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, 2009 and 2008
With Report of Independent Auditors

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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Ernst & Young LLP
Suite 1000
55 Ivan Allen Jr. Boulevard
Atlanta, GA 30308

Tel: +1 404 874 8300
Fax: +1 404 817 5589
www.ey.com

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, 2009 and 2008, 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 a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the School at June 30, 2009 and 2008, and the consolidated activities and changes in net assets and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 6 to the consolidated financial statements, the School adopted the recognition and disclosure provisions of the Financial Accounting Standards Board (FASB) Staff Position No. FAS 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*, as of July 1, 2008.

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 not 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 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 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.

Ernst & Young LLP

February 8, 2010

Morehouse School of Medicine, Inc. and Affiliate

Consolidated Balance Sheets

	June 30 2009	June 30 2008
Assets		
Cash and cash equivalents	**$ 10,707,512**	$ 9,170,537
Accounts receivable, net of allowance for doubtful accounts of $75,000 in 2009 and 2008	**24,553,139**	14,913,744
Pledges receivable, net	**2,124,345**	2,534,731
Loans receivable, net of allowance for doubtful accounts of $49,400 in 2009 and 2008	**2,258,522**	2,116,257
Patient accounts receivable, net	**1,470,139**	961,962
Other receivables	**1,282,355**	1,481,608
Investments, at fair value	**56,117,276**	60,351,885
Advances to College Partners, Inc.	**8,552,970**	8,527,969
Other assets	**279,311**	262,283
Property, plant and equipment, net of accumulated depreciation of $36,220,720 in 2009 and $33,090,813 in 2008	**45,875,865**	48,522,903
Total assets	**$ 153,221,434**	$ 148,843,879
Liabilities and net assets		
Liabilities:		
Accounts payable	**$ 4,676,997**	$ 3,439,129
Accrued expenses and other liabilities	**8,122,822**	6,944,740
Borrowings under line of credit arrangements	**1,888,000**	2,438,000
Deferred revenue	**1,979,867**	2,864,793
Long term debt payable	**9,805,000**	10,495,000
Government advances for student loans	**1,550,271**	1,550,271
Total liabilities	**28,022,957**	27,731,933
Net assets:		
Unrestricted	**62,175,713**	58,900,381
Temporarily restricted	**3,089,789**	8,159,394
Permanently restricted	**59,932,975**	54,052,171
Total net assets	**125,198,477**	121,111,946
Total liabilities and net assets	**$ 153,221,434**	$ 148,843,879

See accompanying notes.

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

Consolidated Statements of Cash Flows

	Year Ended June 30 2009	2008
Operating activities		
Change in net assets	**$ 4,086,531**	$ 1,149,721
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**3,706,968**	4,128,088
Loss on dispositions of property, plant and equipment	**23,532**	–
Net realized and unrealized gain on investments	**9,620,498**	5,840,766
Gifts and grants restricted for long-term investment	**(5,880,804)**	(5,468,825)
Change in operating assets and liabilities:		
Accounts receivable, net	**(9,639,395)**	(2,567,908)
Pledges receivable, net	**410,386**	1,224,851
Patient accounts receivable, net	**(508,177)**	(18,702)
Other receivables	**199,253**	30,793
Other assets	**(17,028)**	1,128,443
Accounts payable	**1,237,868**	(311,551)
Accrued expenses and other liabilities	**1,178,082**	625,435
Deferred revenue	**(884,926)**	2,776,204
Net cash provided by operating activities	**3,532,788**	8,537,315
Investing activities		
Loans receivable, net	**(142,265)**	131,285
Purchases of investments	**(93,719,012)**	(16,922,390)
Proceeds from sale of investments	**88,333,123**	7,114,732
Increase in advances to College Partners, Inc.	**(25,001)**	(175,001)
Purchase of property, plant and equipment	**(1,083,462)**	(753,335)
Net cash used in investing activities	**(6,636,617)**	(10,604,709)
Financing activities		
Repayment of borrowings	**(1,240,000)**	(540,000)
Gifts and grants restricted for long-term investment	**5,880,804**	5,468,825
Net cash provided by financing activities	**4,640,804**	4,928,825
Net increase in cash and cash equivalents	**1,536,975**	2,861,431
Cash and cash equivalents at beginning of year	**9,170,537**	6,309,106
Cash and cash equivalents at end of year	**$ 10,707,512**	$ 9,170,537

See accompanying notes.

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 61% and 45%, respectively, in 2009, and 56% and 35% respectively, in 2008. Revenues and accounts receivable from the state government were approximately 11% and 14%, respectively, in 2009, and 12% and 1%, respectively, in 2008. 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.

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 federal 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. 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 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.

2. Summary of Significant Accounting Policies (continued)

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.

Investments which are not publicly traded consist of investments in limited partnerships, limited liability companies, offshore investment funds, and real estate funds and are reflected at fair value. The underlying assets are reflected at fair value. Depending on the underlying asset, the fair value is determined through national exchange price for securities with a readily determinable value or valuations and estimates typically determined by the underlying asset's manager. Certain investment values may differ from the values that would have been used had a ready market for these investments existed and the differences could be material. The financial statements of these investments are audited annually (typically at December 31) by independent auditors.

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 for all net appreciation (depreciation) of permanently restricted net assets if the terms of the gift do not require that they be added back to the principal of the permanently restricted contributions.
- As increases (decreases) in unrestricted net assets in all other cases.

2. Summary of Significant Accounting Policies (continued)

Property, Plant 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, plant and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis, using a full month 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 imposed restrictions (purpose or time) 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 until a specific time period has expired or for a certain purpose or program.

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 general or specific purposes. Permanently restricted net assets also include gifts restricted by donors in perpetuity for use in making loans.

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Unconditional promises to give that are received from governmental and private entities are recognized as revenues in the period when the underlying promises are received by the School. Pledges expected to be collected within one year are recorded at their estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the net present value of the estimated future cash flows.

Gifts of land, buildings and equipment and other non-monetary assets are reported as unrestricted revenues unless explicit donor stipulations specify how the donated assets must be used. Donor restricted gifts for long-lived assets with explicit restrictions that specify how assets are to be used are reported as temporarily restricted revenues. The School reports expirations of donor restrictions on all other gifts of long-lived assets when the donated or acquired long-lived assets are placed in service.

Deferred revenue includes amounts received from grant and contract sponsors that have not yet been earned because the School has not met all of the eligibility requirements of the applicable contract or grant received prior to the end of the fiscal year.

Contributed Services

A number of volunteers have donated time and service in the School's program operations. However, such contributed services do not meet the criteria for recognition of contributed services and accordingly, are not reflected in the accompanying consolidated financial statements.

Income Taxes

The School and MMA are exempt from federal income taxes under Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and are exempt from state income taxes under Section 48-7-25(a) of the Georgia Revenue Code. Accordingly, no provision for income taxes has been made in the consolidated financial statements.

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 activities and changes in net assets.

The Department of Community Health (DCH), an arm of the federal government, is responsible for determining the amount of federal funds which will be remitted to the School based on a matching formula. This "disproportionate share" amount is based on the amount appropriated for the School by the State of Georgia. The DCH then obtains the funding from the federal government and forwards the amount to Grady Hospital, which passes the funding through to the School. During 2009 and 2008, the School recognized disproportionate share revenues of approximately $27,924,000 and $16,090,000, respectively, which are reflected as federal, state, and local government grants and contracts in the accompanying consolidated statements of activities and changes in net assets.

Grady Memorial Hospital

Grady Memorial Hospital (Grady), a publicly administered hospital in Atlanta, Georgia, is critical to the education programs at the School. The School and MMA provide residency services to Grady as well as other services. At June 30, 2009 and 2008, the School and MMA had accounts receivable from Grady of approximately $9,100,000 and $8,500,000, respectively. For the years ended June 30, 2009 and 2008, the School and MMA recognized unrestricted revenues associated with Grady of approximately $13,278,000 and $12,700,000, respectively. Subsequent to the School's fiscal year end, on October 2, 2009, the School executed a $7,956,000 seven-year note agreement with Grady Hospital, representing outstanding accounts receivable balances accumulated prior to January 1, 2008. The note is noninterest bearing and is

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 purpose specified in the award. These awards have not been reflected in the consolidated financial statements, but represent commitments of sponsors to provide funds for specific research or training projects. For grants that have allowable cost provisions, the revenue will be recognized as the related expenditures occur.

MMA Patient Accounts Receivable and Net Patient Service Revenue

MMA has entered into payment agreements with certain insurance carriers, health maintenance organizations and preferred provider organizations. The amounts received by MMA under these agreements, which may be based on cost of services provided or predetermined rates, are generally less than the established billing rates of MMA. Patient service revenue is reported at estimated net realizable amount. Patient accounts receivable have been recorded net of contractual allowances resulting from the Medicare and Medicaid programs and other discount arrangements.

Net patient service revenue includes amounts payable for services rendered to patients from the federal government under Medicare, from the State of Georgia under Medicaid, and from private insurers and the patients themselves, and is included in faculty practice plan revenue on the accompanying consolidated statements of activities and changes in net assets.

The sources and amounts of MMA's patient revenues are determined by a number of factors, including payor mix, type of services rendered to the patient, and rates of reimbursement among payor categories (Medicaid, Medicare and private and other).

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	**$ 5,874,997**	$ 5,399,843

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 not 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 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.

2. Summary of Significant Accounting Policies (continued)

Accounting Pronouncements

In August 2008, the FASB issued Staff Position 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*, 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 retains 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 owes the liability. SFAS No. 157 provides a consistent definition of fair value which focuses over 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 upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. For further discussion of the impact of the adoption of SFAS No. 157 on the School's consolidated financial statements and for expanded disclosures about the School's fair value measurement see Note 3.

2. Summary of Significant Accounting Policies (continued)

In July 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*. This interpretation requires that realization of an uncertain income tax position must be more likely than not (i.e., greater than 50% likelihood of receiving a benefit) before it can be recognized in the financial statement. Furthermore, this interpretation prescribes the benefit to be recorded in the financial statements as the amount most likely to be realized assuming a review by tax authorities having all relevant information and applying current conventions. This interpretation also clarifies the financial statement classification of tax-related penalties and interest and sets forth new disclosures regarding unrecognized tax benefits. This interpretation is effective for fiscal years beginning after December 15, 2006, and the School has adopted this interpretation for the year ended June 30, 2008. There was no significant impact on the consolidated financial statements as of June 30, 2008, from the adoption of FIN 48.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS No. 165). SFAS No. 165 is effective for financial periods ending after June 15, 2009. SFAS No. 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that the date represents the date the consolidated financial statements were issued or were available to be issued. The School has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2009, consolidated financial statements through the date of the independent auditor's report, which is the date that the consolidated financial statements were available to be issued.

3. Fair Value Measurements

The School has established and documented processes and methodologies for determining the fair values of the investments on a recurring basis in accordance with SFAS No. 157. Under SFAS No. 157, a financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy established by SFAS No. 157 are defined as follows:

Level 1: Quoted market prices for identical assets or liabilities to which an entity has access at the measurement date.

Level 2: Inputs and information other than quoted market indices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets;

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 based on the best information available in the circumstances.

The School's adoption of SFAS No. 157 did not have a material impact on its consolidated financial statements. The School has segregated all 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
	$ 56,117,276	$50,558,136	$ –	$ 5,559,140

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	(769,920)
Ending balance, June 30, 2009	$ 5,559,140
Amount of total gains or losses in change in net assets	$ (769,920)

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. The carrying values, which approximate fair value, of these investments are based upon quoted market prices or 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 can 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.

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**	–	–
	$ 57,494,287	**$ 56,117,276**	$ 61,864,628	$ 60,351,885

4. Accounts Receivable, Net

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

	2009	2008
Georgia appropriation	**$ 12,144,908**	$ –
Grants and contracts receivable	**4,258,501**	6,292,369
Hospital affiliate receivable	**8,224,730**	8,696,375
	24,628,139	14,988,744
Less allowance for doubtful accounts	**(75,000)**	(75,000)
	$ 24,553,139	$ 14,913,744

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)
Net pledges receivable	**$ 2,124,345**	$ 2,534,731

Pledges receivable, net have been discounted to their present value using discount rates ranging from 3.45% to 8.25%.

6. Endowment

The School's endowment consists of approximately 90 individual donor-restricted funds established for a variety of purposes. As required by the generally accepted accounting principles (GAAP), net assets with endowment funds are classified and reported based on donor-imposed restrictions.

The School's Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value 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 School's classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) 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 characterized as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the expenditure prescribed by UPMIFA. In accordance with UPMIFA, the School considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;

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 approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 5% over the long term. Actual returns in any given year may vary from this amount.

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2008	$ 7,888,501	$ 54,052,171	$ 61,940,672
Investment losses	(6,057,430)	–	(6,057,430)
Contributions	–	5,880,804	5,880,804
Appropriation of endowment expenditures	(2,973,621)	–	(2,973,621)
Transfer from unrestricted	1,419,292	–	1,419,292
Endowment net assets, June 30, 2009	**$ 276,742**	**$ 59,932,975**	**$ 60,209,717**

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 retain as a fund of perpetual duration. In accordance with GAAP, deficiencies in excess of available earnings in temporarily restricted net assets are reported in 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	**$ 45,875,865**	$ 48,522,903

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 end 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 will be 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.

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 and $175,001 during fiscal years ended June 30, 2009 and 2008, respectively. These amounts are included as advances to College Partners, Inc. in the accompanying consolidated balance sheets.

9. Leases

MSM and Affiliate lease certain equipment and office space under long-term lease agreements. MSM and Affiliate lease space and equipment under several noncancelable operating leases which expire in future years. Total rental expenses were approximately $1,665,000 and $1,470,000 in 2009 and 2008, respectively.

The following is a schedule of future minimum lease payments for the operating leases as of June 30, 2009:

2010	$ 1,012,000
2011	696,000
2012	436,000
2013	619,000
2014	310,000
Total minimum lease payments	$ 3,073,000

Future minimum lease payments have not been reduced by future minimum sublease rentals of $286,000 due in 2010 and 2011, and $214,000 due in 2012 under noncancelable subleases.

10. Borrowings Under Line of Credit Arrangements

At June 30, 2009, 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 1.5% adjusted monthly and ends on March 29, 2010. At June 30, 2009 and 2008, amounts outstanding under the line of credit totaled $1,888,000 and $2,438,000, respectively.

11. 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% (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 28^{th} 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 (the 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 was completed in March 1999.

The Bonds mature on February 1, 2018, and bear interest at a weekly rate (2.63% at June 30, 2009 and 2.89% at June 30, 2008). Interest is payable on the first business day of each month, commencing March 1, 1998. The Bonds are secured by an irrevocable direct-pay letter of credit issued by SunTrust Bank of Atlanta (the Bank). In connection with the Bank issuing the letter of credit, the Bank also serves as trustee and remarketing agent of the Bonds. Under the trustee and remarketing agent agreements, the School pays certain annual fees to the Bank of 0.56% of the outstanding principal balance of the Bonds. Annual fees paid were approximately $15,000 and $25,000 in 2009 and 2008, 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.

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 Amount
2010	$ 400,000
2011	450,000
2012	450,000
2013	450,000
2014	450,000
Thereafter	2,250,000
Total	$ 4,450,000

Among other restrictions, the loan agreement requires the School to maintain a minimum debt service ratio, as defined by the agreement. Management believes the School was in compliance with the debt service ratio at June 30, 2009 and 2008.

Interest expense incurred and paid by the School related to the Bonds was approximately $91,000 in 2009 and $152,000 in 2008.

12. 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.

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. 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 $3,664,000 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
	$ 3,089,789	$ 8,159,394

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

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	**$ 59,932,975**	$ 54,052,171

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, the School provided funding to MMA of approximately $780,000.

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.

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, 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
U. S. Department of Energy					
Development of a Master Plan and Design Drawings for Research Faculty	93.DEFG0206CH11439	–	–	146,192	146,192
Total Dept. of Energy		–	–	146,192	146,192
National Aeronautics and Space Medicine					
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-9876754	–	–	370,352	370,352
Total National Science Foundation		77,429	–	370,352	447,781
U.S. Department of Justice					
MSM Building Resilient Youth: A Multidisciplinary Approach (BR4AMH)	93.2007-JL-FX-0057	–	–	454,387	454,387
Total U.S. Department of Justice		–	–	454,387	454,387
U.S. Department of Education					
Stafford Student Loan	84.032	–	7,965,086	–	7,965,086
Title IV Grad PLUS	84.032	–	1,415,790	–	1,415,790
Federal Work-Study Program	84.033	–	936	–	936
Perkins Loan Program	84.038	–	195,500	–	195,500
Title III Part B Strengthening HBCUs	84.031B	–	–	12,052,910	12,052,910
Pass-Through from State of Georgia Department of Human Resources:					
21st Century Community - Learning Center Lamar Center	84.287	–	–	1,680	1,680
Pass-Through from Quitman County Board of Education:					
Carol M. White Physical Education and Nutrition Grant	84.Q215F040508	–	–	(19,900)	(19,900)
Carol M. White Physical Education Contract with Clayton County	84.Q215F050120	–	–	1,890	1,890
Character in Education (CEPIE Project)	84.Q215S040109	–	–	127,940	127,940
Total Department of Education		–	9,577,312	12,164,520	21,741,832
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	–	–	376,739	376,739
Pass-Through from Wholistic Stress Control Institute:					
Health, Enlightenment, and Living (HEAL)	93.243	–	–	5,679	5,679
Imani	93.243	–	–	70,420	70,420
The Imani Project Substance Abuse HIV Hepatitis's	93.243	–	–	193,001	193,001
Southeast Addition Technology Transfer Center (SATTC)	93.230	–	–	460,494	460,494
Historically Black Colleges and Universities Center for Excellence	93.866	–	–	193,487	193,487
National Historically Black Colleges and Universities (NRC)	93.243	–	–	213,267	213,267
Total Substance Abuse and Mental Health Services Administration		–	–	1,513,087	1,513,087

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)					
Office of Minority Health					
Umbrella Cooperative Agreement	93.004	$ –	$ –	$ 1,389,889	$ 1,389,889
Pass-Through from Morehouse College					
The New Minority Males Consortium for the Study of Male Health Project	93.004	–	–	447	447
Total Office of Minority Health		–	–	1,390,336	1,390,336
Centers for Disease Control and Prevention					
CDC Assignment Agreement - IPA	93.068	–	–	29,132	29,132
Health Promotion and Disease Prevention Research Center	93.135	1,661,149	–	–	1,661,149
Health Promotion and Disease Prevention Research Center	93.067	36,378	–	–	36,378
		1,697,527	–	29,132	1,726,659
Pass-Through from Minority Health Professions Foundations					
Public Health Summer Fellows	93.283	–	–	159,281	159,281
Consortium of African American Public Health Programs (CAAPHP)	93.283	–	–	19,575	19,575
Increasing Minorities in the Public Health Professions	93.283	–	–	339,881	339,881
Health Disparities symposium on cancer: Addressing the Issue	93.283	–	–	68,288	68,288
Pass-Through from Men Against Breast Cancer:					
Partners in Survival Programs and Men Against Breast Cancer	93.283	–	–	4,949	4,949
Pass-Through from National Indian Health Board:					
Public Health Summer Fellows - National Indian Health Board	93.283	–	–	79,594	79,594
		–	–	671,568	671,568
Pass-Through from the Congressional Glaucoma Caucus:					
Glaucoma Caucus Foundation, Inc.	93.H75/CCH221874-04	–	–	8,976	8,976
Pass-Through from ABT/USAID:					
Fetal Alcohol Syndrome	93.CCU304522014	–	–	49,127	49,127
Total Centers for Disease Control and Prevention		1,697,527	–	758,803	2,456,330
Health Resources and Services Administration					
Model State AHEC	93.107	–	–	255,384	255,384
Centers of Excellence	93.157	–	–	110,213	110,213
Preventive Medicine Residences	93.117	229,385	–	–	229,385
Academic Administration Units in Primary Care	93.884	–	–	165,068	165,068
Pass-Through from State of Georgia Department of Human Residents:					
Ryan White Care Act Title IV	93.153	–	–	109	109
NMAETC AIDS Education and Training	93.145	–	–	22,126	22,126
Health Careers Opportunity Program	93.822	–	–	304,695	304,695
Residency Training in Primary Care (Family Medicine)	93.884	–	–	332,689	332,689
Protectoral Training in Primary Care	93.884	–	–	(28)	(28)
		229,385	–	1,190,256	1,419,641
Loans for Disadvantaged Students	93.342	–	15,000	–	15,000
Scholarship for Disadvantaged Students	93.925	–	65,334	–	65,334
Total Health Resources and Services Administration		229,385	80,334	1,190,256	1,499,975
Agency For Health Care Policy and Research					
5th Annual Primary Care and Prevention Conference	93.226	–	–	150,656	150,656
MSM Clinical Faculty Research Training Program	93.226	–	–	244,361	244,361
Total Agency For Health Care Policy and Research		–	–	395,017	395,017

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 Hemoglobinpathics	93.172	–	–	1,567	1,567
MSM Training in Genomics and Hemoglobinpathics	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	93.242	2,961	–	–	2,961
Fostering Mental Health Research in Psychiatry Residents	93.242	228,441	–	–	228,441
Mentored Training Program to Increase Diversity in HIV, Substance Use and Mental	93.242	242,677	–	–	242,677
Pass-Through from University of Mississippi Medical Center:					
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
Pass-Through from Emory					
Sickle Cell Disease	93.365	5,648	–	–	5,648
Research Centers in Minority Institutions (RCMI)	93.389	3,170,827	–	–	3,170,827
Pass-Through from Emory University					
Atlanta Clinical and Translational Science Institute	93.389	1,157,222	–	–	1,157,222
Emory Institute for Interdisciplinary Research in Clinical and Translational Science	93.389	37,427	–	–	37,427
Clinical Research Education and Career Development	93.389	392,636	–	–	392,636
MSM Center of Clinical Research Excellence	93.389	1,448,114	–	–	1,448,114
Research Centers in Minority Institutions Clinical	93.389	1,612,157	–	–	1,612,157
Extramural Research Facilities Improvement Program	93.389	–	–	353,974	353,974
Pass-Through from Emory University:					
Chemical Biology Study of RubR1 Signaling Pathway in Mitosis	93.389	33,629	–	–	33,629
Drew RCMI Translational Research Resources	93.389	251,276	–	–	251,276
Atlanta Clinical and Translational Science Institute (1TLI)	93.389	60,799	–	–	60,799
Atlanta Clinical and Translational Science Institute (UL1)	93.389	136,388	–	–	136,388
		8,306,123	–	1,254,362	9,560,485
Aging Research					
Pass-Through from University of Alabama:	93.866	59,342	–	–	59,342
SPORE in Pancreatic Breast Cancer	93.398	33,481	–	–	33,481
SPORE in Pancreatic Breast Cancer	93.398	47,423	–	–	47,423
MSM/Tuskegee Univ/Univ of Alabama Cancer Center Partnership	93.397	1,019,467	–	–	1,019,467
MSM/WCI Partnership To Investigate Mechanisms of Prostate Cancer	93.397	139,997	–	–	139,997
		1,299,710	–	–	1,299,710
National Black Leadership Initiative on Cancer II	93.399	1,118,154	–	–	1,118,154
Pass-Through from Southwest Oncology Group					
SELECT Mentoring Visits	93.399	–	–	41,509	41,509
Nutritional Manipulation of Circadian Rhythms and Cancer	93.399	62,504	–	–	62,504
		1,180,658	–	41,509	1,222,167

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	93.837	(98)	–	–	(98)
Pass-Through from Yale University					
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
Vascular Responses in Transonic Sickle Cell	93.839	95,752	–	–	95,752
The Function of Ezrin in Stimulus-Coupled Gastric Acid Secretion	93.848	261,248	–	–	261,248
Development of Neuroscience	93.853	896	–	–	896
Influence of NMDA Receptors	93.853	237,341	–	–	237,341
Peroxisome Proliferators-Activated Receptor and Stroke	93.853	290,448	–	–	290,448
Novel Neuroprotective Roles for Neureguins	93.853	230,989	–	–	230,989
Phobic and Circadian Regulation of Retinal Melatonin	93.853	341,500	–	–	341,500
Pass-Through from University of Medicine and Dentistry of New Jersey:					
Warfarin vs Aspirin Reduced Cardiac Ejection Fraction Study	93.853	4,422	–	–	4,422
Anatomy/Neurobiology Neuroprotective Roles	93.853	791,651	–	–	791,651
Basics & Translational Neuroscience Research	93.853	902,398	–	–	902,398
		2,799,645	–	–	2,799,645
Cholera Pathogenesis Mucinase Activity and Motility	93.855	59,788	–	–	59,788
Introduction of Protective Immunity Against Chlyamdi	93.856	620	–	–	620
MBRS Score Program at Morehouse School of Medicine	93.859	628,304	–	–	628,304
Pass-Through from Emory University					
Georgia Cancer Center	93.859	864	–	–	864
Involvement of Serum and Glucocorticoid Inducible Kinase 1 (SGK1) in VSMC Profile	93.859	107,432	–	–	107,432
		736,600	–	–	736,600
Center for Reproductive Cells: Development and Differentiation in Reproductive Axis	93.865	179,889	–	–	179,889
Genomic Fingerprint of PGF2alpha Actions in Primates	93.865	30,713	–	–	30,713
		210,602	–	–	210,602

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)					
Studies of Cell Junctions and Cell Membranes	93.867	$ 218,957	$ –	$ –	$ 218,957
Pass-Through from Washington University:					
Ocular Hypertension Treatment Study	93.867	43,813	–	–	43,813
Pass-Through from Washington University:					
Ocular Hypertension Treatment Study	93.867	34,453	–	–	34,453
		297,223	–	–	297,223
Pass-Through from United Negro College Fund Special Programs:					
Project Uncover Health Information Databases	93.879	–	–	3,588	3,588
Pass-Through from Boston University Medical:					
Genetic Epidemiological Studies of Alzheimer's Disease	93.3R01AG09029	416	–	–	416
Pass-Through from Duke University Medical Center and Health System:					
A Chief Trail: Investigating the Outcome of Exercise Training	93.1U01HL6374701A2	–	–	24,901	24,901
Courtesy Associates Funding to Neuroscience Research Institute	93.100704	16,002	–	–	16,002
Total National Institute of Health		20,011,202	–	2,024,291	22,035,493
National Center for Chronic Disease Prevention and Health Promotion					
Prostate Cancer Disparities in Black Men	93.238	8,095	–	–	8,095
Total National Center for Chronic Disease Prevention and Health Promotion		8,095	–	–	8,095
Office of the Secretary					
Pass-Through from City of Decatur:					
Collaborative Prevention Education Program	93.995	–	–	275	275
Total Office of the Secretary		–	–	275	275
Corporation for National and Community Services					
Learn and Serve America	94.005	–	–	414,096	414,096
Total Corporation for National and Community Services		–	–	414,096	414,096
Housing and Urban Development					
Land Development	14.B-06-SP-GA-0257	–	–	25,000	25,000
West End Community Development	14.B-06-SP-GA-0263	–	–	29,250	29,250
Total Housing and Urban Development		–	–	54,250	54,250
National Heart, Lung, Blood and Institute					
Achate-acute like 3 (ASCULA3) Regulates Vascular Muscle Cell Proliferation	93.837	247,952	–	–	247,952
Hearth Failure Clinical Research Network	93.837	253,587	–	–	253,587
Role of Epigenetic in the Regulation of Blood Pressure	93.837	84,592	–	–	84,592
Establish a Transgenic Model of Human C Reactive Protein Over-Expression in Rats	93.837	51,314	–	–	51,314
Pass-Through from the University of Alabama at Birmingham			–		
Reg of Myocardial Lipid and energy Homeostasis	93.837	34,283	–	–	34,283
Involvement of Leptin and Interteukin-1 Signaling in Mammay Cancer Progression	93.859	182,600	–	–	182,600
Total National Heart, Lung, Blood Institute		854,328	–	–	854,328
National Institute for Drug Abuse					
Morehouse School of Medicine (M-MDARP)	93.279	371,029	–	–	371,029
NIDA on African American Researchers and Scholars Workgroup	93.HHSN271200900339P	10,551	–	–	10,551
Total National Institute for Drug Abuse		381,580	–	–	381,580
Administration For Children and Families					
Pass-Through from Wholistic Stress Control Institute:					
The 2 Hype "A" Abstinence Club	93.01	–	–	60,315	60,315
Total Administration For Children and Families		–	–	60,315	60,315

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/Medicai	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 Foundations					
AASK Cohort Study	93.6067256/RFS7000023	–	–	68,831	68,831
Total Other Department of Health and Human Services		42,657	–	228,186	270,843
Total Department of Health and Human Services		23,224,774	80,334	8,028,912	31,334,020
Total Federal Expenditures		$ 23,583,141	$ 9,657,646	$ 21,164,363	$ 54,405,150

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-133, *Audits of States, Local Governments and Nonprofit Organizations*.

2. Summary of Significant Accounting Policies

The Schedule summarizes the expenditures incurred 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 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.

4. Student Financial Aid

The Federal Perkins Loan Program (FPL) represents administrative costs and other allowable costs paid from Federal funds, funds disbursed for new 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		$ 4,569,933

Ernst & Young LLP
Suite 1000
55 Ivan Allen Jr. Boulevard
Atlanta, GA 30308

Tel: +1 404 874 8300
Fax: +1 404 817 5589
www.ey.com

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

February 8, 2010

Ernst & Young LLP
Suite 1000
55 Ivan Allen Jr. Boulevard
Atlanta, GA 30308

Tel: +1 404 874 8300
Fax: +1 404 817 5589
www.ey.com

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 and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School's compliance with those requirements.

In our opinion, the School complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 3009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2009-01 and 2009-02.

Internal Control Over Compliance

The management of the School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the

School's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the 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.

The School's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the School's response and, accordingly, we express no opinion on it.

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

February 8, 2010

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**

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

Identification of major programs:

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

Dollar threshold used to distinguish between Type A and Type B programs: $1,344,413

Auditee qualified as low-risk auditee? X **Yes** _____ **No**

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.

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 abuse 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

Federal program information:	Federal Family Education Loan Program (CFDA# 84.032)
Criteria or specific requirement (including statutory, regulatory or other citation):	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).
Condition:	During our testing, we noted that 3 SSCRs were submitted more than 30 days after receipt of the SSCRs.
Questioned costs:	None.
Context:	3 of the 12 reports tested were not submitted timely.
Effect:	The School is out of compliance with such requirements.

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: Conclusion:	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.

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 institution to exercise due care and diligence in the collection of loans. Such due diligence procedures include conducting an exit interview with the borrower when he or she leaves the institution, written notices before the first payment becomes due, timely notices after payment becomes past due, referral to collection agencies and credit bureaus, and litigation proceedings.
Condition:	During our testing, we noted that billing and collection procedures for 1 borrower had not been performed, and documentation was not available to support such procedures for 1 additional borrower.
Questioned costs:	None.
Context:	Due diligence was not exercised for 2 of the 3 borrowers in our sample.
Effect:	The School is out of compliance with such requirements.

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: Conclusion:	The Institution will implement procedures to ensure that collection procedures as outlined in the Compliance Section are properly performed and documented. Such documentation will become a part of the information included in the permanent loan file.