

Morehouse School of Medicine, Inc. and Affiliate

Consolidated Financial Statements and Other Financial Information and Reports
and Schedules Related to Office of Management & Budget Circular A-133

Years Ended June 30, 2009 and 2008

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Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of the Financial Statements Performed in Accordance with

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In accordance with Government Auditing Standards, we have also issued our report dated February 8, 2010, on our consideration of the School'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

Our audit was performed for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards, Schedule of State of Georgia Awards Expended and Statement of State of Georgia Award Revenues and Expenditures Compared to Budgets are a required part of the consolidated financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the US Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. Schedule of State of Georgia Awards Expended and the Statement of State of Georgia Award Revenues and Expenditures Compared to Budgets are required by the Georgia Department of Human Resources Directive PRO 124. External Entities Audit Standards. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

February 8, 2010

	June 30	
	2009	2008
Assets		
Cash and cash equivalents	\$ 10,707,512	\$ 9,170,537

Morehouse School of Medicine, Inc. and Affiliate

Consolidated Statements of Activities and Changes in Net Assets

Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions				
Tuition and fees	\$ 7,467,801	\$ -	\$ -	7,467,801
Student aid	(1,574,305)	-	-	(1,574,305)
Tuition and fees, net of student aid	5,893,496	-	-	5,893,496
Federal, state, and local government grants and contracts	97,779,461	-	4,781,250	102,560,711
Private gifts, grants, and contracts	8,708,190	3,937,064	1,099,554	13,744,808
Faculty practice plan	9,271,629	-	-	9,271,629
Investment losses	(1,917,270)	(6,057,430)	-	(7,974,700)
Other sources	357,902	-	-	357,902
Net assets released from restrictions	4,368,531	(4,368,531)	-	-
Total revenues and other additions	124,461,939	(6,488,897)	5,880,804	123,853,846
Expenditures				
Education and general:				
Instruction	37,368,304	-	-	37,368,304
Research	20,305,617	-	-	20,305,617
Public service	13,043,587	-	-	13,043,587
Academic support	8,543,750	-	-	8,543,750
Student services	1,909,925	-	-	1,909,925
Institutional support	21,901,399	-	-	21,901,399
Facilities operations and maintenance	4,240,746	-	-	4,240,746
Depreciation	3,706,968	-	-	3,706,968
Faculty practice plan	8,747,019	-	-	8,747,019
Total expenditures	119,767,315	-	-	119,767,315
Change in net assets before accounting change	4,694,624	(6,488,897)	5,880,804	4,086,531
Change in accounting principle (unexpended net assets)	(1,419,292)	1,419,292	-	-
Change in net assets after accounting change	3,275,332	(5,069,605)	5,880,804	4,086,531
Net assets at beginning of year	58,900,381	8,159,394	54,052,171	121,111,946
Net assets at end of year	\$ 62,175,713	\$ 3,089,789	\$ 59,932,975	\$ 125,198,477

See accompanying notes.

Morehouse School of Medicine, Inc. and Affiliate

Consolidated Statements of Activities and Changes in Net Assets

Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions				
Tuition and fees	\$ 7,080,820	\$ -	\$ -	\$ 7,080,820
Student aid	(1,452,405)	-	-	(1,452,405)
Tuition and fees, net of student aid	5,628,415	-	-	5,628,415
Federal, state, and local government grants and contracts				
	86,132,501	-	5,000,000	91,132,501
Private gifts, grants, and contracts	8,970,829	2,380,501	468,825	11,820,155
Faculty practice plan	9,801,193	-	-	9,801,193
Investment earnings (losses)	169,787	(1,930,233)	-	(1,760,446)
Other sources	441,577	-	-	441,577
Net assets released from restrictions	3,599,821	(3,599,821)	-	-
Total revenues and other additions	114,744,123	(3,149,553)	5,468,825	117,063,395
Expenditures				
Education and general:				
Instruction	36,325,594	-	-	36,325,594
Research	20,160,808	-	-	20,160,808
Public service	13,519,396	-	-	13,519,396
Academic support	7,941,670	-	-	7,941,670
Student services	1,966,284	-	-	1,966,284
Institutional support	19,610,483	-	-	19,610,483
Facilities, operations and maintenance	3,533,692	-	-	3,533,692
Depreciation	4,128,088	-	-	4,128,088
Faculty practice plan	8,727,659	-	-	8,727,659
Total expenditures	115,913,674	-	-	115,913,674
Change in net assets	(1,169,551)	(3,149,553)	5,468,825	1,149,721
Net assets at beginning of year	60,069,932	11,308,947	48,583,346	119,962,225
Net assets at end of year	\$ 58,900,381	\$ 8,159,394	\$ 54,052,171	\$ 121,111,946

See accompanying notes.

Morehouse School of Medicine, Inc. and Affiliate

Morehouse School of Medicine, Inc. and Affiliate
Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts

Morehouse School of Medicine, Inc. and Affiliate

Morehouse School of Medicine, Inc. and Affiliate
Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Morehouse School of Medicine, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Georgia Appropriation Funds and Disproportionate Share Funds

The School has three agreements with the Georgia Board for Physician Workforce (Georgia Board) under which resources were received by the School from the Georgia Board for the purposes of both maintaining the School and training the School's postgraduate residents. The Georgia Board, an appointed arm of the state of Georgia, was formed to encourage and support the training of family physicians to address the need for family physicians in certain areas of the State of Georgia. The Georgia Board is solely responsible for administering all Georgia appropriations related to medical care. The accompanying consolidated financial statements include approximately \$12,729,000 and \$12,597,000 in revenues relating to these agreements for the years ended June 30, 2009 and 2008, respectively, which are reflected as federal, state, and local government grants and contracts in the consolidated statements of

Morehouse School of Medicine, Inc. and Affiliate
Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

payable in monthly installments of \$94,717, commencing on January 31, 2010 through December 31, 2016. Although the note carries no interest rate, the School has discounted the note utilizing an imputed interest rate of 2.40%.

Grants

The School has been awarded grants and contracts for which the funds have not been received or expenditures made for the purposes specified in the award. These awards have not been reflected

Morehouse School of Medicine, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Net patient service revenue is summarized below:

	Year Ended June 30	
	2009	2008
Patient service charges	\$ 27,451,838	\$ 24,989,136
Less charges related to charity care	(9,825,831)	(8,823,890)
Less other contractual adjustments and deductions	(11,751,010)	(10,765,403)
Net patient service revenue	<u>\$ 5,874,997</u>	<u>\$ 5,399,843</u>

Consistent with its goal of providing medical care to the sick, regardless of their ability to pay for services, MMA provides patient care without charge or at amounts less than established rates. Certain of these amounts are pursued for collection through the efforts of internal and external business office personnel. Collections on such self-pay balances represented approximately \$291,235 and \$263,000 for the years ended June 30, 2009 and 2008, respectively. Amounts not expected to be collected from self-pay accounts are classified as charity care and reflected in net patient service revenue.

Periodically, management assesses the collectability of self-pay accounts based upon historical collection experience. The results of this review are then used to make any modifications to the amount recorded as charity care to establish appropriate self-pay accounts receivable balances.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that the recorded estimates will change by a material amount in the near term. MMA believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on the consolidated financial statements. Compliance with laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Morehouse School of Medicine, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Accounting Pronouncements

In August 2008, the FASB issued Staff Position No. 117, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds*, which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. Effective July 1, 2008, the State of Georgia adopted UPMIFA. The School reflected the change as of the beginning of fiscal year 2009 as a cumulative effect adjustment associated with a change in accounting principle in a separate line on the statement of activities and changes in net assets. Required disclosures are included in Note 6.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles (GAAP) and expands disclosures about fair value measurements. The changes to previous practice resulting from the application of SFAS No. 157 relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. The definition of fair value is the exchange price notion used in earlier definitions of fair value. SFAS No. 157 clarifies that the exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability. The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset or the liability. SFAS No. 157 provides a consistent definition of fair value which focuses on entity-specific inputs. In addition, SFAS No. 157 provides a framework for measuring fair value and establishes a three-level hierarchy for fair value measurements based on the inputs used to measure the asset or liability.

Morehouse School of Medicine, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

3. Fair Value Measurements (continued)

- Quoted prices for identical or similar assets in markets that are not active;
- Observable inputs other than quoted prices for the asset or liability;
- Inputs derived principally from, or corroborated by, observable market data by correlation or by other means.

Level 3: Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

Observable inputs reflect the assumptions market participants would use in pricing the asset or liability developed from sources independent of the reporting entity and unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed on the best information available in the circumstances.

The School's adoption of SFAS 157 did not have a material impact on its consolidated financial statements. The School has segregated financial assets that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date in the table below.

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 9,351,635	\$ 9,351,635	\$ -	\$ -
Government and agency securities	14,591,948	14,591,948	-	-
Corporate bonds	4,542,734	4,542,734	-	-
Equities	15,241,369	15,241,369	-	-
Mutual funds	6,830,450	6,830,450	-	-
Alternative investments	5,559,140	-	-	5,559,140
	<u>\$ 56,117,276</u>	<u>\$50,558,136</u>	<u>\$ -</u>	<u>\$ 5,559,140</u>

Morehouse School of Medicine, Inc. and Affiliate
Notes to Consolidated Financial Statements (continued)

3. Fair Value Measurements (continued)

The changes in investments classified as Level 3 are as follows for the year ended June 30, 2009:

Level 3 Reconciliation	
Balance, July 1, 2008	\$ —
Purchases	6,329,060
Total realized and unrealized losses	<u>(769,920)</u>
Ending balance, June 30, 2009	<u>\$ 5,559,140</u>
Amount of total gains or losses change in net assets	<u>\$ (769,920)</u>

The carrying amounts of cash and cash equivalents, accounts receivable, other receivables and accounts payable and accrued expenses approximate fair value due to the relative terms and short maturity of these financial instruments. Their carrying values, which approximate fair value, of these investments are based upon quoted market prices of similar instruments.

A reasonable estimate of the fair value of the loans receivable from students under government loan programs and advances from Federal government for student loans could not be made because the loans receivable are not salable and only be assigned to the U.S. Government or its designees.

The carrying amount of the bonds and notes payable approximates fair value since these financial instruments bear interest at variable rates which approximate current market rates for notes with similar maturities and credit quality.

Morehouse School of Medicine, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

3. Fair Value Measurements (continued)

Investments and Long-Term Investments

Investments and long-term investments consist of the following at June 30:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 9,351,624	\$ 9,351,635	–	–
Government and agency securities	13,086,956	14,591,948	10,578,855	10,794,261
Corporate bonds	3,795,492	4,542,734	–	–
Equities	18,170,237	15,241,369	47,333,509	45,516,229
Mutual funds	6,760,918	6,830,450	3,952,264	4,041,395
Alternative investments	6,329,060	5,559,140	–	–
	<u>\$ 57,494,287</u>	<u>\$ 56,117,276</u>	<u>\$ 61,864,628</u>	<u>\$ 60,351,885</u>

4. Accounts Receivable, Net

Accounts receivable, net consists of the following at June 30:

	2009	2008
Georgia appropriation	\$ 12,144,908	–
Grants and contracts receivable	4,258,501	6,292,369

Morehouse School of Medicine, Inc. and Affiliate
Notes to Consolidated Financial Statements (continued)

5. Pledges Receivable, Net

Pledges receivable, net at June 30 are expected to be realized in the following periods:

	2009	2008
In one year or less	\$ 1,533,113	\$ 1,671,113
Between one year and five years	720,000	1,140,000
Pledges receivable before discount	2,253,113	2,811,133
Discount	(128,768)	(276,382)
N		

Morehouse School of Medicine, Inc. and Affiliate
Notes to Consolidated Financial Statements (continued)

6. Endowment (continued)

- The purposes of the Institution and the 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 School; and
- The investment policies of the School.

The School 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 organization must hold in perpetuity or for a donor-specified period(s). Under this policy, as appropriate,

Morehouse School of Medicine, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

6. Endowment (continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the School to maintain as a fund of perpetual duration. In accordance with GAAP, deficiencies in excess of available earnings in temporarily restricted net assets are reported as unrestricted net assets were \$1.6 million as of June 30, 2009.

7. Property, Plant and Equipment

Property, plant and equipment consisted of the following at June 30:

	2009	2008
Land	\$ 2,635,096	\$ 2,635,096
Buildings and building improvements	57,375,361	57,344,363
Equipment	20,032,683	19,995,568
Books	1,699,709	1,638,689
Construction in progress	353,736	-
Total property and equipment	82,096,585	81,613,716
Less accumulated depreciation	(36,220,720)	(33,090,813)
Net property, plant and equipment	<u>\$ 45,875,865</u>	<u>\$ 48,522,903</u>

8. Advances to College Partners, Inc.

College Partners, Inc. (CPI) is a non-profit corporation organized by the School, Morehouse College and Spelman College (collectively, the Colleges) to acquire and manage real properties surrounding the Colleges for the benefit of the Colleges. Funding for CPI has been provided by the Colleges. Subsequent to fiscal year 2006, CPI exchanged the real estate previously acquired for real estate of similar value held by the City of Atlanta Housing Authority. Acquisitions made by CPI have been in accordance with the Operating Agreement between CPI and the Colleges. Real estate acquired by CPI has been distributed to the Colleges in accordance with the Land Distribution Agreement between CPI and the Colleges. MSM plans to use the land to further develop the School's campus and its mission.

Morehouse School of Medicine, Inc. and Affiliate
Notes to Consolidated Financial Statements (continued)

8. Advances to College Partners, Inc. (continued)

The President of the School serves as one of the three members of CPI's Board of Directors. The School provided funding to CPI totaling approximately \$25,001

Morehouse School of Medicine, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

11. Long-Term Debt Payable

Note Payable

On February 28, 2005, the School executed a \$6,800,000 year note agreement. The note bears interest at 30-day LIBOR plus 1% (1.32% at June 30, 2009, and 3.45% at June 30, 2008). The note has a variable payment schedule consisting of nineteen consecutive quarterly principal payments of \$85,000, plus accrued interest, payable on the first of each quarter, beginning May 28, 2005, and a final balloon principal payment of \$5,185,000 due and payable on February 28, 2010. At June 30, 2009, the outstanding note totaled \$5,355,000. Interest incurred and paid during the year totaled \$157,000 for the year ending June 30, 2009.

Bonds Payable

On February 11, 1998, the Development Authority of Fulton County issued \$5,800,000 in Variable Rate Revenue Bonds, Series 1998 Bonds) and loaned the proceeds to the School. The loan proceeds were utilized to finance the construction and equipping of a parking deck, to make certain improvements on the School's campus, and to acquire certain furnishings and equipment. The parking deck

Morehouse School of Medicine, Inc. and Affiliate
Notes to Consolidated Financial Statements (continued)

11. Long-Term Debt Payable (continued)

The Bonds are subject to mandatory redemption commencing on February 1, 2004, and each year thereafter through 2018. Mandatory redemption amounts are as follows:

Annual
Redemption

Morehouse School of Medicine, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

13. Retirement Plans

The School has two contributory retirement plans with Teachers' Insurance and Annuity Association and College Retirement Equities Fund which cover substantially all full-time academic and certain other salaried employees of MSM and Affiliate who work in excess of 20 hours per week and have completed six months of service are eligible to participate in the School's retirement plans. MSM and Affiliate contributed \$3,664,000 and \$3,446,000 to the plans in 2009 and 2008, respectively.

These plans are defined contribution plans for which there are no unfunded prior service costs. MSM and Affiliate contribute an amount equal to 7% of each eligible employee's salary. Participating employees are fully vested in their own contributions and vest in the employer contributions over a two-year period.

14. Nature and Amount of Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	June 30	
	2009	2008
Student financial assistance	\$ 957,780	\$ 1,022,000
Other	2,132,009	7,137,394
	<u>\$ 3,089,789</u>	<u>\$ 8,159,394</u>

The School's other temporarily restricted balances primarily consist of amounts available for research support.

Morehouse School of Medicine, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

15. Nature and Amount of Permanently Restricted Net Assets

Permanently restricted net assets consist of the following:

	June 30	
	2009	2008
Student financial assistance	\$ 12,492,390	\$ 12,191,225
Endowed chairs	9,812,073	9,013,685
Research support	37,431,251	32,650,000
Student loan fund	197,261	197,261
Total permanently restricted net assets	<u>\$ 59,932,975</u>	<u>\$ 54,052,171</u>

The income from the related investments is expendable based on the above identified restrictions.

16. Morehouse Medical Associates, Inc.

The Medical Practice Plan (the Plan) sets forth the formal policies and procedures governing the relationship between MMA and the School. The Plan provides for physician services and the structure for the utilization of the fees collected by MMA for these professional services. The Board of Directors and all participating physicians of MMA are faculty members of the School.

As prescribed by the Plan, MMA makes payments representing a portion of revenues to the School for its use in supporting the educational mission of the School.

Certain general and administrative expenses of MMA are paid by the School. MMA then reimburses the School for those expenses paid on MMA's behalf.

During the years ended June 30, 2009 and 2008, School provided funding to MMA of approximately \$780,000.

Morehouse School of Medicine, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

17. Contingencies

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations of health care providers. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

The School's federal programs are subject to final and compliance audits by grantor agencies which, if instances of material noncompliance are found, may result in disallowed expenditures and affect the School's continued participation in specific programs. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the School expects such amount, if any, to be immaterial.

Matching Requirements

The School is obligated, under various grant agreements, to match contributions of applicable

Other Financial Information and Reports and
Schedules Related to Office of
Management & Budget Circular A-133

Year Ended June 30, 2009

Federal Grantor/Pass-Through Grantor/Program Title	CFDA/Contract Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures Fiscal Year Ended June 30, 2009
U.S. Department of Defense					
Mitochondria DNA Mutations in Epithelial Ovarian Tumor Progression	12.420	\$ 4,250	- \$	- \$	4,250
Function-Based Therapeutic Strategies to Human Prostate Cancer	12.W81XWH-08-1-0628	83,762	-	-	83,762
ERG and Prostate Cancer	12.W81XWH-09-1-0236	3,044	-	-	3,044
Effects of a Viral Peptide (Nef) on Growth and Metastasis of Human Breast Cancer	12.W81XWH-08-1-0476	78,290	-	-	78,290
Total Department of Defense		169,346	-	-	169,346
Pass-Through from National Space Biomedical Research Institute:					
K-16 Education and Initiatives	43.NCC-9-58-24	111,592	-	-	111,592
Total National Aeronautics and Space Medicine		111,592	-	-	111,592
National Science Foundation					
Pass-Through from Georgia Institute of Technology:					
Development of a Murine Stem Cell Derived Vascular Smooth Muscle Cell	47.041	6,883	-	-	6,883
Development of a Zebrafish Model of Vascular Smooth Muscle Cell Lineage	47.041	38,508	-	-	38,508
The Role of Sleep in Maintaining Conditioned Deficit	47.NSF10B0349042004	18,199	-	-	18,199
Therapeutic Potential of Retinal Stem Cells	47.041	5,633	-	-	5,633
Pass-Through from the Center for Behavioral Neuroscience					
The Role of Frenetic Sex and Prolactin in Organizing Sleep Responses to Stress	47.NSFIOB-0349042-004	8,206	-	-	8,206
Science and Technology Centers Integrative Partnerships	47.IBN-987675(8,206)ng.8605-.0233 TD (8)Tj -5.9883 0 TD [()-133.7()-56517.4-				

Morehouse School of Medicine, Inc., and Affiliate
Schedule of Expenditures of Federal Awards (continued)

Student	Total Ex
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Morehouse School of Medicine, Inc., and Affiliate
Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA/Contract Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures Fiscal Year Ended June 30, 2009
U.S. Department of Health and Human Services (continued)					
National Institute of Health					
Communities Empowering Youth, CEY	93.009	\$ -	\$ -	224,255	\$ 224,255
MSM Training in Genomics and Hemoglobinopathics	93.172	-	-	1,567	1,567
MSM Training in Genomics and Hemoglobinopathics	93.172	-	-	132,582	132,582
		-	-	358,404	358,404
Pass-Through from University of Kentucky Research Foundation:					
Each One Teach One	93.239	-	-	43,601	43,601
Medicare "D" Enrollment Awareness Among Low Income African American Beneficiaries	93.239	-	-	4,708	4,708
		-	-	48,309	48,309
Schizophrenia Liability Genes among African Americans					
Fostering Mental Health Research in Psychiatry Residents	93.242	2,961	-	-	2,961
Mentored Training Program to Increase Diversity in HIV, Substance Use and Mental	93.242	228,441	-	-	228,441
Pass-Through from University of Mississippi Medical Center:	93.242	242,677	-	-	242,677
UMMC Schizophrenia Liability Genes Among African Americans	93.242	6,329	-	-	6,329
		480,408	-	-	480,408
ADD/HIV Prevention in Male Adolescent Detainees					
	93.273	691,615	-	-	691,615
Pass-Through from Wholistic Stress Control Institute:					
Pfizer HIV/AIDS Prevention Initiative	93.276	10,487	-	-	10,487
Southeastern US Collaborative CEED or SUCCEED					
	93.283	612,680	-	-	612,680
Pass-Through from Duke University Medical Center and Health System:					
Cancer Information Service YR' 04-05	93.283	86,646	-	-	86,646
		699,326	-	-	699,326
Three Dimensional Approaches to Eliminating Health Disparitie					
	93.307	-	-	900,388	900,388

Morehouse School of Medicine, Inc., and Affiliate
Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA/Contract Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures Fiscal Year Ended June 30, 2009
U.S. Department of Health and Human Services (continued)					
Enhancement of Cardiovascular Research	93.837	\$ 680,767	\$ -	\$ -	680,767
Cardiovascular Disease Prevention Intervention Program	93.837	557,886	-	-	557,886
MSM Training Cardiovascular Sciences	93.837	-	-	293,218	293,218
Macrophage Inward Rectifier Channels in Atherosclerosis	93.837	118,189	-	-	118,189
Morehouse Emory Partnership to Reduce CVRI Disparities	93.837	491,012	-	-	491,012
The Role Iroquois Home box of Genes	93.837	113,359	-	-	113,359
PPAR-GAMMA Signaling Pathway in: Cardiac Hypertrophy and Failure Pass-Through from Yale University	93.837	(98)	-	-	(98)
Telemonitoring to Improve Heart Failure Outcomes	93.837	200,489	-	-	200,489
Methoxindoles in Retina: Function and Regulation	93.837	43,136	-	-	43,136
Heart Failure clinical Research Network	93.837	29	-	-	29
		2,204,769	-	293,218	2,497,987
Cultural Competence and Health Disparities Academic Award	93.838	143,593	-	-	143,593
Pass-Through National Jewish Medical and Research Center:					
Genetic Analysis of Susceptibility to COPD Exacerbations	93.838	111,055	-	-	111,055
Genetic Epidemiology of COPD Student	93.838	141,571	-	-	141,571
		396,219	-	-	396,219

396,21969h34819.3,fmM to91 TD Trans

Morehouse School of Medicine, Inc., and Affiliate

Morehouse School of Medicine, Inc., and Affiliate
Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA/Contract Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures Fiscal Year Ended June 30, 2009
U.S. Department of Health and Human Services (continued)					
Other Department of Health and Human Service					
HBCU Data Users Workshop Developing Capacity and Skills for Using Medicare/Medicaid	93.HFCA-01-0242	\$ -	\$ -	4,731	\$ 4,731
Pass-Through from Emory University					
Emory/NCs Community Engagemen	93.HHSN267200700007C	-	-	152,027	152,027
MSM Library Afternoon Symposium or Careers in Academic surgery	93.GPID1534	-	-	2,597	2,597
Pass-Through from The Brigham and Women Hospital: T32 Brigham and Women Hospital	93.172	42,657	-	-	42,657
Pass-Through from Minority Health Professions Foundation					
AASK Cohort Study	93.6067256/RFS7000023	-	-	68,831	68,831
Total Other Department of Health and Human Services		<u>42,657</u>	<u>-</u>	<u>228,186</u>	<u>270,843</u>
Total Department of Health and Human Services		23,224,774	80,334	8,028,912	31,334,020
Total Federal Expenditures		<u>\$ 23,583,141</u>	<u>\$ 9,657,646</u>	<u>\$ 21,164,363</u>	<u>\$ 54,405,150</u>

Morehouse School of Medicine, Inc. and Affiliate

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) summarizes expenditures of the Morehouse School of Medicine, Inc. and Affiliate (the School) under programs of the federal government for the year ended June 30, 2009. Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the consolidated financial position, results of activities, changes in net assets, or cash flows of the School.

For purposes of the Schedule, federal awards include all grants, contracts, and similar agreements entered into directly between the School and agencies and departments of the federal government or subawards. The information in the Schedule is presented in accordance with the provisions of the Office of Management and Budget (OMB) Circular A-134, Audits of States, Local Governments and Nonprofit Organizations.

2. Summary of Significant Accounting Policies

The Schedule summarizes the expenditures reported under all federal awards received by the University for the year ended June 30, 2009, and has been prepared using the accrual basis of accounting.

3. Contingencies

The School's federal programs are subject to final and compliance audits by grantor agencies which, if instances of material noncompliance are found, may result in disallowed expenditures, and affect the School's continued participation in specific programs. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the School expects such amounts, if any, to be immaterial.

Morehouse School of Medicine, Inc. and Affiliate

Notes to the Schedule of Expenditures of Federal Awards (continued)

4. Student Financial Aid

The Federal Perkins Loan Program (FPL) represents administrative costs and other allowable costs paid from Federal funds, funds disbursed for loans granted to eligible students of the School during fiscal year 2009, plus the outstanding balance of loans granted in previous years.

The Federal Family Education Loans Program (FFEL) represents loans received by students of the School during the fiscal year 2009 which were not made by the School. Accordingly, FFEL loan balances are not reflected in the School's consolidated financial statements.

Cumulative loans outstanding as of June 30, 2009, are as follows.

Student Loans Advanced	CFDA Number	Cumulative Principal Advances Outstanding
FPL Program	84.038	\$ 3,392,625
Health Professions Student Loans Program:		
Primary Care Loans	93.342	828,820
Loans for Disadvantaged Students	93.342	348,488
Total		<u>\$ 4,569,933</u>

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

The Board of Trustees
Morehouse School of Medicine, Inc. and Affiliate

We have audited the consolidated financial statements of Morehouse School of Medicine, Inc. and Affiliate (the School) as of and for the year ended June 30, 2009, and have issued our report thereon dated December 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance ~~about~~ whether the School's consolidated financial statements are free of material misstatement, we

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Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

The Board of Trustees
Morehouse School of Medicine, Inc. and Affiliate

Compliance

We have audited the compliance of Morehouse School of Medicine, Inc. and Affiliate (the School) with the types of compliance requirements described in the US Office of Management

School's internal control over compliance with the requirements that could have a direct and material effect on a major federal program ~~is not~~ to determine our auditing procedures for the purpose of expressing our opinion on compliance, not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A

Morehouse School of Medicine, Inc. and Affiliate

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2009

Part I—Summary of Auditor’s Results

Financial Statements Section

Type of auditor’s report issued (unqualified, qualified, adverse or disclaimer):

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

 Yes X No

Significant deficiency(ies) identified that are not considered to be material weaknesses?

 Yes X None reported

Noncompliance material to financial statements noted?

 Yes X No

Federal Awards Section

Internal control over major programs:

Material weakness(es) identified?

 Yes X No

Significant deficiency(ies) identified that are not considered to be material weaknesses?

 Yes X None reported

Type of auditor’s report issued on compliance for major programs (unqualified, qualified, adverse or disclaimer):

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?

 X Yes No

Morehouse School of Medicine, Inc. and Affiliate
 Schedule of Findings and Questioned Costs (continued)

Part I—Summary of Auditor’s Results (continued)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
Various	Research & Development Cluster
84.032; 84.033; 84.038; 93.342; 93.925	Student Financial Aid Cluster

Morehouse School of Medicine, Inc. and Affiliate
Schedule of Findings and Questioned Costs (continued)

Part II—Financial Statement Findings Section

This section identifies the reportable conditions, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which Government Auditing Standards require reporting in a Circular A-133 audit.

No financial statement findings noted.

Morehouse School of Medicine, Inc. and Affiliate

Schedule of Findings and Questioned Costs (continued)

Part III—Federal Award Findings and Questioned Costs Section

This section identifies the audit findings required to be reported by Circular A-133, Section .510(a) (for example, reportable conditions, material weaknesses, and material instances of noncompliance, including questioned costs), as well as any other findings involving federal awards that are material to a major program. Where practical, findings should be organized by federal agency or pass-through entity.

Finding 2009-01

<u>Federal program information</u>	Federal Family Education Loan Program (CFDA# 84.032)
<u>Criteria or specific requirement (including statutory, regulatory or other citation)</u>	The Compliance Supplement requires an institution to complete and return within 30 days of receipt the Student Status Confirmation Reports (SSCR) sent by the Department of Education or a guaranty agency. The SSCR should be transmitted electronically to the National Student Loan Data System (NSLDS).
<u>Condition</u>	During our testing, we noted that 3 SSCRs were submitted more than 30 days after receipt of the SSCRs.
<u>Questioned costs</u>	None.
<u>Context</u>	3 of the 12 reports tested were not submitted timely.
<u>Effect</u>	The School is out of compliance with such requirements.

Morehouse School of Medicine, Inc. and Affiliate

Schedule of Findings and Questioned Costs (continued)

Part III—Federal Award Findings and Questioned Costs Section (continued)

Cause

The School submitted the SSCRs relating to their FFEL program in an untimely fashion due to an oversight by the Registrar's office.

Recommendation

Per the Compliance Supplement, an additional 30 day allowance applies if the School expects to submit its entire roster file within the next 60 days. As such, we recommend that management implement a process to submit its entire student roster on a bi-monthly basis.

Views of responsible officials and planned corrective actions

The School agrees that status change updates should be made more timely. As such, the Registrar's office will begin updating their entire roster file every 60 days. In addition, as updates are made, online confirmations from the NSLDS website will be printed out and retained in the School's files.

Conclusion

Morehouse School of Medicine, Inc. and Affiliate
Schedule of Findings and Questioned Costs (continued)

Part III—Federal Award Findings and Questioned Costs Section (continued)

Finding 2009-02

Federal program information

Federal Perkins Loan Program (CFDA# 84.038)

Criteria or specific requirement (including
statutory, regulatory or other citation)

The Compliance Supplement requires an

Morehouse School of Medicine, Inc. and Affiliate
Schedule of Findings and Questioned Costs (continued)

Part III—Federal Award Findings and Questioned Costs Section (continued)

Cause

For the first borrower, the School did not attempt to pursue collection on the loan due to the borrower declaring bankruptcy. For the second borrower, documentation was not available to show the collection procedures due to oversight by staff in charge of Perkins administration.

Recommendation

As student loans are typically not discharged in bankruptcy, we recommend that the School continue to perform the proper collection procedures as outlined in the Compliance Supplement. In addition, we recommend that the School implement procedures to ensure the safeguarding of records relating to Perkins collections.

Views of responsible officials and planned corrective actions

The Institution will implement procedures to ensure that

Conclusion