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, 2007 and 2006
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, 2007 and 2006

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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, 2007 and 2006, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of the School at June 30, 2007 and 2006, and the consolidated changes in its net assets and its 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 February 8, 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

February 8, 2008

Morehouse School of Medicine, Inc. and Affiliate

Consolidated Balance Sheets

	June 30	
	2007	**2006**
Assets		
Cash and cash equivalents	**$ 6,309,106**	$ 1,919,654
Accounts receivable, net of allowance for doubtful accounts of $75,000 in 2007 and 2006	**12,345,836**	18,828,737
Pledges receivable, net	**3,759,582**	4,572,059
Loans receivable, net of allowance for doubtful accounts of $49,400 in 2007 and 2006	**2,247,542**	2,308,070
Patient accounts receivable	**943,260**	695,391
Other receivables	**1,512,401**	1,516,021
Investments, at fair value	**56,384,993**	46,104,779
Advances to College Partners, Inc.	**8,352,968**	8,280,802
Other assets	**1,390,726**	1,076,923
Property and equipment, net of accumulated depreciation of $28,891,990 in 2007 and $27,302,828 in 2006	**51,897,656**	55,126,651
Total assets	**$ 145,144,070**	$ 140,429,087
Liabilities and net assets		
Liabilities:		
Accounts payable	**$ 3,750,680**	$ 4,515,645
Accrued legal settlement	**–**	2,737,815
Accrued expenses and other liabilities	**6,319,305**	6,397,454
Borrowings under line of credit arrangements	**2,438,000**	–
Deferred revenue	**88,589**	114,680
Long term debt payable	**11,035,000**	11,575,000
Government advances for student loans	**1,550,271**	1,550,271
Total liabilities	**25,181,845**	26,890,865
Net assets:		
Unrestricted	**60,069,932**	61,984,477
Temporarily restricted	**11,308,947**	8,262,255
Permanently restricted	**48,583,346**	43,291,490
Total net assets	**119,962,225**	113,538,222
Total liabilities and net assets	**$ 145,144,070**	$ 140,429,087

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
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	115,875,353	3,046,692	5,291,856	124,213,901
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
Student aid	1,632,184	–	–	1,632,184
Depreciation	3,919,117	–	–	3,919,117
Faculty practice plan	11,049,582	–	–	11,049,582
Total expenditures	117,789,898	–	–	117,789,898
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 Activities and Changes in Net Assets

Year Ended June 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other additions				
Tuition and fees	$ 5,976,215	$ –	$ –	$ 5,976,215
Federal, state, and local government grants, and contracts	87,781,024	–	5,000,000	92,781,024
Private gifts, grants, and contracts	7,863,684	1,926,345	5,593,043	15,383,072
Faculty practice plan	10,219,177	–	–	10,219,177
Investment earnings	541,809	2,544,064	–	3,085,873
Other sources	375,902	–	–	375,902
Net assets released from restrictions	2,692,225	(2,692,225)	–	–
Total revenues and other additions	115,450,036	1,778,184	10,593,043	127,821,263
Expenditures				
Education and general:				
Instruction	31,969,857	–	–	31,969,857
Research	22,110,630	–	–	22,110,630
Public service	14,107,580	–	–	14,107,580
Academic support	6,694,684	–	–	6,694,684
Student services	1,523,769	–	–	1,523,769
Institutional support	19,162,935	–	–	19,162,935
Facilities operations and maintenance	4,162,524	–	–	4,162,524
Student aid	1,871,487	–	–	1,871,487
Depreciation	4,140,641	–	–	4,140,641
Faculty practice plan	11,660,064	–	–	11,660,064
Legal settlement	2,737,815	–	–	2,737,815
Total expenditures	120,141,986	–	–	120,141,986
Change in net assets	(4,691,950)	1,778,184	10,593,043	7,679,277
Net assets at beginning of year	66,676,427	6,484,071	32,698,447	105,858,945
Net assets at end of year	$ 61,984,477	$ 8,262,255	$ 43,291,490	$ 113,538,222

See accompanying notes.

Morehouse School of Medicine, Inc. and Affiliate

Consolidated Statements of Cash Flows

	Year Ended June 30	
	2007	**2006**
Operating activities		
Change in net assets	**$ 6,424,003**	$ 7,679,277
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**3,919,117**	4,140,641
Loss on dispositions of property and equipment	**75,664**	158,845
Net realized and unrealized gain on investments	**(4,152,931)**	(1,121,744)
Change in operating assets and liabilities:		
Accounts receivable, net	**6,482,901**	(8,989,633)
Pledges receivable, net	**812,477**	(4,167,390)
Patient accounts receivable	**(247,869)**	1,242,891
Other receivables	**3,620**	(449,861)
Other assets	**(313,803)**	(207,339)
Accounts payable	**(764,965)**	225,186
Accrued legal settlement	**(2,737,815)**	2,737,815
Accrued expenses and other liabilities	**(78,149)**	1,053,581
Deferred revenue	**(26,091)**	(172,542)
Net cash provided by operating activities	**9,396,159**	2,129,727
Investing activities		
Loans to students, net of repayments	**60,528**	2,459
Purchases of investments	**(12,547,927)**	(9,266,258)
Proceeds from sale of investments	**6,420,644**	2,775,149
Increase in advances to College Partners, Inc.	**(72,166)**	(1,121,067)
Purchase of property and equipment	**(765,786)**	(1,117,090)
Net cash used in investing activities	**(6,904,707)**	(8,726,807)
Financing activities		
Proceeds from borrowings	**2,438,000**	–
Repayment of borrowings	**(540,000)**	(540,000)
Net cash provided by (used in) financing activities	**1,898,000**	(540,000)
Net increase (decrease) in cash and cash equivalents	**4,389,452**	(7,137,080)
Cash and cash equivalents at beginning of year	**1,919,654**	9,056,734
Cash and cash equivalents at end of year	**$ 6,309,106**	$ 1,919,654

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 53% and 30%, respectively, in 2007, and 54% and 35%, respectively, in 2006. Revenues and accounts receivable from the state government were approximately 11% and 1%, respectively, in 2007 and 18% and 14%, respectively, in 2006. 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 accounting principles generally accepted in the United States (GAAP). 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 GAAP 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.

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 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 private gifts, grants and contracts. 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 Federal Perkins Loan Program.

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. 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 School's financial instruments consist of cash and cash equivalents, advances to College Partners, Inc., investments, accounts receivable, loans and pledges receivable, patient accounts receivable, accounts payable, accrued expenses and other liabilities, debt and government advances for student loans. Cash and cash equivalents, advances to College Partners, Inc., all receivables, accounts payable and accrued expenses and other liabilities are stated at cost which approximates fair value. Investments in debt and equity securities are recorded at their fair values.

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 $11,881,000 and $11,465,000 in revenues relating to these agreements for the years ended June 30, 2007 and 2006, 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 2007 and 2006, the School recognized disproportionate share revenues of approximately $13,980,000 and $12,589,000, 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.

2. Summary of Significant Accounting Policies (continued)

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, 2007 and 2006, the School and MMA had accounts receivable from Grady of approximately $7,300,000 and $9,000,000, respectively. For the years ended June 30, 2007 and 2006, the school and MMA recognized unrestricted revenues associated with Grady of approximately $11,600,000 and $11,700,000, 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. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered.

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. MMA recognizes that revenue from government agencies is significant to its operations but does not believe that there are any significant credit risks associated with these government agencies.

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	
	2007	**2006**
Patient service charges	**$ 25,630,173**	$ 27,164,967
Less charges related to charity care	**(7,910,531)**	(6,919,246)
Less other contractual adjustments and deductions	**(10,694,741)**	(14,258,878)
Net patient service revenue	**$ 7,024,901**	$ 5,986,843

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 $277,000 and $244,000 for the years ended June 30, 2007 and 2006, 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 collectibility 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.

3. Accounts Receivable

Accounts receivable consisted of the following at June 30:

	2007	2006
Grants and contracts receivable	**$ 9,634,190**	$ 8,436,384
Residency receivable	**2,786,646**	3,981,230
Georgia appropriation *(Note 2)*	**–**	2,513,465
Disproportionate share *(Note 2)*	**–**	3,972,658
	12,420,836	18,903,737
Less allowance for doubtful accounts	**(75,000)**	(75,000)
	$ 12,345,836	$ 18,828,737

4. Pledges Receivable

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

	2007	2006
In one year or less	**$ 875,000**	$ 1,082,500
Between one year and five years	**3,345,613**	4,068,113
Pledges receivable before discount	**4,220,613**	5,150,613
Discount	**(461,031)**	(578,554)
Net pledges receivable	**$ 3,759,582**	$ 4,572,059

Net pledges receivable have been discounted to present value using a discount rate of approximately 5%.

5. Investments

The composition of investments at June 30 is as follows:

	2007	2006
Short-term mutual funds	**$ 2,249,506**	$ 1,413,407
Common stock	**40,995,543**	36,433,794
Corporate and government bonds	**13,139,944**	8,257,578
	$ 56,384,993	$ 46,104,779

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

	2007	2006
Interest and dividend income	**$ 2,759,492**	$ 1,964,129
Net realized and unrealized gain on investments	**4,152,931**	1,121,744
Total net investment earnings	**$ 6,912,423**	$ 3,085,873

6. Property and Equipment

Property and equipment consisted of the following at June 30:

	2007	2006
Land	**$ 2,635,096**	$ 2,635,096
Buildings and building improvements	**57,344,363**	57,275,454
Equipment	**19,381,333**	20,946,239
Books	**1,428,854**	1,302,690
Total property and equipment	**80,789,646**	82,159,479
Less accumulated depreciation	**(28,891,990)**	(27,032,828)
Net property and equipment	**$ 51,897,656**	$ 55,126,651

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 2007, 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 $72,000 and $1,121,000 during fiscal years ended June 30, 2007 and 2006, 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. Certain leases covering equipment are classified as capital leases. MSM and Affiliate lease space and equipment under several noncancelable operating leases which expire in future years. Total rental expenses were approximately $1,668,000 and $1,570,000 in 2007 and 2006, respectively.

The following is a schedule of future minimum lease payments for operating leases as of June 30, 2007:

2008	$ 1,575,000
2009	1,296,000
2010	555,000
2011	299,000
2012	5,000
Total minimum lease payments	$ 3,730,000

Future minimum lease payments have not been reduced by future minimum sublease rentals of $286,000 due in 2008 through 2010, and $214,000 due in 2011 under noncancelable subleases.

9. Borrowings Under Line of Credit Arrangements

At June 30, 2007, the School has a line of credit with a bank for $2,500,000. The line of credit bears interest at the 30-day London InterBank Offered Rate plus .75 % adjusted monthly and ends on May 28, 2008. At June 30, 2007, $2,438,000 was outstanding under the line of credit.

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% (6.32% at June 30, 2007, and 6.11% at June 30, 2006). 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, 2007 and 2006, the outstanding note totaled $6,035,000 and $6,375,000, respectively. Interest incurred and paid during the year totaled $400,000 and $341,000 for the years ending June 30, 2007 and 2006, respectively.

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 (3.72% at June 30, 2007, and 3.99% at June 30, 2006). 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 .56% of the outstanding principal balance of the Bonds. Annual fees paid were approximately $19,000 in 2007 and $31,000 in 2006. 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.

10. Bonds 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
2008	$ 200,000
2009	350,000
2010	400,000
2011	450,000
2012	450,000
Thereafter	3,150,000
Total	$ 5,000,000

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, 2007 and 2006.

Interest expense incurred and paid by the School related to the Bonds was approximately $187,000 in 2007 and $167,000 in 2006.

The carrying value of the Bonds at June 30, 2007 and 2006, approximates fair value.

11. Federal Perkins Loan Program and Health Professions Student Loan Program

The School maintains the Federal Perkins Loan Program and the Health Professions Student Loan Program funds. 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 $3,542,000 and $3,422,000 to the plans in 2007 and 2006, 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:

	June 30	
	2007	**2006**
Purpose restricted contributions used for:		
Student financial assistance	**$ 974,606**	$ 1,140,090
Other	**2,300,640**	1,552,135
	$ 3,275,246	$ 2,692,225

14. Nature and Amount of Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods:

	June 30	
	2007	**2006**
Student financial assistance	**$ 864,161**	$ 1,340,224
Other	**10,444,786**	6,922,031
	$ 11,308,947	$ 8,262,255

15. Nature and Amount of Permanently Restricted Net Assets

The income from permanently restricted net assets is restricted for the following purposes:

	June 30	
	2007	**2006**
Student financial assistance	**$ 12,073,920**	$ 11,782,064
Endowed chairs	**8,662,165**	8,662,165
Research support	**27,650,000**	22,650,000
Student loan fund	**197,261**	197,261
Total permanently restricted net assets	**$ 48,583,346**	$ 43,291,490

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 each of the years ended June 30, 2007 and 2006, 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.

17. Contingencies (continued)

On July 11, 2000, a complaint was filed by a former employee against MMA in the United States District Court for the Northern District of Georgia (the District Court), alleging that MMA submitted false Medicare claims for reimbursement. On October 3, 2006, MMA entered into a Settlement Agreement in which it agreed to pay $1,750,000 to the United States Government in full and final settlement of the claims and $987,815 to the former employee for all attorney's fees, costs and expenses. These amounts were paid in full based upon a payment schedule through January 2007 and are included in other expenses in the accompanying 2006 consolidated statement of activities and changes in net assets. MMA borrowed the funds to pay these amounts from MSM and therefore, the amounts are reflected as due to MSM in the June 30, 2007 accompanying balance sheet.

On January 10, 2006, a complaint was filed by a former employee against MMA in the United States District Court for the Northern District of Georgia (the District Court), alleging that MMA has submitted false Medicare claims for reimbursement. The complaint was settled in 2007 for $50,000 and is reflected in the 2007 consolidated statement of activities and changes in net assets.

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, 2007

Federal Grantor/Pass-Through Grantor/Program Title	CFDA/Contract Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
U S Department of Defense					
Antiproliferative Bio-Mahers in Breast Cancer	12.420	$ 293,318	$ –	$ –	$ 293,318
Mitochondria DNA Mutations in Epithelial Ovarian Tumor Progression	12.420	94,331	–	–	94,331
The Role and Action of Prohibition and Antiproliferative Gene in Ovarian Cancer	12.420	109,573	–	–	109,573
		497,222	–	–	497,222
Pass-Through From University of Florida:					
Study of Prostate Cancer Screen and Mortality in Black and White Men	12.999	35,258	–	–	35,258
Total Department of Defense		532,480	–	–	532,480
National Aeronautics and Space Administration					
Pass-Through From Kansas State University:					
Differentiation of Bone Marrow Macrophages in Space	43.002	40,564	–	–	40,564
Gravitational Effects on Nutrient Diffusion through Cartilage Matrix	43.NAG32611	2,026	–	–	2,026
Space Medicine & Life Sciences Research Center	43.NCC112	2,590	–	–	2,590
Pass-Through From National Space Biomedical Research Institute:					
Preventing Desynchronication of the Circadian System in Long-Term Space Flight	43.NCC-9-58-24	160,057	–	–	160,057
Secondary and College Education for the Next Generation of Space Life Scientists	43.NCC-9-58-24	245,534	–	–	245,534
Education Program Leadership	43.NCC-9-59-24	77,100	–	–	77,100
		482,691	–	–	482,691
Total National Aeronautics and Space Administration		527,871	–	–	527,871
National Science Foundation					
Pass-Through From Georgia Institute of Technology:					
Development of a Murine Stem Cell Derived Vascular Smooth Muscle Cell	47.041	67,456	–	–	67,456
Pass-Through From Hamilton Fish National Institute:					
Hamilton Fish National Institute on School and Community Violence	47.S20	–	–	78,700	78,700
Science and Technology Centers Integrative Partnerships	47.IBN-9876754	95,133	–	–	95,133
Total National Science Foundation		162,589	–	78,700	241,289
U. S. Department of Education					
Title III Part B Strengthening HBCUs	84.031B	–	–	12,220,828	12,220,828
Stafford	84.032	–	7,365,495	–	7,365,495
Federal Work-Study Program	84.033	–	552	–	552
Federal Perkins Loan Program	84.038	–	75,000	–	75,000
Pass-Through From State of Georgia Department of Human Resources:					
21st Century Community	84.287	–	–	503,270	503,270
21st Century Community - Learning Center Lamar Center	84.287	–	–	190,816	190,816
		–	–	694,086	694,086
Pass-Through From Quitman County Board of Education:					
Carol M. White Physical Education and Nutrition Grant	84.Q215F040508	–	–	33,509	33,509
Character in Education (CEPIE Project)	84.Q215S040109	–	–	84,562	84,562
		–	–	118,071	118,071
Total Department of Education		–	7,441,047	13,032,985	20,474,032

Morehouse School of Medicine, Inc. and Affiliate

Schedule of Expenditures of Federal Awards (continued)

Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	CFDA/Contract Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
U. S. Department of Health and Human Services					
Southeast Addition Technology Transfer Center	93.230	$ –	$ –	$ 495,829	$ 495,829
Pass-Through From State of Georgia Department of Human Resources:					
Community Health Prevention Medicine - Southwest MHDDAD Region 4	93.959	–	–	373,112	373,112
CSAT National Historically Black Colleges and Universities (HBCU) Initiative	93.HCFA-00-0351	–	–	1,097,706	1,097,706
Total		–	–	1,966,647	1,966,647
Office of Minority Health					
Pass-Through From Morehouse College:					
The New Minority Males Consortium for the Study of Male Health Project	93.004	–	–	2,125	2,125
Regional Coordinating Center for the Hurricane Response	93.004	–	–	2,852,954	2,852,954
Umbrella Cooperative Agreement	93.004	–	–	2,127,915	2,127,915
Total		–	–	4,982,994	4,982,994
Center for Disease Control					
Pass-Through From University of Georgia Foundation:					
The Southern Center on Communication, Health and Poverty	93.061	–	–	31,666	31,666
Health Promotion and Disease Prevention Research Center	93.135	1,485,832	–	–	1,485,832
Pass-Through From Fulton City:					
REACH - Racial and Ethnic Approaches to Community Health	93.135	–	–	6,495	6,495
		1,485,832	–	6,495	1,492,327
Imani	93.243	–	–	262,744	262,744
Pass-Through From Minority Health Professions Foundations:					
Public Health Summer Fellows YR'04-05	93.283	–	–	79,820	79,820
Consortium of African American Public Health Programs	93.283	53,869	–	–	53,869
International Training Course in Ghana: Reproductive Health	93.283	–	–	3,828	3,828
Increasing Minorities in the Public Health Professions	93.283	–	–	55,050	55,050
The Morehouse Environmental Medical Program	93.283	–	–	18,284	18,284
		53,869	–	156,982	210,851
Pass-Through From Men Against Breast Cancer:					
Partners in Survival Programs and Men Against Breast Cancer	93.283U58/CCU323069-01	–	–	7,438	7,438
Research on Community Cancer Control	93.919	102,587	–	–	102,587
Pass-Through From ABT/USAID:					
ZDRav Plus II	93.945	–	–	41,361	41,361
Pass-Through From State of Georgia Department of Human Resources:					
Prostate Cancer Disparities Conference	93.945	–	–	67,217	67,217
		–	–	108,578	108,578
STD Faculty Expansion Program	93.978	–	–	23,512	23,512
Pass-Through From Friends of Congressional Glaucoma:					
Glaucoma Caucus Foundation, Inc.	93.H75/CCH221874-04	–	–	14,866	14,866
Pass-Through From Meharry Medical College:					
Fetal Alcohol Syndrome	93.CCU304522014	–	–	136,105	136,105
Total		1,642,288	–	748,386	2,390,674
Health Resources and Services Administration					
Model State AHEC	93.107	–	–	244,127	244,127
Maternal and Child Health Care Exposure for Students and Residents	93.110	–	–	210	210
Pass-Through From Howard University AIDS Education and Training Center	93.145	–	–	14,253	14,253
Preventive Medicine Residences	93.117	–	–	242,977	242,977
Pass-Through From State of Georgia Department of Human Resources:					
Ryan White Care Act Title IV	93.153	–	–	46,726	46,726
Centers of Excellence	93.157	–	–	54,589	54,589
Health Education and Training Centers	93.189	–	–	54,645	54,645
Health Careers Opportunity Program	93.822	–	–	431,790	431,790

Morehouse School of Medicine, Inc. and Affiliate

Schedule of Expenditures of Federal Awards (continued)

Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	CFDA/Contract Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
Predoctoral Training in Primary Care	93.884	$ –	$ –	$ 232,526	$ 232,526
Faculty Development in Primary Care	93.884	–	–	49	49
Academic Administration Units in Primary Care	93.884	–	–	59,277	59,277
		–	–	291,852	291,852
Healthy Communities Access Demonstration Program	93.890	–	–	624,414	624,414
Scholarships For Health Professional Students From Disadvantaged Backgrounds	93.925	–	50,246	–	50,246
Pass-Through From State of Georgia Department of Human Resources:					
Children's 1st Process	93.994	–	–	35,319	35,319
Total		–	50,246	2,040,902	2,091,148
Agency For Health Care Policy and Research					
5th Annual Primary Care and Prevention Conference	93.226	–	–	93,459	93,459
MSM Clinical Faculty Research Training Program	93.226	187,923	–	–	187,923
Total		187,923	–	93,459	281,382
National Institute of Health					
Communities Enpowering Youth, CEY	93.009	–	–	133,407	133,407
Pass-Through From Courtesy Associates:					
Supplement to Neuroscience Research Institute	93.100704	8,938	–	–	8,938
MSM Training in Genomics and Hemoglobinpathics	93.172	–	–	46,887	46,887
Schizophrenia Liability Genes Among African Americans	93.242	499,150	–	–	499,150
Fostering Mental Health Research in Psychiatry Residents	93.242	111,460	–	–	111,460
		610,610	–	–	610,610
ADD/HIV Prevention in Male Adolescent Detainees	93.273	800,466	–	–	800,466
Three Dimensional Approaches to Eliminating Health Disparities	93.307	–	–	1,287,142	1,287,142
Pass-Through From Emory					
Sickle Cell Disease	93.365	12,440	–	–	12,440
Research Center for Minority Institutions ("RCMI")	93.389	2,224,551	–	–	2,224,551
Clinical Research Education and Career Development	93.389	407,499	–	–	407,499
MSM Center of Clinical Research Excellence	93.389	1,240,671	–	–	1,240,671
Extramural Research Facilities Improvement Program	93.389	18,000	–	–	18,000
Research Centers in Minority Institutions Clinical	93.389	1,863,243	–	–	1,863,243
		5,753,964	–	–	5,753,964
Pass-Through From Emory University:					
Institutional Research on Academic Career Development		43,375	–	–	43,375
A Black Man Can Fight Prostate Cancer	93.395	–	–	4,741	4,741
A Black Man Can Fight Prostate Cancer - Conference	93.395	–	–	4,817	4,817
		–	–	9,558	9,558
Morehouse School of Medicine/UAB Cancer CTR PTR	93.397	64,035	–	–	64,035
MSM/Tuskegee UAB Consortium	93.397	562,967	–	–	562,967
Pass-Through From University of Alabama:					
Michondrial DNA Mutation in Colorectal Cancer	93.397	1,401	–	–	1,401
SPORE in Breast Cancer	93.397	–	–	–	
Cancer Center Partnership	93.397	–	–	–	
Functional Assay BRCAI Ovulation	93.397	21,534	–	–	21,534
Pass-Through From the American Cancer Society:					
Get Your Test Intervention	93.397	2,492	–	–	2,492
		652,429	–	–	652,429
Pass-Through From APIRE					
APIRE	93.398	15,513	–	–	15,513
National Black Leadership Initiative on Cancer II	93.399	1,231,181	–	–	1,231,181
Nutritional Manipulaton of Circadian Rhythms and Cancer	93.399	104,081	–	–	104,081
Pass-Through From Southwest Oncology Group:					
SELECT Minority Recruitment Supplement	93.399	37,177	–	–	37,177
		1,372,439	–	–	1,372,439
Pass-Through From Emory					
MTDNA Depletion and Nucleoside Reverse		19,599	–	–	19,599

Morehouse School of Medicine, Inc. and Affiliate

Schedule of Expenditures of Federal Awards (continued)

Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	CFDA/Contract Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
Enhancement of Cardiovascular Research	93.837	$ 891,702	$ –	$ –	$ 891,702
The Vascular Transcriptome in Hypertensive Remodeling	93.837	123,670	–	–	123,670
Families Implementing Good Health Traditions for Life	93.837	–	–	129,063	129,063
Notch3 Determinant of Vascular Cell Fate	93.837	151,921	–	–	151,921
Cardiovascular Disease Prevention Intervention Program	93.837	515,020	–	–	515,020
MSM Training Cardiovascular Sciences	93.837	249,489	–	–	249,489
Macrophage Inward Rectifier Channels in Atherosclerosis	93.837	105,374	–	–	105,374
PPAR-Delta in Obesity-Related Vascular Remodeling	93.837	10,925	–	–	10,925
The Role Iroquios Homebox of Genes	93.837	122,455	–	–	122,455
PPAR-GAMMA Signaling Pathway in Cardiac Hypertrophy and Failure	93.837	208,683	–	–	208,683
Regulation of Myocardial Lipid and energy Homeostasis	93.837	25,032	–	–	25,032
Morehouse Emory Partnership to Reduce CVRI Disparities	93.837	508,944	–	–	508,944
		2,913,215	–	129,063	3,042,278
Cultural Competence and Health Disparities Academic Award	93.838	144,000	–	–	144,000
Vascular Responses in Transonic Sickle Cell	93.839	92,092	–	–	92,092
Vaccine Efficacy on Children with Sickle Cell	93.839	46,671	–	–	46,671
Pass-Through From Seattle Institute of Cardiac Research:					
Home Automatic External Defibrillator Trial	93.839	325	–	–	325
		139,088	–	–	139,088
The Function of Ezrin in Stimulus-Coupled Gastric Acid Secretion	93.848	181,998	–	–	181,998
The AASK Cohort Study	93.849	18,405	–	–	18,405
Development of Neuroscience	93.853	1,833,052	–	–	1,833,052
The Role of a Novel Gene, NNAL, in Neural Regeneration	93.853	172,785	–	–	172,785
Stroke Prevention and Intervention Research Program	93.853	206,282	–	–	206,282
Peroxisome Proliferators-Activated Receptor and Stroke	93.853	176,996	–	–	176,996
Novel Neuroprotective Roles for Neureguins in the Trea	93.853	232,702	–	–	232,702
Phobic and Circadian Regulation of Retinal Melatonin	93.853	198,005	–	–	198,005
Anatomy/Neurobiology Neuroprotective Roles	93.853	247,421	–	–	247,421
Pass-Through From University of Medicine and Dentistry of New Jersey:					
Warfarin vs. Aspirin Reduced Cardiac Ejection Fraction Study	93.853	2,911	–	–	2,911
Pass-Through From University of Virginia					
Temporal Biology Training Program	93.853	–	–	48,410	48,410
		3,070,154	–	48,410	3,118,564
Cholera Pathogenesis Mucinase Activity and Motility	93.855	150,726	–	–	150,726
Introduction of Protective Immunity Against Chlamydia	93.856	228,652	–	–	228,652
The Role of Nef and Cyclophilin A in HIV-1 Disassembly	93.856	32,023	–	–	32,023
Role of RANTES in Pneumoccal Immunopathogenesis	93.856	6,800	–	–	6,800
		267,475	–	–	267,475
MBRS Score Program at Morehouse School of Medicine	93.859	1,365,097	–	–	1,365,097
Research Initiative for Scientific Enhancement Program	93.859	325,971	–	–	325,971
Pass-Through From Emory University:					
Biosciences Graduate Prep Program for Minorities	93.859	41,516	–	–	41,516
Georgia Cancer Center	93.859	448,770	–	–	448,770
		2,181,354	–	–	2,181,354
Center for Reproductive Cells:					
Development and Differentiation in Reproductive Axis	93.865	907,061	–	–	907,061
Trends in Blood Pressure Relation to Obesity	93.865	10,458	–	–	10,458
Genomic Fingerprint of PGF2alpha Actions in Primates	93.865	53,901	–	–	53,901
		971,420	–	–	971,420
Studies of Cell Junctions and Cell Membranes	93.867	117,959	–	–	117,959
MU-3 Receptors and Regulation of Intraocular Pressure	93.867	60	–	–	60
Pass-Through From Washington University					
Oscular Hypertension Treatment Study	93.867	56,038	–	–	56,038
Pass-Through From University of Maryland					
Tailored Massages to Increase Eye Examination	93.867	13,255	–	–	13,255
		187,312	–	–	187,312
Cerebral Malaria Associated Neurological Disease in India	93.989	9,867	–	–	9,867
Pass-Through From City of Decatur:					
STEPS	93.06-850-CO171-00	–	–	27,393	27,393

Morehouse School of Medicine, Inc. and Affiliate

Schedule of Expenditures of Federal Awards (continued)

Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	CFDA/Contract Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
OLAW/CLAR IACUC 101 Workshop	93.467-MZ-700613	$ –	$ –	$ 5,000	$ 5,000
Pass-Through From Duke University Medical Center & Health System:					
A Chief Trail: Investigating the Outcome of Exercise Training	93.1U01HL6374701A2	–	–	45,443	45,443
Pass-Through From Boston University Medical:					
Genetic Epidemiological Studies of Alzheimer's Disease	93.3R01AG09029	251,780	–	–	251,780
Pass-Through From Duke University Medical Center & Health System:					
Cancer Information Service YR' 04-05	93.N02CO01104	–	–	80,659	80,659
Pass-Through From Fulton County:					
Racial and Ethnic Approaches to Community Health (REACH)	93.REACH	–	–	17,908	17,908
Total		19,776,567	–	1,830,870	21,607,437
National Center for Chronic Disease Prevention and Health Promotion					
Prostate Cancer Disparities in Black Men	93.238	–	–	21,903	21,903
Total		–	–	21,903	21,903
Office of the Secretary					
21st Century CHOICES	93.995	–	–	118,844	118,844
Pass-Through From City of Decatuar - U.S. Department of Education					
Collaborative Prevention Education Program	93.995	–	–	32,324	32,324
Total		–	–	151,168	151,168
Administration For Children and Families					
Compassion Capital Fund Demonstration Program	93.90EJ0052/01	–	–	284,645	284,645
Total		–	–	284,645	284,645
Center for Medicare and Medicaid Services					
Pass-Through From XL Health Corporation					
Pharm/Toxicology Medicare Disease Management	93.CMS-02-XLHealth	–	–	27,190	27,190
Total		–	–	27,190	27,190
Other DHHS					
National Center for Chronic Disease Prev. & Health Promo Conference Support Program	93.CCH424987-01	–	–	140	140
Pass-Through From Emory					
AASK Cohort Study	93.6067256/RFS7000023	–	–	3,623	3,623
Pass-Through From University of Maryland:					
Consumer Health & Toxicology Information Project	93.S02069	–	–	2,373	2,373
Total		–	–	6,136	6,136
Total Department of Health and Human Services		21,606,778	50,246	12,154,300	33,811,324
Corporation for National and Community Services					
Special Volunteer Program for Homeland Security	94.002	–	–	202,984	202,984
Learn and Serve America	94.005	–	–	306,182	306,182
Total Corporation for National and Community Services		–	–	509,166	509,166
Total Federal Expenditures		$ 22,829,718	$ 7,491,293	$ 25,775,151	$ 56,096,162

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2007

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, 2007. 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

Except for the Federal Perkins Loan Program (FPL), HPSL Program/Primary Care Loan (PCL) Program, LDS Program, and the Federal Family Educational Loan Program (FFEL), amounts listed on the Schedule represent actual expenditures incurred under the accrual basis of accounting for the year ended June 30, 2007.

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 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 2007, plus the outstanding balance of loans granted in previous years.

The FFEL Program represents loans received by students of the School during the fiscal year 2007 which were not made by the School. Accordingly, FFEL loan balances are not reflected in the School's consolidated financial statements.

The loans advanced are as follows for each of the student loan programs listed above.

Student Loans Advanced	CFDA Number	Cumulative Principal Advances Outstanding	Principal Advanced During the Year Ended June 30, 2007
FPL program	84.038	$ 3,124,625	$ 72,500
HPSL program/PCL program	93.342	828,820	–
LDS program	93.342	283,488	10,000
Total		$ 4,236,933	$ 82,500

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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 years ended June 30, 2007 and 2006, and have issued our report thereon dated February 8, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audits, 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 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, 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, 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 U.S. 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, 2007. 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, 2007.

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 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 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 financial reporting 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, other 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, 2008

Morehouse School of Medicine, Inc. and Affiliate

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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
93.004	Cooperative Agreements to Improve the Health Status of Minority Populations
84.031B	Title III

Dollar threshold used to distinguish between Type A and Type B programs: $ 1,682,885

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

Part II—Financial Statement Findings Section

This section identifies the significant deficiencies, 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, significant deficiencies, 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 were identified as a result of our test procedures.

Morehouse School of Medicine, Inc. and Affiliate

Summary Schedule of Prior Year Findings

For the Year Ended June 30, 2006

This section identifies the resolution of prior year audit findings related to the audit of major federal programs, as required to be reported by Circular A-133, Section .315(b).

Finding 2006-01

Condition:
Morehouse Medical Associates (MMA) had a material weakness over the internal controls associated with accounts receivable and billing.

Recommendation:
MMA should review its staffing levels, structure, and procedures for all departments and hire additional personnel needed.

Corrective Action Taken:
MMA engaged an outside consulting firm to review the processes and procedures of the revenue cycle as well as make an assessment of the existing IDX system. Additionally, the IDX billing module was upgraded to the latest version. MMA has improved its processes associated with accounts receivable and billing.

Finding 2006-02

Condition:
MMA had a reportable condition over the internal controls associated with revenue transactions.

Recommendation:
MMA should review its policies for creating and maintaining supporting documentation relating to patient charges.

Corrective Action Taken:
MMA engaged an outside consulting firm to review the processes and procedures of the revenue cycle and has improved its processes for creating and maintaining supporting documentation.

Finding 2006-03

Condition:
The School had met the $25 million threshold but had not prepared the required DS-2.

Recommendation:
The School should complete and submit a DS-2.

Corrective Action Taken:
Morehouse School of Medicine's management engaged a consulting firm, Bearing Point, to assist in the completion and submittal of the Cost Accounting standard board, disclosure statement form. Morehouse School of Medicine submitted the CASB DS-2 on July 20, 2007, to the Division of Cost Allocation at the U.S. Department of Health and Human Services.

Morehouse School of Medicine, Inc. and Affiliate

Schedule of State of Georgia Awards Expended

For the Year Ended June 30, 2007

State Grantor/Program or Cluster Title	Contract Number	Total Expenditures	Total Receivables
Georgia Department of Human Resources			
Georgia Regional Residency	427-93-07070532-99	$ 189,538	$ 34,174
Georgia Cancer Coalition	DCCS 2006	653,763	–
Grady - Ryan White	427-93-5403	42,945	11,826
Grady - Sickle Cell	GHSCC	64,152	40,833
Gwinnett County Residents	427-93-0505	59,724	18,439
Metro MHDDAD	427-93-626	350,371	86,373
21st Cenury Community Learning Center	84.287	503,270	–
Children's 1st Process	93.994	35,319	–
Total Georgia Department of Human Resources		$ 1,899,082	$ 191,645

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, 2007

Program Title/ Contract Number	**Budget**	**Revenue**	**Expenditures**
Georgia Regional Residency	$ 197,536	$ 189,538	$ 189,538
Georgia Cancer Coalition	600,000	600,000	653,763
Grady – Ryan White	47,305	34,479	42,945
Grady – Sickle Cell	70,000	29,167	64,152
Gwinnett County Residents	115,200	41,285	59,724
Metro MHDDAD	368,026	281,653	350,371
21st Century Community Learning Center	519,362	503,270	503,270
Children's 1st Process	64,099	35,319	35,319