



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

Consolidated Financial Statements and Uniform Guidance Reports

June 30, 2023

(With Independent Auditors' Reports Thereon)

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

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Independent Auditors' Report

The Board of Trustees
The Corporation of Mercer University:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of The Corporation of Mercer University and its subsidiaries (the University), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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



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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2023 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

Atlanta, Georgia
October 13, 2023

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

Consolidated Statements of Financial Position

June 30, 2023 and 2022

Assets	2023	2022
Cash and cash equivalents	\$ 68,245,364	57,020,104
Restricted cash	—	930,760
Bond project fund	11,804,959	4,749,461
Accrued interest receivable	1,186,673	1,030,953
Accounts receivable, less allowance for uncollectible accounts of \$2,849,261 and \$2,383,835 at June 30, 2023 and 2022, respectively	15,850,417	14,169,639
Inventories	777,068	767,987
Contributions receivable, net (note 2)	1,856,753	1,913,898
Student loans receivable, net (note 3)	8,196,220	9,055,640
Due from related entity, net (note 18)	409,875	473,227
Notes receivable from related entities (note 18), net	3,792,239	3,798,394
Note receivable (note 1(f))	12,250,000	12,250,000
Investments (note 4)	406,187,637	369,346,583
Remainder interest trusts	6,033,520	6,213,228
Beneficial interests in perpetual trusts	75,353,423	73,502,381
Other assets	9,765,735	9,673,009
Property and equipment, net (notes 6 and 10)	426,607,170	404,923,926
Total assets	<u>\$ 1,048,317,053</u>	<u>969,819,190</u>
Liabilities and Net Assets		
Accounts payable, deposits, and accrued expenses	\$ 23,498,699	22,207,800
Accrued postretirement benefits (note 17)	593,585	691,184
Deferred revenue	11,481,748	12,722,482
Lease obligations (note 10)	3,380,460	3,950,263
Notes payable (note 7)	60,472,601	53,105,349
Annuity obligations	2,830,761	2,945,484
Asset retirement obligations (note 6)	4,063,813	4,322,226
Interest rate swaps (note 9)	261,631	744,846
Bonds payable, net (note 8)	266,244,944	247,483,257
Advances from federal government and others	13,562,666	13,254,404
Total liabilities	<u>386,390,908</u>	<u>361,427,295</u>
Net assets:		
Without donor restrictions	297,585,017	270,723,366
With donor restrictions (note 14)	364,341,128	337,668,529
Total net assets	<u>661,926,145</u>	<u>608,391,895</u>
Total liabilities and net assets	<u>\$ 1,048,317,053</u>	<u>969,819,190</u>

See accompanying notes to consolidated financial statements.

**THE CORPORATION OF MERCER UNIVERSITY
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Consolidated Statements of Activities

Years ended June 30, 2023 and 2022

	2023	2022
Changes in net assets without donor restrictions:		
Operating revenue and other support:		
Tuition and fees	\$ 169,167,134	158,964,688
Government contracts	78,195,151	79,594,972
Private gifts and contracts	6,254,107	6,525,566
Sales and services of auxiliary enterprises	56,602,575	53,466,899
Investment income, net	7,425,656	8,216,463
Other revenue	313,716	1,302,041
Net assets released from restrictions (note 15)	13,497,931	15,810,194
Total operating revenue and other support	331,456,270	323,880,823
Operating expenses (note 13):		
Instruction	120,637,888	115,949,238
Research	41,425,064	44,826,927
Public service	2,869,754	2,537,164
Academic support	31,457,222	30,356,443
Student services	30,746,765	30,045,304
Institutional support	21,014,589	23,313,304
Auxiliary enterprises	73,175,105	68,413,360
Total operating expenses	321,326,387	315,441,740
Operating income	10,129,883	8,439,083
Nonoperating revenue (expenses):		
Net realized gains on investments	2,915,737	7,764,178
Net unrealized gains (losses) on investments	14,244,648	(4,057,179)
Change in fair value of interest rate swaps (note 9)	483,215	1,586,613
Loan administration and other expenses	(1,914,859)	(2,427,377)
Amortization of bond premium/discount and issuance costs	1,216,633	111,910
Loss on disposal of fixed assets	(472,019)	(80,956)
Other	258,413	130,620
Total nonoperating revenue	16,731,768	3,027,809
Change in net assets without donor restrictions	26,861,651	11,466,892

**THE CORPORATION OF MERCER UNIVERSITY
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Consolidated Statements of Activities

Years ended June 30, 2023 and 2022

	2023	2022
Change in net assets with donor restrictions:		
Government grants and contracts	\$ 2,675	7,202,267
Private gifts, grants, and contracts	17,274,142	14,441,632
Net change in beneficial interests in perpetual trusts	1,851,042	(13,675,530)
Income on investments	2,453,693	1,735,661
Other transfers	2,592,399	2,582,435
Change in split-interest obligations	250,667	314,787
Net realized (losses) gains on investments	(64,931)	1,896,942
Net unrealized gains (losses) on investments	15,810,843	(30,894,528)
Net assets released from restrictions	(13,497,931)	(15,810,194)
Change in net assets with donor restrictions	26,672,599	(32,206,528)
Total change in net assets	53,534,250	(20,739,636)
Net assets at beginning of year	608,391,895	629,131,531
Net assets at end of year	\$ 661,926,145	608,391,895

See accompanying notes to consolidated financial statements.

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

Years ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 53,534,250	(20,739,636)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	20,968,812	19,450,087
Net realized (gains) on investments	(2,850,806)	(9,507,596)
Net unrealized losses (gains) on investments	(30,055,491)	33,596,591
Net change in split-interest agreements	250,667	661,164
Net change in beneficial interests in perpetual trusts	(1,851,042)	13,675,530
Change in fair value of interest rate swaps	(483,215)	(1,586,613)
Private gifts restricted for long-term use	(3,861,460)	(6,955,014)
Loss on disposal of property and equipment	472,019	80,956
Amortization of bond discount/premium	(1,430,056)	(362,819)
Amortization of bond issuance costs	213,423	250,909
Receipt of agency funds (Federal Direct Student Loans)	127,439,264	121,727,956
Disbursement of agency funds (Federal Direct Student Loans)	(127,439,264)	(121,727,956)
Changes in assets and liabilities:		
Decrease in accrued interest receivable	(155,720)	54,977
Decrease (increase) in accounts receivable	(1,680,778)	336,444
Decrease (increase) in inventories	(9,081)	80,882
Decrease in contributions receivable	57,145	123,654
Decrease (increase) in due from related entities	69,507	(297,804)
Increase in other assets	(1,352,667)	(2,592,233)
Increase in accounts payable, deposits, and accrued expenses	1,449,132	443,011
Decrease in accrued postretirement benefits	(97,599)	(134,974)
Decrease in deferred revenue	(1,240,734)	(120,707)
Decrease in asset retirement obligation	(258,413)	(130,620)
Net cash provided by operating activities	<u>31,687,893</u>	<u>26,326,189</u>
Cash flows from investing activities:		
Purchases of property and equipment	(42,843,058)	(32,783,580)
Proceeds from sale of property and equipment	348,730	—
Student loans awarded	(918,805)	(2,380,438)
Proceeds from student loan repayments	1,778,225	2,743,538
Receipts on notes receivable from related entities	—	6,191
Proceeds from sales of investments	1,720,935	9,290,706
Purchases of investments	(5,218,121)	(14,901,770)
Net cash used in investing activities	<u>(45,132,094)</u>	<u>(38,025,353)</u>

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

Years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from financing activities:		
Payments on finance obligations	\$ (33,870)	(32,488)
Payments on other liabilities/financing obligation	(63,972)	(61,102)
Payments on bonds payable	(8,134,300)	(53,498,275)
Payments on notes payable	(4,882,748)	(15,928,666)
Proceeds from notes payable	12,250,000	—
Proceeds from bonds payable	28,846,765	83,730,501
Payments on bonds issuance costs	(1,171,716)	(809,893)
Receipts from advances from federal government and others, net	308,262	2,127,797
Proceeds from private gifts and grants restricted for long-term investment	3,861,460	6,955,014
Payments on annuity obligations, net	(185,682)	(93,746)
Net cash provided by financing activities	<u>30,794,199</u>	<u>22,389,142</u>
Net increase in cash and cash equivalents	17,349,998	10,689,978
Cash, cash equivalents, and restricted cash at beginning of year	<u>62,700,325</u>	<u>52,010,347</u>
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 80,050,323</u>	<u>62,700,325</u>
Reconciliation of cash, cash equivalents, and restricted cash:		
Cash and cash equivalents	\$ 68,245,364	57,020,104
Restricted cash	—	930,760
Bond project fund	<u>11,804,959</u>	<u>4,749,461</u>
Total cash, cash equivalents, and restricted cash	<u>\$ 80,050,323</u>	<u>62,700,325</u>
Supplemental disclosure:		
Cash paid for interest	\$ 13,879,220	10,599,493
Noncash activities:		
Property and equipment purchases included in accounts payable	\$ 1,328,848	1,487,081

See accompanying notes to consolidated financial statements.

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

June 30, 2023 and 2022

(1) Summary of Significant Accounting Policies

(a) Description of the University

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

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

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

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

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

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

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

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Notes to Consolidated Financial Statements

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(b) Basis of Presentation

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

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

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

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

(c) Revenue Recognition

Under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*, revenue is recognized when control of the promised goods or services is transferred in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services (i.e., the transaction price).

The University's operating revenue is primarily derived from academic programs provided to students, including undergraduate, graduate, and professional degree granting programs. Tuition and fees revenue is earned by the University for these educational services delivered during an academic term. Tuition is charged at different rates depending on the program in which the student is enrolled. As part of a student's course of instruction, certain fees, such as technology fees and laboratory fees, are billed to students. Tuition and fees are earned over the applicable academic term and are not considered separate performance obligations.

Tuition and fees consisted of the following for the years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Undergraduate tuition and fees at stated rates	\$ 163,141,677	161,790,226
Graduate tuition and fees at stated rates	103,175,809	100,015,324
Institutional aid	(88,441,734)	(89,004,242)
Scholarships	<u>(8,708,618)</u>	<u>(13,836,620)</u>
Total	<u>\$ 169,167,134</u>	<u>158,964,688</u>

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Tuition scholarships awarded by the University represent a reduction of the tuition transaction price. The University awards both need-based and merit-based scholarships. Scholarships are generally awarded for the academic year and are applied to the students' account during each academic term.

Students pay tuition and fees (net of scholarships) through a variety of funding sources, including federal loan and grant programs, state grant programs, institutional payment plans, employer reimbursement, Veterans' Administration and other military funding and grants, private and institutional scholarships and borrowings, and cash payments.

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

Auxiliary enterprises revenue consisted of the following for the years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Residence and dining services, net of scholarships	\$ 26,078,162	25,338,934
Athletics and retail operations	5,136,427	4,404,781
General Services Administration lease income (note 6)	5,674,569	5,523,587
Clinic revenue	10,154,682	10,290,992
Bookstore	2,631,597	2,352,555
Telehealth	1,024,708	—
Other	<u>5,902,430</u>	<u>5,556,050</u>
Total	<u>\$ 56,602,575</u>	<u>53,466,899</u>

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

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

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

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Notes to Consolidated Financial Statements

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(d) Contribution Revenue

Grants and contracts awarded by federal agencies and other sponsors, which are generally considered nonreciprocal transactions restricted by sponsors for certain purposes, are recognized as revenue when qualifying expenditures are incurred and conditions under the agreements are met. The University has elected the simultaneous release policy available under Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which allows a not-for-profit organization to recognize a restricted contribution directly in net assets without donor restrictions if the restriction is met in the same period that the revenue is recognized. Total revenue from grants recognized in net assets without donor restrictions under the simultaneous release policy was \$38,750,946 and \$42,524,506 for the years ended June 30, 2023 and 2022, respectively, and is included in government contracts in the accompanying consolidated statements of activities.

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

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

(e) Inventories

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

(f) Note Receivable

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

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

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Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(g) Investments

Marketable securities are carried at fair value, as determined by quoted market prices. Real estate investments are carried at fair value based on appraised value as of the financial reporting date. Nonmarketable securities are those for which there is no public market. Nonmarketable securities, primarily partnerships, are reported using the estimated net asset value (NAV) as a practical expedient as determined by the general partner of the partnership using the latest available information at the valuation date. Factors considered in valuing individual securities include the financial condition and operating results of the portfolio companies, the nature and duration of restriction on disposition of the securities, changes in the circumstances and prospects of the issuer, and any other factors which the general partner considers to be relevant. These factors are assessed by the University. Due to inherent uncertainty of valuing these types of securities, the general partners' estimates of fair value may differ significantly from the values that would have been used had ready markets existed for the securities, and the difference could be material. The net realized and unrealized gains and losses on investments are reflected in the consolidated statements of activities.

(h) Beneficial Interests in Perpetual Trusts and Remainder Interest Trusts

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

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

(i) Property and Equipment

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

Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis. A summary of depreciable lives is as follows:

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

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

June 30, 2023 and 2022

(j) Leases

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

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

For operating leases, the lease liability is initially and subsequently measured at the present value of the unpaid lease payments at the lease commencement date and as of June 30, respectively. For finance leases, the lease liability is initially measured in the same manner and date as for operating leases and is subsequently measured at amortized cost using the effective-interest method. The rate implicit in the lease or the incremental borrowing rate for the related term is used to discount lease payments based on information available at lease commencement. Generally, the University uses its incremental borrowing rate as the discount rate for its leases.

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

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

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

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

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

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

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The University made an election to establish a recognition threshold under ASC 842 when recording a lease in the consolidated financial statements. If an ROU asset is determined to be less than the lease threshold of \$75,000, the lease payments for the life of the lease are all expensed in the period that they are paid, and the ROU asset is not reflected on the consolidated statement of financial position.

(k) Impairment of Long-Lived Assets

The University periodically assesses the realizability of its long-lived assets and evaluates such assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. For assets to be held, impairment is determined to exist if estimated future cash flows, undiscounted, and without interest charges are less than the carrying amount. There were no impairment losses for the years ended June 30, 2023 or 2022.

(l) Asset Retirement Obligations

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

(m) Income Tax Status

The University is recognized as an organization exempt from federal income tax under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3) whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to federal income tax. The University's management has reviewed its tax positions and determined that it does not have material unrecognized tax positions that should be reflected in the consolidated financial statements for fiscal years 2023 or 2022.

(n) Derivative Financial Instruments

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

(o) Cash, Cash Equivalents, Restricted Cash, and Bond Project Fund

The University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Restricted cash represents amounts held in escrow accounts for debt service associated with the ground lease discussed in note 6. Bond project fund represents cash equivalents held for capital projects identified in the 2022 bond series.

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(p) Deferred Revenue

Tuition and fee revenue are recognized on a pro rata basis proportional to the number of days of the related academic term that pertain to each fiscal year. Revenue is recognized in the period in which the related performance obligations are met. Deferred revenue consists primarily of tuition related to the second and third summer sessions, which occur subsequent to the University's fiscal year-end.

(q) Use of Estimates

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

(r) Operating Results

Operating results in the accompanying consolidated statements of activities reflect all transactions that impact net assets without donor restrictions, except investment gains or losses, change in fair value of interest rate swaps, loan administration costs, and certain other nonoperating items.

(s) Reclassifications

Certain reclassifications are reflected in the 2022 consolidated financial statements to conform to the 2023 presentation.

(2) Contributions Receivable

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

	<u>2023</u>	<u>2022</u>
Contributions receivable, gross	\$ 4,259,458	4,493,250
Less:		
Allowance for doubtful accounts	(2,015,000)	(2,099,438)
Unamortized discount	<u>(387,705)</u>	<u>(479,914)</u>
Net unconditional promises to give	<u>\$ 1,856,753</u>	<u>1,913,898</u>
Unconditional promises expected to be collected in:		
One year	\$ 459,458	303,250
Two to five years	1,050,000	1,190,000
More than five years	<u>2,750,000</u>	<u>3,000,000</u>
	<u>\$ 4,259,458</u>	<u>4,493,250</u>

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The University discounts contributions expected to be received after one year. Accretion of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions on the contributions. Estimated future cash flows to be received after one year were discounted at June 30, 2023 and 2022 at rates ranging from 1.55% to 5.0%.

At June 30, 2023 and 2022, one donor's outstanding pledge balance represented 94% and 93%, respectively, of the University's gross contributions receivable.

(3) Student Loans Receivable

Advances from the federal government under the Perkins student loan program are distributable to the federal government upon liquidation of the program and, thus, are reflected as a liability in the accompanying consolidated statements of financial position. At June 30, 2023 and 2022, the University has allowances for uncollectible Perkins student loan accounts of \$502,219 and \$673,095, respectively, and general allowances for other student loans of \$1,221,103 and \$1,234,110, respectively.

Student loans receivable consist of the following at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Perkins loans receivable	\$ 2,770,540	3,739,417
Other student loans receivable	<u>7,149,002</u>	<u>7,223,428</u>
	9,919,542	10,962,845
Less allowance for doubtful accounts	<u>(1,723,322)</u>	<u>(1,907,205)</u>
	<u>\$ 8,196,220</u>	<u>9,055,640</u>

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(4) Investments

Investments are recorded at fair value. The fair value and historical cost of investments at June 30, 2023 and 2022 are as follows:

	2023		2022	
	Fair value	Cost	Fair value	Cost
Cash and cash equivalents	\$ 4,939,065	4,939,065	8,562,838	8,562,838
Fixed income	20,760,307	23,398,757	20,502,028	22,615,668
Domestic equities	127,331,512	46,619,693	107,076,647	46,068,178
Global equities	104,766,722	93,393,112	86,811,852	82,307,668
Hedged equity funds of funds	32,770,980	22,931,629	31,859,857	23,103,320
Private equity and venture capital funds	51,089,350	30,955,306	51,557,360	29,142,496
Real assets	64,407,294	46,882,085	62,860,774	50,257,079
Miscellaneous investments	122,407	122,476	115,227	115,299
Total investments	<u>\$ 406,187,637</u>	<u>269,242,123</u>	<u>369,346,583</u>	<u>262,172,546</u>

Cash and cash equivalents classified as investments are excluded from cash and cash equivalents in the consolidated statements of cash flows as these funds are not used for operations.

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

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

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

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

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

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Due to the risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, and such changes could materially affect the amounts reported in the University's consolidated financial statements.

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

As of June 30, 2023 and 2022, the estimated fair value of the University's alternative investments to which the University applied net asset value (NAV) or its equivalent as a practical expedient relative to the determination of fair value totaled \$141,842,002 and \$132,789,586, respectively. The limitations and restrictions on the University's ability to redeem or sell these investments vary by investment type. Based on the terms and conditions in effect at June 30, 2023 and 2022, these investments can be redeemed or sold as follows:

	<u>2023</u>	<u>2022</u>	<u>Unfunded commitments at June 30, 2023</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>
Fixed income:					
U.S. and global core fixed-income funds (a)	\$ 4,041,787	4,049,627	—	Daily to monthly	15 Days
Domestic equities:					
Collective trusts (b)	29,702,475	24,288,735	—	Daily to quarterly	0–60 Days
Global equities:					
Developed markets (c)	12,510,576	11,424,159	—	Daily to monthly	0–10 Days
Hedge strategies:					
Long-/short-equity strategy (d)	17,046,826	16,318,629	—	Daily to annual	0–90 Days
Distressed and event driven (e)	10,928,369	10,847,291	—	Quarterly to annual	45–90 Days
Private equity and venture capital funds (f)	50,515,260	50,980,742	—	N/A	N/A
Real assets:					
Real asset and real estate investment trusts (g)	10,146,161	8,580,953	13,354,488	N/A	N/A
Commodities (h)	6,950,548	6,299,450	13,218,598	Monthly to illiquid	5 Days
	<u>\$ 141,842,002</u>	<u>132,789,586</u>	<u>26,573,086</u>		

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

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- (e) Investments in hedge funds that invest in debt securities and securities in companies before or after a corporate event, such as mergers and acquisitions.
- (f) Includes a number of private equity and venture capital funds investing in a variety of companies. Distributions are received through the liquidation of the underlying assets of the fund, and it is estimated that the underlying assets of the fund will be liquidated over the next 10 to 12 years.
- (g) Investments in real estate trust funds that invest in domestic and global real estate securities.
- (h) Investments in funds that invest in derivatives and domestic, exchange-traded futures contracts.

(5) Financial Assets and Liquidity Resources

	2023	2022
Financial assets:		
Cash and cash equivalents	\$ 68,245,364	57,020,104
Restricted cash		930,760
Bond project fund	11,804,959	4,749,461
Accounts and student loans receivable	24,046,637	24,156,039
Endowment and other long-term investments	399,488,995	369,118,698
Beneficial interest trusts	75,353,423	73,502,381
Total	578,939,378	529,477,443
Less amounts not available for general expenditures within one year due to restrictions:		
Restricted cash	—	930,760
Bond project fund	11,804,959	4,749,461
Federal and institutional student loans	8,196,220	9,055,640
Donor-restricted endowment	248,116,911	228,265,436
Resources without donor restriction invested as endowment	156,474,603	150,788,476
Beneficial interest trusts	75,353,423	73,502,381
Total	499,946,116	467,292,154
Total financial assets available to meet general expenditures within one year (excludes donor restrictions and self-imposed restrictions)	\$ 78,993,262	62,185,289

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Total financial assets available to meet general expenditures within one year noted above are available to support ordinary operations of the University. However, the University also has an additional source of liquidity not included in total financial assets available to meet general expenditures within one year that could be utilized to address financial challenges. This additional source of liquidity is a beneficial interest in perpetual trust where the donor considered that a time might arise where the University as the beneficiary of the trust might need access to some or all of the principal of the trust. The donor's will provided that "[t]he trustees of each of the above trusts shall, at all times, be Trust Company Bank and two persons appointed by the person who, from time to time, is the chief executive officer of the institution. A majority vote by the trustees shall be required in deciding all questions regarding the management, care, and disposition of the trust. *The Trustees, in their sole and uncontrolled discretion, shall be authorized to distribute some or all of the principal of each such trust to the charitable beneficiary thereof, if they deem such distribution to be in the best interest of the beneficiary.*" The fair market value of this beneficial interest in perpetual trust as of June 30, 2023 and 2022 was \$48,375,224 and \$47,392,784, respectively.

(6) Property and Equipment

Property and equipment are summarized as follows at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Land and improvements	\$ 60,637,035	60,085,686
Buildings	562,775,222	554,852,474
Equipment	137,842,259	130,372,078
Construction in progress	<u>34,059,517</u>	<u>9,511,233</u>
	795,314,033	754,821,471
Less accumulated depreciation	<u>(368,706,863)</u>	<u>(349,897,545)</u>
Property and equipment, net	<u>\$ 426,607,170</u>	<u>404,923,926</u>

Depreciation expense totaled \$20,968,812 and \$19,450,087 in 2023 and 2022, respectively.

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

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The amount of debt (notes payable) assumed in conjunction with this transaction was \$45,602,690, and the net book value of the assets acquired was \$44,955,935 and was included in property and equipment in the accompanying statements of financial position. As of June 30, 2023 and 2022, the remaining principal was \$36,990,351 and \$38,988,520, respectively, and is included in notes payable in the accompanying consolidated statements of financial position. As of June 30, 2023 and 2022 the net book value of the related building was \$38,363,156 and \$ 39,772,808, respectively.

The University has identified conditional asset retirement obligations, primarily for the cost of asbestos removal and disposal, which will result from current or future plans to renovate and/or demolish certain buildings. The following table presents the activity of the University's conditional asset retirement obligation for the years ended June 30, 2023 and 2022:

	2023	2022
Balance at beginning of year	\$ 4,322,226	4,452,846
Accretion expense	258,413	159,725
Obligations settled in current period	(516,826)	(290,345)
Balance at end of year	\$ 4,063,813	4,322,226

(7) Notes Payable

Notes payable consist of the following at June 30, 2023 and 2022:

	2023	2022
Payable to a lending institution with a fixed rate of 3.75% through July 29, 2024; the note is secured by certain assets.	\$ 12,250,000	—
Payable to a lending institution with a variable rate of SOFR plus .75% (5.94% and 1.81% at June 30, 2023 and 2022, respectively) through September 30, 2024; the note requires monthly payments and is secured by certain real property and investments.	11,232,250	12,057,250
Payable to a lending institution with a variable rate of LIBOR plus .85% (2.177% at June 30, 2022), through December 15, 2025. This note was repaid during 2023 and was secured by pledge payments.	—	2,059,579
Payable to a lending institution with a fixed rate of 3.573% through July 15, 2037; the note is secured by certain real property (note 6).	36,990,351	38,988,520
	\$ 60,472,601	53,105,349

Interest expense related to notes payable totaled \$2,382,374 and \$1,830,825 in 2023 and 2022, respectively.

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At June 30, 2023, aggregate maturities of notes payable are as follows:

Year ending June 30:	
2024	\$ 2,894,119
2025	24,799,855
2026	2,218,720
2027	2,297,556
2028	2,379,211
Thereafter	<u>25,883,140</u>
	<u>\$ 60,472,601</u>

(8) Bonds Payable

Bonds payable consist of the following at June 30:

Series	Interest rate	Final maturity date	Original principal amount	Outstanding principal at June 30	
				2023	2022
2012B	Fixed: 4.00% to 5.25%	October 1, 2032	\$ 9,790,000	4,685,000	5,235,000
2012C	Fixed: 3.75% to 5.25%	October 1, 2030	32,505,000	—	21,420,000
2013-1	Fixed with derivative	October 1, 2036	6,000,000	5,250,000	5,510,000
2013-2	Fixed with derivative	October 1, 2035	7,190,000	6,865,000	6,980,000
2013-3	Variable: 4.76% per loan statement at June 30, 2023	October 1, 2031	25,025,000	19,905,000	20,560,000
2013-4	Variable: 4.76% per loan statement at June 30, 2023	October 1, 2041	20,078,366	15,337,596	15,961,965
2013-5	Fixed with derivative	October 1, 2043	12,056,907	8,977,956	9,352,886
2015	Fixed: 4.25% to 5.00%	October 1, 2045	77,485,000	77,485,000	77,485,000
2021	Fixed: 5.00%	October 1, 2050	71,265,000	67,425,000	71,160,000
2022	Fixed: 5.00%	October 1, 2051	46,740,000	44,920,000	—
				<u>250,850,552</u>	<u>233,664,851</u>
	Less unamortized bond issuance costs			(1,961,817)	(1,441,095)
	Plus unamortized bond premiums, net			<u>17,356,209</u>	<u>15,259,501</u>
				<u>\$ 266,244,944</u>	<u>247,483,257</u>

On July 6, 2022, the University borrowed principal of \$46,740,000 through a public market offering and utilized the proceeds from the issuance of the 2022 series to (a) refund the University's 2012C series, maturing on October 1, 2023, October 1, 2027, and October 1, 2030, (b) finance the acquisition, construction, installation, equipment, and renovation of certain educational, academic, and recreational facilities on the University's campus, and (c) pay a portion of the cost of issuance for the series 2022 bonds. Principal and interest is due each October 1 with an interest rate of 5%. Final maturity date is October 1, 2051.

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On July 6, 2021, the University borrowed principal of \$71,265,000 through a public market offering and utilized the proceeds from the issuance of the 2021 series to (a) refund the University's 2012A series, maturing on October 1, 2032, (b) finance the acquisition, construction, installation, equipment, renovation, of certain educational, academic, and recreational facilities on the University's campus, and (c) pay a portion of the cost of issuance for the series 2021 bonds. Principal and interest is due each October 1 with an interest rate of 5%. Final maturity date is October 1, 2051.

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

On May 30, 2013, the University borrowed principal of \$70,350,273 through a direct bank purchase and utilized the proceeds from the issuance of the 2013 series 1–5 to defease the 2006A, 2006C, and 2011 series bonds and for construction of new buildings. Interest on the 2013-1 series is fixed with a 3.84% swap through October 1, 2036 (note 9). Interest on the 2013-2 and 2013-5 series is fixed with a 2.40% swap through February 1, 2024 (note 9).

During 2012, the University borrowed principal of \$125,690,000 through a public market offering and utilized the proceeds to defease the 2003 and 2006B series bonds. The remaining principal of the 2012D series bonds in the original amount of \$5,850,000 were repaid during fiscal year 2020. The remaining principal of the 2012A series bonds in the original amount of \$77,545,000 were repaid during fiscal year 2022.

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

Interest expense related to bonds payable totaled \$9,414,203 and \$10,180,471 in 2023 and 2022, respectively.

At June 30, 2023, aggregate maturities of bonds payable are as follows:

Year ending June 30:		
2024	\$	8,258,100
2025		8,662,800
2026		9,080,243
2027		9,533,181
2028		9,994,334
Thereafter		<u>205,321,894</u>
	\$	<u><u>250,850,552</u></u>

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(9) Derivative Financial Instruments

The University had three interest rate swap agreements outstanding at June 30, 2023 and 2022:

Related-debt issue		2013-1	2013-2	2013-5
Effective date		May 2, 2006	December 4, 2018	December 4, 2018
Counterparty		Deutsche Bank	BB&T Bank	BB&T Bank
Notional amount	\$	6,000,000	7,190,000	10,437,064
Termination date		October 1, 2036	February 1, 2024	February 1, 2024
Rate paid by the University		3.854 %	2.460 %	2.460 %
Rate paid by the counterparty		68.85% fallback SOFR	79% overnight SOFR	79% overnight SOFR

The following table summarizes the University's interest rate swaps not designated as hedging instruments as of and for the years ended June 30, 2023 and 2022:

	2023		2022	
	Fair value ⁽¹⁾	Change in fair value ⁽²⁾	Fair value ⁽¹⁾	Change in fair value ⁽²⁾
May 2, 2006 interest rate swap (2013-1)	\$ (445,107)	301,953	(747,060)	690,582
December 4, 2018 interest rate swap (2013-2)	86,031	84,781	1,250	385,377
December 4, 2018 interest rate swap (2013-5)	97,445	96,481	964	510,654
	\$ (261,631)	483,215	(744,846)	1,586,613

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

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

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

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(10) Leases

(a) Finance Leases

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

	2023	2022
Equipment	\$ 7,105,581	7,105,581
Less accumulated depreciation	(7,071,252)	(6,752,820)
	\$ 34,329	352,761

Amortization of assets held under finance leases is included as depreciation and amortization in operating expenses in the accompanying consolidated statements of activities.

(b) Operating Leases

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

The components of lease cost for the years ended June 30, 2023 and 2022, which are included in operating expenses in the accompanying consolidated statement of activities, were as follows:

	2023	2022
Operating lease cost	\$ 134,564	589,532
Finance lease cost:		
Amortization of ROU assets	471,962	442,084
Interest on lease liabilities	86,866	114,587
Total finance lease cost	558,828	556,671
Total lease cost	\$ 693,392	1,146,203

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(c) Other Lease Disclosures

Other information related to leases as of and for the years ending June 30, 2023 and 2022 was as follows:

	2023	2022
Supplemental cash flow information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flow from operating leases	\$ 727,989	1,189,638
Operating cash flow from finance leases	25,582	27,808
Financing cash flow from finance leases	97,841	93,590
ROU assets obtained in exchange for lease obligations:		
Operating leases	—	428,480
Finance leases	—	—
Weighted average remaining lease term (in years):		
Operating leases	3.30	3.67
Finance leases	21.84	22.48
Weighted average discount rate:		
Operating leases	6.34 %	6.31 %
Finance leases	1.06	1.88

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

For the years ended June 30, 2023 and 2022, ROU assets held under operating leases totaled \$903,818 and \$1,375,780, respectively, and are included in other assets in the accompanying consolidated statements of financial position.

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Aggregate future payments under noncancelable operating and finance leases as of June 30, 2023 are as follows:

	Operating leases	Finance leases
2024	\$ 499,924	119,843
2025	185,009	91,566
2026	153,352	94,313
2027	49,440	97,143
2028	49,440	100,057
Thereafter	95,858	2,256,534
Total lease payments	1,033,023	2,759,456
Less amounts representing interest	(129,205)	(282,814)
Total obligations	\$ 903,818	2,476,642

(d) Savannah Center for Medical Education and Research

In September 2014, the University entered into a 30-year lease agreement with the Savannah Center for Medical Education and Research (SCMER) for the Savannah property, which is owned and operated by SCMER. SCMER maintains title of the real property, or structural assets, during the construction phase of the SCMER property renovations. Due to certain structural elements installed and enhancements of the space being leased and the University's equity interest in SCMER, the University is required to be treated, for accounting purposes only, as the "owner" of the SCMER property even though the University does not own the assets and does not control the operations of SCMER. Accordingly, the costs of construction paid by the University through their investment in SCMER are recorded as a purchase of property and equipment, and the costs of the real property and construction not paid by the University was reflected as a noncash investing activity in the 2015 consolidated statement of cash flows.

As a result, during 2015, the University recorded additions of property and construction totaling \$21,392,659, where \$5,990,852 was paid by the University through its investment in SCMER and \$6,955,000 was paid by the University through a note receivable to Chase NMTC Mercer Investment Fund, LLC (the Bank), a third party. In accordance with the notes receivable fund loan agreement, the proceeds of the notes receivable were used by the Bank primarily to make an equity contribution to Partnerships of Hope X, LLC (Hope LLC) and CNMC Sub CDE 58, LLC (CNMC LLC). In October 2014, Hope LLC and CNMC LLC utilized the proceeds of the equity contributions to fund a promissory note payable to SCMER, where the amount received was used to perform renovations of the Savannah property in connection with the New Market Tax Credit program. During 2023 and 2022, the University did not record any additions of property and construction. As a result, \$2,447,206 and \$2,511,178 represents the remaining lease obligation of the University as of June 30, 2023 and 2022, respectively, and is included in lease obligations in the accompanying consolidated statements of financial position.

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(11) Fair Value of Financial Instruments

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

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

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

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

Level 3 – Valuations are based on unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability. Level 3 valuations incorporate certain assumptions and projections that are not observable in the market and require significant professional judgment in determining the fair value assigned to such assets or liabilities.

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

Underlying fund investments made directly by the University whose values are based on quoted market prices in active markets and are, therefore, classified within Level 1 include actively traded common and preferred stock, U.S. government fixed-income instruments, and non-U.S. government fixed-income instruments. Level 1 investments may also include listed mutual funds, exchange-traded funds, and money market funds.

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

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

- **Market approach:** This approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- **Income approach:** This approach determines a valuation by discounting future cash flows.
- **Cost approach:** This approach is based on the principle of substitution and the concept that a market participant would not pay more than the amount that would currently be required to replace the asset.

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

In accordance with ASC Subtopic 820-10, *Fair Value Measurement – Overall*, certain investments that are measured at fair value using NAV as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying consolidated statements of financial position.

The following tables summarize the University's financial instruments recorded at fair value on a recurring basis by major category in the fair value hierarchy as of June 30, 2023 and 2022, as well as related strategy:

Assets	June 30, 2023				
	Level 1	Level 2	Level 3	Investments measured at NAV	Total
Cash and cash equivalents	\$ 68,245,364	—	—	—	68,245,364
Restricted cash	—	—	—	—	—
Bond project fund	11,804,959	—	—	—	11,804,959
Investments:					
Cash and cash equivalents	4,939,065	—	—	—	4,939,065
Fixed income:					
U.S. and global core fixed-income funds	16,718,520	—	—	4,041,787	20,760,307

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June 30, 2023					
Assets	Level 1	Level 2	Level 3	Investments measured at NAV	Total
Domestic equities:					
Traditional equity mutual funds and collective trusts	\$ 82,132,127	—	—	29,702,475	111,834,602
Stock	15,496,910	—	—	—	15,496,910
	<u>97,629,037</u>	<u>—</u>	<u>—</u>	<u>29,702,475</u>	<u>127,331,512</u>
Global equities:					
Developed markets	80,490,562	—	—	12,510,576	93,001,138
Emerging markets	11,765,584	—	—	—	11,765,584
	<u>92,256,146</u>	<u>—</u>	<u>—</u>	<u>12,510,576</u>	<u>104,766,722</u>
Hedged equity funds of funds:					
Long/short equity strategy	—	—	—	22,841,325	22,841,325
Distressed and event driven	4,795,785	—	—	5,133,870	9,929,655
	<u>4,795,785</u>	<u>—</u>	<u>—</u>	<u>27,975,195</u>	<u>32,770,980</u>
Private equity and venture capital funds	—	—	574,090	50,515,260	51,089,350
Real assets:					
Real asset fund	25,582,338	—	—	10,146,161	35,728,499
Land	—	—	18,433,450	—	18,433,450
Commodities	—	—	—	6,950,548	6,950,548
Commodities – oil and gas royalty trusts	—	—	3,294,797	—	3,294,797
	<u>25,582,338</u>	<u>—</u>	<u>21,728,247</u>	<u>17,096,709</u>	<u>64,407,294</u>
Miscellaneous investments	—	—	122,407	—	122,407
Total investments	241,920,891	—	22,424,744	141,842,002	406,187,637
Beneficial interests in perpetual trusts					
	—	70,121,311	5,232,112	—	75,353,423
Remainder interest trusts	—	6,033,520	—	—	6,033,520
Total	<u>\$ 321,971,214</u>	<u>76,154,831</u>	<u>27,656,856</u>	<u>141,842,002</u>	<u>567,624,903</u>
Liabilities					
Interest rate swaps	\$ —	261,231	—	—	261,231

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Assets	June 30, 2022				
	Level 1	Level 2	Level 3	Investments measured at NAV	Total
Cash and cash equivalents	\$ 57,020,104	—	—	—	57,020,104
Restricted cash	930,760	—	—	—	930,760
Bond project fund	4,749,461	—	—	—	4,749,461
Investments:					
Cash and cash equivalents	8,562,838	—	—	—	8,562,838
Fixed income:					
U.S. and global core fixed-income funds	16,452,401	—	—	4,049,627	20,502,028
Domestic equities:					
Traditional equity mutual funds and collective trusts	64,728,639	—	—	24,288,735	89,017,374
Stock	18,059,273	—	—	—	18,059,273
	<u>82,787,912</u>	<u>—</u>	<u>—</u>	<u>24,288,735</u>	<u>107,076,647</u>
Global equities:					
Developed markets	63,759,130	—	—	11,424,159	75,183,289
Emerging markets	11,628,563	—	—	—	11,628,563
	<u>75,387,693</u>	<u>—</u>	<u>—</u>	<u>11,424,159</u>	<u>86,811,852</u>
Hedged equity funds of funds:					
Long/short equity strategy	—	—	—	16,318,629	16,318,629
Distressed and event driven	4,693,937	—	—	10,847,291	15,541,228
	<u>4,693,937</u>	<u>—</u>	<u>—</u>	<u>27,165,920</u>	<u>31,859,857</u>
Private equity and venture capital funds	91	—	576,527	50,980,742	51,557,360
Real assets:					
Real asset fund	30,835,191	—	—	8,580,953	39,416,144
Land	—	—	13,345,950	—	13,345,950
Commodities	—	—	—	6,299,450	6,299,450
Commodities – oil and gas royalty trusts	—	—	3,799,230	—	3,799,230
	<u>30,835,191</u>	<u>—</u>	<u>17,145,180</u>	<u>14,880,403</u>	<u>62,860,774</u>
Miscellaneous investments	—	—	115,227	—	115,227
Total investments	218,720,063	—	17,836,934	132,789,586	369,346,583
Beneficial interests in perpetual trusts	—	68,072,528	5,429,853	—	73,502,381
Remainder interest trusts	—	6,213,228	—	—	6,213,228
Total	<u>\$ 281,420,388</u>	<u>74,285,756</u>	<u>23,266,787</u>	<u>132,789,586</u>	<u>511,762,517</u>
Liabilities					
Interest rate swaps	\$ —	744,846	—	—	744,846

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The following table presents activity for assets classified in Level 3 for the years ended June 30, 2023 and 2022:

<u>Level 3 rollforward</u>	<u>Private equity and venture capital funds</u>	<u>Real assets</u>	<u>Beneficial interests in perpetual trusts</u>	<u>Miscellaneous investments</u>	<u>Total</u>
Fair value at June 30, 2021	\$ 3,129,862	16,981,923	5,698,184	591,552	26,401,521
Purchases	—	—	—	—	—
Sales	(2,879,916)	(2,760,505)	—	(476,325)	(6,116,746)
Transfers to (from) Level 3	—	—	—	—	—
Gains (losses)	326,581	2,923,762	(268,331)	—	2,982,012
Fair value at June 30, 2022	576,527	17,145,180	5,429,853	115,227	23,266,787
Purchases	—	—	—	—	—
Sales	—	(580,367)	—	—	(580,367)
Transfers to (from) Level 3	—	—	—	—	—
Gains (losses)	(2,437)	5,163,434	(197,741)	7,180	4,970,436
Fair value at June 30, 2023	\$ <u>574,090</u>	<u>21,728,247</u>	<u>5,232,112</u>	<u>122,407</u>	<u>27,656,856</u>

As of June 30, 2023 and 2022, real assets classified in Level 3 primarily consist of the University's ownership interest in CCH recorded at fair value based on a combination of the income capitalization approach (ground rent capitalization) and the sales comparison approach.

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

Contributions receivable for current year gifts are initially measured at fair value in the year the receivable is recorded based on the present value of future cash flows discounted at a rate commensurate with risks involved, which is an application of the income approach.

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

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

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(12) Endowments

The University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted in Georgia, as providing, among other things, expanded spending flexibility by allowing, subject to a standard of prudence, the institution to spend from an endowment fund without regard to the book value of the corpus of the fund. This flexibility under UPMIFA allows an expenditure that lowers the value of the corpus of an endowment fund below its book value, which was previously not allowed. As a result of this interpretation, the University classifies as net assets with donor restrictions (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The donor-restricted endowment fund is classified as net assets with donor-imposed restriction until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed in UPMIFA. If the fair value of assets associated with individual donor-restricted endowment funds falls below the level that UPMIFA requires the University to retain as donor restricted, these deficiencies are reported in net assets with donor restrictions. These deficiencies generally result from unfavorable market fluctuations that occurred shortly after the investment of recent donor-restricted contributions and continued appropriation for certain programs that are deemed prudent by the Board of Trustees. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level are classified as an increase in net assets with donor restrictions. There were no such deficiencies as of June 30, 2023 or 2022.

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

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

The Board of Trustees, on the recommendation of the Finance, Investment, and Property Committee, has adopted a spending policy that governs the annual distributions from the pooled endowment funds that may be expended for current operations. This policy authorizes the University's administration to distribute from its pooled endowment funds a specified percentage, to be determined by the Board of Trustees from time to time, of the three-year average market value of those pooled endowment funds. The average value is computed as an average of the current year plus the two previous years. For the fiscal years ended June 30, 2023 and 2022, the Board of Trustees authorized the distribution and expenditure of 5% of a three-year average of pooled endowment market value for fiscal year 2023 and 4.75% for fiscal year 2022.

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

Endowment funds consisted of the following as of June 30, 2023:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	323,470,334	323,470,334
Board-designated endowment funds	<u>156,474,603</u>	<u>—</u>	<u>156,474,603</u>
Total endowment funds	<u>\$ 156,474,603</u>	<u>323,470,334</u>	<u>479,944,937</u>

Endowment funds consisted of the following as of June 30, 2022:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	301,767,818	301,767,818
Board-designated endowment funds	<u>150,788,476</u>	<u>—</u>	<u>150,788,476</u>
Total endowment funds	<u>\$ 150,788,476</u>	<u>301,767,818</u>	<u>452,556,294</u>

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Changes in endowment funds for the year ended June 30, 2023 are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment funds, June 30, 2022	\$ 150,788,476	301,767,818	452,556,294
Investment return, net of fees (includes changes in beneficial interests in trusts that are donor restricted)	17,050,810	21,192,159	38,242,969
Contributions	—	4,475,034	4,475,034
Appropriation of endowment assets for expenditure	(12,008,131)	(3,964,677)	(15,972,808)
Transfers to board-designated endowment funds and other activity	643,448	—	643,448
Endowment funds, June 30, 2023	<u>\$ 156,474,603</u>	<u>323,470,334</u>	<u>479,944,937</u>

Changes in endowment funds for the year ended June 30, 2022 are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment funds, June 30, 2021	\$ 139,159,109	336,299,533	475,458,642
Investment return, net of fees (includes changes in beneficial interests in trusts that are donor restricted)	3,526,138	(36,265,405)	(32,739,267)
Contributions	—	7,415,063	7,415,063
Appropriation of endowment assets for expenditure	(9,336,186)	(5,681,373)	(15,017,559)
Transfers to board-designated endowment funds and other activity	17,439,415	—	17,439,415
Endowment funds, June 30, 2022	<u>\$ 150,788,476</u>	<u>301,767,818</u>	<u>452,556,294</u>

(13) Operating Expenses

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

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Operating expenses, by natural and functional classification, for the year ended June 30, 2023 are as follows:

	<u>Instruction</u>	<u>Research</u>	<u>Public service</u>	<u>Academic support</u>	<u>Student services</u>	<u>Institutional support</u>	<u>Auxiliary enterprises</u>	<u>Total</u>
Operating:								
Salaries and wages	\$ 62,692,828	24,664,148	1,702,824	14,573,171	10,837,744	13,758,163	16,483,784	144,712,662
Benefits	19,623,212	6,656,326	440,425	4,820,101	4,966,792	(105,177)	6,118,555	42,520,234
Supplies and contractual agreements	24,936,233	7,704,134	586,003	7,178,783	11,519,765	3,416,458	39,172,992	94,514,368
Travel	2,588,235	417,577	140,502	394,273	435,962	327,910	2,483,691	6,788,150
Depreciation and amortization	6,692,250	1,367,497	—	4,425,074	2,052,869	1,673,052	4,758,070	20,968,812
Interest	4,105,130	615,382	—	65,820	933,633	1,944,183	4,158,013	11,822,161
Total operating expenses	<u>\$ 120,637,888</u>	<u>41,425,064</u>	<u>2,869,754</u>	<u>31,457,222</u>	<u>30,746,765</u>	<u>21,014,589</u>	<u>73,175,105</u>	<u>321,326,387</u>

Operating expenses, by natural and functional classification, for the year ended June 30, 2022 are as follows:

	<u>Instruction</u>	<u>Research</u>	<u>Public service</u>	<u>Academic support</u>	<u>Student services</u>	<u>Institutional support</u>	<u>Auxiliary enterprises</u>	<u>Total</u>
Operating:								
Salaries and wages	\$ 61,156,374	27,415,529	1,463,347	13,771,370	10,456,677	13,471,111	15,280,004	143,014,412
Benefits	18,828,311	7,271,826	325,170	4,561,619	4,293,327	1,587,459	5,622,205	42,489,917
Supplies and contractual agreements	24,060,240	8,066,539	674,268	7,566,093	11,784,265	4,594,362	36,000,468	92,746,235
Travel	2,096,898	310,627	74,379	265,467	388,912	272,503	2,293,200	5,701,986
Depreciation and amortization	6,171,286	1,261,043	—	4,080,600	1,893,062	1,542,811	4,501,285	19,450,087
Interest	3,636,129	501,363	—	111,294	1,229,061	1,845,058	4,716,198	12,039,103
Total operating expenses	<u>\$ 115,949,238</u>	<u>44,826,927</u>	<u>2,537,164</u>	<u>30,356,443</u>	<u>30,045,304</u>	<u>23,313,304</u>	<u>68,413,360</u>	<u>315,441,740</u>

Operation and maintenance of plant expense for the years ended June 30, 2023 and 2022 totaled \$19,187,969 and \$19,802,546, respectively. Total fundraising expense for the years ended June 30, 2023 and 2022 totaled \$3,446,642 and \$3,289,335, respectively, and is included in institutional support in the accompanying consolidated statements of activities.

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(14) Net Assets

Net assets with donor restrictions at June 30, 2023 and 2022 are available for the following purposes:

	<u>2023</u>	<u>2022</u>
Trusts funds held by others	\$ 75,353,423	73,502,381
Investment income held for distribution	34,707,103	24,454,571
Endowment funds invested for scholarships	73,769,876	68,677,970
Endowment funds invested for instruction and other support	<u>139,639,932</u>	<u>135,132,896</u>
Total endowment funds with donor restrictions	323,470,334	301,767,818
Gifts available for scholarships	8,275,827	6,755,394
Gifts available for capital	8,921,811	4,405,770
Gifts available for instruction and support	19,285,179	19,924,812
Split-interest agreements, net	2,329,559	2,389,559
Donor-restricted loan funds	386,123	511,278
Contributions receivable	<u>1,672,295</u>	<u>1,913,898</u>
Total net assets with donor restrictions	<u>\$ 364,341,128</u>	<u>337,668,529</u>

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

(15) Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors. Net assets released from restrictions consist of the following for the years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Instructional grants and gifts	\$ 2,006,689	1,802,110
Public service and research grants and gifts	121,732	127,521
Academic support gifts	155,297	44,750
Student service gifts	222,867	163,315
Institutional support gifts	631,341	594,040
Equipment and other capital purchases	5,397,262	2,049,937
Scholarships	<u>4,962,743</u>	<u>11,028,521</u>
	<u>\$ 13,497,931</u>	<u>15,810,194</u>

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(16) Pension Plan

The University maintains defined-contribution retirement plans covering substantially all full-time and some part-time employees, under which the majority of contributions are made to the Teacher's Insurance and Annuity Association and College Retirement Equities Fund for the purchase of retirement annuities for employees. Total pension expense under this plan for the years ended June 30, 2023 and 2022 totaled \$9,840,963 and \$9,682,343, respectively.

(17) Postretirement Benefit Plan

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

At June 30, 2023 and 2022, the University has recorded an accumulated postretirement benefit obligation of \$593,585 and \$691,184, respectively as accrued postretirement benefits in the accompanying consolidated statements of financial position. During 2023, the decrease in the accumulated postretirement benefit obligation of \$97,599 resulted from interest cost of \$25,427 net of an actuarial loss of \$(20,683) and benefits paid of \$102,343, which includes claims and insurance premiums. During 2022, the decrease in the accumulated postretirement benefit obligation of \$134,974 resulted from interest cost of \$15,311 net of an actuarial gain of \$59,182 and benefits paid of \$91,103, which includes claims and insurance premiums.

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

The weighted average discount rate used in determining the accumulated postretirement obligation for both plans was 4.00% at both June 30, 2023 and 2022, respectively. The annual rate of increase in the per capita cost of covered healthcare benefits was assumed to be 7.00% at June 30, 2023, with a ratable annual reduction until an ultimate rate of 6.00% is reached in 2024. Increasing or decreasing the assumed healthcare cost trend rate by 1.00% point in each year and holding all other assumptions constant would not have a material effect on the accumulated postretirement benefit obligation as of June 30, 2023 or 2022.

The benefits expected to be paid in connection with the plans in each of the years ending June 30, 2024 - 2028 are \$89,000, \$83,000, \$75,000, \$68,000, and \$61,000 respectively. The aggregate benefits expected to be paid during the five year period beginning July 1, 2028 total \$222,000. These expected benefits are based on the same assumptions used to measure the University's benefit obligation at June 30, 2023.

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(18) Related-Party Transactions

(a) Notes Receivable from Related Entities

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

(i) Historic New York Café, LLC

The University has mortgage and operating deficit loans receivable due from HNYC. The \$847,245 mortgage loan agreement bears interest at a fixed rate of 3%, with terms from December 2018 through December 2048. The note requires annual principal and interest payments of \$43,226. At June 30, 2023 and 2022, the remaining principal balance due to the University totaled \$582,284 and \$605,850, respectively.

The Operating Agreement allows for an operating deficit loan, which shall be treated as a subordinated loan at such amounts to allow Historic New York Café, LLC to cover accrued accounts payable on a 60-day current basis. This loan bears no interest and shall be repaid only if the University is not in default with respect to obligations under the Operating Agreement. At both June 30, 2023 and 2022, the outstanding loan balance due to the University totaled \$0. As of June 30, 2023 and 2022, the University has a payable to Historic New York Café, LLC, which is netted against notes receivable from related entities in the consolidated statements of financial position.

(ii) Historic Capricorn Studios, LLC

The University has operating deficit loans receivable due from HCS. The Operating Agreement allows for an operating deficit loan, which shall be treated as a subordinated loan at such amounts to allow HCS to cover accrued accounts payable on a 60-day current basis. This loan bears no interest and shall be repaid only if the University is not in default with respect to obligations under the Operating Agreement. At June 30, 2023 and 2022, the outstanding loan balance due to the University totaled \$3,209,955 and \$3,192,543, respectively.

(b) Due from Related Entity

The University has lease payments due to or from SCMER under a lease agreement between the University and SCMER that began August 1, 2015. At June 30, 2023 and 2022, rental income distributed to the University by its equity method investee (SCMER) was less than payments made by the University on behalf of SCMER by a net amount of \$409,875 and \$473,227, respectively. The amounts are included in the consolidated statements of financial position as due from related entity, net.

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

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(19) Commitments and Contingencies

(a) Federal Audits

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

(b) Legal Matters

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

(20) Subsequent Events

The University management has evaluated subsequent events occurring subsequent to the financial reporting date of June 30, 2023 through October 13, 2023, the date on which the consolidated financial statements were issued, and determined there were no additional subsequent events requiring disclosure.

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

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

Schedule of Expenditures of Federal Awards

Year ended June 30, 2023

Federal grantor/pass-through grantor/program title	ALN/ contract number	Pass-through entity identifying number	Passed through to subrecipients	Federal expenditures
Major Programs:				
Student Financial Assistance Cluster:				
U.S. Department of Education:				
Federal Work-Study	84.033		\$ —	1,074,201
Federal Supplemental Educational Opportunity Grants	84.007		—	1,428,707
Federal Perkins Loan Program	84.038		—	3,718,948
Federal Pell Grant Program	84.063		—	9,213,833
Federal Direct Student Loan Program	84.268		—	127,439,264
TEACH Grant	84.379		—	80,625
Total U.S. Department of Education			—	142,955,578
U.S. Department of Health and Human Services:				
Nursing Faculty Loan Program	93.264		—	2,035,129
Health Profession Student Loan Program	93.342		—	1,833,095
Nursing Student Loans	93.364		—	1,313,717
Total U.S. Department of Health and Human Services			—	5,181,941
Total Student Financial Assistance Cluster			—	148,137,519
Education Stabilization Fund:				
Higher Education Emergency Relief Fund Student Portion	84.425E		—	2,675
Higher Education Emergency Relief Fund Institutional Portion	84.425F		—	2,381,927
Total Education Stabilization Fund			—	2,384,602
TRIO Cluster:				
Student Support Services	84.042		—	555,856
Upward Bound	84.047		—	1,000,764
Educational Opportunity Centers Program	84.066		—	505,814
Total TRIO Cluster			—	2,062,434
Total Major Programs			—	152,584,555
Research and Development Cluster:				
U.S. Department of Defense:				
National Guard Military Operations and Maintenance Projects:				
C-130 RBF Tooling Rework	12.CC Steven Murray		—	859
ALE-47 MDV Ph 2 & 3	12.FA2487-17-C-0051		—	5,065
USAF AIRCAT Support 2021 & Opt I	12.FA8504-20-F-0058		—	15
C130 FSIP Follow On Opt I	12.FA8504-21-F-0010		—	1,654,767
C130 AIRCAT 2022 & Opt I	12.FA8504-22-F-0023		—	2,318,657
C-130 FSIP 2023	12.FA8504-23-F-0011		—	1,744,954
AIRCAT Support F15 TCP Opt I & Opt II	12.FA8505-20-F-0037		—	89,926
SOF C130 SSES 2020 Opt I	12.FA8509-21-F-0038		—	176,046
SOF C130 SSES 2020 Opt II	12.FA8509-22-F-0030		—	2,230,352
BRU 52 Engineering Services Support	12.FA8520-20-F-0012		—	584,175
Missile MECSIP	12.FA8520-20-F-0020		—	1,058,922
Bomb Racks Digital Twin Development	12.FA8520-22-F-0031		—	1,425,596
QL Follow On 2020 Opt II & Opt III	12.FA8521-20-C-0002		—	1,128,743
APR-39 HMB	12.FA8523-16-C-0013		—	3,394
EWASIF LVC 2020 Opt I	12.FA8523-20-F-0029		—	722,364
ALQ 161 DAS Relocation	12.FA8523-20-F-0033		—	140,353
Aging Bomber EW Opt I & Opt II	12.FA8523-21-F-0005		—	2,843,186
EWASIF LVC 2022 & Opt I	12.FA8523-22-F-0015		—	3,065,918
C17 AWCM	12.FA8526-22-F-0018		—	471,898
E8 JSTARS NDI Procedures Opt I	12.FA8529-20-F-0005		—	491
MHU 83/101 Extreme Load Testing & Analysis	12.FA8532-20-F-0028		—	2,537
MHU 83 Outrigger Redesign	12.FA8532-22-F-0101		—	312,802
FMS Australian Hot Mock-Up Bench For APR-39 C V2	12.FA8540-15-C-0008		—	24,675
AIRCAT Precision Attack Opt I & Opt II	12.FA8540-21-F-0001		—	46,178
Rotary Wing Engin Support 2017 Opt IV & AFIRM Migration Support	12.FA8552-17-C-0006		—	29,917
USAF Rotary Wing Engin Support & Opt I	12.FA8552-22-F-0006		—	5,452,705
AIRCAT for C130 TCG Opt I & Opt II	12.FA8553-21-F-0001		—	205,314
SIMS Cyber & Operations & Opt I & Opt II	12.FA8571-20-F-0105		—	494,047
RSAF F15 Tooling & Equipment	12.FA8575-21-F-0003		—	2,120,254
NAVAIR MH 60 Fatigue Modeling Development Usage Characterization Opt II & Opt III	12.N00019-20-C-0010		—	813,354
Navy AIRCAT Follow ON & Opt I	12.N00019-21-C-0077		—	185,222
Navy DSC Enhancements	12.N66604-17-P-0246		—	60,533
ANG 116th Load Tester Opt III & Opt IV	12.W912JM-18-P-0043		—	25,932
Total National Guard Military Operations and Maintenance Projects			—	29,439,150

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

Schedule of Expenditures of Federal Awards

Year ended June 30, 2023

Federal grantor/pass-through grantor/program title	ALN/ contract number	Pass-through entity identifying number	Passed through to subrecipients	Federal expenditures
Library of Congress				
Passed-through Waynesburg University				
Teaching with Primary Sources: Same Storm Different Boats Documenting the Living History of the COVID-19 Pandemic	42.010	GA08C0016	\$ —	24,821
National Aeronautics and Space Administration:				
Passed-through National Space Grant Foundation				
Science: Nationwide Eclipse Ballooning Project (NEBP-116)	43.001	80NSSC22M0003	—	6,154
Passed-through Georgia Institute of Technology:				
Education-Georgia Space Grant (subaward number AWD-001629-G18)	43.008	80NSSC20M0094	—	9,595
Education-Georgia Space Grant (subaward number AWD-001629-G19)	43.008	80NSSC20M0094	—	8,000
Education-Georgia Space Grant (subaward number AWD-001629-G38)	43.008	80NSSC20M0094	—	13,769
Education-Georgia Space Grant (subaward number AWD-001629-G40)	43.008	80NSSC20M0094	—	7,653
Education-Georgia Space Grant (subaward number AWD-001629-G41)	43.008	80NSSC20M0094	—	16,862
Subtotal CFDA 43.008			—	55,879
Total National Aeronautics and Space Administration			—	62,033
National Science Foundation				
Passed-through University of Delaware:				
WoU-MMA: Cosmic-Ray Physics with IceCube (UDR0000264)	47.049	2209483	—	17,338
Social, Behavioral, and Economic Sciences-Collaborative Research:				
Building a Database to Determine Environmental and Familial Effects on Social and Biological Factors	47.075		—	5,665
Feeding Ontogeny at the Interface of Behavior and Morphology	47.075		18,341	39,225
Subtotal CFDA 47.075			18,341	44,890
Education and Human Resources-Developing Computer Science Master Teachers in Rural South GA	47.076		—	333,872
Total National Science Foundation			18,341	396,100
U.S. Department of Health and Human Services:				
Environmental Health-Uptake Mercury Basolateral Membrane Isolated Proximal Tubules	93.113		—	82,208
Drug Abuse and Addiction Research Programs:				
NIH NIDA Patch Compartment Neurons Behavior	93.279		—	7,494
Norepinephrine Modulates Medical Prefrontal Cortex Neural Ensembles that Control Cocaine Seeking Behavior	93.279		—	44,778
Subtotal CFDA 93.279			—	52,272
Cancer Biology Research-NIH Manipulation of the SUMO Machinery by EBV LMP1	93.396		—	51,717
Cardiovascular Diseases Research:				
Novel Mechanisms Arterial Contractility Regulation by Statins	93.837		—	128,722
Passed-through Vanderbilt University Medical Center:				
Targeting Mitochondrial Cyclophilin D in Vascular Oxidative Stress and Hypertension	93.837	R01HL144943-01A1	—	18,503
Subtotal CFDA 93.837			—	147,225
Lung Diseases Research-NIH ROS Beta 2 Adrenergic Receptor Function in Human Airway	93.838		—	96,675
Lung Diseases Research: Receptor Guided Targeted Therapy for Asthma	93.838		—	113,868
Subtotal CFDA 93.838			—	210,543
Passed-through University of Alabama at Birmingham:				
Arthritis, Musculoskeletal and Skin Diseases Research-Optimization Novel Molecular Arsenical Skin	93.846	1U01AR078544-01	—	89,539
Extramural Research Programs in the Neurosciences and Neurological Disorders:				
NIH Targeting Serotonin 5HT1A & 5HT7	93.853		—	102,066
Passed-through Emory University:				
NIH Oxytocin of Neuronal Excitability	93.853	1R01NS20676 01A1	—	41,912
Subtotal CFDA 93.853			—	143,978
Allergy and Infectious Diseases Research:				
NIH NIAID Whole Cell Neisseria Gonorrhoeae Miro Particulate Vaccine	93.855		—	174,614
NIH Herpesvirus Antiviral Drug PORT 1	93.855		27,176	101,355
Development of Novel Malaria Pre-Erythrocytic Vaccine Antigens Targeting Plasm Odium Sporozoite Liver Infection	93.855		—	9,040
Subtotal CFDA 93.855			27,176	285,009
Medical Library Assistance: Autism Spectrum Disorder in Rural Ga Education	93.879		—	44,445
Total U.S. Department of Health and Human Services			27,176	1,106,936
Total Research and Development Cluster			45,517	31,029,040
U.S. Department of Agriculture:				
Community Facilities Loans and Grants: Establishment of a Primary Care Clinic in Rural Taylor County	10.766		—	16,840
Distance Learning and Telemedicine Loans and Grants: Integrated Telebehavioral Health Project	10.855		—	96,166
Total U.S. Department of Agriculture			—	113,006
U.S. Department of Education:				
Rehabilitation Long-Term Training Program	84.129B		—	214,130
Passed-through Georgia Southern University:				
Research in Special Education – Supporting Effective Educator Development Program – Project Liberate	84.324	R34A190145 21	—	14,612
Georgia Educators Networking GENERATE	84.423		30,240	820,746
Total U.S. Department of Education			30,240	1,049,488
U.S. Department of Health and Human Services:				
Rural Health Research Centers: Rural Training Track Family Medicine Residency	93.115		—	110,304
Graduate Psychology Education: Chronic Pain Management	93.191		—	302,938
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider				
Quality Improvement-HRSA Rural Communities Opioid Response Open Implementation	93.912		181,785	511,996
Healthy Start Initiative-HRSA Eliminating Disparities	93.926		119,886	816,655
Passed-through Emory University:				
PPHF Geriatric Education Centers -Georgia Geriatrics Workforce Enhancement Program (Subaward number A344352)	93.969	U1QHP33070-01-00	—	102,345
Total U.S. Department of Health and Human Services			301,671	1,844,238
Total Federal Expenditures			\$ 377,428	186,620,327

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

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

Schedule of Expenditures of State of Georgia Awards
Year ended June 30, 2023

<u>Contract name</u>	<u>Expenditures</u>
Ga Public Defender Council Circuit Public Defender	\$ 28,857
Ga Department of Education GA Teacher Leadership Endorsement	71,390
Ga Department of Human Services, Division of Family and Children Services Mapping Autism Testing & Applied Behavioral	5,987
Ga Department of Public Health Implementation Barbershop MTM Pilot Project 40500-032-22224014	10,059
Ga Department of Public Health Hancock County COVID-19 Flu Vaccine Hesitancy Assessment	18,780
Ga Department of Public Health Healthy Equity Navigator Program Annex 737	428,939
Ga Department of Public Health COVID19 Flu Vaccine Hesitancy Needs Assessment, Hancock County, GA	32,625
Ga Department of Community Health Rural Health System Innovation Center 19045G	1,817,541
Ga Council for the Arts Healing A Haunted House FY22P31	164
Ga Council for the Arts Macon Art eXplosion 2022	4,239
Ga Humanities Binya Cumya Been Here Come Here Gullah Geechee Life and Culture on St. Simons Island and in Brunswick Georgia	2,030
Governor's Emergency Education Relief Fund GEER IHE	495,221
	<u>\$ 2,915,832</u>

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

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

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

June 30, 2023

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

The accompanying schedule of expenditures of federal awards (the Schedule) and schedule of expenditures of State of Georgia awards include the federal and state grant activity of The Corporation of Mercer University and its subsidiaries (the University) for the year ended June 30, 2023 and are presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of the Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

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

Moreover, expenditures include a portion of costs associated with general university activities (indirect costs), which are allocated to federal awards under negotiated formulas commonly referred to as indirect cost rates. Indirect costs and related revenue applicable to these cost recoveries are classified as unrestricted expenditures and revenue in the University's consolidated financial statements.

Negative balances represent programs with unfunded expenditures prior to normal closeout procedures, which were subsequently transferred to nonfederal cost centers. Restricted grants and contracts and other agreements are recognized in the Schedule when funds are expended and receivable from the federal government.

(2) Indirect Cost Rate

The University did not elect to use the 10% de minimis indirect cost rate as referenced in Uniform Guidance Section 200.414.

(3) Federal Loan Programs

Most federal financial assistance is in the form of cash awards. However, there are a number of federal programs that do not involve cash transactions with the University. These noncash transactions in which the University obtains other assistance are the Federal Direct Student Loan Program (FDSLPL), which includes the Federal Direct Stafford Student Loan Program (subsidized and unsubsidized) and Federal Direct Parent Loans for Undergraduate Students (PLUS), and revolving loan programs, such as the Federal Perkins Loan Program (FPL), the Health Profession Student Loan Program (HPSL), including Loans for Disadvantaged Students (LDS) and Primary Care Loans (PCL), the Nursing Student Loans Program (NSL), and the Nurse Faculty Loan Program (NFLP).

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

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

June 30, 2023

The loans advanced and related expenditures for the year ended June 30, 2023 are as follows for the FDSLPL:

	Assistance Listing Number	Amount
Federal Direct Student Loan Program:		
Student loans advanced:		
Direct Stafford Loan (subsidized)	84.268	\$ 9,270,435
Direct Stafford Loan (unsubsidized)	84.268	81,013,527
Federal Direct PLUS Loan	84.268	37,155,302
		\$ 127,439,264

The University is responsible for the performance of certain administrative duties with respect to the FDSLPL. It is not practicable to determine the balance of loans outstanding to students and former students of the University under these programs as of June 30, 2023. These loans are not included in the University's consolidated financial statements.

The FPL, HPSL, LDS, PCL, NSL, and NFLP programs are administered directly by the University, and balances and transactions relating to these programs are included in the University's consolidated financial statements. Balances of loans outstanding at June 30, 2023 are as follows:

FPL	\$ 2,770,820
HPSL	868,062
LDS	538,949
PCL	220,170
NSL	1,223,646
NFLP – consolidated	1,716,057
	\$ 7,337,704

(4) Matching

Under the Federal Supplemental Educational Opportunity Grant Program, the University matched \$476,236 in funds awarded to students for the year ended June 30, 2023 in addition to the federal share of expenditures presented in the Schedule.

Under the Federal Work Study Program, the University matched \$277,270 in total compensation to students for the year ended June 30, 2023 in addition to the federal share of expenditures included in the Schedule.

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

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

June 30, 2023

(5) Administrative Cost Allowance

The University recorded an administrative cost allowance of \$151,611 for the year ended June 30, 2023. This amount is included in the Schedule as federal expenditures under the Federal Work Study Program.



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**Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

The Board of Trustees
The Corporation of Mercer University:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of The Corporation of Mercer University and its subsidiaries (the University), which comprise the University's consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 13, 2023.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Atlanta, Georgia
October 13, 2023



KPMG LLP
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Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance and Schedule of Expenditures of State of Georgia Awards

The Board of Trustees
The Corporation of Mercer University:

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited The Corporation of Mercer University and its subsidiaries (the University)'s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2023. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditors' Responsibilities for the Audit of Compliance

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



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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the University's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the University's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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



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

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

We have audited the consolidated financial statements of the University as of and for the year ended June 30, 2023, and have issued our report thereon dated October 13, 2023, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of State of Georgia awards is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedules of expenditures of federal awards and of expenditures of State of Georgia Awards are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Atlanta, Georgia
March 27, 2024

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2023

(1) Summary of Auditor's Results

- a. Type of report issued on whether the consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles: **Unmodified**
- b. Internal control deficiencies over financial reporting disclosed by the audit of the consolidated financial statements:
 - Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- c. Noncompliance material to the consolidated financial statements: **No**
- d. Internal control deficiencies over major programs disclosed by the audit:
 - Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- e. The type of report issued on compliance for major programs: **Unmodified**
- f. Any audit findings, which are required to be reported under Section 2 CFR 200.516(a): **No**
- g. Major programs:
 - **Student Financial Assistance cluster** – ALNs 84.033, 84.007, 84.038, 84.063, 84.268, 84.379 and 93.264, 93.342, and 93.364
 - **Education Stabilization Fund** – ALNs 84.425E and 84.425F
 - **TRIO cluster** – ALNs 84.042, 84.047, and 84.066
- h. Dollar threshold used to distinguish between Type A and Type B programs: **\$1,154,484**
- i. Auditee qualified as a low-risk auditee: **Yes**

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

None

(3) Findings and Questioned Costs relating to Federal Awards

None