# MEHARRY MEDICAL COLLEGE

## CONSOLIDATED FINANCIAL STATEMENTS

## JUNE 30, 2010 AND 2009

MEHARRY MEDICAL COLLEGE

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CROSSLIN &ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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 Subsidiary (the "College") as of June 30, 2010 and 2009, 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 audit 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 consolidated 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Meharry Medical College and Subsidiary as of June 30, 2010 and 2009, and the changes in their consolidated net assets and their consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Crosslin & Associates, P.C.

Nashville, Tennessee
October 20, 2010

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MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

## ASSETS

| | June 30, 2010 | June 30, 2009 |
|---|---|---|
| Cash and cash equivalents | $ 9,283,624 | $ 13,048,325 |
| Accounts receivable, net | 21,299,073 | 14,798,804 |
| Student loans receivable, net | 15,278,601 | 15,118,062 |
| Contributions receivable, net | 1,912,927 | 4,862,255 |
| Investments | 93,901,547 | 75,698,028 |
| Investment in real estate, net | 29,793,687 | 30,927,644 |
| Plant facilities, net | 62,633,512 | 61,479,431 |
| Inventories and other assets | 18,306 | 29,561 |
| Funds held by trustees | 1,459,711 | 1,356,636 |
| Deferred charges | 875,062 | 952,337 |
| Total assets | $236,456,050 | $218,271,083 |

## LIABILITIES AND NET ASSETS

| | 2010 | 2009 |
|---|---|---|
| Notes payable to banks | $ 2,500,000 | $ 750,000 |
| Accounts payable | 4,078,436 | 4,039,677 |
| Accrued liabilities | 15,244,884 | 12,176,301 |
| Advances under grants and contracts | 1,611,023 | 2,408,480 |
| Deferred revenue | 7,823,506 | 8,021,627 |
| Bonds payable | 51,736,727 | 54,545,332 |
| Government advances for student loans | 12,370,713 | 12,261,616 |
| Funds held in trust for others | 1,815,741 | 1,613,841 |
| Total liabilities | 97,181,030 | 95,816,874 |
| Unrestricted: | | |
| Undesignated | 20,994,355 | 17,159,339 |
| Unfunded pension liability | ( 830,205) | ( 1,216,270) |
| Unrealized loss on interest rate swap agreement | ( 4,439,120) | ( 1,039,406) |
| Refunding loss on debt service of bonds refinanced | ( 6,089,964) | ( 6,342,117) |
| Total unrestricted net assets | 9,635,066 | 8,561,546 |
| Temporarily restricted | 19,018,635 | 9,432,851 |
| Permanently restricted | 110,621,319 | 104,459,812 |
| Total net assets | 139,275,020 | 122,454,209 |
| Total liabilities and net assets | $ 236,456,050 | $ 218,271,083 |

See accompanying notes to consolidated financial statements.

MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENTS OF ACTIVITIES

| | Year Ended June 30, | |
|---|---|---|
| | 2010 | 2009 |
| Changes in unrestricted net assets: | | |
| Operating revenues: | | |
| Tuition and fees | $ 22,606,442 | $ 19,453,053 |
| Less College funded scholarships | ( 4,474,727) | ( 4,042,032) |
| Net tuition and fees | 18,131,715 | 15,411,021 |
| Government grants and contracts | 68,191,349 | 65,810,291 |
| Private gifts, grants, and contracts | 3,324,297 | 5,727,215 |
| Sales and services of educational departments | 968,234 | 855,349 |
| Other sources | 3,006,675 | 2,707,165 |
| Health services division | 31,222,937 | 26,477,447 |
| Net assets released from restrictions | 7,075,038 | 8,497,091 |
| Total operating revenues | 131,920,245 | 125,485,579 |
| Operating expenses: | | |
| Instruction | 23,969,251 | 23,069,757 |
| Research | 19,664,060 | 18,017,079 |
| Public service | 13,496,808 | 13,443,450 |
| Academic support | 12,533,024 | 10,465,291 |
| Student services | 3,557,719 | 3,223,296 |
| Institutional support | 26,257,326 | 25,351,396 |
| Health services division | 30,436,040 | 25,669,352 |
| Total operating expenses | 129,914,228 | 119,239,621 |
| Increase in unrestricted net assets from operating activities | 2,006,017 | 6,245,958 |
| Nonoperating items: | | |
| Change in net minimum pension liability | ( 386,065) | ( 289,241) |
| Change in market value of interest rate swap agreement, net | ( 913,542) | ( 269,191) |
| Reclass | 367,110 | - |
| Increase in unrestricted net assets | 1,073,520 | 5,687,526 |

MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENTS OF ACTIVITIES - Continued

| | Year Ended June 30, | |
|---|---|---|
| | 2010 | 2009 |
| Changes in temporarily restricted net assets: | | |
| Gifts, grants, and contracts | 6,346,328 | 6,205,013 |
| Income on long-term investments, net | 3,519,673 | 2,321,501 |
| Net gain (loss) on investments | 7,248,659 | ( 16,066,421) |
| Health services division | 31,458 | 17,678 |
| Relcass | ( 485,296) | - |
| Net assets released from restrictions | ( 7,075,038) | ( 8,497,091) |
| Increase (decrease) in temporarily restricted net assets | 9,585,784 | ( 16,019,320) |
| Change in permanently restricted net assets: | | |
| Gifts and grants | 6,043,321 | 14,168,899 |
| Reclass | 118,186 | - |
| Increase in permanently restricted net assets | 6,161,507 | 14,168,899 |
| Increase in net assets | 16,820,811 | 3,837,105 |
| Net assets at beginning of year | 122,454,209 | 118,617,104 |
| Net assets at end of year | $ 139,275,020 | $ 122,454,209 |

See accompanying notes to consolidated financial statements.

MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year Ended June 30, | |
|---|---|---|
| | 2010 | 2009 |
| Cash flows from operating activities: | | |
| Increase in net assets | $ 16,820,811 | $ 3,837,105 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation and interest rate swap charge | 7,295,581 | 7,252,877 |
| Amortization of deferred charges and bond discount | 78,670 | 78,672 |
| Contributions restricted for long-term investment | ( 6,161,507) | (13,945,448) |
| Net realized and unrealized (gain) loss on long-term investments | ( 7,248,659) | 16,066,421 |
| Loss from disposal of fixed assets | 741 | - |
| Changes in: | | |
| Accounts receivable, net | ( 6,500,269) | ( 1,094,956) |
| Contributions receivable | 2,949,328 | ( 2,228,338) |
| Inventory and other assets | 11,255 | (12,290) |
| Accounts payable | 38,759 | ( 2,053,461) |
| Accrued liabilities | ( 331,131) | 1,889,365 |
| Advances under grants and contracts | ( 797,457) | 785,754 |
| Deferred revenue | ( 198,121) | 3,621,034 |
| Funds held in trust for others | 201,900 | ( 616,859) |
| Net cash provided by operating activities | 6,159,901 | 13,579,876 |
| Cash flows from investing activities: | | |
| Acquisition of plant facilities | ( 3,916,730) | ( 3,892,828) |
| Purchases of investments, net | (10,954,860) | (13,137,424) |
| Funds held by trustees | ( 103,075) | ( 42,824) |
| Net cash used in investing activities | (14,974,665) | (17,073,076) |
| Cash flows from financing activities: | | |
| Proceeds from contributions restricted for long-term investment | 6,161,507 | 13,945,448 |
| Student loans receivable, net | ( 160,539) | ( 672,266) |
| Change in government advances for student loans | 109,095 | 85,409 |
| Borrowings (repayments) on lines of credit | 1,750,000 | ( 2,750,000) |
| Principal repayments on bonds | (19,835,000) | ( 2,650,000) |
| Proceeds on bond issued | 17,025,000 | - |
| Net cash provided by financing activities | 5,050,063 | 7,958,591 |
| Net (decrease) increase in cash and cash equivalents | ( 3,764,701) | 4,465,391 |
| Cash and cash equivalents at beginning of year | 13,048,325 | 8,582,934 |
| Cash and cash equivalents at end of year | $ 9,283,624 | $ 13,048,325 |
| Supplemental cash flow information: | | |
| Cash paid for interest | $ 3,326,960 | $ 3,373,563 |

See accompanying notes to consolidated financial statements.

## 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 subsidiary of the College, 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, Accounting Standard Codification ("ASC") 958 *Not-for-Profit Entities*, 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.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Temporarily Restricted - Temporarily restricted net assets generally result from contributions, earnings from endowed funds 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 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 are exercised by management in certain areas of the preparation of the financial statements. The more significant areas include the recovery period for plant facilitates, the allocation of certain operating and maintenance expenses to functional categories, the collection of contributions receivable, and the valuation of receivables including the allowances for contractual adjustments and doubtful patient accounts receivable. 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. 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.

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. An 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. Works of art, historical treasures, and similar assets held as part of collections are reported at the fair or appraisal value at the date of acquisition or contribution, respectively.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investment in hospital facility is based upon the estimated fair value of the facilities, which equates to the discounted payments to be received from the 30-year 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, 2010 and 2009, accumulated amortization was $972,766 and $893,923, respectively. The estimated future amortization expense for each of the next five years is approximately $78,000.

Deferred Revenue

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

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, various clinics operated by the College and the Lloyd C. Elam Mental Health Center. 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 $2,834,298 and $2,399,152 in 2010 and 2009, 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.

## 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 consolidated financial statements. The College is not classified as a private foundation.

### Fair Value Measurements

Assets and liabilities recorded at fair value in the statements of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value (Note M). Level inputs are defined by ASC 820, *Fair Value Measurements*.

### Reclassifications

Certain reclassifications of prior year amounts have been made to conform to the current year presentation. These reclassifications have no material effect on previously reported results of operations or total net assets.

## C. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at June 30, 2010 and 2009:

| | 2010 | 2009 |
|---|---|---|
| Receivable from grantors | $ 7,663,219 | $ 7,224,095 |
| Professional services receivable | 5,232,715 | 2,871,976 |
| Patient receivables, net of contractual allowances and doubtful account allowances of $22,755,970 and $17,034,105 at June 30, 2010 and 2009, respectively | 3,563,749 | 3,089,973 |
| Student accounts receivable, net of allowance of $345,653 and $281,188 at June 30, 2010 and 2009, respectively | 4,797,601 | 1,576,100 |
| Other accounts receivable | 41,789 | 36,660 |
| Total accounts receivable, net | $21,299,073 | $14,798,804 |

## D. CONTRIBUTIONS RECEIVABLE

The College includes unconditional promises to give as contributions receivable in accordance with the provisions of ASC 958, *Not-for-Profit Entities*.

| | 2010 | 2009 |
|---|---|---|
| Unconditional promises to give | $ 2,005,204 | $ 5,024,523 |
| Less unamortized discount at 5% | ( 92,277) | ( 162,268) |
| Unconditional promise to give, net | $ 1,912,927 | $ 4,862,255 |
| Amounts due in: | | |
| Less than one year | $1,244,151 | $3,214,038 |
| Two to five years | 761,053 | 1,810,485 |
| | $2,005,204 | $5,024,523 |

At June 30, 2010 and 2009, 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, 2010 and 2009, consisted of the following:

| | 2010 | 2009 |
|---|---|---|
| Notes receivable - students | $ 15,506,875 | $ 15,373,315 |
| Less allowance for doubtful loans | ( 228,274) | ( 255,253) |
| | $ 15,278,601 | $ 15,118,062 |

## F. INVESTMENTS

Investments at June 30, 2010 and 2009, are summarized below:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Fair Value | Cost | Fair Value | Cost |
| Marketable securities: | | | | |
| Cash equivalents | $ 2,006,162 | $ 2,006,162 | $ 2,344,792 | $ 2,344,792 |
| Mutual funds | 10,380,439 | 10,089,922 | 8,966,349 | 9,550,943 |
| Common stocks | 57,718,118 | 54,192,024 | 47,950,724 | 48,680,913 |
| Real estate | 1,813,703 | 1,696,273 | 1,701,241 | 2,213,500 |
| Bonds | 18,827,000 | 17,581,652 | 14,734,922 | 14,319,245 |
| Other | 3,156,125 | 3,156,125 | - | - |
| Total investments | $93,901,547 | $88,722,158 | $75,698,028 | $77,109,393 |
| Investment in real estate, net of accumulated depreciation | | $29,793,687 | | $30,927,644 |

Mutual funds for 2010 and 2009 are comprised solely of fixed income securities.

The College's investments are substantially all permanently restricted endowment funds. The $29,793,687 investment in real estate is comprised of the College's net 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 lease with the Metropolitan Government began in December 1994 and provides for rent payments of $4,000,000 per year.

## G. PLANT FACILITIES

Plant facilities consist of the following at June 30, 2010 and 2009:

| | 2010 | 2009 |
|---|---|---|
| Land and land improvements | $ 5,466,046 | $ 5,466,046 |
| Buildings and building improvements | 102,648,120 | 100,677,700 |
| Equipment | 25,481,179 | 23,433,867 |
| Art | 433,194 | 433,194 |
| Library and visual aids | 4,262,147 | 4,262,146 |
| Construction in process | - | 115,615 |
| | 138,290,686 | 134,388,568 |
| Less accumulated depreciation | ( 75,657,174) | ( 72,909,137) |
| Plant facilities, net | $ 62,633,512 | $ 61,479,431 |

## G. PLANT FACILITIES

Plant operations and maintenance expenditures of $9,913,852 and $9,597,739 for the fiscal years ended June 30, 2010 and 2009, respectively, are allocated among functional expenses based on square footage percentages.

Depreciation expense was $6,382,037 and $6,983,686 for 2010 and 2009, respectively (of which $1,133,957, was depreciation on the College's investment in real estate), and is allocated among the various functional expense categories. No interest expense was capitalized in 2010 or 2009.

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, 2010, all projects were complete.

## H. NOTES PAYABLE TO BANKS

Notes payable to banks consist of the following at June 30, 2010 and 2009:

| | 2010 | 2009 |
|---|---|---|
| $3,500,000 line of credit, bearing interest at daily Libor plus 2.5% (2.80% and 2.78% at June 30, 2010 and 2009, respectively.) | $2,500,000 | $400,000 |
| $1,500,000 line of credit, bearing interest at the banks base rate less .25% (6.50% at June 30, 2009.) | - | 350,000 |
| Total notes payable to banks | $2,500,000 | $750,000 |

The notes are collateralized by accounts receivable, inventory, certain plant assets and unrestricted endowed assets.

## I. BONDS PAYABLE

Bonds payable consist of the following at June 30, 2010 and 2009:

| | 2010 | 2009 |
|---|---|---|
| Revenue Bonds, Series 2009 | $17,025,000 | $ - |
| Revenue Bonds, Series 2001 | 6,990,000 | 7,820,000 |
| Revenue Bonds, Series 1998 | 3,755,000 | 4,115,000 |
| Revenue Bonds, Series 1996, net of unamortized discount of $13,273 and $14,668 at June 30, 2010 and 2009, respectively | 22,526,727 | 41,145,332 |
| Housing Revenue Bonds, Series 1992 | 1,440,000 | 1,465,000 |
| Total Bonds payable | $51,736,727 | $54,545,332 |

The aggregate scheduled principal maturities of bonds payable at June 30, 2010, are as follows:

| Year Ending June 30, | Revenue Bonds Series 2009 | Revenue Bonds Series 2001 | Revenue Bonds Series 1998 | Revenue Bonds Series 1996 | Housing Revenue Bonds Series 1992 | Total |
|---|---|---|---|---|---|---|
| 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 | - | 1,015,000 | 410,000 | 1,910,000 | 30,000 | 3,365,000 |
| 2014 | - | 1,085,000 | 425,000 | 2,030,000 | 35,000 | 3,575,000 |
| 2015 | - | 1,165,000 | 450,000 | 2,155,000 | 35,000 | 3,805,000 |
| 2016 and thereafter | 17,025,000 | 1,895,000 | 1,695,000 | 12,950,000 | 1,285,000 | 34,850,000 |
| Principal maturities | 17,025,000 | 6,990,000 | 3,755,000 | 22,540,000 | 1,440,000 | 51,750,000 |
| Less unamortized discounts | - | - | - | ( 13,273) | - | ( 13,273) |
| Total bonds payable | $17,025,000 | $6,990,000 | $3,755,000 | $ 22,526,727 | $1,440,000 | $ 51,736,727 |

On December 3, 2009, the College issued Adjustable Rate Revenue Refunding Bond, Series 2009 (Series 2009 Bonds), in the amount of $17,025,000 through the Health and Educational Facilities Board of the Metropolitan Government of Nashville and Davidson County, Tennessee. These bonds are collateralized by a $17,934,555 letter of credit. Under the terms of the bond indenture, the proceeds were used to refinance $17,025,000 of the outstanding Series 1996 Revenue Bonds, of which $22,526,727 was outstanding at June 30, 2010. The Series 2009 Bonds bear interest as determined weekly by the Remarketing Agent (.55% at June 30, 2010). In the event 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.

I. BONDS PAYABLE - Continued

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 collaterized by an approximate $3.04 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 as determined weekly by the Remarketing Agent (.45% at June 30, 2010). 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 collateralized by an approximate $1 million letter of credit. Under the terms of the bond indentures, the proceeds were used to refinance the Revenue Bonds, Series 1995 in the amount of $17,085,000. 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 (.45% at June 30, 2010). 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.

The 2009, 2001 and 1998 bond issues contain certain restrictive covenants, including a minimum debt service coverage ratio. As of June 30, 2010 and 2009, 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 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 $1,285,010 and $1,181,860 at June 30, 2010 and 2009, respectively.

I. BONDS PAYABLE - Continued

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 collaterized 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 $174,701 and $174,777 at June 30, 2010 and 2009, respectively.

J. INTEREST RATE SWAP ARRANGEMENTS

To manage variable interest rate exposure for its debt portfolio, in December 1998, September 2001 and December 2009, the College entered into interest rate swap arrangements with major financial institutions. The total notional amounts were $50,180,000 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, Series 2001 and Series 2009 bonds.

The swap arrangements are scheduled to expire in August 2012 and 2018 and December 2024. The College pays a fixed rate of 6.20%, 4.10% and 4.70%, respectively, under these arrangements.

These agreements effectively create a synthetic fixed rate of interest on the Series 1998, Series 2001 and Series 2009 bond issues, resulting in $960,568 and $441,047 of additional interest expense for fiscal 2010 and 2009, respectively.

As of June 30, 2010 and 2009, the estimated fair value loss of these swap arrangements was $4,439,120 and $1,039,406, and is included in accrued liabilities and as a component of unrestricted net assets.

## K. EMPLOYEE BENEFIT PLANS

The College sponsors multiple plans which cover substantially all employees of the College. Effective January 1, 2009, all plans were amended to meet the Internal Revenue Service's 403(b) plan amendments. The details of the plans as amended are as follows:

### 403(b) Meharry Medical College Defined Contribution Plan

The Plan is a defined contribution plan which covers substantially all employees except those in the residency programs. Union and non-union employees are eligible to participate upon reaching the age of eighteen, and are eligible to receive matching, contributions upon reaching the age of twenty-one and completing one year of service. The Plan is funded by employee contributions which may not exceed the Internal Revenue Service annual limitations ($16,500 for calendar year 2010 and 2009, respectively).

The College provides a contribution to the non-union employees at a rate equal to 1% of the non-union employee's compensation. In addition, the non-union employees receive a matching contribution of 100% of their elective deferral up to 4% of their compensation not to exceed $11,000. All union employees receive a contribution at a rate equal to 5% of their compensation in excess of $15,000. The College has the discretion to vary the contribution rate.

Expense under this plan for the years ended June 30, 2010 and 2009 amounted to $1,745,522 and $1,281,057, respectively for non-union employees and $679,649 and $640,829, respectively for union employees.

### Retirement Income Plan

This noncontributory defined benefit retirement plan that covers only union eligible employees was frozen by an amendment adopted January 1, 2009. Pursuant to ASC 715 *Compensation - Retirement Benefits*, the College recognizes in its statement of financial position the over-funded or under-funded status of the defined benefit retirement plan.

K. EMPLOYEE BENEFIT PLANS - Continued

The status of the plan at June 30, 2010 and 2009, was as follows:

| | 2010 | 2009 |
|---|---|---|
| Change in benefit obligation: | | |
| Projected benefit obligation at beginning of year | $ 4,292,918 | $ 4,705,143 |
| Service cost | 67,963 | 263,318 |
| Interest cost | 268,131 | 226,781 |
| Loss (gain) due to plan experience | 15,223 | ( 459,042) |
| Actual benefit disbursements | (1,247,683) | ( 443,282) |
| Projected benefit obligation at the end of year | $ 3,396,552 | $ 4,292,918 |
| Change in plan assets: | | |
| Fair value of plan asset at beginning of year | $ 3,076,648 | $ 3,778,114 |
| Actual contributions | 400,000 | 427,549 |
| Actual benefit disbursements | (1,247,683) | ( 443,282) |
| Actual return on plan assets | 337,382 | ( 685,733) |
| Fair value of plan asset at end of year | 2,566,347 | 3,076,648 |
| Funded status: | | |
| Net pension liability recognized in statement of financial position under the caption unrestricted net assets | $( 830,205) | $(1,216,270) |
| Key assumptions: | | |
| Discount rate | 7.50% | 7.50% |

K. EMPLOYEE BENEFIT PLANS - Continued

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.

| | 2010 | 2009 |
|---|---|---|
| Components of net periodic benefit cost: | | |
| Service cost | $ 67,963 | $ 263,318 |
| Interest cost | 268,131 | 226,781 |
| Expected return on assets | (206,525) | (238,633) |
| Recognition of settlement | - | 388,630 |
| Loss amortization | 87,985 | 137,836 |
| Net periodic benefit cost | $ 217,554 | $ 777,932 |

The estimated net loss that will be amortized from Unrestricted Net Assets into Net Periodic Benefit Cost over the next fiscal year is $133,217.

The College's target asset allocation as of June 30, 2010, by asset category, is as follows:

| | Target | Allocation Range | | |
|---|---|---|---|---|
| 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% |

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 $363,000 to its pension plan in the year ended June 30, 2012.

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:

| | |
|---|---|
| 2011 | $ 206,305 |
| 2012 | 384,557 |
| 2013 | 421,713 |
| 2014 | 258,648 |
| 2015 to 2019 | 2,011,249 |

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

## L. NET ASSETS

Under provisions of ASC 958, 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, 2010 and 2009 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. FAIR VALUES OF FINANCIAL INSTRUMENTS

Required disclosures concerning the estimated fair value of financial instruments are presented below. The estimated fair value amounts have been determined based on the College's assessment of available market information and appropriate valuation methodologies. The following table summarizes required fair value disclosures under ASC 825 *Financial Instruments* and measurements at June 30, 2010 for the assets measured at fair value on a recurring basis under ASC 820 *Fair Value Measurements*:

| | | | | Fair Value Measurements Using | | |
|---|---|---|---|---|---|---|
| June 30, 2010 | Carrying Amount | ASC 825 Estimated Fair Value | Assets Measured at Fair Value | Level 1 | Level 2 | Level 3 |
| Assets: | | | | | | |
| Contributions receivable | $ 1,912,927 | $ 1,912,927 | $ 1,912,927 | $ - | $ 1,912,927 | $ - |
| Investments | 88,722,158 | 93,901,547 | 93,901,547 | 73,260,843 | 18,827,000 | 1,813,704 |
| Liabilities: | | | | | | |
| Bonds payable | 51,736,727 | 54,877,606 | - | - | - | - |
| Interest Rate Swap Agreement | 4,439,120 | 4,439,120 | 4,439,120 | - | 4,439,120 | - |

## M. FAIR VALUES OF FINANCIAL INSTRUMENTS - Continued

| June 30, 2009 | Carrying Amount | ASC 825 Estimated Fair Value | Assets Measured at Fair Value | Fair Value Measurements Using Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Contributions receivable | $ 4,862,255 | $ 4,862,255 | $ 4,862,255 | $ - | $ 4,862,255 | $ - |
| Investments | 77,109,393 | 75,698,028 | 75,698,028 | 59,261,866 | 14,734,922 | 1,701,241 |
| Liabilities: | | | | | | |
| Bond payable | 54,545,332 | 61,335,424 | - | - | - | - |
| Interest Rate Swap Agreement | 1,039,406 | 1,039,406 | 1,039,406 | - | 1,039,406 | - |

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and Cash Equivalents and Funds Held by Trustees

Cash is reflected at carrying value, which is considered its fair value.

Accounts and Student Loans Receivable

Accounts receivable consist primarily of receivables from grantor agencies, patient receivables and other short-term receivables. The student loans receivable of $15,278,601 and $15,118,062 at June 30, 2010 and 2009, respectively, consist principally of government loan programs and are not readily marketable. The College has estimated their fair value to be the carrying value.

Contributions Receivable

Contributions receivable are recorded at net present value as discussed in Note D, which approximates their fair value.

M. FAIR VALUES OF FINANCIAL INSTRUMENTS - Continued

Accounts Payable, Accrued Liabilities, and Deferred Revenues

The carrying value of these items approximates fair value due to the short-term nature of the obligations.

Bonds Payable and Notes Payable

The bonds payable reflected in the financial statements bear interest at floating rates and fixed rates. Series 1998, 2001 and 2009 bonds bear interest at a floating rate. Series 1992 and 1996 bonds bear interest at fixed rates. The carrying value of the bonds will differ from their fair value depending on current market rates. The fair value was estimated by calculating the net present value of the future payment stream using the current market interest rate. The notes payable reflected in the financial statements are short-term revolving lines-of-credit. The carrying value of these items approximates fair value due to the short-term nature of the obligations.

Interest Rate Swap Agreements

Fair value has been estimated as the difference between the estimated future interest payments at contractual variable rates and expected future variable rates as of June 30, 2010 and 2009, respectively, and fixed interest rates specified in the related swap agreements, discounted to present value.

The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2010 and 2009, respectively. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have no been comprehensively revalued for purposes of the consolidated financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

## 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 $471,440 and $463,927 for the years ended June 30, 2010 and 2009, 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, 2010, are as follows:

| Year Ending June 30, | Amount |
|---|---|
| 2011 | $ 483,366 |
| 2012 | 469,422 |
| 2013 | 428,193 |
| 2014 | 104,664 |
| | $1,485,645 |

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.

## O. CONCENTRATIONS OF CREDIT RISK

The College, in connection with its activities, grants credit that involves, to varying degrees, elements of 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, 2010 and 2009.

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, 2010 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.

## P. ENDOWMENT

The College's endowment consists of individual donor-restricted funds established for a variety of purposes. As required by Generally Accepted Accounting Principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

***Interpretation of Relevant Law***

The Board of Trustees of Meharry Medical College has interpreted the applicable state laws as requiring the preservation 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 College classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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 classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by applicable state laws. In accordance with applicable state laws, the College 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 College and the donor-restricted 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 College; and
- the investment policies of the College

P. ENDOWMENT - Continued

***Changes in Endowment Net Assets***

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| *Endowment net assets,* July 1, 2008 | $ - | $ 22,759,445 | $ 90,290,913 | $ 113,050,358 |
| Investment return: | | | | |
| Investment income | - | 2,321,501 | - | 2,321,501 |
| Net depreciation (realized and unrealized) | - | (16,066,421) | - | ( 16,066,421) |
| Total investment return | - | (13,744,920) | - | ( 13,744,920) |
| Contributions | - | - | 14,168,899 | 14,168,899 |
| Appropriation of endowment assets for expenditure | - | ( 4,233,988) | - | ( 4,233,988) |
| *Endowment net assets,* June 30, 2009 | - | 4,780,537 | 104,459,812 | 109,240,349 |
| Investment return: | | | | |
| Investment income | - | 3,855,765 | - | 3,855,765 |
| Net appreciation (realized and unrealized) | - | 7,248,659 | - | 7,248,659 |
| Total investment return | - | 11,104,424 | - | 11,104,424 |
| Contributions | - | - | 6,161,507 | 6,161,507 |
| Appropriation of endowment assets for expenditure | - | ( 4,768,863) | - | ( 4,768,863) |
| *Endowment net assets,* June 30, 2010 | $ - | $ 11,116,098 | $110,621,319 | $ 121,737,417 |

P. ENDOWMENT - Continued

***Return Objectives and Risk Parameters***

The College 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 College 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 on average, over a period of five years, a total rate of return between 6% to 9% per year. Actual returns in any given year may vary from this amount.

***Strategies Employed for Achieving Objectives***

To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

***Spending Policy and How the Investment Objectives Relate to Spending Policy***

The College's objective is to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The Board of Trustees has decided that a prudent spending policy provides 4.5% of the market value of the Endowment Funds to the College for annual operating needs. To smooth out the short-term fluctuations in market prices, a three-year moving average of market value is used.

Q. SUBSEQUENT EVENTS

The College has evaluated subsequent events through October 20, 2010, the issuance date of the College's consolidated financial statements, and have determined that there are no subsequent events that require disclosure.