

CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION AND
REPORTS AND SCHEDULES RELATED TO
OFFICE OF MANAGEMENT & BUDGET
CIRCULAR A-133

Morehouse School of Medicine, Inc. and Affiliate
Years Ended June 30, 2008 and 2007

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, 2008 and 2007

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Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Morehouse School of Medicine, Inc. and Affiliate (the School) as of June 30, 2008 and 2007, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the School's management. 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 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 financial statements are free of material misstatement. We were not engaged to perform an audit of the School's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as

Our audit was performed for the purpose of forming an opinion on the basic 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 not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. The 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 1244, *External Entities Audit Standards*. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Ernst + Young LLP

November 11, 2008

Morehouse School of Medicine, Inc. and Affiliate

Consolidated Balance Sheets

	June 30	
	2008	2007
Assets		
Cash and cash equivalents	\$ 9,170,537	\$ 6,309,106
Accounts receivable, net of allowance for doubtful accounts of \$75,000 in 2008 and 2007	14,913,744	12,345,836
Pledges receivable, net	2,534,731	3,759,582
Loans receivable, net of allowance for doubtful accounts of \$49,400 in 2008 and 2007	2,116,257	2,247,542
Patient accounts receivable	961,962	943,260
Other receivables	1,481,608	1,512,401
Investments, at fair value	60,351,885	56,384,993
Advances to College Partners, Inc.	8,527,969	8,352,968
Other assets	262,283	1,390,726
Property and equipment, net of accumulated depreciation of \$33,090,813 in 2008 and \$28,891,990 in 2007	48,522,903	51,897,656
Total assets	<u>\$ 148,843,879</u>	<u>\$ 145,144,070</u>
Liabilities and net assets		
Liabilities:		
Accounts payable	\$ 3,439,129	\$ 3,750,680
Accrued expenses and other liabilities	6,944,740	6,319,305
Borrowings under line of credit arrangements	2,438,000	2,438,000
Deferred revenue	2,864,793	88,589
Long term debt payable	10,495,000	11,035,000
Government advances for student loans	1,550,271	1,550,271
Total liabilities	<u>27,731,933</u>	<u>25,181,845</u>
Net assets:		
Unrestricted	58,900,381	60,069,932
Temporarily restricted	8,159,394	11,308,947
Permanently restricted	54,052,171	48,583,346
Total net assets	<u>121,111,946</u>	<u>119,962,225</u>
Total liabilities and net assets	<u>\$ 148,843,879</u>	<u>\$ 145,144,070</u>

See accompanying notes.

Year Ended June 30, 2008

Temporarily

Permanently

Morehouse School of Medicine, Inc. and Affiliate

Consolidated Statements of Activities and Changes in Net Assets

Year Ended June 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions				
Tuition and fees	\$ 6,523,511	\$ -	\$ -	\$ 6,523,511
Student aid	(1,632,184)	-	-	(1,632,184)
Tuition and fees, net of student aid	4,891,327	-	-	4,891,327
Federal, state, and local government grants, and contracts	83,365,068	-	5,000,000	88,365,068
Private gifts, grants, and contracts	10,778,167	314,029	291,856	11,384,052
Faculty practice plan	10,748,920	-	-	10,748,920
Investment earnings	904,514	6,007,909	-	6,912,423
Other sources	279,927	-	-	279,927
Net assets released from restrictions	3,275,246	(3,275,246)	-	-
Total revenues and other additions	114,243,169	3,046,692	5,291,856	122,581,717
Expenditures				
Education and general:				
Instruction	33,116,049	-	-	33,116,049
Research	19,626,986	-	-	19,626,986
Public service	15,736,982	-	-	15,736,982
Academic support	7,477,816	-	-	7,477,816
Student services	1,890,904	-	-	1,890,904
Institutional support	19,461,111	-	-	19,461,111
Facilities operations and maintenance	3,879,167	-	-	3,879,167
Depreciation	3,919,117	-	-	3,919,117
Faculty practice plan	11,049,582	-	-	11,049,582
Total expenditures	116,157,714	-	-	116,157,714
Change in net assets	(1,914,545)	3,046,692	5,291,856	6,424,003
Net assets at beginning of year	61,984,477	8,262,255	43,291,490	113,538,222
Net assets at end of year	\$ 60,069,932	\$ 11,308,947	\$ 48,583,346	\$ 119,962,225

See accompanying notes.

Morehouse School of Medicine, Inc. and Affiliate

Consolidated Statements of Cash Flows

	Year Ended June 30	
	2008	2007
Operating activities		
Change in net assets	\$ 1,149,721	\$ 6,424,003
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	4,128,088	3,919,117
Loss on dispositions of property and equipment	-	75,664
Net realized and unrealized loss (gain) on investments	5,840,766	(4,152,931)
Gifts and grants restricted for long-term investment	(5,468,825)	(5,291,856)
Change in operating assets and liabilities:		
Accounts receivable, net	(2,567,908)	6,482,901
Pledges receivable, net	1,224,851	812,477
Patient accounts receivable	(18,702)	(247,869)
Other receivables	30,793	3,620
Other assets	1,128,443	(313,803)
Accounts payable	(311,551)	(764,965)
Accrued legal settlement	-	(2,737,815)
Accrued expenses and other liabilities	625,435	(78,149)
Deferred revenue	2,776,204	(26,091)
Net cash provided by operating activities	8,537,315	4,104,303
Investing activities		
Loans to students, net of repayments	131,285	60,528
Purchases of investments	(16,922,390)	(12,547,927)
Proceeds from sale of investments	7,114,732	6,420,644
Increase in advances to College Partners, Inc.	(175,001)	(72,166)
Purchase of property and equipment	(753,335)	(765,786)

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Morehouse School of Medicine, Inc. and Affiliate

Notes to Consolidated Financial Statements

June 30, 2008

1. Organization

The accompanying consolidated financial statements reflect the consolidated accounts and activity of Morehouse School of Medicine, Inc. (the School) and its affiliate, Morehouse Medical Associates, Inc. (MMA) (collectively, MSM and Affiliate), in accordance with the American Institute of Certified Public Accountants Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*. All significant intercompany transactions have been eliminated. The School, founded in Atlanta, Georgia, in 1974, focuses on the training of minority students for careers as primary care physicians in an effort to address the needs of residents in medically underserved areas of the nation. The School is a four-year M.D., Ph.D. and M.P.H. degree-granting institution. MMA was incorporated in August 1985, and commenced operations in September of the same year in Atlanta, Georgia. MMA was established by the full-time faculty physicians of the School. The goals and objectives of MMA include providing medical care to the sick regardless of their ability to pay for services; engaging in medical research; furthering the charitable, scientific, and educational purposes of the School; supporting the clinical teaching programs of the School; and providing teaching services to medical students at the School and to graduates of medical schools who are in postgraduate training programs. Neither the School nor MMA owns a large medical center. The School utilizes the facilities of certain other health care organizations for its core clinical instruction.

The School receives significant support (direct and indirect) from the federal government in the form of research funding, student financial aid, and other financial assistance. Revenues and accounts receivable from the federal government were approximately 56% and 35%, respectively, in 2008, and 53% and 30%, respectively, in 2007. Revenues and accounts receivable from the state government were approximately 12% and 1%, respectively, in 2008 and 11% and 1%, respectively, in 2007. Noncompliance with certain laws and regulations could result in exclusion from participating in federal and state award programs and/or repayment of previously reimbursed expenditures. Management believes that any noncompliance by the School will not have a material impact on amounts to be received from other programs awarded by the federal government.

2. Summary of Significant Accounting Policies

The consolidated financial statements have been prepared on the accrual basis in accordance with U.S. generally accepted accounting principles. The significant accounting and reporting policies followed in the preparation of these consolidated financial statements are described below.

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 reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the consolidated financial statements, the School considers all highly liquid investments with an original maturity of 90 days or less when purchased to be cash equivalents. At various times throughout the year, the School may have cash balances in financial institutions which exceed the amounts that are federally insured.

Accounts Receivable

Accounts receivable consists primarily of grants receivable, contracts receivable and receivables related to residency services performed at state and area hospitals, Georgia Appropriation funds and Disproportionate Share funds. Grants and contracts receivable represent amounts due to the School for expenditures relating to sponsored research awards, principally from the U.S. Government. The School determines the allowance based on historical write-off experience. Account balances are charged-off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The amount recorded represents the estimated net realizable value.

Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on these amounts are computed using a risk free interest rate applicable to the year in which the unconditional promise is received. Amortization of the discounts is included in contribution revenue. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and are reported in the consolidated statements of activities and changes in

Morehouse School of Medicine, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted private gifts, grants, and contracts in the consolidated financial statements. Conditional promises to give are not recorded as pledges receivable until such time as the conditions are substantially met.

Loans Receivable

Loans receivable consists primarily of funds advanced to students under Title IV federally-funded student financial assistance programs, including the Perkins Loan and the Health Professions Student Loan Programs.

Investments

Investments in equity securities with readily determinable fair values and debt securities are recorded at their fair values. Fair value is determined from quoted market prices or market prices of similar instruments. Gifts are recorded at fair value at the date of donation or a nominal value if fair value is not readily determinable. Net gains and losses on the sale of investments are reported in the consolidated statements of activities and changes in net assets in the appropriate net asset classification.

Investment income and net appreciation (depreciation) on investments of donor-restricted contributions, whether permanently or temporarily restricted, are reported as follows:

- As increases in permanently restricted net assets if the terms of the gift require that they be added back to the principal of the permanently restricted contributions.
- As increases (decreases) in temporarily restricted net assets if the terms of the gift impose restrictions on the current use of the investment income or net appreciation (depreciation).
- As increases (decreases) in unrestricted net assets in all other cases.

Morehouse School of Medicine, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

Land, buildings, books, and equipment are recorded at cost at the date of acquisition or fair value at the date of donation in the case of gifts.

Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis, using a half-year convention. A summary of depreciable lives is as follows:

Buildings and components	5 to 50 years
Equipment	5 to 20 years
Books	5 years

Net Assets

The School's net assets and its revenues, expenditures, gains and losses are classified based on the existence or absence of donor-imposed restrictions using the following classifications:

Unrestricted net assets result from revenues that were not restricted by donors or the donor-imposed restrictions have expired; as well as capital assets purchased with temporarily restricted income or the income from permanently restricted revenues where the satisfaction of donor stipulations were satisfied when the assets were placed into service.

Temporarily restricted net assets include gifts, pledges receivable, and earnings from permanently restricted net assets that have been restricted by donors until a specific time period has expired or for a certain purpose or program. When the time period has expired or the related purpose or program is accomplished, whether by use of temporarily restricted net assets or unrestricted net assets, if both are available, the temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the consolidated statements of activities and changes in net assets as net assets released from restriction.

Permanently restricted net assets include gifts and pledges receivable which are required by donor stipulation to be invested in perpetuity, with the income to be used for restricted or unrestricted purposes. Permanently restricted net assets also include gifts restricted by donors in perpetuity for use in making loans.

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)

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 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 such 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.

Reclassifications

Certain amounts in the 2007 financial statements have been reclassified to conform to the 2008 presentation. These reclassifications did not result in any changes to net assets.

Recent Accounting Pronouncements

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements* (FAS 157), to provide enhanced guidance when using fair value to measure assets and liabilities. FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 applies whenever other pronouncements require or permit assets or liabilities to be measured at fair value and, while not requiring new fair value measurements, may change current practices. FAS 157 is effective for the School beginning in fiscal year 2009. The School does not expect adoption of this statement to have a material effect on its consolidated financial statements.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159). FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in the statement of activities and changes in net assets at each subsequent reporting date. FAS 159 is effective for the School beginning in fiscal year 2009. The School does not expect adoption of this statement to have a material effect on its consolidated financial statements.

Morehouse School of Medicine, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

In August 2008, the FASB issued FASB Staff Position FAS No. 117-1, 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 (FSP FAS 117-1). FSP FAS 117-1 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). UPMIFA is a model act approv

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

Morehouse School of Medicine, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

7. 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

Morehouse School of Medicine, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

9. Borrowings Under Line of Credit Arrangements

At June 30, 2008, the School has a line of credit with a bank for \$5,000,000. The line of credit bears interest at the 30-day London InterBank Offered Rate (LIBOR) plus .75% adjusted monthly and ends on March 29, 2009. At June 30, 2008 and 2007, amounts outstanding under the line of credit totaled \$2,438,000.

10. Long-Term Debt Payable

Note Payable

On February 28, 2005, the School executed a \$6,800,000 five-year note agreement. The note bears interest at 30-day LIBOR plus 1% (3.45% at June 30, 2008, and 6.32% at June 30, 2007). The note is secured by certain endowed and restricted investments of the School. The note has a variable payment schedule consisting of 19 consecutive quarterly principal payments of \$85,000, plus accrued interest, payable on the 28th 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, 2008, the outstanding note totaled \$5,695,000. Interest incurred and paid during the year totaled \$329,000 for the year ending June 30, 2008.

Bonds Payable

On February 11, 1998, the Development Aut

Morehouse School of Medicine, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

10. Bonds Payable (continued)

\$19,000 in 2008 and 2007, respectively. The letter of credit is secured by (a) all pledged bonds, (b) all income, earnings, profits, interest, premium, or other payments in respect to the pledged bonds, and (c) all cash and noncash proceeds arising out of the sale, exchange, collection, enforcement, or other disposition of the pledged bonds.

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

	<u>Annual Redemption Amount</u>
2009	\$ 350,000
2010	400,000
2011	450,000
2012	450,000
2013	450,000
Thereafter	<u>2,700,000</u>
Total	<u>\$ 4,800,000</u>

Among other restrictions, the loan agreement requires the School to maintain a minimum debt service ratio, as defined by the agreement. The School was in compliance with the debt service ratio at June 30, 2008 and 2007.

Interest expense incurred and paid by the School related to the Bonds was approximately \$152,000 in 2008 and \$187,000 in 2007.

11. Perkins Loan Fund and Health Professions Student Loan Fund

The School maintains the Health Professions Student Loan Fund and the Perkins Loan Fund. Ninety percent of these funds are to be returned to the federal government upon liquidation of the funds. Accordingly, these amounts have been reflected as government advances for student loans on the accompanying consolidated balance sheets.

Morehouse School of Medicine, Inc. and Affiliate

Notes to Consolidated Financial Statements (continued)

12. 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. Employees of MSM and Affiliate who work in excess of 20 hours per week and have completed three months of service are eligible to participate in the School's retirement plans. MSM and Affiliate contributed \$3,446,000 and \$3,542,000 to the plans in 2008 and 2007, respectively.

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

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 financial 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.

Matching Requirements

The School is obligated, under various grant agreements, to match contributions of applicable grantors. In management's opinion, the School has adequate resources and plans to meet these matching requirements in the stipulated period of the grants.

Litigation

The School is subject to legal actions arising in the ordinary course of its business. In management's opinion, the School has adequate legal defenses and insurance coverage with respect to the eventuality of such actions, and management does not believe that any settlement would materially affect the School's operations or financial position.

18. Subsequent Events

While management is not aware of any significant impact on their investment portfolio which would require disclosure, given market conditions and recent events affecting the domestic and global financial markets, there is the possibility that the value of certain investments held by the School could be adversely affected.

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

Morehouse School of Medicine, Inc., and Affiliate

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

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, 2008
U.S. Department of Defense					
Antiproliferative Biomarkers in Breast Cancer	12.420	\$ 102,980	\$ -	\$ -	\$ 102,980
Mitochondria DNA Mutations in Epithelial Ovarian Tumor Progression	12.420	85,286	-	-	85,286
The Role and Action of Prohibition and Antiproliferative Gene in Ovarian Cancer	12.420	35,996	-	-	35,996
Total Department of Defense		224,262	-	-	224,262
National Aeronautics and Space Medicine					
Pass-Through from Kansas State University:					
Differentiation of Bone Marrow Macrophages in Space	43.002	7,322	-	-	7,322
Pass-Through from National Space Biomedical Research Institute:					
Preventing Desynchronization of the Circadian System in Long-Term Space Flight	43.NCC-9-58-24	47,728	-	-	47,728
K-16 Education and Initiatives	43.NCC-9-58-24	57,852	-	-	57,852
Secondary and College Education for the Next Generation of Space Life Scientists	43.NCC-9-58-24	117,655	-	-	117,655
Education Program Leadership	43.NCC-9-59-24	45,233	-	-	45,233
		268,468	-	-	268,468
Total National Aeronautics and Space Medicine		275,790	-	-	275,790
National Science Foundation					
Pass-Through from Georgia Institute of Technology:					
Development of a Murine Stem Cell Derived Vascular Smooth Muscle Cell	47.041	-	-	49,422	49,422
Development of a Zebrafish Model of Vascular Smooth Muscle Cell Lineage	47.041	-	-	12,710	12,710
Therapeutic Potential of Retinal Stem Cells	47.041	-	-	1,807	1,807
		-	-	63,939	63,939
Pass-Through from Hamilton Fish National Institute:					
Hamilton Fish National Institute on School and Community Violence	47.S20	-	-	44,754	44,754
Science and Technology Centers Integrative Partnerships					
Total National Science Foundation	47.IBN-987654	-	-	211,269	211,269
		-	-	319,962	319,962
U.S. Department of Justice					
MSM Building Resilient Youth: A Multidisciplinary Approach (BR4AMH)	93.2007-JL-FX-0057	-	-	289,316	289,316
Total U.S. Department of Justice		-	-	289,316	289,316
U.S. Department of Education					
Federal Family Education Loans	84.032	-	9,025,303	-	9,025,303
Federal Work-Study Program	84.033	-	4,250	-	4,250
Title III Part B Strengthening HBCUs	84.031B	-	-	12,193,178	12,193,178
Pass-Through from State of Georgia Department of Human Resources:					
21st Century Community	84.287	-	-	23,284	23,284
21st Century Community - Learning Center Lamar Center	84.287	-	-	144,492	144,492
		-	-	167,776	167,776
Pass-Through from Quitman County Board of Education:					
Carol M. White Physical Education and Nutrition Grant	84.Q215F040508	-	-	118,004	118,004
Carol M. White Physical Education Contract with Clayton County	84.Q215F050120	-	-	21,059	21,059
Character in Education (CEPIE Project)	84.Q215S040109	-	-	163,922	163,922
		-	-	302,985	302,985
Total Department of Education		-	9,029,553	12,663,939	21,693,492
U.S. Department of Health and Human Services					
Substance Abuse and Mental Health Services Administration					
Pass-Through from State of Georgia Department of Human Resources:					
Community Health Prevention Medicine - Southwest MHDDAD Region 4	93.959	-	-	291,846	291,846
Imani	93.243	-	-	255,026	255,026
Southeast Addition Technology Transfer Center (SATTC)	93.230	-	-	489,265	489,265
CSAT National Historically Black Colleges and Universities (HBCU) Initiative	93.HCFA-00-0351	-	-	915,915	915,915
Total Substance Abuse and Mental Health Services Administration		-	-	1,952,052	1,952,052
Office of Minority Health					
Regional Coordinating Center for the Hurricane Response	93.004	-	-	1,177,623	1,177,623
Umbrella Cooperative Agreement	93.004	-	-	1,298,780	1,298,780
Pass-Through from Morehouse College					
The New Minority Males Consortium for the Study of Male Health Project	93.004	-	-	190	190
Total Office of Minority Health		-	-	2,476,593	2,476,593
Centers for Disease Control and Prevention					
Pass-Through from University of Georgia Foundation:					
The Southern Center on Communication, Health and Poverty	93.061	-	-	11,792	11,792
Health Promotion and Disease Prevention Research Center	93.135	1,821,289	-	-	1,821,289
Pass-Through from Fulton City:					
REACH - Racial and Ethnic Approaches to Community Health	93.135	-	-	8,219	8,219
		1,821,289	-	8,219	1,829,508

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

Year Ended June 30, 2008

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, 2008
Pass-Through from Minority Health Professions Foundations:					
Public Health Summer Fellows	93.283	\$ -	\$ -	\$ 136,333	\$ 136,333
Public Health Summer Fellows Program	93.283	-	-	4,000	4,000
Consortium of African American Public Health Programs (CAAPHP)	93.283	-	-	19,556	19,556
Consortium of African American Public Health Programs (CAAPHP)	93.283	-	-	73,523	73,523
Increasing Minorities in the Public Health Professions	93.283	-	-	206,810	206,810

Morehouse School of Medicine, Inc., and Affiliate

Schedule of Expenditures of Federal Awards (continued)

Year Ended June 30, 2008

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, 2008
Southeastern US Collaborative CEED or SUCCEED	93.283	\$ -	\$ -	\$ 195,296	\$ 195,296
Consortium of African American Public Health Programs	93.283	7,571	-	-	7,571
Pass-Through from Duke University Medical Center and Health System: Cancer Information Service YR' 04-05	93.283	75,383 82,954	- -	- 195,296	75,383 278,250
Three Dimensional Approaches to Eliminating Health Disparities	93.307	-	-	603,192	603,192
Pass-Through from Emory Sickle Cell Disease	93.365	12,853	-	-	12,853
Research Center for Minority Institutions ("RCMI") Pass-Through from Emory University:	93.389	2,634,053	-	-	2,634,053
Atlanta Clinical and Translational Science Institute	93.389	1,082,053	-	-	1,082,053
Clinical Research Education and Career Development	93.389	206,256	-	-	206,256
MSM Center of Clinical Research Excellence	93.389	1,737,089	-	-	1,737,089
Research Centers in Minority Institutions Clinical	93.389	2,006,422	-	-	2,006,422
Pass-Through from Emory University:					
Drew RCMI Translational Research Resources	93.389	239,613	-	-	239,613
Atlanta Clinical and Translational Science Institute (ITLI)	93.389	50,468	-	-	50,468
Atlanta Clinical and Translational Science Institute (KL2)	93.389	36,159	-	-	36,159
Atlanta Clinical and Translational Science Institute (UL1)	93.389	8,927	-	-	8,927
		8,001,040	-	-	8,001,040
A Black Man Can Fight Prostate Cancer - Conference	93.395	-	-	183	183
Morehouse School of Medicine/UAB Cancer CTR PTR	93.397	(34,488)	-	-	(34,488)
MSM/Tuskegee UAB Consortium	93.397	182,226	-	-	182,226
Pass-Through from University of Alabama: SPORE in Pancreatic Breast Cancer					

Morehouse School of Medicine, Inc., and Affiliate

Schedule of Expenditures of Federal Awards (continued)

Year Ended June 30, 2008

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, 2008
Development of Neuroscience	93.853	\$ 1,164,035	\$ -	\$ -	\$ 1,164,035
Influence of NMDA Receptors	93.853	138,293	-	-	138,293
The Role of a Novel Gene, NNAL, in Neural Regeneration	93.853	1,402	-	-	1,402
Stroke Prevention and Intervention Research Program	93.853	11,277	-	-	11,277
Peroxisome Proliferator-Activated Receptor and Stroke	93.853	261,789	-	-	261,789
Novel Neuroprotective Roles for Neureguins in the Trea	93.853	338,426	-	-	338,426
Phobic and Circadian Regulation of Retinal Melatonin	93.853	211,932	-	-	211,932
Pass-Through from University of Medicine and Dentistry of New Jersey: Warfarin vs Aspirin Reduced Cardiac Ejection Fraction Study	93.853	3,051	-	-	3,051
Pass-Through from University of Virginia Temporal Biology Training Program	93.853	1,880	-	-	1,880
Anatomy/Neurobiology Neuroprotective Roles	93.853	815,075	-	-	815,075
Basics & Translational Neuroscience Research	93.853	79,344	-	-	79,344
		3,026,504	-	-	3,026,504
Cholera Pathogenesis Mucinase Activity and Motility	93.855	143,002	-	-	143,002
Introduction of Protective Immunity Against Chlyamdia	93.856	217,476	-	-	217,476
MBRS Score Program at Morehouse School of Medicine	93.859	1,030,281	-	-	1,030,281
Research Initiative for Scientific Enhancement Program	93.859	120,721	-	-	120,721
Pass-Through from Emory University: Georgia Cancer Center	93.859	150,939	-	-	150,939
Biosciences Graduate Prep Program for Minorities	93.859	6,925	-	-	6,925
Involvement of Serum and Glucocorticoid Inducible Kinase 1 (SGK1) in VSMC Profile	93.859	87,826	-	-	87,826
		1,396,692	-	-	1,396,692
Center for Reproductive Cells: Development and Differentiation in Reproductive Axis	93.865	346,187	-	-	346,187
Genomic Fingerprint of PGF2alpha Actions in Primates	93.865	24,689	-	-	24,689
		370,876	-	-	370,876
Studies of Cell Junctions and Cell Membranes	93.867	282,434	-	-	282,434
Pass-Through from Washington University: Ocular Hypertension Treatment Study	93.867	30,111	-	-	30,111
Early Mueller Cell Changes	93.867	122,495	-	-	122,495
Pass-Through from University of Maryland: Tailored Messages to Increase Eye Examination	93.867	2,664	-	-	2,664
Tailored Messages to Increase Eye Examinations	93.867	11,594	-	-	11,594
Pass-Through from Washington University Ocular Hypertension Treatment Study	93.867	19,245	-	-	19,245
		468,543	-	-	468,543
Pass-Through from United Negro College Fund Special Programs: Project Uncover Health Information Databases	93.879	-	-	16,309	16,309
Cerebral Malaria Associated Neurological Disease in India	93.989	4,965	-	-	4,965
Pass-Through from Boston University Medical: Genetic Epidemiological Studies of Alzheimer's Disease	93.3R01AG09029	30,141	-	-	30,141
Pass-Through from Duke University Medical Center and Health System: A Chief Trail: Investigating the Outcome of Exercise Training	93.1U01HL6374701A2	-	-	21,667	21,667
Courtesy Associates Funding to Neuroscience Research Institute Total National Institute of Health	93.100704	5,994	-	-	5,994
		20,575,633	-	1,598,086	22,173,719
National Center for Chronic Disease Prevention and Health Promotion Prostate Cancer Disparities in Black Men	93.238	13,488	-	-	13,488
Total National Center for Chronic Disease Prevention and Health Promotion		13,488	-	-	13,488
Office of the Secretary 21st Century CHOICES	93.995	-	-	124,500	124,500
Pass-Through from City of Decatur: Collaborative Prevention Education Program	93.995	-	-	16,462	16,462
Total Office of the Secretary		-	-	140,962	140,962
Corporation for National and Community Services Learn and Serve America	94.005	-	-	348,674	348,674
Total Corporation for National and Community Services		-	-	348,674	348,674
Housing and Urban Development Land Acquisition and Building Expansion	14.8-04-SP-GA-0193	-	-	396,000	396,000
Land Development	B-06-SP-GA-0257	-	-	22,494	22,494
Land Development	B-06-SP-GA0256	-	-	99,000	99,000
West End Community Development	B-06-SP-GA-0263	-	-	135,596	135,596
Total Housing and Urban Development		-	-	653,090	653,090

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

Year Ended June 30, 2008

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, 2008
Center for Medicare and Medicaid Services					
Pass-Through from XL Health Corporation:					
Pharm/Toxicology Medicare Disease Management	93.CMS-02-XLHealth	\$ -	\$ -	\$ 783	\$ 783
Total Center for Medicare and Medicaid Services		-	-	783	783
Administration For Children and Families					
Pass-Through from Wholistic Stress Control Institute:					
The 2 Hype "A" Abstinence Club	93.01	-	-	2,352	2,352
Compassion Capital Fund Demonstration Program	93.90EJ0052/01	-	-	95,226	95,226
Total Administration For Children and Families		-	-	97,578	97,578
Other Department of Health and Human Services					
Pass-Through from Emory University:					
Emory/NCs Community Engagement	93.HHSN267200700007C	-	-	52,531	52,531
MSM Library Afternoon Symposium or Careers in Academic surgery	93.GPID1534	-	-	7,403	7,403
Pass-Through from Minority Health Professions Foundations:					
AASK Cohort Study	93.6067256/RFS7000023	-	-	2,374	2,374
Total Other Department of Health and Human Services		-	-	62,308	62,308
Total Department of Health and Human Services		22,646,634	143,858	9,753,826	32,544,318
Total Federal Expenditures		\$ 23,146,686	\$ 9,173,411	\$ 23,027,043	\$ 55,347,140

Morehouse School of Medicine, Inc. and Affiliate

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

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

Compliance and other matters

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

This report is intended solely for the information and use of the board of trustees, management, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

November 11, 2008

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

purpose of expressing our opinion on compliance, but 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 *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the board of trustees, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

November 11, 2008

Morehouse School of Medicine, Inc. and Affiliate

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

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?

_____ **Yes** X **No**

Morehouse School of Medicine, Inc. and Affiliate

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)

Morehouse School of Medicine, Inc. and Affiliate

Schedule of State of Georgia Awards Expended

For the Year Ended June 30, 2008

State Grantor/Program or Cluster Title	Contract Number	Total Expenditures	Total Receivables
Georgia Department of Human Resources			
Georgia Regional Residency	427-93-07070532-99	\$ 206,354	\$ -
Georgia Cancer Coalition	DCCS 2006	570,460	-
Grady – Ryan White	427-93-5403	26,012	-
Grady – Sickle Cell	GHSCC	63,140	63,140
Metro MHDDAD	427-93-626	296,044	-
Total Georgia Department of Human Resources		<u>\$ 1,162,010</u>	<u>\$ 63,140</u>

Program Title/ Contract Number	Budget	Revenue	Expenditures
Georgia Regional Residency	219,782	206,354	206,354
Georgia Cancer Coalition	1,338,656	600,000	570,460
Grady – Ryan White	26,852	26,012	26,012
Grady – Sickle Cell	70,000	–	63,140
Metro MHDDAD	431,026	296,044	296,044