MEHARRY MEDICAL COLLEGE

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

Table of Contents

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, 2009 and 2008, 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.

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, 2009 and 2008, 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.

As described in Note P to the financial statements, the College adopted FASB Staff Position (FSP) No. FAS 117-1 *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Fund Act, and Enhanced Disclosures for All Endowment Funds*, which changed its method of accounting for net assets effective July 1, 2007.

Crosslin & Associates, P.C.

Nashville, Tennessee
October 5, 2009

MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30, 2009	June 30, 2008
Cash and cash equivalents	$ 13,048,325	$ 8,582,934
Accounts receivable, net	14,798,804	13,703,848
Student loans receivable, net	15,118,062	14,445,796
Contributions receivable, net	4,862,255	2,633,917
Investments	75,698,028	78,627,025
Investment in real estate, net	30,927,644	32,844,352
Plant facilities, net	61,479,431	62,653,581
Inventories and other assets	29,561	17,271
Funds held by trustees	1,356,636	1,313,812
Deferred charges	952,337	1,030,062
Total assets	$218,271,083	$215,852,598

LIABILITIES AND NET ASSETS

	2009	2008
Notes payable to banks	$ 750,000	$ 3,500,000
Accounts payable	4,039,677	6,093,138
Accrued liabilities	12,176,301	10,017,745
Advances under grants and contracts	2,408,480	1,622,726
Deferred revenue	8,021,627	4,400,593
Bonds payable	54,545,332	57,194,385
Government advances for student loans	12,261,616	12,176,207
Funds held in trust for others	1,613,841	2,230,700
Total liabilities	95,816,874	97,235,494
Unrestricted:		As Restated
Undesignated	17,159,339	11,165,534
Unfunded pension liability	(1,216,270)	(927,029)
Unrealized loss on interest rate swap agreement	(1,039,406)	(770,215)
Refunding loss on debt service of bonds refinanced	(6,342,117)	(6,594,270)
Total unrestricted net assets	8,561,546	2,874,020
Temporarily restricted	9,432,851	25,452,171
Permanently restricted	104,459,812	90,290,913
Total net assets	122,454,209	118,617,104
Total liabilities and net assets	$ 218,271,083	$ 215,852,598

See accompanying notes to consolidated financial statements.

MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENTS OF ACTIVITIES

	Year Ended June 30, 2009	Year Ended June 30, 2008 (Restated)
Changes in unrestricted net assets:		
Operating revenues:		
Tuition and fees	$ 19,453,053	$ 18,967,677
Less College funded scholarships	(4,042,032)	(3,821,770)
Net tuition and fees	15,411,021	15,145,907
Government grants and contracts	65,810,291	70,134,009
Private gifts, grants, and contracts	5,727,215	4,113,857
Sales and services of educational departments	855,349	792,918
Other sources	2,707,165	3,402,930
Health services division	26,477,447	25,453,395
Net assets released from restrictions	8,497,091	9,336,883
Total operating revenues	125,485,579	128,379,899
Operating expenses:		
Instruction	23,069,757	23,883,239
Research	18,017,079	20,273,091
Public service	13,443,450	12,706,332
Academic support	10,465,291	10,715,389
Student services	3,223,296	3,267,730
Institutional support	25,351,396	27,190,512
Health services division	25,669,352	24,641,492
Total operating expenses	119,239,621	122,677,785
Increase in unrestricted net assets from operating activities	6,245,958	5,702,114
Nonoperating items:		
Change in net minimum pension liability	(289,241)	(485,746)
Change in market value of interest rate swap agreement	(269,191)	(430,218)
Increase in unrestricted net assets before cumulative effect of adoption of FSP No. FAS 117-1	5,687,526	4,786,150
Cumulative effect of adoption of FSP No. FAS 117-1 (Note P)	-	(11,896,078)
Increase (decrease) in unrestricted net assets	5,687,526	(7,109,928)

MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENTS OF ACTIVITIES - Continued

	Year Ended June 30,	
	2009	2008 (Restated)
Changes in temporarily restricted net assets:		
Gifts, grants, and contracts	6,205,013	5,461,071
Income on long-term investments, net	2,321,501	1,941,624
Net loss on investments	(16,066,421)	(5,973,184)
Health services division	17,678	105,382
Net assets released from restrictions	(8,497,091)	(9,336,883)
Decrease in temporarily restricted net assets before cumulative effect of adoption of FSP No. FAS 117-1	(16,019,320)	(7,801,990)
Cumulative effect of adoption of FSP No. FAS 117-1 (Note P)	-	4,678,967
Decrease in temporarily restricted net assets	(16,019,320)	(3,123,023)
Increase in permanently restricted net assets:		
Gifts and grants	14,168,899	4,670,815
Increase in permanently restricted net assets before cumulative effect of adoption of FSP No. FAS 117-1	14,168,899	4,670,815
Cumulative effect of adoption of FSP No. FAS 117-1 (Note P)	-	7,217,111
Increase in permanently restricted net assets	14,168,899	11,887,926
Increase in net assets	3,837,105	1,654,975
Net assets at beginning of year	118,617,104	116,962,129
Net assets at end of year	$ 122,454,209	$ 118,617,104

See accompanying notes to consolidated financial statements.

MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2009	Year Ended June 30, 2008
Cash flows from operating activities:		
Increase in net assets	$ 3,837,105	$ 1,654,975
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	6,983,686	7,744,548
Amortization of deferred charges and bond discount	78,672	78,672
Contributions restricted for long-term investment	(13,945,448)	(4,785,136)
Net realized and unrealized loss on long-term investments	16,066,421	5,973,184
Changes in:		
Accounts receivable, net	(1,094,956)	(501,011)
Contributions receivable	(2,228,338)	323,894
Inventory and other assets	(12,290)	161,247
Accounts payable	(2,053,461)	50,661
Accrued liabilities	2,158,556	1,736,837
Advances under grants and contracts	785,754	(339,375)
Deferred revenue	3,621,034	(814,255)
Funds held in trust for others	(616,859)	2,040,490
Net cash provided by operating activities	13,579,876	13,324,731
Cash flows from investing activities:		
Acquisition of plant facilities	(3,892,828)	(6,205,789)
Purchases of investments, net	(13,137,424)	(5,665,458)
(Decrease) increase in funds held by trustees	(42,824)	146,809
Net cash used in investing activities	(17,073,076)	(11,724,438)
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	13,945,448	4,785,136
Student loans receivable, net	(672,266)	(122,995)
Change in government advances for student loans	85,409	113,147
Repayments on lines of credit	(2,750,000)	(1,100,000)
Principal repayments on bonds	(2,650,000)	(2,490,000)
Net cash provided by financing activities	7,958,591	1,185,288
Net increase in cash and cash equivalents	4,465,391	2,785,581
Cash and cash equivalents at beginning of year	8,582,934	5,797,353
Cash and cash equivalents at end of year	$ 13,048,325	$ 8,582,934
Supplemental cash flows information:		
Cash paid for interest	$ 3,373,563	$ 3,838,153

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, 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.

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 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, 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. 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. The estimated fair value of debt and equity securities for which there are no quoted market prices are based on similar types of securities that are in the market. 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.

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, 2009 and 2008, accumulated amortization was $893,923 and $814,906, 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, 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 $2,399,152 and $2,263,983 in 2009 and 2008, 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.

Related Parties

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

Fair Value Measurements

Effective July 1, 2008, the College adopted SFAS No. 157, *Fair Value Measurements*, which established a framework for measuring fair value in accordance with GAAP, and expands disclosures regarding the use of fair value measures. The adoption of SFAS No. 157 did not have an impact on the College's financial position or changes in net assets. Assets 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, as defined by SFAS No. 157, are as follows:

Level 1 - Values are unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spread, and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the College's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Reclassifications

Certain reclassifications of prior year amounts have been made to conform to the current year presentation. These reclassifications have no effect on previously reported results of operations or total net assets. However, the effect of adoption of FAS 117-1 (Note P) resulted in a decrease in unrestricted net assets of $11,896,078 and an increase in temporarily and permanently restricted net assets in the amounts of $4,678,967 and $7,217,111, respectively as of July 1, 2007.

C. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at June 30, 2009 and 2008:

	2009	2008
Receivable from grantors	$ 7,224,095	$ 6,174,723
Professional services receivable	2,871,976	2,961,856
Patient receivables, net of contractual allowances and doubtful account allowances of $17,034,105 and $20,698,054 at June 30, 2009 and 2008, respectively	3,089,973	3,166,200
Student accounts receivable, net of allowance of $281,188 and $265,270 at June 30, 2009 and 2008, respectively	1,576,100	1,250,929
Other accounts receivable	36,660	150,140
Total accounts receivable, net	$14,798,804	$13,703,848

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.*

	2009	2008
Unconditional promises to give, net	$ 5,024,523	$ 2,807,125
Less unamortized discount at 5%	(162,268)	(173,208)
Unconditional promise to give, net	$ 4,862,255	$ 2,633,917
Amounts due in:		
Less than one year	$3,214,038	$ 579,981
One to five years	1,810,485	2,227,144
	$5,024,523	$2,807,125

At June 30, 2009 and 2008, 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.

D. CONTRIBUTIONS RECEIVABLE - Continued

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, 2009 and 2008, consisted of the following:

	2009	2008
Notes receivable - students	$ 15,373,315	$ 14,693,854
Less allowance for doubtful loans	(255,253)	(248,058)
	$ 15,118,062	$ 14,445,796

F. INVESTMENTS

Investments at June 30, 2009 and 2008, are summarized below:

	2009		2008	
	Fair Value	Cost	Fair Value	Cost
Marketable securities:				
Cash equivalents	$ 2,344,792	$ 2,344,792	$ 533,473	$ 533,473
Mutual funds	8,966,349	9,550,943	9,438,223	9,747,657
Common stocks	47,950,724	48,680,913	57,950,663	54,021,598
Real estate	1,701,241	2,213,500	2,150,361	2,576,195
Bonds	14,734,922	14,319,245	8,554,305	8,667,873
Total investments	$75,698,028	$77,109,393	$78,627,025	$75,546,796
Investment in real estate, net of accumulated depreciation		$30,927,644		$32,844,352

Mutual funds for 2009 and 2008 are comprised solely of fixed income securities.

F. INVESTMENTS - Continued

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.

G. PLANT FACILITIES

Plant facilities consist of the following at June 30, 2009 and 2008:

	2009	2008
Land and land improvements	$ 5,466,046	$ 5,466,046
Buildings and building improvements	100,677,700	98,642,649
Equipment	23,433,867	24,007,465
Art	433,194	433,194
Library and visual aids	4,262,146	4,373,527
Construction in process	115,615	115,615
	134,388,568	133,038,496
Less accumulated depreciation	(72,909,137)	(70,384,915)
Plant facilities, net	$ 61,479,431	$ 62,653,581

Plant operations and maintenance expenditures of $9,597,739 and $9,629,872 for the fiscal years ended June 30, 2009 and 2008, respectively, are allocated among functional expenses based on square footage percentages.

Depreciation expense was $6,983,686 and $7,744,548 for 2009 and 2008, 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 2009 or 2008.

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, 2009, all projects currently being completed on College grounds represent renovations. The estimated cost to complete outstanding renovations is approximately $778,000.

G. PLANT FACILITIES - Continued

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 $606,000 at June 30, 2009 and 2008, respectively. Accumulated amortization of the leased equipment at June 30, 2009 and 2008, was approximately $275,000 and $465,000 respectively. Amortization of assets under capital leases is included in depreciation expense. The remaining capital lease obligation of approximately $270,213 and $382,535 at June 30, 2009 and 2008, respectively, has been included in the statement of financial position caption accrued liabilities.

Future minimum lease payments as of June 30, 2009, under capital leases are as follows:

2010	$ 145,858
2011	100,870
2012	68,667
	315,395
Less amounts representing interest	(45,182)
Present value of net minimum lease payments	$ 270,213

H. NOTES PAYABLE TO BANKS

Notes payable to banks consist of the following at June 30, 2009 and 2008:

	2009	2008
Secured $3,500,000 line of credit, bearing interest at daily Libor plus 2.5% (2.8% and 3.97% at June 30, 2009 and 2008, respectively.)	$400,000	$2,400,000
Secured $1,500,000 line of credit, bearing interest at the banks base rate less .25% (6.50% and 7.50% at June 30, 2009 and 2008, respectively.)	350,000	1,100,000
Total notes payable to banks	$750,000	$3,500,000

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

I. BONDS PAYABLE

Bonds payable consist of the following at June 30, 2009 and 2008:

	2009	2008
Revenue Bonds, Series 2001	$ 7,820,000	$ 8,595,000
Revenue Bonds, Series 1998	4,115,000	4,460,000
Revenue Bonds, Series 1996, net of unamortized discount of $14,668 and $15,615 at June 30, 2009 and 2008, respectively	41,145,332	42,649,385
Housing Revenue Bonds, Series 1992	1,465,000	1,490,000
Total Bonds payable	$54,545,332	$57,194,385

The aggregate scheduled principal maturities of bonds payable at June 30, 2009, are as follows:

Year Ending June 30,	Revenue Bonds Series 2001	Revenue Bonds Series 1998	Revenue Bonds Series 1996	Housing Revenue Bonds Series 1992	Total
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	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 and thereafter	3,060,000	2,145,000	32,130,000	1,320,000	38,655,000
Principal maturities	7,820,000	4,115,000	41,160,000	1,465,000	54,560,000
Less unamortized discounts	-	-	(14,668)	-	(14,668)
Total bonds payable	$7,820,000	$4,115,000	$ 41,145,332	$1,465,000	$ 54,545,332

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 is determined weekly by the Remarketing Agent (.70% at June 30, 2009). 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.

I. BONDS PAYABLE - Continued

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 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 (.32% at June 30, 2009). 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 2001 and 1998 bond issues contain certain restrictive covenants, including a minimum debt service coverage ratio. As of June 30, 2009 and 2008, 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 \$1,181,860 and \$1,138,851 at June 30, 2009 and 2008, 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 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 \$174,777 and \$174,960 at June 30, 2009 and 2008, respectively.

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.

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

These agreements effectively create a synthetic fixed rate of interest on the Series 1998 and Series 2001 bond issues, resulting in $441,047 and $192,792 of additional interest expense for fiscal 2009 and 2008, respectively.

As of June 30, 2009 and 2008, the estimated fair value loss of these swap arrangements was $1,039,406 and $770,215, and is included in accrued liabilities and as a component of unrestricted net assets.

In October 2007, Meharry entered into an agreement with Deutsche Bank for the sale of an option on a swap that was exercisable on or about June 1, 2009. The College has negotiated an extension through December 1, 2009. According to the agreement swap Meharry will pay a fixed 4.7% interest rate and will receive a variable floating rate in return. For the swaption right, Deutsche Bank has deposited approximately $1 million with Meharry. Meharry has recorded the payment as deferred revenue less closing costs. The amount will not be recognized until the execution date of the agreement.

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. Non-union employees are eligible to participate upon reaching the age of twenty-one and completing one year of service. Union employees are eligible upon date of hire. The Plan is a multi-employer plan that is funded by employee contributions which may not exceed the Internal Revenue Service annual limitations ($16,500 and $15,500 for 2009 and 2008, 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.

The College has adopted the policy of funding pension costs accrued. Expense under this plan for the years ended June 30, 2009 and 2008 amounted to $1,281,057 and $989,257, respectively for non-union employees and $640,829 and $646,333, 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 Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,* the College recognizes in its statement of financial position the over-funded or under-funded status of the defined benefit retirement plan. Under the provisions of the statement, actuarial and experience gains and losses and unrecognized prior service costs which where 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.

K. EMPLOYEE BENEFIT PLANS - Continued

The status of the plan at June 30, 2009 and 2008, was as follows:

	2009	2008
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$ 4,705,143	$ 4,130,274
Service cost	263,318	260,477
Interest cost	226,781	246,466
(Gain) loss due to plan experience	(459,042)	233,097
Actual benefit disbursements	(443,282)	(165,171)
Projected benefit obligation at the end of year	$(4,292,918)	$(4,705,143)
Change in plan assets:		
Fair value of plan asset at beginning of year	$ 3,778,114	$ 3,688,961
Actual contributions	427,549	527,000
Actual benefit disbursements	(443,282)	(165,171)
Actual return on plan assets	(685,733)	(272,676)
Fair value of plan asset at end of year	3,076,648	3,778,114
Funded status:		
Benefit obligation	$(1,216,270)	$(927,029)
Unrecognized actuarial loss (before SFAS 158)	N/A	N/A
Minimum liability adjustment	N/A	N/A
Net pension liability recognized in statement of financial position under the caption accrued liabilities	$(1,216,270)	$(927,029)

	2009	2008
Key assumptions:		
Discount rate	7.50%	6.00%

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.

	2009	2008
Components of net periodic benefit cost:		
Service cost	$ 263,318	$ 260,477
Interest cost	226,781	246,466
Expected return on assets	(238,633)	(316,148)
Recognition of settlement	388,630	-
Loss amortization	137,836	122,282
Net periodic benefit cost	$ 777,932	$ 313,077

The estimated net loss that will be amortized from Unrestricted Net Assets into Net Periodic Benefit Cost over the next fiscal year is $168,758.

The College's target asset allocation as of June 30, 2009, 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, 2010.

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:

2010	$ 323,000
2011	374,000
2012	243,000
2013	502,000
2014	547,000
2015 to 2018	2,693,000

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