

MEHARRY MEDICAL COLLEGE
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

MEHARRY MEDICAL COLLEGE

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Independent Auditor's Report

The Board of Trustees
Meharry Medical College
Nashville, Tennessee

We have audited the accompanying consolidated financial statements of Meharry Medical College and Subsidiary (the "College"), which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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



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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Meharry Medical College and Subsidiary as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crosslin, PLLC

Nashville, Tennessee
October 27, 2021

MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2021	2020
Cash and cash equivalents	\$ 20,903,054	\$ 15,447,781
Accounts receivable, net	24,345,271	21,822,723
Student loans receivables, net	7,443,586	8,460,841
Contributions receivable, net	14,452,169	2,973,139
Investments	188,343,978	158,069,279
Investment in real estate	18,893,113	19,802,362
Investment in affiliate	250,000	-
Plant facilities, net of accumulated depreciation	107,520,900	108,715,793
Deferred charges	5,758,188	6,137,367
Funds held by trustees	3,135,374	6,133,191
Other assets, including net pension assets	1,981,965	913,839
	<u>\$ 393,027,598</u>	<u>\$ 348,476,315</u>

LIABILITIES AND NET ASSETS

Notes payable to banks	\$ 14,398,160	\$ 8,393,624
Accounts payable	2,884,372	2,187,497
Accrued liabilities	7,836,887	9,703,596
Advances under grants and contracts	2,082	3,505
Deferred revenue	16,177,120	16,390,725
Bonds payable, net	15,103,867	74,653,286
Obligations under capital lease	1,734,514	2,436,182
Government advances for student loans	6,142,546	6,654,633
Funds held in trust for others	883,957	530,301
Total liabilities	<u>65,163,505</u>	<u>120,953,349</u>
Net assets:		
Without donor restrictions:		
Undesignated	101,172,496	50,419,290
Unfunded pension liability	1,899,882	803,002
Unrealized loss on interest rate swap agreement	(1,263,612)	(1,988,693)
Prefunding of debt service resulting from refinancings	(3,316,281)	(3,568,434)
Total net assets without restrictions	<u>98,492,485</u>	<u>45,665,165</u>
With donor restrictions	229,371,608	181,857,801
Total net assets	<u>327,864,093</u>	<u>227,522,966</u>
Total liabilities and net assets	<u>\$ 393,027,598</u>	<u>\$ 348,476,315</u>

See accompanying notes to consolidated financial statements.

MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENTS OF ACTIVITIES

	Year Ended June 30,	
	2021	2020
Changes in net assets without restrictions:		
Operating revenue:		
Tuition and fees	\$ 44,478,300	\$ 40,939,697
Less College funded scholarships	(21,702,311)	(5,176,972)
Net tuition and fees	22,775,989	35,762,725
Government grants and contracts	106,239,091	47,959,587
Private gifts, grants, and contracts	3,204,827	4,429,033
Sales and services of educational departments	1,050,791	1,113,602
Other sources	3,536,511	4,757,163
Health services division	27,781,664	24,642,032
Net assets released from restrictions	25,210,056	15,855,060
Total operating revenue	189,798,929	134,519,202
Operating expenses:		
Instruction	28,047,513	25,776,220
Research	13,179,659	14,031,503
Public service	15,445,398	12,947,845
Academic support	19,490,452	18,835,494
Student services	4,199,442	4,299,051
Institutional support	27,651,768	31,966,605
Health services division	30,779,338	25,462,836
Total operating expenses	138,793,570	133,319,554
Increase in net assets without donor restrictions from operating activities	51,005,359	1,199,648
Nonoperating Items:		
Change in net minimum pension liability	1,096,880	(361,924)
Change in market value of interest rate swap agreement	725,081	91,679
Change in other nonoperating items	-	(834,674)
Total nonoperating items	1,821,961	(1,104,919)
Increase in net assets without donor restrictions	52,827,320	94,729
Changes in net assets with donor restrictions:		
Private gifts, grants, and contracts	32,064,285	8,986,014
Income on long-term investments, net	7,146,205	5,810,188
Net gain (loss) on investments	33,513,373	(154,117)
Net assets released from restrictions	(25,210,056)	(15,855,060)
Increase (decrease) in net assets with donor restrictions	47,513,807	(1,212,975)
Increase (decrease) in net assets	100,341,127	(1,118,246)
Net assets at beginning of year	227,522,966	228,641,212
Net assets at end of year	\$327,864,093	\$ 227,522,966

See accompanying notes to consolidated financial statements.

MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2021

	<u>Instruction</u>	<u>Research</u>	<u>Public Service</u>	<u>Academic Support</u>	<u>Student Services</u>	<u>Institutional Support</u>	<u>Plant O/M</u>	<u>Health Services</u>	<u>Total</u>
Salaries and benefits	\$ 22,176,279	\$8,339,659	\$12,425,698	\$12,118,371	\$1,499,650	\$7,854,463	\$ -	\$20,422,846	\$84,836,966
Supplies	1,225,666	1,313,029	718,095	3,819,461	46,411	844,710	420,159	592,461	8,979,992
Utilities and communication	19,217	1,270	38,343	57,756	-	566,158	2,816,038	14,853	3,513,635
Travel	113,599	34,095	20,920	147,162	14,593	67,261	-	67,086	464,716
Equipment and furnishings	188,437	980,715	274,311	446,774	112,620	964,433	29,268	538,128	3,534,686
Contractual services	2,177,913	1,617,291	1,486,166	2,334,534	200,980	10,763,823	3,967,118	4,202,065	26,749,890
Interest and related costs	-	-	-	-	-	1,106,467	-	-	1,106,467
Other transfers and indirect costs	2,146,402	893,600	481,865	566,394	2,325,188	5,484,453	(7,232,583)	4,941,899	9,607,218
Total	<u>\$28,047,513</u>	<u>\$13,179,659</u>	<u>\$15,445,398</u>	<u>\$19,490,452</u>	<u>\$4,199,442</u>	<u>\$27,651,768</u>	<u>\$ -</u>	<u>\$30,779,338</u>	<u>\$138,793,570</u>

See accompanying notes to consolidated financial statements.

MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2020

	<u>Instruction</u>	<u>Research</u>	<u>Public Service</u>	<u>Academic Support</u>	<u>Student Services</u>	<u>Institutional Support</u>	<u>Plant O/M</u>	<u>Health Services</u>	<u>Total</u>
Salaries and benefits	\$19,578,758	\$7,761,011	\$10,301,181	\$10,622,380	\$1,345,943	\$10,179,935	\$ -	\$17,972,744	\$77,761,952
Supplies	989,605	1,229,854	378,165	2,101,176	46,030	269,584	456,039	484,692	5,955,145
Utilities and communication	9,319	355	7,968	21,026	-	537,202	2,872,693	9,560	3,458,123
Travel	363,996	195,795	86,579	404,981	50,177	229,060	-	76,027	1,406,615
Equipment and furnishings	163,536	342,868	47,211	647,278	143,956	1,672,678	154,157	513,991	3,685,675
Contractual services	1,638,008	872,349	859,965	3,244,740	149,430	7,785,746	4,271,056	3,152,712	21,974,006
Interest and related costs	-	-	-	-	-	3,580,874	-	-	3,580,874
Other transfers and indirect costs	3,032,998	3,629,271	1,266,776	1,793,913	2,563,515	7,711,526	(7,753,945)	3,253,110	15,497,164
Total	<u>\$25,776,220</u>	<u>\$14,031,503</u>	<u>\$12,947,845</u>	<u>\$18,835,494</u>	<u>\$4,299,051</u>	<u>\$31,966,605</u>	<u>\$ -</u>	<u>\$25,462,836</u>	<u>\$133,319,554</u>

See accompanying notes to consolidated financial statements.

MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2021	2020
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 100,341,127	\$ (1,118,246)
Adjustments to reconcile increase (decrease) in net assets by operating activities:		
Depreciation	7,823,471	7,761,301
Amortization of deferred charges and bond discount	1,260,874	80,309
Contributions restricted for long-term investment	(2,152,586)	(1,016,387)
Net realized and unrealized (gain) loss on long-term investments	(33,513,373)	154,117
Repayment of debt by government	(51,125,632)	-
Changes in:		
Accounts receivable, net	(2,522,548)	2,982,858
Contributions receivable, net	(11,479,030)	1,816,075
Other assets	(1,068,126)	323,313
Accounts payable	696,875	(875,497)
Accrued liabilities	(1,866,708)	1,516,205
Advances under grants and contracts	(1,423)	(4,297)
Deferred revenue	(213,605)	(5,055,560)
Funds held in trust for others	353,656	(640,326)
Net cash provided by operating activities	6,532,972	5,923,865
 Cash flows from investing activities:		
Acquisition of plant facilities equipment	(5,719,329)	(1,975,129)
Student loans receivable, net	1,017,255	1,440,684
Sales (purchases) of investments, net	3,238,674	4,654,425
Investment in affiliate	(250,000)	-
Change in funds held by trustees	2,997,817	(174,742)
Net cash provided by investing activities	1,284,417	3,945,238
 Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	2,152,586	1,016,387
Change in government advances for student loans	(512,087)	(2,807,735)
Payment of bond issuance costs	(622,809)	-
Principal repayments of notes payable	(475,703)	(920,427)
Proceeds from issuance of bonds	1,915,306	-
Capital lease principal payments	(701,668)	(684,242)
Principal repayment of bonds	(4,117,741)	(5,099,651)
Net cash used in financing activities	(2,362,116)	(8,495,668)
 Net increase in cash and cash equivalents	5,455,273	1,373,435
 Cash and cash equivalents at beginning of year	15,447,781	14,074,346
 Cash and cash equivalents at end of year	\$ 20,903,054	\$ 15,447,781
 Supplemental cash flow information:		
Cash paid for interest	\$ 1,106,467	\$ 3,580,874

See accompanying notes to consolidated financial statements.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

A. ORGANIZATION AND PURPOSE

Meharry Medical College (the “College”) is a fully accredited, private college committed to training health care professionals and leaders in many medical and health related fields. The College exists to provide an excellent education in the health sciences, while maintaining a center of excellence for the practice and delivery of health care, and the conduct of both basic and clinical research.

In December 2020, the College formed a for-profit wholly owned subsidiary, MMCV, Inc., a Tennessee corporation to seek and perform opportunities and projects that align with the mission of the College, but that are not considered core activities of the College.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting

The consolidated financial statements of the College have been prepared on the accrual basis of accounting and in accordance with the accounting principles generally accepted in the United States of America.

The consolidated financial statements include the operations of the College and its wholly owned subsidiary, MMCV, Inc. All significant intercompany activity has been eliminated in consolidation.

To ensure observance of limitations and restrictions placed on the use of resources available, the College maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes into funds that are maintained in accordance with activities or objectives of the College.

The College classifies its support, revenue, expenses, gains and losses into two net asset categories differentiated based on the existence or absence of donor-imposed restrictions. Net assets of the College and changes therein are classified as follows:

Net Assets Without Donor Restrictions are free of donor-imposed restrictions and may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Support, revenue, gains, and losses that are not restricted by donors are included in this classification. Expenses are reported as decreases in this classification.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Assets With Donor Restrictions are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the College or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity but may permit the College to use or expend part or all of the income derived from the donated assets. Net assets with donor restrictions that are held in perpetuity include the College's permanent endowment funds.

Use of Estimates in the Preparation of Financial Statements

Judgment and estimation are exercised by management in certain areas of the preparation of the consolidated financial statements. The more significant areas include the recovery period for plant facilities, the allocation of certain operating and maintenance expenses to functional categories, the collection of contributions receivable, and the valuation of receivables including the allowances for contractual adjustments and doubtful patient accounts receivable. Management believes that such estimates have been based on reasonable assumptions and that such estimates are adequate; however, actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments with original maturities of three months or less. Certain cash equivalents are also included in investments as they are awaiting investment.

Inventories

Inventories consisting of supplies are stated at the lower of cost (first-in, first-out) or market (net realizable value).

Accounts Receivable

The College records accounts receivable at their estimated net realizable value. An allowance for doubtful accounts is recorded based upon management's estimate of uncollectible accounts determined by analysis of specific balances and a general reserve based upon aging of outstanding balances. Past due balances are charged against the allowance when they are determined to be uncollectible.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Student Loans Receivable

Student loans receivable are carried at unpaid principal balances, less an allowance for uncollectible loans. The allowance for uncollectible loans is increased by charges to income and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on various loan program requirements, the College's historical loan loss experience, specific impaired loans, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and current economic conditions. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual terms. The College's practice is to charge off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, the depreciation of the underlying collateral, or for other reasons.

Investments

Investments in equity securities with readily determinable fair value and all investments in debt securities are reported at fair value with gains and losses included in the consolidated statements of activities. Works of art, historical treasures, and similar assets held as part of collections are reported at the fair or appraisal value at the date of acquisition or contribution, respectively.

The estimated fair value of certain alternative investments, such as private equity interests, is determined by reference to the net asset values allocated to the College at the measurement date. The College believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material.

Investment in the hospital facility is based upon the estimated fair value of the facility, which equates to the discounted payments to be received from the 30-year lease of the facility. The investment is being depreciated on a straight-line basis over the estimated useful life of the facility and equipment which range from ten to forty years.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investment in affiliate

In January 2021, the College's wholly owned subsidiary, MMCV, Inc. and its joint venture partner formed Innov8 Health, LLC, to conduct a project to develop and implement a plan for the physical re-entry of students into a local school system during the COVID-19 pandemic. MMCV, Inc. owns 50% of its membership interest, and accounts for the investment using the equity method of accounting. See Note H.

Life Income and Gift Annuities

The College's split interest agreements with donors consist primarily of irrevocable charitable remainder trusts for which the College serves as trustee. Assets held in these trusts are included in investments. Contribution revenues are recognized at the dates the trusts are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted annually for changes in the value of the assets, accretion of the discount and other changes in the estimate of future benefits.

Plant Facilities

Plant facilities are stated at cost or estimated fair value at dates of gifts, less accumulated depreciation, computed on the straight-line basis over the estimated useful lives of the various assets, which range from 5 years to 50 years. Depreciation, operation and maintenance charges are allocated to appropriate functional expense categories. Plant disposals are removed from the records at time of disposal. The College lifts restrictions on contributions for long-lived assets at the time the assets are acquired.

Debt Issuance Costs

Costs incurred in connection with the issuance of the College's bonds and notes payable have been capitalized and are being amortized using the straight-line method, which approximates the interest method, over the term of the related bonds and notes. The College presents debt issuance cost as a direct deduction from the carrying amount of the related liability. The College recognized amortization on debt issuance costs of \$63,241 and \$80,309 during 2021 and 2020, respectively. In addition, during fiscal 2021 the College incurred additional debt issuance costs of \$622,809 for the issuance of bonds, and wrote-off \$818,455 of unamortized debt issuance costs related to the retirement or forgiveness of certain notes and bonds payable.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Deferred Charges

Deferred charges consist of educational program costs specifically related to unrecognized tuition, which are expensed as the program occurs.

Deferred Revenue

Early fall registration revenue and expenditures are deferred and are reported within the fiscal year in which the activities are completed.

Derivative Financial Instruments

The College employs derivatives in the form of interest rate swap agreements to manage market risk associated with outstanding variable-rate debt. Derivative financial instruments are reported at fair value with any resulting change in fair value recognized as a nonoperating item in the consolidated statements of activities.

Government Advances for Student Loans

Funds provided by the United States government under the Federal Perkins and Health Professions Student Loan programs are loaned to qualified students and may be reloaned after collection. These funds are ultimately refundable to the government and are therefore recorded as liabilities. Under federal law, the authority for schools to make new Perkins loans ended on September 30, 2017, with final disbursements permitted through June 30, 2018.

Contributions

The College reports gifts of cash and other assets as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor time or purpose restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. However, donor-restricted contributions whose restrictions are met in the same reporting period as received are reported in the consolidated statements of activities as contributions without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

Contributions, including unconditional promises to give, are recognized as support in the period received. Conditional promises to give are not recognized until the conditions on

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Contributions to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions. An allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors.

Revenue from Contracts with Customers

The College's primary sources of revenues from contracts with customers are from tuition, fees, and services and sales of educational departments and the health services division.

In accordance with the adoption of Accounting Standards Update ("ASU") 2014-09, *Revenues from Contracts with Customers*, the College identifies a contract for revenue recognition when there is approval and commitment from both parties, the rights of the parties and payment terms are identified, the contract has commercial substance and the collectability of the consideration is probable. The College evaluates each contract to determine the number of distinct performance obligations in the contract, which requires the use of judgment. Performance obligations are determined based on the nature of the services provided by the University.

Tuition and fees are derived from academic services rendered by the College, as well as from related educational resources that the College provides to its students. The College recognizes revenue for academic services pro-rata over the applicable academic period. Scholarships provided to students by the College are reflected as a reduction of gross tuition and fees. Tuition and fees received in advance of services performed are considered contract liabilities and recorded as deferred revenue in the statements of financial position.

Included in health services division revenue and sales and services of educational departments are amounts from the Meharry Medical Group, various clinics operated by the College and the Lloyd C. Elam Mental Health Center. The College recognizes revenue from these services and sales at the point in time services are rendered or sales occur. The College has agreements with third-party payors that provide for payments to the College at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, per diem payments and capitation. Such revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

with third-party payors. Contractual adjustments are accrued on an estimated basis in the period that the related services are rendered and adjusted in future periods as final settlements are determined.

The College's accounts receivable represent unconditional rights to consideration from its contracts with customers. Typically, once a customer is invoiced for tuition, fees, and health services and sales, payment is due immediately. The College does not have any contract assets. The College had no costs that were capitalized to obtain or to fulfill a contract with a student.

Program Services

The College's primary program services are instruction, research, health services, and public service. Expenses reported as academic support, student services, and institutional support are incurred in support of these primary program services. Institutional support includes fundraising expenses of \$2,804,030 and \$2,839,150 in 2021 and 2020, respectively. For purposes of reporting fundraising expenses, the College includes those fundraising costs incurred by its Development Office as well as an estimate of payroll-related expenditures incurred by members of management in fundraising activities.

Income Taxes

The College has received a determination letter from the Internal Revenue service indicating it is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"); whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to federal income tax. The College is not classified as a private foundation.

The College's wholly owned subsidiary, MMCV, Inc., is subject to federal and state income taxes. The College provides for income taxes based on Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 740 *Income Taxes*, which requires recognition of deferred tax liabilities and assets for the expected future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax basis. The College provides a valuation allowance for deferred tax assets when it is determined that it is more likely than not that the deferred tax assets will not be utilized. No such valuation allowance was record at June 30, 2021 or 2020. See Note T.

The College and it subsidiary account for the effect of any uncertain tax positions based on a more likely than not threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

positions, any unrecognized tax benefit is estimated based on a cumulative probability assessment that aggregates the estimated tax liability for all uncertain tax positions. The College has determined that such tax positions do not result in an uncertainty requiring recognition.

Fair Value Measurements

Assets and liabilities recorded at fair value in the consolidated statements of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value (Note P). Level inputs are defined by ASC 820, *Fair Value Measurements* are as follows:

Level 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the College's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Functional Expenses

Costs of providing the College's programs are reported in the Statement of Activities on a functional basis. Program expenses include costs directly associated with the program and other indirect costs determined to benefit that program. The statement of functional expenses presents the details of natural classification of expenses by these functional categories. These costs have been allocated between functional categories based on estimates made by management.

Reclassifications

Certain reclassifications have been made to the fiscal 2020 amounts to conform to the fiscal 2021 presentation. The reclassifications had no impact on net assets or the change in net assets.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Accounting Pronouncement

On July 1, 2020, the College adopted Accounting Standards Update (ASU) No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* (ASU 2018-13). This standard was adopted retrospectively. The adoption of this ASU did not have an impact on the College's net assets or changes in net assets, and did not significantly impact the College's disclosures on fair value measurements.

C. LIQUIDITY AND AVAILABILITY OF RESOURCES

The table below represents financial assets available for general expenditures within one year at June 30, 2021 and 2020.

	<u>2021</u>	<u>2020</u>
Financial assets at year-end		
Cash and cash equivalents	\$ 20,903,054	\$ 15,447,781
Accounts receivable and other receivables, net	24,345,271	21,822,723
Contributions receivable, net	14,452,169	2,973,139
Student loan receivables, net	7,443,586	8,460,841
Investments	207,237,091	177,871,641
Investment in affiliate	250,000	-
Funds held by trustees	<u>3,135,374</u>	<u>6,133,191</u>
Total financial assets at year-end	<u>277,766,545</u>	<u>232,709,316</u>
Less amounts not available to meet general expenditures within one year		
Restricted funds held by trustees	(3,135,374)	(6,133,191)
Student loans receivable, net	(7,443,586)	(8,460,841)
Restricted by donors with purpose and/or time restrictions	(66,015,951)	(20,654,730)
Restricted by the Board for endowment	(11,675,096)	(7,006,798)
Restricted by donors as endowment funds held in perpetuity	<u>(163,355,657)</u>	<u>(161,203,071)</u>
Total amounts not available to meet general expenditures within one year	<u>(251,625,664)</u>	<u>(203,458,631)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 26,140,881</u>	<u>\$ 29,250,685</u>

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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C. LIQUIDITY AND AVAILABILITY OF RESOURCES - Continued

The College regularly monitors the liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The College has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities, as well as a line of credit. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the College considers all expenditures related to its ongoing mission-related activities as well as the conduct of services undertaken to support those activities to be general expenditures.

Student loans receivable are not considered to be available to meet general expenditures because principal and interest on these loans are used solely to make new loans or is due back to the federal government.

The College maintains certain assets that are board-designated for endowment as disclosed in Note S. Although the College does not expect to utilize board designated net assets in excess of the budgeted spending policy to meet general expenditures, they could be made available, if necessary, subject to further action by the Board of Trustees.

In addition to financial assets available to meet general expenditures over the next twelve months, the College operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

D. ACCOUNTS RECEIVABLE

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

	<u>2021</u>	<u>2020</u>
Receivable from grantors	\$ 8,684,397	\$ 7,312,369
Professional services receivable	2,492,755	5,227,131
Patient receivables, net of contractual and doubtful account allowances of \$2,484,333 and \$3,179,920 at June 30, 2021 and 2020, respectively	2,329,437	2,972,885
Student accounts receivable, net of allowance of \$418,708 and \$306,216 at June 30, 2021 and 2020, respectively	10,556,747	6,063,849
Other accounts receivable	<u>281,935</u>	<u>246,489</u>
Total accounts receivable, net	<u>\$24,345,271</u>	<u>\$21,822,723</u>

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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E. CONTRIBUTIONS RECEIVABLE

The College includes unconditional promises to give as contributions receivable in accordance with the provisions of ASC 958, *Not-for-Profit Entities*.

	2021	2020
Unconditional promises to give	\$ 15,101,370	\$ 3,189,572
Less unamortized discount at 5%	(649,201)	(216,433)
Unconditional promise to give, net	\$ 14,452,169	\$ 2,973,139
Amounts due in:		
Less than one year	\$14,820,003	\$1,616,526
Two to five years	281,367	1,573,046
	\$15,101,370	\$3,189,572

At June 30, 2021 and 2020, the College had also received bequest intentions and certain other conditional promises to give. These intentions and conditional promises to give are not recognized as assets and, if they are received, they will generally be restricted for specific purposes stipulated by the donors, primarily for faculty support, scholarships, or general operating support of a particular department or division of the College.

The College receives contributed services from alumni and other volunteers who assist in fundraising efforts through their participation in various fundraising drives. The value of such services, which the College considers not practicable to estimate, has not been recognized in the consolidated statements of activities.

F. STUDENT LOANS RECEIVABLE

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

	2021	2020
Notes receivable - students	\$ 7,738,204	\$ 8,816,835
Less allowance for doubtful loans	(294,618)	(355,994)
	\$ 7,443,586	\$ 8,460,841

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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F. STUDENT LOANS RECEIVABLE - Continued

The College makes uncollateralized loans to students based on financial needs presented by the student. Student loans are funded through government loan programs or institutional resources. Upon graduation, the students have a grace period on government loans, at which time the loan will also begin accruing interest. Loan amounts are repaid through a third party billing service. Student loans are considered past due when payment has not been received in over 30 days. At June 30, 2021 and 2020, student loans represented 2.0% and 2.7%, respectively, of total assets.

The allowance for doubtful loans is established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Loan balances are written off only when they are deemed to be permanently uncollectible.

G. INVESTMENTS

Investments at June 30, 2021 and 2020, are summarized below:

	<u>2021</u>		<u>2020</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Marketable securities:				
Cash equivalents	\$ 14,051,612	\$ 14,051,612	\$ 4,781,337	\$ 4,781,337
Mutual funds	44,227	32,312	32,856	32,856
Common stocks	116,156,688	87,684,002	100,273,298	92,453,437
Bonds	30,023,317	29,409,304	27,549,348	27,166,585
Hedge funds	21,635,769	11,000,000	19,490,356	11,848,821
Other	<u>6,432,365</u>	<u>6,604,352</u>	<u>5,942,084</u>	<u>6,584,155</u>
Total investments	<u>\$188,343,978</u>	<u>\$148,781,582</u>	<u>\$158,069,279</u>	<u>\$142,867,191</u>
Investment in real estate, net of accumulated depreciation		<u>\$18,893,113</u>		<u>\$19,802,362</u>

Mutual funds for 2021 and 2020 are comprised solely of fixed income securities.

The College's investments are substantially all permanently restricted endowment funds. The investment in real estate is comprised of the College's net investment in hospital facilities, which are leased to the Metropolitan Government of Nashville and Davidson County (the Metropolitan Government) to house the operations of the Metropolitan Government's Nashville General Hospital. The thirty-year lease with the Metropolitan Government began in December 1994 and provides for rent payments of \$4,000,000 per year.

MEHARRY MEDICAL COLLEGE
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H. INVESTMENT IN AFFILIATE

The College’s wholly owned subsidiary, MMCV, Inc. (“MMCV”) owns 50% of Innov8 Health, LLC (“Innov8”), a limited liability company formed to conduct a project to develop and implement a plan for the physical re-entry of students into a local school system during the COVID-19 pandemic.

MMCV’s net equity investment totaled \$250,000 at June 30, 2021, which represents MMCV’s initial investment in Innov8. MMCV’s share of Innov8’s net income for the period from January 12, 2021 (Innov8’s inception) through June 30, 2021, has not been determined as of October 27, 2021. Certain expenses and cost allocations of Innov8 are in dispute between MMCV and their joint venture partner, and have not been resolved as of October 27, 2021. Management of MMCV expects the operations of Innov8 from January 12, 2021 (inception) through June 30, 2021 to ultimately result in net income, however, due to the uncertainty of the matter, MMCV, Inc. has not recorded any income from its equity investment in Innov8 as of June 30, 2021.

I. PLANT FACILITIES

Plant facilities consist of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Land and land improvements	\$ 8,985,444	\$ 8,985,444
Buildings and building improvements	173,948,865	173,451,727
Equipment	45,765,605	44,165,062
Art	433,194	433,194
Library and visual aids	4,262,147	4,262,147
Construction in progress	<u>4,054,589</u>	<u>432,941</u>
	237,449,844	231,730,515
Less accumulated depreciation	<u>(129,928,944)</u>	<u>(123,014,722)</u>
Plant facilities, net	<u>\$ 107,520,900</u>	<u>\$ 108,715,793</u>

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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I. PLANT FACILITIES - Continued

Plant operations and maintenance expenditures of \$7,232,583 and \$7,753,945 for the fiscal years ended June 30, 2021 and 2020, respectively, are allocated among functional expenses based on square footage percentages.

Depreciation expense was \$7,823,471 and \$7,761,301 for 2021 and 2020, respectively (of which \$909,250 in 2021 and 2020, was depreciation on the College's investment in real estate), is allocated among the various functional expense categories.

Estimated costs to complete construction in progress at June 30, 2021 is approximately \$30,500,000, and is primarily related to the construction of the Living Learning Center and renovation and capital repairs related to certain other campus facilities.

J. NOTES PAYABLE TO BANKS

The College has a \$10,000,000 revolving line of credit with a financial institution. All accrued interest shall be paid on the first (1st) day of each quarter and the principal balance and all unpaid accrued interest shall be due on the maturity date, May 1, 2021. Interest accrued at the 1 month LIBOR rate on the first (1st) day of each calendar month. As of June 30, 2020, the outstanding balance on the line of credit was \$4,250,000. In May 2021, the outstanding balance of the line-of-credit and all accrued interest were repaid in full from the proceeds of a refinancing note payable issued to the same financial institution (see below).

The College had a \$4,868,855 delayed draw loan agreement with a financial institution. The proceeds of this loan were used for the refinancing of debt, capital improvements, renovations to buildings, and expansion of educational programs. During the draw period, interest only at the rate of 2.9%, will be computed on the unpaid principal balance and is due and payable semi-annually commencing on February 1, 2017 and continuing through August 1, 2018. Beginning on February 1, 2019, semi-annual payments of principal and interest sufficient to fully amortization and pay the outstanding balance at August 1, 2018 over 10 years shall be due and payable on the first (1st) day of February and August through the August 1, 2026 maturity date, at which time any outstanding principal and interest is due. As of June 30, 2020, the outstanding balance on this note totaled \$4,143,624. In May 2021, the outstanding principal balance of the note payable and all accrued interest were repaid in full from the proceeds of a refinancing note payable issued to the same financial institution (see below).

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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J. NOTES PAYABLE TO BANKS - Continued

In May 2021, the College entered into a term loan agreement with a financial institution for \$14,398,160, the proceeds of which were used to retire and consolidate the outstanding principal balance and any interest due under the revolving line-of-credit, delayed draw loan, and Revenue Bonds, Series 2016A and 2016B. The note is payable in 20 semi-annual principal installments of \$719,908, beginning August 1, 2021 with a final payment due February 1, 2031. Interest at a note 2.5% is due monthly beginning July 1, 2021 with a final payment of any outstanding interest due February 1, 2031. The loan is collateralized by certain property of the College.

The notes payable contain certain restrictive covenants, including a minimum debt service coverage ratio. The College was in compliance with the covenants and ratios at June 30, 2021.

Maturities of notes payable and the revolving line of credit at June 30, 2021, are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 1,439,816
2023	1,439,816
2024	1,439,816
2025	1,439,816
2026	1,439,816
Thereafter	<u>7,199,080</u>
	<u>\$14,398,160</u>

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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K. BONDS PAYABLE

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

	2021	2020
Revenue Bonds, Series 2016A	\$ -	\$ 6,459,319
Revenue Bonds, Series 2016B	-	1,064,585
Future Advance Project Funding Bonds, Series A 2012-8	-	51,125,632
Series A 2020-3	800,454	-
Series A 2020-4	1,115,776	-
Revenue Bonds, Series 2009	<u>13,950,000</u>	<u>17,025,000</u>
	15,866,230	75,674,536
Less: Unamortized debt issuance costs (Note B)	<u>(762,363)</u>	<u>(1,021,250)</u>
 Total bonds payable, net	 <u>\$ 15,103,867</u>	 <u>\$ 74,653,286</u>

On August 26, 2016, the College issued Revenue Bonds, Series 2016A and 2016B, in the amounts of \$9,481,145 and for up to \$1,250,000, respectively, through the Health and Educational Facilities Board of The Metropolitan Government of Nashville and Davidson County, Tennessee. Under the terms of the bond indenture, the proceeds were used to repay certain outstanding debt, provide additional funding for renovation of certain campus buildings and for the acquisition of certain land adjacent to the campus for future student housing and parking. The underlying promissory notes for the Revenue Bonds, Series 2016A and 2016B were payable in monthly principal and interest payments bearing interest at 2.90% through maturity on August 1, 2026. These bonds were collateralized by certain property of the College. In May 2021, the outstanding principal balances of the bonds payable and all accrued interest were repaid in full from the proceeds of a refinancing note payable issued to a financial institution (see Note J).

On August 30, 2012, the College closed on a capital project loan in the form of a Future Advance Project Funding Bond Series (A 2012-8) in an amount not to exceed \$60,000,000. This funding was financed through the U.S. Department of Education's Capital Financing Program via Rice Capital Access Program, LLC. The loan proceeds were used for various campus construction projects. Under the terms of the loan agreements, capitalized interest through October 1, 2014 and the first monthly payment was due on November 2, 2015. The loan was a 30 year fixed rate loan to mature on March 1, 2042. The interest on the Series A 2012-8 Bonds is fixed, equal to the U.S. Treasury Bond rate + 22.5 basis points. The trustee handling the bond issue, held sinking funds aggregating \$3,885,600 at June 30, 2021, that was to be applied to the debt obligation as payments become due. On March 19, 2021, the outstanding balance

MEHARRY MEDICAL COLLEGE
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K. BONDS PAYABLE - Continued

of the bonds payable and all accrued interest were repaid in full by the U.S. Department of Education pursuant to the Consolidated Appropriations Act, 2021. In addition, the outstanding balance of the sinking fund was released to the College. The repayment of the bonds on behalf of the College totaling \$51,125,632 has been recognized as government grants and contracts in the accompanying statements of activities.

On December 3, 2009, the College issued Adjustable Rate Revenue Refunding Bond, Series 2009 (Series 2009 Bonds), in the amount of \$17,025,000 through the Health and Educational Facilities Board of the Metropolitan Government of Nashville and Davidson County, Tennessee. These bonds are collateralized by a letter of credit. Under the terms of the bond indenture, the proceeds were used to refinance \$17,025,000 of the outstanding Series 1996 Revenue Bonds. The Series 2009 Bonds bear interest as determined weekly by the Remarketing Agent (0.07% at June 30, 2021).

On August 19, 2020, the College entered into a capital project loan agreement in the form of Future Advance Project Funding Bond Series (A 2020-3 and A 2020-4) in an amount not to exceed \$48,500,000 (\$10,000,000 for Series A 2020-3 and \$38,500,000 for Series A 2020-4). This funding was financed through the U.S. Department of Education's Capital Financing Program via Rice Capital Access Program, LLC. The loan proceeds are to be used for the construction of the Living Learning Center and various other campus projects. Under the terms of the loan agreements, capitalized interest through November 1, 2022 and the first monthly payment, is due on May 1, 2023. The Series A 2020-3 loan is a 20 year fixed rate loan to mature on March 1, 2040. The Series A 2020-4 loan is a 30 year fixed rate loan to mature on March 1, 2050. During the construction phase, the rates are based on U.S. Treasury yields prevailing at the dates of each advance plus applicable federal financing bank and designated bonding fees. The interest on the Series A 2020-3 Bonds is fixed, equal to the 20 year Federal Financing Bank rate + 22.5 basis points. The interest on the Series A 2020-4 Bonds is fixed, equal to the 30-year Federal Financing Bank rate + 22.5 basis points. The trustee handling the bond issue, held sinking funds totaling \$804,671 at June 30, 2020 that are to be applied to the debt obligation as payments become due.

The bond issues contain certain restrictive covenants, including a minimum debt service coverage ratio. As of June 30, 2021 and 2020, the College was in compliance with all restrictive covenants including the minimum debt service coverage ratio.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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K. BONDS PAYABLE - Continued

The aggregate scheduled principal maturities of bonds payable at June 30, 2021, are as follows:

Revenue Year Ending <u>Ending June 30,</u>	Future Advance Project Funding Bond Series <u>A 2020-3</u>	Future Advance Project Funding Bonds Series <u>A 2020-4</u>	Revenue Bonds Series 2009 <u>Series 2009</u>	<u>Total</u>
2022	\$ -	\$ -	\$ 3,230,000	\$ 3,230,000
2023	5,195	3,950	3,395,000	3,404,145
2024	31,614	24,095	3,570,000	3,625,709
2025	32,389	24,785	3,755,000	3,812,174
2026	33,184	25,494	-	58,678
2027 and thereafter	<u>698,072</u>	<u>1,037,452</u>	<u>-</u>	<u>1,735,524</u>
Total bonds payable	<u>\$800,454</u>	<u>\$1,115,776</u>	<u>\$13,950,000</u>	<u>\$15,866,230</u>

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

L. INTEREST RATE SWAP ARRANGEMENTS

To manage variable interest rate exposure for its debt portfolio, in December 2009, the College entered into a interest rate swap arrangement with a major financial institution. The total original notional amount was \$17,025,000 for this swap arrangement, with the remaining notional amount at June 30, 2021 and 2020 totaling \$13,950,000 and \$17,025,000, respectively. The swap notional amount will gradually decline, corresponding to the principal amortization of the College's Series 2009 bonds. The arrangement for the Series 2009 bonds is scheduled to expire in December 2024. The College pays a fixed rate of 4.70% under the remaining arrangement.

As of June 30, 2021 and 2020, the estimated fair value loss of the Series 2009 bond swap arrangement was \$1,263,612 and \$1,988,693, and is included in accrued liabilities and as a component of unrestricted net assets.

M. OBLIGATIONS UNDER CAPITAL LEASE

The College leases certain equipment and capital improvements with a cost of \$4,077,217 from a financial institution. These leases have been recorded in the accounts of the College as capital leases. Under the terms of the agreements, the obligations are due in aggregate monthly payments of principal and interest of \$72,778 which includes interest at a rate of 5.69%.

Minimum lease commitments at June 30, 2021 under the above mentioned capital leases are as follows:

<u>Year Ending July 31,</u>	<u>Amount</u>
2023	\$ 850,332
2024	850,332
2025	<u>212,946</u>
	1,913,610
Less: amounts representing interest	<u>(179,096)</u>
Present value of net minimum lease commitments	<u>\$ 1,734,514</u>

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

N. EMPLOYEE BENEFIT PLANS

The College sponsors multiple plans which cover substantially all employees of the College. The details of the plans are as follows:

403(b) Meharry Medical College Defined Contribution Plan

The Plan is a defined contribution plan which covers substantially all employees except those in the residency programs. Union and non-union employees are eligible to participate upon reaching the age of eighteen, and are eligible to receive matching contributions upon reaching the age of twenty-one and completing one year of service. The Plan is funded by employee contributions which may not exceed the Internal Revenue Service annual limitations (\$19,500 for individuals less than age 50 for calendar years 2021 and 2020; and \$26,000 for individuals age 50 and older for calendar years 2021 and 2020).

The College provides a contribution to the non-union employees at a rate equal to 1% of the non-union employee's compensation. In addition, the non-union employees receive a matching contribution of 100% of their elective deferral up to 4% of their compensation not to exceed \$12,750. The College has the discretion to vary the contribution rate.

The employer expense under this plan for the years ended June 30, 2021 and 2020 amounted to \$1,493,550 and \$1,905,215, respectively.

Retirement Income Plan

This noncontributory defined benefit retirement plan that covers only union eligible employees was frozen by an amendment adopted January 1, 2009. Pursuant to ASC 715 *Compensation - Retirement Benefits*, the College recognizes in its consolidated statements of financial position the over-funded or under-funded status of the defined benefit retirement plan.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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N. EMPLOYEE BENEFIT PLANS - Continued

The status of the plan at June 30, 2021 and 2020, was as follows:

	<u>2021</u>	<u>2020</u>
Change in benefit obligation:		
Projected benefit obligation at beginning of year	\$ 3,790,426	\$ 3,603,779
Service cost	29,775	30,735
Interest cost	203,313	205,214
Loss (gain) due to plan experience	(10,992)	152,244
Settlements	-	(172,250)
Actual benefit disbursements and settlement	<u>(79,649)</u>	<u>(29,296)</u>
Projected benefit obligation at the end of year	<u>3,932,873</u>	<u>3,790,426</u>
Change in plan assets:		
Fair value of plan asset at beginning of year	4,593,428	4,768,705
Actual contributions	100,000	-
Actual benefit disbursements and settlements	(79,649)	(29,296)
Settlements	-	(172,250)
Actual return on plan assets	<u>1,218,976</u>	<u>26,269</u>
Fair value of plan assets at end of year	<u>5,832,755</u>	<u>4,593,428</u>
Funded status:		
Net pension asset, included in other assets in the statements of activities	<u>\$ 1,899,882</u>	<u>\$ 803,002</u>
Key assumptions:		
Rate of compensation increase	5.00%	5.00%
Discount rate	7.50%	7.50%
Expected long-term return on plan assets	7.50%	7.50%

The College's expected long-term return on plan assets assumption is based on a periodic review and modeling of the plans' asset allocation and liability structure over a long-term horizon. Expectations of returns for each asset class are the most important of the assumptions used in the review and modeling and are based on comprehensive reviews of historical data and economical/financial market theory. The expected long term rate of return on assets was selected from within the reasonable range of rates determined by (a) historical returns, net of inflation, for the asset classes covered by the investment policy, and (b) projections of inflation over the long term period during which benefits are payable to plan participants.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

N. EMPLOYEE BENEFIT PLANS - Continued

The College's investment policy includes various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by participants. The investment guidelines consider a broad range of economic conditions. Central to the policy are target allocation ranges by major asset categories.

The objectives of the target allocations are to maintain investment portfolios that diversify risk through prudent asset allocation parameters, achieve asset returns that meet or exceed the plans' actuarial assumptions, and achieve asset returns that are competitive with like institutions employing similar investment strategies.

The investment policy is periodically reviewed by the College and a designated third-party fiduciary for investment matters. The policy is established and administered in a manner so as to comply at all times with applicable government regulations.

The College expects to contribute \$287,000 to its pension plan in the year ended June 30, 2022.

The following pension benefit payments, which reflect expected future services and participants electing life annuities at retirement age 65, as appropriate, are expected to be paid for the plan years ended June 30:

2022	\$177,663
2023	153,328
2024	186,748
2025	158,879
2026	342,317
2027 to 2030	1,068,481

If lump sum payouts are elected they can materially accelerate cash benefit payments estimated above.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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O. NET ASSETS

The refunding of debt service amounts shown as a reduction of net assets without donor restrictions resulted from refinancing transactions in 1997 and 1999, and represents the loss recognized under accounting principles generally accepted in the United States of America to enact the refinancing. This component of net assets without donor restrictions is being amortized into net assets without donor restrictions available for operations over the lives of the related bond issues.

Net assets with donor purpose and/or time restrictions totaling \$66,015,951 and \$20,654,730 as of June 30, 2021 and 2020, respectively, are primarily available for scholarships and instruction and research.

Net assets with donor restrictions that are perpetual totaling \$163,355,657 and \$161,203,071 as of June 30, 2021 and 2020, respectively, consist primarily of perpetual endowment funds, scholarships, instruction and research funds as directed by the donor.

Net assets with donor restrictions of \$25,210,056 and \$15,855,060 for the years ended June 30, 2021 and 2020, respectively were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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P. FAIR VALUES OF FINANCIAL INSTRUMENTS

Required disclosures concerning the estimated fair value of financial instruments are presented below. The estimated fair value amounts have been determined based on the College's assessment of available market information and appropriate valuation methodologies. The following table summarizes required fair value disclosures and measurements at June 30, 2021 and 2020 for the assets measured at fair value on a recurring basis under ASC 820 *Fair Value Measurements*:

<u>June 30, 2021</u>	<u>Carrying Amount</u>	<u>ASC 825 Estimated Fair Value</u>	<u>Assets/Liabilities Measured at Fair Value</u>	<u>Fair Value Measurements Using</u>		
				<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:						
Investments:						
Cash equivalents	\$ 14,051,612	\$ 14,051,612	\$ 14,051,612	\$ 14,051,612	\$ -	\$ -
Mutual funds	44,227	44,227	44,227	44,227	-	-
Common stocks	116,156,688	116,156,688	116,156,688	116,156,688	-	-
Bonds	30,023,317	30,023,317	30,023,317	-	30,023,317	-
Other	6,432,365	6,432,365	6,432,365	6,432,365	-	-
Liabilities:						
Bonds payable	15,103,867	15,103,867	-	-	-	-
Note payable	14,398,160	14,398,160	-	-	-	-
Capital lease liabilities	1,734,514	1,734,514	-	-	-	-
Interest rate swap	1,263,612	1,263,612	1,263,612	-	1,263,612	-
June 30, 2020						
<u>June 30, 2020</u>	<u>Carrying Amount</u>	<u>ASC 825 Estimated Fair Value</u>	<u>Assets/Liabilities Measured at Fair Value</u>	<u>Fair Value Measurements Using</u>		
				<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:						
Investments:						
Cash equivalents	\$ 4,781,337	\$ 4,781,337	\$ 4,781,337	\$ 4,781,337	\$ -	\$ -
Mutual funds	32,856	32,856	32,856	32,856	-	-
Common stocks	100,273,298	100,273,298	100,273,298	100,273,298	-	-
Bonds	27,549,348	27,549,348	27,549,348	-	27,549,348	-
Other	5,942,084	5,942,084	5,942,084	5,942,084	-	-
Liabilities:						
Bonds payable	74,653,286	74,880,250	-	-	-	-
Note payable	8,393,624	8,977,330	-	-	-	-
Capital lease liabilities	2,436,182	2,436,182	-	-	-	-
Interest rate swap	1,988,693	1,988,693	1,988,693	-	1,988,693	-

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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P. FAIR VALUES OF FINANCIAL INSTRUMENTS - Continued

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and Cash Equivalents and Funds Held by Trustees

Cash is reflected at carrying value, which is considered its fair value.

Accounts and Student Loans Receivable

Accounts receivable consist primarily of receivables from grantor agencies, professional and patient receivables and other short-term receivables. The student loans receivable of \$7,443,586 and \$8,460,841 at June 30, 2021 and 2020, respectively, consist principally of government loan programs and are not readily marketable. The College has estimated their fair value to be the carrying value.

Contributions receivable

Contribution receivable are recorded at net present value as discussed in Notes B and E, which approximates their fair value.

Investments

The fair value of investments, as disclosed in Note G has been calculated based on quoted market prices, where available, and certain other Level 2 inputs. The College has certain investments in hedge funds that invest in multi-faceted, domestic and international companies operating in various industries. Each hedge fund employs its own strategies in determining investment opportunities. The fair values of these investments are estimated at the net asset value per share of the investments, using the practical expedient, and are therefore not required to be included in the fair value hierarchy table. Hedge funds valued at net asset value as of June 30, 2021 and 2020 were \$21,635,769 and \$19,490,356, respectively.

Accounts Payable, Accrued Liabilities, and Deferred Revenues

The carrying value of these items approximates fair value due to the short-term nature of the obligations.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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P. FAIR VALUES OF FINANCIAL INSTRUMENTS - Continued

Bonds Payable and Notes Payable

The bonds and notes payable reflected in the consolidated financial statements bear interest at floating rates and fixed rates. The carrying value of these debt instruments will differ from their fair value depending on current market rates. The fair value was estimated by calculating the net present value of the future payment stream using the current market interest rate.

Interest Rate Swap Agreements

Fair value has been estimated as the difference between the estimated future interest payments at contractual variable rates and expected future variable rates as of June 30, 2021 and 2020, respectively, and fixed interest rates specified in the related swap agreements, discounted to present value.

The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2021 and 2020, respectively. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of the consolidated financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

Q. COMMITMENTS AND CONTINGENT LIABILITIES

The College leases certain buildings and equipment under non-cancelable operating leases which expire at various dates through 2026. Rent expense under these lease arrangements amounted to \$393,944 and \$721,199 for the years ended June 30, 2021 and 2020, respectively.

Future minimum rental payments required under operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2020, are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$174,307
2023	139,691
2024	98,699
2025	5,520
2026	<u>3,680</u>
Total	<u>\$421,897</u>

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Q. COMMITMENTS AND CONTINGENT LIABILITIES - Continued

Certain revenues, particularly Federal and state grants and contracts, are subject to adjustments based upon review by the granting agencies. Management does not anticipate that adjustments, if any, arising from such reviews would have a material effect on the consolidated financial statements.

The College is a defendant in lawsuits arising from time to time in the normal course of business. Management and legal counsel are of the opinion that insurance coverage is sufficient to satisfy any judgment or settlement liability.

R. CONCENTRATIONS OF CREDIT RISK

The College, in connection with its activities, grants credit that involves, to varying degrees, elements of risk. The maximum accounting loss from credit risk is limited to the amounts that are recognized in the accompanying consolidated statements of financial position as accounts receivable at June 30, 2021 and 2020.

Financial instruments which potentially subject the College to concentrations of credit risk consist principally of cash and investments held by the College and certain investment institutions. Cash at June 30, 2021 and 2020 includes demand deposits at high quality financial institutions. The deposits are exposed to credit risk to the extent they exceed federally insured limits. The exposure to concentrations of credit risk relative to securities is dependent on the College's investment objectives and policies.

S. ENDOWMENT

The College's endowment consists of individual donor-restricted funds established for a variety of purposes and includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by Generally Accepted Accounting Principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

S. ENDOWMENT - Continued

Interpretation of Relevant Law

The Board of Trustees of Meharry Medical College has interpreted the applicable state laws as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as net assets with donor restrictions that are perpetual in nature (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions that are perpetual in nature is classified as net assets with donor purpose and/or time restrictions until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by applicable state laws. In accordance with applicable state laws, the College 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 College 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 College; and
- the investment policies of the College

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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S. ENDOWMENT - Continued

Changes in Endowment Net Assets

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		<u>Total</u>
		<u>Temporarily in Nature</u>	<u>Perpetual in Nature</u>	
<i>Endowment net assets,</i> June 30, 2019	\$ 8,138,431	\$ 3,019,079	\$ 160,110,178	\$ 171,267,688
Investment return:				
Investment income	-	5,122,670	-	5,122,670
Net appreciation (realized and unrealized)	-	(154,117)	-	(154,117)
Total investment return	-	4,968,553	-	4,968,553
Contributions	-	-	1,016,387	1,016,387
Appropriation of endowment assets for expenditure	-	(9,164,786)	-	(9,164,786)
Board-designated endowment	196,866	(196,866)	-	-
Reclassifications/transfers	(1,328,499)	1,374,020	(45,521)	-
<i>Endowment net assets,</i> June 30, 2020	7,006,798	-	161,081,044	168,087,842
Investment return:				
Investment income	-	4,358,982	-	4,358,982
Net depreciation (realized and unrealized)	-	33,513,373	-	33,513,373
Total investment return	-	37,872,355	-	37,872,355
Contributions	-	-	2,152,586	2,152,586
Appropriation of endowment assets for expenditure	-	(8,679,775)	-	(8,679,775)
Board-designated endowment	3,339,799	(3,339,799)	-	-
Reclassifications/transfers	328,499	(328,499)	-	-
<i>Endowment net assets,</i> June 30, 2021	\$ 10,675,096	\$ 25,524,282	\$ 163,233,630	\$ 199,433,008

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

S. ENDOWMENT - Continued

Return Objectives and Risk Parameters

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce on average, over a period of five years, a total rate of return between 4% to 6% per year. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The College's objective is to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The Board of Trustees has decided that a prudent spending policy provides up to 4.5% of the market value of the Endowment Funds to the College for annual operating needs. To smooth out the short-term fluctuations in market prices, a three-year moving average of market value is used.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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T. INCOME TAXES

There is no provision for income taxes for the years ended June 30, 2021 and 2020. There were no temporary differences giving rise to deferred tax assets or deferred tax liabilities as of June 30, 2021 and 2020.

U. RISKS AND UNCERTAINTIES

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak”). In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in global exposure. The full impact of the pandemic continues to evolve as of the date of this report. While expected to be temporary, the College cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time. If the pandemic continues, it may have an adverse effect on the College’s results of future operations, financial position, and liquidity in fiscal year 2022.

V. SUBSEQUENT EVENTS

The College has evaluated subsequent events through October 27, 2021, the issuance date of the College’s consolidated financial statements, and has determined that there are no subsequent events that require disclosure.