Morehouse School of Medicine, Inc. and Affiliate

Consolidated Financial Statements and Other Financial Information and Reports and Schedules Related to Office of Management and Budget Circular A-133
Years Ended June 30, 2010 and 2009

The report accompanying these financial statements was issued by BDO USA, LLP, a New York limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

Morehouse School of Medicine, Inc. and Affiliate

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

Years Ended June 30, 2010 and 2009

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Independent Auditors' Report

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, 2010, and the related consolidated statements of activities and changes in net assets, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements of the School as of June 30, 2009 were audited by other auditors, whose report dated February 8, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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. An audit includes 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2010 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and Statement of Georgia Award Revenues and Expenditures Compared to Budget are not a required part of the consolidated financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The Schedule of State of Georgia Award Revenues and Expenditures Compared to Budget are required by the Georgia Department of Human Resources Directive PRO 1244, *External Entities Audit Standards*. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

BDO USA, LLP

August 27, 2010

Morehouse School of Medicine, Inc.
and Affiliate

Consolidated Balance Sheets

June 30,	**2010**	2009
Assets		
Cash and cash equivalents	**$ 9,124,618**	$ 10,707,512
Accounts receivable, net (Note 4)	**18,707,810**	24,553,139
Pledges receivable, net (Note 5)	**1,355,077**	2,124,345
Loans receivable, net of allowance for doubtful of $178,000 and $49,400 in 2010 and 2009	**2,166,101**	2,258,522
Patient accounts receivable, net (Note 2)	**838,160**	1,470,139
Other receivables	**3,055,530**	1,282,355
Investments, at fair value (Note 3)	**63,402,650**	56,117,276
Note receivable	**6,719,657**	-
Advances to College Partners, Inc. (Note 8)	**-**	8,552,970
Other assets	**374,508**	279,311
Property, plant and equipment, net (Note 7)	**53,745,266**	45,875,865
Total Assets	**$ 159,489,377**	$ 153,221,434
Liabilities and Net Assets		
Liabilities		
Accounts payable	**$ 2,720,219**	$ 4,676,997
Accrued expenses and other liabilities	**11,024,641**	8,122,822
Borrowings under line of credit arrangements (Note 10)	**1,888,000**	1,888,000
Deferred revenue	**745,329**	1,979,867
Long-term debt payable (Note 11)	**9,065,000**	9,805,000
Government advances for student loans (Note 12)	**1,550,271**	1,550,271
Total Liabilities	**26,993,460**	28,022,957
Net Assets		
Unrestricted	**63,028,680**	62,175,713
Temporarily restricted (Note 15)	**4,379,067**	3,089,789
Permanently restricted (Note 16)	**65,088,170**	59,932,975
Total Net Assets	**132,495,917**	125,198,477
Total Liabilities and Net Assets	**$ 159,489,377**	$ 153,221,434

See accompanying independent auditors' report and notes to consolidated financial statements.

Morehouse School of Medicine, Inc.
and Affiliate

Consolidated Statements of Activities and Changes in Net Assets

Year ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Additions				
Tuition and fees	$ 8,222,281	$ -	$ -	$ 8,222,281
Student aid	(1,587,082)	-	-	(1,587,082)
Tuition and fees, net of student aid	6,635,199	-	-	6,635,199
Federal, state, and local government grants and contracts	93,799,878	-	4,781,250	98,581,128
Private gifts, grants, and contracts	7,783,316	2,324,748	373,945	10,482,009
Faculty practice plan	8,738,235	-	-	8,738,235
Investment gains	222,592	3,813,564	-	4,036,156
Other sources	2,447,639	-	-	2,447,639
Net assets released from restrictions	4,849,034	(4,849,034)	-	-
Total Revenues and Other Additions	124,475,893	1,289,278	5,155,195	130,920,366
Expenditures				
Education and general:				
Instruction	39,102,687	-	-	39,102,687
Research	22,625,446	-	-	22,625,446
Public service	12,484,468	-	-	12,484,468
Academic support	7,430,958	-	-	7,430,958
Student services	1,663,300	-	-	1,663,300
Institutional support	24,538,219	-	-	24,538,219
Facilities operations and maintenance	3,482,728	-	-	3,482,728
Depreciation	3,638,323	-	-	3,638,323
Faculty practice plan	8,656,797	-	-	8,656,797
Total Expenditures	123,622,926	-	-	123,622,926
Change in Net Assets	852,967	1,289,278	5,155,195	7,297,440
Net Assets, beginning of year	62,175,713	3,089,789	59,932,975	125,198,477
Net Assets, end of year	$ 63,028,680	$ 4,379,067	$ 65,088,170	$ 132,495,917

See accompanying independent auditors' report and notes to consolidated financial statements.

Morehouse School of Medicine, Inc.
and Affiliate

Consolidated Statements of Activities and Changes in Net Assets

Year ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Additions				
Tuition and fees	$ 7,467,801	$ -	$ -	$ 7,467,801
Student aid	(1,574,305)	-	-	(1,574,305)
Tuition and fees, net of student aid	5,893,496	-	-	5,893,496
Federal, state, and local government grants and contracts	97,779,461	-	4,781,250	102,560,711
Private gifts, grants, and contracts	8,708,190	3,937,064	1,099,554	13,744,808
Faculty practice plan	9,271,629	-	-	9,271,629
Investment losses	(1,917,270)	(6,057,430)	-	(7,974,700)
Other sources	357,902	-	-	357,902
Net assets released from restrictions	4,368,531	(4,368,531)	-	-
Total Revenues and Other Additions	124,461,939	(6,488,897)	5,880,804	123,853,846
Expenditures				
Education and general:				
Instruction	37,368,304	-	-	37,368,304
Research	20,305,617	-	-	20,305,617
Public service	13,043,587	-	-	13,043,587
Academic support	8,543,750	-	-	8,543,750
Student services	1,909,925	-	-	1,909,925
Institutional support	21,901,399	-	-	21,901,399
Facilities operations and maintenance	4,240,746	-	-	4,240,746
Depreciation	3,706,968	-	-	3,706,968
Faculty practice plan	8,747,019	-	-	8,747,019
Total Expenditures	119,767,315	-	-	119,767,315
Change in net assets before accounting change	4,694,624	(6,488,897)	5,880,804	4,086,531
Change in accounting principle (unexpended net assets)	(1,419,292)	1,419,292	-	-
Change in Net Assets After Accounting Change	3,275,332	(5,069,605)	5,880,804	4,086,531
Net Assets, beginning of year	58,900,381	8,159,394	54,052,171	121,111,946
Net Assets, end of year	$ 62,175,713	$ 3,089,789	$ 59,932,975	$ 125,198,477

See accompanying independent auditors' report and notes to consolidated financial statements.

Morehouse School of Medicine, Inc.
and Affiliate

Consolidated Statements of Cash Flows

Year ended June 30,	**2010**	2009
Cash Flows from Operating Activities		
Change in net assets	**$ 7,297,440**	$ 4,086,531
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**3,638,323**	3,706,968
Loss on dispositions of property, plant and equipment	**50,117**	23,532
Net realized and unrealized (gain) loss on investments	**(3,972,462)**	9,620,498
Gifts and grants restricted for long-term investment	**(5,155,195)**	(5,880,804)
Change in operating assets and liabilities:		
Accounts receivable, net	**(874,328)**	(9,639,395)
Pledges receivable, net	**769,268**	410,386
Patient accounts receivable, net	**631,979**	(508,177)
Other receivables	**(1,773,175)**	199,253
Other assets	**(95,197)**	(17,028)
Accounts payable	**(1,956,778)**	1,237,868
Accrued expenses and other liabilities	**2,901,819**	1,178,082
Deferred revenue	**(1,234,538)**	(884,926)
Net cash provided by operating activities	**227,273**	3,532,788
Cash Flows from Investing Activities		
Loans receivable, net	**92,421**	(142,265)
Purchases of investments	**(59,811,711)**	(93,719,012)
Proceeds from sale of investments	**56,498,799**	88,333,123
Increase in advances to College Partners, Inc.	**(215,291)**	(25,001)
Purchases of property, plant and equipment	**(2,789,580)**	(1,083,462)
Net cash used in investing activities	**(6,225,362)**	(6,636,617)
Cash Flows from Financing Activities		
Repayment of borrowings	**(740,000)**	(1,240,000)
Gifts and grants restricted for long-term investment	**5,155,195**	5,880,804
Net cash provided by financing activities	**4,415,195**	4,640,804
Net (Decrease) Increase in Cash and Cash Equivalents	**(1,582,894)**	1,536,975
Cash and Cash Equivalents, beginning of year	**10,707,512**	9,170,537
Cash and Cash Equivalents, end of year	**$ 9,124,618**	$ 10,707,512
Supplemental cash flow information		
Non-Cash Transactions:		
Grady account receivable converted to note receivable	**$ 6,719,657**	$ -
CPI advances converted into land	**8,768,261**	-

See accompanying independent auditors' report and notes to consolidated financial statements.

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 Accounting Standard Codification (“ASC”) 958-205 “*Not For Profit Entities – Presentation of Financial Statements*”. 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 62% and 39%, respectively, in 2010 and 61% and 45%, respectively, in 2009. Revenues and accounts receivable from the state government were approximately 18% and 49%, respectively, in 2010 and 11% and 14%, respectively, in 2009. 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 and state government.

2. Summary of Significant Accounting Policies

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

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Concentration of Credit Risk

Financial instruments which potentially subject the School to concentrations of credit risk consist of deposits in banks in excess of the Federal Deposit Insurance Corporation ("FDIC") limits. The School monitors this risk and does not anticipate any losses. The School has not historically experienced any losses on these financial instruments. Uninsured bank balances amount to approximately $8,636,000 and $10,319,000 at June 30, 2010 and 2009, respectively.

Accounts Receivable

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

Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and are reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted private gifts, grants, and contracts in the consolidated financial statements. Conditional promises to give are not recorded as pledges receivable until such time as the conditions are substantially met.

Loans Receivable

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

Investments

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

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

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

- As increases in permanently restricted net assets if the terms of the gift require that they be added back to the principal of the permanently restricted contributions.

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

Property, Plant and Equipment

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

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

Buildings and building improvements	5 to 50 years
Equipment	5 to 20 years
Software	7 years
Books	5 years

Net Assets

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

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

- Temporarily restricted net assets include gifts, pledges receivable, and earnings from permanently restricted net assets that have been restricted until a specific time period has expired or for a certain purpose or program.

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

Revenue Recognition

Student tuition and fees revenue is reported net of scholarship discounts and allowance in the consolidated statements of activities and changes in net assets.

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

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

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

Contributed Services

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

Income Taxes

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

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 $9,469,000 and $12,729,000 in revenues relating to these agreements for the years ended June 30, 2010 and 2009, 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 "federal matching" 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 Health System, which passes the funding through to the School. During 2010 and 2009, the School recognized federal matching revenues of approximately $23,902,000 and $27,924,000, respectively, which are reflected as federal, state, and local government grants and contracts in the accompanying consolidated statements of activities and changes in net assets.

Grady Health System

Grady Health System ("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, 2010 and 2009, the School and MMA had accounts receivable from Grady of approximately $1,307,000 and $9,100,000, respectively. For the years ended June 30, 2010 and 2009, the School and MMA recognized unrestricted revenues associated with Grady of approximately $13,864,000 and $13,278,000, respectively. On October 2, 2009, the School executed a $7,956,000 seven-year note agreement with Grady, representing outstanding accounts receivable balances accumulated prior to January 1, 2008. The note is noninterest bearing and is payable in monthly installments of $94,717, commencing on January 31, 2010 through December 31, 2016. Although the note carries no interest rate, the School has discounted the note utilizing an imputed interest rate of 2.40%.

Grants

The School has been awarded grants and contracts for which the funds have not been received or expenditures made for the purpose specified in the award. These awards have not been reflected in the consolidated financial statements, but represent commitments of sponsors to provide funds for specific research or training projects. As these grants are considered exchange transactions, revenue will be recognized as related expenditures occur.

MMA Patient Accounts Receivable and Net Patient Service Revenue

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

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

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

Net patient service revenue is summarized below:

Year ended June 30,	**2010**	2009
Patient service charges	**$ 25,828,467**	$ 27,451,838
Less charges related to charity care	**(8,787,687)**	(9,825,831)
Less other contractual adjustments and deductions	**(12,613,093)**	(11,751,010)
Net patient service revenue	**$ 4,427,687**	$ 5,874,997

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 $172,378 and $291,235 for the years ended June 30, 2010 and 2009, respectively. Amounts not expected to be collected from self-pay accounts are classified as charity care and not reflected in net patient service revenue.

Periodically, management assesses the collectability of self-pay accounts based upon historical collection experience. The results of this review are then used to make any modifications to the amount recorded as charity care to establish appropriate self-pay accounts receivable balances.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. MMA believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on the consolidated financial statements. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Accounting Pronouncement

In May 2009, the FASB issued ASC 855, *Subsequent Events* (formerly SFAS No. 165). ASC 855 is effective for financial periods ending after June 15, 2009. ASC 855 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that the date represents the date the consolidated financial statements were issued or were available to be issued. The School has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2010 consolidated financial statements through the date of the independent auditor's report, which is the date that the consolidated financial statements were available to be issued.

3. Fair Value Measurements

The School has established and documented processes and methodologies for determining the fair values of the investments on a recurring basis in accordance with ASC 820, *Fair Value Measurements and Disclosures*. Under ASC 820, a financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy established by ASC 820 are defined as follows:

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

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

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in markets that are not active;
- Observable inputs other than quoted prices for the asset or liability;
- Inputs derived principally from, or corroborated by, observable market data by correlation or by other means.

Level 3 - Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

Observable inputs reflect the assumptions market participants would use in pricing the asset or liability developed from sources independent of the reporting entity; and unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The School has segregated all financial assets that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at June 30, 2010 and 2009 in the tables below.

June 30, 2010	*Level 1*	*Level 2*	*Level 3*	*Total*
Cash and cash equivalents	**$ 5,805,038**	**$ -**	**$ -**	**$ 5,805,038**
Government and agency securities	**14,336,264**	**-**	**-**	**14,336,264**
Corporate bonds	**7,312,269**	**-**	**-**	**7,312,269**
Equities	**18,021,233**	**-**	**-**	**18,021,233**
Mutual funds	**6,006,506**	**-**	**-**	**6,006,506**
Alternative investments	**-**	**-**	**11,921,340**	**11,921,340**
	$ 51,481,310	**$ -**	**$ 11,921,340**	**$ 63,402,650**

June 30, 2009	*Level 1*	*Level 2*	*Level 3*	*Total*
Cash and cash equivalents	$ 9,351,635	$ -	$ -	$ 9,351,635
Government and agency securities	14,591,948	-	-	14,591,948
Corporate bonds	4,542,734	-	-	4,542,734
Equities	15,241,369	-	-	15,241,369
Mutual funds	6,830,450	-	-	6,830,450
Alternative investments	-	-	5,559,140	5,559,140
	$ 50,558,136	$ -	$ 5,559,140	$ 56,117,276

The equity securities disclosed above include large and medium cap entities with sufficient trading volume to adequately assess fair value. The alternative investments predominantly include investments in hedge funds.

The changes in investments classified as Level 3 are as follows:

June 30,	2010	2009
Level 3 Reconciliation		
Balance, July 1,	$ 5,559,140	$ -
Net Purchases and Sales	5,931,177	6,329,060
Total realized and unrealized gains (losses)	431,023	(769,920)
Ending balance, June 30,	$ 11,921,340	$ 5,559,140
Amount of total gains (losses) in change in net assets	$ 431,023	$ (769,920)

The carrying amounts of cash and cash equivalents, accounts receivable, pledges receivable, patient account receivables, other receivables, accounts payable and accrued expenses approximate fair value due to the relative terms and short maturity of these financial instruments.

A reasonable estimate of the fair value of the loans receivable from students under government loan programs and advances from Federal government for student loans could not be made because the loans receivable are not salable and can only be assigned to the U.S. Government or its designees.

The carrying amount of the bonds and notes payable approximates fair value since these financial instruments bear interest at variable rates which approximate current market rates for notes with similar maturities and credit quality.

Investments and Long-Term Investments

Investments and long-term investments consist of the following at June 30:

	2010		2009	
	Cost	*Fair Value*	*Cost*	*Fair Value*
Cash and cash equivalents	$ 5,805,038	$ 5,805,038	$ 9,351,624	$ 9,351,635
Government and agency securities	13,605,286	14,336,264	13,086,956	14,591,948
Corporate bonds	6,551,171	7,312,269	3,795,492	4,542,734
Equities	19,729,907	18,021,233	18,170,237	15,241,369
Mutual funds	5,109,415	6,006,506	6,760,918	6,830,450
Alternative investments	12,576,879	11,921,340	6,329,060	5,559,140
	$ 63,377,696	**$ 63,402,650**	$ 57,494,287	$ 56,117,276

4. Accounts Receivable, Net

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

	2010	2009
Georgia appropriation	$ 9,239,096	$ 12,144,908
Grants and contracts receivable	7,259,876	4,258,501
Hospital affiliate receivable	2,283,838	8,224,730
	18,782,810	24,628,139
Less allowance for doubtful accounts	(75,000)	(75,000)
	$ 18,707,810	$ 24,553,139

5. Pledges Receivable, Net

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

June 30,	2010	2009
In one year or less	$ 1,379,113	$ 1,533,113
Between one year and five years	-	720,000
Pledges receivable	1,379,113	2,253,113
Discount	(24,036)	(128,768)
Net pledges receivable	$ 1,355,077	$ 2,124,345

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

6. Endowment

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

The School's Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the School classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is characterized as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the expenditure prescribed by UPMIFA. In accordance with UPMIFA, the School considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Institution and the endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the School; and
- The investment policies of the School.

The School has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor specified period(s). Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 5% over the long term. Actual returns in any given year may vary from this amount.

	Temporarily Restricted	*Permanently Restricted*	*Total*
Endowment net assets, June 30, 2009	$ 276,742	$ 59,932,975	$ 60,209,717
Investment gains	3,813,564	-	3,813,564
Contributions	-	5,155,195	5,155,195
Appropriation of endowment expenditures	(1,429,618)	-	(1,429,618)
Endowment net assets, June 30, 2010	$ 2,660,688	$ 65,088,170	$ 67,748,858

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the School to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies in excess of available earnings in temporarily restricted net assets are reported in unrestricted net assets of $0 and $1.6 million as of June 30, 2010 and 2009, respectively.

7. Property, Plant and Equipment

Property, plant and equipment consisted of the following at June 30:

June 30,	**2010**	2009
Land	**$ 11,403,357**	$ 2,635,096
Buildings and building improvements	**57,425,479**	57,375,361
Equipment	**20,541,087**	20,032,683
Books	**2,051,010**	1,699,709
Software	**1,193,861**	-
Construction in progress	**353,736**	353,736
Total property and equipment	**92,968,530**	82,096,585
Less accumulated depreciation	**(39,223,264)**	(36,220,720)
Net property, plant and equipment	**$ 53,745,266**	$ 45,875,865

8. Advances to College Partners, Inc.

College Partners, Inc. ("CPI") is a non-profit corporation organized by the School, Morehouse College and Spelman College (collectively, the Colleges) to acquire and manage real properties surrounding the Colleges for the benefit of the Colleges. Funding for CPI has been provided by the Colleges. Subsequent to fiscal year end 2006, CPI exchanged the real estate previously acquired for real estate of similar value held by the City of Atlanta Housing Authority. Acquisitions made by CPI have been in accordance with the Operating Agreement between CPI and the Colleges.

On June 24, 2010, the CPI property was deeded to the Colleges in accordance with the Land Distribution Agreement. Accordingly, the School reclassified the balance of Advance to CPI totaling $8,768,261 to Land. The School plans to use the land to further develop the campus and its mission.

9. Leases

MSM and Affiliate lease certain equipment and office space under long-term lease agreements. MSM and Affiliate lease space and equipment under several noncancelable operating leases which expire in future years. Total rental expenses were approximately $1,817,000 and $1,665,000 in 2010 and 2009, respectively.

The following is a schedule of future minimum lease payments for the operating leases as of June 30, 2010:

Year	Amount
2011	$ 1,145,000
2012	813,000
2013	753,000
2014	441,000
2015	7,000
Thereafter	-
	$ 3,159,000

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

10. Borrowings Under Line of Credit Arrangements

At June 30, 2010, the School has a line of credit with a bank for $5,000,000. The line of credit bears interest at the 30-day London InterBank Offered Rate (LIBOR) plus 2% adjusted monthly and matures on March 28, 2011. At June 30, 2010 and 2009, amounts outstanding under the line of credit totaled $1,888,000.

11. Long-Term Debt Payable

Note Payable

On February 28, 2005, the School executed a $6,800,000 five year note agreement that matured on February 28, 2010. On March 30, 2010, the School renewed the note for another five years for the remaining balance of $5,185,000. The note bears interest at 30-day LIBOR plus 2% (3% at June 30, 2010. The note has a variable payment schedule consisting of nineteen consecutive quarterly principal payments of $85,000, plus accrued interest, payable on the 28th of each quarter, beginning May 28, 2010, and a final balloon principal payment of $3,570,000 due and payable on February 28, 2015. At June 30, 2010, the outstanding balance totaled $5,015,000.

At June 30, 2009 the note had an outstanding balance of $5,355,000 and an interest rate of LIBOR plus 1% (1.32% at June 30, 2009).

Interest incurred and paid during the year totaled $81,000 and $157,000 for the year ended June 30, 2010 and 2009, 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 original Bonds were 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 served as trustee and remarketing agent of the Bonds.

On May 1, 2010 the School entered into a Bank Qualified Conversion of the Bonds with the Bank. Under the conversion, the Bond Issuer and Trustee amended and restated the original loan agreement to permit the outstanding principal of $4,050,000 to be converted to an interest mode that allowed the Bonds to be purchased by the Bank and bear interest at a Bank Rate. Under this conversion, the School entered into a credit arrangement with the Bank. Among other restrictions, the credit arrangement requires the School to maintain a minimum debt service ratio, as defined by the agreement. Management believes the School was in compliance with the debt service ratio at June 30, 2010 and 2009.

The Bonds continue to mature on February 1, 2018 and now bear interest at a Bank rate of 67% of 30 day LIBOR (1.91% at June 30, 2010) plus 2.50%. Interest is payable on the first business day of each month commencing May 1, 2010. At June 30, 2009, the interest on the Bonds was calculated interest at a weekly rate (2.63% at June 30, 2009).

Under the trustee and remarketing agent agreements, the School paid certain annual fees to the Bank of 0.56% of the outstanding principal balance of the Bonds. Annual fees paid were approximately $36,000 and $15,000 in 2010 and 2009, respectively.

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

Year	*Annual Redemption Amount*
2011	$ 450,000
2012	450,000
2013	450,000
2014	450,000
2015	450,000
Thereafter	1,800,000
	$ 4,050,000

Interest expense incurred and paid by the School related to the Bonds was approximately $59,000 in 2010 and $91,000 in 2009.

12. Perkins Loan Fund and Health Professions Student Loan Fund

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

13. Retirement Plans

The School has two contributory retirement plans with Teachers' Insurance and Annuity Association and College Retirement Equities Fund which cover substantially all full-time academic and certain other salaried employees. Employees of MSM and Affiliate who work in excess of 20 hours per week and have completed three months of service are eligible to participate in the School's retirement plans. MSM and Affiliate contributed $3,795,000 and $3,664,000 to the plans in 2010 and 2009, 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, up to a maximum contribution of $17,150. Participating employees are fully vested in their own contributions and vest in the employer contributions over a two-year period.

14. Federal, State and Local Government Grants and Contracts Revenue

Federal, state and local grants and contracts revenue consisted of the following:

June 30,	**2010**	2009
Federal	**$ 76,780,630**	$ 77,834,968
State	**10,778,446**	12,729,528
Local	**11,022,052**	11,996,215
	$ 98,581,128	$ 102,560,711

15. Nature and Amount of Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

June 30,	**2010**	2009
Student financial assistance	**$ 899,864**	$ 957,780
Other	**3,479,203**	2,132,009
	$ 4,379,067	$ 3,089,789

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

16. Nature and Amount of Permanently Restricted Net Assets

Permanently restricted net assets consist of the following:

June 30,	**2010**	2009
Student financial assistance	**$ 12,866,335**	$ 12,492,390
Endowed chairs	**9,812,073**	9,812,073
Research support	**42,212,501**	37,431,251
Student loan fund	**197,261**	197,261
	$ 65,088,170	$ 59,932,975

The income from the related investments is expendable based on the above identified restrictions.

17. Morehouse Medical Associates

The Medical Practice Plan (the "Plan") sets forth the formal policies and procedures governing the relationship between MMA and the School. The Plan provides for physician services and the structure for the utilization of the fees collected by MMA for these professional services. The Board of Directors and all participating physicians of MMA are faculty members of the School.

As prescribed by the Plan, MMA makes payments representing a portion of revenues to the School for its use in supporting the educational mission of the School.

Certain general and administrative expenses of MMA are paid by the School. MMA then reimburses the School for those expenses paid on MMA's behalf.

During the years ended June 30, 2010 and 2009, the School provided funding to MMA of approximately $780,000.

18. 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.

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Independent Auditors' Report on Supplemental Material

Our audit of the basic consolidated financial statements included in the preceding section of this report was performed for the purpose of forming an opinion on those statements taken as a whole. The supplemental material presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

BDO USA, LLP

August 27, 2010

Morehouse School of Medicine, Inc., and Affiliate

Supplemental Disclosure of Unrestricted Net Assets Exclusive of Plant and Plant-Related Debt

June 30,		**2010**		2009
Unrestricted Net Assets Exclusive of Plant And Plant-Related Debt				
Unrestricted Net Assets	$	**63,028,680**	$	62,175,713
Less Property, Plant, and Equipment and Advances to CPI		**(53,745,266)**		(54,428,835)
Add Plant-Related Debt		**9,065,000**		9,805,000
Unrestricted Net Assets Exclusive of Plant and Plant-Related Debt	$	**18,348,414**	$	17,551,878

Year ended June 30,		**2010**		2009
Change in Unrestricted Net Assets Exclusive of Plant and Plant-Related Debt				
Unrestricted Revenues	$	**124,475,893**	$	124,461,939
Unrestricted Expenses Before Depreciation		**119,984,603**		117,479,639
Depreciation		**3,638,323**		3,706,968
Change in Unrestricted Net Assets Per Consolidated Financial Statements		**852,967**		3,275,332
Add Depreciation		**3,638,323**		3,706,968
Subtract Debt Payments		**(740,000)**		(690,000)
Subtract Plant Additions		**(2,954,755)**		(1,084,932)
Change in Unrestricted Net Assets Exclusive of Plant and Plant-Related Debt		**796,535**		5,207,368
Beginning Unrestricted Net Assets Exclusive of Plant and Plant-Related Debt		**17,551,879**		12,344,510
Ending Unrestricted Net Assets Exclusive of Plant and Plant-Related Debt	$	**18,348,414**	$	17,551,878

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

Morehouse School of Medicine, Inc.
and Affiliate

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Contract Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures Fiscal Year Ended June 30, 2010
U.S. Department of Defense					
Neuroprotection by Neuregulin-1 Neurotrauma	12.1914	$ 112,760	$ -	$ -	$ 112,760
Function-Based Therapeutic Strategies to Human Prostate Cancer	12.W81XWH-08-1-0628	75,051	-	-	75,051
ERG and Prostate Cancer	12.W81XWH-09-1-0236	92,942	-	-	92,942
Effects of a Viral Peptide (Nef) on Growth and Metastasis of Human Breast Cancer	12.W81XWH-08-1-0476	142,299	-	-	142,299
Total U.S. Department of Defense		423,052	-	-	423,052
U.S. Department of Energy					
Development of a Master Plan and Design Drawing for Research Faculty	93.DEFG0206CH11439	-	-	437,014	437,014
Total U.S. Department of Energy		-	-	437,014	437,014
National Aeronautics and Space Medicine					
Pass-through from National Space Biomedical Research Institute:					
K-16 Education and Initiatives	43.NCC-9-58-24	133,404	-	-	133,404
Total National Aeronautics and Space Medicine		133,404	-	-	133,404
National Science Foundation					
Pass-through from Georgia Institute of Technology:					
NetSE:MEDIUM:Privacy-Preserving Information Network and Services	47.041	15,511	-	-	15,511
The Role of Sleep in Maintaining Conditioned Deficit	47.NSF10B0349042004	5,521	-	-	5,521
Ethically Contentious Research and Innovation	47.075	-	-	9,678	9,678
Pass-Through from Hamilton Fish National Institute:					
Science and Technology Centers Integrative Partnerships	47.IBN-9876754	-	-	218,756	218,756
Total National Science Foundation		21,032	-	228,434	249,466
U.S. Department of Justice					
MSM Building Resilient Youth: A Multidisciplinary Approach (BR4AMH)	93.2007-JL-FX-0057	-	-	219,867	219,867
Total U.S. Department of Justice		-	-	219,867	219,867
U.S. Department of Education					
Stafford Student Loan	84.032	-	8,125,351	-	8,125,351
Title IV Grad PLUS	84.032	-	1,741,385	-	1,741,385
LDS Graduate Loan	84.032	-	10,000	-	10,000
Federal Work-Study Program	84.033	-	4,144	-	4,144
Perkins Loan Program	84.038	-	125,000	-	125,000
Title III Part B Strengthening HBCU's	84.031B	-	-	11,669,190	11,669,190
Pass-Through from State of Georgia Department of Human Resources:					
21st Century Community - Learning Center Lamar Center	84.287	-	-	189	189
		-	10,005,880	11,669,379	21,675,259
Pass-Through from Quitman County Board of Education:					
Character in Education (CEPIE Project)	84.Q215S040109	-	-	18,331	18,331
Total U.S. Department of Education		-	10,005,880	11,687,710	21,693,590

Morehouse School of Medicine, Inc.
and Affiliate

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	*CFDA Contract Number*	*Research and Development Cluster*	*Student Financial Assistance Cluster*	*Other Expenditures*	*Total Expenditures Fiscal Year Ended June 30, 2010*
U.S. Department of Health and Human Services					
Substance Abuse and Mental Health Services Administration:					
Pass-Through from State of Georgia					
Department of Human Resources:					
Community Health Prevention Medicine - Southwest MHDDAD Region 4	93.959	$ -	$ -	$ 358,476	$ 358,476
Emerging Infections Program	93.283	15,032	-	-	15,032
Pass-Through from Wholistic Stress Control Institute:					
Health, Enlightenment, and Living (HEAL)	93.243	-	-	35,387	35,387
Pass-Through from Westover's Consultants:					
Supplemental Services for HBCU-CFE	93.280	76,360	-	-	76,360
The Imani Project Substance Abuse HIV Hepatitis's	93.243	-	-	256,951	256,951
Southeast Addition Technology Transfer Center (SATTC)	93.230	-	-	465,918	465,918
National Historically Black Colleges and Universities (NRC)	93.243	431,181	-	-	431,181
Total Substance Abuse and Mental Health Services Administration		522,573	-	1,116,732	1,639,305
Office of Minority Health					
Regional Coordinating Center for the Hurricane Response	93.004	-	-	680,725	680,725
The Consensus-Building I Dissemination for Integration	93.004	-	-	3,270	3,270
OMH 2006 Directed Umbrella Cooperative Agreement	93.004	-	-	49,973	49,973
Umbrella Cooperative Agreement	93.004	-	-	965,642	965,642
Pass-Through from Morehouse College:					
The New Minority Males Consortium for the Study of Male Health Project	93.004	-	-	118	118
Total Office of Minority Health		-	-	1,699,728	1,699,728
Centers for Disease Control and Prevention					
CDC Assignment Agreement - IPA	93.068	-	-	35,469	35,469
Health Promotion and Disease Prevention Research Center	93.135	1,098,270	-	-	1,098,270
Establishing a Center of Excellence in Clinical Research in Ghana	93.067	172,785	-	-	172,785
Completeness of Immunization Record - State Immunization Registry	93.200-2009-M-30724	-	-	60,748	60,748
Total Direct from Centers for Disease Control and Prevention		1,271,055	-	96,217	1,367,272
Pass-Through from Minority Health Professions Foundations:					
Public Health Summer Fellows	93.283	-	-	93,399	93,399
Public Health Summer Fellows Program	93.283	-	-	111,010	111,010
Public Health Summer Fellows -Program NIHB	93.283	-	-	59,471	59,471
Consortium of African American Public Health Programs (CAAPHP)	93.283	-	-	185,162	185,162
Increasing Minorities in the Public Health Professions	93.283	-	-	294,210	294,210
Health Disparities Symposium on Cancer: Addressing the Issue	93.283	-	-	57,569	57,569
Total Pass-Through from Minority Health Professions Foundations		-	-	800,821	800,821
Pass-Through from the Congressional Glaucoma Caucus:					
Glaucoma Caucus Foundation, Inc.	93.H75/CCH221874-04	-	-	20,764	20,764
Total Centers for Disease Control and Prevention		1,271,055	-	917,802	2,188,857

Morehouse School of Medicine, Inc. and Affiliate

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Contract Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures Fiscal Year Ended June 30, 2010
U.S. Department of Health and Human Services (continued)					
Health Resources and Services Administration					
Model State AHEC	93.107	$ -	$ -	$ 291,254	$ 291,254
Centers of Excellence	93.157	-	-	5,188	5,188
Preventive Medicine Residences	93.117	198,251	-	-	198,251
ARRA - Scholarships for Disadvantaged Students	93.407	-	52,310	-	52,310
ARRA - Centers for Excellence	93.415	-	-	362,170	362,170
Academic Administration Units in Primary Care	93.884	-	-	86,451	86,451
NMAETC AIDS Education and Training	93.145	-	-	92,752	92,752
Health Careers Opportunity Program	93.822	-	-	27,989	27,989
Residency Training in Primary Care (Family Medicine)	93.884	-	-	346,348	346,348
Scholarship for Disadvantaged Students	93.925	-	116,537	-	116,537
Total Health Resources and Services Administration		198,251	168,847	1,212,152	1,579,250
Agency For Health Care Policy and Research					
5th Annual Primary Care and Prevention Conference	93.226	-	-	21,805	21,805
Primary Care and Prevention Conference	93.226	-	-	8,337	8,337
MSM Clinical Faculty Research Training Program	93.226	-	-	107,944	107,944
Total Agency For Health Care Policy and Research		-	-	138,086	138,086
National Institute of Health					
Communities Empowering Youth, CEY	93.009	-	-	138,233	138,233
MSM Training in Genomics and Hemoglobinpathics	93.172	-	-	37,894	37,894
MSM Training in Genomics and Hemoglobinpathics	93.172	-	-	74,208	74,208
		-	-	250,335	250,335
Pass-Through from University of Kentucky Research Foundation:					
Each One Teach One	93.239	-	-	2,149	2,149
		-	-	2,149	2,149
Schizophrenia Liability Genes among African Americans	93.242	16,722	-	-	16,722
Fostering Mental Health Research in Psychiatry Residents	93.242	299,052	-	-	299,052
Mentored Training Program to Increase Diversity in HIV, Substance Use and Mental	93.242	318,845	-	-	318,845
Pass-Through from Colorado State University:					
Glutamate Receptor Desensitization and its Modulation	93.242	8,645	-	-	8,645
		643,264	-	-	643,264
ADD/HIV Prevention in Male Adolescent Detainees	93.273	247,171	-	-	247,171
Pass-Through from Wholistic Stress Control Institute:					
Pfizer HIV/AIDS Prevention Initiative	93.276	2,050	-	-	2,050
Southeastern US Collaborative CEED or SUCCEED	93.283	945,416	-	-	945,416
Pass-Through from Meharry Medical School:					
Southeast Fetal Alcohol Spectrum Disorders RTC	93.283	-	-	8,278	8,278
Pass-Through from Duke University Medical Center and Health System:					
Cancer Information Service YR' 04-05	93.283	48,836	-	-	48,836
		1,243,473	-	8,278	1,251,751

Morehouse School of Medicine, Inc.
and Affiliate

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Contract Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures Fiscal Year Ended June 30, 2010
U.S. Department of Health and Human Services (continued)					
Three Dimensional Approaches to Eliminating Health Disparities	93.307	$ -	$ -	$ 496,550	$ 496,550
Pass-Through from Medical College of Georgia: NCMHD					
Southeastern Exploratory Sickle Cell Center of Excellence	93.307	93,566	-	-	93,566
Pass-Through from Emory:					
Role of Mental Health on HIV Risk and Behavior Among GA Black Men	93.361	21,384	-	-	21,384
Research Centers in Minority Institutions (RCMI)	93.389	2,212,225	-	-	2,212,225
Pass-Through from Drew University:					
Drew RCMI Translational Research Network	93.389	(396)	-	-	(396)
Drew RCMI Translational Research Network	93.389	311,342	-	-	311,342
Pass-Through from Emory University:					
Atlanta Clinical and Translational Science Institute	93.389	1,125,510	-	-	1,125,510
Clinical Research Education and Career Development	93.389	588,917	-	-	588,917
MSM Center of Clinical Research Excellence	93.389	335,700	-	-	335,700
RCMI Infrastructure for Clinical and					
Translational Research (U54)	93.389	2,692,041	-	-	2,692,041
Research Centers in Minority Institutions Clinical	93.389	1,152,805	-	-	1,152,805
Extramural Research Facilities Improvement Program	93.389	-	-	1,381,039	1,381,039
Pass-Through from Emory University:					
Atlanta Clinical and Translational Science Institute (1TLI)	93.389	33,137	-	-	33,137
Atlanta Clinical and Translational Science Institute Pilot Project	93.389	14,442	-	-	14,442
Atlanta Clinical and Translational Science Institute (UL1)	93.389	124,944	-	-	124,944
		8,705,617	-	1,877,589	10,583,206
Role of Mitochondrial Genomic Alterations					
in Epithelial Ovarian Tumors	93.393	17,096	-	-	17,096
Role of Mitochondrial Genomic Alterations					
in Epithelial Ovarian Tumors	93.396	94,371	-	-	94,371
Pass-Through from University of Alabama:					
SPORE in Pancreatic Breast Cancer	93.398	13,178	-	-	13,178
MSM/Tuskegee Univ/Univ of Alabama Cancer Center Partnership	93.397	861,106	-	-	861,106
MSM/WCI Partnership to Investigate Mechanisms of Prostate Cancer	93.397	297,861	-	-	297,861
		1,283,612	-	-	1,283,612
National Black Leadership Initiative on Cancer II	93.399	979,223	-	-	979,223
Pass-Through from Southwest Oncology Group:					
SELECT Mentoring Visits	93.399	419	-	-	419
Nutritional Manipulation of Circadian Rhythms and Cancer	93.399	(20,389)	-	-	(20,389)
		959,253	-	-	959,253

Morehouse School of Medicine, Inc.
and Affiliate

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	*CFDA Contract Number*	*Research and Development Cluster*	*Student Financial Assistance Cluster*	*Other Expenditures*	*Total Expenditures Fiscal Year Ended June 30, 2010*
U.S. Department of Health and Human Services (continued)					
ARRA - Mechanism of Action of Prohibitin in Ovarian Cell Function	93.701	$ 154,044	$ -	$ -	$ 154,044
ARRA - MSM/Tuskegee Univ/Univ of Alabama Cancer Center (McCray)	93.701	41,069	-	-	41,069
ARRA - MSM-MBRS/RISE	93.701	98,297	-	-	98,297
ARRA - Renewal Application for Clinical Research Education and Career Dev	93.701	34,922	-	-	34,922
ARRA - Renewal Application for Clinical Research Education and Career Developme	93.701	51,116	-	-	51,116
ARRA - Regulation of the Vibrio Cholerae Intestinal Exit Plan	93.701	120,114	-	-	120,114
ARRA - Enhancement of the Capacity for Biomedical Research (RCMI)	93.701	363,495	-	-	363,495
ARRA - MSM/Tuskegee Univ/Univ of Alabama Cancer Center (Taylor)	93.701	111,923	-	-	111,923
ARRA - MSM/Tuskegee Univ/Univ of Alabama Cancer Center (Reddy)	93.701	140,168	-	-	140,168
ARRA - Networking Research Across America	93.701	95,268	-	-	95,268
ARRA - Involvement of Leptin and Interleukin-1 Signaling in Mammary Cancer Prog.	93.701	40,146	-	-	40,146
ARRA - RCMI Infrastructure for Clinical and Translational Research - T1 & T2	93.701	107,838	-	-	107,838
ARRA - RCMI Infrastructure for Clinical and Translational Research (RCTR) (U54)	93.701	48,705	-	-	48,705
Pass-Through from the University of Alabama at Birmingham:					
ARRA - Monitoring of Advanced Virotherapy for Ovarian Cancer	93.701	35,213	-	-	35,213
Pass-Through from Emory University:					
ARRA - Building Collaborative Research Capacity	93.701	44,120	-	-	44,120
Enhancement of Cardiovascular Research	93.837	494,936	-	-	494,936
Cardiovascular Disease Prevention Intervention Program	93.837	602,981	-	-	602,981
Effect of Diet on Inflammation in Sickle Cell Mice	93.837	196,895	-	-	196,895
MSM Training Cardiovascular Sciences	93.837	-	-	269,741	269,741
Macrophage Inward Rectifier Channels in Atherosclerosis	93.837	28,420	-	-	28,420
Morehouse Emory Partnership to Reduce CVRI Disparities	93.837	288,671	-	-	288,671
The Role Iroquois Home Box of Genes	93.837	100,798	-	-	100,798
Pass-Through from Yale University:					
Telemonitoring to Improve Heart Failure Outcomes	93.837	34,351	-	-	34,351
Methoxindoles in Retina: Function and Regulation	93.837	31,070	-	-	31,070
		3,264,560	-	269,741	3,534,301
Cultural Competence and Health Disparities Academic Award	93.838	13,228	-	-	13,228
Pass-Through National Jewish Medical and Research Center:					
Genetic Analysis of Susceptibility to COPD Exacerbations	93.838	123,191	-	-	123,191
Genetic Epidemiology of COPD Student	93.838	154,594	-	-	154,594
		291,013	-	-	291,013
Vascular Responses in Transonic Sickle Cell	93.839	(420)	-	-	(420)
		(420)	-	-	(420)

Morehouse School of Medicine, Inc.
and Affiliate

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	*CFDA Contract Number*	*Research and Development Cluster*	*Student Financial Assistance Cluster*	*Other Expenditures*	*Total Expenditures Fiscal Year Ended June 30, 2010*
U.S. Department of Health and Human Services (continued)					
The Function of Ezrin in Stimulus-Coupled Gastric Acid Secretion	93.848	$ 112,126	$ -	$ -	$ 112,126
Determining the Role(s) of HIV-1 Nef					
in Enhancement of Vision Infectivity	93.850	17,317	-	-	17,317
Vasculopathic Effects of Aldosterone in Dahl Rats	93.849	279,747	-	-	279,747
		409,190	-	-	409,190
Influence of NMDA Receptors	93.853	206,463	-	-	206,463
Peroxisome Proliferators-Activated Receptor and Stroke	93.853	262,980	-	-	262,980
Novel Neuroprotective Roles for Neureguins in the Trea	93.853	97,603	-	-	97,603
Phobic and Circadian Regulation of Retinal Melatonin	93.853	299,814	-	-	299,814
Pass-Through from University of Medicine and Dentistry of New Jersey:					-
Warfarin vs Aspirin Reduced Cardiac Ejection Fraction Study	93.853	3,787	-	-	3,787
Pass-Through from University of South Carolina:					
Subunit Dependent Properties of Kainate Receptors	93.853	12,380	-	-	12,380
Anatomy/Neurobiology Neuroprotective Roles	93.853	711,223	-	-	711,223
Basics & Translational Neuroscience Research	93.853	1,339,348	-	-	1,339,348
		2,933,598	-	-	2,933,598
Introduction of Protective Immunity Against Chlamydia	93.855	29,554	-	-	29,554
MBRS Score Program at Morehouse School of Medicine	93.859	688,418	-	-	688,418
Research Initiative for Scientific Enhancement Program	93.859	436,612	-	-	436,612
Involvement of Serum and Glucocorticoid Inducible Kinase 1 (SGK1) in VSMC Profile	93.859	110,429	-	-	110,429
		1,265,013	-	-	1,265,013
Center for Reproductive Cells: Development and Differentiation in Reproductive A	93.865	46,493	-	-	46,493
		46,493	-	-	46,493
Pass-Through from the University of Alabama at Birmingham:					
Deep South Resource Center for Minority Aging Research	93.866	24,266	-	-	24,266
Studies of Cell Junctions and Cell Membranes	93.867	236,281	-	-	236,281
		260,547	-	-	260,547
Pass-Through from Duke University Medical Center and Health System:					
A Chief Trail: Investigating the Outcome of Exercise Training	93.1U01HL6374701A2	-	-	8,883	8,883
Courtesy Associates Funding to Neuroscience Research Institute	93.100704	2,235	-	-	2,235
		2,235		8,883	11,118
Total National Institute of Health		21,307,448	-	2,416,975	23,724,423
National Center for Chronic Disease Prevention and Health Promotion					
Prostate Cancer Disparities in Black Men	93.238	10,389	-	-	10,389
Total National Center for Chronic Disease Prevention and Health Promotion		10,389	-	-	10,389

Morehouse School of Medicine, Inc. and Affiliate

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	*CFDA Contract Number*	*Research and Development Cluster*	*Student Financial Assistance Cluster*	*Other Expenditures*	*Total Expenditures Fiscal Year Ended June 30, 2010*
U.S. Department of Health and Human Services (continued)					
Office of the Secretary					
Pass-Through from City of Decatur:					
Collaborative Prevention Education Program	93.995	$ -	$ -	$ 152	$ 152
Total Office of the Secretary		-	-	152	152
Corporation for National and Community Services					
Learn and Serve America	94.005	-	-	504,639	504,639
Total Corporation for National and Community Services		-	-	504,639	504,639
Veterans Administration					
Genetic Susceptibility to Early-Onset Stroke	512-D05060	11,721	-	-	11,721
Total Veterans Administration		11,721	-	-	11,721
Housing and Urban Development					
Land Development	B-08-SP-GA-0292	-	-	224,826	224,826
West End Community Development	B-06-SP-GA-0263	-	-	8,422	8,422
Total Housing and Urban Development		-	-	233,248	233,248
National Heart, Lung, and Blood Institute					
Achaea-acute like 3 (ASCULA3) Regulates Vascular Muscle Cell Proliferation	93.837	268,074	-	-	268,074
Hearth Failure Clinical Research Network	93.837	255,693	-	-	255,693
Role of Epigenetic in the Regulation of Blood Pressure	93.837	143,122	-	-	143,122
Establish a Transgenic Model of Human C Reactive Protein Over-Expression in Rats	93.837	67,446	-	-	67,446
Vascular Epigenome Dynamics in African American Hypertensive's	93.837	76,102	-	-	76,102
Pass-Through from the University of Alabama at Birmingham:					
Reg of Myocardial Lipid and Energy Homeostasis	93.837	47,881	-	-	47,881
Involvement of Leptin and Interteukin-1 Signaling in Mammay Cancer Progressioi	93.859	292,215	-	-	292,215
Total National Heart, Lung, and Blood Institute		1,150,533	-	-	1,150,533
National Institute for Drug Abuse					
Morehouse School of Medicine (M-MDARP)	93.279	550,088	-	-	550,088
NIDA on African American Researchers and Scholars					
Workgroup	93.HHSN271200900339P	176,514	-	-	176,514
Total National Institute for Drug Abuse		726,602	-	-	726,602

Morehouse School of Medicine, Inc. and Affiliate

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	*CFDA Contract Number*	*Research and Development Cluster*	*Student Financial Assistance Cluster*	*Other Expenditures*	*Total Expenditures Fiscal Year Ended June 30, 2010*
U.S. Department of Health and Human Services (continued)					
Administration For Children and Families					
Pass-Through from Wholistic Stress Control Institute:					
The 2 Hype "A" Abstinence Club	93.011	$ -	$ -	$ 71,770	$ 71,770
Total Administration For Children and Families		-	-	71,770	71,770
Other Department of Health and Human Services					
Regional Extension Center for Health Information Technology	93.718	-	-	61,660	61,660
Center for Leadership in Disability at Georgia State University	93.632	-	-	57,115	57,115
Disaster and Emergency Planning Outreach Workshops	93.HHSN276200	-	-	4,966	4,966
Pass-Through from Emory University:					
Emory/NCs Community Engagement	93.HHSN267200700007C	-	-	193,263	193,263
Community Engagement-Injury Prevention	93.HHSN267200700007C	-	-	13,766	13,766
Pass-Through from Rutgers:					
Regulation of Lens Fiber Cell Organization	93.S1233749	26,321	-	-	26,321
Pass-Through from Georgia Medical College Foundation:					
Diabetes Empowerment Education Program	93.HHSM-500-200	-	-	31,103	31,103
Pass Through-Department of Agriculture:				-	-
Addressing Health Disparities by Developing Healthy Lifestyles	10.200	-	-	94,469	94,469
Pass-Through from The Brigham and Women Hospital:					
T32 Brigham and Women Hospital	93.172	8,379	-	-	8,379
T32 Training Grant	93.172	-	-	51,036	51,036
Pass-Through from Minority Health Professions Foundations:					
AASK Cohort Study	93.6067256/RFS7000023	-	-	(949)	(949)
Total Other Department of Health and Human Services		34,700	-	506,429	541,129
Total Department of Health and Human Services		25,233,272	168,847	8,817,713	34,219,832
Total Federal Expenditures		$ 25,810,760	$ 10,174,727	$ 21,390,738	$ 57,376,225

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, 2010

State Grantor/Program or Cluster Title	Budget	Revenue	Expenditures
Georgia Department of Human Resources			
Georgia Regional Residency	$ 58,926	$ 54,823	$ 62,515
Georgia Cancer Coalition	1,364,041	400,000	418,454
Metro MHDDAD	459,598	340,695	358,476
Total Georgia Department of Human Resources	$ 1,882,565	$ 795,518	$ 839,445

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, 2010. 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 pass-through entities. The information in the Schedule is presented in accordance with the provisions of the Office of Management and Budget (“OMB”) Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*.

2. Summary of Significant Accounting Policies

The Schedule summarizes the expenditures incurred under all federal awards received by the School for the year ended June 30, 2010, and has been prepared using the accrual basis of accounting.

3. Contingencies

The School’s federal programs are subject to financial and compliance audits by grantor agencies which, if instances of material noncompliance are found, may result in disallowed expenditures, and affect the School’s continued participation in specific programs. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the School expects such amounts, if any, to be immaterial.

4. Student Financial Aid

The Federal Perkins Loan Program (“FPL”) represents administrative costs and other allowable costs paid from federal funds, funds disbursed for new loans granted to eligible students of the School during fiscal year 2010, plus the outstanding balance of loans granted in previous years.

The Federal Family Education Loans Program (“FFEL”) represents loans received by students of the School during the fiscal year 2010 which were not made by the School. Accordingly, FFEL loan balances are not reflected in the School’s consolidated financial statements.

Cumulative loans outstanding as of June 30, 2010 are as follows:

Student Loans Advanced	*CFDA Number*		*Cumulative Principal Advances Outstanding*
FPL Program	84.038	$	3,520,125
Health Professions Student Loans Program:			
Primary Care Loans	93.342		828,120
Loans for Disadvantaged Students	93.342		358,488
Total		$	4,706,733

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

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

We have audited the consolidated financial statements of Morehouse School of Medicine, Inc. and Affiliate (the "School") as of and for the year ended June 30, 2010, and have issued our report thereon dated August 27, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the board of trustees, management, others within the entity, 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.

BDO USA, LLP

Atlanta, Georgia

August 27, 2010

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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, 2010. 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 of America; 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, 2010.

Internal Control Over Compliance

The management of the School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

BDO USA, LLP

Atlanta, Georgia

August 27, 2010

Morehouse School of Medicine, Inc.
and Affiliate

Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Section I—Summary of Auditor's Results

Financial Statements

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

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**

Section 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	The Office of Minority Health

Dollar threshold used to distinguish between Type A and Type B programs: $1,421,435

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

Section II—Financial Statement Findings

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 were identified that are required to be reported.

Section III—Federal Award Findings and Questioned Costs

This section identifies the significant deficiencies, material weakness, and material instances of noncompliance, including questioned costs as well as any abuse findings involving federal awards that are material to a major program.

No federal award findings and questioned costs were identified that are required to be reported.

Finding 2009-01

Condition:

The predecessor auditors noted during their audit testing procedures that the School did not transmit three Student Status Confirmation Reports ("SSCR") to the National Student Loan Data System ("NSLDS") within 30 days of receipt as required by the Compliance Supplement.

Status of Finding as of June 30, 2010:

Finding 2009-01 was remediated by the School as of June 30, 2010.

Finding 2009-02

Condition:

The predecessor auditors noted during their audit testing procedures that billing and collection procedures for one borrower had not been performed, and documentation was not available to support such procedures for one additional borrower.

Status of Finding as of June 30, 2010:

Finding 2009-02 was remediated by the School as of June 30, 2010.