



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

Consolidated Financial Statements and Uniform Guidance Reports

June 30, 2022

(With Independent Auditors' Reports Thereon)

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

**Table of Contents**

	<b>Page</b>
Independent Auditors' Report	1
Consolidated Financial Statements – Years ended June 30, 2022 and 2021	3
Schedule of Expenditures of Federal Awards – Year ended June 30, 2022	41
Schedule of Expenditures of State of Georgia Awards – Year ended June 30, 2022	43
Notes to Schedules of Expenditures of Federal Awards and State of Georgia Awards	44
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 <i>Government Auditing Standards</i>	46
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	48
Schedule of Findings and Questioned Costs	51



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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, 2022 and 2021, 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, 2022 and 2021, 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 audit 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 audit. 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 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 11, 2022 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 11, 2022

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

Consolidated Statements of Financial Position

June 30, 2022 and 2021

<b>Assets</b>	<b>2022</b>	<b>2021</b>
Cash and cash equivalents	\$ 57,020,104	51,402,212
Restricted cash	930,760	608,135
Bond project fund	4,749,461	—
Accrued interest receivable	1,030,953	1,085,930
Accounts receivable, less allowance for uncollectible accounts of \$2,383,835 and \$2,670,676 at June 30, 2022 and 2021, respectively	14,169,639	14,506,083
Inventories	767,987	848,869
Contributions receivable, net (note 2)	1,913,898	2,037,552
Student loans receivable, net (note 3)	9,055,640	9,418,740
Note receivable (note 1(g))	12,250,000	12,250,000
Due from related entity, net (note 18)	473,227	175,423
Notes receivable from related entities (note 18), net	3,798,394	3,804,585
Investments (note 4)	369,346,583	387,824,514
Remainder interest trusts	6,213,228	6,874,392
Beneficial interests in perpetual trusts	73,502,381	87,177,911
Other assets	9,673,009	7,212,013
Property and equipment, net (notes 6 and 10)	<u>404,923,926</u>	<u>390,244,208</u>
Total assets	<u>\$ 969,819,190</u>	<u>975,470,567</u>
<b>Liabilities and Net Assets</b>		
Accounts payable, deposits, and accrued expenses	\$ 22,207,800	20,337,608
Accrued postretirement benefits (note 17)	691,184	826,158
Deferred revenue	12,722,482	12,843,189
Lease obligations (note 10)	3,950,263	4,175,090
Notes payable (note 7)	53,105,349	69,034,015
Annuity obligations	2,945,484	3,039,230
Asset retirement obligations (note 6)	4,322,226	4,452,846
Interest rate swaps (note 9)	744,846	2,331,459
Bonds payable, net (note 8)	247,483,257	218,172,834
Advances from federal government and others	<u>13,254,404</u>	<u>11,126,607</u>
Total liabilities	<u>361,427,295</u>	<u>346,339,036</u>
Net assets:		
Without donor restrictions	270,723,366	259,256,474
With donor restrictions (note 14)	<u>337,668,529</u>	<u>369,875,057</u>
Total net assets	<u>608,391,895</u>	<u>629,131,531</u>
Total liabilities and net assets	<u>\$ 969,819,190</u>	<u>975,470,567</u>

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Activities

Years ended June 30, 2022 and 2021

	<b>2022</b>	<b>2021</b>
Changes in net assets without donor restrictions:		
Operating revenue and other support:		
Tuition and fees	\$ 158,964,688	158,647,623
Government contracts	79,594,972	90,236,347
Private gifts and contracts	6,525,566	6,850,408
Sales and services of auxiliary enterprises	53,466,899	48,769,960
Investment income, net	8,216,463	6,586,967
Other revenue	1,302,041	1,806,846
Net assets released from restrictions (note 15)	15,810,194	16,866,301
Total operating revenue and other support	323,880,823	329,764,452
Operating expenses (note 13):		
Instruction	115,949,238	108,651,199
Research	44,826,927	45,215,907
Public service	2,537,164	2,345,817
Academic support	30,356,443	28,369,014
Student services	30,045,304	27,300,610
Institutional support	23,313,304	23,480,195
Auxiliary enterprises	68,413,360	63,299,628
Total operating expenses	315,441,740	298,662,370
Operating income	8,439,083	31,102,082
Nonoperating revenue (expenses):		
Net realized gains on investments	7,764,178	6,107,616
Net unrealized (losses) gains on investments	(4,057,179)	28,526,467
Postretirement benefit income	—	48,970
Change in fair value of interest rate swaps (note 9)	1,586,613	955,780
Loan administration and other expenses	(2,427,377)	(2,118,204)
Amortization of bond premium/discount and issuance costs	111,910	175,742
Loss on disposal of fixed assets	(80,956)	(7,164)
Other	130,620	(145,630)
Total nonoperating revenue	3,027,809	33,543,577
Change in net assets without donor restrictions	11,466,892	64,645,659

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

Consolidated Statements of Activities

Years ended June 30, 2022 and 2021

	<b>2022</b>	<b>2021</b>
Change in net assets with donor restrictions:		
Government grants and contracts	\$ 7,202,267	2,632,964
Private gifts, grants, and contracts	14,441,632	23,727,353
Net change in beneficial interests in perpetual trusts	(13,675,530)	16,050,428
Income on investments	1,735,661	926,647
Other transfers	2,582,435	4,080,285
Change in split-interest obligations	314,787	(248,454)
Net realized gains on investments	1,896,942	5,094,171
Net unrealized (losses) gains on investments	(30,894,528)	49,561,782
Net assets released from restrictions	(15,810,194)	(16,866,301)
Change in net assets with donor restrictions	(32,206,528)	84,958,875
Total change in net assets	(20,739,636)	149,604,534
Net assets at beginning of year	629,131,531	479,526,997
Net assets at end of year	\$ 608,391,895	629,131,531

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

Years ended June 30, 2022 and 2021

	<b>2022</b>	<b>2021</b>
Cash flows from operating activities:		
Change in net assets	\$ (20,739,636)	149,604,534
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	19,450,087	18,449,456
Net realized (gains) on investments	(9,507,596)	(11,046,776)
Net unrealized losses (gains) on investments	33,596,591	(77,829,811)
Net change in split-interest agreements	661,164	(248,454)
Net change in beneficial interests in perpetual trusts	13,675,530	(16,050,428)
Change in fair value of interest rate swaps	(1,586,613)	(955,780)
Private gifts restricted for long-term use	(6,955,014)	(2,441,062)
Loss on disposal of property and equipment	80,956	7,164
Amortization of bond discount/premium	(362,819)	(231,202)
Amortization of bond issuance costs	250,909	55,460
Receipt of agency funds (Federal Direct Student Loans)	121,727,956	123,540,306
Disbursement of agency funds (Federal Direct Student Loans)	(121,727,956)	(123,540,306)
Changes in assets and liabilities:		
Decrease in accrued interest receivable	54,977	57,737
Decrease (increase) in accounts receivable	336,444	(124,483)
Decrease (increase) in inventories	80,882	(54,861)
Decrease in contributions receivable	123,654	441,295
Increase in due to related entity, net	(297,804)	—
Increase in other assets	(2,592,233)	(625,742)
Increase in accounts payable, deposits, and accrued expenses	443,011	6,053,147
Decrease in accrued postretirement benefits	(134,974)	(48,970)
(Decrease) increase in deferred revenue	(120,707)	3,790,996
Decrease in asset retirement obligation	(130,620)	(269,570)
(Decrease) in advances from state government	—	(2,000,000)
Net cash provided by operating activities	<u>26,326,189</u>	<u>66,532,650</u>
Cash flows from investing activities:		
Purchases of property and equipment	(32,783,580)	(42,368,509)
Student loans awarded	(2,380,438)	(2,116,613)
Proceeds from student loan repayments	2,743,538	2,823,218
Receipts on notes receivable from related entities	6,191	725,417
Proceeds from sales of investments	9,290,706	12,975,807
Purchases of investments	(14,901,770)	(15,186,574)
Net cash used in investing activities	<u>(38,025,353)</u>	<u>(43,147,254)</u>

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

Consolidated Statements of Cash Flows

Years ended June 30, 2022 and 2021

	<b>2022</b>	<b>2021</b>
Cash flows from financing activities:		
Payments on finance obligations	\$ (32,488)	(30,817)
Payments on other liabilities/financing obligation	(61,102)	(60,554)
Payments on bonds payable	(53,498,275)	(7,892,703)
Payments on notes payable	(15,928,666)	(3,167,129)
Proceeds from notes payable	—	2,459,579
Proceeds from bonds payable	83,730,501	—
Payments on bonds issuance costs	(809,893)	—
Receipts from (payments on) advances from federal government and others, net	2,127,797	(9,114,070)
Proceeds from private gifts and grants restricted for long-term investment	6,955,014	2,441,062
Proceeds from (payments on) annuity obligations, net	(93,746)	236,775
	<b>22,389,142</b>	<b>(15,127,857)</b>
Net cash provided by (used in) financing activities		
Net increase in cash and cash equivalents	10,689,978	8,257,539
Cash, cash equivalents, and restricted cash at beginning of year	52,010,347	43,752,808
Cash, cash equivalents, and restricted cash at end of year	\$ 62,700,325	52,010,347
Reconciliation of cash, cash equivalents, and restricted cash:		
Cash and cash equivalents	\$ 57,020,104	51,402,212
Restricted cash	930,760	608,135
Bond project fund	4,749,461	—
Total cash, cash equivalents, and restricted cash	\$ 62,700,325	52,010,347
Supplemental disclosure:		
Cash paid for interest	\$ 10,599,493	10,947,726
Noncash activities:		
Property and equipment purchases included in accounts payable	\$ 1,487,081	2,914,262
Historic Bell House, LLC and Tattnell Square Center for the Arts, LLC		
notes receivables assumed with acquisition of related party LLCs	—	(5,588,868)
Historic Bell House, LLC and Tattnell Square Center for the Arts, LLC		
property and equipment additions with acquisition of related party LLCs	—	6,494,153

See accompanying notes to consolidated financial statements.

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

**(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.

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

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

When COVID-19 surfaced in 2020, Mercer University made a major investment in technology to provide virtual learning for isolating students. The University also utilized existing student health services to create a COVID-19 testing processing laboratory to quickly identify positive cases and prevent a local outbreak. While mitigation measures have been lifted in many places, the University continues to offer testing and health services as well as remote learning when needed. The health and wellness of our students continues to be a priority for the University.

**(c) Basis of Presentation**

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

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

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

Generally, donor-imposed restrictions of endowment 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.

**(d) Revenue Recognition**

Under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*, revenue is recognized when control of the promised goods or services is transferred in an amount that reflects the consideration to which 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.

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Tuition and fees consisted of the following for the years ended June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Undergraduate tuition and fees at stated rates	\$ 161,790,226	155,493,421
Graduate tuition and fees at stated rates	100,015,324	98,014,259
Institutional aid	(89,004,242)	(85,661,117)
Scholarships	<u>(13,836,620)</u>	<u>(9,198,940)</u>
Total	<u>\$ 158,964,688</u>	<u>158,647,623</u>

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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Residence and dining services, net of scholarships	\$ 25,338,934	23,774,712
Athletics and retail operations	4,404,781	2,786,675
General Services Administration lease income (note 6)	5,523,587	5,625,140
Clinic revenue	10,290,992	11,499,717
Bookstore	2,352,555	215,421
Other	<u>5,556,050</u>	<u>4,868,295</u>
Total	<u>\$ 53,466,899</u>	<u>48,769,960</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.

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

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.

**(e) 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 \$42,524,506 and \$52,610,405 for the years ended June 30, 2022 and 2021, respectively, and is included in government contracts in the accompanying consolidated statements of activities.

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

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

**(f) Inventories**

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

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

**(g) Note Receivable**

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

During fiscal year 2020, the University purchased LaGrange's 50% membership interest and then subsequently sold the 50% membership interest acquired from LaGrange to an unrelated third party in exchange for cash 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.

**(h) Investments**

Marketable securities are carried at fair value, as determined by quoted market prices. Real estate investments are stated at fair value based on appraised value as of the financial reporting date. 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 market 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.

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

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

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

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

**(j) Property and Equipment**

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

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

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

**(k) Leases**

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

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

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 the 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.

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

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

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

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

The University made an election 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, 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.

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

The University periodically assesses the realizability of its long-lived assets and evaluates such assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. For assets to be held, impairment is determined to exist if estimated future cash flows, undiscounted, and without interest charges are less than the carrying amount. There were no impairment losses for the years ended June 30, 2022 or 2021.

**(m) Asset Retirement Obligations**

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

**(n) Income Tax Status**

The University is recognized as an organization exempt from federal income tax under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3) whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to federal income tax. The University's management has reviewed its tax positions and determined that it does

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

not have material unrecognized tax positions that should be reflected in the consolidated financial statements for fiscal year 2022 or 2021.

**(o) *Derivative Financial Instruments***

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

**(p) *Cash, Cash Equivalents, 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 2021 bond series.

**(q) *Deferred Revenue***

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

**(r) *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.

**(s) *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.

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

**(t) Recently Adopted Accounting Standards**

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

- The effects of applying ASC Topic 842 resulted in the University recognizing additional lease liabilities of \$1,922,219 and corresponding ROU assets in the same amount at July 1, 2020. As a result, there was no cumulative-effect adjustment.

The University adopted ASC Topic 842 using a modified retrospective transition approach as of the effective date as permitted by the amendments in ASU No. 2018-11. The University has elected to adopt the package of transition practical expedients and, therefore, has not reassessed (1) whether existing or expired contracts contain a lease, (2) lease classification for existing or expired leases, or (3) the accounting for initial direct costs that were previously capitalized. The University did not elect the practical expedient to use hindsight for leases existing at the adoption date.

**(u) Reclassifications**

Certain reclassifications are reflected in the 2021 consolidated financial statements to conform to the 2022 presentation.

**(2) Contributions Receivable**

Contributions receivable are summarized as follows at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Contributions receivable, gross	\$ 4,493,250	4,722,250
Less:		
Allowance for doubtful accounts	(2,099,438)	(2,110,188)
Unamortized discount	<u>(479,914)</u>	<u>(574,510)</u>
Net unconditional promises to give	<u>\$ 1,913,898</u>	<u>2,037,552</u>
Unconditional promises expected to be collected in:		
One year	\$ 303,250	380,000
Two to five years	1,190,000	3,092,250
More than five years	<u>3,000,000</u>	<u>1,250,000</u>
	<u>\$ 4,493,250</u>	<u>4,722,250</u>

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

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

contributions. Estimated future cash flows to be received after one year were discounted at June 30, 2022 and 2021 at rates ranging from 1.55% to 5%.

At June 30, 2022 and 2021, one donor's outstanding pledge balance represented 93% and 95%, 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, 2022 and 2021, the University has allowances for uncollectible Perkins student loan accounts of \$673,095 and \$932,406, respectively, and general allowances for other student loans of \$1,234,110 and \$1,065,157, respectively.

Student loans receivable consist of the following at June 30, 2022 and 2021:

	<b>2022</b>	<b>2021</b>
Perkins loans receivable	\$ 3,739,417	5,180,035
Other student loans receivable	7,223,428	6,236,268
	10,962,845	11,416,303
Less allowance for doubtful accounts	(1,907,205)	(1,997,563)
	\$ 9,055,640	9,418,740

**(4) Investments**

Investments are recorded at fair value. The fair value and historical cost of investments at June 30, 2022 and 2021 are as follows:

	<b>2022</b>		<b>2021</b>	
	<b>Fair value</b>	<b>Cost</b>	<b>Fair value</b>	<b>Cost</b>
Cash and cash equivalents	\$ 8,562,838	8,562,838	10,730,966	10,730,959
Fixed income	20,502,028	22,615,668	18,452,693	17,110,747
Domestic equities	107,076,647	46,068,178	121,431,291	42,569,135
Global equities	86,811,852	82,307,668	107,663,191	78,329,312
Hedged equity funds of funds	31,859,857	23,103,320	36,224,272	25,922,057
Private equity and venture capital funds	51,557,360	29,142,496	36,541,269	22,813,609
Real assets	62,860,774	50,257,079	56,189,280	48,986,439
Miscellaneous investments	115,227	115,299	591,552	591,628
Total investments	\$ 369,346,583	262,172,546	387,824,514	247,053,886

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

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.

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.

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

As of June 30, 2022 and 2021, 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 \$132,789,586 and \$119,053,437, 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, 2022 and 2021, these investments can be redeemed or sold as follows:

	<u>2022</u>	<u>2021</u>	<u>Unfunded commitments at June 30, 2022</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>
Fixed income:					
U.S. and global core fixed-income funds (a)	\$ 4,049,627	3,879,953	—	Daily to monthly	15 Days
Domestic equities:					
Collective trusts (b)	24,288,735	27,166,465	—	Daily to quarterly	0–60 Days
Global equities:					
Developed markets (c)	11,424,159	11,705,625	—	Daily to monthly	0–10 Days
Hedge strategies:					
Long-/short-equity strategy (d)	16,318,629	22,156,992	—	Daily to annual	0–90 Days
Distressed and event driven (e)	10,847,291	11,064,716	—	Quarterly to annual	45–90 Days
Private equity and venture capital funds (f)	50,980,742	33,411,407	—	N/A	N/A
Real assets:					
Real asset and real estate investment trusts (g)	8,580,953	5,383,010	12,026,820	N/A	N/A
Commodities (h)	6,299,450	4,285,269	18,340,351	Monthly to illiquid	5 Days
	<u>\$ 132,789,586</u>	<u>119,053,437</u>	<u>30,367,171</u>		

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

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

- (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**

	2022	2021
Financial assets:		
Cash and cash equivalents	\$ 57,020,104	51,402,212
Restricted cash	930,760	608,135
Bond project fund	4,749,461	—
Accounts and student loans receivable	24,156,039	23,924,823
Endowment and other long-term investments	369,118,698	385,143,544
Beneficial interest trusts	73,502,381	87,177,911
Total	529,477,443	548,256,625
Less amounts not available for general expenditures within one year due to restrictions:		
Restricted cash	930,760	608,135
Bond project fund	4,749,461	—
Federal and institutional student loans	9,055,640	13,981,778
Donor-restricted endowment	228,265,436	249,121,620
Resources without donor restriction invested as endowment	150,788,476	139,159,109
Beneficial interest trusts	73,502,381	87,177,911
Total	467,292,154	490,048,553
Total financial assets available to meet general expenditures within one year (excludes donor restrictions and self-imposed restrictions)	\$ 62,185,289	58,208,072

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 beneficiary of the trust (the University) might need access to some or all of the principal of the trust. The donor's will provided that "[t]he trustees of each of the above trusts shall, at all times, be Trust Company Bank and two persons appointed by the person who, from time to time, is the chief executive officer of the institution. A majority vote by the trustees shall be required in deciding all questions regarding the management, care, and

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

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, 2022 and 2021 was \$47,392,784 and \$56,144,741, respectively.

**(6) Property and Equipment**

Property and equipment are summarized as follows at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Land and improvements	\$ 60,085,686	56,661,071
Buildings	554,852,474	507,186,335
Equipment	130,372,078	121,435,441
Construction in progress	<u>9,511,233</u>	<u>36,824,419</u>
	754,821,471	722,107,266
Less accumulated depreciation	<u>(349,897,545)</u>	<u>(331,863,058)</u>
Property and equipment, net	<u>\$ 404,923,926</u>	<u>390,244,208</u>

Depreciation expense totaled \$19,450,087 and \$18,449,456 in 2022 and 2021, 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.

The amount of debt (notes payable) assumed in conjunction with this transaction was \$45,602,690, and the net book value of the assets acquired was \$44,955,936 and was included in property and equipment in the accompanying statements of financial position. As of June 30, 2022 and 2021, the remaining principal was \$38,988,520 and \$40,918,186, respectively, and is included in notes payable in the accompanying consolidated statements of financial position.

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	\$ 4,452,846	4,722,416
Accretion expense	159,725	159,725
Obligations settled in current period	<u>(290,345)</u>	<u>(429,295)</u>
Balance at end of year	<u>\$ 4,322,226</u>	<u>4,452,846</u>

**(7) Notes Payable**

Notes payable consist of the following at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Payable to a lending institution with a fixed rate of 1.75% through June 30, 2022; the note is secured by certain assets. \$	—	12,250,000
Payable to a lending institution with a variable rate of LIBOR plus 0.75% (1.81% and 0.87% at June 30, 2022 and 2021, respectively) through September 30, 2024; the note requires monthly payments and is secured by certain real property and investments.	12,057,250	13,406,250
Payable to a lending institution with a variable rate of LIBOR plus 0.85% (2.17% and 2.00% at June 30, 2022 and 2021, respectively) through December 15, 2025. This note is secured by pledge payments.	2,059,579	2,459,579
Payable to a lending institution with a fixed rate of 3.573% through July 15, 2037; the note is secured by certain real property (note 6).	<u>38,988,520</u>	<u>40,918,186</u>
	<u>\$ 53,105,349</u>	<u>69,034,015</u>

Interest expense related to notes payable totaled \$1,830,825 and \$1,860,945 in 2022 and 2021, respectively.

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

At June 30, 2022, aggregate maturities of notes payable are as follows:

Year ending June 30:	
2023	\$ 4,282,747
2024	3,494,119
2025	12,549,855
2026	2,218,720
2027	2,297,556
Thereafter	<u>28,262,352</u>
	<u>\$ 53,105,349</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	
				2022	2021
2012A	Fixed: 4.00% to 5.25%	October 1, 2032	\$ 77,545,000	—	49,085,000
2012B	Fixed: 4.00% to 5.25%	October 1, 2032	9,790,000	5,235,000	5,760,000
2012C	Fixed: 3.75% to 5.25%	October 1, 2030	32,505,000	21,420,000	23,245,000
2013-1	Fixed with derivative	October 1, 2036	6,000,000	5,510,000	5,760,000
2013-2	Fixed with derivative	October 1, 2035	7,190,000	6,980,000	7,090,000
2013-3	Variable: 1.52% per loan statement at June 30, 2022	October 1, 2031	25,025,000	20,560,000	21,180,000
2013-4	Variable: 1.52% per loan statement at June 30, 2022	October 1, 2041	20,078,366	15,961,965	16,571,987
2013-5	Fixed with derivative	October 1, 2043	12,056,907	9,352,886	9,721,139
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	71,160,000	—
				<u>233,664,851</u>	<u>215,898,126</u>
	Less unamortized bond issuance costs			(1,441,095)	(882,111)
	Plus unamortized bond premiums, net			<u>15,259,501</u>	<u>3,156,819</u>
				<u>\$ 247,483,257</u>	<u>218,172,834</u>

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 portion of the cost of issuance for the series 2021 bonds. Principal and interest is due each October 1 with an interest rate of 5%. Final maturity date is October 1, 2050.

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

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 3.85% swap through October 1, 2036 (note 9). Interest on the 2013-2 and 2013-5 series is fixed with a 2.46% swap through February 1, 2024 (note 9).

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

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

Interest expense related to bonds payable totaled \$10,180,471 and \$8,892,034 in 2022 and 2021, respectively.

At June 30, 2022, aggregate maturities of bonds payable are as follows:

Year ending June 30:	
2023	\$ 8,194,412
2024	8,578,100
2025	9,007,800
2026	9,445,243
2027	9,923,181
Thereafter	<u>188,516,115</u>
	<u>\$ 233,664,851</u>

**(9) Derivative Financial Instruments**

The University had three interest rate swap agreements outstanding at June 30, 2022 and 2021:

Related-debt issue	2013-1	2013-2	2013-5
Effective date	May 2, 2006	December 4, 2018	December 4, 2018
Counterparty	Deutsche Bank	BB&T Bank	BB&T Bank
Notional amount	\$ 6,000,000	7,190,000	10,082,846
Termination date	October 1, 2036	February 1, 2024	February 1, 2024
Rate paid by the University	3.854 %	2.460 %	2.460 %
Rate paid by the counterparty	69% LIBOR	79% LIBOR	79% LIBOR

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

The following table summarizes the University's interest rate swaps not designated as hedging instruments as of June 30, 2022 and 2021:

	2022		2021	
	Fair value <sup>(1)</sup>	Change in fair value <sup>(2)</sup>	Fair value <sup>(1)</sup>	Change in fair value <sup>(2)</sup>
May 2, 2006 interest rate swap (2013-1)	\$ (747,060)	690,582	(1,437,642)	491,008
December 4, 2018 interest rate swap (2013-2)	1,250	385,377	(384,127)	196,357
December 4, 2018 interest rate swap (2013-5)	964	510,654	(509,690)	268,415
	\$ (744,846)	1,586,613	(2,331,459)	955,780

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

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

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

**(10) Leases**

**(a) Finance Leases**

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:

	2022	2021
Equipment	\$ 7,105,581	7,105,581
Less accumulated depreciation	(6,752,820)	(6,434,388)
	\$ 352,761	671,193

Amortization of assets held under finance leases is included as depreciation and amortization in operating expense 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 CORPORATION OF MERCER UNIVERSITY  
AND ITS SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

The components of lease cost for the years ended June 30, 2022 and 2021, which are included in operating expenses in the accompanying consolidated statement of activities, were as follows:

	<b>2022</b>	<b>2021</b>
Operating lease cost	\$ 589,532	505,561
Finance lease cost:		
Amortization of ROU assets	442,084	415,202
Interest on lease liabilities	114,587	92,941
Total finance lease cost	556,671	508,143
Total lease cost	\$ 1,146,203	1,013,704

**(c) Other Lease Disclosures**

Other information related to leases as of and for the years ending June 30, 2022 and 2021 was as follows:

	<b>2022</b>	<b>2021</b>
Supplemental cash flow information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flow from operating leases	\$ 1,189,638	1,014,283
Operating cash flow from finance leases	27,808	29,903
Financing cash flow from finance leases	93,590	91,371
ROU assets obtained in exchange for lease obligations:		
Operating leases	428,480	654,002
Finance leases	—	—
Weighted average remaining lease term (in years):		
Operating leases	3.67	3.33
Finance leases	22.48	24.00
Weighted average discount rate:		
Operating leases	6.31 %	2.98 %
Finance leases	1.88	3.36

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

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

For the years ended June 30, 2022 and 2021, ROU assets totaled \$1,375,780 and \$1,507,017, respectively, and are included in other assets in the accompanying consolidated statements of financial position.

Aggregate future payments under noncancelable operating and finance leases as of June 30, 2022 are as follows:

	<u>Operating leases</u>	<u>Finance leases</u>
2023	\$ 557,385	123,424
2024	501,512	119,843
2025	185,009	91,566
2026	153,352	94,313
2027	49,440	97,143
Thereafter	<u>145,298</u>	<u>2,356,591</u>
Total lease payments	1,591,996	2,882,880
Less amounts representing interest	<u>(216,216)</u>	<u>(308,397)</u>
Total obligations	<u>\$ 1,375,780</u>	<u>2,574,483</u>

**(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 2022 and 2021, the University

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

did not record any additions of property and construction. As a result, \$2,511,178 and \$2,572,279 represents the remaining lease obligation of the University as of June 30, 2022 and 2021, respectively, and is included in other liabilities in the accompanying consolidated statements of financial position.

**(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.

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

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 CORPORATION OF MERCER UNIVERSITY  
AND ITS SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

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, 2022 and 2021, as well as related strategy:

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
	82,787,912	—	—	24,288,735	107,076,647
Global equities:					
Developed markets	63,759,130	—	—	11,424,159	75,183,289
Emerging markets	11,628,563	—	—	—	11,628,563
	75,387,693	—	—	11,424,159	86,811,852
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
	4,693,937	—	—	27,165,920	31,859,857
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
	30,835,191	—	17,145,180	14,880,403	62,860,774
Miscellaneous investments	—	—	115,227	—	115,227
Total investments	218,720,063	—	17,836,934	132,789,586	369,346,583

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

June 30, 2022					
Assets	Level 1	Level 2	Level 3	Investments measured at NAV	Total
Beneficial interests in perpetual trusts	—	68,072,528	5,429,853	—	73,502,381
Remainder interest trusts	—	6,213,228	—	—	6,213,228
Total	\$ 281,420,388	74,285,756	23,266,787	132,789,586	511,762,517
Liabilities					
Interest rate swaps	\$ —	744,846	—	—	744,846

  

June 30, 2021					
Assets	Level 1	Level 2	Level 3	Investments measured at NAV	Total
Cash and cash equivalents	\$ 51,402,212	—	—	—	51,402,212
Restricted cash	608,135	—	—	—	608,135
Investments:					
Cash and cash equivalents	10,730,966	—	—	—	10,730,966
Fixed income:					
U.S. and global core fixed-income funds	14,572,740	—	—	3,879,953	18,452,693
Domestic equities:					
Traditional equity mutual funds and collective trusts	76,996,119	—	—	27,166,465	104,162,584
Stock	17,268,707	—	—	—	17,268,707
	94,264,826	—	—	27,166,465	121,431,291
Global equities:					
Developed markets	81,192,647	—	—	11,705,625	92,898,272
Emerging markets	14,764,919	—	—	—	14,764,919
	95,957,566	—	—	11,705,625	107,663,191
Hedged equity funds of funds:					
Long/short equity strategy	—	—	—	22,156,992	22,156,992
Distressed and event driven	3,002,564	—	—	11,064,716	14,067,280
	3,002,564	—	—	33,221,708	36,224,272
Private equity and venture capital funds	—	—	3,129,862	33,411,407	36,541,269

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

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

The following table presents activity for assets classified in Level 3 for the years ended June 30, 2022 and 2021:

Level 3 rollforward	Private equity and venture capital funds	Real assets	Beneficial interests in perpetual trusts	Miscellaneous investments	Total
Fair value at June 30, 2020	\$ 3,689,073	17,783,938	4,659,047	601,460	26,733,518
Purchases	—	—	—	—	—
Sales	(112,545)	(812,677)	—	(14,387)	(939,609)
Transfers to (from) Level 3	—	—	—	—	—
Gains (losses)	(446,666)	10,662	1,039,137	4,479	607,612
Fair value at June 30, 2021	3,129,862	16,981,923	5,698,184	591,552	26,401,521
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

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

As of June 30, 2022 and 2021, 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, 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.

**(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, 2022 or 2021.

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

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, 2022 and 2021, the Board of Trustees authorized the distribution and expenditure of 4.75% of a three-year average of pooled endowment market value.

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, 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	150,788,476	—	150,788,476
Total endowment funds	<u>\$ 150,788,476</u>	<u>301,767,818</u>	<u>452,556,294</u>

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

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

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

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>

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

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

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

**(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.

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	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>

Operating expenses, by natural and functional classification, for the year ended June 30, 2021 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	\$ 58,907,487	27,326,867	1,588,704	13,489,173	9,988,890	14,068,750	14,633,428	140,003,299
Benefits	17,772,885	7,249,588	326,877	4,643,108	4,020,029	3,019,461	4,736,260	41,768,208
Supplies and contractual agreements	23,014,145	8,791,710	402,782	6,165,563	10,414,053	3,065,228	33,440,294	85,293,775
Travel	403,505	160,021	27,454	105,546	108,627	171,769	1,317,279	2,294,201
Depreciation	5,828,915	1,191,082	—	3,854,217	1,788,039	1,457,220	4,329,982	18,449,455
Interest	2,724,262	496,639	—	111,407	980,972	1,697,767	4,842,385	10,853,432
Total operating expenses	<u>\$ 108,651,199</u>	<u>45,215,907</u>	<u>2,345,817</u>	<u>28,369,014</u>	<u>27,300,610</u>	<u>23,480,195</u>	<u>63,299,628</u>	<u>298,662,370</u>

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Operation and maintenance of plant expense for the years ended June 30, 2022 and 2021 totaled \$19,802,546 and \$19,098,071, respectively. Total fundraising expense for the years ended June 30, 2022 and 2021 totaled \$3,289,335 and \$3,050,007, respectively, and is included in institutional support in the accompanying consolidated statements of activities.

**(14) Net Assets**

Net assets with donor restrictions at June 30, 2022 and 2021 are available for the following purposes:

	<u>2022</u>	<u>2021</u>
Trusts funds held by others	\$ 73,502,381	87,177,911
Investment income held for distribution	24,454,571	54,134,739
Endowment funds invested for scholarships	68,677,970	66,342,605
Endowment funds invested for instruction and other support	<u>135,132,896</u>	<u>128,639,725</u>
Total endowment funds with donor restrictions	301,767,818	336,294,980
Gifts and other gifts available for scholarships	6,755,394	5,794,946
Gifts and other gifts available for capital	4,405,770	3,609,059
Gifts and other gifts available for instruction and support	19,924,812	18,688,977
Split-interest agreements, net	2,389,559	2,943,994
Donor-restricted loan funds	511,278	505,549
Pledges	<u>1,913,898</u>	<u>2,037,552</u>
Total net assets with donor restrictions	<u>\$ 337,668,529</u>	<u>369,875,057</u>

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

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

**(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, 2022 and 2021:

	<b>2022</b>	<b>2021</b>
Instructional grants and gifts	\$ 1,802,110	1,265,679
Public service and research grants and gifts	127,521	76,070
Academic support gifts	44,750	125,571
Student service gifts	163,315	107,186
Institutional support gifts	594,040	224,888
Equipment and other capital purchases	2,049,937	8,627,021
Scholarships	11,028,521	6,439,886
	\$ 15,810,194	16,866,301

**(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, 2022 and 2021 totaled \$9,682,343 and \$9,681,454, 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, 2022 and 2021, the University has recorded an accumulated postretirement benefit obligation of \$691,184 and \$826,158, respectively as other liabilities in the accompanying consolidated statements of financial position. 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. During 2021, the decrease in the accumulated postretirement benefit obligation of \$48,970 resulted from interest cost of \$14,547 netted against an actuarial loss of \$(41,125) and benefits paid of \$104,642, which includes claims and insurance premiums.

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 CORPORATION OF MERCER UNIVERSITY  
AND ITS SUBSIDIARIES**

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

The weighted average discount rate used in determining the accumulated postretirement obligation for both plans was 4.00% and 1.91% at June 30, 2022 and 2021, respectively. The annual rate of increase in the per capita cost of covered healthcare benefits was assumed to be 7.00% at June 30, 2022, with a ratable annual reduction until an ultimate rate of 6.00% is reached in 2023. 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, 2022 or 2021.

The benefits expected to be paid in connection with the plans in each of the years ending June 30, 2023– 2027 are \$95,000, \$89,000, \$83,000, \$75,000, and \$68,000, respectively. The aggregate benefits expected to be paid during the five year period beginning July 1, 2027 total \$252,000. These expected benefits are based on the same assumptions used to measure the University's benefit obligation at June 30, 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 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, 2022 and 2021, the remaining principal balance due to the University totaled \$605,850 and \$811,094, 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, 2022 and 2021, the outstanding loan balance due to the University totaled \$0. As of June 30, 2022 and 2021, 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, 2022 and 2021, the outstanding loan balance due to the University totaled \$3,192,543 and \$3,181,686, respectively.

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

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

**(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, 2022 and 2021, 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 \$473,227 and \$175,423, respectively. The amounts are included in the consolidated statements of financial position as due from related entity, net.

**(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**

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 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.

On July 29, 2022, the University refinanced with another financial institution its \$12,250,000 promissory note with an original maturity date of June 30, 2022 to extend the maturity date to July 29, 2024.

The University management has evaluated subsequent events occurring subsequent to the financial reporting date of June 30, 2022 through October 11, 2022, 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, 2022

Federal grantor/pass-through grantor/program title	ALN/ contract number	Pass-through entity identifying number	Passed through to subrecipients	Federal expenditures
Major Programs:				
Education Stabilization Fund:				
Higher Education Emergency Relief Fund Student Portion	84.425E		\$ —	7,202,247
Higher Education Emergency Relief Fund Institutional Portion	84.425F		—	1,523,784
Total HEERF Cluster			—	8,726,031
Research and Development Cluster:				
U.S. Department of Defense:				
National Guard Military Operations and Maintenance Projects:				
MagSim CCA Eglin	12.FA2823-21-P-0043		—	39,747
RIF BAA WUC for Rosetta Stone	12.FA8504-20-C-0006		—	298,659
USAF AIRCAT Support 2021 & Opt I	12.FA8504-20-F-0058		—	1,997,178
C130 FSIP Follow On & Opt I	12.FA8504-21-F-0010		—	4,012,636
SOF C130J Rosetta Stone Expansion	12.FA8504-21-F-0063		—	490,656
C130 AIRCAT 2022	12.FA8504-22-F-0023		—	221,780
F15 NDI Opt II	12.FA8505-18-F-0050		—	481
AIRCAT Support F15 TCP & Opt I	12.FA8505-20-F-0037		—	98,364
SOF C130 SSES 2020	12.FA8509-20-F-0025		—	185,589
SOF C130 SSES 2020 Opt I	12.FA8509-21-F-0038		—	2,112,700
BRU 52 Engineering Services Support	12.FA8520-20-F-0012		—	642,986
Missile MECSIP	12.FA8520-20-F-0020		—	1,004,287
QL Follow On 2020 Opt I & Opt II	12.FA8521-20-C-0002		—	1,020,513
EWASIF LIVE Constructive Closed Loop T&E Opt II	12.FA8523-18-F-0024		—	16,358
EWASIF Specialized Support	12.FA8523-19-F-0017		—	367,819
EWASIF LVC 2020 & Opt I	12.FA8523-20-F-0029		—	4,031,033
ALQ 161 DAS Relocation	12.FA8523-20-F-0033		—	168,189
KC 46 ALR 69A MDF Development	12.FA8523-20-F-0047		—	168,482
Aging Bomber EW & Opt I	12.FA8523-21-F-0005		—	2,987,750
EWASIF LVC 2022	12.FA8523-22-F-0015		—	359,465
C5M IW SATURN Upgrade	12.FA8525-20-F-0044		—	385,459
C17 Cargo Door Loads Measurement Testing	12.FA8526-20-F-0023		—	26,761
C17 Aging Aircraft Audit	12.FA8526-20-F-0025		—	152,654
E8 ASIP Engineering Services Opt IV	12.FA8529-17-C-0001		—	1,015,406
E8 JSTARS NDI Procedures & Opt I	12.FA8529-20-F-0005		—	1,118,743
MHU 83/101 Extreme Load Testing & Analysis	12.FA8532-20-F-0028		—	29,223
AIRCAT Precision Attack & Opt I	12.FA8540-21-F-0001		—	32,129
Rotary Wing Engin Support 2017 Opt III & Opt IV & AFIRM Migration Support	12.FA8552-17-C-0006		—	4,350,444
USAF Rotary Wing Engin Support	12.FA8552-22-F-0006		—	798,941
AIRCAT for C130 TCG & Opt I	12.FA8553-21-F-0001		—	173,932
SIMS Cyber & Operations & opt I	12.FA8571-20-F-0105		—	407,706
F15SA NLG Fixture	12.FA8575-19-F-0002		—	19
RSAF F15 Tooling & Equipment	12.FA8575-21-F-0003		—	3,307,959
F15SA Lighting Trim Panel Modification	12.FA8575-21-P-0002		—	44,098
NAVAIR MH 60 Fatigue Modeling Development Usage Characterization Opt I & Opt II	12.N00019-20-C-0010		—	1,081,907
Navy AIRCAT Follow ON	12.N00019-21 C-0077		—	409,245
ANG 116th Load Tester Opt II & Opt III	12.W912JM-18-P-0043		—	30,362
Total National Guard Military Operations and Maintenance Projects			—	33,589,660
Basic and Applied Research				
Atomic & Molecular Investigation Corrosion	12.300		—	333,299
Total U.S. Department of Defense			—	33,922,959
National Aeronautics and Space Administration:				
Passed-through Georgia Institute of Technology:				
Education-Georgia Space Grant (subaward number RF964-G9)	43.008	NNX15AP85H	—	5,208
Education-Georgia Space Grant (subaward number AWD-001629-G18)	43.008	80NSSC20M0094	—	6,313
Education-Georgia Space Grant (subaward number AWD-001629-G19)	43.008	80NSSC20M0094	—	12,000
Education-Georgia Space Grant (subaward number AWD-001629-G38)	43.008	80NSSC20M0094	—	1,523
Education-Georgia Space Grant (subaward number AWD-001629-G40)	43.008	80NSSC20M0094	—	14,215
Education-Georgia Space Grant (subaward number AWD-001629-G41)	43.008	80NSSC20M0094	—	2,765
Subtotal ALN 43.008			—	42,024
National Science Foundation:				
Social, Behavioral, and Economic Sciences-Collaborative Research:	47.075		16,566	34,190
Feeding Ontogeny at the Interface of Behavior and Morphology			—	2,816
Education and Human Resources-Developing Computer Science Master Teachers in Rural South GA	47.076		—	2,816
Total National Science Foundation			16,566	37,006

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

Schedule of Expenditures of Federal Awards

Year ended June 30, 2022

Federal grantor/pass-through grantor/program title	ALN/ contract number	Pass-through entity identifying number	Passed through to subrecipients	Federal expenditures
U.S. Department of Health and Human Services:	93.113			
Environmental Health-Uptake Mercury Basolateral Membrane Isolated Proximal Tubules			\$ —	137,817
Drug Abuse and Addiction Research Programs:				
NIH NIDA Patch Compartment Neurons Behavior	93.279		—	76,691
Cancer Biology Research-NIH Manipulation of the SUMO Machinery by EBV LMP1	93.396		—	72,293
Cardiovascular Diseases Research:				
Novel Mechanisms Arterial Contractility Regulation by Statins	93.837		—	73,529
Passed-through Vanderbilt University Medical Center:				
Targeting Mitochondrial Cyclophilin D in Vascular Oxidative Stress and Hypertension	93.837	R01HL144943-01A1	—	43,069
Subtotal ALN 93.837			—	116,598
Lung Diseases Research-NIH ROS Beta 2 Adrenegic Receptor Function in Human Airway	93.838		—	28,654
Receptor Guided Targeted Therapy for Asthma	93.838		—	99,591
Subtotal ALN 93.838			—	128,245
Passed-through University of Alabama at Birmingham:				
Arthritis, Musculoskeletal and Skin Diseases Research-Optimization Novel Molecular Arsenical Skin	93.846	1U01AR078544-01	—	88,600
Extramural Research Programs in the Neurosciences and Neurological Disorders:				
NIH NINDS Targeting GPR109A Lupus Erythematosus	93.853		—	79,949
NIH Targeting Serotonin 5HT1A & 5HT7	93.853		—	147,772
Passed-through Emory University:				
NIH Oxytocin of Neuronal Excitability	93.853	1R01NS20676 01A1	—	45,252
Subtotal ALN 93.853			—	272,973
Allergy and Infectious Diseases Research:				
NIH NIAID Whole Cell Neisseria Gonorrhoeae Miro Particulate Vaccine	93.855		—	60,437
NIH Herpesvirus Antiviral Drug PORT 1	93.855		21,344	94,934
Subtotal ALN 93.855			21,344	155,371
Grants for Primary Care Training and Enhancement-HRSA Physician Assistant Public Health				
Traineeship Program	93.884		—	1
Rural Health Care Services Outreach, Rural Health Network Development and Small Health				
Care Provider Quality Improvement-HRSA Rural Communities Opioid Response Planning	93.912		10,604	147,188
Healthy Start Initiative-HRSA Eliminating Disparities	93.926		120,150	884,869
Passed-through Emory University:				
Geriatric Education Centers -Georgia Geriatrics Workforce Enhancement				
Program (Subaward number A344352)	93.969	U1QHP33070-01-00	—	93,966
Total U.S. Department of Health and Human Services			152,098	2,174,612
Total Research and Development Cluster			168,664	36,176,601
Total Major Programs			168,664	44,902,632
Student Financial Assistance Cluster:				
U.S. Department of Education:				
Federal Work-Study	84.033		—	939,204
Federal Supplemental Educational Opportunity Grants	84.007		—	1,390,251
Federal Perkins Loan Program	84.038		—	5,072,115
Federal Pell Grant Program	84.063		—	8,630,012
Federal Direct Student Loan Program	84.268		—	122,704,982
TEACH Grant	84.379		—	39,606
Total U.S. Department of Education			—	138,776,170
U.S. Department of Health and Human Services:				
Nursing Faculty Loan Program	93.264		—	2,252,283
Health Profession Student Loan Program	93.342		—	1,893,492
Nursing Student Loan Program	93.364		—	1,192,255
Total U.S. Department of Health and Human Services			—	5,338,030
Total Student Financial Assistance Cluster			—	144,114,200
Corporation for National and Community Service:				
Passed-through Notre Dame:				
AmeriCorps-2020 Mission Volunteer Americorps	94.006	203769UMD	—	10,730
National Endowment for the Humanities IV Our Lives	45.024		—	8,731
U.S. Department of Education:				
TRIO Cluster:				
Student Support Services	84.042		—	606,196
Upward Bound	84.047		—	1,292,282
Educational Opportunity Centers Program	84.066		—	584,141
Total TRIO Cluster			—	2,482,619
Rehabilitation Long-Term Training Program	84.129B		—	253,900
Passed-through Georgia Southern University:				
Project Liberate	84.324	R34A190145 21	—	13,611
Total U.S. Department of Education			—	2,750,130
Total Nonmajor Programs			—	146,883,791
Total Federal Expenditures			\$ 168,664	191,786,423

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, 2022

<u>Program title</u>	<u>Contract number</u>	<u>Expenditures</u>
Circuit Public Defender	NA	\$ 19,000
Ga Department of Public Health Implementation Barbershop MTM Pilot Project	40500-032-22224014	5,518
Ga Department of Public Health Advancing Pharmacy Related Initiatives	40500-031-21213558	1,638
Ga Department of Public Health Hancock County COVID-19 Flu Vaccine Hesitancy Assessment	NA	46,237
Ga Department of Public Health Healthy Equity Navigator Program Annex 737	NA	42,140
Ga Department of Community Health Rural Health System Innovation Center	19045G	1,763,726
Ga Council for the Arts Healing A Haunted House	FY22P31	3,234
Ga Humanities They were Here Johns Creek	FY2021S13	2,500
Governor's Emergency Education Relief Fund GEER IHE	NA	916,456
		<u>\$ 2,800,449</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, 2022

**(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, 2022 and are presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

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

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

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

**(2) Indirect Cost Rate**

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

**(3) Federal Loan Programs**

Most federal financial assistance is in the form of cash awards. However, there are a number of federal programs that do not involve cash transactions with the University. These noncash transactions in which the University obtains other assistance are the Federal Direct Student Loan Program (FDSL), 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 Professions Student Loan Program (HPSL), including Loans for Disadvantaged Students (LDS) and Primary Care Loans (PCL), the Nursing Student Loan Program (NSL), and the Nurse Faculty Loan Program (NFLP).

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

Notes to Schedules of Expenditures of Federal Awards and State of Georgia Awards  
June 30, 2022

The loans advanced and related expenditures for the year ended June 30, 2022 are as follows for the FDSLPL:

	<b>Assistance Listing Number</b>	<b>Amount</b>
Federal Direct Student Loan Program:		
Student loans advanced:		
Direct Stafford Loan (subsidized)	84.268	\$ 9,502,576
Direct Stafford Loan (unsubsidized)	84.268	81,704,719
Federal Direct PLUS Loan	84.268	31,497,687
		\$ 122,704,982

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, 2022. 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, 2022 are as follows:

FPL	\$ 3,718,948
HPSL	878,022
LDS	558,029
PCL	258,544
NSL	1,138,355
NFLP – consolidated	1,809,774
	\$ 8,361,672

**(4) Matching**

Under the Federal Supplemental Educational Opportunity Grant Program, the University matched \$463,417 in funds awarded to students for the year ended June 30, 2022 in addition to the federal share of expenditures presented in the Schedule.

Under the Federal Work Study Program, the University matched \$240,183 in total compensation to students for the year ended June 30, 2022 in addition to the federal share of expenditures included in the Schedule.

**(5) Administrative Cost Allowance**

The University recorded an administrative cost allowance of \$143,098 for the year ended June 30, 2022. 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, 2022, 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 11, 2022.

**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 11, 2022



KPMG LLP  
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Atlanta, GA 30308-3210

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

The Board of Trustees  
The Corporation of Mercer University:

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

*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, 2022. 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, 2022.

*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, 2022, and have issued our report thereon dated October 11, 2022, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying 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 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  
January 13, 2023

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2022

**(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:
  - **Research and Development cluster** – various ALNs
  - Education **Stabilization** Fund – ALNs 84.425E and 84.425F
- h. Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- i. Auditee qualified as a low-risk auditee: **Yes**

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

None

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

None