MEHARRY MEDICAL COLLEGE

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

MEHARRY MEDICAL COLLEGE

Table of Contents

CROSSLIN
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

The Board of Trustees
Meharry Medical College
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Meharry Medical College and Subsidiary (the "College"), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

The Astoria • 3803 Bedford Avenue, Suite 103 • Nashville, Tennessee 37215 • phone: 615-320-5500 • fax: 615-329-9465 • www.crosslinpc.com
An Independent Member of The BDO Alliance USA

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Meharry Medical College and Subsidiary as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crosslin, PLLC

Nashville, Tennessee
October 26, 2018

MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30, 2018	June 30, 2017
Cash and cash equivalents	$ 10,335,404	$ 12,828,435
Accounts receivable, net	22,831,167	21,446,111
Student loans receivable, net	11,363,906	13,277,710
Contributions receivable, net	263,568	965,183
Investments	162,800,797	156,818,204
Investment in real estate, net	21,620,862	22,530,111
Plant facilities, net	115,806,988	115,645,109
Funds held by trustees	5,986,234	5,973,734
Deferred charges	4,187,848	2,560,071
Other assets - net pension asset	1,346,509	892,339
Total assets	$356,543,283	$352,937,007

LIABILITIES AND NET ASSETS

	2018	2017
Notes payable to banks, net	$ 11,326,077	$ 5,915,388
Accounts payable	3,751,545	3,458,560
Accrued liabilities	7,556,434	8,150,623
Advances under grants and contracts	367,616	207,734
Deferred revenue	14,936,218	14,796,935
Bonds payable, net	84,066,602	88,667,657
Obligations under capital lease	3,062,605	138,960
Government advances for student loans	9,377,563	11,644,139
Funds held in trust for others	1,097,569	635,647
Total liabilities	135,542,229	133,615,643
Unrestricted:		
Undesignated	47,616,342	45,643,384
Net pension asset	1,346,509	892,339
Unrealized loss on interest rate swap agreement	(1,973,668)	(2,866,216)
Refunding loss on debt service of bonds refinanced	(4,072,740)	(4,324,893)
Total unrestricted net assets	42,916,443	39,344,614
Temporarily restricted	19,226,526	27,277,179
Permanently restricted	158,858,085	152,699,571
Total net assets	221,001,054	219,321,364
Total liabilities and net assets	$ 356,543,283	$ 352,937,007

See accompanying notes to consolidated financial statements.

MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENTS OF ACTIVITIES

	Year Ended June 30, 2018	Year Ended June 30, 2017
Changes in unrestricted net assets:		
Operating revenues:		
Tuition and fees	$ 37,109,592	$ 36,055,657
Less College funded scholarships	(5,400,604)	(6,311,692)
Net tuition and fees	31,708,988	29,743,965
Government grants and contracts	45,754,879	47,307,904
Private gifts, grants, and contracts	2,620,983	3,106,899
Sales and services of educational departments	1,390,156	1,378,211
Other sources	6,001,819	6,869,277
Health services division	28,215,708	26,482,129
Net assets released from restrictions	29,057,594	26,674,175
Total operating revenues	144,750,127	141,562,560
Operating expenses:		
Instruction	24,599,610	25,721,002
Research	16,133,532	17,425,082
Public service	11,199,517	11,858,552
Academic support	22,169,541	18,546,101
Student services	3,962,701	4,212,880
Institutional support	33,776,208	31,438,857
Health services division	30,683,907	31,446,992
Total operating expenses	142,525,016	140,649,466
Increase in unrestricted net assets from operating activities	2,225,111	913,094
Nonoperating items:		
Change in net minimum pension asset	454,170	(30,483)
Change in market value of interest rate swap agreement, net	892,548	1,324,846
Increase in unrestricted net assets	3,571,829	2,207,457

MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENTS OF ACTIVITIES - Continued

	Year Ended June 30,	
	2018	2017
Changes in temporarily restricted net assets:		
Gifts, grants, and contracts	10,989,404	14,106,917
Income on long-term investments, net	5,504,165	4,974,504
Net realized and unrealized gains on investments	6,623,188	7,117,351
Net assets released from restrictions and reclassifications	(31,167,410)	(25,074,175)
Increase (decrease) in temporarily restricted net assets	(8,050,653)	1,124,597
Changes in permanently restricted net assets:		
Gifts and grants	4,048,698	6,294,182
Reclassifications	2,109,816	(1,600,000)
Increase in permanently restricted net assets	6,158,514	4,694,182
Increase in net assets	1,679,690	8,026,236
Net assets at beginning of year	219,321,364	211,295,128
Net assets at end of year	$ 221,001,054	$ 219,321,364

See accompanying notes to consolidated financial statements.

MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2018	Year Ended June 30, 2017
Cash flows from operating activities:		
Increase in net assets	$ 1,679,690	$ 8,026,235
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	6,831,019	6,639,859
Amortization of deferred charges and bond discount	91,868	78,458
Write-off of debt issuance costs	-	117,913
Contributions restricted for long-term investment	(4,048,699)	(6,294,182)
Net realized and unrealized (gains) loss on long-term investments	(6,623,188)	(8,717,351)
Changes in:		
Accounts receivable, net	(1,385,055)	9,126
Contributions receivable, net	701,615	198,666
Deferred charges	(1,627,777)	(2,560,071)
Other assets	(454,170)	30,483
Accounts payable	289,667	1,246,950
Accrued liabilities	2,329,456	(1,335,852)
Advances under grants and contracts	159,882	(48,227)
Deferred revenue	139,283	564,652
Funds held in trust for others	461,922	(277,516)
Net cash used in operating activities	(1,454,487)	(2,320,857)
Cash flows from investing activities:		
Acquisition of plant facilities	(6,083,648)	(2,489,655)
Sales (purchases) of investments, net	640,595	(944,044)
Funds held by trustees	(12,500)	42,065
Net cash used in investing activities	(5,455,553)	(4,991,634)
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	4,048,699	6,294,182
Student loans receivable, net	1,913,804	1,288,264
Change in government advances for student loans	(2,266,577)	(400,584)
Proceeds from issuance of notes payable	10,910,689	4,915,388
Principal repayments of notes payable	(5,500,000)	(10,785,365)
Proceeds from issuance of bonds	179,608	10,198,402
Principal repayments of bonds	(4,869,213)	(3,967,793)
Payment of debt issuance costs	-	(104,301)
Net cash provided by financing activities	4,417,010	7,438,193
Net (decrease) increase in cash and cash equivalents	(2,493,030)	1,725,702
Cash and cash equivalents at beginning of year	12,828,434	11,102,732
Cash and cash equivalents at end of year	$ 10,335,404	$ 12,828,434
Supplemental cash flow information:		
Cash paid for interest	$ 4,054,408	$ 2,955,850

See accompanying notes to consolidated financial statements.

A. ORGANIZATION AND PURPOSE

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

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting

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

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

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

The College classifies its support, revenue, expenses, gains and losses into three net asset categories according to donor-imposed restrictions. Net assets of the college and changes therein are classified as follows:

Unrestricted - Unrestricted net assets (which are free of donor-imposed restrictions) generally result from tuition and fees, revenues derived from providing educational and health services, receiving unrestricted government and private gifts, grants and contracts, less expenses incurred in providing educational and health services, raising contributions and performing administrative functions.

Temporarily Restricted - Temporarily restricted net assets generally result from contributions, earnings from endowed funds and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the College pursuant to those stipulations.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Permanently Restricted - Permanently restricted net assets generally represent the contributions and other inflows of assets whose use by the College is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the College.

Use of Estimates in the Preparation of Financial Statements

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

Contributions

The College reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. However, donor-restricted contributions whose restrictions are met in the same reporting period as received are reported in the consolidated statements of activities as unrestricted contributions. Expenses are reported as decreases in unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Contributions to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-composed restrictions, if any, on the contributions. An allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

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

Inventories

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

Accounts Receivable

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

Investments

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

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

Life Income and Gift Annuities

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

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Plant Facilities

Plant facilities are stated at cost or estimated fair value at dates of gifts, less accumulated depreciation, computed on the straight-line basis over the estimated useful lives of the various assets, which range from 5 years to 40 years. Depreciation and operation and maintenance charges are allocated to appropriate functional expense categories. Plant disposals are removed from the records at time of disposal. The College lifts restrictions on contributions for long-lived assets at the time the assets are acquired.

Debt Issuance Costs

Costs incurred in connection with the issuance of the College's bonds and notes payable have been capitalized and are being amortized using the straight-line method, which approximates the interest method, over the term of the related bonds and notes. The College presents debt issuance cost as a direct deduction from the carrying amount of the related liability. The College recognized amortization on debt issuance costs of $84,852 during 2018 and 2017.

Deferred Charges

Deferred charges consist of educational program costs specifically related to unrecognized tuition revenue and are recorded as deferred charges which are expensed as the program occurs.

Deferred Revenue

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

Derivative Financial Instruments

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

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Government Advances for Student Loans

Funds provided by the United States government under the Federal Perkins and Health Professions Student Loan programs are loaned to qualified students and may be reloaned after collection. These funds are ultimately refundable to the government and are therefore recorded as liabilities.

Health Services Division Revenue

Included in health services division revenue are amounts from the Meharry Medical Group, various clinics operated by the College and the Lloyd C. Elam Mental Health Center. The College has agreements with third-party payors that provide for payments to the College at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, per diem payments and capitation. Such revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Contractual adjustments are accrued on an estimated basis in the period that the related services are rendered and adjusted in future periods as final settlements are determined.

Program Services

The College's primary program services are instruction, research, health services, and public service. Expenses reported as academic support, student services, and auxiliary enterprises are incurred in support of these primary program services. Institutional support includes fundraising expenses of $2,542,722 and $2,218,160 in 2018 and 2017, respectively. For purposes of reporting fundraising expenses, the College includes those fundraising costs incurred by its Development Office as well as an estimate of payroll-related expenditures incurred by members of management in fundraising activities.

Income Taxes

The College has received a determination letter from the Internal Revenue service indicating it is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision for income taxes is made in the consolidated financial statements. The College is not classified as a private foundation.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The College accounts for the effect of any uncertain tax positions based on a more likely than not threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, any unrecognized tax benefit is estimated based on a cumulative probability assessment that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for the College include, but are not limited to, its tax-exempt status and determination of whether certain income is subject to unrelated business income tax. The College has determined that such tax positions do not result in an uncertainty requiring recognition.

Fair Value Measurements

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

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

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

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

Reclassifications

Certain reclassifications have been made to fiscal 2017 amounts to conform to the fiscal 2018 presentation.

C. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at June 30, 2018 and 2017:

	2018	2017
Receivable from grantors	$ 6,007,749	$ 5,405,038
Professional services receivable	4,221,837	7,372,022
Patient receivables, net of contractual and doubtful account allowances of $3,627,277 and $3,108,751 at June 30, 2018 and 2017, respectively	2,600,220	2,590,072
Student accounts receivable, net of allowance of $456,169 and $345,868 at June 30, 2018 and 2017, respectively	7,918,226	5,995,679
Other accounts receivable	2,083,135	83,300
Total accounts receivable, net	$22,831,167	$21,446,111

D. CONTRIBUTIONS RECEIVABLE

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

	2018	2017
Unconditional promises to give	$ 272,043	$ 985,563
Less unamortized discount at 5%	(8,475)	(20,380)
Unconditional promise to give, net	$ 263,568	$ 965,183
Amounts due in:		
Less than one year	$ 219,542	$ 941,354
Two to five years	52,501	44,026
	$ 272,043	$ 985,380

At June 30, 2018 and 2017, the College had also received bequest intentions and certain other conditional promises to give. These intentions and conditional promises to give are not recognized as assets and, if they are received, they will generally be restricted for specific purposes stipulated by the donors, primarily for faculty support, scholarships, or general operating support of a particular department or division of the College.

D. CONTRIBUTIONS RECEIVABLE

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

E. STUDENT LOANS RECEIVABLE

Student loans receivable at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Notes receivable - students	$ 11,661,713	$ 13,533,242
Less allowance for doubtful loans	(297,807)	(255,532)
	$ 11,363,906	$ 13,277,710

The College makes uncollateralized loans to students based on financial needs presented by the student. Student loans are funded through government loan programs or institutional resources. Upon graduation, the students have a grace period on government loans, at which time the loan will also begin accruing interest. Loan amounts are repaid through a third party billing service. Student loans are considered past due when payment has not been received in over 30 days. At June 30, 2018 and 2017, student loans represented 3.2% and 3.7% of total assets, respectively.

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

F. INVESTMENTS

Investments at June 30, 2018 and 2017, are summarized below:

	2018		2017	
	Fair Value	Cost	Fair Value	Cost
Marketable securities:				
Cash equivalents	$ 2,283,354	$ 2,283,354	$ 2,543,994	$ 2,543,994
Mutual funds	30,208	26,128	34,225	32,066
Common stocks	110,353,282	97,613,643	103,491,576	97,837,691
Bonds	28,476,521	29,422,825	29,898,734	27,451,179
Hedge funds	13,307,239	6,700,000	12,187,451	6,700,000
Other	8,350,193	9,103,245	8,662,224	9,451,055
Total investments	$162,800,797	$145,149,195	$156,818,204	$144,015,985
Investment in real estate, net of accumulated depreciation		$21,620,862		$22,530,111

Mutual funds for 2018 and 2017 are comprised solely of fixed income securities.

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

G. PLANT FACILITIES

Plant facilities consist of the following at June 30, 2018 and 2017:

	2018	2017
Land and land improvements	$ 8,591,782	$ 8,591,782
Buildings and building improvements	171,622,747	169,283,994
Equipment	40,406,990	36,838,862
Art	433,194	433,194
Library and visual aids	4,262,147	4,262,147
Construction in progress	432,941	256,174
	225,749,801	219,666,153
Less accumulated depreciation	(109,942,813)	(104,021,044)
Plant facilities, net	$ 115,806,988	$ 115,645,109

G. PLANT FACILITIES - Continued

Plant operations and maintenance expenditures of $8,605,941 and $10,918,568 for the fiscal years ended June 30, 2018 and 2017, respectively, are allocated among functional expenses based on square footage percentages.

Depreciation expense was $6,831,019 and $6,639,859 for 2018 and 2017, respectively (of which $909,250 in 2018 and 2017, was depreciation on the College's investment in real estate), is allocated among the various functional expense categories.

H. NOTES PAYABLE TO BANKS

The College has a $10,000,000 revolving line of credit with a financial institution. All accrued interest shall be paid on the first (1st) day of each quarter and the principal balance and all unpaid accrued interest shall be due on the maturity date, May 1, 2020. Interest shall accrue at the 1 month LIBOR rate on the first (1st) day of each calendar month. As of June 30, 2018 and 2017, the outstanding balance on the line of credit was $6,750,000 and $3,000,000, respectively.

The College has a $4,868,855 delayed draw loan agreement with a financial institution. The proceeds of this loan are to be used for the refinancing of debt, capital improvements, renovations to buildings, and expansion of educational programs. During the draw period, interest only at the rate of 2.9%, will be computed on the unpaid principal balance and is due and payable semi-annually commencing on February 1, 2017 and continuing through August 1, 2018. Beginning on February 1, 2019, semi-annual payments of principal and interest sufficient to fully amortization and pay the outstanding balance at August 1, 2018 over 10 years shall be due and payable on the first (1st) day of February and August through the August 1, 2026 maturity date, at which time any outstanding principal and interest is due. As of June 30, 2018 and 2017, the outstanding balance on this note totaled $4,576,077 and $2,915,388, respectively.

H. NOTES PAYABLE TO BANKS - Continued

The notes payable contain certain restrictive covenants, including a minimum debt service coverage ratio. The College was in compliance with the covenants and ratios at June 30, 2018.

Maturities of notes payable and the revolving line of credit at June 30, 2018, are as follows:

Year Ending June 30,	Amount
2019	$ 255,456
2020	7,273,313
2021	538,400
2022	554,553
2023	570,869
Thereafter	2,133,486
	$11,326,077

I. BONDS PAYABLE

Bonds payable consist of the following at June 30, 2018 and 2017:

	2018	2017
Revenue Bonds, Series 2016A	$ 8,212,674	$ 9,051,468
Revenue Bonds, Series 2016B	493,315	313,707
Future Advance Project Funding Bonds, Series A 2012-8	53,882,961	55,333,380
Revenue Bonds, Series 2009	17,025,000	17,025,000
Revenue Bonds, Series 1996, net of unamortized discount of $4,544 and $6,393 at June 30, 2018 and 2017, respectively	5,645,456	8,223,607
	85,259,406	89,947,162
Less:		
Unamortized debt issuance costs (Note B)	(1,192,804)	(1,278,580)
Total bonds payable, net	$ 84,066,602	$ 88,668,582

I. BONDS PAYABLE - Continued

On August 26, 2016, the College issued Revenue Bonds, Series 2016A and 2016B, in the amounts of $9,481,145 and for up to $1,250,000, respectively, through the Health and Educational Facilities Board of The Metropolitan Government of Nashville and Davidson County, Tennessee. Under the terms of the bond indenture, the proceeds are to be used to repay certain outstanding debt, provide additional funding for renovation of certain campus buildings and for the acquisition of certain land adjacent to the campus for future student housing and parking. The underlying promissory notes for the Revenue Bonds, Series 2016A and 2016B are payable in monthly principal and interest payments bearing interest at 2.90% through maturity on August 1, 2026. These bonds are collateralized by certain property of the College.

On August 30, 2012, the College closed on a capital project loan in the form of a Future Advance Project Funding Bond Series (A 2012-8) in an amount not to exceed $60,000,000. This funding was financed through the U.S. Department of Education's Capital Financing Program via Rice Capital Access Program, LLC. The loan proceeds are to be used for various campus construction projects. Under the terms of the loan agreements, capitalized interest through October 1, 2014 and the first monthly payment was due on November 2, 2015. The loan is a 30 year fixed rate loan to mature on March 1, 2042. During the construction phase, the rates were based on U.S. Treasury yields prevailing at the dates of each advance plus applicable federal financing bank and designated bonding fees. The interest on the Series A 2012-8 Bonds is fixed, equal to the U.S. Treasury Bond rate + 22.5 basis points. The trustee handling the bond issue, held sinking funds aggregating $5,986,234 and $3,860,123 at June 30, 2018 and 2017, respectively, that are to be applied to the debt obligation as payments become due.

On December 3, 2009, the College issued Adjustable Rate Revenue Refunding Bond, Series 2009 (Series 2009 Bonds), in the amount of $17,025,000 through the Health and Educational Facilities Board of the Metropolitan Government of Nashville and Davidson County, Tennessee. These bonds are collateralized by a letter of credit. Under the terms of the bond indenture, the proceeds were used to refinance $17,025,000 of the outstanding Series 1996 Revenue Bonds. The Series 2009 Bonds bear interest as determined weekly by the Remarketing Agent (0.16% at June 30, 2018).

The 2016, 2012 and 2009 bond issues contain certain restrictive covenants, including a minimum debt service coverage ratio. As of June 30, 2018 and 2017, the College was in compliance with all restrictive covenants including the minimum debt service coverage ratio.

I. BONDS PAYABLE - Continued

On August 14, 1996, the College issued Revenue Bonds, Series 1996, in the amount of $55,050,000 through the Health and Educational Facilities Board of The Metropolitan Government of Nashville and Davidson County, Tennessee. Under the terms of the bond indenture, the proceeds were used to refinance the Revenue Bonds, Series 1994 in the amount of $48,725,000. The Revenue Bonds, Series 1996 were also issued to provide additional funding for the hospital renovation, to improve and acquire equipment for other related facilities, and for working capital. The Series 1996 bonds bear interest semi-annually at 3.85% to 6.00%. These bonds are collateralized by (1) all right, title, and interest of the College to rental payments owed to the College pursuant to the lease of the Facility to the Metropolitan Government, (2) the lien on the Facility pursuant to a mortgage and a security agreement, and (3) all funds held under the indenture. The trustee handling the bond issue, held sinking funds aggregating $2,225,541 and $2,113,464 at June 30, 2018 and 2017, respectively, that are to be applied to the debt obligation as payments become due.

The aggregate scheduled principal maturities of bonds payable at June 30, 2018, are as follows:

Revenue Year Ending June 30,	Revenue Bonds Series 2016A	Revenue Bonds Series 2016B	Future Advance Project Funding Bonds Series A 2012-8	Revenue Bonds Series 2009	Revenue Bonds Series 1996	Total
2019	$ 864,463	$ 27,539	$ 1,558,953	$ -	$ 2,740,000	$ 5,190,955
2020	889,899	56,415	1,601,905	3,075,000	2,910,000	8,533,219
2021	915,554	58,041	1,646,308	3,230,000	-	5,849,903
2022	943,021	59,782	1,708,834	3,395,000	-	6,106,637
2023	970,768	61,541	1,760,363	3,570,000	-	6,542,672
2024 and thereafter	3,628,969	229,997	45,606,598	3,755,000	-	53,220,564
Principal maturities	8,212,674	493,315	53,882,961	17,025,000	5,650,000	85,263,950
Less unamortized discount	-	-	-	-	(4,544)	(4,544)
Less unamortized debt issue costs	(86,765)	(3,069)	(824,074)	-	(278,896)	(1,192,804)
Total bonds payable	$ 8,125,909	$ 490,246	$ 53,058,887	$17,025,000	$ 5,366,560	$ 84,066,602

J. INTEREST RATE SWAP ARRANGEMENTS

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

As of June 30, 2018 and 2017, the estimated fair value loss of the Series 2009 bond swap arrangement was $1,973,668 and $2,866,216, and is included in accrued liabilities and as a component of unrestricted net assets.

K. OBLIGATIONS UNDER CAPITAL LEASE

The College leases certain equipment and capital improvements with a cost of $3,351,918 from a financial institution. These leases have been recorded in the accounts of the College as capital leases. Under the terms of the agreements, the obligations are due in aggregate monthly payments of principal and interest of $72,809 which includes interest at a rate of 5.69%.

Minimum lease commitments at June 30, 2018 under the above mentioned capital leases are as follows:

Year Ending July 31,	Amount
2019	$ 914,018
2020	896,717
2021	873,714
2022	643,705
	3,328,154
Less: amounts representing interest	(265,549)
Present value of net minimum lease commitments	$ 3,062,605

L. EMPLOYEE BENEFIT PLANS

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

403(b) Meharry Medical College Defined Contribution Plan

The Plan is a defined contribution plan which covers substantially all employees except those in the residency programs. Union and non-union employees are eligible to participate upon reaching the age of eighteen, and are eligible to receive matching contributions upon reaching the age of twenty-one and completing one year of service. The Plan is funded by employee contributions which may not exceed the Internal Revenue Service annual limitations ($18,000 for individuals less than age 50 for calendar years 2017 and 2016; and $24,000 for individuals age 50 and older for calendar years 2017 and 2016).

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

The employer expense under this plan for the years ended June 30, 2018 and 2017 amounted to $1,914,329 and $1,940,271, respectively.

Retirement Income Plan

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

L. EMPLOYEE BENEFIT PLANS - Continued

The status of the plan at June 30, 2018 and 2017, was as follows:

	2018	2017
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$ 4,069,024	$ 3,889,392
Service cost	42,541	56,802
Interest cost	218,116	240,581
Loss (gain) due to plan experience	(142,163)	480,880
Actual benefit disbursements and settlement	(275,037)	(598,631)
Projected benefit obligation at the end of year	3,912,481	4,069,024
Change in plan assets:		
Fair value of plan asset at beginning of year	4,961,363	4,812,214
Actual contributions	275,000	275,000
Actual benefit disbursements and settlements	(275,037)	(598,631)
Actual return on plan assets	297,664	472,780
Fair value of plan assets at end of year	5,258,990	4,961,363
Funded status:		
Net pension asset	$ 1,346,509	$ 892,339
Key assumptions:		
Discount rate	7.50%	7.50%

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

L. EMPLOYEE BENEFIT PLANS - Continued

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

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

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

The College expects to contribute $287,000 to its pension plan in the year ended June 30, 2019.

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

2019	$287,135
2020	229,392
2021	228,853
2022	225,530
2023	198,328
2024 to 2028	1,240,399

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

M. NET ASSETS

Under provisions of ASC 958, unrestricted net assets are those which are not subjected to donor-imposed restrictions. Substantially all of the net assets classified as unrestricted in the consolidated statements of financial position as of June 30, 2018 and 2017 have been invested in property and equipment.

The refunding of debt service amounts shown as a reduction of unrestricted net assets resulted from refinancing transactions in 1997 and 1999, and represents the loss recognized under accounting principles generally accepted in the United States of America to enact the refinancing. This component of unrestricted net assets is being amortized into unrestricted net assets available for operations over the lives of the related bond issues.

Temporarily restricted net assets are primarily available for scholarships and instruction and research.

Permanently restricted net assets consist primarily of perpetual endowment funds, scholarships, and instruction and research.

N. FAIR VALUES OF FINANCIAL INSTRUMENTS

Required disclosures concerning the estimated fair value of financial instruments are presented below. The estimated fair value amounts have been determined based on the College's assessment of available market information and appropriate valuation methodologies. The following table summarizes required fair value disclosures under ASC 825 *Financial Instruments* and measurements at June 30, 2018 and 2017 for the assets measured at fair value on a recurring basis under ASC 820 *Fair Value Measurements*:

June 30, 2018	Carrying Amount	ASC 825 Estimated Fair Value	Assets/Liabilities Measured at Fair Value	Fair Value Measurements Using Level 1	Level 2	Level 3
Assets:						
Contributions receivable	$ 263,568	$ 263,568	$ 263,568	$ -	$ 263,568	$ -
Investments:						
Cash equivalents	2,283,354	2,283,354	2,283,354	2,283,354	-	-
Mutual funds	30,208	30,208	30,208	34,225	-	-
Common stocks	110,353,283	110,353,283	110,353,283	110,353,283	-	-
Bonds	28,476,521	28,476,521	28,476,521	-	28,476,521	-
Other	8,350,193	8,350,193	8,350,193	8,350,193	-	-
Liabilities:						
Bonds payable	84,066,602	84,264,590	-	-	-	-
Note payable	11,326,077	10,953,417	-	-	-	-
Interest Rate Swap Agreement	1,973,668	1,973,668	1,973,668	-	1,973,668	-

June 30, 2017	Carrying Amount	ASC 825 Estimated Fair Value	Assets/Liabilities Measured at Fair Value	Fair Value Measurements Using Level 1	Level 2	Level 3
Assets:						
Contributions receivable	$ 965,183	$ 965,183	$ 965,183	$ -	$ 965,183	$ -
Investments:						
Cash equivalents	2,543,994	2,543,994	2,543,994	2,283,354	-	-
Mutual funds	34,225	34,225	34,225	30,208	-	-
Common stocks	103,491,576	103,491,576	103,491,576	103,491,576	-	-
Bonds	29,898,734	29,898,734	29,898,734	-	29,898,734	-
Other	8,662,224	8,662,224	8,662,224	8,662,224	-	-
Liabilities:						
Bonds payable	88,667,657	87,775,241	-	-	-	-
Note payable	5,915,388	5,319,111	-	-	-	-
Interest Rate Swap Agreement	2,866,216	2,866,216	2,866,216	-	2,866,216	-

N. FAIR VALUES OF FINANCIAL INSTRUMENTS - Continued

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

Cash and Cash Equivalents and Funds Held by Trustees

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

Accounts and Student Loans Receivable

Accounts receivable consist primarily of receivables from grantor agencies, professional and patient receivables and other short-term receivables. The student loans receivable of $11,363,906 and $13,277,710 at June 30, 2018 and 2017, respectively, consist principally of government loan programs and are not readily marketable. The College has estimated their fair value to be the carrying value.

Contributions receivable

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

Investments

The fair value of investments, as disclosed in Note F has been calculated based on quoted market prices, where available, and certain other Level 2 inputs. The University has certain investments in hedge funds that invest in multi-faceted, domestic and international companies operating in various industries. Each hedge fund employs its own strategies in determining investment opportunities. The fair values of these investments are estimated at the net asset value per share of the investments, using the practical expedient, and are therefore not required to be included in the fair value hierarchy table. Hedge funds valued at net asset value as of June 30, 2018 and 2017 were $13,307,239 and $12,187,451, respectively.

Accounts Payable, Accrued Liabilities, and Deferred Revenues

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

N. FAIR VALUES OF FINANCIAL INSTRUMENTS - Continued

Bonds Payable and Notes Payable

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

Interest Rate Swap Agreements

Fair value has been estimated as the difference between the estimated future interest payments at contractual variable rates and expected future variable rates as of June 30, 2018 and 2017, respectively, and fixed interest rates specified in the related swap agreements, discounted to present value.

The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2018 and 2017, respectively. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of the consolidated financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

O. COMMITMENTS AND CONTINGENT LIABILITIES

The College leases certain buildings and equipment under non-cancelable operating leases which expire at various dates through 2023. Rent expense under these lease arrangements amounted to $755,032 and $755,265 for the years ended June 30, 2018 and 2017, respectively.

Future minimum rental payments required under operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2018, are as follows:

Year Ending June 30,	Amount
2019	$ 599,666
2020	312,359
2021	119,126
2022	110,989
2023	117,709
Thereafter	-
Total	$1,259,849

O. COMMITMENTS AND CONTINGENT LIABILITIES - Continued

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

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

P. CONCENTRATIONS OF CREDIT RISK

The College, in connection with its activities, grants credit that involves, to varying degrees, elements of risk. The maximum accounting loss from credit risk is limited to the amounts that are recognized in the accompanying consolidated statements of financial position as accounts receivable at June 30, 2018 and 2017.

Financial instruments which potentially subject the College to concentrations of credit risk consist principally of cash and investments held by the College and certain investment institutions. Cash at June 30, 2018 and 2017 includes demand deposits at high quality financial institutions. The deposits are exposed to credit risk to the extent they exceed federally insured limits. The exposure to concentrations of credit risk relative to securities is dependent on the College's investment objectives and policies.

Q. ENDOWMENT

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

Interpretation of Relevant Law

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

- the duration and preservation of the fund;
- the purposes of the College and the donor-restricted endowment fund;
- general economic conditions;
- the possible effect of inflation and deflation;
- the expected total return from income and the appreciation of investments;
- other resources of the College; and
- the investment policies of the College

Q. ENDOWMENT - Continued

Endowment Net Asset Composition by Type of Fund as of July 31, 2018 and 2017

2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$17,890,820	$158,858,085	$176,748,905
Board-restricted endowment funds	6,917,443	-	-	6,917,443
Total funds	$6,917,443	$17,890,820	$158,858,085	$183,666,348

2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$14,529,972	$152,699,571	$167,229,543
Board-restricted endowment funds	5,906,880	-	-	5,906,880
Total funds	$5,906,880	$14,529,972	$152,699,571	$173,136,423

Q. ENDOWMENT - Continued

Changes in Endowment Net Assets

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2016	$ -	$ 12,583,744	$ 148,005,389	$ 160,589,133
Investment return:				
Investment income	-	4,940,868	-	4,940,868
Net depreciation (realized and unrealized)	-	7,117,351	-	7,117,351
Total investment return	-	12,058,219	-	12,058,219
Contributions	-	-	6,294,182	6,294,182
Appropriation of endowment assets for expenditure	-	(5,805,111)	-	(5,805,111)
Board-designated endowment	5,906,880	(5,906,880)	-	-
Reclassifications/transfers	-	1,600,000	(1,600,000)	-
Endowment net assets, June 30, 2017	5,906,880	14,529,972	152,699,571	173,136,423
Investment return:				
Investment income	-	5,504,165	-	5,504,165
Net appreciation (realized and unrealized)	-	6,623,188	-	6,623,188
Total investment return	-	12,127,353	-	12,127,353
Contributions	-	-	4,048,698	4,048,698
Appropriation of endowment assets for expenditure	-	(5,646,126)	-	(5,646,126)
Reclassifications/transfers	1,010,563	(3,120,379)	2,109,816	-
Endowment net assets, June 30, 2018	$ 6,917,443	$ 17,890,820	$ 158,858,085	$ 183,666,348

Q. ENDOWMENT - Continued

Return Objectives and Risk Parameters

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce on average, over a period of five years, a total rate of return between 6% to 9% per year. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

R. SUBSEQUENT EVENTS

The College has evaluated subsequent events through October 26, 2018, the issuance date of the College's consolidated financial statements, and has determined that there are no subsequent events that require disclosure.