



MEHARRY MEDICAL COLLEGE
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006



CROSSLIN VADEN
CERTIFIED PUBLIC ACCOUNTANTS
& ASSOCIATES

MEHARRY MEDICAL COLLEGE
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

MEHARRY MEDICAL COLLEGE

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Independent Auditors' Report

The Board of Trustees
Meharry Medical College
Nashville, Tennessee

We have audited the accompanying consolidated statements of financial position of Meharry Medical College and Subsidiaries (the "College") as of June 30, 2007 and 2006, and the related consolidated statements of activities and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 audits provide a reasonable basis for our opinion.

As described in Note K to the financial statements, the College adopted Statement of Financial Accounting Standards (SFAS) No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*, which changed its method of accounting for post retirement benefits effective for the year ended June 30, 2007.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Meharry Medical College and Subsidiaries as of June 30, 2007 and 2006, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Crosslin, Vaden & Associates, P.C.

Nashville, Tennessee
October 5, 2007

MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

	<u>June 30,</u>	
	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 5,797,353	\$ 5,562,275
Accounts receivable, net	13,202,837	11,537,104
Student loans receivable, net	14,322,801	12,566,377
Contributions receivable	2,957,811	3,482,584
Investments	78,934,751	66,148,944
Investment in real estate	34,761,060	36,677,768
Plant facilities, net of accumulated depreciation	62,275,631	60,747,167
Inventories and other assets	178,517	68,017
Funds held by trustees	1,460,621	1,230,405
Deferred charges	<u>1,107,786</u>	<u>1,185,533</u>
Total assets	<u>\$214,999,168</u>	<u>\$199,206,174</u>

LIABILITIES AND NET ASSETS

Notes payable to banks	\$ 4,600,000	\$ 4,100,000
Accounts payable	6,042,477	6,991,137
Accrued liabilities	8,280,908	7,778,389
Advances under grants and contracts	1,962,099	2,144,810
Deferred revenue	5,214,846	2,491,791
Bonds payable	59,683,439	64,997,514
Government advances for student loans	12,063,060	11,860,438
Funds held in trust for others	<u>190,210</u>	<u>157,714</u>
Total liabilities	<u>98,037,039</u>	<u>100,521,793</u>
Unrestricted		
Undesignated	17,611,681	14,043,801
Unfunded pension liability	(441,313)	(855,596)
Unrealized loss on interest rate swap agreement	(339,997)	(392,214)
Refunding loss on debt service of bonds refinanced	<u>(6,846,423)</u>	<u>(7,098,576)</u>
Total unrestricted net assets	9,983,948	5,697,415
Temporarily restricted	28,575,194	19,163,199
Permanently restricted	<u>78,402,987</u>	<u>73,823,767</u>
Total net assets	<u>116,962,129</u>	<u>98,684,381</u>
Total liabilities and net assets	<u>\$ 214,999,168</u>	<u>\$ 199,206,174</u>

See accompanying notes to consolidated financial statements.

MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENTS OF ACTIVITIES

	<u>Year Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>
Changes in unrestricted net assets:		
Operating revenues:		
Tuition and fees	\$ 17,421,780	\$ 16,232,587
Less College funded scholarships	(3,219,437)	(3,276,023)
Net tuition and fees	<u>14,202,343</u>	<u>12,956,564</u>
Government grants and contracts	66,630,581	65,517,226
Private gifts, grants, and contracts	3,186,064	3,836,709
Income on long-term investments, net	378,675	228,558
Net gain on investments	1,108,746	365,749
Sales and services of educational departments	1,104,403	896,967
Other sources	2,679,162	2,607,043
Health services division	25,504,223	25,463,022
Net assets released from restrictions	<u>6,250,334</u>	<u>9,963,850</u>
Total operating revenues	<u>121,044,531</u>	<u>121,835,688</u>
Operating expenses:		
Instruction	21,926,336	24,487,980
Research	18,731,414	19,159,886
Public service	10,512,019	7,349,305
Academic support	11,148,854	10,965,556
Student services	3,345,277	3,314,540
Institutional support	26,445,835	24,501,412
Health services division	<u>25,114,763</u>	<u>22,827,590</u>
Total operating expenses	<u>117,224,498</u>	<u>112,606,269</u>
Increase in unrestricted net assets from operating activities	3,820,033	9,229,419
Nonoperating items:		
Change in net minimum pension liability and effect of adoption of FASB Statement No. 158	414,283	810,309
Change in market value of interest rate swap agreement	<u>52,217</u>	<u>1,046,715</u>
Increase in unrestricted net assets	<u>4,286,533</u>	<u>11,086,443</u>

MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENTS OF ACTIVITIES - Continued

	<u>Year Ended June 30.</u>	
	<u>2007</u>	<u>2006</u>
Changes in temporarily restricted net assets:		
Gifts, grants, and contracts	5,589,067	5,822,288
Income on long-term investments, net	2,447,235	1,449,456
Net gain on investments	7,420,072	2,447,707
Health services division	205,955	-
Net assets released from restrictions	<u>(6,250,334)</u>	<u>(9,963,850)</u>
Increase (decrease) in temporarily restricted net assets	<u>9,411,995</u>	<u>(244,399)</u>
Increase in permanently restricted net assets:		
Gifts and grants	<u>4,579,220</u>	<u>7,514,833</u>
Increase in net assets	18,277,748	18,356,877
Net assets at beginning of year	<u>98,684,381</u>	<u>80,327,504</u>
Net assets at end of year	<u>\$ 116,962,129</u>	<u>\$ 98,684,381</u>

See accompanying notes to consolidated financial statements.

MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENTS OF CASH FLOWS

	<u>Year Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Increase in net assets	\$ 18,277,748	\$ 18,356,877
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	7,119,709	6,532,609
Amortization of deferred charges and bond discount	78,672	78,672
Increase in allowance for doubtful accounts	7,218,128	3,293,897
Contributions restricted for long-term investment	(4,522,341)	(6,154,348)
Loss on disposal of plant asset	107,284	-
Net realized and unrealized gains on long-term investments	(8,528,818)	(2,813,456)
Changes in:		
Accounts receivable	(8,883,861)	(3,883,652)
Contributions receivable	524,773	2,120,771
Inventory and other assets	(110,500)	144,860
Accounts payable	(948,660)	1,989,558
Accrued liabilities	502,519	(2,409,395)
Advances under grants and contracts	(182,711)	411,225
Deferred revenue	2,723,055	(162,765)
Funds held in trust for others	<u>32,496</u>	<u>16,464</u>
Net cash provided by operating activities	<u>13,407,493</u>	<u>17,521,317</u>
Cash flows from investing activities:		
Acquisition of plant facilities	(6,838,749)	(10,922,787)
Purchases of investments, net	(4,256,989)	(7,603,706)
Increase in funds held by trustees	<u>(230,216)</u>	<u>(32,774)</u>
Net cash used in investing activities	<u>(11,325,954)</u>	<u>(18,559,267)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for investment in endowment	4,522,341	6,154,348
Student loans receivable, net	(1,756,424)	(978,653)
Change in government advances for student loans	202,622	142,678
Repayments on lines of credit	-	(500,000)
Principal borrowings on lines of credit	500,000	-
Principal repayments on bonds	<u>(5,315,000)</u>	<u>(4,105,000)</u>
Net cash (used in) provided by financing activities	<u>(1,846,461)</u>	<u>713,373</u>
Net increase (decrease) in cash and cash equivalents	235,078	(324,577)
Cash and cash equivalents at beginning of year	<u>5,562,275</u>	<u>5,886,852</u>
Cash and cash equivalents at end of year	<u>\$ 5,797,353</u>	<u>\$ 5,562,275</u>
Supplemental cash flows information:		
Cash paid for interest	<u>\$ 7,022,434</u>	<u>\$ 3,194,110</u>

See accompanying notes to consolidated financial statements.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

A. ORGANIZATION AND PURPOSE

Meharry Medical College (the "College") is a fully accredited, private college committed to training health care professionals and leaders in many medical and health related fields. The College exists to provide an excellent education in the health sciences, while maintaining a center of excellence for the practice and delivery of health care, and the conduct of both basic and clinical research.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting

The consolidated financial statements of the College have been prepared on the accrual basis of accounting and in accordance with the accounting principles generally accepted in the United States of America.

The consolidated financial statements of the College include the operations of the wholly owned subsidiaries of the College; Meharry Campus Housing Corporation and Meharry Housing Corporation. All significant intercompany activity has been eliminated in consolidation.

To ensure observance of limitations and restrictions placed on the use of resources available, the College maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes into funds that are maintained in accordance with activities or objectives of the College.

For external financial reporting purposes, however, Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*, requires that resources be classified into three net asset categories according to donor-imposed restrictions. Net assets of the college and changes therein are classified as follows:

Unrestricted - Unrestricted net assets (which are free of donor-imposed restrictions) generally result from revenues derived from providing services, receiving unrestricted contributions, recognizing unrealized and realized gains and losses, and receiving dividends and interest from investing in income-producing assets, less expenses incurred in providing services, raising contributions, and performing administrative functions.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Temporarily Restricted - Temporarily restricted net assets generally result from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the College pursuant to those stipulations.

Permanently Restricted - Permanently restricted net assets generally represent the historical cost (fair value at date of gift) of contributions and other inflows of assets whose use by the College is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the College.

Use of Estimates in the Preparation of Financial Statements

Judgment and estimation is exercised by management in certain areas of the preparation of the financial statements. The more significant areas include the recovery period for plant facilities, the allocation of certain operating and maintenance expenses to functional categories, the collection of contributions receivable and the valuation of receivables. Management believes that such estimates have been based on reasonable assumptions and that such estimates are adequate, however, actual results could differ from those estimates.

Contributions

The College reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, donor-restricted contributions whose restrictions are met in the same reporting period as received are reported in the statement of activities as unrestricted contributions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-composed restrictions, if any, on the contributions. Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments with original maturities of three months or less.

Inventories

Inventories consisting of supplies are stated at the lower of cost (first-in, first out) or market (net realizable value).

Accounts Receivable

The College records accounts receivable at their estimated net realizable value. An allowance for doubtful accounts is recorded based upon management's estimate of uncollectible accounts determined by analysis of specific balances and a general reserve based upon aging of outstanding balances. Past due balances are charged against the allowance when they are determined to be uncollectible.

Investments

Investments in equity securities with readily determinable fair value and all investments in debt securities are reported at fair value with gains and losses included in the statement of activities. Fair values for investments in debt and equity securities held by the College are based on quoted market prices and dealer quotes. Works of art, historical treasures, and similar assets held as part of collections are reported at the fair market or appraisal value at the date of acquisition or contribution, respectively.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investment in hospital facility is stated at cost of acquisition plus the cost of renovations incurred. The cost of acquisition was based upon the estimated fair market value of the facilities based on payments to be received from the lease of the facilities. The investment is being depreciated on a straight-line basis over the estimated useful life of the facility and equipment which range from ten to forty years.

Life Income and Gift Annuities

The College's split interest agreements with donors consist primarily of irrevocable charitable remainder trusts for which the College serves as trustee. Assets held in these trusts are included in investments. Contribution revenues are recognized at the dates the trusts are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted annually for changes in the value of the assets, accretion of the discount and other changes in the estimate of future benefits.

Plant Facilities

Plant facilities are stated at cost or estimated fair value at dates of gifts, less accumulated depreciation, computed on the straight-line basis over the estimated useful lives of the various assets, which range from 5 years to 40 years. Depreciation and operation and maintenance charges are allocated to appropriate functional expense categories. Plant disposals are removed from the records at time of disposal. The College lifts restrictions on contributions for long-lived assets at the time the assets are acquired.

Deferred Charges

Deferred charges consist of bond issuance costs, which are amortized on the straight-line basis over the lives of the related bond issues. As of June 30, 2007 and 2006, accumulated amortization was \$736,234 and \$658,487, respectively. The estimated future amortization expense for each of the next five years is \$77,747.

Deferred Revenue

Early fall registration revenue and expenditures are deferred and are reported within the fiscal year in which the activities are completed.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Derivative Financial Instruments

The College employs derivatives in a limited manner, primarily interest rate swap agreements to manage market risk associated with outstanding variable-rate debt. Derivative financial instruments are reported at fair value with any resulting gain or loss recognized as a nonoperating item in the statement of activities.

Government Advances for Student Loans

Funds provided by the United States government under the Federal Perkins and Health Professions Student Loan programs are loaned to qualified students and may be reloaned after collection. These funds are ultimately refundable to the government and are therefore recorded as liabilities.

Health Services Division Revenue

Included in health services division revenue are amounts from the Meharry Medical Group, the Lloyd C. Elam Mental Health Center and various clinics operated by the College. The College has agreements with third-party payors that provide for payments to the College at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, per diem payments and capitation. Such revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Contractual adjustments are accrued on an estimated basis in the period that the related services are rendered and adjusted in future periods as final settlements are determined.

Program Services

The College's primary program services are instruction, research, health services, and public service. Expenses reported as academic support, student services, and auxiliary enterprises are incurred in support of these primary program services. Institutional support includes fundraising expenses of \$2,279,211 and \$2,231,854 in 2007 and 2006, respectively. For purposes of reporting fundraising expenses, the College includes those fundraising costs incurred by its Development Office as well as an estimate of payroll-related expenditures incurred by members of management in fundraising activities.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

The College has received a determination letter from the Internal Revenue service indicating it is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision for income taxes is made in the financial statements.

Related Parties

Two members of the Board of Trustees are officers at banks with which the College does business.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

C. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Receivable from grantors	\$ 4,780,953	\$ 1,743,228
Professional services receivable	2,539,161	5,051,315
Patient receivables, net of contractual allowances and doubtful account allowances of \$17,802,642 and \$10,762,564 at June 30, 2007 and 2006, respectively	3,920,252	3,641,003
Student accounts receivable, net of allowance of \$292,050 and \$114,000 at June 30, 2007 and 2006, respectively	1,856,121	1,035,297
Other accounts receivable	<u>106,350</u>	<u>66,261</u>
Total accounts receivable, net	<u>\$13,202,837</u>	<u>\$11,537,104</u>

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

D. CONTRIBUTIONS RECEIVABLE

The College includes unconditional promise to give as contributions receivable in accordance with the provisions of SFAS No. 116, *Accounting for Contributions Received and Contributions Made*.

	<u>2007</u>	<u>2006</u>
Unconditional promises to give, net	\$ 2,968,891	\$ 3,783,635
Less unamortized discount at 5%	<u>(11,080)</u>	<u>(301,051)</u>
Unconditional promise to give, net	<u>\$ 2,957,811</u>	<u>\$ 3,482,584</u>
Amounts due in:		
Less than one year	\$1,956,148	\$2,741,806
One to five years	<u>1,012,743</u>	<u>1,041,829</u>
	<u>\$2,968,891</u>	<u>\$3,783,635</u>

At June 30, 2007 and 2006, the College had also received bequest intentions and certain other conditional promises to give. These intentions and conditional promises to give are not recognized as assets and, if they are received, they will generally be restricted for specific purposes stipulated by the donors, primarily for faculty support, scholarships, or general operating support of a particular department or division of the College.

The College receives contributed services from alumni and other volunteers who assist in fundraising efforts through their participation in various fundraising drives. The value of such services, which the College considers not practicable to estimate, has not been recognized in the statements of activities.

E. STUDENTS LOANS RECEIVABLE

Student loans receivable at June 30, 2007 and 2006, consisted of the following:

	<u>2007</u>	<u>2006</u>
Notes receivable - students	\$ 14,723,404	\$ 12,967,271
Less allowance for doubtful loans	<u>(400,603)</u>	<u>(400,894)</u>
	<u>\$ 14,322,801</u>	<u>\$ 12,566,377</u>

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

F. INVESTMENTS

Investments at June 30, 2007 and 2006, are summarized below:

	<u>2007</u>		<u>2006</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Marketable securities:				
Cash equivalents	\$ 240,396	\$ 240,396	\$ 573,234	\$ 573,234
Mutual funds	9,093,061	9,243,244	7,130,197	7,311,167
Common stocks	58,623,700	49,182,772	46,767,833	40,667,138
Real estate	2,581,482	2,257,420	2,184,567	2,093,720
Bonds	8,396,112	8,542,021	9,433,113	10,075,565
Other	-	-	60,000	-
Total investments	<u>\$78,934,751</u>	<u>\$69,465,853</u>	<u>\$66,148,944</u>	<u>\$60,720,824</u>
Investment in real estate, net of accumulated depreciation		<u>\$34,761,060</u>		<u>\$36,677,768</u>

Mutual funds for 2007 and 2006 are comprised solely of fixed income securities.

The College's investments are substantially all permanently restricted endowment funds. The investment in real estate is comprised of the College's investment in hospital facilities which are leased to the Metropolitan Government of Nashville and Davidson County (the Metropolitan Government) to house the operations of the Metropolitan Government's Nashville General Hospital. The thirty year operating lease with the Metropolitan Government began in December 1994 and provides for rent payments of \$4,000,000 per year. The College funds scholarship expenses with unrestricted resources until such time as the investment in real estate generates enough cash to support scholarships at a predetermined level.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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G. PLANT FACILITIES

Plant facilities consist of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Land and land improvements	\$ 5,466,046	\$ 5,453,212
Buildings and building improvements	95,448,426	91,565,591
Equipment	21,125,050	19,516,360
Art	433,194	433,194
Library and visual aids	<u>4,373,527</u>	<u>5,016,336</u>
	126,846,243	121,984,693
Less accumulated depreciation	<u>(64,570,612)</u>	<u>(61,237,526)</u>
 Total plant facilities	 <u>\$ 62,275,631</u>	 <u>\$ 60,747,167</u>

Plant operations and maintenance expenditures of \$9,775,965 and \$8,995,652 for the fiscal years ended June 30, 2007 and 2006, respectively, are allocated among functional expenses based on square footage percentages.

Depreciation expense was \$7,119,709 and \$6,532,609 for 2007 and 2006, respectively (of which \$1,916,708, was from depreciation on the College's investment in real estate), and is allocated among the various functional expense categories. No interest expense was capitalized in 2007 or 2006.

It is the College's policy to capitalize and depreciate renovations of plant facilities as costs are incurred, as the facilities are generally being used while the renovations are being completed. The College reports construction-in-progress for the construction of new plant facilities. As of June 30, 2007, all projects currently being completed on College grounds represent renovations. The estimated cost to complete outstanding renovations is approximately \$490,000.

The College leases certain equipment under agreements that are classified as capital leases. The cost of equipment under capital leases is included in the statement of financial position as equipment and was approximately \$1,567,000 and \$1,430,000 at June 30, 2007 and 2006, respectively. Accumulated amortization of the leased equipment at June 30, 2007 and 2006, was approximately \$465,000 and \$395,000 respectively. Amortization of assets under capital leases is included in depreciation expense. The remaining capital lease obligation of approximately \$510,340 and \$538,294 at June 30, 2007 and 2006, respectively, has been included in the statement of financial position caption accrued liabilities.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

G. PLANT FACILITIES - Continued

Future minimum lease payments as of June 30, 2007, under capital leases are as follows:

2008	\$ 170,567
2009	145,858
2010	145,858
2011	100,870
2012	<u>68,667</u>
	631,820
Less amounts representing interest	<u>(121,480)</u>
Present value of net minimum lease payments	<u>\$ 510,340</u>

H. NOTES PAYABLE TO BANKS

Notes payable to banks consist of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Secured \$3,500,000 line of credit, bearing interest of 6.82% at June 30, 2007	\$3,500,000	\$3,000,000
Secured \$1,450,000 line of credit, bearing interest of 9.00% at June 30, 2007	<u>1,100,000</u>	<u>1,100,000</u>
Total notes payable to banks	<u>\$4,600,000</u>	<u>\$4,100,000</u>

The notes are secured by accounts receivable, inventory, and certain plant assets.

I. BONDS PAYABLE

Bonds payable consist of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Revenue Bonds, Series 2001	\$ 9,315,000	\$ 9,985,000
Revenue Bonds, Series 1998	4,795,000	8,080,000
Revenue Bonds, Series 1996, net of unamortized discount of \$16,561 and \$17,486 at June 30, 2007 and 2006, respectively	44,063,439	45,402,514
Housing Revenue Bonds, Series 1992	<u>1,510,000</u>	<u>1,530,000</u>
Total Bonds payable	<u>\$59,683,439</u>	<u>\$64,997,514</u>

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

I. BONDS PAYABLE - Continued

The aggregate scheduled principal maturities of bonds payable at June 30, 2007, are as follows:

Year Ending <u>June 30,</u>	Revenue Bonds <u>Series 2001</u>	Revenue Bonds <u>Series 1998</u>	Revenue Bonds <u>Series 1996</u>	Housing Revenue Bonds <u>Series 1992</u>	<u>Total</u>
2008	\$ 720,000	\$ 335,000	\$ 1,415,000	\$ 20,000	\$ 2,490,000
2009	775,000	345,000	1,505,000	25,000	2,650,000
2010	830,000	360,000	1,595,000	25,000	2,810,000
2011	880,000	380,000	1,695,000	25,000	2,980,000
2012	950,000	395,000	1,800,000	30,000	3,175,000
2013 and thereafter	<u>5,160,000</u>	<u>2,980,000</u>	<u>36,070,000</u>	<u>1,385,000</u>	<u>45,595,000</u>
Principal maturities	9,315,000	4,795,000	44,080,000	1,510,000	59,700,000
Less unamortized discounts	<u>-</u>	<u>-</u>	<u>(16,561)</u>	<u>-</u>	<u>(16,561)</u>
Total bonds payable	<u>\$9,315,000</u>	<u>\$4,795,000</u>	<u>\$ 44,063,439</u>	<u>\$1,510,000</u>	<u>\$59,683,439</u>

On June 29, 2001, the College issued Taxable Variable Rate Demand Bonds, Series 2001 (Series 2001 Bonds), in the amount of \$12,500,000 through a consortium of commercial banks. These bonds are collateralized by a \$10.615 million letter of credit. Under the terms of the bond indenture, the proceeds were used to provide operating funds and refinance certain existing indebtedness. The Series 2001 Bonds bear interest is determined weekly by the Remarketing Agent (5.35% at June 30, 2007). In the event that the remarketing agent is unable to remarket the bonds, the bonds become a demand note under an irrevocable letter of credit with a commercial bank.

On December 3, 1998, the College issued Revenue Bonds, Series 1998, in the amount of \$21,770,000 through the Health and Educational Facilities Board of The Metropolitan Government. These bonds are secured by a \$10.260 million letter of credit. Under the terms of the bond indentures, the proceeds were to be used to refinance the Revenue Bonds, Series 1995 in the amount of \$17,085,000 of which \$13,835,000 was outstanding as of June 30, 1998. The remaining proceeds were used as additional funding for the Meharry Towers renovation and to pay a portion of the cost of issuance incurred in connection with the issuance of the bonds. The Series 1998 bonds bear interest at a rate as determined weekly by the Remarketing Agent (3.73% at June 30, 2007). In the event that the remarketing agent is unable to remarket the bonds, the bonds become a demand note under an irrevocable letter of credit with a commercial bank.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

I. BONDS PAYABLE - Continued

The 2001 and 1998 bond issues contain certain restrictive covenants, including a minimum debt service coverage ratio. As of June 30, 2007 and 2006, the College was in compliance with the restrictive covenants including the minimum debt service coverage ratio.

On August 14, 1996, the College issued Revenue Bonds, Series 1996, in the amount of \$55,050,000 through the Health and Educational Facilities Board of The Metropolitan Government. Under the terms of the bond indenture, the proceeds were used to refinance the Revenue Bonds, Series 1994 in the amount of \$48,725,000. The Revenue Bonds, Series 1996 were also issued through the Health and Educational Facilities Board of The Metropolitan Government to provide additional funding for the hospital renovation, to improve and acquire equipment for other related facilities, and for working capital. The Series 1996 bonds bear interest semi-annually at 4.85% to 6.00%. These bonds are collateralized by (1) all right, title, and interest of the College to rental payments owed to the College pursuant to the lease of the Facility to the Metropolitan Government, (2) the lien on the Facility pursuant to a mortgage and a security agreement, and (3) all funds held under the indenture. The trustee handling the bond issue held funds aggregating \$1,409,151 and \$1,063,703 at June 30, 2007 and 2006, respectively.

The College issued Housing Revenue Bonds, Series 1992, in the amount of \$1,715,000 through the Health and Educational Facilities Board of the Metropolitan Government. The bonds bear interest semiannually at 6.50% to 7.25%. These bonds are collateralized by a mortgage on the property and the mortgage is guaranteed by the U.S. Department of Housing and Urban Development. The bonds are subject to mandatory redemption prior to maturity for mandatory sinking fund installments which are required to be made in amounts sufficient to redeem or pay on June 1 of each year, the respective principal amount plus accrued interest through the date fixed for redemption. The trustee handling the bond issue held funds aggregating \$170,689 and \$163,482 at June 30, 2007 and 2006, respectively.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

J. INTEREST RATE SWAP ARRANGEMENTS

To manage variable interest rate exposure for its debt portfolio, in December 1998 and September 2001, the College entered into interest rate swap arrangements with a major financial institution. The total notional amounts were \$33,155,000 for these swap arrangements. The swap notional amounts of each contract will gradually decline, corresponding to the principal amortization of the College's Series 1998 and Series 2001 bonds.

One swap arrangement was scheduled to expire in February 2007 and contained an option to extend the agreement to August 2018. The College is currently in negotiations to extend this arrangement. The College pays a fixed rate of 4.10% under this agreement. Under another swap arrangement that is scheduled to expire in August 2012, the College pays a fixed rate of 6.20%.

These agreements effectively create a synthetic fixed rate of interest on the Series 1998 and Series 2001 bond issues, resulting in \$105,269 and \$328,659 of additional interest expense for fiscal 2007 and 2006, respectively.

As of June 30, 2007 and 2006, the estimated fair value loss of these swap arrangements was \$339,997 and \$392,214, and is included in accrued liabilities and as a component of unrestricted net assets.

K. EMPLOYEE BENEFIT PLANS

The College has three benefit plans which cover substantially all employees of the College, as follows:

*Teacher's Insurance and Annuity Association and College Retirement
Equities Funds (TIAA-CREF Plan)*

The TIAA-CREF Plan is a defined contribution plan which covers substantially all full-time academic and certain other salaried employees. The TIAA-CREF Plan is a multi-employer plan that is funded by employee contributions subject to Internal Revenue Service annual limitations to a maximum of 20% of the employee's compensation, of which the College will match up to 5%. The College has adopted the policy of funding pension costs accrued. Expense under this plan for the year ended June 30, 2007 and 2006, amounted to \$774,930 and \$832,989, respectively.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

K. EMPLOYEE BENEFIT PLANS - Continued

Retirement Income Plan

This noncontributory defined benefit retirement plan covers certain employees not eligible for participation in the TIAA-CREF Plan. Effective for the year ended June 30, 2007, the College adopted Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which requires the College to now recognize in its statement of financial position the over-funded or under-funded status of a defined benefit retirement plan. Under the provisions of the statement, actuarial and experience gains and losses and unrecognized prior service costs which were deferred over the remaining service period under SFAS 106, are required to be recognized on the statement of financial position with a separate expense on the statement of activities. The adoption of the statement resulted in a decrease in the pension liability and an increase in the change in unrestricted net assets of \$414,283 for the year ended June 30, 2007. The status of the plan at June 30, 2007 and 2006, was as follows:

	<u>2007</u>	<u>2006</u>
Change in benefit obligation:		
Projected benefit obligation at beginning of year	\$ 3,697,132	\$ 4,191,683
Service cost	241,538	278,687
Interest cost	226,618	212,286
(Gain) loss due to plan experience	198,691	(647,065)
Actual benefit disbursements	<u>(233,705)</u>	<u>(338,459)</u>
Projected benefit obligation at the end of year	<u><u>\$(4,130,274)</u></u>	<u><u>\$(3,697,132)</u></u>
Change in plan assets:		
Fair value of plan asset at beginning of year	\$ 2,841,536	\$ 2,525,778
Actual contributions	690,000	849,000
Actual benefit disbursements	(233,705)	(338,459)
Actual return on plan assets	<u>391,130</u>	<u>(194,783)</u>
Fair value of plan asset at end of year	<u><u>3,688,961</u></u>	<u><u>2,841,536</u></u>
Funded status:		
Benefit obligation	\$(441,313)	\$(855,596)
Unrecognized actuarial loss (before SFAS 158)	N/A	1,672,246
Minimum liability adjustment	<u>N/A</u>	<u>(1,672,246)</u>
Net pension liability recognized in statement of financial position under the caption accrued liabilities	<u><u>\$(441,313)</u></u>	<u><u>\$(855,596)</u></u>

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

K. EMPLOYEE BENEFIT PLANS - Continued

	<u>2007</u>	<u>2006</u>
Key assumptions:		
Discount rate	6.25%	6.25%
Rate of compensation increase	5.00%	5.00%

The College's expected long term return on plan assets assumption is based on a periodic review and modeling of the plans' asset allocation and liability structure over a long term horizon. Expectations of returns for each asset class are the most important of the assumptions used in the review and modeling and are based on comprehensive reviews of historical data and economical/financial market theory. The expected long term rate of return on assets was selected from within the reasonable range of rates determined by (a) historical returns, net of inflation, for the asset classes covered by the investment policy, and (b) projections of inflation over the long term period during which benefits are payable to plan participants.

	<u>2007</u>	<u>2006</u>
Components of net periodic benefit cost:		
Service cost	\$ 241,538	\$ 278,687
Interest cost	226,618	212,286
Expected return on assets	(251,930)	(212,235)
Loss amortization	<u>128,929</u>	<u>183,772</u>
Net periodic benefit cost	<u>\$ 345,155</u>	<u>\$ 462,510</u>

The estimated net loss that will be amortized from Unrestricted Net Assets into Net Periodic Benefit Cost over the next fiscal year is \$128,929.

The College's target asset allocation as of June 30, 2007, by asset category, is as follows:

	<u>Target</u>	<u>Allocation Range</u>
Cash and Cash Equivalents	5.00%	0.00% to 5.00%
U.S. Equities	40.00%	30.00% to 40.00%
U.S. Bonds	45.00%	35.00% to 45.00%
International Equities	10.00%	5.00% to 10.00%

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

K. EMPLOYEE BENEFIT PLANS - Continued

The College's investment policy includes various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by participants. The investment guidelines consider a broad range of economic conditions. Central to the policy are target allocation ranges (shown above) by major asset categories.

The objectives of the target allocations are to maintain investment portfolios that diversify risk through prudent asset allocation parameters, achieve asset returns that meet or exceed the plans' actuarial assumptions, and achieve asset returns that are competitive with like institutions employing similar investment strategies.

The investment policy is periodically reviewed by the College and a designated third-party fiduciary for investment matters. The policy is established and administered in a manner so as to comply at all times with applicable government regulations.

The College expects to contribute \$693,700 to its pension plan in the year ended June 30, 2008.

The following pension benefit payments, which reflect expected future services and participants electing life annuities at retirement age 65, as appropriate, are expected to be paid for the years ended June 30:

2008	\$ 124,401
2009	152,037
2010	182,810
2011	199,089
2012	233,817
2013 to 2016	1,786,787

If lump sum payouts are elected it can materially accelerate cash benefit payments estimated above.

Employees' Tax Sheltered Annuity Plan

All participants in the College's Retirement Income Plan whose annual compensation is in excess of \$15,000 are eligible to participate in this contributory defined contribution retirement plan. The College has pension expense to this plan of \$537,636 and \$489,408 as of and for the plan years June 30, 2007 and 2006, respectively.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

L. NET ASSETS

Under provisions of SFAS No. 117, unrestricted net assets are those which are not subjected to donor-imposed restrictions. Substantially all of the net assets classified as unrestricted in the balance sheet as of June 30, 2007 and 2006 have been invested in property and equipment.

The refunding of debt service amounts shown as a reduction of unrestricted net assets resulted from refinancing transactions in 1997 and 1999, and represents the loss recognized under accounting principles generally accepted in the United States of America to enact the refinancing. This component of unrestricted net assets is being amortized into unrestricted net assets available for operations over the lives of the related bond issues.

Temporarily restricted net assets are primarily available for scholarships and instruction and research.

Permanently restricted net assets consist primarily of perpetual endowment funds, scholarships, and instruction and research.

M. ESTIMATED FAIR VALUES

SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, requires the College to disclose the estimated fair value of its financial instruments. Estimates of the fair value of investments are presented in Note F to the consolidated financial statements.

The carrying values of cash, funds held by trustee, temporary investments, accounts and notes receivable, and accounts, bonds, and notes payable approximate the estimated fair value of these assets and liabilities.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

N. COMMITMENTS AND CONTINGENT LIABILITIES

The College leases certain buildings and equipment under non-cancelable operating leases which expire at various dates through September 2013. Rent expense under these lease arrangements amounted to \$415,869 and \$459,445 for the years ended June 30, 2007 and 2006, respectively.

Future minimum rental payments required under operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2007, are as follows:

<u>Year Ending May 31,</u>	<u>Amount</u>
2008	\$ 398,189
2009	397,466
2010	401,086
2011	402,028
2012	408,235
Thereafter	<u>521,105</u>
	<u>\$2,528,109</u>

The College had an agreement with Xerox to fully outsource all of the College's document management needs. Under the terms of the agreement Xerox provided the College's document management services through June 30, 2007 for minimum annual fees of approximately \$627,000 plus additional charges for usage above the contractual minimum. Subsequent to year-end the college has a new agreement with DEX Imaging Inc. to provide all of the College's document management services beginning November 1, 2007.

Certain revenues, particularly Federal and state grants and contracts, are subject to adjustments based upon review by the granting agencies. Management does not anticipate that adjustments, if any, arising from such reviews would have a material effect on the consolidated financial statements.

The College is a defendant in lawsuits arising in the normal course of business. Management and legal counsel are of the opinion that insurance coverage is sufficient to satisfy any judgment or settlement liability.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

O. CONCENTRATIONS OF CREDIT RISK

The College, in connection with its activities, grants credit that involves, to varying degrees, elements of credit risk. The maximum accounting loss from credit risk is limited to the amounts that are recognized in the accompanying statement of financial position as accounts receivable at June 30, 2007 and 2006.

Financial instruments which potentially subject the College to concentrations of credit risk consist principally of cash and investments held by the College and certain investment institutions. Cash at June 30, 2007 includes demand deposits at high quality financial institutions. The deposits possess credit risk to the extent they exceed federally insured limits. The exposure to concentrations of credit risk relative to securities is dependent on the College's investment objectives and policies.