

MEHARRY MEDICAL COLLEGE
CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER INFORMATION
JUNE 30, 2014 AND 2013

MEHARRY MEDICAL COLLEGE

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Independent Auditor's Report

The Board of Trustees
Meharry Medical College
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Meharry Medical College and Subsidiary (the "College"), which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Meharry Medical College and Subsidiary as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedules of expenditures of federal awards and state awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State of Tennessee, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Crosslin & Associates, P.C.

Nashville, Tennessee
October 31, 2014

MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2014	2013
Cash and cash equivalents	\$ 19,690,127	\$ 24,052,270
Accounts receivable, net	14,856,559	19,850,007
Student loans receivable, net	14,200,044	13,957,850
Contributions receivable, net	2,538,792	4,130,329
Investments	141,351,680	129,190,745
Investment in real estate, net	25,257,860	26,391,817
Plant facilities, net	110,426,126	79,211,180
Funds held by trustees	3,812,179	2,224,057
Deferred charges	1,573,158	1,670,607
Other assets - net pension asset	1,279,445	1,070,359
Total assets	\$334,985,970	\$301,749,221

LIABILITIES AND NET ASSETS

Notes payable to banks	\$ 13,168,943	\$ 12,605,893
Accounts payable	4,986,635	4,046,889
Accrued liabilities	11,099,532	12,280,813
Advances under grants and contracts	806,919	1,371,891
Deferred revenue	10,762,251	10,072,945
Bonds payable	72,713,250	44,782,635
Government advances for student loans	12,873,963	12,888,154
Funds held in trust for others	1,857,074	9,704,694
Total liabilities	128,268,567	107,753,914
Unrestricted:		
Undesignated	30,695,785	29,103,027
Pension asset	1,279,445	1,070,359
Unrealized loss on interest rate swap agreement	(3,752,434)	(3,917,274)
Refunding loss on debt service of bonds refinanced	(5,081,352)	(5,333,505)
Total unrestricted net assets	23,141,444	20,922,607
Temporarily restricted	48,392,988	44,626,271
Permanently restricted	135,182,971	128,446,429
Total net assets	206,717,403	193,995,307
Total liabilities and net assets	\$ 334,985,970	\$ 301,749,221

See accompanying notes to consolidated financial statements.

MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENTS OF ACTIVITIES

	Year Ended June 30,	
	2014	2013
Changes in unrestricted net assets:		
Operating revenues:		
Tuition and fees	\$ 29,944,254	\$ 29,093,507
Less College funded scholarships	<u>(3,844,617)</u>	<u>(3,823,852)</u>
Net tuition and fees	26,099,637	25,269,655
Government grants and contracts	50,840,484	57,561,733
Private gifts, grants, and contracts	4,469,987	3,054,506
Sales and services of educational departments	1,383,880	1,161,627
Other sources	4,052,967	3,646,912
Health services division	29,161,066	31,154,826
Net assets released from restrictions	<u>18,306,191</u>	<u>10,441,256</u>
Total operating revenues	<u>134,314,212</u>	<u>132,290,515</u>
Operating expenses:		
Instruction	23,951,922	25,381,464
Research	20,416,915	19,173,904
Public service	11,700,350	12,012,199
Academic support	16,022,793	14,266,591
Student services	2,677,464	3,359,341
Institutional support	28,146,711	24,513,555
Health services division	<u>29,553,146</u>	<u>32,041,509</u>
Total operating expenses	<u>132,469,301</u>	<u>130,748,563</u>
Increase in unrestricted net assets from operating activities	1,844,911	1,541,952
Nonoperating items:		
Change in net minimum pension asset	209,086	410,792
Change in market value of interest rate swap agreement, net	<u>164,840</u>	<u>1,339,910</u>
Increase in unrestricted net assets	<u>2,218,837</u>	<u>3,292,654</u>

MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENTS OF ACTIVITIES - Continued

	Year Ended June 30,	
	2014	2013
Changes in temporarily restricted net assets:		
Gifts, grants, and contracts	7,627,946	8,117,322
Income on long-term investments, net	4,995,537	4,493,882
Net gain on investments	9,449,426	7,620,293
Net assets released from restrictions	<u>(18,306,192)</u>	<u>(10,441,256)</u>
Increase in temporarily restricted net assets	<u>3,766,717</u>	<u>9,790,241</u>
Change in permanently restricted net assets:		
Gifts and grants	<u>6,736,542</u>	<u>6,253,048</u>
Increase in permanently restricted net assets	<u>6,736,542</u>	<u>6,253,048</u>
Increase in net assets	12,722,096	19,335,943
Net assets at beginning of year	<u>193,995,307</u>	<u>174,659,364</u>
Net assets at end of year	<u>\$ 206,717,403</u>	<u>\$ 193,995,307</u>

See accompanying notes to consolidated financial statements.

MEHARRY MEDICAL COLLEGE
CONSOLIDATED STATEMENTS OF CASH FLOWS

	<u>Year Ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Increase in net assets	\$ 12,722,096	\$ 19,335,943
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	5,380,207	5,458,972
Amortization of deferred charges and bond discount	98,373	82,188
Contributions restricted for long-term investment	(6,736,542)	(6,253,048)
Net realized and unrealized gain on long-term investments	(9,449,426)	(7,620,293)
Changes in:		
Accounts receivable, net	4,993,448	(3,962,925)
Contributions receivable	1,591,537	(1,455,262)
Inventory and other assets	(209,086)	(410,792)
Accounts payable	939,746	553,440
Accrued liabilities	(1,181,281)	(2,134,787)
Advances under grants and contracts	(564,972)	(840,474)
Deferred revenue	689,306	3,512,712
Funds held in trust for others	<u>(7,847,620)</u>	<u>6,059,660</u>
Net cash provided by operating activities	<u>425,786</u>	<u>12,325,334</u>
Cash flows from investing activities:		
Acquisition of plant facilities	(35,461,196)	(16,963,154)
Purchases of investments, net	(2,711,509)	(4,799,775)
Funds held by trustees	<u>(1,588,122)</u>	<u>(377,007)</u>
Net cash used in investing activities	<u>(39,760,827)</u>	<u>(22,139,936)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	6,736,542	6,253,048
Student loans receivable, net	(242,194)	(417,941)
Change in government advances for student loans	(14,191)	58,224
Proceeds from issuance of notes payable	1,426,890	4,854,009
Principal repayments of notes payable	(863,840)	(1,644,844)
Proceeds from issuance of bonds	29,959,691	10,633,650
Payment of bond issue costs	-	(1,094,836)
Principal repayments of bonds	<u>(2,030,000)</u>	<u>(3,324,184)</u>
Net cash provided by financing activities	<u>34,972,898</u>	<u>15,317,126</u>
Net increase in cash and cash equivalents	(4,362,143)	5,502,524
Cash and cash equivalents at beginning of year	<u>24,052,270</u>	<u>18,549,746</u>
Cash and cash equivalents at end of year	<u>\$ 19,690,127</u>	<u>\$ 24,052,270</u>
Supplemental cash flow information:		
Cash paid for interest	<u>\$ 1,702,639</u>	<u>\$ 1,731,143</u>

See accompanying notes to consolidated financial statements.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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 include the operations of the College and its wholly owned subsidiary, 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, 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 tuition and fees, revenues derived from providing educational and health services, receiving unrestricted government and private gifts, grants and contracts, less expenses incurred in providing educational and health services, raising contributions and performing administrative functions.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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 consolidated financial statements. The more significant areas include the recovery period for plant facilities, the allocation of certain operating and maintenance expenses to functional categories, the collection of contributions receivable, and the valuation of receivables 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 consolidated statements 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 consolidated statements 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.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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 the 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 consolidated statements 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.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investment in hospital facility is based upon the estimated fair value of the facility, which equates to the discounted payments to be received from the 30-year lease of the facility. 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 a straight-line basis over the lives of the related bond issues. As of June 30, 2014 and 2013, accumulated amortization was \$826,712 and \$729,263, respectively. The estimated future amortization expense for each of the next five years is approximately \$90,000.

Deferred Revenue

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

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Derivative Financial Instruments

The College employs derivatives in the form of 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 change in fair value recognized as a nonoperating item in the consolidated statements 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 \$2,861,080 and \$3,198,003 in 2014 and 2013, respectively. For purposes of reporting fundraising expenses, the College includes those fundraising costs incurred by its Development Office as well as an estimate of payroll-related expenditures incurred by members of management in fundraising activities.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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.

The College accounts for the effect of any uncertain tax positions based on a more likely than not threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, any unrecognized tax benefit is estimated based on a cumulative probability assessment that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for the College include, but are not limited to, its tax-exempt status and determination of whether certain income is subject to unrelated business income tax. The College has determined that such tax positions do not result in an uncertainty requiring recognition.

Fair Value Measurements

Assets and liabilities recorded at fair value in the consolidated 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* are as follows:

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

Level 2 - Inputs include quoted prices for similar assets or liabilities 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, spreads 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 University's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

C. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Receivable from grantors	\$ 3,223,332	\$ 5,381,797
Professional services receivable	1,843,450	3,864,314
Patient receivables, net of contractual and doubtful account allowances of \$6,813,281 and \$9,110,215 at June 30, 2014 and 2013, respectively	2,915,767	3,196,456
Student accounts receivable, net of allowance of \$578,955 and \$477,160 at June 30, 2014 and 2013, respectively	5,904,051	6,069,703
Other accounts receivable	<u>969,959</u>	<u>1,337,737</u>
Total accounts receivable, net	<u>\$14,856,559</u>	<u>\$19,850,007</u>

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*.

	<u>2014</u>	<u>2013</u>
Unconditional promises to give	\$ 2,656,611	\$ 4,376,900
Less unamortized discount at 5%	<u>(117,819)</u>	<u>(246,571)</u>
Unconditional promise to give, net	<u>\$ 2,538,792</u>	<u>\$ 4,130,329</u>
Amounts due in:		
Less than one year	\$2,056,611	\$3,176,900
Two to five years	<u>600,000</u>	<u>1,200,000</u>
	<u>\$2,656,611</u>	<u>\$4,376,900</u>

At June 30, 2014 and 2013, 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.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

D. CONTRIBUTIONS RECEIVABLE

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 consolidated statements of activities.

E. STUDENT LOANS RECEIVABLE

Student loans receivable at June 30, 2014 and 2013, consisted of the following:

	<u>2014</u>	<u>2013</u>
Notes receivable - students	\$ 14,614,286	\$ 14,285,926
Less allowance for doubtful loans	<u>(414,242)</u>	<u>(328,076)</u>
	<u>\$ 14,200,044</u>	<u>\$ 13,957,850</u>

The College makes uncollateralized loans to students based on financial needs presented by the student. Student loans are funded through government loan programs or institutional resources. Upon graduation, the students have a grace period on government loans, at which time the loan will also begin accruing interest. Loan amounts are repaid through a third party billing service. Student loans are considered past due when payment has not been received in over 30 days. At June 30, 2014 and 2013, student loans represented 4.2% and 4.6% of total assets, respectively.

The allowance for doubtful loans is established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan receipts to repay the amounts per the loan terms. Loan balances are written off only when they are deemed to be permanently uncollectible.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

F. INVESTMENTS

Investments at June 30, 2014 and 2013, are summarized below:

	<u>2014</u>		<u>2013</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Marketable securities:				
Cash equivalents	\$ 1,481,214	\$ 1,481,214	\$ 883,294	\$ 883,294
Mutual funds	5,035,615	4,759,366	4,851,962	4,630,480
Common stocks	79,576,639	67,513,728	63,842,122	55,803,872
Bonds	33,860,179	32,377,124	37,362,997	36,882,155
Hedge funds	17,113,592	11,100,000	18,125,599	12,900,000
Other	<u>4,284,441</u>	<u>4,284,441</u>	<u>4,124,771</u>	<u>4,124,771</u>
Total investments	<u>\$141,351,680</u>	<u>\$121,515,873</u>	<u>\$129,190,745</u>	<u>\$115,224,572</u>
Investment in real estate, net of accumulated depreciation		<u>\$25,257,860</u>		<u>\$26,391,817</u>

Mutual funds for 2014 and 2013 are comprised solely of fixed income securities.

The College's investments are substantially all permanently restricted endowment funds. The investment in real estate is comprised of the College's 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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Land and land improvements	\$ 6,461,224	\$ 6,461,224
Buildings and building improvements	113,215,598	112,988,675
Equipment	28,231,694	26,266,486
Art	433,194	433,194
Library and visual aids	4,262,146	4,262,147
Construction in progress	<u>45,381,011</u>	<u>12,111,945</u>
	197,984,867	162,523,671
Less accumulated depreciation	<u>(87,558,741)</u>	<u>(83,312,491)</u>
Plant facilities, net	<u>\$ 110,426,126</u>	<u>\$ 79,211,180</u>

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

G. PLANT FACILITIES - Continued

Plant operations and maintenance expenditures of \$6,745,627 and \$8,523,122 for the fiscal years ended June 30, 2014 and 2013, respectively, are allocated among functional expenses based on square footage percentages.

Depreciation expense was \$5,380,207 and \$5,458,972 for 2014 and 2013, respectively (of which \$1,133,957, was depreciation on the College's investment in real estate), is allocated among the various functional expense categories. The College capitalized interest in the amount of \$762,556 and \$68,535 in 2014 and 2013, respectively.

Estimated costs to complete construction in progress at June 30, 2014 is approximately \$15.5 million for the construction of and improvements to various campus facilities.

H. NOTES PAYABLE TO BANKS

On December 13, 2012, the College entered into a \$910,000 note payable to a local bank for the purpose of purchasing certain property located in Nashville, Tennessee. Under this agreement, the related property served as collateral. Pursuant to the promissory note, the College was schedule to make 12 consecutive quarterly payments of \$75,833 plus interest through December 13, 2014 at a fixed interest rate of 3.25%. The note was repaid in full during fiscal 2013.

In June 2013, the College entered into a \$8,638,395 note payable to a financial institution to provide funding for refinancing the unpaid balances from Revenue Bonds, Series 1998 and Revenue Bonds, Series 2001. Pursuant to the promissory note, the College will make 20 consecutive semi-annual principal payments of \$431,920 plus interest through June 1, 2022 at a fixed interest rate of 3.04%. The note is collateralized by certain property on the College's campus. As of June 30, 2014 and 2013, the outstanding balance on this note totaled \$6,888,044 and \$7,751,884, respectively.

In April 2012, the College entered into a \$5,000,000 revolving line of credit with a financial institution. All accrued interest shall be paid on the first (1st) day of each quarter and the principal balance and all unpaid accrued interest shall be due on the maturity date, April 26, 2015. Interest shall accrue at the 1 month LIBOR rate on the first (1st) day of each calendar month. As of June 31, 2014 and 2013, there was no outstanding balance on the line of credit.

The notes payable contain certain restrictive covenants, including a minimum debt service coverage ratio. The College was in compliance with the covenants and ratios at June 30, 2014.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

H. NOTES PAYABLE TO BANKS - Continued

In July 2012, the College entered into a \$7,500,000 delayed draw loan agreement with a financial institution. The proceeds of this loan are to be used for the refinancing of certain properties, certain capital improvements, and will assist with the modifications and development of a Physician Assistant Program. During the draw period, interest only, will be computed on the unpaid principal balance and is due and payable monthly on the first day of each month commencing August 1, 2012 until the end of the draw period. During the repayment period, the College will make 15 semi-annual principal payments plus accrued interest beginning August 1, 2014 and one final payment of the remaining principal balance and accrued interest on August 1, 2022 at a variable rate of the 1 month LIBOR rate plus 1.65% (1.8% as of June 30, 2014). As of June 30, 2014 the outstanding balance on this note totaled \$6,280,899.

Aggregate maturities associated with notes payable and line-of-credit as of June 30, 2014 are as follows:

2015	\$ 1,332,590
2016	1,332,590
2017	1,332,590
2018	1,332,590
2019	1,332,590
Thereafter	<u>6,505,993</u>
	<u>\$13,168,943</u>

I. BONDS PAYABLE

Bonds payable consist of the following at June 30, 2014 and 2013:

	2014	2013
Future Advance Project Funding Bonds, Series A 2012-8	\$40,593,341	\$10,633,650
Revenue Bonds, Series 2009	17,025,000	17,025,000
Revenue Bonds, Series 1996, net of unamortized discount of \$10,091 and \$11,015 at June 30, 2014 and 2013, respectively	<u>15,094,909</u>	<u>17,123,985</u>
Total bonds payable, net	<u>\$72,713,250</u>	<u>\$44,782,635</u>

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

I. BONDS PAYABLE

The aggregate scheduled principal maturities of bonds payable at June 30, 2014, are as follows:

Revenue Year Ending <u>June 30,</u>	Future Advance Project Funding Bonds <u>Series A 2012-8</u>	Revenue Bonds <u>Series 2009</u>	Revenue Bonds <u>Series 1996</u>	<u>Total</u>
2015	\$ -	\$ -	\$ 2,155,000	\$ 2,155,000
2016	-	-	2,290,000	2,290,000
2017	-	-	2,430,000	2,430,000
2018	-	-	2,580,000	2,580,000
2019	-	-	2,740,000	2,740,000
2020 and thereafter	<u>40,593,341</u>	<u>17,025,000</u>	<u>2,910,000</u>	<u>60,528,341</u>
Principal maturities	40,593,341	17,025,000	15,105,000	72,723,341
Less unamortized discount	<u>-</u>	<u>-</u>	<u>(10,091)</u>	<u>(10,091)</u>
Total bonds payable	<u>\$40,593,341</u>	<u>\$17,025,000</u>	<u>\$ 15,094,909</u>	<u>\$ 72,713,250</u>

On August 30, 2012, the College closed on a capital project loan in the form of a Future Advance Project Funding Bond Series (A 2012-8) in an amount not to exceed \$60,000,000. This funding was financed through the U.S. Department of Education's Capital Financing Program via Rice Capital Access Program, LLC. The loan proceeds are to be used for various campus construction projects. Under the terms of the loan agreements, capitalized interest through October 1, 2014 and the first monthly payment are due on October 1, 2014. The loan is a 30 year fixed rate loan to mature on March 1, 2042. During the construction phase, the rates will be based on U.S. Treasury yields prevailing at the dates of each advance plus applicable federal financing bank and designated bonding fees. The interest on the Series A 2012-8 Bonds is fixed, equal to the U.S. Treasury Bond rate + 22.5 basis points. The trustee handling the bond issue held funds aggregating \$2,013,948 and \$529,941 at June 30, 2014 and 2013, respectively.

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 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. The Series 2009 Bonds bear interest as determined weekly by the Remarketing Agent (.16% and .26% at June 30, 2014 and 2013, respectively). 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.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

I. BONDS PAYABLE - Continued

The 2012 and 2009 bond issues contain certain restrictive covenants, including a minimum debt service coverage ratio. As of June 30, 2014 and 2013, 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 3.85% to 3.85%. 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 \$1,798,089 and \$1,694,116 at June 30, 2014 and 2013, 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 were collateralized by a mortgage on the property and the mortgage is guaranteed by the U.S. Department of Housing and Urban Development. The outstanding balance of the bonds payable was repaid in full during fiscal 2013.

J. INTEREST RATE SWAP ARRANGEMENTS

To manage variable interest rate exposure for its debt portfolio, in December 2009, the College entered into a interest rate swap arrangement with a major financial institution. The total original notional amount was \$17,025,000 for this swap arrangement. The swap notional amount will gradually decline, corresponding to the principal amortization of the College's Series 2009 bonds. The arrangement for the Series 2009 bonds is scheduled to expire in December 2024. The College pays a fixed rate of 4.70% under the remaining arrangement.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

J. INTEREST RATE SWAP ARRANGEMENTS - Continued

As of June 30, 2014 and 2013, the estimated fair value loss of the Series 2009 bond swap arrangement was \$3,752,434 and \$3,917,274, 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. The details of the plans 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 (\$17,500 and \$17,000 for individuals less than age 50 for calendar years 2013 and 2012, respectively; and \$23,000 and \$22,500 for individuals age 50 and older for calendar years 2013 and 2012, 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. The College has the discretion to vary the contribution rate.

The employer expense under this plan for the years ended June 30, 2013 and 2012 amounted to \$1,989,108 and \$1,836,865, respectively.

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 consolidated statements of financial position the over-funded or under-funded status of the defined benefit retirement plan.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

K. EMPLOYEE BENEFIT PLANS - Continued

The status of the plan at June 30, 2014 and 2013, was as follows:

	<u>2014</u>	<u>2013</u>
Change in benefit obligation:		
Projected benefit obligation at beginning of year	\$ 3,793,846	\$ 3,658,839
Service cost	67,768	69,689
Interest cost	246,222	238,413
Loss (gain) due to plan experience	263,244	62,607
Actual benefit disbursements	<u>(270,283)</u>	<u>(235,702)</u>
Projected benefit obligation at the end of year	<u>4,100,797</u>	<u>3,793,846</u>
Change in plan assets:		
Fair value of plan asset at beginning of year	4,864,205	4,318,406
Actual contributions	225,000	390,000
Actual benefit disbursements	<u>(270,283)</u>	<u>(235,702)</u>
Actual return on plan assets	<u>561,320</u>	<u>391,601</u>
Fair value of plan assets at end of year	<u>5,380,242</u>	<u>4,864,205</u>
Funded status:		
Net pension asset	<u>\$ 1,279,445</u>	<u>\$ 1,070,359</u>
Key assumptions:		
Discount rate	7.50%	7.50%

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.

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 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.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

K. EMPLOYEE BENEFIT PLANS - Continued

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 \$225,000 to its pension plan in the year ended June 30, 2015.

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:

2015	\$ 258,884
2016	330,104
2017	283,598
2018	269,723
2019	432,525
2020 to 2024	1,439,739

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 consolidated statements of financial position as of June 30, 2014 and 2013 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.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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, 2014 and 2013 for the assets measured at fair value on a recurring basis under ASC 820 *Fair Value Measurements*:

June 30, 2014	Carrying Amount	ASC 825 Estimated Fair Value	Assets/Liabilities Measured at Fair Value	Fair Value Measurements Using		
				Level 1	Level 2	Level 3
Assets:						
Contributions receivable	\$ 2,538,792	\$ 2,538,792	\$ 2,538,792	\$ -	\$ 2,538,792	\$ -
Investments:						
Cash equivalents	1,481,214	1,481,214	1,481,214	1,481,214	-	-
Mutual funds	5,035,615	5,035,615	5,035,615	5,035,615	-	-
Common stocks	79,576,639	79,576,639	79,576,639	79,576,639	-	-
Bonds	33,860,179	33,860,179	33,860,179	-	33,860,179	-
Hedge funds	17,113,592	17,113,592	17,113,592	-	-	17,113,592
Other	4,284,441	4,284,441	4,284,441	4,284,441	-	-
Liabilities:						
Bonds payable	72,713,250	73,952,599	-	-	-	-
Note payable	13,168,943	11,793,757	-	-	-	-
Interest Rate Swap Agreement	3,752,434	3,752,434	3,752,434	-	3,752,434	-

June 30, 2014	Carrying Amount	ASC 825 Estimated Fair Value	Assets/Liabilities Measured at Fair Value	Fair Value Measurements Using		
				Level 1	Level 2	Level 3
Assets:						
Contributions receivable	\$ 4,130,329	\$ 4,130,329	\$ 4,130,329	\$ -	\$ 4,130,329	\$ -
Investments:						
Cash equivalents	883,294	883,294	883,294	883,294	-	-
Mutual funds	4,851,962	4,851,962	4,851,962	4,851,962	-	-
Common stocks	63,842,121	63,842,121	63,842,121	63,842,121	-	-
Bonds	37,362,997	37,362,997	37,362,997	-	37,362,997	-
Hedge funds	18,125,599	18,125,599	18,125,599	-	-	18,125,599
Other	4,124,772	4,124,772	4,124,772	4,124,772	-	-
Liabilities:						
Bonds payable	44,793,650	46,422,936	-	-	-	-
Note payable	12,605,893	12,654,214	-	-	-	-
Interest Rate Swap Agreement	3,917,274	3,917,274	3,917,274	-	3,917,274	-

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

M. FAIR VALUES OF FINANCIAL INSTRUMENTS - Continued

Changes in Level 3 assets for the year ended June 30, 2014 are as follows:

Balance as of June 30, 2014	\$ 18,125,599
Unrealized loss, net	<u>(1,012,007)</u>
Balance as of June 30, 2014	<u>\$17,113,592</u>

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, professional and patient receivables and other short-term receivables. The student loans receivable of \$14,200,044 and \$13,957,850 at June 30, 2014 and 2013, 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

Contribution receivable are recorded at net present value as discussed in Notes B and D, which approximates their fair value.

Investments

The fair value of investments, as disclosed in Note F has been calculated based on quoted market prices, where available, and certain other Level 3 inputs. The University's Level 3 assets are comprised primarily of hedge funds that invest in multi-faceted, domestic and international companies operating in various industries. Each hedge fund employs its own strategies in determining investment opportunities. The fair values of the investments in the category have been estimated using the net asset value per share of the investments.

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.

MEHARRY MEDICAL COLLEGE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 JUNE 30, 2014 AND 2013

M. FAIR VALUES OF FINANCIAL INSTRUMENTS - Continued

Bonds Payable and Notes Payable

The bonds and notes payable reflected in the consolidated financial statements bear interest at floating rates and fixed rates. The carrying value of these debt instruments 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.

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, 2014 and 2013, 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, 2014 and 2013, respectively. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not 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 2017. Rent expense under these lease arrangements amounted to \$981,956 and \$607,551 for the years ended June 30, 2014 and 2013, 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, 2014, are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$197,325
2016	200,539
2017	101,850
2018	69,200
2019	69,892
Thereafter	<u>286,628</u>
Total	<u>\$925,434</u>

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

N. COMMITMENTS AND CONTINGENT LIABILITIES - Continued

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 consolidated statements of financial position as accounts receivable at June 30, 2014 and 2013.

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, 2014 and 2013 includes demand deposits at high quality financial institutions. The deposits are exposed to 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.

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

P. ENDOWMENT - Continued

Changes in Endowment Net Assets

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<i>Endowment net assets,</i> July 1, 2012	\$ -	\$ 23,999,549	\$122,193,381	\$ 146,192,930
Investment return:				
Investment income	-	4,493,882	-	4,493,882
Net appreciation (realized and unrealized)	-	<u>7,620,293</u>	-	<u>7,620,293</u>
Total investment return	-	<u>12,114,175</u>	-	<u>12,114,175</u>
Contributions	-	-	<u>6,253,043</u>	<u>6,253,043</u>
Appropriation of endowment assets for expenditure	-	<u>(4,581,947)</u>	-	<u>(4,581,947)</u>
<i>Endowment net assets,</i> June 30, 2013	-	<u>31,531,777</u>	<u>128,446,424</u>	<u>159,978,201</u>
Investment return:				
Investment income	-	4,995,537	-	4,995,537
Net appreciation (realized and unrealized)	-	<u>9,449,425</u>	-	<u>9,449,425</u>
Total investment return	-	<u>14,444,962</u>	-	<u>14,444,962</u>
Contributions	-	-	<u>6,736,547</u>	<u>6,736,547</u>
Appropriation of endowment assets for expenditure	-	<u>(7,605,258)</u>	-	<u>(7,605,258)</u>
<i>Endowment net assets,</i> June 30, 2014	\$ -	<u>\$ 38,371,481</u>	<u>\$135,182,971</u>	<u>\$ 173,554,452</u>

MEHARRY MEDICAL COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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 up to 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 31, 2014, the issuance date of the College's consolidated financial statements, and has determined that there are no subsequent events that require disclosure.

OTHER INFORMATION

MEHARRY MEDICAL COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

Cluster\Federal Sponsor\Project Title	CFDA #	Flow-through Award Number	Flow-through Entity	Direct	Flow-through	Total
*RESEARCH AND DEVELOPMENT CLUSTER						
U.S. Department of Agriculture						
Children Eating Well	10.310	201168600130113	TSU	\$ -	\$ 144,348	\$ 144,348
Total U.S. Department of Agriculture				-	144,348	144,348
U.S. Army Medical Command						
Military Medical Research and Development	12.420			543,995	-	543,995
Multi Model Imaging	12.420	W81XWH-12-1-0245	VU	-	24,034	24,034
Total U.S. Army Medical Command				543,995	24,034	568,029
US Nuclear Regulatory Commission						
Educational and Research	77.007			27,902	-	27,902
Total US Nuclear Regulatory Commission				27,902	-	27,902
DEPARTMENT OF HEALTH AND HUMAN SERVICES (R&D CLUSTER):						
National Institute of Environmental Health Sciences						
Effects of Antioxidant Enzymes	93.113			(1,164)	-	(1,164)
Chemoprevention	93.113			(4,819)	-	(4,819)
Total National Institute of Environmental Health Sciences				(5,983)	-	(5,983)
National Institute of Dental Research						
Porphyromonas Gingivitis	93.121			109,988	-	109,988
Distribution Correlation	93.121			113,737	-	113,737
Total National Institute of Dental Research				223,725	-	223,725
National Institute of Drug Abuse						
Methamphetamine Research	93.279			166,729	-	166,729
Role of Nucleic Acid	93.279			(22,823)	-	(22,823)
Cocaine Induced	93.279			3,689	-	3,689
Cocaine Deregulation	93.279			63,863	-	63,863
Total National Institute of Drug Abuse				211,458	-	211,458
National Institute of Diabetes, Digestive and Kidney Diseases						
Diabetes Research	93.847	2P60DK20593	VU	-	122	122
Nitric Oxide Gas	93.847			6,190	-	6,190
HIV-1 Infection	93.847			41,637	-	41,637
Community Based Diabetes	93.847			202,463	-	202,463
Diabetes Translation	93.847	1P30DK092986	VU	-	233,718	233,718
Literacy Numeracy	93.847	5R18DK083264	VU	-	12,290	12,290
Differentiating Ulcerative Colitis	93.847			205,126	-	205,126
Total National Institute of Diabetes, Digestive and Kidney Diseases				455,416	246,130	701,546
National Institute for Occupational Health and Safety						
Occupational Medicine Residency Training Program	93.262			154,561	-	154,561
Total National Institute for Occupational Health and Safety				154,561	-	154,561
National Center for Research Resources						
RCMI	93.389			1,912,749	-	1,912,749
Clinical Research Education	93.389			11,620	-	11,620
Clinical and Translational Research	93.389	UL1RR024975	VU	-	790,897	790,897
Meharry Clinical and Translational Research Center (METRC)	93.389			3,669,964	-	3,669,964
Endowment Grant for Health Disparities	93.375			4,700,000	-	4,700,000
Total National Center for Research Resources				10,294,333	790,897	11,085,230
National Center on Minority Health and Health Disparities						
Endowment Grant for Health Disparities	93.375			10,000,000	-	10,000,000
Pathways in Prostate Cancer	93.307			296,953	-	296,953
Endowment Grant for Health Disparities	93.307			43,003,171	-	43,003,171
Meharry Export Center for Health Disparities	93.307			806,401	-	806,401
Bioethics	93.307			(22,151)	-	(22,151)
Neurovascular Unit	93.350	1UH2TR000491	VU	-	157,519	157,519
Total National Center on Minority Health				54,084,374	157,519	54,241,893

See accompanying notes to schedules of federal and state awards.

MEHARRY MEDICAL COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

Cluster\Federal Sponsor\Project Title	CFDA #	Flow-through Award Number	Flow-through Entity	Direct	Flow-through	Total
National Institute of General Medical Science						
Meharry Rise Initiative	93.859			1,083,368		1,083,368
Sterol 14	93.859	5R01GM067871	VU		39,083	39,083
Mitochondrial Protein	93.859			303,566	-	303,566
Initiation Patterns	93.859			69	-	69
Regulation of the Expression	93.859			75,049	-	75,049
Annexin A6	93.859			135,782	-	135,782
Characterization of a Small Molecule	93.859			247,592	-	247,592
Estrogen Neuron	93.859			251,846	-	251,846
Trypanosome in Pharmacology	93.859			28,160	-	28,160
Training in Pharmacology	93.859			70,205	-	70,205
Medical Scientist Program	93.859	5T32GM07347	VU		28,924	28,924
Defining the Effects of Bortezomib	93.859			313,803	-	313,803
Total National Institute of General Medical Science				2,509,440	68,007	2,577,447
National Cancer Institute						
Cancer Research Partnership	93.375			48,075	-	48,075
ARYL Hydrocarbon Receptor	93.393			330,569	-	330,569
Colon Cancer Exacerbation by Dietary Fat	93.393			108,797	-	108,797
Prostate Cancer Education	93.393			17,294	-	17,294
Southern Community Cohort Study	93.393	5R01CA92447	VU	-	148,330	148,330
Genetic and Endocrine	93.393	1R01CA121060	VU	-	2,560	2,560
WILMS Tumor	93.393	1R21CA155946	VU	-	5,462	5,462
Notch Ligands	93.394	1R01CA175370	OSU	-	21,857	21,857
Role of Fetuin A	93.396			44,770	-	44,770
Cancer Research Partnership	93.397			944,737	-	944,737
MMC & VICC Partnership	93.397			158,369	-	158,369
MMC Community Network	93.397			905,996	-	905,996
Johns Hopkins Reduce Cancer Disparities	93.397	5U54CA153710	JHU	-	7,867	7,867
Cancer Imaging	93.398	5R25CA092943	VU	-	8,530	8,530
Medical Student Summer Program	93.398			177,601	-	177,601
Training in Cellular and Molecular Imaging of Cancer	93.398	1R25CA136440	VU	-	56,585	56,585
Meharry Health Sciences Leadership Academy	93.398			180,822	-	180,822
Elucidating Binding Modes of BRCT	93.398			56,755	-	56,755
Cooperative Clinical Research Agreement	93.399			465,511	-	465,511
Telephone Linked Care	93.399	5R01CA120558	VU	-	4,769	4,769
Total National Cancer Institute				3,439,296	255,960	3,695,256
National Heart, Lung and Blood Institute						
Defective Isoforms	93.837			283,609	-	283,609
Human ApoE4 and Foam Cell Formation	93.837			172,078	-	172,078
Center of Cardiovascular Disease	93.837			352	-	352
VU Optimal Design of Challenge Response	93.837	5R01HL118392	VU	-	7,296	7,296
MIRT	93.839			217,101	-	217,101
Total National Heart, Lung and Blood Institute				673,140	7,296	680,436
National Institute of Neurological Disorders and Stroke						
SNRP	93.854			46,729	-	46,729
Control of Nociception	93.853			254,647	-	254,647
Total National Institute of Neurological Disorders and Stroke				301,376	-	301,376
National Institute of Allergy and Infectious Diseases						
Molecular Training Research Program	93.855			134,432	-	134,432
Mechanism of Biogenesis	93.855			9,826	-	9,826
Ovarian Cancer	93.855			252,700	-	252,700
Discovering Peptides	93.855			37,077	-	37,077
CFAR	93.856	3P30AI054999	VU	-	4,379	4,379
Total National Institute of Allergy and Infectious Diseases				434,035	4,379	438,414

See accompanying notes to schedules of federal and state awards.

**MEHARRY MEDICAL COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

Cluster/Federal Sponsor/Project Title	CFDA #	Flow-through Award Number	Flow-through Entity	Direct	Flow-through	Total
National Institute of Child Health and Human Development						
Estrogen Dependency	93.865			175,907	-	175,907
Total National Institute of Child Health and Human Development				175,907	-	175,907
American Recovery and Reinvestment Act (ARRA)						
ARRA Primary Residency	93.510			653,963	-	653,963
ARRA Funds	93.701			(180,261)	-	(180,261)
ARRA MMC and VICC	93.701	3U54CA091408	VU	-	171,742	171,742
Total American Recovery and Reinvestment Act (ARRA)				473,702	171,742	645,444
National Institute of Mental Health						
Treatment Addiction	93.242			48,886	-	48,886
Models of Risk for PTSD	93.242			144,955	-	144,955
Total National Institute of Mental Health				193,841	-	193,841
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES (R&D CLUSTER)				73,618,621	1,701,930	75,320,551
TOTAL RESEARCH AND DEVELOPMENT CLUSTER				74,190,518	1,870,312	76,060,830
<u>STUDENT FINANCIAL AID CLUSTER</u>						
Department of Education						
Federal Direct Student Loans	84.268			40,698,610	-	40,698,610
Federal Work-Study Program	84.033			300,664	-	300,664
Federal Perkins Loan Program	84.038			9,637,293	-	9,637,293
Total Department of Education				50,636,567	-	50,636,567
Health Resources and Services Administration						
Health Professions Student Loans	93.342			1,113,133	-	1,113,133
Loans for Disadvantaged Students	93.342			579,566	-	579,566
Primary Care Loans	93.342			2,411,318	-	2,411,318
Total Health Resources and Services Administration				4,104,017	-	4,104,017
TOTAL STUDENT FINANCIAL AID CLUSTER				54,740,584	-	54,740,584
<u>OTHER FEDERAL PROGRAMS</u>						
Department of Education						
Higher Education - Institutional Aid	84.031			6,830,911	-	6,830,911
Total Department of Education				6,830,911	-	6,830,911
Department of Transportation						
Child Passenger Safety Grant	20.602	OP-11-02	SOT	-	83,143	83,143
Child Passenger Safety Grant	20.602	OP-10-01	SOT	-	254,348	254,348
Total Department of Transportation				-	337,491	337,491
DEPARTMENT OF HEALTH AND HUMAN SERVICES:						
Health Resources and Services Administration						
Ryan White Title III Outpatient EIS	93.918			376,439	-	376,439
Intergrative Medicine	93.117			72,587	-	72,587
Preventative Medicine	93.117			274,820	-	274,820
LIFEPATH	93.249	6UB6HP20186	ETSU	-	2,128	2,128
Dental Students and GPR Residents	93.236	GR133563600	SOT	-	(13,132)	(13,132)
Total Health Resources and Services Administration				723,846	(11,004)	712,842
Health Care Financing Administration						
* Medical Assistance Program	93.778	GR-10-29630-0	SOT	-	3,807,200	3,807,200
Total Health Care Financing Administration				-	3,807,200	3,807,200
Substance Abuse and Mental Health Services Administration						
Alcohol and Drug	93.959	GR1132916	SOT	-	1,402,431	1,402,431
Sisters and Rainbow	93.959	GR1132902	SOT	-	539,992	539,992
Aids Outreach	93.959	GR1133050	SOT	-	167,436	167,436
Adolescent Day Treatment	93.959	GR1133049	SOT	-	139,247	139,247
Total Substance Abuse and Mental Health Services Administration				-	2,249,106	2,249,106
Maternal and Child Health Services Block Grant						
Mid Tennessee Sickle Cell Network	93.110	1U38MC2220	VU	-	8,234	8,234
Sickle Cell	93.994	GR1133114	SOT	-	247,800	247,800
Rural Leadership Education	93.110	T73MC00050	VU	-	8,330	8,330
Total Maternal and Child Health Services Block Grant				-	264,364	264,364

See accompanying notes to schedules of federal and state awards.

**MEHARRY MEDICAL COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

Cluster\Federal Sponsor\Project Title	CFDA #	Flow-through Award Number	Flow-through Entity	Direct	Flow-through	Total
Centers for Disease Control						
Southeast Fetal Alcohol	93.073			540,165	-	540,165
Capacity Building Assistance	93.939			279,227	-	279,227
Eat Well Play More	93.991	GR1335416100	SOT	-	16,269	16,269
Total Center for Disease Control				819,392	16,269	835,661
Office of Minority Health						
Cooperative Agreement	93.004			1,981	-	1,981
Meharry Youth Wellness Center	93.004			-	130,289	130,289
Total Office of Minority Health				1,981	130,289	132,270
Bureau of Health Professions						
* Centers of Excellence	93.157			7,416,245	-	7,416,245
Residency Trainin in Primary Care	93.884			182,977	-	182,977
Academic Administrative Unit	93.884			(1,704)	-	(1,704)
Predoctoral Training	93.884			267,100	-	267,100
Faculty Development in Primary Care	93.884			175,689	-	175,689
Training in Primary Care Medicine I	93.884			319,073	-	319,073
Health Careers Opportunity Program	93.822			637,049	-	637,049
Area Health Education Centers	93.107			251,979	-	251,979
Training Health Professionals in Geriatrics	93.969			420,117	-	420,117
Total Bureau of Health Professions				9,668,525	-	9,668,525
Substance Abuse and Mental Health Services Administration						
Mental Health Mini Grant	93.243	TI-D20447	Morehouse	-	2,067	2,067
Treatment Access Homeless	93.243			331,905	-	331,905
SBIRT-TN	93.243	GR1237916	SOT	-	56,721	56,721
SBIRT-TN	93.243	34238	SOT	-	226,798	226,798
Total Substance Abuse and Mental Health Services Administration				331,905	285,586	617,491
Centers for Medicare and Medicaid						
Improving Diabetes Management	93.779			70,893	-	70,893
Rapid Weight Gain	93.779			66,360	-	66,360
Total National Institute of General Medical Science				137,253	-	137,253
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES				11,682,902	6,741,810	18,424,712
TOTAL FEDERAL AWARD EXPENDITURES				\$ 147,444,915	\$ 8,949,613	\$ 156,394,528

* - Denotes Major Program

Flow-Through Entity Legend:

TSU -- Tennessee State University
 JHU -- Johns Hopkins University
 VU -- Vanderbilt University
 Drew -- Drew University
 GWU -- Geroge Washington University
 UT-H -- University of Texas at Houston
 SOT -- State of Tennessee
 ETSU -- East Tennessee State University
 Morehouse -- Morehouse College

See accompanying notes to schedules of federal and state awards.

**MEHARRY MEDICAL COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

CFDA Number	Description	Expenditures
10.310	Children Eating Well	\$ 144,348
12.420	Military Medical Research and Development	568,029
20.602	Child Passenger Safety Grant	337,491
77.007	Educational and Research	27,902
84.031	Higher Education - Institutional Aid	6,830,911
84.033	Federal Work-Study Program	300,664
84.038	Federal Perkins Loan Program	9,637,293
84.268	Federal Direct Student Loans	40,698,610
93.004	Cooperative Agreement	132,270
93.073	Southeast Fetal Alcohol	540,165
93.107	Area Health Education Centers	251,979
93.110	Mid Tennessee Sickle Cell Network	16,564
93.113	Effects of Antioxidant Enzymes	(5,983)
93.117	Intergrative Medicine	347,407
93.121	Porphyromonas Gingivitis	223,725
93.157	Centers of Excellence	7,416,245
93.236	Dental Students and GPR Residents	(13,132)
93.242	Treatment Addiction	193,841
93.243	Mental Health Mini Grant	617,491
93.249	LIFEPATH	2,128
93.262	Occupational Medicine Residency Training Program	154,561
93.279	Methamphetamine Research	211,458
93.307	Pathways in Prostate Cancer	44,084,374
93.342	Primary Care Loans	4,104,017
93.350	Neurovascular Unit	157,519
93.375	Cancer Research Partnership	14,748,075
93.389	Clinical Research Education	6,385,230
93.393	ARYL Hdrocarbon Receptor	613,012
93.394	Notch Ligands	21,857
93.396	Role of Fetuin A	44,770
93.397	Cancer Research Partnership	2,016,969
93.398	Cancer Imaging	480,293
93.399	Cooperative Clinical Research Agreement	470,280
93.510	ARRA Primary Residency	653,963
93.701	ARRA Funds	(8,519)
93.778	Medical Assistance Program	3,807,200
93.779	Improving Diabetes Management	137,253
93.822	Health Careers Opportunity Program	637,049
93.837	Defective Isoforms	463,335
93.839	MIRT	217,101
93.847	Diabetes Research	701,546
93.853	Control of Nociception	254,647
93.854	SNRP	46,729
93.855	Molecular Training Research Program	434,035
93.856	CFAR	4,379
93.859	Meharry Rise Initiative	2,577,447
93.865	Estrogen Dependency	175,907
93.879	Building New Community Based Libraries	-
93.884	Residency Trainin in Primary Care	943,135
93.918	Ryan White Title III Outpatient EIS	376,439
93.939	Capacity Building Assistance	279,227
93.959	Sisters and Rainbow	2,249,106
93.969	Training Health Professionals in Geriatrics	420,117
93.991	Eat Well Play More	16,269
93.994	Sickle Cell	247,800
		<u>156,394,528</u>

See accompanying notes to schedules of federal and state awards.

MEHARRY MEDICAL COLLEGE
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED JUNE 30, 2014

CFDA #	Program Name	State Grant Number	State Granting Agency	Balance July 1, 2013	Cash Receipts	Expenditures	Other Deductions	Balance June 30, 2014
*	93.959 Adult Continuum	39006	Mental Health	\$ -	\$ (1,402,431)	\$ 1,402,431	\$ -	\$ -
*	93.959 Women's Services	39060	Mental Health	-	(539,992)	539,992	-	-
*	93.959 Aids Outreach	38223	Mental Health	-	(167,436)	167,436	-	-
*	93.959 Adolescent Day care	38652	Mental Health	-	(139,247)	139,247	-	-
**	93.243 SBRIT TN	39316	Mental Health	-	(151,352)	226,798	-	75,446
**	93.243 SBRIT TN	34238	Mental Health	25,353	(100,171)	56,721	18,097	-
***	93.778 Graduate Medical Education	GR1029630	Bureau of TennCare	-	(3,807,200)	3,807,200	-	-
****	93.994 Sickle Cell	GR14338209	TDH	-	(334,871)	364,315	-	29,444
****	93.994 Sickle Cell	GR1338982	TDH	23,762	(28,818)	-	5,056	-
	N/A HIV Aids Center of Excellence	GR1441073	TDH	-	(11,367)	17,943	-	6,576
	N/A HIV Aids Center of Excellence	GR1335783	TDH	17,840	(72,870)	54,799	231	-
	N/A HIV Aids Center of Excellence	GR1238076	TDH	4,767	(14,808)	515	9,526	-
*****	93.991 Eat Well, Play More	GR133541600	TDH	1,870	(18,139)	16,269	-	-
*****	93.236 Dental Students and GPR Residents	GR133563600	TDH	-	(65,291)	(13,132)	-	(78,423)
	N/A Preventive Medicine	38947	THEC	-	(170,400)	170,400	-	-
	N/A Family Medicine	38945	THEC	-	(252,000)	252,000	-	-
*****	20.602 Child Passenger Safety Grant	Z14GHS228/ 37413	TDOT	-	(47,181)	254,348	-	207,167
*****	20.602 Child Passenger Safety Grant	Z13GHS206	TDOT	55,715	(138,708)	83,143	(150)	-
Total State of Tennessee				\$ 129,307	\$ (7,462,282)	\$ 7,540,425	\$ 32,760	\$ 240,210

- * Includes federal expenditures of \$2,249,106 reported as State pass-through on the schedule of expenditures of federal awards.
- ** Includes federal expenditures of \$283,519 reported as State pass through on the schedule of expenditures of federal awards.
- *** Includes federal expenditures of \$3,807,200 reported as State pass-through on the schedule of expenditures of federal awards.
- **** Includes federal expenditures of \$247,800 reported as State pass through on the schedule of expenditures of federal awards.
- ***** Includes federal expenditures of \$16,269 reported as state pass-through on the schedule of expenditures of federal awards.
- ***** Includes federal expenditures of \$(13,132) reported as State pass through on the schedule of expenditures of federal awards.
- ***** Includes federal expenditures of \$ 337,491 reported as State pass through on the schedule of expenditures of federal awards.

See accompanying notes to schedules of federal and state awards.

MEHARRY MEDICAL COLLEGE
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED JUNE 30, 2014

A. BASIS OF PRESENTATION

The schedule of expenditures of federal awards includes the federal grant activity of Meharry Medical College, and is presented in accordance with accounting principles generally accepted in the United State of America, which is the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

The accompanying Schedules of Expenditures of Federal and State Awards (the Schedules) summarize the expenditures and disbursements of Meharry Medical College (the College) under programs of the federal and state governments for the year ended June 30, 2014. Because the Schedules present only a selected portion of the operations of the College, they are not intended to and do not present the financial position, changes in net assets or cash flows of the College.

For the purposes of the Schedules, federal awards include all grants, contracts, and similar agreements entered into directly between the College and agencies or departments of the federal government and all sub awards to the College by non-federal organizations pursuant to federal grants, contracts, and similar agreements. The awards are classified into major program and nonmajor program categories in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Federally guaranteed loans are issued to students of the College by various financial institutions. These loans are considered for purposes of determining whether federal student financial aid is a type A program; however, only current year disbursements under these loan programs are included in the Schedule of Expenditures of Federal Awards.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR FEDERAL EXPENDITURES

General

For purposes of the Schedules, expenditures for federal and state programs are recognized on the accrual basis of accounting.

Expenditures for federal student financial aid programs are recognized as incurred and include Federal Work-Study program earnings, certain other federal financial assistance grants for students and administrative cost allowances, where applicable.

Expenditures for other federal and state awards of the College are determined using the cost accounting principles and procedures set forth in OMB Circular A-21, *Cost Principles for Educational Institutions*. Under these cost principles, certain types of expenditures are not allowable or are limited as to reimbursement.

MEHARRY MEDICAL COLLEGE
 NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 YEAR ENDED JUNE 30, 2014

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR FEDERAL EXPENDITURES - Continued

Expenditures for non-financial aid awards include indirect costs. Indirect costs allocated to applicable awards for the year ended June 30, 2014, were based on predetermined fixed rates negotiated with the College's cognizant federal agency, the Department of Health and Human Services and with the State of Tennessee. Indirect costs and recoveries of those costs under sponsored programs are classified as unrestricted expenditures and revenues, respectively, in the College's consolidated financial statements.

C. FEDERAL LOAN PROGRAMS

The College administers certain federal loan programs. These loan programs are part of the student financial aid program cluster for reporting purposes and related loan balances are reported in student loans receivable, net, in the consolidated financial statements. Total loan disbursements from the Department of Education and the Department of Health and Human Services for student financial assistance programs for the fiscal year ended June 30, 2014, are identified below:

	<u>CFDA</u> <u>Number</u>	<u>Disbursements</u>	<u>Outstanding</u> <u>Balance</u>
Federal Perkins Loans	84.038	\$1,967,241	\$9,637,293
Primary Care Loans	93.342	47,802	2,411,318
Health Professions Student Loans	93.342	107,541	1,113,133
Loans for Disadvantaged Students	93.342	20,000	579,566

D. FEDERAL DIRECT STUDENT LOANS

The College is responsible only for the performance of certain administrative duties with respect to federal direct student loans and accordingly, these loans are not included in the consolidated financial statements. The loans processed are included in the Schedule of Expenditures of Federal Awards as part of the student financial aid cluster. During the fiscal year ending June 30, 2014, the College processed the following amount of new loans under the Federal Direct Student Loan program:

	<u>CFDA</u> <u>Number</u>	<u>Disbursements</u>
Federal Direct Student Loans	84.268	<u>\$40,698,610</u>



Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

The Board of Trustees
Meharry Medical College
Nashville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Meharry Medical College and Subsidiary (the "College"), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crosslin & Associates, P.C.

Nashville, Tennessee
October 31, 2014



Independent Auditor's Report on Compliance For Each Major
Program and on Internal Control Over Compliance
Required by OMB Circular A-133

The Board of Trustees
Meharry Medical College
Nashville, Tennessee

Report on Compliance for Each Major Federal Program

We have audited Meharry Medical College and Subsidiary's (the "College") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2014. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the College's compliance.



Opinion on Each Major Federal Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Crosslin & Associates, P.C.

Nashville, Tennessee

October 31, 2014

MEHARRY MEDICAL COLLEGE
 SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2014

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? ___ Yes X No
- Significant deficiencies identified? ___ Yes X None Reported

Noncompliance material to financial statements noted? ___ Yes X No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? ___ Yes X No
- Significant deficiencies identified? ___ Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? ___ Yes X No

Major Programs

CFDA Number	Grantor	Program	Award
Various	Various	R&D Cluster	\$76,060,830
93.157	Department of Health and Human Services	Centers of Excellence	\$7,416,245
93.778	Department of Health and Human Services	Medical Assistance Program	\$3,807,200

Dollar threshold used to distinguish between type A and type B programs \$3,000,000

Auditee qualified as low-risk auditee X Yes ___ No

MEHARRY MEDICAL COLLEGE
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS - Continued
YEAR ENDED JUNE 30, 2014

II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT
AS REQUIRED TO BE REPORTED IN ACCORDANCE WITH
GENERALLY ACCEPTED *GOVERNMENT AUDITING STANDARDS*

- | | |
|---|---------------|
| A. Material Weakness in Internal Control: | None Reported |
| B. Compliance Findings: | None Reported |

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None Reported