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
With Report of Independent Auditors

0812-1012575

Morehouse School of Medicine, Inc. and Affiliate

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Years Ended June 30, 2008 and 2007

Contents

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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 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, 2008 and 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2008, 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 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	June 30 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 $28,891,990 in 2007	**48,522,903**	51,897,656
Total assets	**$ 148,843,879**	$ 145,144,070
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	**27,731,933**	25,181,845
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	**121,111,946**	119,962,225
Total liabilities and net assets	**$ 148,843,879**	$ 145,144,070

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 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)
Net cash used in investing activities	**(10,604,709)**	(6,904,707)
Financing activities		
Proceeds from borrowings	**–**	2,438,000
Repayment of borrowings	**(540,000)**	(540,000)
Gifts and grants restricted for long-term investment	**5,468,825**	5,291,856
Net cash provided by financing activities	**4,928,825**	7,189,856
Net increase in cash and cash equivalents	**2,861,431**	4,389,452
Cash and cash equivalents at beginning of year	**6,309,106**	1,919,654
Cash and cash equivalents at end of year	**$ 9,170,537**	$ 6,309,106

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 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.

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

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.

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.

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.

The expiration of donor-imposed restrictions on contributions and income from permanently restricted net assets is recognized in the period in which the restriction is satisfied and/or expires. At that time, the amounts are reclassified from temporarily restricted to unrestricted net assets. Donor restrictions are satisfied when a stipulated time restriction ends or purpose restriction has been fulfilled.

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 is 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)

Fair Values of Financial Instruments

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 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. The carrying amounts of pledges receivable approximate fair value since these instruments are recorded at net present value.

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 $12,597,000 and $11,881,000 in revenues relating to these agreements for the years ended June 30, 2008 and 2007, respectively, which are reflected as federal, state, and local government grants and contracts in the consolidated statements of activities and changes in net assets.

2. Summary of Significant Accounting Policies (continued)

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 2008 and 2007, the School recognized disproportionate share revenues of approximately $16,090,000 and $13,980,000, 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, 2008 and 2007, the School and MMA had accounts receivable from Grady of approximately $8,500,000 and $9,000,000, respectively. For the years ended June 30, 2008 and 2007, the School and MMA recognized unrestricted revenues associated with Grady of approximately $12,700,000 and $11,600,000 respectively.

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 the 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.

2. Summary of Significant Accounting Policies (continued)

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).

Net patient service revenue is summarized below:

	Year Ended June 30	
	2008	**2007**
Patient service charges	**$ 24,989,136**	$ 25,630,173
Less charges related to charity care	**(8,823,890)**	(7,910,531)
Less other contractual adjustments and deductions	**(10,765,403)**	(10,694,741)
Net patient service revenue	**$ 5,399,843**	$ 7,024,901

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 $263,000 and $277,000 for the years ended June 30, 2008 and 2007 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.

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.

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 approved by the Uniform Law Commission (formerly known as the National Conference of Commissioners on Uniform State Laws) that serves as a guideline for states to use in enacting legislation. This FSP also improves disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA. FSP FAS 117-1 is effective for the School beginning in fiscal year 2009. The School is currently evaluating the impact, if any, of the provisions of FSP FAS 117-1.

Adoption of Financial Accounting Standards Board Interpretation Number 48

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.

3. Accounts Receivable

Accounts receivable consisted of the following at June 30:

	2008	2007
Grants and contracts receivable	**$ 6,292,369**	$ 5,831,564
Hospital affiliate receivable	**8,696,375**	6,589,272
	14,988,744	12,420,836
Less allowance for doubtful accounts	**(75,000)**	(75,000)
	$ 14,913,744	$ 12,345,836

4. Pledges Receivable

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

	2008	2007
In one year or less	**$ 1,671,113**	$ 875,000
Between one year and five years	**1,140,000**	3,345,613
Pledges receivable before discount	**2,811,133**	4,220,613
Discount	**(276,382)**	(461,031)
Net pledges receivable	**$ 2,534,731**	$ 3,759,582

Pledges receivable have been discounted to their present value using discount rates ranging from 4% to 8.25%.

5. Investments

The composition of investments at June 30 is as follows:

	2008	2007
Short-term mutual funds	**$ 4,041,395**	$ 2,249,506
Common stock	**45,516,329**	40,995,543
Corporate and government bonds	**10,794,261**	13,139,944
	$ 60,351,885	$ 56,384,993

Net investment (losses) earnings are comprised of the following for the years ended June 30:

	2008	2007
Interest and dividend income	**$ 4,080,320**	$ 2,759,492
Net realized and unrealized (loss) gain on investments	**(5,840,766)**	4,152,931
Total net investment (losses) earnings	**$ (1,760,446)**	$ 6,912,423

6. Property and Equipment

Property and equipment consisted of the following at June 30:

	2008	2007
Land	**$ 2,635,096**	$ 2,635,096
Buildings and building improvements	**57,344,363**	57,344,363
Equipment	**19,995,568**	19,381,333
Books	**1,638,689**	1,428,854
Total property and equipment	**81,613,716**	80,789,646
Less accumulated depreciation	**(33,090,813)**	(28,891,990)
Net property and equipment	**$ 48,522,903**	$ 51,897,656

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 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.

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 $175,000 and $72,000 during fiscal years ended June 30, 2008 and 2007, respectively. These amounts are included as advances to College Partners, Inc. in the accompanying consolidated balance sheets.

8. 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 $1,470,000 and $1,668,000 in 2008 and 2007, respectively.

The following is a schedule of future minimum lease payments for the operating leases as of June 30, 2008:

2009	$ 1,392,000
2010	564,000
2011	299,000
2012	5,000
Total minimum lease payments	$ 2,260,000

Future minimum lease payments have not been reduced by future minimum sublease rentals of $286,000 due in 2009 through 2010, and $214,000 due in 2011 under noncancelable subleases.

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 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 (2.89% at June 30, 2008 and 3.72% at June 30, 2007). 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 $25,000 and

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:

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

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.

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.

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.

13. Net Assets Released from Restrictions

Donor-imposed program restrictions on temporarily restricted net assets were satisfied as follows:

	Year Ended June 30	
	2008	**2007**
Purpose restricted contributions used for:		
Student financial assistance	**$ 1,118,405**	$ 974,606
Other	**2,481,416**	2,300,640
	$ 3,599,821	$ 3,275,246

14. Nature and Amount of Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	June 30	
	2008	**2007**
Student financial assistance	**$ 1,022,000**	$ 864,161
Other	**7,137,394**	10,444,786
	$ 8,159,394	$ 11,308,947

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	
	2008	**2007**
Student financial assistance	**$ 12,191,225**	$ 12,073,920
Endowed chairs	**9,013,685**	8,662,165
Research support	**32,650,000**	27,650,000
Student loan fund	**197,261**	197,261
Total permanently restricted net assets	**$ 54,052,171**	$ 48,583,346

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, 2008 and 2007, 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.

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 Desynchronication of the Circadiam 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	47.IBN-9876754	–	–	211,269	211,269
Total National Science Foundation		–	–	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

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
Health Disparities symposium on cancer: Addressing the Issue	93.283	–	–	79,721	79,721
Pass-Through from Men Against Breast Cancer:					
Partners in Survival Programs and Men Against Breast Cancer	93.283	–	–	5,463	5,463
Pass-Through from National Indian Health Board:					
Public Health Summer Fellows - National Indian Health Board	93.283	–	–	33,053	33,053
		–	–	558,459	558,459
Research on Community Cancer Control	93.919	8,911	–	–	8,911
Pass-Through from ABT/USAID:					
ZDRav Plus II	93.945	–	–	7,368	7,368
Pass-Through from the Congressional Glaucoma Caucus:					
Glaucoma Caucus Foundation, Inc.	93.H75/CCH221874-04	–	–	15,476	15,476
Pass-Through from ABT/USAID:					
Fetal Alcohol Syndrome	93.CCU304522014	–	–	92,816	92,816
Total Centers for Disease Control and Prevention		1,830,200	–	694,130	2,524,330
Health Resources and Services Administration					
Model State AHEC	93.107	–	–	229,966	229,966
Preventive Medicine Residences	93.117	227,313	–	–	227,313
Pass-Through from State of Georgia Department of Human Residents:					
Ryan White Care Act Title IV	93.153	–	–	29,879	29,879
Health Careers Opportunity Program	93.822	–	–	605,249	605,249
Residency Training in Primary Care (Family Medicine)	93.884	–	–	211,818	211,818
Protectoral Training in Primary Care	93.884	–	–	269,295	269,295
		–	–	481,113	481,113
Scholarship for Disadvantaged Students	93.925	–	143,858	–	143,858
Pass-Through from State of Georgia Department of Human Resources:					
Children's List Process	93.994	–	–	28,221	28,221
Total Health Resources and Services Administration		227,313	143,858	1,374,428	1,745,599
Agency For Health Care Policy and Research					
5th Annual Primary Care and Prevention Conference	93.226	–	–	85,842	85,842
MSM Clinical Faculty Research Training Program	93.226	–	–	269,300	269,300
Total Agency For Health Care Policy and Research		–	–	355,142	355,142
National Institute of Health					
Communities Empowering Youth, CEY	93.009	–	–	237,176	237,176
MSM Training in Genomics and Hemoglobinpathics	93.172	–	–	113,994	113,994
MSM Training in Genomics and Hemoglobinopathies	93.172	–	–	17,388	17,388
		–	–	131,382	131,382
Effects of Salacia Oblonga Root Extract on Cardiac Hypertrophy	93.213	43,197	–	–	43,197
Pass-Through from Harvard Medical School:					
Summer Minority Medical Student Program	93.233	–	–	1,180	1,180
Pass-Through from University of Kentucky Research Foundation:					
Medicare "D" Enrollment Awareness Among Low Income African American Beneficiaries	93.239	–	–	94,016	94,016
Schizophrenia Liability Genes among African Americans	93.242	37,505	–	–	37,505
Fostering Mental Health Research in Psychiatry Residents	93.242	174,152	–	–	174,152
Mentored Training Program to Increase Diversity in HIV, Substance Use and Mental	93.242	55,775	–	–	55,775
Pass-Through from University of Mississippi Medical Center:					
UMMC Schizophrenia Liability Genes Among African Americans	93.242	19,103	–	–	19,103
		286,535	–	–	286,535
ADD/HIV Prevention in Male Adolescent Detainees	93.273	831,905	–	–	831,905
Pass-Through from Wholistic Stress Control Institute:					
Pfizer HIV/AIDS Prevention Initiative	93.276	7,216	–	–	7,216

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	–	–	75,383
		82,954	–	195,296	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")	93.389	2,634,053	–	–	2,634,053
Pass-Through from Emory University:					
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 (1TLI)	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	93.397	53,133	–	–	53,133
MSM/Tuskegee Univ/Univ of Alabama Cancer Center Partnership	93.397	477,692	–	–	477,692
MSM/WCI Partnership To Investigate Mechanisms of Prostate Cancer	93.397	56,826	–	–	56,826
		735,389	–	–	735,389
National Black Leadership Initiative on Cancer II	93.399	1,119,200	–	–	1,119,200
Nutritional Manipulation of Circadian Rhythms and Cancer	93.399	195,892	–	–	195,892
		1,315,092	–	–	1,315,092
Pass-Through from Emory University:					
MTDNA Depletion and Nucleoside Reverse	93.837	9,937	–	–	9,937
Enhancement of Cardiovascular Research	93.837	843,184	–	–	843,184
Families Implementing Good Health Traditions for Life	93.837	–	–	9,933	9,933
Notch3 Determinant of Vascular Cell Fate	93.837	1,720	–	–	1,720
Cardiovascular Disease Prevention Intervention Program	93.837	661,070	–	–	661,070
MSM Training Cardiovascular Sciences	93.837	–	–	287,752	287,752
Macrophage Inward Rectifier Channels in Atheroscierosis	93.837	126,245	–	–	126,245
Morehouse Emory Partnership to Reduce CVRI Disparities	93.837	480,394	–	–	480,394
The Role Iroquios Homebox of Genes	93.837	142,832	–	–	142,832
PPAR-GAMMA Signaling Pathway in Cardiac Hypertrophy and Failure	93.837	173,336	–	–	173,336
Pass-Through from University of New Mexico Health Science Center					
NIH Roadmap-RE-engineering the Clinical Research Enterprise	93.837	32,598	–	–	32,598
Regulation of Myocardial Lipid and energy Homeostasis	93.837	310,349	–	–	310,349
Methoxindoles in Retina: Function and Regulation	93.837	14,322	–	–	14,322
Heart Failure clinical Research Network	93.837	188,603	–	–	188,603
		2,984,590	–	297,685	3,282,275
Cultural Competence and Health Disparities Academic Award	93.838	141,551	–	–	141,551
Pass-Through National Jewish Medical and Research Center:					
Genetic Epidemiology of COPD Student	93.838	7,024	–	–	7,024
		148,575	–	–	148,575
Vascular Responses in Transonic Sickle Cell	93.839	119,300	–	–	119,300
Vaccine Efficacy on Children with Sickle Cell	93.839	22,657	–	–	22,657
		141,957	–	–	141,957
The Function of Ezrin in Stimulus-Coupled Gastric Acid Secretion	93.848	272,465	–	–	272,465
The AASK Cohort Study	93.849	8,841	–	–	8,841
Vasculopathic Effects of Aldosterone in Dahl Rats	93.849	38,831	–	–	38,831
		47,672	–	–	47,672

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 Melationin	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:					
Oscular 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 Massages 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	93.100704	5,994	–	–	5,994
Total National Institute of Health		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

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

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, 2008. 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, 2008, 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 2008, 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 2008 which were not made by the School. Accordingly, FFEL loan balances are not reflected in the School's consolidated financial statements.

There were no loans advanced during the year ended June 30, 2008 for the student loan programs listed below. Cumulative loans outstanding as of June 30, 2008 are as follows.

Student Loans Advanced	CFDA Number	Cumulative Principal Advances Outstanding
FPL Program	84.038	$ 3,197,125
Health Professions Student Loans Program:		
Primary Care Loans	93.342	828,820
Loans for Disadvantaged Students	93.342	333,488
Total		$ 4,359,433

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

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

We have audited the consolidated financial statements of Morehouse School of Medicine, Inc. and Affiliate (the School) as of and for the year ended June 30, 2008, and have issued our report thereon dated November 11, 2008. 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements 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 a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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 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

November 11, 2008

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

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

Compliance

We have audited the compliance of Morehouse School of Medicine, Inc. and Affiliate (the School) with the types of compliance requirements described in the US Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. 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, 3008.

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.

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**

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
84.031B	Title III

Dollar threshold used to distinguish between Type A and Type B programs:	$ 1,660,414
Auditee qualified as low-risk auditee?	____ **Yes** X **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.

No findings or questioned costs for federal awards as defined by OMB Circular A-133 noted.

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		$ 1,162,010	$ 63,140

Morehouse School of Medicine, Inc. and Affiliate

Statement of State of Georgia Award Revenues
and Expenditures Compared to Budgets

For the Year Ended June 30, 2008

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