techniques described below:

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

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

Although a secondary market exists for these investments, its activity is generally limited and individual transactions are typically not observable.

In accordance with ASC Subtopic 820-10, *Fair Value Measurement – Overall*, certain investments that are measured at fair value using NAV as a 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 consolidated statements of financial position.

The following tables summarize the University's financial instruments recorded at fair value on a recurring basis by major category in the fair value hierarchy as of June 30, 2021 and 2020, as well as related strategy:

Assets	June 30, 2021				
	Level 1	Level 2	Level 3	Investments measured at NAV	Total
Cash and cash equivalents	\$ 51,402,212	—	—	—	51,402,212
Restricted cash	608,135	—	—	—	608,135
Investments:					
Cash and cash equivalents	10,730,966	—	—	—	10,730,966
Fixed income:					
U.S. and global core fixed-income funds	14,572,740	—	—	3,879,953	18,452,693
Domestic equities:					
Traditional equity mutual funds and collective trusts	76,996,119	—	—	27,166,465	104,162,584
Stock	17,268,707	—	—	—	17,268,707
	<u>94,264,826</u>	<u>—</u>	<u>—</u>	<u>27,166,465</u>	<u>121,431,291</u>
Global equities:					
Developed markets	81,192,647	—	—	11,705,625	92,898,272
Emerging markets	14,764,919	—	—	—	14,764,919
	<u>95,957,566</u>	<u>—</u>	<u>—</u>	<u>11,705,625</u>	<u>107,663,191</u>
Hedged equity funds:					
Long/short equity strategy	—	—	—	22,156,992	22,156,992
Distressed and event driven	3,002,564	—	—	11,064,716	14,067,280
	<u>3,002,564</u>	<u>—</u>	<u>—</u>	<u>33,221,708</u>	<u>36,224,272</u>

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<b>Assets</b>	<b>June 30, 2021</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Investments measured at NAV</b>	<b>Total</b>
Private equity and venture capital funds	\$ —	—	3,129,862	33,411,407	36,541,269
Real assets:					
Real asset fund	29,539,078	—	—	5,383,010	34,922,088
Land	—	—	14,693,049	—	14,693,049
Commodities	—	—	—	4,285,269	4,285,269
Commodities – oil and gas royalty trusts	—	—	2,288,874	—	2,288,874
	<u>29,539,078</u>	<u>—</u>	<u>16,981,923</u>	<u>9,668,279</u>	<u>56,189,280</u>
Miscellaneous investments	<u>—</u>	<u>—</u>	<u>591,552</u>	<u>—</u>	<u>591,552</u>
Total investments	248,067,740	—	20,703,337	119,053,437	387,824,514
Beneficial interests in perpetual trusts	—	81,479,727	5,698,184	—	87,177,911
Remainder interest trusts	—	6,874,392	—	—	6,874,392
Total	<u>\$ 300,078,087</u>	<u>88,354,119</u>	<u>26,401,521</u>	<u>119,053,437</u>	<u>533,887,164</u>
<b>Liabilities</b>					
Interest rate swaps	\$ —	2,331,459	—	—	2,331,459

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Assets	June 30, 2020				
	Level 1	Level 2	Level 3	Investments measured at NAV	Total
Cash and cash equivalents	\$ 43,367,994	—	—	—	43,367,994
Restricted cash	384,814	—	—	—	384,814
Investments:					
Cash and cash equivalents	1,145,427	—	—	—	1,145,427
Fixed income:					
U.S. and global core fixed-income funds	15,139,794	—	—	3,734,202	18,873,996
Domestic equities:					
Traditional equity mutual funds and collective trusts	70,641,374	—	—	18,682,670	89,324,044
Stock	2,655	—	—	—	2,655
	<u>70,644,029</u>	<u>—</u>	<u>—</u>	<u>18,682,670</u>	<u>89,326,699</u>
Global equities:					
Developed markets	50,389,531	—	—	20,151,002	70,540,533
Emerging markets	12,810,987	—	—	—	12,810,987
	<u>63,200,518</u>	<u>—</u>	<u>—</u>	<u>20,151,002</u>	<u>83,351,520</u>
Hedged equity funds:					
Long/short equity strategy	—	—	—	17,576,641	17,576,641
Distressed and event driven	2,764,205	—	—	12,954,276	15,718,481
	<u>2,764,205</u>	<u>—</u>	<u>—</u>	<u>30,530,917</u>	<u>33,295,122</u>
Private equity and venture capital funds	—	—	3,689,073	18,998,590	22,687,663
Real assets:					
Real asset fund	22,510,218	—	—	4,905,111	27,415,329
Land	—	—	14,693,049	—	14,693,049
Commodities	—	—	—	3,041,706	3,041,706
Commodities – oil and gas royalty trusts	—	—	3,090,889	—	3,090,889
	<u>22,510,218</u>	<u>—</u>	<u>17,783,938</u>	<u>7,946,817</u>	<u>48,240,973</u>
Miscellaneous investments	—	—	601,460	—	601,460
Total investments	175,404,191	—	22,074,471	100,044,198	297,522,860

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June 30, 2020					
Assets	Level 1	Level 2	Level 3	Investments measured at NAV	Total
Beneficial interests in perpetual trusts	\$ —	66,468,437	4,659,047	—	71,127,484
Remainder interest trusts	—	5,840,237	—	—	5,840,237
Total	\$ 219,156,999	72,308,674	26,733,518	100,044,198	418,243,389
<b>Liabilities</b>					
Interest rate swaps	\$ —	3,287,239	—	—	3,287,239

The following table presents activity for assets classified in Level 3 for the years ended June 30, 2021 and 2020:

Level 3 rollforward	Private equity and venture capital funds	Real assets	Beneficial interests in perpetual trusts	Miscellaneous investments	Total
Fair value at June 30, 2019	\$ 2,974,058	16,839,942	1,496,095	601,021	21,911,116
Purchases	3,000,000	1,285,710	3,500,000	—	7,785,710
Sales	(1,554,779)	(177,257)	(141,142)	—	(1,873,178)
Transfers to (from) Level 3	—	—	—	—	—
Gains (losses)	(730,206)	(164,457)	(195,906)	439	(1,090,130)
Fair value at June 30, 2020	3,689,073	17,783,938	4,659,047	601,460	26,733,518
Purchases	—	—	—	—	—
Sales	(112,545)	(812,677)	—	(14,387)	(939,609)
Transfers to (from) Level 3	—	—	—	—	—
Gains (losses)	(446,666)	10,662	1,039,137	4,479	607,612
Fair value at June 30, 2021	\$ 3,129,862	16,981,923	5,698,184	591,552	26,401,521

As of June 30, 2021 and 2020, real assets classified in Level 3 primarily consist of the University's ownership interest in CCH and totaling \$14,780,000 and recorded at fair value based on a combination of the income capitalization approach (ground rent capitalization) and the sales comparison approach (used in deriving the fee simple value of the land) utilizing a discount rate of 5.50% and land value growth of 2.00%.

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**(12) Endowments**

The University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted in Georgia, as providing, among other things, expanded spending flexibility by allowing, subject to a standard of prudence, the institution 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 lowers the value of the corpus of an endowment fund below its book value, which was previously not allowed. As a result of this interpretation, the University classifies as net assets with donor restrictions (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The donor-restricted endowment fund is classified as net assets with donor-imposed restriction until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed in UPMIFA. If the fair value of assets associated with individual donor-restricted endowment funds falls below the level that UPMIFA requires the University to retain as donor restricted, these deficiencies are reported in net assets with donor restrictions. These deficiencies generally result from unfavorable market fluctuations that occurred shortly after the investment of recent donor-restricted contributions and continued appropriation for certain programs that are deemed prudent by the Board of Trustees. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level are classified as an increase in net assets with donor restrictions. There were no such deficiencies as of June 30, 2021 or 2020.

In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the University and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the University
- The investment policies of the University.

The Board of Trustees, on the recommendation of the Finance, Investment, and Property Committee, has adopted a spending policy that governs the annual distributions from the pooled endowment funds that may be expended for current operations. This policy authorizes the University's administration to distribute from its pooled endowment funds a specified percentage, to be determined by the Board of Trustees from time to time, of the three-year average market value of those pooled endowment funds. The average value is computed as an average of the current year plus the two previous years. For the fiscal years ended June 30, 2021 and 2020, the Board of Trustees authorized the distribution and expenditure of 4.75% of a three-year average of pooled endowment market value.

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While board-designated funds function as endowment funds, they are presented as endowment funds without donor restrictions because they are not subject to donor-imposed restrictions, although the approval of the Board of Trustees upon recommendation of its Finance, Investment, and Property Committee is required to spend from or otherwise alter the designated principal of these funds. These board-designated endowment funds without donor restrictions are generally restricted to supporting scholarships and institutional aid, funding capital projects and other departmental operating needs, and supporting the general activities of the University.

Endowment funds consisted of the following as of June 30, 2021:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	336,299,533	336,299,533
Board-designated endowment funds	139,159,109	—	139,159,109
Total endowment funds	<u>\$ 139,159,109</u>	<u>336,299,533</u>	<u>475,458,642</u>

Endowment funds consisted of the following as of June 30, 2020:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	253,843,533	253,843,533
Board-designated endowment funds	107,593,822	—	107,593,822
Total endowment funds	<u>\$ 107,593,822</u>	<u>253,843,533</u>	<u>361,437,355</u>

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Changes in endowment funds for the year ended June 30, 2021 are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment funds, June 30, 2020	\$ 107,593,822	253,843,533	361,437,355
Investment return, net of fees (includes changes in beneficial interests in trusts that are donor restricted)	34,322,450	72,890,503	107,212,953
Contributions	—	12,972,412	12,972,412
Appropriation of endowment assets for expenditure	(10,001,067)	(3,406,915)	(13,407,982)
Transfers to board-designated endowment funds and other activity	<u>7,243,904</u>	<u>—</u>	<u>7,243,904</u>
Endowment funds, June 30, 2021	<u>\$ 139,159,109</u>	<u>336,299,533</u>	<u>475,458,642</u>

Changes in endowment funds for the year ended June 30, 2020 are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment funds, June 30, 2019	\$ 113,911,828	262,697,682	376,609,510
Investment return, net of fees (includes changes in beneficial interests in trusts that are donor restricted)	7,240,613	(9,615,010)	(2,374,397)
Contributions	100	4,581,917	4,582,017
Appropriation of endowment assets for expenditure	(9,450,624)	(4,107,178)	(13,557,802)
Transfers to board-designated endowment funds and other activity	<u>(4,108,095)</u>	<u>286,122</u>	<u>(3,821,973)</u>
Endowment funds, June 30, 2020	<u>\$ 107,593,822</u>	<u>253,843,533</u>	<u>361,437,355</u>

**(13) Operating Expenses**

The University's primary program services are academic, instruction, research, and public service. Student services, auxiliary services, and institutional support expenses are incurred in support of primary activities and are considered integral to the delivery of these primary programs. Costs related to the operation and maintenance of property and equipment, including depreciation, are allocated to operating programs and supporting activities based on estimates of facility usage. Interest expense on external debt is allocated to the activities that have most directly benefited from the proceeds of the related external debt.

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Operating expenses, by natural and functional classification, for the year ended June 30, 2021 are as follows:

	<b>Instruction/ research/ public service/ academic support</b>	<b>Student services/ auxiliary services</b>	<b>Institutional support</b>	<b>Total</b>
Operating:				
Salaries and wages	\$ 101,312,232	24,622,318	14,068,750	140,003,300
Benefits	29,992,458	8,756,289	3,019,461	41,768,208
Supplies and contractual agreements	38,374,199	43,854,347	3,065,228	85,293,774
Travel	696,526	1,425,906	171,769	2,294,201
Depreciation	10,874,215	6,118,021	1,457,220	18,449,456
Interest	3,332,307	5,823,357	1,697,767	10,853,431
Total operating expenses	\$ <u>184,581,937</u>	<u>90,600,238</u>	<u>23,480,195</u>	<u>298,662,370</u>

Operating expenses, by natural and functional classification, for the year ended June 30, 2020 are as follows:

	<b>Instruction/ research/ public service/ academic support</b>	<b>Student services/ auxiliary services</b>	<b>Institutional support</b>	<b>Total</b>
Operating:				
Salaries and wages	\$ 99,901,791	22,920,398	12,868,986	135,691,175
Benefits	28,679,112	7,991,109	3,672,107	40,342,328
Supplies and contractual agreements	37,148,970	40,733,267	678,985	78,561,222
Travel	2,416,473	1,869,603	332,571	4,618,647
Depreciation	11,887,631	5,142,927	1,593,024	18,623,582
Interest	3,704,975	6,357,066	1,647,480	11,709,521
Total operating expenses	\$ <u>183,738,952</u>	<u>85,014,370</u>	<u>20,793,153</u>	<u>289,546,475</u>

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Operation and maintenance of plant expense for the years ended June 30, 2021 and 2020 totaled \$19,098,071 and \$17,931,909, respectively. Total fundraising expense for the years ended June 30, 2021 and 2020 totaled \$3,050,007 and \$2,992,443, respectively, and is included in institutional support in the accompanying consolidated statements of activities.

**(14) Net Assets**

Net assets with donor restrictions at June 30, 2021 and 2020 are available for the following purposes:

	<u>2021</u>	<u>2020</u>
Trusts funds held by others	\$ 87,177,911	71,127,484
Investment income held for distribution	54,134,739	743,568
Endowment funds invested for scholarships	66,342,605	53,209,686
Endowment funds invested for instruction and other support	<u>128,639,725</u>	<u>128,758,244</u>
Total endowment funds with donor restrictions	336,294,980	253,838,982
Gifts and other expected revenue available for scholarships	5,794,946	5,236,493
Gifts and other expected revenue available for capital	3,609,059	6,344,607
Gifts and other expected revenue available for instruction and support	18,688,977	14,359,037
Split-interest agreements, net	2,943,994	2,295,021
Donor-restricted loan funds	505,549	506,724
Pledges	<u>2,037,552</u>	<u>2,335,318</u>
Total net assets with donor restrictions	<u>\$ 369,875,057</u>	<u>284,916,182</u>

Earnings on net assets with donor restrictions are available for the University's operations, scholarships, and various other programs.

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**(15) Net Assets Released from Restrictions**

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

	<b>2021</b>	<b>2020</b>
Instructional grants and gifts	\$ 1,265,679	1,265,123
Public service and research grants and gifts	76,070	125,410
Academic support gifts	125,571	153,780
Student service gifts	107,186	74,255
Institutional support gifts	224,888	723,707
Equipment and other capital purchases	8,627,021	2,856,386
Scholarships	6,439,886	6,192,919
	\$ 16,866,301	11,391,580

**(16) Lease Obligation**

In September 2014, the University entered into a 30-year lease agreement with the Savannah Center for Medical Education and Research (SCMER) for the Savannah property, which is owned and operated by SCMER. SCMER maintains title of the real property, or structural assets, during the construction phase of the SCMER property renovations. Due to certain structural elements installed and enhancements of the space being leased and the University's equity interest in SCMER, the University is required to be treated, for accounting purposes only, as the "owner" of the SCMER property even though the University does not own the assets and does not control the operations of SCMER. Accordingly, the costs of construction paid by the University through their investment in SCMER are recorded as a purchase of property and equipment, and the costs of the real property and construction not paid by the University are recorded as a noncash investing activity in the accompanying consolidated statements of cash flows.

As a result, during 2015, the University recorded additions of property and construction totaling \$21,392,659, where \$5,990,852 was paid by the University through its investment in SCMER and \$6,955,000 was paid by the University through a note receivable to Chase NMTC Mercer Investment Fund, LLC (the Bank), a third party. In accordance with the notes receivable fund loan agreement, the proceeds of the notes receivable were used by the Bank primarily to make an equity contribution to Partnerships of Hope X, LLC (Hope LLC) and CNMC Sub CDE 58, LLC (CNMC LLC). In October 2014, Hope LLC and CNMC LLC utilized the proceeds of the equity contributions to fund a promissory note payable to SCMER, where the amount received was used to perform renovations of the Savannah property in connection with the New Market Tax Credit program. During 2021 and 2020, the University did not record any additions of property and construction. As a result, \$2,572,279 and \$2,632,834 represents the remaining lease obligation of the University as of June 30, 2021 and 2020, respectively, and is included in other liabilities in the accompanying consolidated statements of financial position.

**THE CORPORATION OF MERCER UNIVERSITY  
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Notes to Consolidated Financial Statements

June 30, 2021 and 2020

**(17) Pension Plan**

The University maintains defined-contribution retirement plans covering substantially all full-time and some part-time employees, under which the majority of contributions are made to the Teacher's Insurance and Annuity Association and College Retirement Equities Fund for the purchase of retirement annuities for employees. Total pension expense under this plan for the years ended June 30, 2021 and 2020 totaled \$9,681,454 and \$9,431,596, respectively.

**(18) Postretirement Benefit Plan**

During fiscal year 1999, the University approved a two-year pilot program for a retiree medical coverage plan and a retiree life insurance coverage plan, with the premium costs of these plans being paid at least in part by the University if the retiring benefit-eligible employee has a minimum of 10 years of service with the University prior to retirement (Group 1). A new postretirement plan was introduced in fiscal year 2005 that was valid for University employees retiring between July 1, 2004 and June 30, 2005 (Group 2). The Group 1 plan was terminated effective June 30, 2000, and the Group 2 plan was terminated effective June 30, 2005. Any remaining obligations will be paid from general assets of the University.

At June 30, 2021 and 2020, the University has recorded an accumulated postretirement benefit obligation of \$826,158 and \$875,128, respectively. During 2021, the decrease in the accumulated postretirement benefit obligation of \$48,970 resulted from interest cost of \$14,547 netted against an actuarial loss of \$(41,125) and benefits paid of \$104,642, which includes claims and insurance premiums. During 2020, the decrease in the accumulated postretirement benefit obligation of \$73,115 resulted from interest cost of \$23,957 offset by an actuarial gain of \$1,909 and benefits paid of \$95,163, which includes claims and insurance premiums.

Since the plans are unfunded, employer contributions consist of amounts paid to third-party carriers for insurance for the participants and benefits paid consist of expenses incurred over and above insurance claims, which are paid by the University.

The weighted average discount rate used in determining the accumulated postretirement obligation for both plans was 1.91% and 1.65% at June 30, 2021 and 2020, respectively. The annual rate of increase in the per capita cost of covered healthcare benefits was assumed to be 7.0% at June 30, 2021, with a ratable annual reduction until an ultimate rate of 6.00% is reached in 2022. Increasing or decreasing the assumed healthcare cost trend rate by 1% point in each year and holding all other assumptions constant would not have a material effect on the accumulated postretirement benefit obligation as of June 30, 2021 or 2020.

The benefits expected to be paid in connection with the plans in each of the years ending June 30, 2022– 2026 are \$97,000, \$90,000, \$85,000, \$80,000, and \$72,000, respectively. The aggregate benefits expected to be paid during the five years beginning July 1, 2025 total \$273,000. These expected benefits are based on the same assumptions used to measure the University's benefit obligation at June 30, 2021.

**THE CORPORATION OF MERCER UNIVERSITY  
AND ITS SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

**(19) Related-Party Transactions**

**(a) Notes Receivable from Related Entities**

The University has entered into various related-party transactions. These transactions related to several notes receivable agreements and amounts paid on behalf of the related parties. Such transactions are included in notes receivable due from related entities in the accompanying consolidated statements of financial position.

*(i) Historic Bell House, LLC*

The University had mortgage and operating deficit loans receivable due from HBH. The \$1,000,000 mortgage loan agreement bears interest at a fixed rate of 2%, with terms from July 2014 through June 2044. The note requires monthly principal and interest payments of \$3,696. At June 30, 2020, the remaining principal balance due to the University totaled \$872,044.

The Operating Agreement allows for an operating deficit loan, which shall be treated as a subordinated loan at such amounts to allow HBH to cover accrued accounts payable on a 60-day current basis. This loan bears no interest and shall be repaid only if the University is not in default with respect to obligations under the Operating Agreement. At June 30, 2020, the outstanding loan balance due to the University totaled \$1,614,825.

As a result of consolidation of HBH (see note 1(a)), there are no balances due to the University as of June 30, 2021.

*(ii) Tattnall Square Center for the Arts, LLC*

The University had mortgage and operating deficit loans receivable due from TSCA. The \$1,250,000 mortgage loan agreement bears interest at a fixed rate of 2%, with terms from December 2014 through December 2044. The note requires monthly principal and interest payments of \$4,620. At June 30, 2020, the remaining principal balance due to the University totaled \$1,090,055.

The Operating Agreement allows for an operating deficit loan, which shall be treated as a subordinated loan at such amounts to allow TSCA to cover accrued accounts payable on a 60-day current basis. This loan bears no interest and shall be repaid only if the University is not in default with respect to obligations under the Operating Agreement. At June 30, 2020, the outstanding loan balance due to the University totaled \$2,141,467.

As a result of consolidation of TSCA (see note 1(a)), there are no balances due to the University as of June 30, 2021.

*(iii) Historic New York Café, LLC*

The University has mortgage and operating deficit loans receivable due from HNYC. The \$847,245 mortgage loan agreement bears interest at a fixed rate of 3%, with terms from December 2018 through December 2048. The note requires annual principal and interest payments of \$43,226. At June 30, 2021 and 2020, the remaining principal balance due to the University totaled \$811,094 and \$829,437, respectively.

**THE CORPORATION OF MERCER UNIVERSITY  
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June 30, 2021 and 2020

The Operating Agreement allows for an operating deficit loan, which shall be treated as a subordinated loan at such amounts to allow Historic New York Café, LLC to cover accrued accounts payable on a 60-day current basis. This loan bears no interest and shall be repaid only if the University is not in default with respect to obligations under the Operating Agreement. At June 30, 2021 and 2020, the outstanding loan balance due to the University totaled \$0 and \$170,519, respectively. As of June 30, 2021, Historic New York Café, LLC has a receivable from the University in the amount of \$188,195.

*(iv) Historic Capricorn Studios, LLC*

The University has operating deficit loans receivable due from HCS. The Operating Agreement allows for an operating deficit loan, which shall be treated as a subordinated loan at such amounts to allow HCS to cover accrued accounts payable on a 60-day current basis. This loan bears no interest and shall be repaid only if the University is not in default with respect to obligations under the Operating Agreement. At June 30, 2021 and 2020, the outstanding loan balance due to the University totaled \$3,181,686 and \$3,689,757, respectively.

**(b) Due to Related Entity**

The University has lease payments due to the SCMER under a lease agreement between the University and SCMER that began August 1, 2015. At June 30, 2021, rental income distributed to the University by its equity method investee (SCMER) did not exceed payments made by the University on behalf of SCMER by a net amount of \$175,423. At June 30, 2020, rental income distributed to the University by its equity method investee (SCMER) exceeded payments made by the University on behalf of SCMER by a net amount of and \$113,811. The amounts are included in the consolidated statements of financial position as due to/from related entity.

**(20) Commitments and Contingencies**

**(a) Federal Audits**

Federally funded programs are routinely subject to special audit. Such audits could result in claims against the resources of the University. Management believes that there are no claims arising from such audits that would have a material adverse effect on the consolidated financial position of the University.

**(b) Legal Matters**

The University is involved in legal proceedings and claims that have arisen in the ordinary course of business that have not been fully adjudicated. The ongoing litigation of the University, when fully concluded and determined, will not, in the opinion of management, have a material adverse effect upon the consolidated financial position of the University.

**THE CORPORATION OF MERCER UNIVERSITY  
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Notes to Consolidated Financial Statements

June 30, 2021 and 2020

**(21) Subsequent Events**

On July 6, 2021, the University borrowed principal of \$71,265,000 through a public market offering and utilized the proceeds from the issuance of the 2021 series to (a) refund the University's 2012A series, maturing in October 1, 2027 and October 1, 2032, (b) finance the acquisition, construction, installation, equipment, renovation, of certain educational, academic, and recreational facilities on the University's campus, and (c) pay portion of the cost of issuance for the series 2021 bonds. Principal and interest is due each October 1 with an interest rate of 5%. Final maturity date is October 1, 2050.

On October 1, 2021, the University refinanced its \$16,500,000 promissory note with a balance of \$13,406,250 and an original maturity date of September 30, 2021 as of June 30, 2021 to an extended maturity date of September 30, 2024.

The University management has evaluated subsequent events occurring subsequent to the financial reporting date of June 30, 2021 through October 7, 2021, the date on which the consolidated financial statements were available to be issued, and determined there were no additional subsequent events requiring disclosure.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS,  
SCHEDULE OF EXPENDITURES OF STATE  
OF GEORGIA AWARDS, AND UNIFORM GUIDANCE REPORTS**

**THE CORPORATION OF MERCER UNIVERSITY  
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Schedule of Expenditures of Federal Awards

Year ended June 30, 2021

Federal grantor/pass-through grantor/program title	CFDA/ contract number	Pass-through entity identifying number	Passed through to subrecipients	Federal expenditures
Major Programs:				
Student Financial Assistance Cluster:				
U.S. Department of Education:				
Federal Work-Study	84.033		\$ —	1,014,564
Federal Supplemental Educational Opportunity Grants	84.007		—	1,510,533
Federal Perkins Loan Program	84.038		—	6,292,872
Federal Pell Grant Program	84.063		—	8,312,639
Federal Direct Student Loan Program	84.268		—	123,540,306
TEACH Grant	84.379		—	16,023
Total U.S. Department of Education			—	140,686,937
U.S. Department of Health and Human Services:				
Nursing Faculty Loan Program	93.264		—	2,511,184
Health Profession Student Loan Program	93.342		—	1,506,709
Nursing Student Loans	93.364		—	449,138
Total U.S. Department of Health and Human Services			—	4,467,031
Total Student Financial Assistance Cluster			—	145,153,968
U.S. Department of Education:				
Education Stabilization Fund:				
Higher Education Emergency Relief Fund Student Portion	84.425E		—	2,632,963
Higher Education Emergency Relief Fund Institutional Portion	84.425F		—	8,633,620
Total HEERF Cluster			—	11,266,583
Research and Development Cluster:				
U.S. Department of Defense:				
National Guard Military Operations and Maintenance Projects:				
MagSim CCA Eglin	12.FA2823-21-P-0043		—	6,152
KC 46A MDF Development Opt III	12.FA4452-17-F-0027		—	27,087
C130 A C FSIP	12.FA8504-19-F-0010		—	1,809,658
USAF C130 AIRCAT Support 2019	12.FA8504-19-F-0048		—	629,014
RIF BAA WUC for Rosetta Stone	12.FA8504-20-C-0006		—	1,014,498
USAF AIRCAT Support 2021 & Opt I	12.FA8504-20-F-0058		—	1,744,484
C130 FSIP Follow On	12.FA8504-21-F-0010		—	1,530,642
AIRCAT Support for F15 Opt I	12.FA8505-18-F-0028		—	1,725
F15 NDI Opt II	12.FA8505-18-F-0050		—	562,506
AIRCAT Support F15 TCP	12.FA8505-20-F-0037		—	82,622
AIRCAT Support for TCG Members Opt IV	12.FA8509-12-G-0001-RJ01		—	147,274
SOF C 130 F/O 2018 & Opt I	12.FA8509-18-F-0003		8,250	63,611
SOF C130 SSES 2020	12.FA8509-20-F-0025		527	2,041,654
BRU 52 Engineering Services Support	12.FA8520-20-F-0012		2,935	803,516
Missile MECSIP	12.FA8520-20-F-0020		—	414,669
QL Follow On 2020 & Opt I	12.FA8521-20-C-0002		—	827,054
Aging Bomber III & OPT 1A & Opt 1B	12.FA8523-18-F-0015		—	622,695
EWASIF LIVE Constructive Closed Loop T&E Opt II	12.FA8523-18-F-0024		6,550	1,378,168
EWASIF Specialized Support	12.FA8523-19-F-0017		398,866	463,836
EWASIF LVC 2020 & Opt I	12.FA8523-20-F-0029		—	3,908,059
ALQ 161 DAS Relocation	12.FA8523-20-F-0033		701,208	1,441,671
KC 46 ALR 69A MDF Development	12.FA8523-20-F-0047		—	609,878
Aging Bomber EW	12.FA8523-21-F-0005		—	1,165,807
C5M IW SATURN Upgrade	12.FA8525-20-F-0044		—	636,434
C17 Cargo Door Loads Measurement Testing	12.FA8526-20-F-0023		—	75,726
C17 Non F77 Parts List & Repository	12.FA8526-20-F-0024		—	319,693
C17 Aging Aircraft Audit	12.FA8526-20-F-0025		—	415,525
E8 ASIP Engineering Services Opt II & Opt III & Opt IV	12.FA8529-17-C-0001		761	1,020,295
JSTARS NDI Procedure Development	12.FA8529-18-F-0013		—	57
E8 JSTARS NDI Procedures & Opt I	12.FA8529-20-F-0005		9,275	1,065,292
Prototype Mobile Multi Use Robot (MMUR) & Opt I	12.FA8530-18-F-0002		(17,452)	(17,319)
MHU 83 Accessories & Oper Envelope Ph 1	12.FA8532-19-F-0329		—	985
MHU 83/101 Extreme Load Testing & Analysis	12.FA8532-20-F-0028		869	680,407
AIRCAT Intl Support for Precision Attach TCP	12.FA8540-20-F-0008		—	127,375
AIRCAT Precision Attack	12.FA8540-21-F-0001		—	17,828
Rotary Wing Engin Support 2017 Opt II & Opt III & Opt IV	12.FA8552-17-C-0006		1,341,849	5,301,987
AIRCAT for C130 TCG	12.FA8553-21-F-0001		—	155,057
SIMS Cyber & Operations	12.FA8571-20-F-0105		—	246,025
F15SA NLG Fixture	12.FA8575-19-F-0002		562,193	1,045,537
RSAF F15 Vertical Fixtures	12.FA8575-20-F-0010		52,100	449,601
RSAF F15 Tooling & Equipment	12.FA8575-21-F-0003		24,273	750,526
NAVAIR MH 60 Fatigue Modeling Development Usage Characterization Opt I	N00019-20-C-0010		—	598,488
NAVAIR MH 60 Fatigue Modeling Development & Usage	N00019-20-C-0018		812	383,125

**THE CORPORATION OF MERCER UNIVERSITY  
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Schedule of Expenditures of Federal Awards

Year ended June 30, 2021

Federal grantor/pass-through grantor/program title	CFDA/ contract number	Pass-through entity identifying number	Passed through to subrecipients	Federal expenditures
Navy AIRCAT	N00421-20-P-0732		\$ —	99,692
ANG 116th Load Tester Opt I & Opt II	W912JM-18-P-0043		—	20,571
Total National Guard Military Operations and Maintenance Projects			3,093,006	34,689,187
Basic and Applied Research:				
Atomic & Molecular Investigation Corrosion	12.300		—	5,683
Military Medical Research and Development:				
Development Novel Drugs Autism Treatment	12.420		—	63,001
Total U.S. Department of Defense			3,093,006	34,757,871
National Aeronautics and Space Administration:				
Passed-through Georgia Institute of Technology:				
Education-Georgia Space Grant (subaward number RF964-G9)	43.008	NNX15AP85H	—	987
Education-Georgia Space Grant (subaward number AWD-001629-G18)	43.008	80NSSC20M0094	—	10,000
Subtotal CFDA 43.008			—	10,987
National Science Foundation:				
Passed-through Board of Regents of the University of Wisconsin System:				
Mathematical and Physical Sciences-WoU-MMA: IceCube Data Analysis in the U.S. (Subaward number 000000050)	47.049	1913607	—	7,964
Social, Behavioral, and Economic Sciences-Primate Skeletal Database Health & Life Expectancy	47.075		—	15,708
Social, Behavioral, and Economic Sciences-Collaborative Research: Feeding Ontogeny at the Interface of Behavior and Morphology	47.075		—	46,419
Subtotal CFDA 47.075			—	62,127
Education and Human Resources-Developing Computer Science Master Teachers in Rural South GA	47.076		—	70,529
Total National Science Foundation			—	132,656
Corporation for National and Community Service:				
Passed-through University of Notre Dame:				
AmeriCorps-2020 Mission Volunteer Americorps	94.006	203769UMD	—	270
U.S. Department of Health and Human Services:				
Environmental Health-Uptake Mercury Basolateral Membrane Isolated Proximal Tubules	93.113		—	114,926
Nursing Workforce Diversity	93.178		—	505,925
Drug Abuse and Addiction Research Programs:				
NIH NIDA Patch Compartment Neurons Behavior	93.279		—	115,648
Passed-through University of Connecticut:				
NIH/NIDA Unified Intervention to Impact HIV Care Continuum (Sub #133097)	93.279	1R01DA043068-02	—	56,190
Passed-through University of Florida:				
Opioid Use Disorders UF Pharmacy	93.279	5UG3DA048353-02	—	16,450
Subtotal CFDA 93.279			—	188,288
Cancer Biology Research-NIH Manipulation of the SUMO Machinery by EBV LMP1	93.396		—	70,436
Provider Relief Fund	93.498		—	112,810
Cardiovascular Diseases Research:				
Passed-through Regents of the University of California Lawrence Berkeley National Laboratory:				
NIH Plasma Lipid Transfer CETP & PLTP	93.837	2R01HL115153-06	—	(10,739)
Passed-through University of Massachusetts Medical School Worcester:				
NIH-Systematic Assessment of Geriatric Elements in Atrial Fibrillation (SAGE-AF)	93.837	R01HL126911 01A1	—	22,520
Passed-through Vanderbilt University Medical Center:				
Targeting Mitochondrial Cyclophilin D in Vascular Oxidative Stress and Hypertension	93.837	R01HL144943-01A1	—	30,865
Subtotal CFDA 93.837			—	42,646

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Schedule of Expenditures of Federal Awards

Year ended June 30, 2021

Federal grantor/pass-through grantor/program title	CFDA/ contract number	Pass-through entity identifying number	Passed through to subrecipients	Federal expenditures
Lung Diseases Research-NIH ROS Beta 2 Adrenergic Receptor Function in Human Airway:	93.838		\$ —	92,469
Passed-through University of Alabama at Birmingham: Arthritis, Musculoskeletal and Skin Diseases Research- Optimization Novel Molecular Arsenical Skin	93.846	1U01AR078544-01	—	60,165
Extramural Research Programs in the Neurosciences and Neurological Disorders:				
NIH NINDS Targeting GPR109A Lupus Erythematosus	93.853		8,467	281,012
NIH Targeting Serotonin 5HT1A & 5HT7	93.853		—	53,012
Subtotal CFDA 93.853			<u>8,467</u>	<u>334,024</u>
Allergy and Infectious Diseases Research:				
NIH NIAID Whole Cell Neisseria Gonorrhoeae Miro Particulate Vaccine	93.855		—	84,468
NIH Herpesvirus Antiviral Drug PORT 1	93.855		—	32,918
Passed-through Magee Womens Research Institute and Foundation: NIH-Long Acting Film Technology for Contraception and HIV Prevention (LATCH) (subaward number 9155)	93.855	1R61AI142687-01	—	270
Subtotal CFDA 93.855			<u>—</u>	<u>117,656</u>
Grants for Primary Care Training and Enhancement-HRSA Physician Assistant Public Health Traineeship Program	93.884		—	50,604
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider:				
Rural Communities Opioid Response Open Implementation	93.912		—	113,985
Quality Improvement-HRSA Rural Communities Opioid Response Planning	93.912		21,329	47,415
Subtotal CFDA 93.912			<u>21,329</u>	<u>161,400</u>
Healthy Start Initiative-HRSA Eliminating Disparities	93.926		125,773	1,009,424
Passed-through Emory University:				
Geriatric Education Centers -Georgia Geriatrics Workforce Enhancement Program (Subaward number A344352)	93.969	U1QHP33070-01-00	—	82,135
Total U.S. Department of Health and Human Services			155,569	2,942,908
Total Research and Development Cluster			3,248,575	37,844,692
Total Major Programs			<u>3,248,575</u>	<u>194,265,243</u>
U.S. Department of Education:				
TRIO Cluster:				
Student Support Services	84.042		—	407,049
Upward Bound	84.047		—	1,074,813
Educational Opportunity Centers Program	84.066		—	565,761
Total TRIO Cluster			<u>—</u>	<u>2,047,623</u>
Rehabilitation Long-Term Training:				
Education Certified Rehabilitation Counselors	84.129		—	12,382
Rehabilitation Long-Term Training Program	84.129B		—	204,766
Subtotal CFDA # 84.129			<u>—</u>	<u>217,148</u>
Passed-through Bibb County Board of Education:				
Comprehensive Literacy Development-L4G4 Bibb County School District	84.371	LUA Program Code 1732&1733	—	21,413
Total U.S. Department of Education			<u>—</u>	<u>2,286,184</u>
Total Nonmajor Programs			<u>—</u>	<u>2,286,184</u>
Total Federal Expenditures			<u>\$ 3,248,575</u>	<u>196,551,427</u>

See accompanying independent auditors' report and notes to schedules of expenditures of federal awards and State of Georgia awards.

**THE CORPORATION OF MERCER UNIVERSITY  
AND ITS SUBSIDIARIES**

Schedule of Expenditures of State of Georgia Awards

Year ended June 30, 2021

<u>Contract number</u>	<u>Expenditures</u>
Circuit Public Defender	\$ 15,000
Ga Department of Public Health:	
Advancing Pharmacy Related Initiatives 40500-031-21213558	5,354
Academic Health Department GIA 466	(111)
Hancock County COVID-19 Flu Vaccine Hesitancy Assessment	4,321
Ga Department of Community Health Rural Health System Innovation Center 19045G	1,056,172
North Central Health District Houston County Health Department Ryan White 2012-401-18	33,620
Ga Council for the Arts PT NEA Grand Storytellers Audio FY2138	2,800
Passed-through Georgia Institute of Technology:	
Diverging Diamond Interchanges PTGDOT AWD 000136 S1	71,902
	<u>\$ 1,189,058</u>

See accompanying independent auditors' report and notes to schedules of expenditures of federal awards and State of Georgia awards.

**THE CORPORATION OF MERCER UNIVERSITY  
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Notes to Schedules of Expenditures of Federal Awards and State of Georgia Awards

June 30, 2021

**(1) Basis of Presentation and Summary of Significant Accounting Policies for Federal and State of Georgia Award Expenditures**

The accompanying schedule of expenditures of federal awards (the Schedule) and schedule of expenditures of State of Georgia awards include the federal and state grant activity of The Corporation of Mercer University and its subsidiaries (the University) for the year ended June 30, 2021 and are presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in, the preparation of the consolidated financial statements.

Expenditures for federal research and development programs are determined using the cost accounting principles and procedures set forth in Subpart E, *Cost Principles of the Uniform Guidance*. Under these cost principles, certain expenditures are not allowable or are limited as to reimbursement.

Moreover, expenditures include a portion of costs associated with general university 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 University's basic consolidated financial statements.

Negative balances represent programs with unfunded expenditures prior to normal closeout procedures, which were subsequently transferred to nonfederal cost centers. 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 University did not elect to use the 10% de minimis indirect cost rate as referenced in Uniform Guidance Section 200.414.

**(3) Federal Loan Programs**

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 University. These noncash transactions in which the University obtains other assistance are the Federal Direct Student Loan Programs (FDSL), which include the Federal Direct Stafford Student Loan Program (subsidized and unsubsidized) and Federal Direct Parent Loans for Undergraduate Students (PLUS), and revolving loan programs, such as the Federal Perkins Loan Program (FPL), the Health Professions Student Loan Program (HPSL), including Loans for Disadvantaged Students (LDS) and Primary Care Loans (PCL), the Nursing Student Loan Program (NSL), and the Nurse Faculty Loan Program (NFLP).

**THE CORPORATION OF MERCER UNIVERSITY  
AND ITS SUBSIDIARIES**

Notes to Schedules of Expenditures of Federal Awards and State of Georgia Awards

June 30, 2021

The loans advanced and related expenditures for the year ended June 30, 2021 are as follows for the following student loan program:

	<b>CFDA number</b>	<b>Amount</b>
Federal Direct Student Loan Program:		
Student loans advanced:		
Direct Stafford Loan (subsidized)	84.268	\$ 10,064,976
Direct Stafford Loan (unsubsidized)	84.268	82,901,117
Federal Direct PLUS Loan	84.268	30,574,213
		\$ 123,540,306

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

The FPL, HPSL, LDS, PCL, NSL, NFLP, and ARRA – NFLP programs are administered directly by the University, and balances and transactions relating to these programs are included in the University's consolidated financial statements. Balances of loans outstanding at June 30, 2021 are as follows:

FPL	\$ 5,072,115
HPSL	693,278
LDS	441,820
PCL	245,950
NSL	400,533
NFLP – consolidated	2,041,269
	\$ 8,894,965

**(4) Matching**

Under the Federal Supplemental Educational Opportunity Grant Program, the University matched \$504,704 in funds awarded to students for the year ended June 30, 2021 in addition to the federal share of expenditures presented in the Schedule.

Under the Federal Work Study Program, the University matched \$251,205 in total compensation to students for the year ended June 30, 2021 in addition to the federal share of expenditures included in the Schedule.

**(5) Administrative Cost Allowance**

The University recorded an administrative cost allowance of \$152,001 for the year ended June 30, 2021. This amount is included in the Schedule as federal expenditures under the Federal Work Study Program.



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  
The Corporation of Mercer University:

We have audited, 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, the consolidated financial statements of The Corporation of Mercer University and its subsidiaries (the University), which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 7, 2021.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the University'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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

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

### **Compliance and Other Matters**

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



**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University'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 University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Atlanta, Georgia  
October 7, 2021



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 and Schedule of Expenditures of State of Georgia Awards**

The Board of Trustees  
The Corporation of Mercer University:

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

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

#### *Management's Responsibility*

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

#### *Auditors' Responsibility*

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

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

#### *Opinion on Each Major Federal Program*

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

### **Report on Internal Control Over Compliance**

Management of the University 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 University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance



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

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

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

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

#### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance and Schedule of Expenditures of State of Georgia Awards**

We have audited the consolidated financial statements of the University as of and for the year ended June 30, 2021, and have issued our report thereon dated October 7, 2021, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedules of expenditures of federal awards and expenditures of State of Georgia awards are presented for purposes of additional analysis as required by the Uniform Guidance and the State of Georgia, respectively, and are 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 schedules of expenditures of federal awards and expenditures of State of Georgia awards are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

*KPMG LLP*

Atlanta, Georgia  
December 15, 2021

**THE CORPORATION OF MERCER UNIVERSITY  
AND ITS SUBSIDIARIES**

Schedule of Findings and Questioned Costs

Year ended June 30, 2021

**(1) Summary of Auditor's Results**

- a. Type of report issued on whether the consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles: **Unmodified**
- b. Internal control deficiencies over financial reporting disclosed by the audit of the consolidated financial statements:
  - Material weaknesses: **No**
  - Significant deficiencies: **None reported**
- c. Noncompliance material to the consolidated financial statements: **No**
- d. Internal control deficiencies over major programs disclosed by the audit:
  - Material weaknesses: **No**
  - Significant deficiencies: **None reported**
- e. The type of report issued on compliance for major programs: **Unmodified**
- f. Any audit findings, which are required to be reported under Section 2 CFR 200.516(a): **No**
- g. Major programs:
  - **Student Financial Assistance cluster** – various CFDA numbers: 84.033, 84.007, 84.038, 84.063, 84.268, 84.379, 93.264, 93.408, 93.342, and 93.364
  - **Research and Development cluster** – various CFA numbers
  - **Education Stabilization Fund** – CFDA 84.425E and 84.425F
- h. Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- i. Auditee qualified as a low-risk auditee: **Yes**

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

None

**(3) Findings and Questioned Costs relating to Federal Awards**

None



## FEDERAL TRIO PROGRAMS

Dasha Y. Radder, Senior Manager  
KPMG LLP  
303 Peachtree Street, NE  
Suite 2000  
Atlanta, GA 30308

### **Re: Status of the Corrective Action Plan for finding No. 2020-001**

Dear Ms. Radder,

Below is the follow-up report that provides the status of the open recommendations outlined in the Mercer University TRIO Programs' corrective action plan.

I am providing a summary of the status updates to the audit finding 2020-001. This report intends to keep KPMG informed about the implementation status of the recommendations made by Mercer University TRIO Programs to enhance the execution of program eligibility reporting.

In March 2021, the Mercer University TRIO Programs provided KPMG with a corrective action plan. Of the recommendations, program staff implemented all of them. Only one subpart (#1.3) remains open.

I based the partially implemented recommendation on the U.S. Department of Education releasing the Annual Performance Reports (APR) for Student Support Services and the Educational Opportunity Centers program. I included the target implementation dates in the summary below for your convenience.

### **Summary Status Report**

- # 1.1 Established audit review forms to verify eligibility requirements and database entry for the Annual Performance Report (APR).

**Implemented**

Program managers in each TRIO department Division created policies and procedures, selection and verification forms, and quarterly review forms to verify program eligibility and improve reporting requirements for the Annual Performance Report (APR). Relevant forms updated in February 2021.

- #1.2 Include control questions on the different intake applications for first-generation and other TRIO program participation and obtain support documentation connected to low-income levels, disability, or high risk for academic failure.

**Implemented**

Program managers updated intake applications and

included support documentation when needed to verify key eligibility areas.

#1.3 Conduct cross checks to reduce the chance of inaccurate eligibility reporting.

**Implemented**

Each TRIO Program established a three-level review process to identify eligibility-coding errors. The Director conducted a comprehensive file review of all new student files in November 2021 to meet the Annual Performance Reporting requirements on November 30, 2021.

**Partially Implemented**

The Director is awaiting the release of APR requirements for Student Support Services and the Educational Opportunity Center. Staff is conducting cross checks and spot reviews in anticipation of the APR release in Student Support Services in January 2022 and February 2022 for the Educational Opportunity Center.

#1.4 Train staff on established procedures for eligibility requirements to ensure both staff and management share the same expectations.

**Implemented**

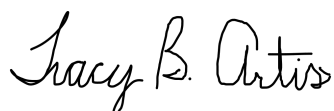
All TRIO staff was trained on the new eligibility review process on February 15, 2021.

**Implemented**

Additional retraining opportunities were offered to staff based on the release of the Department of Education's 2021-2022 TRIO Training Schedule on 10/19/2021.

Mercer University TRIO Programs will continue to evaluate ways to improve the recommendation follow-up process. For example, future enhancements include department-established target dates and appropriately adjusting our annual Risk Assessments. Program staff and I will continue to make adjustments to decrease each TRIO department's risk level of a future audit finding. We will continue to work with University officials to identify opportunities to enhance the TRIO Programs' internal recommendation response process.

Sincerely,



Tracy B. Artis

Executive Director, Federal TRIO Programs & Minority Affairs