# 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

0710-0872875

# 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

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

| | | 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** | | |

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.*

## 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

## 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

Morehouse School of Medici

## 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

## 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

## 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 restri

## 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 Sc

## 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 |

**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.

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

| 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 | – | –Development of a Murine Stem Ce | |
| | | | – | – | 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 | – | | | |

| Federal Grantor/Pass-Through Grantor/Program Title | CFDA/Contract Number | Research and Development Cluster | Student Financial Assistance Cluster | Other Expenditures | Total Expenditures |
|---|---|---|---|---|---|
| <u>U. S. Department of Health and Human Services</u> | | | | | |
| 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 | [illegible] | | | |

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| Federal Grantor/Pass-Through | CFDA/Contract | Research and Developmen | Student Financial |
|---|---|---|---|

# 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 | | – | – | | |

# 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.

# 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 combincted o not expr13ct

**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

Ernst & Young LLP
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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 pr

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.

# 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 |