# MEHARRY MEDICAL COLLEGE

# CONSOLIDATED FINANCIAL STATEMENTS

# JUNE 30, 2020 AND 2019

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# Crosslin
Certified Public Accountants

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, 2020 and 2019, 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, 2020 and 2019, 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 21, 2020

MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

## ASSETS

| | June 30, 2020 | June 30, 2019 |
|---|---|---|
| Cash and cash equivalents | $ 15,447,781 | $ 14,074,346 |
| Accounts and notes receivable, net | 21,822,723 | 24,805,580 |
| Student loans receivables, net | 8,460,841 | 9,901,524 |
| Contributions receivable, net | 2,973,139 | 4,789,214 |
| Investments | 158,069,279 | 162,877,808 |
| Investment in real estate | 19,802,362 | 20,711,612 |
| Plant facilities, net of accumulated depreciation | 108,715,793 | 113,592,715 |
| Deferred charges | 6,137,367 | 6,137,367 |
| Funds held by trustees | 6,133,191 | 5,958,449 |
| Other assets, including net pension assets | 913,839 | 1,237,152 |
| Total assets | $ 348,476,315 | $ 364,085,767 |

## LIABILITIES AND NET ASSETS

| | 2020 | 2019 |
|---|---|---|
| Notes payable to banks | $ 8,393,624 | $ 9,314,036 |
| Accounts payable | 2,187,497 | 3,062,995 |
| Accrued liabilities | 9,703,596 | 8,187,390 |
| Advances under grants and contracts | 3,505 | 7,802 |
| Deferred revenue | 16,390,725 | 21,446,285 |
| Bonds payable, net | 74,653,286 | 79,672,628 |
| Obligations under capital lease | 2,436,182 | 3,120,424 |
| Government advances for student loans | 6,654,633 | 9,462,368 |
| Funds held in trust for others | 530,301 | 1,170,627 |
| Total liabilities | 120,953,349 | 135,444,555 |
| Net assets: | | |
| Without donor restrictions: | | |
| Undesignated | 50,419,290 | 50,306,468 |
| Unfunded pension liability | 803,002 | 1,164,926 |
| Unrealized loss on interest rate swap aggreement | (1,988,693) | (2,080,372) |
| Prefunding of debt service resulting from refinancings | (3,568,434) | (3,820,587) |
| Total net assets without restrictions | 45,665,165 | 45,570,435 |
| With donor restrictions | 181,857,801 | 183,070,777 |
| Total net assets | 227,522,966 | 228,641,212 |
| Total liabilities and net assets | $ 348,476,315 | $ 364,085,767 |

See accompanying notes to consolidated financial statements.

MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENTS OF ACTIVITIES

| | Year Ended June 30, 2020 | 2019 |
|---|---|---|
| Changes in net assets without restrictions: | | |
| Operating revenue: | | |
| Tuition and fees | $ 40,939,697 | $ 37,239,335 |
| Less College funded scholarships | (5,176,972) | (5,314,693) |
| Net tuition and fees | 35,762,725 | 31,924,642 |
| Government grants and contracts | 45,995,482 | 49,659,924 |
| Private gifts, grants, and contracts | 4,429,033 | 3,275,422 |
| Sales and services of educational departments | 1,113,602 | 1,150,106 |
| Other sources | 6,721,268 | 4,999,897 |
| Health services division | 24,642,032 | 25,930,264 |
| Net assets released from restrictions | 15,855,060 | 13,115,815 |
| Total operating revenue | 134,519,202 | 130,056,070 |
| Operating expenses: | | |
| Instruction | 25,776,220 | 22,740,496 |
| Research | 14,031,503 | 14,336,059 |
| Public service | 12,947,845 | 11,830,587 |
| Academic support | 18,835,494 | 17,756,407 |
| Student services | 4,299,051 | 4,068,351 |
| Institutional support | 31,966,605 | 30,686,304 |
| Health services division | 25,462,836 | 25,780,392 |
| Total operating expenses | 133,319,554 | 127,198,596 |
| Increase in net assets without donor restrictions from operating activities | 1,199,648 | 2,857,474 |
| Nonoperating Items: | | |
| Change in net minimum pension liability | (361,924) | (181,583) |
| Change in market value of interest rate swap agreement | 91,679 | (106,704) |
| Change in other nonoperating items | (834,674) | 84,805 |
| Increase in net assets without donor restrictions | 94,729 | 2,653,992 |
| Changes in net assets with donor restrictions: | | |
| Private gifts, grants, and contracts | 8,986,014 | 9,570,108 |
| Income on long-term investments, net | 5,810,188 | 6,021,904 |
| Net gain (loss) on investments | (154,117) | 2,509,969 |
| Net assets released from restrictions | (15,855,060) | (13,115,815) |
| (Decrease) increase in net assets with donor restrictions | (1,212,975) | 4,986,166 |
| (Decrease) increase in net assets | (1,118,246) | 7,640,158 |
| Net assets at beginning of year | 228,641,212 | 221,001,054 |
| Net assets at end of year | $227,522,966 | $ 228,641,212 |

See accompanying notes to consolidated financial statements.

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

| | Instruction | Research | Public Service | Academic Support | Student Services | Institutional Support | Plant O/M | Health Services | Total |
|---|---|---|---|---|---|---|---|---|---|
| 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 | $25,776,220 | $14,031,503 | $12,947,845 | $18,835,494 | $4,299,051 | $31,966,605 | $ - | $25,462,836 | $133,319,554 |

See accompanying notes to consolidated financial statements.

MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

| | Instruction | Research | Public Service | Academic Support | Student Services | Institutional Support | Plant O/M | Health Services | Total |
|---|---|---|---|---|---|---|---|---|---|
| Salaries and benefits | $18,008,442 | $ 9,183,328 | $ 9,435,102 | $10,118,380 | $1,439,643 | $11,439,569 | $ 10,540 | $16,940,054 | $ 76,575,058 |
| Supplies | 1,318,877 | 1,939,850 | 411,173 | 2,806,602 | 58,545 | 100,675 | 377,950 | 475,189 | 7,488,861 |
| Utilities and communication | 7,819 | 3,027 | 7,924 | 40,709 | - | 468,278 | 2,916,862 | 15,635 | 3,460,254 |
| Travel | 451,794 | 274,224 | 150,529 | 493,310 | 68,905 | 391,379 | - | 91,680 | 1,921,821 |
| Equipment and furnishings | 37,190 | 1,527,803 | 23,508 | 255,520 | - | 1,452,136 | 448,692 | 1,104,923 | 4,849,772 |
| Contractual services | 1,319,380 | 1,004,601 | 808,592 | 2,601,782 | 48,156 | 8,762,584 | 4,124,224 | 3,755,006 | 22,424,325 |
| Interest, principal and debt payments | - | - | - | - | - | 4,065,242 | - | - | 4,065,242 |
| Other transfers and indirect costs | 1,596,994 | 403,226 | 993,759 | 1,440,104 | 2,453,102 | 4,006,441 | (7,878,268) | 3,397,905 | 6,413,263 |
| | $22,740,496 | $14,336,059 | $11,830,587 | $17,756,407 | $4,068,351 | $30,686,304 | $ - | $25,780,392 | $ 127,198,596 |

See accompanying notes to consolidated financial statements.

MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year Ended June 30, 2020 | Year Ended June 30, 2019 |
|---|---|---|
| Cash flows from operating activites: | | |
| (Decrease) increase in net assets | $ (1,118,246) | $ 7,640,158 |
| Adjustments to reconcile (decrease increase in net assets by operating activites: | | |
| Depreciation | 6,852,051 | 7,129,108 |
| Amortization of deferred charges and bond discount | 80,309 | 91,245 |
| Contributions restricted for long-term investment | (1,016,387) | (1,252,093) |
| Net realized and unrealized loss (gain) on long-term investments | 154,117 | (2,509,969) |
| Changes in: | | |
| Accounts receivable, net | 2,982,858 | (1,974,413) |
| Contributions receivable, net | 1,816,075 | (4,525,646) |
| Deferred charges | - | (1,949,519) |
| Other assets | 323,313 | 109,357 |
| Accounts payable | (875,497) | (688,552) |
| Accrued liabilities | 1,516,205 | 688,776 |
| Advances under grants and contracts | (4,297) | (359,814) |
| Deferred revenue | (5,055,560) | 6,510,066 |
| Funds held in trust for others | (640,326) | 73,058 |
| Net cash provided by (used in) operating activities | 5,014,615 | 8,981,762 |
| Cash flows from investing activities: | | |
| Acquisition of plant facilities equipment | (1,975,129) | (4,005,585) |
| Student loans receivable, net | 1,440,684 | 1,462,382 |
| Sales (purchases) of investments, net | 5,563,675 | 2,432,960 |
| Funds held by trustees | (174,742) | 27,785 |
| Net cash provided by (used in) investing activities | 4,854,488 | (82,458) |
| Cash flows from financing activities: | | |
| Proceeds from contributions restricted for long-term investment | 1,016,387 | 1,252,093 |
| Change in government advances for student loans | (2,807,735) | 84,805 |
| Proceeds from issuance of notes payable | - | 9,292,563 |
| Principal repayments of notes payable | (920,427) | (11,304,604) |
| Proceeds from issuance of bonds | - | 756,666 |
| Capital lease principal payments | (684,242) | - |
| Principal repayment of bonds | (5,099,651) | (5,241,885) |
| Net cash (used in) provided by financing activities | (8,495,668) | (5,160,362) |
| Net (decrease) increase in cash and cash equivalents | 1,373,435 | 3,738,942 |
| Cash and cash equivalents at beginning of period | 14,074,346 | 10,335,404 |
| Cash and cash equivalents at end of period | $ 15,447,781 | $ 14,074,346 |
| Supplemental cash flow information: | | |
| Cash paid for interest | $ 3,580,874 | $ 4,125,221 |

See accompanying notes to consolidated financial statements.

## 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.

## 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, Meharry Housing Corporation. 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.

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.

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.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 $80,309 and $88,550 during 2020 and 2019, respectively.

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.

## B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

### 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 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.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 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.

## B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

### Program Services

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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 $2,839,150 and $2,497,689 in 2020 and 2019, 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; accordingly, no provision for income taxes is made in the consolidated financial statements. The College is not classified as a private foundation.

The College accounts 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 positions, any unrecognized tax benefit is estimated based on a cumulative probability assessment that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for the College include, but are not limited to, its tax-exempt status and determination of whether certain income is subject to unrelated business income tax. 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 O). 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.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

New Accounting Pronouncement

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is comprehensive new guidance that supersedes all existing revenue recognition guidance. ASU 2014-09 requires revenue to be recognized when the College transfers promised goods or services to customers in an amount that reflects the consideration to which the University expects to be entitled in exchange for those goods or services. This standard also significantly expands the disclosure requirements for revenue recognition. ASU 2014-09 is effective for fiscal years beginning after December 15, 2018 and has been adopted effective July 1, 2019. The College has applied this standard utilizing a modified retrospective approach which requires prospective application of the new guidance with disclosure of results under the old guidance in the first year of adoption. There was no effect on the financial statements related to the adoption of this standard which would require a cumulative effect adjustment to net assets at the date of adoption. The primary impact of adoption of ASU 2014-09 related to additional enhanced disclosures.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 is intended to clarify (1) when transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of contribution accounting guidance, or as exchange (reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is conditional. ASU No. 2018-08 is effective for the College's fiscal year beginning July 1, 2019 for transactions in which the College serves as a resource recipient, and for its fiscal year beginning June 1, 2020, for transactions in which the College serves as a resource provider.

C. LIQUIDITY AND AVAILABILITY OF RESOURCES

The table below represents financial assets available for general expenditures within one year at June 30, 2020 and 2019.

| | 2020 | 2019 |
|---|---|---|
| Financial assets at year-end | | |
| Cash and cash equivalents | $ 15,447,781 | $ 14,074,346 |
| Accounts receivable and other receivables, net | 21,822,723 | 24,805,580 |
| Contributions receivable, net | 2,973,139 | 4,789,214 |
| Student loan receivables, net | 8,460,841 | 9,901,524 |
| Investments | 177,871,641 | 183,589,420 |
| Funds held by trustees | 6,133,191 | 5,958,449 |
| Total financial assets at year-end | 232,709,316 | 243,118,533 |
| Less amounts not available to meet general expenditures within one year | | |
| Restricted funds held by trustees | ( 6,133,191) | ( 5,958,449) |
| Student loans receivable, net | ( 8,460,841) | ( 9,901,524) |
| Restricted by donors with purpose and/or time restrictions | ( 20,776,757) | ( 22,960,599) |
| Restricted by the Board for endowment | ( 7,608,295) | ( 7,411,429) |
| Restricted by donors as endowment funds held in perpetuity | (161,081,044) | (160,110,178) |
| Total amounts not available to meet general expenditures within one year | (204,060,128) | (206,342,179) |
| Financial assets available to meet general expenditures within one year | $ 28,649,188 | $ 36,776,354 |

## 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 R. 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, 2020 and 2019:

| | 2020 | 2019 |
|---|---|---|
| Receivable from grantors | $ 7,312,369 | $ 5,772,655 |
| Professional services receivable | 5,227,131 | 3,100,725 |
| Patient receivables, net of contractual and doubtful account allowances of $3,179,920 and $3,156,119 at June 30, 2020 and 2019, respectively | 2,972,885 | 2,887,313 |
| Student accounts receivable, net of allowance of $306,216 and $370,383 at June 30, 2020 and 2019, respectively | 6,063,849 | 11,164,729 |
| Other accounts receivable | 246,489 | 1,880,158 |
| Total accounts receivable, net | $21,822,723 | $24,805,580 |

## 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*.

| | 2020 | 2019 |
|---|---|---|
| Unconditional promises to give | $ 3,189,572 | $ 5,122,588 |
| Less unamortized discount at 5% | ( 216,433) | ( 333,374) |
| Unconditional promise to give, net | $ 2,973,139 | $ 4,789,214 |
| Amounts due in: | | |
| Less than one year | $ 1,616,526 | $2,118,546 |
| Two to five years | 1,573,046 | 3,004,042 |
| | $ 3,189,572 | $5,122,588 |

At June 30, 2020 and 2019, 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, 2020 and 2019, consisted of the following:

| | 2020 | 2019 |
|---|---|---|
| Notes receivable - students | $ 8,816,835 | $ 10,201,822 |
| Less allowance for doubtful loans | ( 355,994) | ( 300,298) |
| | $ 8,460,841 | $ 9,901,524 |

## 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, 2020 and 2019, student loans represented 2.7% of total assets for each year.

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, 2020 and 2019, are summarized below:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Fair Value | Cost | Fair Value | Cost |
| Marketable securities: | | | | |
| Cash equivalents | $ 3,800,504 | $ 3,800,504 | $ 2,562,037 | $ 2,562,037 |
| Mutual funds | 32,856 | 32,856 | 32,009 | 29,014 |
| Common stocks | 100,273,298 | 92,453,437 | 109,419,843 | 100,582,162 |
| Bonds | 27,549,348 | 27,166,585 | 28,317,992 | 28,546,092 |
| Hedge funds | 19,490,356 | 11,848,821 | 13,467,808 | 6,433,891 |
| Other | 6,922,917 | 7,564,988 | 9,078,119 | 9,942,266 |
| Total investments | $158,069,279 | $142,867,191 | $162,877,808 | $148,095,462 |
| Investment in real estate, net of accumulated depreciation | | $19,802,362 | | $20,711,612 |

Mutual funds for 2020 and 2019 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.

## H. PLANT FACILITIES

Plant facilities consist of the following at June 30, 2020 and 2019:

| | 2020 | 2019 |
|---|---|---|
| Land and land improvements | $ 8,985,444 | $ 8,591,782 |
| Buildings and building improvements | 173,451,727 | 173,077,493 |
| Equipment | 44,165,062 | 42,957,829 |
| Art | 433,194 | 433,194 |
| Library and visual aids | 4,262,147 | 4,262,147 |
| Construction in progress | 432,941 | 432,941 |
| | 231,730,515 | 229,755,386 |
| Less accumulated depreciation | (123,014,722) | (116,162,671) |
| Plant facilities, net | $ 108,715,793 | $ 113,592,715 |

Plant operations and maintenance expenditures of $7,753,945 and $7,878,268 for the fiscal years ended June 30, 2020 and 2019, respectively, are allocated among functional expenses based on square footage percentages.

Depreciation expense was $7,761,301 and $7,129,108 for 2020 and 2019, respectively (of which $909,250 in 2020 and 2019, was depreciation on the College's investment in real estate), is allocated among the various functional expense categories.

## I. 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 shall accrue at the 1 month LIBOR rate on the first (1st) day of each calendar month. As of June 30, 2020 and 2019, the outstanding balance on the line of credit was $4,250,000 and $4,750,000, respectively.

I. NOTES PAYABLE TO BANKS - Continued

The College has a $4,868,855 delayed draw loan agreement with a financial institution. The proceeds of this loan are to be 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 ($1^{st}$) 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 and 2019, the outstanding balance on this note totaled $4,143,624 and $4,564,036, respectively.

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, 2020.

Maturities of notes payable and the revolving line of credit at June 30, 2020, are as follows:

| Year Ending June 30, | Amount |
|---|---|
| 2021 | $4,822,847 |
| 2022 | 590,033 |
| 2023 | 607,394 |
| 2024 | 625,265 |
| 2025 | 643,528 |
| Thereafter | 1,104,557 |
| | $8,393,624 |

## J. BONDS PAYABLE

Bonds payable consist of the following at June 30, 2020 and 2019:

| | 2020 | 2019 |
|---|---|---|
| Revenue Bonds, Series 2016A | $ 6,459,319 | $ 7,348,790 |
| Revenue Bonds, Series 2016B | 1,064,585 | 1,169,084 |
| Future Advance Project Funding Bonds, Series A 2012-8 | 51,125,632 | 52,324,008 |
| Revenue Bonds, Series 2009 | 17,025,000 | 17,025,000 |
| Revenue Bonds, Series 1996, net of unamortized discount of $2,695 and $2,695 at June 30, 2020 and 2019, respectively | - | 2,907,305 |
| | 75,674,536 | 80,774,187 |
| Less: Unamortized debt issuance costs (Note B) | ( 1,021,250) | ( 1,101,559) |
| Total bonds payable, net | $ 74,653,286 | $ 79,672,628 |

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 are to be 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 are payable in monthly principal and interest payments bearing interest at 2.90% through maturity on August 1, 2026. These bonds are collateralized by certain property of the College.

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 are to be 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 is a 30 year fixed rate loan to mature on March 1, 2042. During the construction phase, the rates were 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 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 and $3,818,127 at June 30, 2020 and 2019, respectively, that are to be applied to the debt obligation as payments become due.

J. BONDS PAYABLE - Continued

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, 2020).

The 2016, 2012 and 2009 bond issues contain certain restrictive covenants, including a minimum debt service coverage ratio. As of June 30, 2020 and 2019, the College was in compliance with all restrictive covenants including the minimum debt service coverage ratio.

On August 14, 1996, the College issued Revenue Bonds, Series 1996, in the amount of $55,050,000 through the Health and Educational Facilities Board of The Metropolitan Government of Nashville and Davidson County, Tennessee. The Series 1996 bonds bore interest semi-annually at 3.85% to 6.00%. The trustee handling the bond issue, held sinking funds aggregating $2,140,321 at June 30, 2019, that were to the debt obligation as payments become due. The bonds were repaid in full during fiscal 2020.

During August 2020, the College entered into a $48,500,000 loan agreement 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 capital projects. As of October 21, 2020, there have been no funds drawn on this loan.

J. BONDS PAYABLE - Continued

The aggregate scheduled principal maturities of bonds payable at June 30, 2020, are as follows:

| Revenue Year Ending Ending June 30, | Revenue Bonds Series 2016A | Revenue Bonds Series 2016B | Future Advance Project Funding Bonds Series A 2012-8 | Revenue Bonds Series 2009 | Total |
|---|---|---|---|---|---|
| 2021 | $ 915,554 | $ 153,917 | $ 1,646,308 | $ 3,075,000 | $ 5,790,779 |
| 2022 | 943,021 | 158,535 | 1,708,834 | 3,230,000 | 6,040,390 |
| 2023 | 970,768 | 163,200 | 1,760,363 | 3,395,000 | 6,289,331 |
| 2024 | 999,331 | 168,001 | 1,806,069 | 3,570,000 | 6,543,401 |
| 2025 | 1,028,520 | 172,909 | 1,885,916 | 3,755,000 | 6,842,345 |
| 2026 and thereafter | 1,602,125 | 248,023 | 42,318,142 | - | 44,168,290 |
| Principal maturities | 6,459,319 | 1,064,585 | 51,125,632 | 17,025,000 | 75,674,536 |
| Less unamortized discount | - | - | - | - | |
| Less unamortized debt issue costs | ( 62,581) | ( 2,182) | ( 956,487) | - | ( 1,021,250) |
| Total bonds payable | $ 6,396,738 | $ 1,062,403 | $ 50,169,145 | $17,025,000 | $ 74,653,286 |

## K. 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. 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, 2020 and 2019, the estimated fair value loss of the Series 2009 bond swap arrangement was $1,988,693 and $2,080,378, and is included in accrued liabilities and as a component of unrestricted net assets.

## L. 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, 2020 under the above mentioned capital leases are as follows:

| Year Ending July 31, | Amount |
|---|---|
| 2021 | $ 850,332 |
| 2022 | 850,332 |
| 2023 | 850,332 |
| 2024 | 212,941 |
| | 2,763,937 |
| Less: amounts representing interest | ( 327,755) |
| Present value of net minimum lease commitments | $ 2,436,182 |

## M. 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 and $19,000 for individuals less than age 50 for calendar years 2020 and 2019, respectively; and $25,500 and $25,000 for individuals age 50 and older for calendar years 2020 and 2019, respectively).

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, 2020 and 2019 amounted to $1,905,215 and $1,753,127, 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.

M. EMPLOYEE BENEFIT PLANS - Continued

The status of the plan at June 30, 2020 and 2019, was as follows:

| | 2020 | 2019 |
|---|---|---|
| Change in benefit obligation: | | |
| Projected benefit obligation at beginning of year | $ 3,603,779 | $ 3,912,481 |
| Service cost | 30,735 | 45,619 |
| Interest cost | 205,214 | 222,745 |
| Loss (gain) due to plan experience | 152,244 | 433,561 |
| Settlements | ( 172,250) | ( 985,028) |
| Actual benefit disbursements and settlement | ( 29,296) | ( 25,599) |
| Projected benefit obligation at the end of year | 3,790,426 | 3,603,779 |
| Change in plan assets: | | |
| Fair value of plan asset at beginning of year | 4,768,705 | 5,258,990 |
| Actual contributions | - | 300,000 |
| Actual benefit disbursements and settlements | ( 29,296) | ( 25,599) |
| Settlements | ( 172,250) | ( 985,028) |
| Actual return on plan assets | 26,269 | 220,342 |
| Fair value of plan assets at end of year | 4,593,428 | 4,768,705 |
| Funded status: | | |
| Net pension asset | $ 803,002 | $ 1,164,926 |
| Key assumptions: | | |
| Discount rate | 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.

M. 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, 2020.

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:

| | |
|---|---|
| 2021 | $188,310 |
| 2022 | 186,174 |
| 2023 | 157,412 |
| 2024 | 185,259 |
| 2025 | 261,081 |
| 2026 to 2029 | 1,174,049 |

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

## N. 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 $20,776,757 and $22,960,599 as of June 30, 2020 and 2019, respectively, are primarily available for scholarships and instruction and research.

Net assets with donor restrictions that are perpetual totaling $161,081,044 and $160,110,178 as of June 30, 2020 and 2019, respectively, consist primarily of perpetual endowment funds, scholarships, instruction and research funds as directed by the donor.

Net assets with donor restrictions of $15,855,060 and $13,115,815 for the years ended June 30, 2020 and 2019, respectively were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors.

## O. 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, 2020 and 2019 for the assets measured at fair value on a recurring basis under ASC 820 *Fair Value Measurements*:

| June 30, 2020 | Carrying Amount | ASC 825 Estimated Fair Value | Assets/Liabilities Measured at Fair Value | Fair Value Measurements Using Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Investments: | | | | | | |
| Cash equivalents | $ 3,800,504 | $ 3,800,504 | $ 3,800,504 | $ 3,800,504 | $ - | $ - |
| 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 | 6,922,817 | 6,922,817 | 6,922,817 | 6,922,817 | - | - |
| Liabilities: | | | | | | |
| Bonds payable | 74,653,286 | 7,488,250 | - | - | - | - |
| 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 | - |

| June 30, 2019 | Carrying Amount | ASC 825 Estimated Fair Value | Assets/Liabilities Measured at Fair Value | Fair Value Measurements Using Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Investments: | | | | | | |
| Cash equivalents | $ 2,562,037 | $ 2,562,037 | $ 2,562,037 | $ 2,562,037 | $ - | $ - |
| Mutual funds | 32,009 | 32,009 | 32,009 | 32,009 | - | - |
| Common stocks | 109,419,843 | 109,419,843 | 109,419,843 | 109,419,843 | - | - |
| Bonds | 28,317,992 | 28,317,992 | 28,317,992 | - | 28,317,992 | - |
| Other | 9,078,119 | 9,078,119 | 9,078,119 | 9,078,119 | - | - |
| Liabilities: | | | | | | |
| Bonds payable | 79,672,628 | 79,154,240 | - | - | - | - |
| Note payable | 9,314,036 | 10,566,785 | - | - | - | - |
| Capital lease liabilities | 3,120,424 | 3,120,424 | - | - | - | - |
| Interest rate swap | 2,080,371 | 2,080,371 | 2,080,371 | - | 2,080,371 | - |

O. 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 $8,460,841 and $9,901,524 at June 30, 2020 and 2019, 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, 2020 and 2019 were $19,490,356 and $13,467,808, 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.

## O. 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, 2020 and 2019, 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, 2020 and 2019, 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.

## P. COMMITMENTS AND CONTINGENT LIABILITIES

The College leases certain buildings and equipment under non-cancelable operating leases which expire at various dates through 2024. Rent expense under these lease arrangements amounted to $721,199 and $718,037 for the years ended June 30, 2020 and 2019, 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:

| Year Ending June 30, | Amount |
|---|---|
| 2021 | $392,806 |
| 2022 | 153,857 |
| 2023 | 119,242 |
| 2024 | 79,495 |
| Total | $745,400 |

## P. 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.

## Q. 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, 2020 and 2019.

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, 2020 and 2019 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.

## R. 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.

R. 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

R. ENDOWMENT - Continued

Endowment Net Asset Composition by Type of Fund as of July 31, 2020 and 2019:

| 2020 | Without Donor Restrictions | With Donor Restrictions Temporarily in Nature | With Donor Restrictions Perpetual in Nature | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ - | $10,844,222 | $161,081,044 | $171,925,266 |
| Board-restricted endowment funds | 7,608,295 | - | - | 7,608,295 |
| Total funds | $7,608,295 | $10,844,222 | $161,081,044 | $179,533,561 |

| 2019 | Without Donor Restrictions | With Donor Restrictions Temporarily in Nature | With Donor Restrictions Perpetual in Nature | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ - | $15,191,800 | $160,110,178 | $175,301,978 |
| Board-restricted endowment funds | 7,411,429 | - | - | 7,411,429 |
| Total funds | $7,411,429 | $15,191,800 | $160,110,178 | $182,713,407 |

R. ENDOWMENT - Continued

***Changes in Endowment Net Assets***

| | Without Donor Restrictions | With Donor Restrictions Temporarily in Nature | With Donor Restrictions Perpetual in Nature | Total |
|---|---|---|---|---|
| *Endowment net assets,* June 30, 2018 | $6,917,443 | $ 17,890,820 | $158,858,085 | $ 183,666,348 |
| Investment return: | | | | |
| Investment income | - | 5,333,637 | - | 5,333,637 |
| Net appreciation (realized and unrealized) | - | 2,509,969 | - | 2,509,969 |
| Total investment return | - | 7,843,606 | - | 7,843,606 |
| Contributions | - | - | 1,252,093 | 1,252,093 |
| Appropriation of endowment assets for expenditure | - | ( 8,354,903) | - | ( 8,354,903) |
| Board-designated endowment | 493,986 | ( 493,986) | - | - |
| Reclassifications/transfers | - | ( 1,693,737) | - | ( 1,693,737) |
| *Endowment net assets,* June 30, 2019 | 7,411,429 | 15,191,800 | 160,110,178 | 182,713,407 |
| Investment return: | | | | |
| Investment income | - | 5,122,670 | - | 5,122,670 |
| Net depreciation (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 | - | 45,521 | ( 45,521) | - |
| *Endowment net assets,* June 30, 2020 | $7,608,295 | $ 10,844,222 | $161,081,044 | $ 179,533,561 |

R. 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.

S. 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 and has affected the College's operational and financial performance due to the impact on its students, contributors, and employees and vendors, which is the result of various restrictions put in place by governments to curtail the spread of the coronavirus as well as due to developments such as social distancing and shelter-in-place directives.

S. RISKS AND UNCERTAINTIES - Continued

The pandemic has also adversely affected global economic activity and contributed to the instability and volatility in financial markets. Although, as of the date of this report, the College's investment portfolio has incurred gains overall since June 30, 2020, the values of the College's investments have and will fluctuate in response to uncertain and changing market conditions due to the pandemic. The amount of investment gains and losses that will be recognized in subsequent periods, and the related impact on the College's liquidity cannot be determined at this time. The pandemic may have a continued material adverse impact on economic and market conditions, triggering a continuing period of economic slowdown.

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 2021.

T. SUBSEQUENT EVENTS

The College has evaluated subsequent events through October 21, 2020, the issuance date of the College's consolidated financial statements, and has determined that, except as discussed in Note J, there are no subsequent events that require disclosure.