

# **The Medical University of South Carolina**

**Charleston, South Carolina**



**Comprehensive Annual Financial Report  
June 30, 2002**

**Included in the Higher Education Funds of the State of South Carolina**

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Prepared by the Financial Reporting Department for the  
Vice President for Finance and Administration

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# **Introductory Section**

**President's Letter**

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**Certificate of Achievement  
for Excellence in  
Financial Reporting, 2001**

**Board of Trustees and  
Principal Officials**

**Organization Charts**



Office of the President  
171 Ashley Avenue  
P.O. Box 250001  
Charleston, SC 29425



Dear MUSC Family and Friends:

It is a great pleasure to provide you with an annual update on progress at the Medical University. More than anything else, this year will be remembered as a time of new leadership. Dr. Jerry Reves arrived from Duke University to assume responsibilities as the dean of the College of Medicine. Back at his alma mater, Dean Reves moved quickly to fill a number of vacancies in key positions. The new recruits included Dr. John Waller from Emory University as the new chair of Anesthesiology and Perioperative Medicine. Also arriving from Emory University was Dr. Tom Keane, the new chair of Urology.

In addition, Dr. John Oldham was recruited from Columbia University to chair the Department of Psychiatry and Behavioral Medicine. Dr. John Feussner was recruited from the Veteran's Administration national headquarters to chair the Department of Medicine. Also, Mr. Bruce Quinlan, formerly of Duke University, was recruited as the chief executive officer of the faculty practice plan.

Elsewhere on campus, Dr. Gail Stuart of our faculty was appointed as the new dean of the College of Nursing. In the central administration, Mr. Patrick Wamsley was hired into the newly created position of chief financial officer and Mr. Stewart Mixon was hired as our first chief operations officer.

As these new leaders join the Medical University family, we are working together with renewed vigor and enthusiasm. The success of these efforts is evident in the positive financial performance of all components of the Medical University. We again set a record for the largest amount of external research funding received by a university in South Carolina. We also broke the previous mark for private fundraising at the Medical University, raising \$30 million in gifts and pledges – a full 20% greater than the prior year.

The Medical University was recognized by the Association of American Medical Colleges as having the best outreach program of any medical school in the United States. Moreover, we were the first university in South Carolina to be rated as substantially exceeding the state performance funding benchmarks.

As we look to the future, we have undertaken a campus-wide strategic planning process. Also, we are completing a thorough planning process for the future of our clinical facilities. With the strong momentum of progress in the past few years, we are looking forward to even greater accomplishments ahead. As always, we are grateful for the support and encouragement of our many friends throughout South Carolina who have helped to make this possible.

With warmest regards,

A handwritten signature in black ink that reads "Raymond S. Greenberg". The signature is written in a cursive, flowing style.

Raymond S. Greenberg, MD, Ph.D.  
President

## Transmittal Letter

Office of the Vice President for  
Finance and Administration  
171 Ashley Avenue  
P.O. Box 250003  
Charleston, SC 29425  
telephone (843) 792-5050

November 25, 2002

President Raymond Greenberg, MD, Ph.D.  
Members of the Board of Trustees of The Medical University of South Carolina  
Charleston, South Carolina

We are pleased to present the Comprehensive Annual Financial Report for The Medical University of South Carolina (the University) for the fiscal year ended June 30, 2002.

This report includes the audited financial statements for the year ended June 30, 2002, and other information relating to the finances of the University. Management has established a comprehensive internal control framework designed to: a) protect the University's assets from loss, theft or misuse, b) to provide sufficient reliable information for the preparation of the University's financial statements in conformity with generally accepted accounting principles in the United States of America (GAAP) and c) to provide reasonable assurance that the financial statements will be free from material misstatement. Management assumes responsibility for the completeness and reliability of the information presented in this report. To the best of our knowledge, we assert that this financial report is complete and reliable in all material respects.

KPMG LLP, a firm of licensed certified public accountants, has audited the Medical University of South Carolina's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the University for the fiscal year ended June 30, 2002 are free of material misstatement. Based on the audit, the independent auditor has rendered an unqualified opinion that the Medical University of South Carolina's financial statements for the year ended June 30, 2002 are fairly presented in conformity with generally accepted accounting principals (GAAP). The independent auditor's report is presented as the first component of the financial section of this report.

Generally accepted accounting principals require that management provide a narrative overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This transmittal letter is designed to complement the MD&A and should be read in conjunction with it. The Medical University of South Carolina's MD&A immediately follows the independent auditors' report in the financial section.

The Comprehensive Annual Financial Report is presented in three sections:

- The Introductory Section consists of the President's message, the transmittal letter, the Certificate of Achievement for Excellence in Financial Reporting awarded for the year ended June 30, 2001, listings of the Board of Trustees and principal University officials, and an organization chart. This section is intended to provide the reader with an overview of the University.
- The Financial Section presents the report of the independent auditors, Management's Discussion and Analysis and the basic financial statements of the University.
- The Statistical Section includes selected financial, non-financial, and demographic information generally presented on a multi-year basis. This section is intended to present a broad overview of trends in the financial activities of the University.

### **Profile of the Government**

The Medical University of South Carolina is a part of the primary government of the State of South Carolina and is included as a business-type activity in the State's Comprehensive Annual Financial Report. In addition to the financial audit, the University is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 and the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. The single audit is designed to meet the needs of federal grantor agencies and requires the auditor to report on internal controls and compliance, particularly as they relate to the administration of federal awards. Information related to this single audit is included in a separately issued single audit report.

The Medical University of South Carolina, located in Charleston, South Carolina, was created by an act of the General Assembly in 1824 as the "Medical College of South Carolina". Historically, it is recognized as the first medical college in the South. The University is governed by a fourteen-member Board of Trustees consisting of the Governor or his designee (ex officio), twelve members elected by the General Assembly, and one member appointed by the Governor. As determined by the Board, the University's

purpose is to preserve and optimize human life for the citizens of South Carolina and the nation through education of health care professionals and biomedical scientists, research in the health sciences, and provision of comprehensive health care.

The financial reporting entity consists of the primary government, The Medical University of South Carolina, and the University's four component units: The Medical University Hospital Authority (the Authority), University Medical Associates of The Medical University of South Carolina (UMA), Medical University Facilities Corporation (MUFC), and the Pharmaceutical Education and Development Foundation of The Medical University of South Carolina (PEDF). The Health Sciences Foundation (HSF) and the MUSC Foundation for Research Development are considered related parties rather than component units. Further information on the reporting entity is contained in Note 1 in the notes to the financial statements.

### **Factors Affecting Financial Condition**

The University has a relatively small, stable number of students, with enrollment for the fiscal year 2002 fall semester totaling 2,297 students. The University employs approximately 4,200 employees and, when viewed in conjunction with the Medical University Hospital Authority, the University is one of the largest employers in the State system and the largest employer in the Charleston tri-county area.

### **The Economy**

The environment in which the University operates is influenced by economic factors on both the national and local levels. South Carolina, in common with most states, has been negatively impacted by the continuing nationwide economic recession, experiencing revenue shortfalls for the second consecutive year. Although the state's Appropriation Act spared higher education the severe budget reductions imposed on other state agencies, permanent mid-year budget cuts became necessary during fiscal year 2002, reducing the University's annual appropriation by an additional 6.2%. With foresight and planning, the University held down spending sufficiently to be able to absorb the cuts with no negative impact on the major programs. Continuing revenue shortfalls for South Carolina for fiscal year 2003 are a concern with the strong potential for additional budget cuts for higher education.

However, there are encouraging economic initiatives that promise future benefits, including the following:

- Fiscal year 2002 saw the launching of the South Carolina Education Lottery, the revenues of which are pledged to support education in the state, including \$30 million identified to fund endowed chairs at the state universities.
- The University successfully renegotiated its federal facilities and administrative cost recovery rate with a three-percent increase.
- The University set a new annual record for research funding of \$135 million, the largest amount achieved by a university in South Carolina.
- Despite the slowing economy, private giving at the University reached a record \$30 million.

### **Long-term Planning**

The University's goals for the next year include setting a new record of \$140 million in extramurally funded research, recruiting a director for and formalizing the Center for Marine Biomedicine and Experimental Sciences and increasing collaboration with other South Carolina research universities. The University is actively engaged in providing the needed infrastructure to support this continued growth of research activity. In the current year, construction of the Hollings Marine Laboratory was completed, and construction began on the new Children's Research Institute and the expansion of the Hollings Cancer Center. The new construction will increase laboratory research space by nearly 120,000 square feet. Initial steps have been taken to create a pool of facilities and administrative cost recovery funds to be dedicated to the support of facilities and to create a mechanism through which these cost recovery funds will be used to support research centers.

### **Cash Management**

State law requires that all University cash is on deposit with the State Treasurer except petty cash funds approved by the State Auditor and certain trust funds associated with debt instruments (i.e., Certificates of Participation). The State Treasurer performs all cash management activities for balances on deposit in state bank accounts and invests surplus cash balances. State law requires full collateralization of all State Treasurer bank balances. Additional information on cash deposits and investments is provided in the notes to the financial statements.

### **Risk Management**

The University and its component units pay insurance premiums to certain other state agencies and/or commercial insurers to cover risks that may occur in normal operations. Several state funds accumulate assets and the State itself assumes substantially all risks for certain claims. The University pays premiums to the State Insurance Reserve Fund and to commercial insurers to cover the University's risk of loss as described in more detail in the notes to the financial statements.

## Accomplishments

Among the many accomplishments of the faculty and staff of the University during this fiscal year, are the following:

- Recognized by the Association of American Medical Colleges as having the best community outreach program of any medical school in the country.
- First higher education institution in South Carolina to receive a rating of "Substantially Exceeds" from the SC Commission of Higher Education on performance funding benchmarks.
- A \$12 million Center of Biomedical Research Excellence Award received by Dr. Roger Markwald and his colleagues.
- A \$6 million award from the Defense Advanced Research Projects Agency for Human Performance Enhancement received by Dr. Mark George and his colleagues.
- A \$3.1 million prestigious Jacob Javits Investigator Award from the National Institutes of Neurological Diseases received by Dr. Inderjit Singh.
- The Digestive Disease Center was ranked 14th nationally by US News and World Report.

The accomplishments of The Medical University Hospital Authority play an integral part in the overall success of the University. The Authority completed fiscal year 2002 with an increase in net assets of \$10.1 million compared to \$9.0 million at the end of fiscal year 2001. Patient activity continues to grow at record levels with over 29,000 admissions and 600,000 outpatient visits. Effective July 1, 2001, the Authority purchased Charleston Memorial Hospital (CMH) from Charleston County, SC. Previously, CMH had been managed by MUSC and the Authority since 1988.

The Authority and its medical staff have also been recognized in the following areas:

- The Authority received the Outstanding Community Service Award by the Association of American Medical Colleges.
- The National Research Corporation awarded the Authority the Consumer Choice Award for overall quality and image among hospitals in the primary care service area for the fourth consecutive year.
- Child magazine's 2001 survey ranked The Medical University Hospital Authority's Children's Hospital among the top 10 in the nation of Best Pediatric Hospitals in America.
- In January 2002, HCIA-Sachs, a health care information company, named the Authority as one of the 100 top hospitals in the US for the treatment of stroke victims.
- The Authority ranked 17th among the nation's 270 transplant centers for volume of solid organ transplants and successfully performed its first living donor transplant.

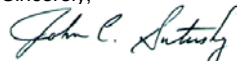
## Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Medical University of South Carolina for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2001. This was the ninth consecutive year The Medical University of South Carolina has achieved this prestigious award (fiscal years ended 1993 through 2001). In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

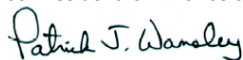
This CAFR was produced through the dedicated efforts of the staff of the Finance and Administration Division and the financial management staffs of the University's component units and related parties. In addition, we would like to thank KPMG LLC, the University's independent auditors, for their assistance and the State Auditor's Office and the State Comptroller General's Office for their guidance.

Sincerely,



John C. Sutusky

Vice President for Finance and Administration



Patrick Wamsley

Chief Financial Officer



Susan B. Haskill

Director, Financial Management

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## The Medical University of South Carolina

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2001

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Thomas A. Crave*  
President

*Jeffrey L. Esser*  
Executive Director

**Board of Trustees and  
Principal University Officials**

***July 1, 2001 - June 30, 2002***

***Board of Trustees***

The Hon. James H. Hodges  
*Governor*

E. Conyers O'Bryan, Jr., M.D.  
*Chairman*  
*Florence, SC*

Charles B. Thomas, Jr., M.D.  
*Vice Chairman*  
*Greenville, SC*

Margaret M. Addison, M.Ed.  
*Holly Hill, SC*

Stanley C. Baker, Jr., M.D.  
*Greenwood, SC*

Melvyn Berlinsky  
*Charleston, SC*

The Hon. Harry A. Chapman, Jr., B.A., L.L.B. <sup>(b)</sup>  
*Greenville, SC*

Dennis L. Dabney, B.S., CPA, CUA <sup>(a)</sup>  
*Columbia, SC*

Cotesworth P. Fishburne, Jr., D.D.S.  
*Rock Hill, SC*

Donald R. Johnson, II, M.D.  
*Charleston, SC*

The Hon. Robert C. Lake, Jr., L.L.B.  
*Newberry, SC*

William H. Bingham, Sr.  
*Columbia, SC*

Charles W. Schulze, CPA  
*Greenwood, SC*

Thomas C. Rowland, Jr., M.D.  
*Columbia, SC*

Thomas L. Stephenson, B.S., J.D.  
*Greenville, SC*

Charles B. Hanna, M.D.  
*Emeritus*  
*Spartanburg, SC*

Harrison L. Peeples, M.D.  
*Emeritus*  
*Scotia, SC*

The Hon. Phillip D. Sasser, J.D.  
*Emeritus*  
*Conway, SC*

The Hon. J. Verne Smith  
*Emeritus*  
*Greer, SC*

Claudia W. Peeples, B.A.  
*Emeritus*  
*Barnwell, SC*

Hugh B. Faulkner, III, B.A.  
*Secretary*  
*Columbia, SC*

*(a) Governor's designee*

*(b) Governor's appointee*

***Officers of The Medical University of South Carolina***

Raymond S. Greenberg, M.D., Ph.D.  
*President*

Rosalie K. Crouch, Ph.D.  
*Vice President*  
*Academic Affairs and Provost*

John C. Sutusky, Ph.D.  
*Vice President*  
*Finance and Administration*

Joseph G. Reves, M.D.  
*Vice President*  
*Medical Affairs*

W. Stuart Smith, M.B.A., M.H.A.  
*Vice President*  
*Operations and Executive Director*  
*MUSC Medical Center*

William J. Fisher, B.S.  
*Vice President*  
*Development*

***Deans***

Joseph G. Reves, M.D.  
*College of Medicine*

John F. Cormier, Pharm.D.  
*College of Pharmacy*

Jean D. Leuner PhD, RN  
*Interim, College of Nursing*

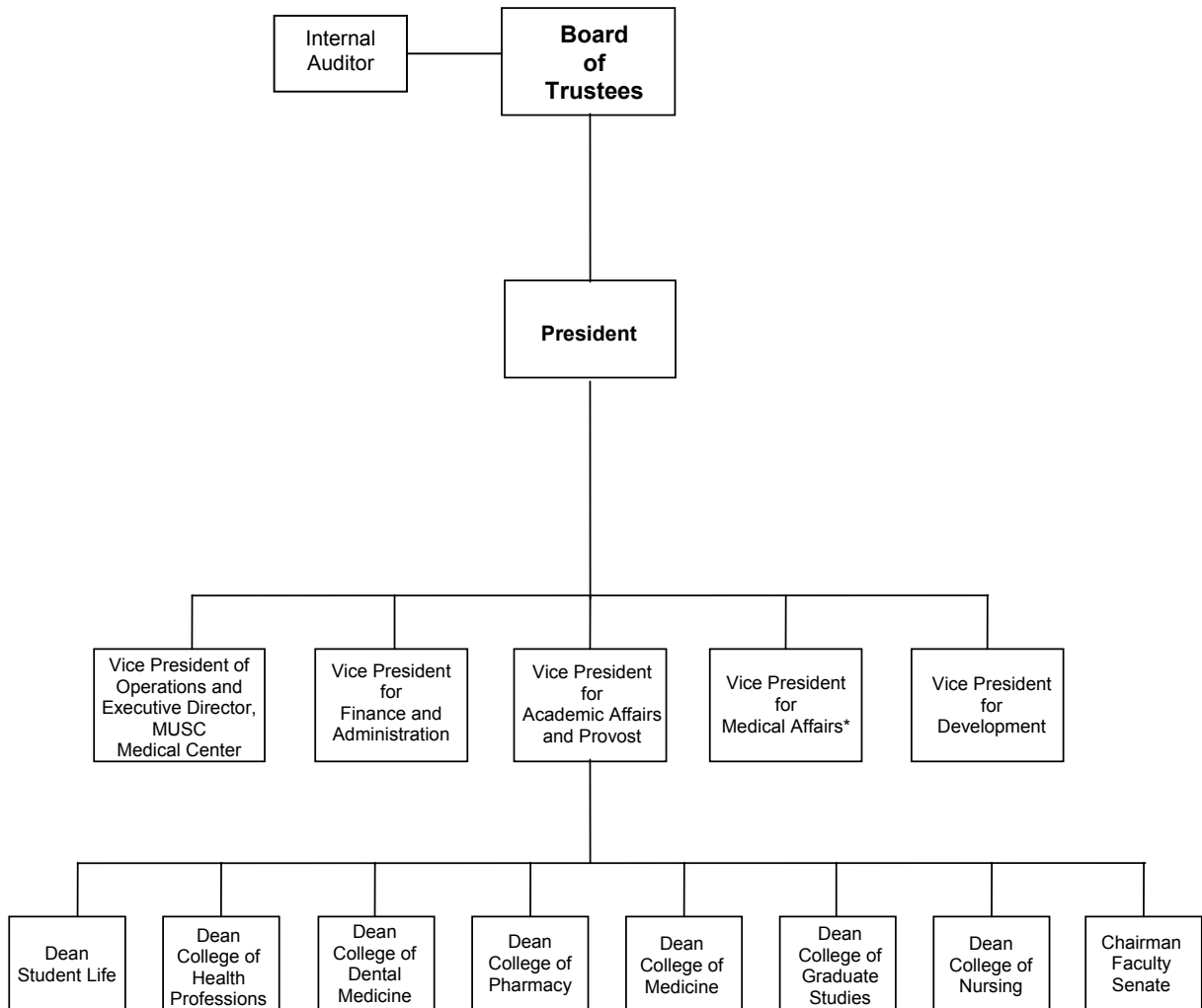
Perry V. Halushka, M.D., Ph.D.  
*College of Graduate Studies*

Richard W. DeChamplain, D.M.D.  
*College of Dental Medicine*

Danielle Ripich, Ph.D.  
*College of Health Professions*

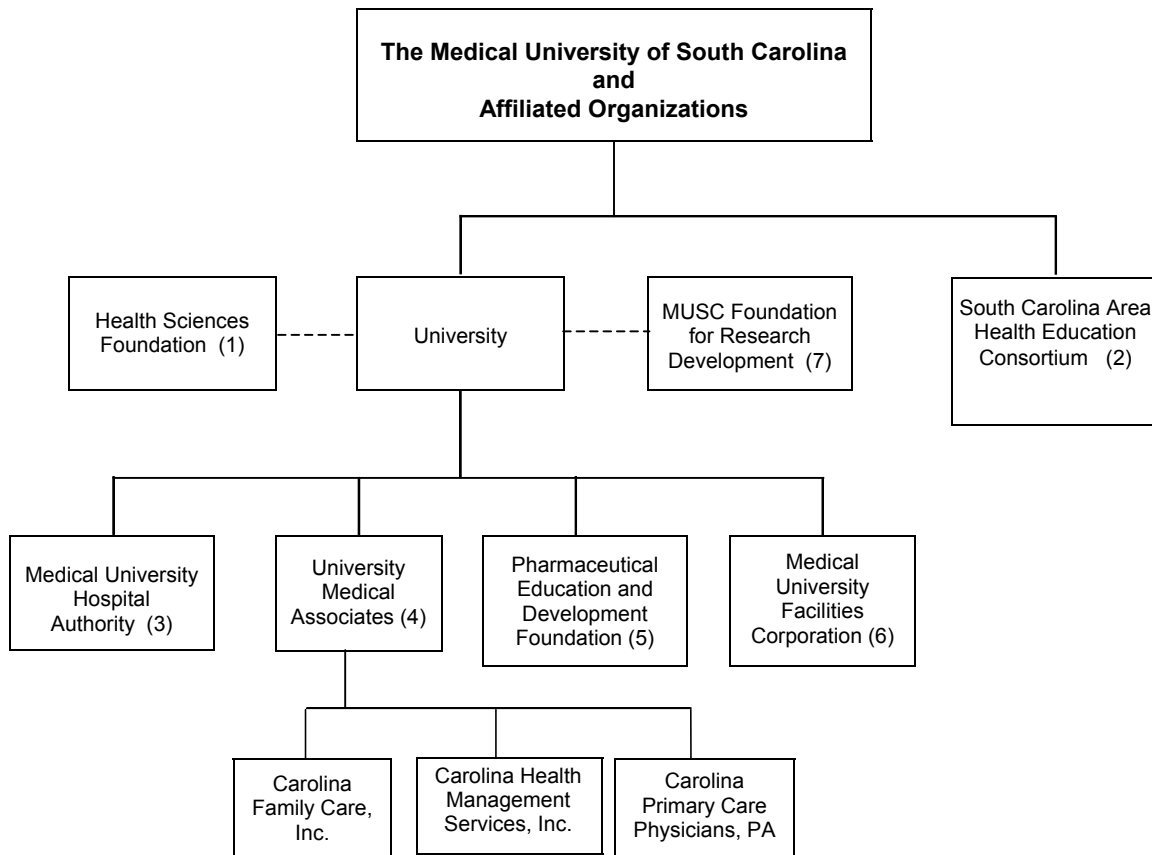
Gilbert Bradham, M.D.  
*Student Life*

Organization Chart



\* This Vice President also serves as Dean of the College of Medicine.

**The Medical University and  
Affiliated Organizations Chart**



**Notes:**

- (1) *The Health Sciences Foundation (HSF) is a non-profit corporation established in 1966 as an educational, charitable, eleemosynary foundation. The HSF is classified as a related party to the University.*
- (2) *South Carolina Area Health Education Consortium (AHEC) is a consortium of teaching hospitals, universities, and other participating hospital consortia. AHEC was established in 1972 to help with education, recruitment and retention of physicians in South Carolina, especially in rural underserved areas.*
- (3) *The Medical University Hospital Authority (MUHA) was formed in June, 2000, to manage and operate the hospitals and clinics of the University.*
- (4) *University Medical Associates (UMA) is a non-profit corporation established to promote and support the educational, medical, scientific, and research purposes of the University.*
- (5) *The Pharmaceutical Education and Development Foundation of The Medical University of South Carolina (PEDF) is a non-profit corporation established to provide pharmaceutical students with practical education and experience in the field of industrial pharmaceuticals.*
- (6) *Medical University Facilities Corporation (MUFCC) is a non-profit corporation established in fiscal year 1991-92 to obtain financing for the University to acquire real property.*
- (7) *The MUSC Foundation for Research Development (MFRD) is a non-profit corporation established in 1995 to manage the University's intellectual property and technology marketing and to foster cooperation between the University and business and industry. The MFRD is classified as a related party to the University and its financial statement summary is included in the notes to the University's financial statements.*

# **Financial Section**

**State Auditor's Letter**

**Independent Auditor's Report**

**Management's Discussion and  
Analysis**

**Basic Financial Statements**

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

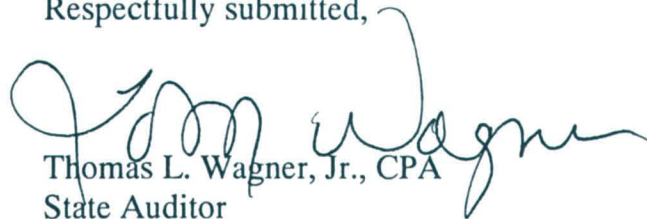
November 22, 2002

The Honorable Jim Hodges, Governor  
and  
Members of the Board of Trustees  
The Medical University of South Carolina  
Charleston, South Carolina

This report on the audit of the financial statements of The Medical University of South Carolina for the fiscal year ended June 30, 2002, was issued by KPMG, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,



Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/trb

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Suite 900  
55 Beattie Place  
Greenville, SC 29601-2106

## Independent Auditor's Report

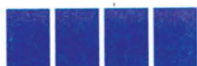
Mr. Thomas L. Wagner, Jr., CPA  
State Auditor  
State of South Carolina  
Columbia, South Carolina:

We have audited the accompanying basic financial statements of each major fund of the Medical University of South Carolina (the University) as of and for the year ended June 30, 2002, which collectively comprise the University's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these basic financial statements based on our audit. We did not audit the financial statements of the University Medical Associates and the Pharmaceutical Education and Development Foundation. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University Medical Associates and the Pharmaceutical Education and Development Foundation, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the University as of June 30, 2002, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 21 to the basic financial statements, effective July 1, 2001, the University adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*; GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Disclosures*.





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In accordance with *Government Auditing Standards*, we have also issued a report dated September 6, 2002 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 15 through 21 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. These sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

September 6, 2002

## **Management's Discussion and Analysis**

### ***Introduction***

The management of The Medical University of South Carolina offers readers of the financial statements this narrative overview and analysis of the financial activities of The Medical University of South Carolina for the fiscal year ended June 30, 2002. The reporting entity, as covered in this discussion and analysis, includes the primary institution (the University) and two of its component units, Medical University Hospital Authority (the Authority) and University Medical Associates (UMA). This discussion excludes the two remaining component units, Medical University Facilities Corporation and Pharmaceutical Education and Development Foundation, because their activities are less significant to the mission of the University.

This discussion should be read in conjunction with our letter of transmittal in the introductory section of this report and with the financial statements and notes thereto. The University has elected not to restate prior periods and, therefore, comparative data is not provided in this discussion and analysis. In future years, when prior information is available, a comparative analysis will be presented.

### ***Financial Highlights***

The University's financial position reflected at June 30, 2002, assets of \$310 million and liabilities of \$134 million. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, increased \$15.2 million in fiscal year 2002 to \$176.3 million. Of this amount, \$20.8 million represents unrestricted net assets, which may be used to meet the University's ongoing obligations.

At June 30, 2002, the Authority's assets of \$318.7 million, exceeded its liabilities of \$167.4 million by \$151.3 million, an increase of \$10.1 million over the previous year.

UMA's assets exceeded its liabilities at June 30, 2002 by \$2.2 million (net assets). Of the total net assets, there is a deficit of \$7.7 million in unrestricted net assets, which represents a deficit of assets available for use to meet the ongoing obligations to the University, UMA physicians and creditors. UMA reported an extraordinary loss of \$2.15 million for the settlement of legal fees and costs incurred by the plaintiffs in a lawsuit filed under the False Claims Act. The original lawsuit was settled in fiscal year 2000. UMA also reported a special item resulting from the write-off of certain intangible assets, with a book value of \$2.041 million, acquired with a primary care practice that ceased operations as of June 30, 2002. This special item was increased by \$530,000 for termination payments to the physicians that participated in the disposed practice and legal expense.

### ***Overview of the Financial Statements***

The financial report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles. During 2002, the University adopted GASB Statement No. 35, *Basic Financial Statements – Management's Discussion and Analysis – for Public Colleges and Universities*. This statement establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented on a consolidated basis to focus on the university as a whole rather than on individual fund groups.

Other significant changes to the financial statements of the University resulting from the implementation of GASB Statement No. 35 are as follows:

Revenues and expenses are now categorized as either operating or nonoperating. In previous years, a measure of operations was not present in the financial statements. Significant recurring University revenues, including state appropriations, gifts, and investment income are considered nonoperating. Nonoperating revenues totaled \$135.8 million for the year ended June 30, 2002. Nonoperating expenses, which consist primarily of interest expense, totaled \$5.1 million for the same period.

Unexpended cash advances received for sponsored programs which previously were recognized as revenue upon receipt, are now recorded as deferred revenue. Such deferred revenues totaled \$14.9 million at June 30, 2002.

Scholarships and fellowships applied to student accounts are now shown as scholarship allowances, a reduction of student tuition and fee revenues, while stipends and other payments made directly to students continue to be presented as scholarship and fellowship expenses. Previously, all scholarships and fellowships were presented as expenses. For the year ended June 30, 2002, scholarships and fellowships totaled \$5.6 million of which \$511,464 represents allowances.

### ***Summary of Net Assets***

The Statement of Net Assets presents the financial position as of the end of the fiscal year and includes all assets and liabilities of the entity. The difference between total assets and total liabilities (net assets) is one indicator of the current financial condition, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened

## THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

during the current year. From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the entity. They are also able to determine how much is owed to vendors, investors, and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure.

Net assets are classified as follows:

- Invested in capital assets, net of debt, represents the equity in property, plant, and equipment.
- Restricted nonexpendable net assets consist of the University's permanent endowment funds.
- Restricted expendable net assets are available for expenditure but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets.
- Unrestricted net assets are available for any lawful purpose of the entity.

Summary of Net Assets for fiscal year 2002 (amounts in thousands):

<u>Assets:</u>	<u>The University</u>	<u>The Authority</u>	<u>UMA</u>
Current assets	\$ 76,893	\$ 108,026	\$ 50,544
Non-current assets:			
Capital assets, net	186,258	181,234	53,654
Other noncurrent assets	<u>47,221</u>	<u>29,453</u>	<u>39,369</u>
Total assets	<u>310,372</u>	<u>318,713</u>	<u>143,567</u>
 <u>Liabilities:</u>			
Current liabilities	48,329	49,461	39,816
Long-term liabilities	<u>85,722</u>	<u>117,946</u>	<u>101,514</u>
Total liabilities	<u>134,051</u>	<u>167,407</u>	<u>141,330</u>
 <u>Net Assets:</u>			
Invested in capital assets, net of related debt	138,620	58,047	826
Restricted – nonexpendable	909	–	–
Restricted – expendable	15,974	–	9,081
Unrestricted	<u>20,818</u>	<u>93,259</u>	<u>(7,670)</u>
Total net assets	<u>\$ 176,321</u>	<u>\$ 151,306</u>	<u>\$ 2,237</u>

### **Summary of Revenues, Expenses and Changes in Net Assets**

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. A public University's dependence on state aid and gifts will usually result in operating deficits because state appropriations and gifts are classified as nonoperating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received, both operating and non-operating, and the expenses paid, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the entity.

Generally speaking, operating revenues are received for providing goods and services to various customers and constituencies. Operating expenses are paid to acquire or produce the goods and services and to carry out the mission of the entity. Non-operating revenues are revenues received for which goods and services are not provided.

Summary of Revenues, Expenses and Changes in Net Assets for fiscal year 2002 (amounts in thousands):

	<u>The University</u>	<u>The Authority</u>	<u>UMA</u>
Operating revenues	\$ 204,131	\$ 517,728	\$ 182,905
Operating expenses	<u>(336,060)</u>	<u>(504,698)</u>	<u>(166,799)</u>
Operating income (loss)	(131,929)	13,030	16,106
Net nonoperating revenues (expenses)	<u>130,674</u>	<u>778</u>	<u>(2,921)</u>
Income (loss) before other revenues, expenses, gains, losses, and transfers	(1,255)	13,808	13,185
Other revenues, expenses, gains, losses, and transfers	<u>16,493</u>	<u>(3,751)</u>	<u>(10,096)</u>
Increase in net assets	<u>15,238</u>	<u>10,057</u>	<u>3,089</u>
Net assets at beginning of year, as originally reported	361,989	141,249	(852)
Change in accounting principles related to adoption of Governmental Accounting Standards Board Statement No. 35	<u>(200,906)</u>	–	–
Net assets at beginning of year, as restated	<u>161,083</u>	<u>141,249</u>	<u>(852)</u>
Net assets at end of year	<u>\$ 176,321</u>	<u>\$ 151,306</u>	<u>\$ 2,237</u>

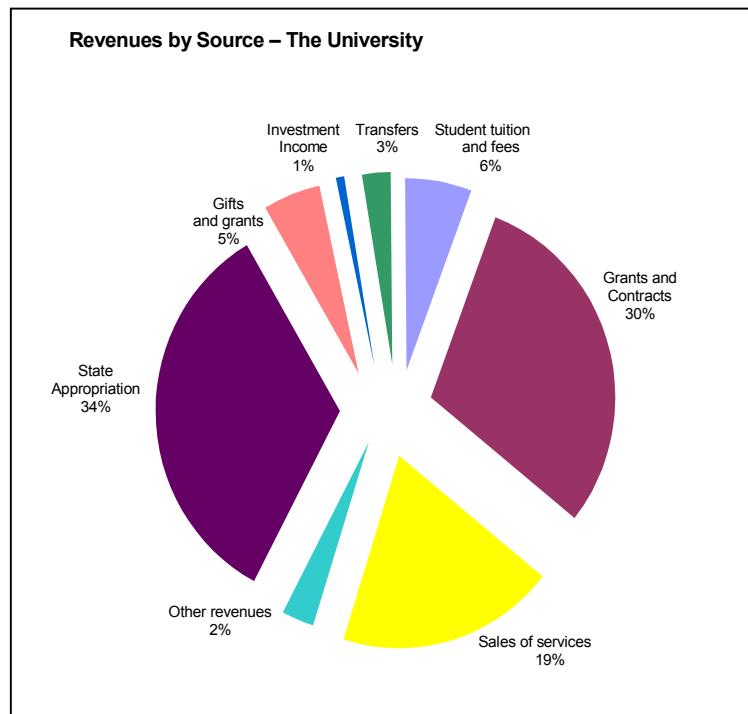
**THE MEDICAL UNIVERSITY OF SOUTH CAROLINA**

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**Revenues**

The University's daily operations for fiscal year 2002 were funded primarily from State appropriations and grants and contracts. These two sources account for 64 percent of the total fiscal year 2002 revenues of \$356.4 million. Additional detail on revenue is shown in the following table and chart.

<b>Revenues by Source – The University</b>		
(in thousands)		
		<u>Percent Of Total</u>
<b>Operating:</b>		
Student tuition and fees	\$ 21,230	6%
Grants and contracts	106,017	30%
Sales of services	67,582	19%
Other revenues	<u>9,302</u>	2%
<b>Total operating revenues</b>	<u>204,131</u>	57%
<b>Nonoperating:</b>		
State appropriation	122,406	34%
Gifts and grants	18,103	5%
Investment income	2,667	1%
Transfers	<u>9,071</u>	3%
<b>Total nonoperating revenues</b>	<u>152,247</u>	43%
<b>Total revenues</b>	<u>\$ 356,378</u>	100%



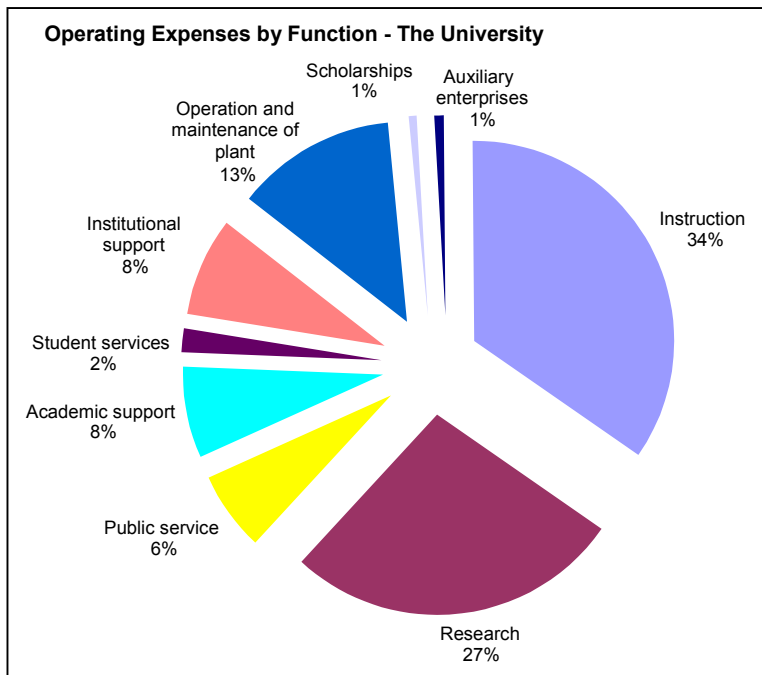
Operating revenue by source for the component units (in thousands):

	<u>The Authority</u>	<u>UMA</u>
Net patient service revenue	\$ 507,631	\$ 138,588
Educational agreements	-	38,162
Other operating revenue	<u>10,097</u>	<u>6,155</u>
<b>Total operating revenue</b>	<u>\$ 517,728</u>	<u>\$ 182,905</u>

**Expenses**

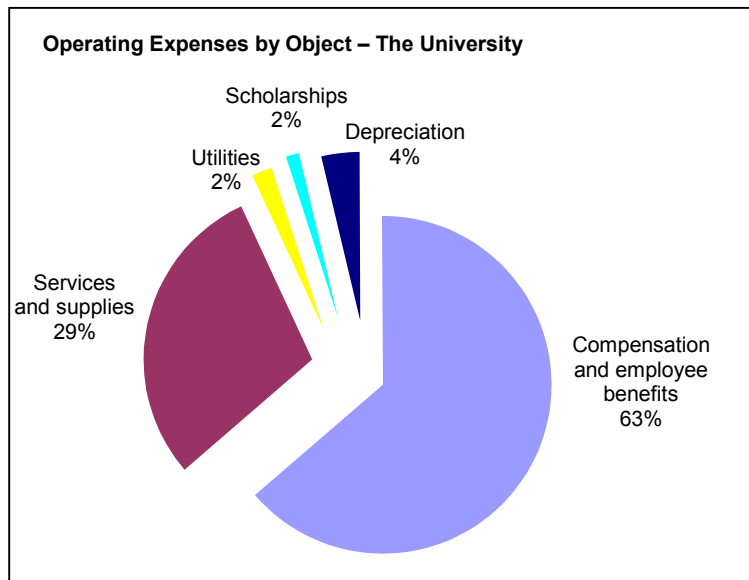
The following table and chart show the University's operating expenses by function:

<b>Operating Expenses by Function – The University</b> (in thousands)		
		<u>Percent Of Total</u>
Instruction	\$ 116,513	34%
Research	90,302	27%
Public service	21,476	6%
Academic support	25,506	8%
Student services	6,441	2%
Institutional support	27,134	8%
Operation and maintenance of plant	43,769	13%
Scholarships	2,087	1%
Auxiliary enterprises	<u>2,832</u>	1%
<b>Total Expenses</b>	<b><u>\$ 336,060</u></b>	<b>100%</b>



The following table and chart show the University's operating expenses by object:

<b>Operating Expenses by Object – The University</b>		
(in thousands)		
		Percent of Total
Compensation and employee benefits	\$ 213,753	63%
Services and supplies	99,000	29%
Utilities	6,153	2%
Scholarships	5,065	2%
Depreciation	<u>12,089</u>	4%
	<u>\$ 336,060</u>	100%



### **Statement of Cash Flows**

The Statement of Cash Flows presents detailed information about the cash activity during the year. The statement is divided into five parts.

- The first section deals with operating cash flows and shows the net cash used by the operating activities of the entity.
- The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes.
- The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items.
- The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities.
- The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

### **Capital Asset and Debt Activities**

The following is a summary of capital asset and long-term debt activity for fiscal year 2002. More detailed information can be found in the notes to the financial statements.

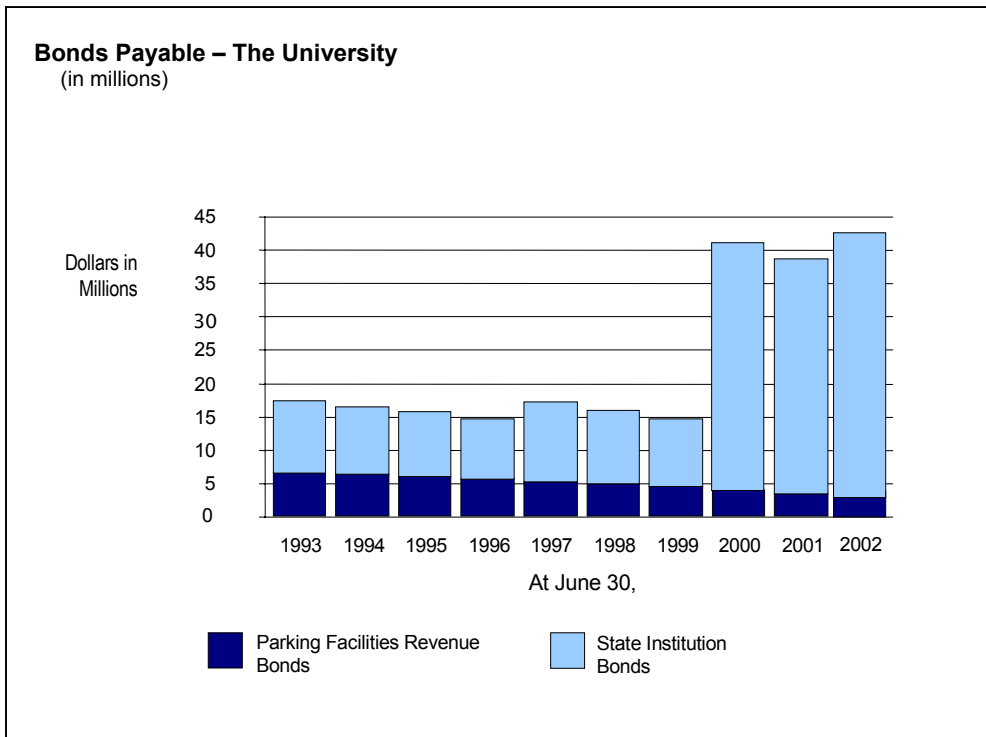
#### **The University**

Capital additions totaled \$9.9 million in fiscal year 2002 and consisted of renovations of various campus buildings as well as significant investment in medical, scientific and laboratory equipment. These projects were funded primarily with state capital appropriations and unrestricted university funds.

Included in construction in progress are renovations of several classroom and research facilities, expansion of the Hollings Cancer Center, and construction of the Children’s Research Building. The University had outstanding commitments under construction contracts related to these and other projects of approximately \$55.6 million at June 30, 2002. These projects are being funded by bond proceeds, federal grants, state appropriations, restricted gifts, and unrestricted university funds.

The University acquires many capital assets by borrowing the money to purchase the asset and then paying off the debt in future years. Cash collections from student tuition and parking garage rents are some of the sources legally committed to paying off this debt. The following graph shows the amounts and types of bonds and notes of the University as of June 30 for each of the last ten years. In fiscal year 2002, the University issued State Institution Bonds to finance various new construction and renovation projects. For fiscal year 2003, the total principal and interest payment due on these bonds is \$4.6 million.

There have been no significant changes in credit ratings or debt limitations that may affect future financing for the University.



Following is a brief explanation of each type of long-term debt with examples of the assets acquired and the funding source the University expects to utilize to service the debt.

**State Institution Bonds (SIB)**

These bonds require the University to pledge revenue from student tuition for the repayment of this debt. If the University fails to pay this debt, the State would pay since these bonds are backed by the State’s full faith, credit and taxing power. The proceeds from State Institution Bonds provided a portion of the funding for the Harper Student Center, the site for the Strom Thurmond Biomedical Research Facility, the Storm Eye Institute addition, and the Children’s Research Institute. The University expects to pay off this debt with cash collected from student tuition. At June 30, 2002, SIB payable totaled \$40.6 million.

**Parking Facilities Revenue Bonds (PFRB)**

These bonds require the University to pledge revenues from the rental of parking spaces for the repayment of debt. Parking Garage II was built with proceeds from the sale of these bonds. The University expects to pay off this debt from the rental of parking spaces located in its parking garages and parking lots. At June 30, 2002, PFRB payable totaled \$2.7 million.

**Capital Leases**

In December, 1991, the Medical University Facilities Corporation issued \$19,740,000 in certificates of participation and used the proceeds to buy the Harborview Office Tower building and adjacent properties. The certificates are secured by rental payments received under the capital lease with the University. MUFC has certificates of participation payable at June 30, 2002, of \$14.3 million.

MUFC issued lease revenue bonds in September, 1995, to fund a portion of the costs of completing the acquisition and construction

of the Strom Thurmond Biomedical Research Center. The bonds are secured by the rental payments received under the capital lease with the University. At June 30, 2002, lease revenue bonds payable totaled \$11.3 million. Also, the University has approximately \$230 thousand in capital leases payable at June 30, 2002, for various pieces of equipment.

**Sources Other Than Debt**

The University also acquires some of its capital assets from other sources such as:

- *Federal grants.* Grants were received from the federal government for some of the construction costs of the Hollings Cancer Center and the Substance Abuse Center. The University is not obligated to repay these monies.
- *State Capital Improvement Bonds.* The State issues these bonds and makes the proceeds available for the University to spend on approved projects. In prior fiscal years, the University spent capital improvement bond proceeds on a portion of the construction of the Harper Student Center. The University is not obligated to repay these funds to the State; therefore, the debt is not recorded on the University's financial statements. As of June 30, 2002, the University had approximately \$17 million of State capital improvement bonds approved for several building renovations.
- *Private Gifts and Grants.* Cash and other resources donated to the Health Sciences Foundation (HSF) are periodically transferred to the University. For example, the HSF raised funds on behalf of the University to help restore the St. Luke's Chapel and to complete the Harper Student Center.

**Medical University Hospital Authority**

The Authority's capital assets increased \$24.7 million during fiscal year 2002. This increase relates primarily to the purchase of the remaining assets of Charleston Memorial Hospital from Charleston County in the amount of \$12.9 million and purchases of other property and equipment of \$11.8 million.

The Authority financed the purchase of the Charleston Memorial Hospital assets with a note payable to Charleston County. In addition, the Authority issued refunding bonds that resulted in minimal change to long term bonded indebtedness and no change in credit rating from both Moody's and Standard and Poor's.

**University Medical Associates**

UMA's investment in capital assets as of June 30, 2002, amounts to \$53,653,518 (net of accumulated depreciation). This investment in capital assets consists of leasehold improvements for the various facilities occupied by clinics and administrative personnel, clinical diagnostic and therapeutic equipment, data processing hardware and software, and various office furnishings and equipment. During the current year there were several decreases in capital assets related to the disposition of various primary care practices.

This fiscal year's major additions and retirements included replacement of chillers for the HVAC system at Rutledge Tower Ambulatory Care Center for \$1.4 million, acquisition of various office and diagnostic equipment for clinics at a cost of \$1.5 million, acquisition of computer software license for \$1.2 million, and write-off of intangible assets associated with a primary care practice that was sold during the year.

At year-end, UMA had \$119.3 million in outstanding bonds, notes and capital lease obligations. New debt resulted mainly from the acquisition of leasehold improvements and equipment financed through capital leases. Reductions resulted from scheduled principal payments and a planned reduction in the line of credit available in accordance with the bond trust indenture. UMA's Direct Note Obligations Select Auction Variable Rate Securities (SAVRS) carry an AAA rating due to the impact of bond insurance from MBIA.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

**STATEMENT OF NET ASSETS**

June 30, 2002

	Component Units				Total
	The University	Medical University Hospital Authority	University Medical Associates	Medical University Facilities Corporation	
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 44,333,025	\$ 16,960,573	\$ 25,484,250	\$ -	\$ 86,777,848
Cash and cash equivalents - restricted	2,978,492	1,032,336	-	971,626	4,982,454
Investments	-	-	2,012,974	316,168	2,329,142
Accounts receivable, net	22,461,849	76,952,998	19,175,008	6,979	118,596,834
Student loans receivable - current	75,750	-	-	-	75,750
Due from Medical University of South Carolina	-	-	505,356	-	505,356
Due from Medical University Hospital Authority	5,187,644	-	1,471,018	-	6,658,662
Due from Pharmaceutical Education and Development Foundation	162,337	-	547,680	-	710,017
Inventories	-	10,441,777	-	-	10,441,777
Prepaid items	1,694,120	2,638,088	679,742	-	5,011,950
Other assets	-	-	667,819	16,928	684,747
<b>Total current assets</b>	<b>76,893,217</b>	<b>108,025,772</b>	<b>50,543,847</b>	<b>1,311,701</b>	<b>236,774,537</b>
<b>Noncurrent Assets</b>					
Cash and cash equivalents	4,068,712	-	-	-	4,068,712
Student loans receivable, net	1,071,037	-	-	-	1,071,037
Restricted assets:					
Cash and cash equivalents	30,014,923	28,755,656	4,382,382	1,824,363	64,977,324
Investments	-	-	8,235,179	213,000	8,448,179
Accrued interest	-	-	88,756	-	88,756
Student loans receivable	12,065,885	-	-	-	12,065,885
Advance to Medical University of South Carolina	-	-	474,368	-	474,368
Advance to Medical University Hospital Authority	-	-	1,596,042	-	1,596,042
Advance to Pharmaceutical Education and Development Foundation	-	-	1,623,286	-	1,623,286
Capital assets, net of accumulated depreciation	186,258,552	181,234,339	53,653,518	-	421,146,409
Prepaid items	-	-	14,274,591	-	14,274,591
Investment in partnerships	-	-	3,635,624	-	3,635,624
Other assets	-	697,221	5,059,546	224,297	5,981,064
<b>Total noncurrent assets</b>	<b>233,479,109</b>	<b>210,687,216</b>	<b>93,023,292</b>	<b>2,261,660</b>	<b>539,451,277</b>
<b>Total assets</b>	<b>310,372,326</b>	<b>318,712,988</b>	<b>143,567,139</b>	<b>3,573,361</b>	<b>776,225,814</b>

*continued on next page*

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

**STATEMENT OF NET ASSETS (continued)**  
**June 30, 2002**

	Component Units				Total
	The University	Medical University Hospital Authority	University Medical Associates	Medical University Facilities Corporation	
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Accounts payable	\$ 8,509,383	\$ 14,856,877	\$ 3,742,612	\$ -	\$ 27,108,872
Advances	-	-	7,000,000	-	7,000,000
Retainages payable - current	114,252	1,032,336	-	-	1,146,588
Accrued payroll and related liabilities	4,446,995	9,254,750	4,238,250	-	17,939,995
Accrued compensated absences - current	9,800,000	10,336,901	1,803,534	-	21,940,435
Accrued interest payable	1,068,109	57,383	306,862	734,190	2,166,544
Deferred revenues	19,212,185	-	-	-	19,212,185
Due to Medical University of South Carolina	-	5,187,644	-	-	5,187,644
Due to University Medical Associates - current	505,356	1,471,018	-	-	1,976,374
Capital lease payable/receivable	1,109,932	-	-	(1,109,932)	-
Lines of credit	-	-	14,624,612	-	14,624,612
Notes payable - current	-	4,085,085	43,722	-	4,128,807
Bonds payable - current	2,270,000	-	-	444,000	2,714,000
Certificates of participation payable - current	-	-	-	775,000	775,000
Direct note obligations - current	-	-	1,350,059	-	1,350,059
Interest rate swap liability - current	-	-	77,083	-	77,083
Structured legal settlement - current	-	-	840,000	-	840,000
Capital leases payable - current	117,479	2,752,087	693,536	-	3,563,102
Other liabilities	677,393	426,986	5,096,224	-	6,200,603
Funds held for others	497,541	-	-	-	497,541
Total current liabilities	<u>48,328,625</u>	<u>49,461,067</u>	<u>39,816,494</u>	<u>843,258</u>	<u>138,449,444</u>
<b>Noncurrent liabilities</b>					
Retainages payable	326,626	-	-	-	326,626
Accrued compensated absences	9,204,496	-	1,202,356	-	10,406,852
Advance from University Medical Associates	474,368	1,596,042	-	-	2,070,410
Capital lease payable/receivable	23,011,997	-	-	(23,011,997)	-
Federal loan program liability	11,541,505	-	-	-	11,541,505
Notes payable	-	12,881,827	44,710	-	12,926,537
Bonds payable	41,050,000	96,375,449	-	10,819,000	148,244,449
Certificates of participation payable	-	-	-	13,525,000	13,525,000
Direct note obligations	-	-	95,953,488	-	95,953,488
Interest rate swap liability	-	-	1,605,903	-	1,605,903
Structured legal settlement	-	-	1,680,000	-	1,680,000
Capital leases payable	113,210	7,092,694	1,027,415	-	8,233,319
Total noncurrent liabilities	<u>85,722,202</u>	<u>117,946,012</u>	<u>101,513,872</u>	<u>1,332,003</u>	<u>306,514,089</u>
Total liabilities	<u>134,050,827</u>	<u>167,407,079</u>	<u>141,330,366</u>	<u>2,175,261</u>	<u>444,963,533</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	138,620,601	58,047,197	826,367	-	197,494,165
Restricted:					
Nonexpendable	908,617	-	-	-	908,617
Expendable for:					
Education	7,513,662	-	-	-	7,513,662
Loans	3,605,846	-	-	-	3,605,846
Capital projects	1,721,265	-	-	-	1,721,265
Debt service	3,133,722	-	9,080,953	2,037,363	14,252,038
Unrestricted (deficit)	<u>20,817,786</u>	<u>93,258,712</u>	<u>(7,670,547)</u>	<u>(639,263)</u>	<u>105,766,688</u>
Total net assets	<u>\$ 176,321,499</u>	<u>\$ 151,305,909</u>	<u>\$ 2,236,773</u>	<u>\$ 1,398,100</u>	<u>\$ 331,262,281</u>

The accompanying notes are an integral part of these financial statements.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**For The Year Ended June 30, 2002**

	Component Units				Total
	The University	Medical University Hospital Authority	University Medical Associates	Medical University Facilities Corporation	
<b>Revenues:</b>					
Operating revenues:					
Student tuition and fees (net of scholarship allowances of \$511,464)	\$ 21,100,055	\$ -	\$ -	\$ -	\$ 21,100,055
Federal grants and contracts	83,238,915	-	-	-	83,238,915
State grants and contracts	3,292,328	-	-	-	3,292,328
Local government grants and contracts	247,172	-	-	-	247,172
Nongovernmental grants and contracts	19,238,683	-	-	-	19,238,683
Interest on student loans receivable	129,894	-	-	-	129,894
Sales of services to Medical University Hospital Authority	51,425,594	-	-	-	51,425,594
Sales and services of educational and other activities	10,978,617	-	-	-	10,978,617
Net patient service revenue (used as security for hospital facilities revenue bonds)	-	507,630,776	-	-	507,630,776
Net patient service revenue	-	-	138,588,193	-	138,588,193
Ambulatory care and primary care agreements	-	-	38,162,477	-	38,162,477
Auxiliary enterprises (\$5,036,620 used as security for parking facilities revenue bonds)	5,178,535	-	-	-	5,178,535
Interest income	-	-	-	2,033,990	2,033,990
Other operating revenues	9,301,697	10,097,034	6,154,784	-	25,553,515
<b>Total operating revenues</b>	<b>204,131,490</b>	<b>517,727,810</b>	<b>182,905,454</b>	<b>2,033,990</b>	<b>906,798,744</b>
<b>Expenses:</b>					
Operating expenses:					
Compensation and employee benefits	213,752,862	357,728,829	104,961,233	-	676,442,924
Services and supplies	99,000,429	96,992,103	42,225,127	-	238,217,659
Utilities	6,152,746	4,856,766	-	-	11,009,512
Scholarships and fellowships	5,064,668	-	-	-	5,064,668
Interest expense	-	3,894,498	-	1,930,076	5,824,574
Provision for bad debt	-	24,238,810	16,431,519	-	40,670,329
Amortization	-	-	132,255	16,928	149,183
Depreciation	12,089,520	16,986,798	3,049,051	-	32,125,369
<b>Total operating expenses</b>	<b>336,060,225</b>	<b>504,697,804</b>	<b>166,799,185</b>	<b>1,947,004</b>	<b>1,009,504,218</b>
<b>Operating income (loss)</b>	<b>(131,928,735)</b>	<b>13,030,006</b>	<b>16,106,269</b>	<b>86,986</b>	<b>(102,705,474)</b>
<b>Nonoperating revenues (expenses):</b>					
State appropriations	121,241,984	-	-	-	121,241,984
Gifts	11,259,783	-	-	-	11,259,783
Private grants	584,990	-	-	-	584,990
Gifts made	-	-	(775,378)	-	(775,378)
Refunded to grantors	(403,359)	-	-	-	(403,359)
Investment income	2,666,648	777,711	1,418,820	-	4,863,179
Interest expense	(4,270,610)	-	(6,895,258)	-	(11,165,868)
Gain (loss) on sale of capital assets	(315,946)	-	(483,333)	-	(799,279)
Other nonoperating revenues (expenses)	(89,608)	-	4,725,561	-	4,635,953
Depreciation on rental property	-	-	(911,959)	-	(911,959)
<b>Net nonoperating revenues (expenses)</b>	<b>130,673,882</b>	<b>777,711</b>	<b>(2,921,547)</b>	<b>-</b>	<b>128,530,046</b>
Income (loss) before other revenues, expenses, gains, losses, and transfers	(1,254,853)	13,807,717	13,184,722	86,986	25,824,572
Capital appropriations	1,163,711	-	-	-	1,163,711
Capital grants and gifts	6,258,538	-	-	-	6,258,538
Transfers	9,071,220	(3,750,934)	(5,374,737)	(44,236)	(98,687)
Special item - disposition of primary care practice	-	-	(2,571,399)	-	(2,571,399)
Extraordinary item - relator's legal fee settlement	-	-	(2,150,000)	-	(2,150,000)
<b>Increase in net assets</b>	<b>15,238,616</b>	<b>10,056,783</b>	<b>3,088,586</b>	<b>42,750</b>	<b>28,426,735</b>
<b>Total net assets - beginning (as restated)</b>	<b>161,082,883</b>	<b>141,249,126</b>	<b>(851,813)</b>	<b>1,355,350</b>	<b>302,835,546</b>
<b>Total net assets - ending</b>	<b>\$ 176,321,499</b>	<b>\$ 151,305,909</b>	<b>\$ 2,236,773</b>	<b>\$ 1,398,100</b>	<b>\$ 331,262,281</b>

The accompanying notes are an integral part of these financial statements.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

**STATEMENT OF CASH FLOWS**  
For The Year Ended June 30, 2002

	Component Units				Total
	The University	Medical University Hospital Authority	University Medical Associates	Medical University Facilities Corporation	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Student tuition and fees	\$ 20,537,866	\$ -	\$ -	\$ -	\$ 20,537,866
Grants and contracts	103,513,574	-	-	-	103,513,574
Auxiliary enterprise charges	5,277,589	-	-	-	5,277,589
Cash received from services to component units	48,638,713	-	-	-	48,638,713
Cash received from services of educational departments	10,970,768	-	-	-	10,970,768
Cash received from patients and third-party payors	-	484,819,597	168,819,641	-	653,639,238
Payments to employees	(213,306,110)	(180,055,779)	(89,245,698)	-	(482,607,587)
Payments to suppliers	(104,909,086)	(276,171,239)	(56,143,449)	-	(437,223,774)
Payments for scholarships and fellowships	(5,064,668)	-	-	-	(5,064,668)
Loans issued to students	(2,448,871)	-	-	-	(2,448,871)
Collection of loans to students	2,330,560	-	-	-	2,330,560
Other receipts	9,045,264	11,369,835	4,907,126	-	25,322,225
Other payments	-	-	(251,000)	-	(251,000)
Net cash provided (used) by operating activities	<u>(125,414,401)</u>	<u>39,962,414</u>	<u>28,086,620</u>	<u>-</u>	<u>(57,365,367)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
State appropriations	121,240,484	-	-	-	121,240,484
Transfers from (to) other funds	9,169,907	(3,750,934)	(5,374,737)	(44,236)	-
Gifts and grants received	9,838,797	-	-	-	9,838,797
Borrowings under note payable	-	-	15,075,071	-	15,075,071
Repayments of note payable	-	-	(19,950,459)	-	(19,950,459)
Proceeds from advances	-	-	7,000,000	-	7,000,000
Repayment of advances	-	-	(5,000,000)	-	(5,000,000)
Principal paid on noncapital debt	(202,676)	-	(1,548,815)	-	(1,751,491)
Interest paid on noncapital debt	(402,296)	-	(3,301,820)	-	(3,704,116)
Principal paid on bonds and certificates of participation	-	-	-	(1,132,000)	(1,132,000)
Interest paid on bonds and certificates of participation	-	-	-	(1,964,301)	(1,964,301)
Payment of agent fees	-	-	(34,721)	-	(34,721)
Funds held for others	(44,013)	-	-	(450,718)	(494,731)
Net cash provided (used) by noncapital financing activities	<u>139,600,203</u>	<u>(3,750,934)</u>	<u>(13,135,481)</u>	<u>(3,591,255)</u>	<u>119,122,533</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Proceeds from capital debt	7,250,000	108,560,055	-	-	115,810,055
Capital appropriations	1,083,099	-	-	-	1,083,099
Capital grants and gifts received	6,258,538	-	-	-	6,258,538
Proceeds from sale of capital assets	2,797	-	126,413	-	129,210
Purchases of capital assets	(17,729,868)	(40,874,062)	(3,542,331)	-	(62,146,261)
Principal paid on capital debt and leases	(3,510,174)	(110,984,383)	(1,953,636)	-	(116,448,193)
Interest paid on capital debt and leases	(3,721,797)	(7,131,476)	(3,968,154)	-	(14,821,427)
Payment of agent and broker fees	-	-	(197,825)	-	(197,825)
Net cash used by capital and related financing activities	<u>(10,367,405)</u>	<u>(50,429,866)</u>	<u>(9,535,533)</u>	<u>-</u>	<u>(70,332,804)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Collections of capital lease principal	-	-	-	1,023,942	1,023,942
Interest received on capital leases	-	-	-	1,946,401	1,946,401
Purchases of investments	-	-	(10,764,009)	(1,277,670)	(12,041,679)
Proceeds from sales and maturities of investments	-	-	10,887,635	1,277,670	12,165,305
Distributions from investments	-	-	132,219	-	132,219
Interest on investments	2,959,247	777,711	798,665	79,951	4,615,574
Net cash provided by investing activities	<u>2,959,247</u>	<u>777,711</u>	<u>1,054,510</u>	<u>3,050,294</u>	<u>7,841,762</u>
Net increase (decrease) in cash and cash equivalents	6,777,644	(13,440,675)	6,470,116	(540,961)	(733,876)
Cash and cash equivalents—beginning of year	74,617,508	60,189,240	23,396,516	3,336,950	161,540,214
Cash and cash equivalents—end of year	<u>\$ 81,395,152</u>	<u>\$ 46,748,565</u>	<u>\$ 29,866,632</u>	<u>\$ 2,795,989</u>	<u>\$ 160,806,338</u>

*continued on next page*

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

**STATEMENT OF CASH FLOWS (continued)**

For The Year Ended June 30, 2002

	Component Units				Total
	The University	Medical University Hospital Authority	University Medical Associates	Medical University Facilities Corporation	
Cash and cash equivalents is composed of the following					
Statement of Net Assets captions:					
Cash and cash equivalents - current unrestricted	\$ 44,333,025	\$ 16,960,573	\$ 25,484,250	\$ -	\$ 86,777,848
Cash and cash equivalents - current restricted	2,978,492	1,032,336	-	971,626	4,982,454
Cash and cash equivalents - noncurrent unrestricted	4,068,712	-	-	-	4,068,712
Cash and cash equivalents - noncurrent restricted	30,014,923	28,755,656	4,382,382	1,824,363	64,977,324
Total cash and cash equivalents	<u>\$ 81,395,152</u>	<u>\$ 46,748,565</u>	<u>\$ 29,866,632</u>	<u>\$ 2,795,989</u>	<u>\$ 160,806,338</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>					
Operating income (loss)	\$ (131,928,735)	\$ 13,030,006	\$ 16,106,269	\$ 86,986	(102,705,474)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	12,089,520	16,986,798	3,181,306	16,928	32,274,552
Provision for bad debts	-	24,238,810	16,431,519	-	40,670,329
Rental income, net	-	-	4,809,050	-	4,809,050
Agent fees on operational debt	-	-	232,546	-	232,546
Gifts made	-	-	(775,378)	-	(775,378)
Interest income reclassified	-	-	-	(2,033,990)	(2,033,990)
Interest expense reclassified	-	7,131,476	-	1,930,076	9,061,552
Loss on sale of equipment	-	121,669	-	-	121,669
Changes in assets and liabilities:					
Accounts receivable	2,472,277	(22,811,129)	(15,857,092)	-	(36,195,944)
Student loans receivable	(309,062)	-	-	-	(309,062)
Due from (to) other funds	(3,720,188)	1,788,954	2,264,197	-	332,963
Prepaid items	1,563	-	679,743	-	681,306
Other assets	-	1,087,654	69,633	-	1,157,287
Accounts payable	905,257	(341,950)	216,834	-	780,141
Accrued payroll and related liabilities	(88,752)	-	612,213	-	523,461
Accrued compensated absences	535,505	-	(507,030)	-	28,475
Deferred revenue	(5,746,109)	-	-	-	(5,746,109)
Federal loan program liability	374,323	-	-	-	374,323
Other liabilities	-	(1,269,874)	622,810	-	(647,064)
Net cash provided (used) by operating activities	<u>\$ (125,414,401)</u>	<u>\$ 39,962,414</u>	<u>\$ 28,086,620</u>	<u>\$ -</u>	<u>\$ (57,365,367)</u>
Noncash transactions:					
Equipment acquired through capital leases	\$ 186,846	\$ -	\$ 1,020,905	\$ -	-
Increase in fair market value of investments	-	-	488,734	-	-
Assumption of capital lease obligation in disposition of primary care practice	-	-	(42,668)	-	-
Prorata income (loss) from partnership	-	-	(800)	-	-
	<u>\$ 186,846</u>	<u>\$ -</u>	<u>\$ 1,466,171</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of this financial statement.

**PHARMACEUTICAL EDUCATION AND DEVELOPMENT  
FOUNDATION OF THE MEDICAL UNIVERSITY OF  
SOUTH CAROLINA - A Component Unit  
STATEMENT OF FINANCIAL POSITION**

June 30, 2002

ASSETS	
Cash and cash equivalents	\$ 421,533
Receivable from sale of assets	<u>200,000</u>
Total assets	<u>\$ 621,533</u>
LIABILITIES	
Accounts payable	\$ 82,441
Due to Medical University of South Carolina	162,337
Due to University Medical Associates	2,341,785
Due to Health Sciences Foundation	<u>5,362,792</u>
Total liabilities	<u>7,949,355</u>
NET DEFICIT	
Unrestricted net deficit	<u>(7,327,822)</u>
Total net deficit	<u>(7,327,822)</u>
Total liabilities and net deficit	<u>\$ 621,533</u>

*The accompanying notes are an integral part of this financial statement.*

**PHARMACEUTICAL EDUCATION AND DEVELOPMENT  
 FOUNDATION OF THE MEDICAL UNIVERSITY OF  
 SOUTH CAROLINA - A Component Unit  
 STATEMENT OF ACTIVITIES  
 For The Year Ended June 30, 2002**

Revenues, gains, and other support:	
Revenue	\$ 200,000
Interest income	<u>14,437</u>
Total revenues, gains, and other support	<u>214,437</u>
Expenses:	
Support services - management and general:	
Insurance	196,671
Interest	2,510
Legal and professional fees	334,430
Other expenses	1,525
Payroll	<u>260,581</u>
Total support services - management and general	<u>795,717</u>
Other expenses	
Loss on sale of assets	<u>452,387</u>
Total other expenses	<u>452,387</u>
Net loss before extraordinary item	(1,033,667)
Extraordinary loss on early extinguishment of debt	<u>(575,383)</u>
Net loss	(1,609,050)
Net deficit, at beginning of year	(6,487,158)
Prior period adjustment	<u>768,386</u>
Net deficit, at end of year	<u>\$ (7,327,822)</u>

*The accompanying notes are an integral part of this financial statement.*

**PHARMACEUTICAL EDUCATION AND DEVELOPMENT  
FOUNDATION OF THE MEDICAL UNIVERSITY OF  
SOUTH CAROLINA - A Component Unit  
STATEMENT OF CASH FLOWS  
For The Year Ended June 30, 2002**

Cash flows from operating activities:	
Cash paid to suppliers and employees	\$ (1,389,153)
Interest paid	(2,510)
Interest received	<u>14,437</u>
Net cash used by operating activities	<u>(1,377,226)</u>
Cash flows from investing activities:	
Proceeds from asset sale	<u>875,000</u>
Net cash provided by investing activities	<u>875,000</u>
Cash flows from financing activities:	
Repayment of long-term borrowings	<u>(46,344)</u>
Net cash used by financing activities	<u>(46,344)</u>
Net decrease in cash and cash equivalents	(548,570)
Cash and cash equivalents at beginning of the year	<u>970,103</u>
Cash and cash equivalents at end of the year	<u>\$ 421,533</u>
Reconciliation of net loss to net cash	
used by operating activities:	
Net loss	<u>\$ (1,609,050)</u>
Adjustments to reconcile net loss to net	
cash used by operating activities:	
Loss on sale of assets	452,387
Loss on early extinguishment of debt	575,383
Changes in assets and liabilities:	
Prepaid expense	58,376
Receivable	(200,000)
Accounts payable	82,442
Due to Medical University of South Carolina	155
Due to Health Sciences Foundation	(798,348)
Due to University Medical Associates	<u>61,429</u>
Total adjustments	<u>231,824</u>
Net cash used by operating activities	<u>\$ (1,377,226)</u>
Schedule of noncash investing and financing activities:	
Building lease termination:	
Reduction in capital lease payable	\$ 7,025,942
Reduction in net fixed assets	7,590,825
Insurance policy terminated - reduction in note payable	34,880
Prior period adjustment - increase in capital lease payable	<u>29,362</u>
	<u>\$ 14,681,009</u>

*The accompanying notes are an integral part of this financial statement.*

## **Notes To Financial Statements**

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Medical University of South Carolina (the University), established in 1824, is a public institution of higher learning the purpose of which is to preserve and optimize human life in South Carolina and beyond. The University provides an environment for learning and discovery through education of health care professionals and biomedical scientists, research in the health sciences, and provision of comprehensive health care.

The University is a part of the primary government of the State of South Carolina and its funds are reported in the State's higher education enterprise funds in the Comprehensive Annual Financial Report of the State of South Carolina. Generally, all State departments, agencies, and colleges are included in the State's reporting entity. These entities are financially accountable to and fiscally dependent on the State. Although the State-supported universities operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and/or the General Assembly appoints most of their board members and budgets a significant portion of their funds.

#### ***Financial Statement Presentation***

The financial statements of the University have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, and Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus* which became effective for periods beginning after June 15, 2001. The financial statement presentation provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund group perspective previously required.

The University also adopted the provisions of GASB Statement No. 38, *Certain Financial Statement Note Disclosures* which requires certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34. While Statement No. 38 did not affect amounts reported in the financial statements, certain note disclosures have been added or amended, including information relating to future debt service and lease obligations, short-term obligations, and interest rates.

#### ***Reporting Entity***

The financial reporting entity, as defined by GASB Statement No. 14, *The Financial Reporting Entity*, consists of the primary government and all of its component units. Component units are legally separate organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the financial statements to be misleading or incomplete. Accordingly, the financial statements include the accounts of the University, as the primary government, and the accounts of the following entities as component units.

The Medical University Hospital Authority (the Authority) was created on June 16, 2000, for the purpose of managing and operating the Medical University Hospitals and Clinics. The Authority is a component unit of the University as defined by provisions of Governmental Accounting Standards Board Statement No.14. The Authority's component unit relationship to the University principally arises from the Authority's financial accountability to the University as defined in Statement No. 14. In particular, the legislation establishing the Authority as a stand-alone healthcare system requires that the members of the University's Board of Trustees also constitute the Board of Trustees of the Authority. As required by Governmental Accounting Standards Board (GASB) Statement No. 14, the Authority's financial activity is blended with the University's activity. Copies of the separately issued financial statements of the Authority can be obtained by sending a request to the following address: Medical University Hospital Authority, Fiscal Services Office, P.O. Box 250603, Charleston, SC 29425.

University Medical Associates of The Medical University of South Carolina (UMA) is a component unit because the University is financially accountable for UMA. The University has appointment authority over a majority of the UMA board and is able to affect UMA's operations. As required by Governmental Accounting Standards Board (GASB) Statement No. 14, UMA's financial activity is blended with the University's activity. UMA is a nonprofit corporation that was established to deliver inpatient and outpatient professional services for the benefit of the University and accordingly bills, collects, and administers all clinical income generated by its participating physicians. UMA provides the full-time clinical professional faculty and other health professionals with the development of group practice arrangements and operates as a multi-specialty group practice of medicine and related services in the furtherance of medicine, medical research, and education. The by-laws of UMA provide for all of its assets to be transferred to the University upon its dissolution.

UMA has formed for-profit and non-profit subsidiaries for the purpose of creating a primary care network by establishing satellite and affiliate offices and contracting with area physicians to carry out primary care functions. Carolina Family Care, Inc. (CFC) and Carolina Primary Care Physicians, P.A. (CPCP) are organized as for-profit corporations under South Carolina law, whereas Carolina Health Management Services (CHMS) is organized as a non-profit public benefit corporation. All financial activities of these companies are blended into the financial statements of UMA since they serve an essentially identical purpose. All three

component units are income taxable under state and federal law. These component units do not issue separate financial statements.

UMA is financially accountable for its component units because UMA is able to impose its will on the organizations, there is a potential for the organizations to provide specific financial benefits to or impose specific financial burdens on UMA and there is a fiscal dependency by the organizations on UMA. As required by accounting principles generally accepted in the United States of America, the University's financial statements include UMA and its component units. Copies of the separately issued financial statements of UMA can be obtained by sending a request to the following address: University Medical Associates, 1180 Sam Rittenberg Blvd., Suite 355, Charleston, SC 29407.

Medical University Facilities Corporation (MUFC) is a nonprofit corporation established in 1992 to obtain the financing for the University to purchase land, an office building, and a parking garage. A majority of the members of the Board of Directors of the Corporation are employees of the University or members of the University's Board of Trustees. The agreement between the University and the Corporation requires the University to pay all costs of the Corporation. Medical University Facilities Corporation is considered to be a component unit because the nature and significance of its relationship with the University is such that exclusion from the reporting entity would render the financial statements incomplete. The corporation is a blended component unit since its only purpose is to provide financing services to the University. Medical University Facilities Corporation does not issue separate financial statements.

Pharmaceutical Education and Development Foundation of The Medical University of South Carolina (PEDF) was incorporated in September, 1994, under the laws of South Carolina as an educational, charitable, eleemosynary foundation to promote educational, research, clinical, and other facilities and programs of the University's College of Pharmacy. If PEDF is dissolved, its assets will be transferred to the Health Sciences Foundation for the benefit of the College of Pharmacy, or if the College of Pharmacy is not in existence at that time, such assets will be transferred to the Health Sciences Foundation for the benefit of such other activities of the University as its Board of Trustees shall determine. PEDF is considered a component unit because it is fiscally dependent on the University. Any revenue distribution policy adopted by PEDF requires approval by the University's Board of Trustees. PEDF is a blended component unit since its purpose is to provide services almost entirely to the University. PEDF is considered a nongovernmental component unit since it does not meet the FASB/GASB definition of a governmental entity. None of the following characteristics of a governmental entity apply to PEDF: a) Organization is a public corporation; b) Organization is a body corporate and politic; c) A controlling majority of the members of the organization are elected or appointed by governmental officials; d) There is potential for unilateral dissolution by a government with the net assets reverting to the government; and e) The organization has the power to enact and enforce a tax levy. Copies of the separately issued financial statements of Pharmaceutical Education and Development Foundation can be obtained by sending a request to the following address: Health Sciences Foundation, 18 Bee Street, P.O. Box 250450, Charleston, SC 29425.

The MUSC Foundation for Research Development (MFRD) was previously included in the University's financial reporting entity as a component unit. For the fiscal year ended June 30, 2002, MFRD amended its bylaws and articles of incorporation and as a result, MFRD is no longer considered a component unit. The University has excluded MFRD from its financial reporting entity since the University is not financially accountable for MFRD.

The University's component units, despite being legally separate from the University, are so intertwined with it that they are, in substance, the same as the primary entity. The Medical University Hospital Authority, University Medical Associates, and Medical University Facilities Corporation are considered to be governmental entities that conduct business-type activities and their balances and transactions are blended with those of the primary entity and reported as if they were balances and transactions of the primary entity. However, because Pharmaceutical Education and Development Foundation is deemed not to be a governmental entity and uses a different reporting model, its balances and transactions are reported on separate financial statements.

### ***Basis of Accounting***

For financial reporting purposes, the University, along with its governmental component units, is considered a special purpose government engaged only in business type activities. Accordingly, the financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Student tuition is presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly are presented as scholarship and fellowship expenses. All significant intrafund transactions and balances have been eliminated.

The University and its governmental component units apply all applicable GASB pronouncements and, in accordance with GASB Statement No. 20, have elected to apply only those Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, and not in conflict with GASB standards.

Pharmaceutical Education and Development Foundation is deemed not to be a governmental entity because a controlling majority of its governing body is not appointed or approved by government officials. PEDF uses the accrual basis of accounting and has adopted Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, PEDF is required to report information regarding financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

### ***Cash and Cash Equivalents***

For purposes of the statement of cash flows, the University and its governmental component units consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State's internal cash management pool administered by the State Treasurer's Office are considered cash equivalents because the pool operates as a demand deposit account.

### ***Investments and Investment Income***

Investments are carried at fair value, principally based on quoted market prices. Authority investment income from unrestricted investments is reported as nonoperating revenues. Authority investment income from funds held by trustees under a related bond trust indenture, to the extent not capitalized, is reported as other operating revenue.

### ***Accounts Receivable***

The University's accounts receivable consist primarily of tuition and fee charges to students and amounts due from government and private sources in connection with reimbursement of allowable expenses under grants and contracts. Management did not record an allowance for uncollectible accounts based on its analysis of the accounts.

The Authority and University Medical Associates grant credit without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. Bad debt and contractual allowances for loans receivable and various accounts receivable including patient accounts receivable, for the University and the Authority are established based upon losses and adjustments experienced in prior years and evaluations of the current account portfolios. UMA calculates actual contractual adjustment write-offs and actual bad debt write-offs for the year as a percentage of gross charges processed during the year. These percentages are then applied to the accounts receivable balance to determine the ending allowance balances. Historically, this method has provided adequate allowances for both contractual adjustments and bad debts.

### ***Inventories***

The Authority values supply inventories at the lower of cost, using the first-in first-out method, or replacement market.

### ***Prepaid Items***

Expenditures for insurance and similar services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. For the University, amounts reported in this asset account consist primarily of insurance premiums, subscriptions, maintenance contracts, and deposits on equipment not yet received. The Authority's amounts consist primarily of insurance premiums, health insurance premiums, equipment maintenance contracts, and deposits on equipment not yet received. University Medical Associates' amounts consist primarily of prepaid rent and lease payments.

### ***Capital Assets***

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The University follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The University capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$100,000. The University and the Authority capitalize as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects. Amounts capitalized in fiscal year 2002 were \$333,292 for the University and \$1,542,137 for the Authority. Routine repairs and maintenance and library materials, except individual items costing in excess of \$5,000, are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 50 years for buildings and improvements and land improvements and 3 to 20 years for machinery, equipment, and vehicles.

### ***Fair Value of Financial Instruments***

The fair values of UMA's long-term receivables and long-term debt approximate carrying amounts on the statement of net assets. The interest rate swap agreements referred to in Note 12 are off-balance sheet derivative financial instruments held for purposes other than trading and their aggregate estimated fair value at June 30, 2002 is approximately a \$16,400,000 liability. Fair value amounts are estimated by management based on available market information and appropriate valuation methodologies.

### ***Compensated Absences***

Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded as accrued compensated absences in the statement of net assets and as a component of compensation and benefit expense in the statement of revenues, expenses, and changes in net assets.

### **Deferred Revenues**

Deferred revenues include amounts received for tuition and fees prior to the end of the fiscal year but related to the subsequent accounting period and amounts received from grant and contract sponsors that have not yet been earned.

### **Net Assets**

The net assets of the University and the governmental component units are classified as follows.

*Invested in capital assets, net of related debt* - This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt incurred to acquire or construct the assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

*Restricted net assets – nonexpendable* - Nonexpendable restricted net assets consist of endowment funds which donors or other outside sources have stipulated, as a condition of the gift instrument, must be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

*Restricted net assets – expendable* - Restricted expendable net assets include resources which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

*Unrestricted net assets* - Unrestricted net assets represent resources that are not subject to externally imposed restrictions and may be used to meet current expenses for any purpose. These resources also include those of auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

### **Application of Restricted and Unrestricted Resources**

The University policy for applying expenses that can use both restricted and unrestricted resources is delegated to the departmental administrative level. General practice is to first apply the expense to restricted resources then to unrestricted resources.

### **Classification of Revenues**

The University and the governmental component units have classified revenues as either operating or nonoperating according to the following criteria:

Operating revenues generally result from exchange transactions such as providing services and producing and delivering goods in connection with the principal ongoing operations. The principal operating revenues of the University include: (1) tuition and fees received in exchange for providing educational services to students; (2) grants and contracts that are essentially the same as contracts for services and that finance programs the University would not otherwise undertake; and (3) fees received from organizations and individuals in exchange for miscellaneous goods and services provided by the University.

Medical University Facilities Corporation reports interest income as operating revenue because investing constitutes its principal ongoing operation.

For purposes of presentation, transactions deemed by the Authority to be ongoing, major or central to the provision of health care services are reported as operating revenue and operating expenses. Peripheral or incidental transactions are reported as nonoperating revenues and expenses. The principal operating revenues of the Authority and UMA are patient services revenues.

Nonoperating revenues result from nonexchange transactions. These revenues include gifts and contributions, state appropriations, investment income (except for MUFC), and any grants and contracts that are not classified as operating revenue or restricted by the grantor to be used exclusively for capital purposes.

### **Scholarship Allowances**

Student tuition and fee revenues are recorded net of scholarship allowances in the statement of revenues, expenses, and changes in net assets. A scholarship allowance is defined as the difference between the stated charge for goods and services provided by the University and the amount that is billed to the student and/or third parties making payments on behalf of the student.

### **Net Patient Service Revenue**

The Authority and University Medical Associates have agreements with third party payors including Medicare and Medicaid that provide for reimbursement at amounts different from established rates. Net patient service 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. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. UMA is reimbursed by its major insurers (Medicare, Medicaid, and Blue Shield) based upon a fee schedule they have developed for physician services. These insurers audit UMA's claims at various times during the year.

### ***Sales and Services of Educational and Other Activities***

Revenues from sales and services of educational and other activities generally consist of amounts received from instructional, laboratory, research, and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public. The University receives such revenues primarily from seminar fees, dental clinic services, pharmacy sales, and sales of other services.

### ***Charity Care***

The Authority and University Medical Associates provide care to patients who meet certain criteria under charity care policies without charge or at amounts less than established rates. Since management does not expect payment for charity care, the estimated charges are excluded from revenue.

### ***Income Taxes***

The University and the Authority, as political subdivisions of the State of South Carolina, are exempt from federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. The Authority has applied for recognition as a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code.

University Medical Associates is a not-for-profit organization as described in Internal Revenue Code Section 501(c)(3) and related income is exempt from federal income tax under Code Section 501(a). In the event that the UMA's taxable subsidiaries have taxable income from time to time, each company is responsible for its respective income tax.

Medical University Facilities Corporation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income under Code Section 501(a). MUFC has been classified by the Internal Revenue Service as other than a private foundation.

As a not-for-profit organization described in Internal Revenue Code Section 501(c)(3), Pharmaceutical Education and Development Foundation is exempt from federal income taxes on related income under Code Section 501(a). PEDF has been classified by the Internal Revenue Service as other than a private foundation and bases its tax-exempt status on the PEDF's support of the University.

### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

### ***Impairment of Long-lived Assets***

Long-lived assets and certain identifiable intangibles of the Authority are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

## 2. DEPOSITS AND INVESTMENTS

All deposits and investments of the University are under the control of the State Treasurer, who, by law, has sole authority for investing State funds. Deposits and investments of the University's component units are not under the State Treasurer's control and are deposited with or invested by financial institutions or brokers.

The following schedule reconciles deposits and investments within the notes to the statement of net assets amounts:

<u>Statement of Net Assets</u>		<u>Notes</u>	
The Medical University of South Carolina		The Medical University of South Carolina	
Cash and cash equivalents – current, unrestricted	\$ 44,333,025	Cash on hand	\$ 55,285
Cash and cash equivalents – current, restricted	2,978,492	Deposits held by State Treasurer	81,308,867
Cash and cash equivalents – noncurrent, unrestricted	4,068,712	Other deposits	31,000
Cash and cash equivalents – noncurrent, restricted	30,014,923	Medical University Hospital Authority	
Medical University Hospital Authority		Other deposits	16,960,573
Cash and cash equivalents – current, unrestricted	16,960,573	Deposits held by State Treasurer	20,739,234
Cash and cash equivalents – current, restricted	1,032,336	Investments – restricted	9,048,758
Cash and cash equivalents – noncurrent, restricted	28,755,656	University Medical Associates	
University Medical Associates		Cash on hand	20,845
Cash and cash equivalents – current	25,484,250	Other deposits	3,498,271
Investments – current	2,012,974	Investments – unrestricted	23,978,108
Cash and cash equivalents – noncurrent, restricted	4,382,382	Investments – restricted	12,617,561
Investments – noncurrent, restricted	8,235,179	Medical University Facilities Corporation	
Medical University Facilities Corporation		Other deposits	2,795,989
Cash and cash equivalents – current, restricted	971,626	Investments	529,168
Investments – current, restricted	316,168	Pharmaceutical Education and Development Foundation	
Cash and cash equivalents – noncurrent, restricted	1,824,363	Other deposits	421,533
Investments – noncurrent, restricted	213,000		
Pharmaceutical Education and Development Foundation			
Cash and cash equivalents – current	421,533		
<b>Total</b>	<b>\$ 172,005,192</b>	<b>Total</b>	<b>\$ 172,005,192</b>

### ***Deposits Held by State Treasurer***

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 2002, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

The University's deposits include the following restricted amounts:

Current:	
Debt service funds	\$ <u>2,978,492</u>
Noncurrent:	
Permanently restricted endowment funds	\$ 908,617
Debt service reserve funds	712,635
Bond proceeds restricted for capital projects	26,628,300
Federal loan program funds	1,734,371
Loan participation deposit	31,000
	<u>\$ 30,014,923</u>

The Authority's deposits include \$20,739,234 in restricted cash held by the State Treasurer for capital projects funds.

### ***Other Deposits***

The governmental component units' other deposits are categorized as to credit risk as:

1. Insured or collateralized with securities held by the entity or by its agent in the entity's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
3. Uninsured or uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the entity's name.

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At June 30, 2002, other deposits were as follows:

	Category			Bank Balance	Reported Amount
	1	2	3		
The University	\$ —	\$ —	\$ 31,000	\$ 31,000	\$ 31,000
University Medical Associates	751,076	—	3,033,381	3,784,457	3,498,271
Medical University Facilities Corporation	—	—	2,795,989	2,795,989	2,795,989

The Authority's deposits of \$16,960,573 at June 30, 2002, were entirely covered by federal depository insurance or were collateralized with securities held by each entity's agent in each entity's name.

As of June 30, 2002, University Medical Associates' balances included certificates of deposit with carrying amounts totaling \$1,194,465 of which \$994,465 serves as collateral for a loan of Lowcountry Real Property, LLC. The certificates of deposit are included in investments on the statement of net assets.

At June 30, 2002, Medical University Facilities Corporation's deposits are restricted for debt service.

Pharmaceutical Education and Development Foundation maintains its cash accounts at one financial institution. All cash accounts are insured in aggregate by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At June 30, 2002, PEDF's bank balances totaled \$421,533, of which \$100,000 was covered by FDIC.

### **Investments**

The component unit's investments are stated at fair value. Purchases and sales are accounted for on the transaction date. Bond discounts and premiums are amortized.

The investments are categorized as to credit risk as:

1. Insured or registered, or securities held by the entity or its agent in the entity's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.
3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

At June 30, 2002, the investment balances were as follows:

	Category			Not Subject to Categorization	Fair Value
	1	2	3		
Medical University Hospital Authority					
U.S. Treasury obligations	<u>\$ 9,048,758</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 9,048,758</u>
University Medical Associates unrestricted					
Repurchase agreements	\$ —	\$ —	\$ 23,159,598	\$ —	\$ 23,159,598
Municipal Funds	—	—	—	818,510	818,510
Total UMA investments unrestricted	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 23,159,598</u>	<u>\$ 818,510</u>	<u>\$ 23,978,108</u>
University Medical Associates restricted					
Federal Home Loan Bank Bonds	\$ —	\$ —	\$ 8,235,179	\$ —	\$ 8,235,179
Money Market Funds	—	—	—	4,382,382	4,382,382
Total UMA investments restricted	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8,235,179</u>	<u>\$ 4,382,382</u>	<u>\$ 12,617,561</u>

UMA makes overnight investments in repurchase agreements and the balance invested depends on daily cash collections. Due to higher cash flows at certain times during the year, UMA's investment in overnight repurchase agreements, for which the underlying securities were held by the dealer, increased significantly. As a result, the amounts that were in category 3 at those times were substantially higher than at year end.

For Medical University Facilities Corporation legally authorized investments include government and government agency obligations; deposits that are fully insured by FDIC; short-term bank obligations, repurchase agreements, various debt obligations, money market funds, and other securities meeting certain requirements; and investment contracts satisfactory to S&P. Medical University Facilities Corporation investments consist of investment agreements under which they are to be paid interest with guaranteed rates from 5.78% to 6.2% and open ended maturity dates. These investments are not subject to credit risk categorization and their fair value is not readily determinable. As of June 30, 2002, the MUFC investments included the \$213,000 restricted debt service reserve fund.

### **Investments in Partnerships**

UMA accounts for investments in partnerships either by the cost or equity method. If UMA is a 20% or more owner and exercises significant influence over the company, then UMA records the investment under the equity method, whereby UMA's percentage of the net profit/loss increases or decreases the investment and the gain/loss is reported in the Statement of Revenues, Expenses and Changes in Net Assets. If UMA owns less than 20% or does not possess the ability to exercise control over operations, then the investment is recorded at cost.

On May 8, 1998, Carolina Primary Care Physicians, P.A., a blended component unit of UMA, entered into a partnership with

several physicians and medical practices by purchasing a 35% interest in Lowcountry Medical Group, LLC (LCMG). This investment was originally recorded on the equity method. UMA's ownership interest increased to 38.89% from 35% due to members exiting LCMG during the year ended June 30, 2000. Also during fiscal year ended June 30, 2000, the members of LCMG invested in Lowcountry Real Property, L.L.C. (LCRP), which reflected the same proportionate ownership as LCMG and holds title to all real estate occupied by LCMG. The operating agreements of LCMG and LCRP state that all powers to control normal operations are exercised exclusively by the managers except for veto authority over certain transactions affecting the acquisition and disposition of significant assets or changes to the members of each partnership. CPCP is prohibited from serving as a manager. Due to this limited ability to influence normal operations of these entities, the investments are carried on the cost method with all distributions reported as investment income. UMA's investment in the partnership at June 30, 2002, is \$2,733,758 and \$888,719 for LCMG and LCRP, respectively. For the year ended June 30, 2002, distributions received and reported as investment income were \$143,719 for LCMG.

On November 14, 2000, Carolina Family Care, Inc. (CFC) entered into a partnership with Hilton Head Internists, L.L.C. to form Hilton Head Cardiac Diagnostics, L.L.C. (HHCD) to provide cardiac diagnostic services. HHCD did not begin operations until January 2001. CFC is a 50 percent owner. This investment is reported on the equity method with all changes in equity reported as either a return of capital or investment income. At June 30, 2002, UMA's investment is \$13,147 and for the year ended June 30, 2002, UMA's share of HHCD's net loss is \$800.

### **Restricted Assets**

Restricted assets of University Medical Associates consist of certain cash equivalents and investments required by the various bond indenture agreements for the Select Auction Variable Rate Securities (SAVRS) issues. These assets are restricted to the payment of principal and interest on the bonds in the event of a shortfall of revenues sufficient to pay the same. The amount reported as restricted net assets is equal to the maximum annual debt service, which is the amount required under the indenture agreements.

## **3. ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2002, consisted of the following:

	<u>University</u>	<u>Authority</u>	<u>University Medical Associates</u>	<u>Medical University Facilities Corporation</u>
Students	\$ 1,785,861	\$ -	\$ -	\$ -
Patients	-	143,737,013	47,310,066	-
Less allowances for:				
Contractual adjustments	-	-	(25,471,616)	-
Uncollectibles	-	(68,090,000)	(2,663,442)	-
Federal grants and contracts	10,405,328	-	-	-
State grants and contracts	963,926	-	-	-
Nongovernmental grants and contracts	3,214,268	-	-	-
Interest	729,819	-	-	6,979
Other	<u>5,362,647</u>	<u>1,305,985</u>	<u>-</u>	<u>-</u>
Accounts receivable, net	<u>\$ 22,461,849</u>	<u>\$ 76,952,998</u>	<u>\$ 19,175,008</u>	<u>\$ 6,979</u>

No allowances for uncollectibles were deemed necessary at June 30, 2002, for the University's student and other accounts receivable.

## **4. MEDICARE AND MEDICAID COST REIMBURSEMENTS**

The Authority has agreements with governmental payors that provide for reimbursement to the Authority at amounts different from its established rates. A summary of the basis of reimbursement with major governmental third-party payors follows.

Substantially all of the Authority's inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Additionally, the Authority is reimbursed for both its direct and indirect medical education costs (as defined), based principally on per-resident prospective payment amounts and certain adjustments to prospective rate-per-discharge operating reimbursement payments. The Authority generally is reimbursed for retroactively determined items at a tentative rate, with final settlement determined after submission of annual cost reports by the Authority and audits by the Medicare fiscal intermediary. The Authority's cost reports have been audited and settled for all fiscal years through 1996, as well as fiscal 1998. The Authority's cost reports for 1997 and 1999 have been audited, but not yet settled.

Revenue from the Medicare program accounted for approximately 31.5% of the Authority's net patient service revenue for the year ended June 30, 2002.

Authority inpatient and outpatient services rendered to most Medicaid program beneficiaries are reimbursed based upon prospective reimbursement methodologies.

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The Authority participates in a voluntary contribution program available to certain qualifying hospitals in the South Carolina Medicaid program. Amounts received or accrued by the Authority in excess of amounts paid into this program totaled approximately \$65.5 million in fiscal 2002. The net reimbursement benefits associated with this program are recognized as reductions in related contractual adjustments in the accompanying statement of operations. There can be no assurance that the Authority will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified.

Revenue from the Medicaid program including disproportionate share payments described above, accounted for approximately 35.2% of the Authority's net patient service revenue for the year ended June 30, 2002.

## 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2002 was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending Balance</b>
University:				
Capital assets not being depreciated:				
Land	\$ 13,536,329	\$ -	\$ -	\$ 13,536,329
Construction in progress	24,685,577	13,901,237	(4,635,599)	33,951,215
Total capital assets not being depreciated	<u>38,221,906</u>	<u>13,901,237</u>	<u>(4,635,599)</u>	<u>47,487,544</u>
Other capital assets:				
Depreciable land improvements	4,791,155	619,689	-	5,410,844
Buildings and improvements	214,769,004	3,148,506	(680,364)	217,237,146
Machinery, equipment, and other	54,914,540	5,940,872	(2,668,738)	58,186,674
Vehicles	3,639,482	194,042	(30,667)	3,802,857
Total other capital assets at historical cost	<u>278,114,181</u>	<u>9,903,109</u>	<u>(3,379,769)</u>	<u>284,637,521</u>
Less accumulated depreciation for:				
Depreciable land improvements	(3,557,815)	(214,419)	-	(3,772,234)
Buildings and improvements	(94,287,307)	(7,879,964)	648,284	(101,518,987)
Machinery, equipment, and other	(35,756,750)	(3,901,988)	2,382,075	(37,276,663)
Vehicles	(3,236,147)	(93,149)	30,667	(3,298,629)
Total accumulated depreciation	<u>(136,838,019)</u>	<u>(12,089,520)</u>	<u>3,061,026</u>	<u>(145,866,513)</u>
Other capital assets, net	<u>141,276,162</u>	<u>(2,186,411)</u>	<u>(318,743)</u>	<u>138,771,008</u>
University Capital assets, net	<u>\$ 179,498,068</u>	<u>\$ 11,714,826</u>	<u>\$ (4,954,342)</u>	<u>\$ 186,258,552</u>
Medical University Hospital Authority:				
Capital assets not being depreciated:				
Land and land improvements	\$ 1,569,579	\$ 1,700,401	\$ -	\$ 3,269,980
Construction in progress	14,476,777	14,498,862	-	28,975,639
Total capital assets not being depreciated	<u>16,046,356</u>	<u>16,199,263</u>	<u>-</u>	<u>32,245,619</u>
Other capital assets:				
Buildings and improvements	174,503,007	11,702,558	-	186,205,565
Machinery, equipment, and other	113,662,270	12,962,171	(4,851,601)	121,772,840
Vehicles	1,078,874	10,070	-	1,088,944
Total other capital assets at historical cost	<u>289,244,151</u>	<u>24,674,799</u>	<u>(4,851,601)</u>	<u>309,067,349</u>
Less accumulated depreciation for:				
Buildings and improvements	(82,991,126)	(7,020,796)	-	(90,011,922)
Machinery, equipment, and other	(63,925,096)	(9,872,672)	4,729,932	(69,067,836)
Vehicles	(905,541)	(93,330)	-	(998,871)
Total accumulated depreciation	<u>(147,821,763)</u>	<u>(16,986,798)</u>	<u>4,729,932</u>	<u>(160,078,629)</u>
Other capital assets, net	<u>141,422,388</u>	<u>7,688,001</u>	<u>(121,669)</u>	<u>148,988,720</u>
Hospital Authority capital assets, net	<u>\$ 157,468,744</u>	<u>\$ 23,887,264</u>	<u>\$ (121,669)</u>	<u>\$ 181,234,339</u>

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	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
University Medical Associates:				
Capital assets not being depreciated:				
Land	\$ 31,218	\$ -	\$ (31,218)	\$ -
Construction in progress	-	158,004	-	158,004
Total capital assets not being depreciated	<u>31,218</u>	<u>158,004</u>	<u>(31,218)</u>	<u>158,004</u>
Other capital assets:				
Buildings and improvements	57,162,003	1,958,015	(531,296)	58,588,722
Machinery, equipment, and other	9,352,026	1,467,963	(964,133)	9,855,856
Intangible assets	6,415,298	1,200,000	(4,025,365)	3,589,933
Total other capital assets at historical cost	<u>72,929,327</u>	<u>4,625,978</u>	<u>(5,520,794)</u>	<u>72,034,511</u>
Less accumulated depreciation for:				
Buildings and improvements	(11,323,166)	(1,858,944)	73,366	(13,108,744)
Machinery, equipment, and other	(3,224,099)	(1,434,517)	688,325	(3,970,291)
Intangible assets	(2,776,945)	(667,549)	1,984,532	(1,459,962)
Total accumulated depreciation	<u>(17,324,210)</u>	<u>(3,961,010)</u>	<u>2,746,223</u>	<u>(18,538,997)</u>
Other capital assets, net	55,605,117	664,968	(2,774,571)	53,495,514
University Medical Associates capital assets, net	<u>\$ 55,636,335</u>	<u>\$ 822,972</u>	<u>\$ (2,805,789)</u>	<u>\$ 53,653,518</u>

The gain (loss) on disposal of assets consisted of the following:

	<u>University</u>	<u>UMA</u>
Gain on disposal	\$ 2,725	\$ -
Loss on disposal	(318,671)	(483,333)
Net gain (loss) on disposal	<u>\$ (315,946)</u>	<u>\$ (483,333)</u>

## 6. PENSION PLANS

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina, 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates for the South Carolina Retirement System and the Police Officers Retirement System are actuarially determined. Annual benefits, payable monthly for life, are based on length of service and on average final compensation.

### **South Carolina Retirement System**

The majority of employees of the University and the Authority are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally, all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2001, the employer contribution rate became 10.4 percent, which included a 2.85 percent surcharge to fund retiree health and dental insurance coverage. The University's actual contributions to the SCRS for the three most recent fiscal years ending June 30, 2002, 2001, and 2000, were approximately \$6,786,000, \$6,865,000, and \$16,440,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. The amount for fiscal year 2000 includes the Medical Center, which is now a separate entity. The Authority's contribution to SCRS for the years ending June 30 2002 and 2001 were approximately \$14,500,000 and \$9,733,000, respectively. Also, the University paid employer group-life insurance contributions of \$135,000 in the current fiscal year at the rate of .15 percent of compensation.

### ***Police Officers Retirement System***

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement plan administered by the Retirement Division. Generally, all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2001, the employer contribution rate became 13.15 percent which, as for the SCRS, included the 2.85 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 2002, 2001, and 2000, were approximately \$156,000, \$177,000, and \$275,000, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$3,000 and accidental death insurance contributions of \$3,000 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

### ***Optional Retirement Program***

Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts which are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

ORP participation is limited to faculty and administrative staff of the State's higher education institutions who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 2.85 percent from the employer in fiscal year 2002.

Certain of the University's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were \$3,581,000 (excluding the surcharge) from the University as employer and \$2,846,000 from its employees as plan members. All amounts were remitted to the Retirement Division of the State Budget and Control Board for distribution to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

### ***Teacher and Employee Retention Incentive***

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows active members of the South Carolina Retirement System who are eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for a program period of up to five years. The length of the program period must be specified by the employee prior to retirement. Each participant is entitled to be paid for up to 45 days of accumulated unused annual vacation leave upon retirement and again at the end of the program period for annual vacation leave earned during the program period. The University recorded expenses of approximately \$477,000 for lump-sum vacation leave payments to its employees retiring under TERI in fiscal year 2002. The Authority recorded expenses of approximately \$150,000 for lump-sum vacation leave payments to its employees retiring under TERI in fiscal year 2002.

### ***Component Unit Pension Plans***

University Medical Associates provides a defined contribution plan covering all employees. The plan provides for contributions by UMA in such amounts as the Board of Directors may annually determine. The plan prohibits participant contributions except for rollovers from other plans. Current year contributions are based upon a four-tier percentage determined by the participant's compensation as follows: (a) eight percent of compensation up to \$40,000; (b) fourteen percent of compensation from \$40,001 to \$80,000; (c) thirty percent of compensation from \$90,001 to \$150,000; and (d) forty-five percent for compensation from \$150,001 to \$161,556. The maximum annual contribution per participant is \$35,000. Participants become fully vested in their accounts after five years of credited service. Total contributions to this plan totaled approximately \$10,440,000 in fiscal year 2002. Copies of the separately issued financial statements of the plan are available from the management of UMA.

UMA employees may also participate in an IRC Section 403(b) plan sponsored by UMA for which no employer contributions are made. The participants are fully vested in their contributions to the 403(b) plan at all times.

## 7. POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the University are eligible to receive these benefits. The State provides post-employment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally, those who retire must have at least 10 years of retirement service credit to qualify for these State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the University for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the University and the Authority for their active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently approximately 21,400 State retirees met these eligibility requirements.

The University and the Authority recorded compensation and benefits expense for these insurance benefits for active employees in the approximate amount of \$11,338,000 for the University and \$9,106,000 for the Authority for the year ended June 30, 2002. The University paid approximately \$3,957,000 and the Authority paid approximately \$3,286,000 applicable to the 2.85 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to University and Authority retirees is not available. By State law, the University and the Authority have no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements. In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS and PORS benefits.

UMA and its component units have established an employee benefit plan to self-insure employees for health, accident, and dental expenses. Life insurance benefits are insured through commercial insurance companies. UMA records an estimated liability for incurred but not reported claims based on estimates of the ultimate cost of reported claims using the gross method. The estimated claims liability at June 30, 2002 was \$448,675. This amount is included under the caption "other accrued liabilities" on the Statement of Net Assets.

UMA provides post-retirement health and dental care benefits for retirees and their dependents. Substantially all employees who retire under the pension plan at age 60 and have 10 years of credited service are eligible to continue their coverage by paying the current employee premiums under the plan. UMA's self-insured health and dental plan provides the coverage for those benefits.

## 8. DEFERRED COMPENSATION PLANS

Several optional deferred compensation plans are available to State employees and employees of its political subdivisions. Certain employees of the University and the Authority have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

Certain employees have elected to participate in a Section 457 plan and a Section 403(b) plan that were established by the University. The plans are administered by various unrelated financial institutions. Compensation deferred under the Section 457 plan is placed in trust for the contributing employee.

The Authority also independently sponsors a tax-advantaged defined contribution plan for its employees. Substantially all Authority employees are eligible to participate in this plan. Employees may contribute up to \$11,000 of eligible compensation. The Authority does not match employee contributions.

## 9. COMMITMENTS, CONTINGENCIES AND LITIGATION

The various federal programs administered by the University for fiscal year 2002 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the University believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the University. Therefore, an estimated loss has not been recorded.

The University, the Authority and UMA are involved in a number of legal proceedings and claims with various parties which arose in the normal course of business and cover a wide range of matters including medical malpractice. In the opinion of management, the outcome of the legal proceedings and claims is not expected to have a material adverse affect on the financial positions of the entities.

The University had outstanding commitments under construction contracts of approximately \$55,600,000 at June 30, 2002. The University anticipates funding these projects out of current resources, current and future bond issues, private gifts, and state capital improvement bond proceeds. Capital improvement bonds are issued by the State to fund improvements and expansion of various State facilities. The University is not obligated to repay these funds to the State. Authorized funds can be requested as needed once State authorities have given approval to begin specific projects and project expenses have been incurred. The University has authorized state capital improvement bond funds at June 30, 2002 of approximately \$17,000,000. In fiscal year 2002, the University received \$1,163,711 of capital improvement bond proceeds.

The Authority's construction in progress consists primarily of costs associated with medical center access, children's hospital and operating room renovations. The estimated total remaining costs to complete at June 30, 2002 are approximately \$22,700,000.

On June 28, 2002, the Authority renewed its agreement with a commercial bank for working capital lines of credit totaling approximately \$29,500,000 (bank lines). Advances under the bank lines bear interest at rates ranging from 145% of Adjusted 30-day London Interbank Offered Rate (LIBOR), as defined, to 157% of Monthly LIBOR, as defined, and are due on demand. The bank lines are secured by gross revenues (as defined) of the Authority. The security interest of the bank lines is subordinate to the security interest of the Series 2002A Revenue Bonds. No amounts were outstanding under these facilities at June 30, 2002, and the Authority anticipates that it will renew these credit facilities with similar terms and conditions in December 2002.

Carolina Family Care, Inc. and Carolina Primary Care Physicians, PA, component units of UMA, have signed corporate guarantees with a financial institution for a portion of the \$7,729,000 mortgage debt of Lowcountry Real Property, LLC. CFC and CPCP are jointly and severally liable for this amount should LCRP default on its obligation. This guarantee is in addition to the pledging of certain certificates of deposit as collateral as described in Note 2. These certificates of deposit were released in September 2002 when the annual rentals met certain prescribed coverage ratios for the annual debt service on the mortgage.

PEDF has been named in a lawsuit claiming wrongful termination filed by its former Chief Executive Officer. PEDF has answered the complaint and filed a counterclaim asserting breach of fiduciary duty. The parties have engaged in extensive discovery, but have failed to reach a settlement agreement. At this stage, settlement appears remote. The case is subject to be called for trial in February 2003. PEDF is vigorously defending the litigation and asserting the counterclaim. The plaintiff is claiming damages in excess of \$300,000.

PEDF is named in a lawsuit by its insurance company as to whether a policy issued by the company applies to claims against PEDF in the above mentioned lawsuit.

In an agreement dated July 1, 2001, PEDF sold substantially all of its assets and transferred certain liabilities to a company for a base price of \$875,000 plus contingent payments over a five years based on the buyer's revenues from the facilities purchased. For the year ended June 30, 2002, the earn-out amount was \$200,000.

## 10. ADVANCES

UMA received non-interest bearing advances from a major third party insurance carrier that were secured by claims for reimbursement against the carrier. These advances total \$7,000,000 as of June 30, 2002. Repayment was made in July, 2002.

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**11. LONG TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2002 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion</u>
University:					
General obligation bonds payable	\$ 35,035,000	\$ 7,250,000	\$ (1,645,000)	\$ 40,640,000	\$ 1,745,000
Revenue bonds payable	3,170,000	-	(490,000)	2,680,000	525,000
Capital leases payable to component units	25,145,871	-	(1,023,942)	24,121,929	1,109,932
Capital leases payable to external parties	395,075	186,846	(351,232)	230,689	117,479
Compensated absences payable	18,468,991	10,303,056	(9,767,551)	19,004,496	9,800,000
Total University long-term liabilities	<u>\$ 82,214,937</u>	<u>\$ 17,739,902</u>	<u>\$ (13,277,725)</u>	<u>\$ 86,677,114</u>	<u>\$ 13,297,411</u>
Medical University Hospital Authority:					
Notes payable	\$ 11,035,558	\$ 12,881,827	\$ (6,950,473)	\$ 16,966,912	\$ 4,085,085
Revenue bonds payable	102,990,000	102,835,000	(102,990,000)	102,835,000	-
Capital leases payable	1,682,691	10,070,773	(1,908,683)	9,844,781	2,752,087
Subtotal	115,708,249	125,787,600	(111,849,156)	129,646,693	6,837,172
Less unamortized bond discount and deferred refunding costs on revenue bonds payable	-	(6,459,551)	-	(6,459,551)	-
Total Authority long-term liabilities	<u>\$ 115,708,249</u>	<u>\$ 119,328,049</u>	<u>\$ (111,849,156)</u>	<u>\$ 123,187,142</u>	<u>\$ 6,837,172</u>
University Medical Associates:					
Notes payable	\$ 171,617	-	\$ (83,185)	\$ 88,432	\$ 43,722
Direct note obligations	100,150,000	-	(1,750,000)	98,400,000	1,400,000
Interest rate swap liability	1,760,069	-	(77,083)	1,682,986	77,083
Capital leases payable	1,571,980	1,060,184	(911,213)	1,720,951	693,536
Structured legal settlement	3,360,000	-	(840,000)	2,520,000	840,000
Compensated absences payable	3,512,920	-	(507,030)	3,005,890	1,803,534
Subtotal	110,526,586	1,060,184	(4,168,511)	107,418,259	4,857,875
Less deferred refunding costs on direct note obligations	(1,146,394)	-	49,941	(1,096,453)	(49,941)
Total UMA long-term liabilities	<u>\$ 109,380,192</u>	<u>\$ 1,060,184</u>	<u>\$ (4,118,570)</u>	<u>\$ 106,321,806</u>	<u>\$ 4,807,934</u>
Medical University Facilities Corporation:					
Revenue bonds payable	\$ 11,675,000	-	\$ (412,000)	\$ 11,263,000	\$ 444,000
Certificates of participation payable	15,020,000	-	(720,000)	14,300,000	775,000
Total MUFC long-term liabilities	<u>\$ 26,695,000</u>	<u>\$ -</u>	<u>\$ (1,132,000)</u>	<u>\$ 25,563,000</u>	<u>\$ 1,219,000</u>

**12. BONDS, NOTES, AND CERTIFICATES OF PARTICIPATION PAYABLE**

***Bonds Payable***

At June 30, 2002, the University's bonds payable consisted of the following:

	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Balance June 30, 2002</u>
State Institution Bonds			
1991 C series dated 5/17/91	6%	03/01/06	\$ 1,550,000
1992 A series dated 5/1/92	5.9 - 6%	03/01/07	2,810,000
1996 A series dated 7/1/96	4.8 - 5.4%	03/01/11	2,315,000
2000 series dated 4/1/00	4.8 - 6.25%	03/01/20	26,715,000
2001 C series dated 12/01/01	4.25 - 5%	12/01/16	7,250,000
Total state institution bonds			40,640,000
Parking Facilities Revenue Bonds			
1986 series dated 12/3/86	7.1 - 7.375%	07/01/06	2,680,000
Total			<u>\$ 43,320,000</u>

State Institution Bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition revenue is pledged up to the amount of the annual debt requirements for the payment of principal and interest on state institution bonds. S.C. Code of Laws section 59-107-90 states that the maximum amount of annual debt service on state institution bonds for each institution shall not exceed ninety percent of the sums received from tuition fees for the preceding fiscal year. Tuition fees for the preceding year were \$10,295,095 which results in a legal debt margin at June 30, 2002, of \$9,265,585. The debt service payments for the year ended June 30, 2002, were \$3,702,991.

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Parking fees, except on the Harborview Tower parking facility, paid to the University are pledged for the payment of principal and interest on parking facilities revenue bonds. The parking facilities revenue bonds series 1986 require the University to provide net revenues available for debt service of not less than 120% of the debt service payments to become due in each bond year beginning with the bond year beginning July 1, 1987. In addition, the University must establish and maintain various funds with the State Treasurer for payment of principal and interest for its parking revenue bonds.

The scheduled maturities of the bonds payable by type are as follows:

State Institution Bonds:

Year Ending June 30,	Principal	Interest	Total
2003	\$ 1,745,000	\$ 2,124,676	\$ 3,869,676
2004	2,185,000	2,013,175	4,198,175
2005	2,295,000	1,888,300	4,183,300
2006	2,540,000	1,756,555	4,296,555
2007	2,550,000	1,609,973	4,159,973
2008 – 2012	11,210,000	6,278,487	17,488,487
2013 – 2017	11,585,000	3,493,835	15,078,835
2018 – 2020	<u>6,530,000</u>	<u>664,324</u>	<u>7,194,324</u>
Total	<u>\$ 40,640,000</u>	<u>\$ 19,829,325</u>	<u>\$ 60,469,325</u>

Parking Facilities Revenue Bonds:

Year Ending June 30,	Principal	Interest	Total
2003	\$ 525,000	\$ 185,627	\$ 710,627
2004	560,000	147,352	707,352
2005	605,000	106,097	711,097
2006	650,000	61,092	711,092
2007	<u>340,000</u>	<u>12,538</u>	<u>352,538</u>
Total	<u>\$ 2,680,000</u>	<u>\$ 512,706</u>	<u>\$ 3,192,706</u>

Total principal payments on bonds for the year ended June 30, 2002 were \$2,135,000. Total interest expense relating to bonds payable for the year ended June 30, 2002 was \$2,256,711.

***Hospital Facilities Refunding Revenue Bonds Payable***

At June 30, 2002, the Authority's hospital facilities refunding revenue bonds payable consisted of the following:

	Interest Rates	Maturity Dates	Balance June 30, 2002
2002A series dated 6/27/02	5.6 – 6.5%	08/15/32	\$ 102,835,000
Unamortized bond discounts and deferred losses on bond refunding			<u>(6,459,551)</u>
Total			<u>\$ 96,375,449</u>

On June 27, 2002, the Authority issued \$102,835,000 of Series 2002A Hospital Facilities Refunding Revenue Bonds (2002A Refunding Bonds) at a discount of \$1,434,742. The net bond proceeds, as well as monies from the Series 1990A, 1990B, 1993 and 1999 Hospital Facilities Revenue trustee accounts, were used to defease all prior outstanding Hospital Facilities Revenue Bonds (totaling \$96,540,000) through the establishment of a related irrevocable trust for that purpose, to fund trustee accounts in accordance with the related indenture agreement and to pay certain costs of issuance related to the bonds.

Bond proceeds from the 2002A Refunding Bonds were used to currently refund the Series 1990A and 1990B bonds, defease the Series 1993 bonds, advance refund the Series 1999 bonds and refund all related accrued interest thereon. U.S. government securities were deposited in an irrevocable trust to provide for the debt service of the various bonds payable and, therefore, all amounts related to such bonds have been removed from the Authority's balance sheet. The deposits in trust will be used to: (1) pay the scheduled principal and interest payments due July 2002 on the currently refunded Series 1990A and 1990B bonds and to redeem the remaining aggregate principal amount of \$19,990,000 along with accrued interest during August 2002; (2) pay all scheduled principal and interest payments due on the defeased Series 1993 bonds through July 2013, and; (3) pay all scheduled principal and interest payments due on the advance refunded Series 1999 bonds through July 2009, at which time the remaining principal amount of \$35,890,000, along with accrued interest and a redemption premium of 1%, will be paid.

The entire 2002 refunding transaction resulted in a deferred loss on refunding of \$5,024,809, which will be amortized to expense through 2032 using the interest method. The deferred loss is related entirely to the in-substance defeasance of bonds payable.

As a result of the 2002 refunding of the various bonds payable, the Authority experienced an economic loss (defined as the difference between the present values of the aggregate debt service payments on the defeased and new bonds, discounted at the effective interest rate of the new bonds) of \$8,677,065, and increased its total required debt service payments by \$114,073,787.

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The Series 2002A Refunding Bonds are secured by the unrestricted revenues (as defined) of the Authority and certain trustee funds described in Note 2. Additionally, a municipal bond insurance policy has been obtained which unconditionally guarantees the 2002A Refunding Bonds principal and interest payments. Finally, the related bond agreement subjects the Authority to financial and nonfinancial covenants customary to such agreements.

The scheduled maturities of the bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2003	\$ -	\$ 4,350,454	\$ 4,350,454
2004	-	6,525,681	6,525,681
2005	-	6,525,681	6,525,681
2006	-	6,525,682	6,525,682
2007	-	6,525,681	6,525,681
2008 – 2012	-	32,628,406	32,628,406
2013 – 2017	13,870,000	30,642,841	44,512,841
2018 – 2022	18,865,000	25,648,782	44,513,782
2023 – 2027	25,850,000	18,668,709	44,518,709
2028 – 2032	35,630,000	8,887,129	44,517,129
2033	8,620,000	280,150	8,900,150
Total	<u>\$ 102,835,000</u>	<u>\$ 147,209,196</u>	<u>\$ 250,044,196</u>

**Lease Revenue Bonds Payable**

On September 20, 1995, Medical University Facilities Corporation issued lease revenue bonds series 1995A in the amount of \$12,729,000 and series 1995B in the amount of \$472,000. Related bond issue costs totaling \$356,900 were capitalized as deferred charges to be amortized over the lives of the bonds. The bonds were issued for the purpose of providing a portion of the payment for the costs of completing the acquisition and construction of the Strom Thurmond Biomedical Research Center. Interest rates range from 7.45% to 7.5%. The final maturity is in 2016, and the bonds are secured by the rental payments received under the capital lease as detailed in Note 13. The bond covenants require that MUFC establish and maintain funds with a trustee for the payment of principal and interest on the lease revenue bonds. Medical University Facilities Corporation paid \$412,000 in principal and incurred \$854,795 in interest expense on these bonds for the year ended June 30, 2002.

The scheduled maturities of the bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2003	\$ 444,000	\$ 831,173	\$ 1,275,173
2004	478,000	797,491	1,275,491
2005	513,000	761,201	1,274,201
2006	554,000	722,228	1,276,228
2007	595,000	680,200	1,275,200
2008 – 2012	3,725,000	2,650,977	6,375,977
2013 – 2016	4,954,000	997,685	5,951,685
Total	<u>\$ 11,263,000</u>	<u>\$ 7,440,955</u>	<u>\$ 18,703,955</u>

**Certificates of Participation Payable**

Medical University Facilities Corporation issued certificates of participation dated December 1, 1991, in the amount of \$19,740,000 for the purpose of acquiring Harborview Office Tower and the adjacent parking garage. The certificates require a principal payment on January 1 of each year and interest payments each January 1 and July 1. Interest rates range from 5.6% to 7.5%. The final maturity is in 2013, and the certificates are secured by the rental payments received under the capital lease (see Note 9) which correspond in amount and timing to the debt service payments detailed below. The covenants require that MUFC establish and maintain funds with a trustee for the payment of principal and interest on the certificates of participation. Medical University Facilities Corporation paid \$720,000 in principal and incurred \$1,075,281 in interest expense for the year ended June 30, 2002, on the certificates of participation payable.

The scheduled maturities of the certificates of participation are as follows:

Year Ending June 30,	Principal	Interest	Total
2003	\$ 775,000	\$ 1,048,731	\$ 1,823,731
2004	830,000	991,575	1,821,575
2005	890,000	930,363	1,820,363
2006	960,000	863,612	1,823,612
2007	1,030,000	791,612	1,821,612
2008 – 2012	6,415,000	2,695,788	9,110,788
2013	3,400,000	246,500	3,646,500
Total	<u>\$ 14,300,000</u>	<u>\$ 7,568,181</u>	<u>\$ 21,868,181</u>

## Direct Note Obligations

In fiscal year 1995, UMA issued \$55,000,000 in Direct Note Obligations, Series 1994 Select Auction Variable Rate Securities. On December 1, 1997, UMA issued an additional \$40,000,000 in Direct Note Obligations, Series 1997 Select Auction Variable Rate Securities. The Direct Note Obligations were issued for the purpose of providing payment for the costs of prepayment of its noncancelable lease obligation with Health Science Foundation and renovating and equipping Rutledge Tower. On December 31, 1999, UMA issued \$85,000,000 in Direct Notes Obligations, Series 1999A (\$39,400,000) and Series 1999B (\$45,600,000) Select Auction Variable Rate Securities. The proceeds were used to partially refund \$43,600,000 of 1994 and \$34,450,000 of 1997 Select Auction Variable Rate Securities and pay down two lines of credit. The current refunding met the requirements of a legal defeasance and the refunded portion of the Series 1994 and 1997 were removed from UMA's balance sheet.

As a result of the current refunding, UMA reduced its total debt service requirements by approximately \$19,400,000 which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$10,600,000.

The variable rate of interest is set every 35 days on the direct note obligations. The obligations can be converted to fixed rate obligations at the option of UMA, with the consent of the bond insurer, at a rate to be determined by market conditions at the time of conversion.

UMA has entered into an interest rate swap agreement to modify interest rates on a portion of its Series 1994, 1999A and 1999B direct note obligations. Based on the swap agreements, UMA owes interest calculated at a fixed rate of 6.82% on \$10 million of the Series 1994 issue, 6.82% on the \$39.4 million Series 1999A issue and 5.82% on the \$45.6 million Series 1999B issue. If the actual floating variable rate exceeds these rates, the counter-party pays the differential to UMA. If the actual floating variable rate is less than these rates, UMA pays the counter-party. During the term of the swap agreement UMA effectively pays a fixed rate on the debt. UMA will be exposed to variable rates if the counter-party to these swap agreements defaults or if the swap is terminated. On May 1, 2000, the interest rate swap agreement was modified to mitigate adverse income tax consequences to the counterparty should certain triggering events occur in the future resulting in a payment to UMA of \$1,850,000 for the life of the agreement. This amount is recorded in deferred revenue and is being amortized as a reduction of interest expense over the terms of the related obligations on the straight-line method. For the year ended June 30, 2002, interest expense was reduced by amortization of \$77,083.

The Direct Note Obligations are subject to optional redemption at the option of the issuer on the second business day immediately preceding the regular interest payment date at 100% of the principal amount thereof plus accrued and unpaid interest. Payment of the principal and interest on the direct note obligations is insured under a bond insurance policy. The insurance policy will pay any remaining balance after debt service reserve funds are exhausted.

Direct Note Obligations, Series 1994, 1997, 1999A and 1999B Select Auction Variable Rate Securities outstanding at June 30, 2002, were \$98,400,000. Debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest	Total
2003	\$ 1,400,000	\$ 6,794,545	\$ 8,194,545
2004	2,450,000	6,207,885	8,657,885
2005	1,900,000	6,476,802	8,376,802
2006	2,400,000	5,982,621	8,382,621
2007	2,500,000	6,003,566	8,503,566
Through 2027	87,750,000	66,349,099	154,099,099
Total	<u>\$ 98,400,000</u>	<u>\$ 97,814,518</u>	<u>\$ 196,214,518</u>

The obligation is collateralized by unrestricted receivables and leasehold property leased from Health Sciences Foundation (see Notes 13 and 18). Under the terms of the obligation agreement, interest, sinking, and debt service reserve funds were established with the master trustee and will be maintained as long as the obligations remain outstanding. The agreement, among others, limits incurrence of additional borrowing, disposition of certain properties, and requires that UMA satisfy certain measures of financial performance as long as the notes are outstanding.

## Notes Payable

The Authority has a promissory note payable to Charleston County for the purchase of hospital property and equipment, payable in varying amounts through May 2021 with semiannual interest payments at a rate of 5.1%. The note is secured by the pledged revenue (as defined) of the Authority. The security interest of the note is subordinate to the security interest of the Series 2002A refunding bonds. The scheduled maturities are as follows:

Year Ending June 30,	Principal	Interest	Total
2003	\$ -	\$ 650,344	\$ 650,344
2004	489,509	650,344	1,139,853
2005	508,832	624,645	1,133,477
2006	528,155	597,931	1,126,086
2007	547,477	570,203	1,117,680
2008 - 2012	3,104,518	2,476,681	5,581,199
2013 - 2017	3,864,546	1,634,944	5,499,490
2018 - 2021	3,838,790	516,239	4,355,029
Total	<u>\$ 12,881,827</u>	<u>\$ 7,721,331</u>	<u>\$ 20,603,158</u>

In fiscal year 2000, the Authority borrowed \$11,603,739 from a local bank. The note bears interest at the rate of 5.6% per annum and is payable in quarterly installments of \$1,057,386 including principal and interest. The financial institution holds a security interest in the equipment purchased using the funds. The final payment is due April 1, 2003. Payments due in fiscal year 2003 are principal of \$4,085,085 and interest of \$144,459.

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University Medical Associates has two notes payable collateralized by various medical equipment. These notes mature May 1, 2004, and require sixty monthly payments of \$4,097 which includes interest at 8%. The scheduled maturities are as follows:

Year Ending June 30,	Principal	Interest	Total
2003	\$ 43,722	\$ 3,871	\$ 47,593
2004	44,710	1,936	46,646
Total	<u>\$ 88,432</u>	<u>\$ 5,807</u>	<u>\$ 94,239</u>

UMA entered into a structured legal settlement of \$5,200,000 with the United States of America dated April 4, 2000. A \$1,000,000 principal payment was paid during the year ended June 30, 2000. The remainder of the settlement is payable in five equal annual installments of \$840,000 plus interest at the Federal Funds rate on each anniversary date of the settlement agreement. The scheduled maturities are as follows using the Federal Funds rate in effect at June 30, 2002:

Year Ending June 30,	Principal	Interest	Total
2003	\$ 840,000	\$ 42,336	\$ 882,336
2004	840,000	28,224	868,224
2005	840,000	14,112	854,112
Total	<u>\$ 2,520,000</u>	<u>\$ 84,672</u>	<u>\$ 2,604,672</u>

University Medical Associates has a line of credit shared by two financial institutions with a maximum borrowing limit of \$17,500,000. The line of credit is allocated sixty percent to one financial institution and forty percent to the other and bearing interest at the 30 day LIBOR rate plus 2.75%. All advances, payments, and fees must be allocated between the financial institutions according to the ratios indicated. The agreement expires on January 31, 2003, and the obligations are collateralized by the unrestricted receivables of UMA. There was a total of \$14,624,612 outstanding as of June 30, 2002.

PEDF has an interest free loan payable to the Health Sciences Foundation for advances in prior years of working capital. At June 30, 2002, the balance of the loan was \$5,362,792. Provisions of this debt call for voting board seats and conversion to equity rights.

### 13. LEASE OBLIGATIONS

The University's future commitments for capital leases and for operating leases having remaining noncancelable terms in excess of one year as of June 30, 2002, were as follows:

Year Ending June 30	Capital Leases		Operating Leases
	with component units	with external parties	
2003	\$ 3,101,401	\$ 126,071	\$ 884,430
2004	3,099,245	77,902	249,183
2005	3,098,033	32,608	-
2006	3,101,283	-	-
2007	3,099,282	-	-
2008 - 2012	15,499,138	-	-
2013 - 2016	9,079,853	-	-
Total minimum lease payments	40,078,235	236,581	<u>\$ 1,133,613</u>
Less interest	(15,956,306)	(5,892)	
Present value of minimum lease payments	24,121,929	230,689	
Less current portion	(1,109,932)	(117,479)	
Long term portion	<u>\$ 23,011,997</u>	<u>\$ 113,210</u>	

The Authority's future commitments for capital leases and for operating leases having remaining noncancelable terms in excess of one year as of June 30, 2002, were as follows:

Year Ending June 30	Capital Leases	Operating Leases
	Equipment	
2003	\$ 3,227,000	\$ 3,245,426
2004	2,913,221	1,210,887
2005	1,958,163	923,021
2006	1,871,149	412,897
2007	1,085,903	-
Total minimum lease payments	11,055,436	<u>\$ 5,792,231</u>
Less interest	(1,210,655)	
Present value of minimum lease payments	9,844,781	
Less current portion	(2,752,087)	
Long term portion	<u>\$ 7,092,694</u>	

### **Capital Leases**

Capital leases are generally payable in monthly installments from current resources. Certain University capital leases provide for renewal and/or purchase options. Generally, purchase options at bargain prices of one dollar are exercisable at the expiration of the lease terms.

Monthly payments are made to financial institutions as trustee under capital leases with MUFC for the Harborview Office Tower and the Strom Thurmond Biomedical Research Center. The payment amounts are based on the amount necessary to fund the payments due under the certificates of participation and the lease revenue bonds (see Note 12). These payment requirements are reduced by interest earned on the cash held by the trustee. A portion of the Strom Thurmond Biomedical Research Center has been subleased to the Veterans Administration for a period of 20 years at an annual rent of \$1,264,670.

The following is a summary of the carrying value of assets held under capital leases at June 30, 2002:

	Capital leases with component units	Capital leases with external parties
Equipment	\$ -	\$ 568,707
Land	2,335,580	-
Buildings	<u>45,317,118</u>	<u>-</u>
Total	47,652,698	568,707
Less accumulated amortization	<u>(12,910,073)</u>	<u>(286,582)</u>
Total assets acquired under capital leases, net	<u>\$ 34,742,625</u>	<u>\$ 282,125</u>

Authority equipment with original cost totaling approximately \$11,700,000 and related accumulated amortization of approximately \$286,000 is held under the Authority capital leases.

University Medical Associates has entered into capital lease agreements as lessee for computers, equipment and software. These lease agreements have been recorded at the present value of future minimum lease payments as of the inception date in the accompanying financial statements.

Following is an analysis of the leased property under capital leases at June 30, 2002:

	Capitalized Costs	Accumulated Depreciation	Net Book Value
Leasehold improvements	\$ 374,798	\$ 8,809	\$ 365,989
Computers and equipment	<u>3,191,833</u>	<u>1,653,806</u>	<u>1,538,027</u>
Total	<u>\$ 3,566,631</u>	<u>\$ 1,662,615</u>	<u>\$ 1,904,016</u>

Included in depreciation expense for the year ended June 30, 2002, was \$567,640 for these capital leases.

The future UMA minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2002, were as follows:

Year Ending <u>June 30,</u>	
2003	\$ 805,561
2004	531,515
2005	353,003
2006	199,776
2007	<u>46,883</u>
Total minimum lease payments	1,936,738
Less interest	<u>(215,787)</u>
Present value of minimum lease payment	1,720,951
Less current portion	<u>(693,536)</u>
Long term portion	<u>\$ 1,027,415</u>

On January 9, 1995, UMA used a portion of the proceeds of the Direct Note Obligations to prepay Health Sciences Foundation \$37,000,000 on a noncancelable lease for Rutledge Tower which expires on June 30, 2018 but will be renewed automatically for successive five year terms following the initial term. As a result of the prepayment, \$13,989,600 was recorded as rental buildings under capital lease, \$2,958,000 was recorded as rental equipment under capital lease and \$20,052,400 was recorded as prepaid rent for the land in UMA's financial records. The prepayment is being amortized using the straight-line method over 29.5 years as rent expense. For the year ended June 30, 2002, amortization was \$679,742. The balance included in prepaid expense was \$14,954,333 at June 30, 2002.

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Following is an analysis of the leased property under the capital lease at June 30, 2002:

	<u>Building</u>	<u>Equipment</u>
Capitalized costs	\$ 13,989,600	\$ 2,958,000
Less accumulated depreciation	<u>(3,556,678)</u>	<u>(2,218,500)</u>
Total	<u>\$ 10,432,922</u>	<u>\$ 739,500</u>

The building and equipment are being depreciated on a straight-line method over 29.5 and 10 years, respectively. Depreciation expense for the year ended June 30, 2002 includes \$770,024 for this lease.

### **Operating Leases**

The University's and the Authority's noncancelable operating leases provide for renewal options for periods from one to five years at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis. Total operating lease expense in fiscal year 2002 was approximately \$5,348,000 for real property of the University and approximately \$3,490,000 for real property and equipment of the Authority. The University and the Authority have an annual operating lease agreement with each other which covers space each uses in real property owned by the other. During the fiscal year the University paid the Authority \$1,105,340 and the Authority paid the University \$2,892,493 under this lease agreement. As discussed in Note 17 and Note 18, the University and the Authority had certain other operating leases with related parties in the current fiscal year.

University Medical Associates leases certain land, buildings and equipment under leases expiring at various dates from 2003 through 2014 including those facilities referred to in Note 18. Rent expense under these various agreements was \$5,908,828 in fiscal year 2002. The minimum lease payments under UMA noncancelable leases having remaining terms in excess of one year are as follows:

<u>Year Ending</u> <u>June 30,</u>	
2003	\$ 4,239,714
2004	3,221,729
2005	2,136,734
2006	1,985,227
2007	1,498,882
2008 – 2012	5,277,228
2013 – 2014	<u>1,432,566</u>
Total	<u>\$ 19,792,080</u>

## **14. NET ASSETS**

A portion of the net assets of Medical University Facilities Corporation is restricted for payment of debt service on the certificates of participation and the lease revenue bonds under the related covenants. The unrestricted net assets deficit results from the manner in which the capital lease on The Strom Thurmond Biomedical Research Center and the related Lease Revenue Bonds were structured. Because of timing differences, MUFC had an unrestricted net assets deficit of \$639,263. As lease payments are received from the University, the deficit will be eliminated.

UMA has incurred losses in the last several years that are directly related to the primary care network operations of its blended component units that were acquired in 1995. Management has been monitoring these losses and plans have been implemented to make the practices more self-sustaining. UMA also began receiving support from MUSC through the Primary Care Educational Agreements and expects to receive additional funding over the next ten to twelve years. Management expects the above factors to continue to improve the operating results in the foreseeable future.

UMA management has determined that certain primary care practices will be disposed of in an effort to make the primary care network financially self-sustaining. UMA reached an agreement on June 28, 2002 with one of these practices and recorded a special item related to this sale of a segment of its primary care network. The special item is composed of the write-off of intangibles related to the segment's acquisition as well as payments to the physicians in the termination of their employment contracts and legal expenses related to the settlement.

## **15. STATE APPROPRIATIONS**

The Medical University of South Carolina is granted an annual appropriation for operating purposes as authorized by the General Assembly of the State of South Carolina. State appropriations are recognized as revenue when received. Amounts that are not expended by fiscal year-end lapse and are required to be returned to the General Fund of the State unless the University receives authorization from the General Assembly to carry the funds over to the next year.

The original appropriation is the University's base budget amount presented in the General Funds column of Section 5MA-MC of Part IA of the 2001-02 Appropriation Act. The following is a reconciliation of the original appropriation as enacted by the

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General Assembly to state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 2002:

	AHEC	University	Total
Original Appropriation	\$ 19,423,545	\$ 105,994,219	\$ 125,417,764
State Budget and Control Board Allocations:			
Alzheimer's Research (Proviso 72.110)		10,000	10,000
Employee Base Pay Increases and Related			
Employee Benefits (Proviso 63C.9)	44,712	1,864,723	1,909,435
For Employer Contributions (Proviso 72.22)	23,340	1,127,219	1,150,559
Appropriation Allocations from the State Commission on			
Higher Education:			
For Performance Funding (Proviso 5A.6)	76,317	403,483	479,800
From the Higher Education matching gift fund for			
academic endowment match		264,131	264,131
Appropriation Transfer from Clemson University for			
Agromedicine Program		257,538	257,538
4% State Budget Mid-Year Reduction	(779,664)	(4,359,446)	(5,139,110)
2.52% State Budget Mid-Year Reduction	(471,540)	(2,636,593)	(3,108,133)
State Appropriation Revenue	\$ 18,316,710	\$ 102,925,274	\$ 121,241,984

Proviso 72.43 of the 2001-02 Appropriation Act authorized each agency to bring forward unspent State General Fund appropriations from the prior year into the current fiscal year up to a maximum of ten percent of its original appropriation less any appropriation reductions. Agencies which have separate carry-forward authority had to exclude the amount brought forward by such separate authority from their base for purposes of calculating the ten percent carry-forward. Pursuant to this proviso, the University carried forward \$256,585 to fiscal year 2002.

In addition to the state appropriation, the University received grants totaling \$3,292,328 from various state agencies and \$1,163,711 in state capital improvement bond proceeds.

### 16. SPECIAL ITEM AND EXTRAORDINARY ITEMS

UMA management has determined that certain primary care practices will be disposed of in an effort to make the primary care network financially self-sustaining. UMA reached an agreement on June 28, 2002 with one of these practices and as such recorded a special item related to this sale of a segment of its primary care network. The special item is composed of the write-off of intangibles related to the segment's acquisition as well as various payments to the physicians in the termination of their employment contracts and legal expenses related to the settlement.

UMA entered into a structured legal settlement with the United States of America on April 4, 2000 for the payment of \$5.2 million in damages in connection with a lawsuit brought under the False Claims Act. In addition to the settlement with the government, UMA, MUSC, and the Authority are liable for attorney fees, costs and expenses incurred by the plaintiffs in connection with this lawsuit. The judge awarded the plaintiffs in a ruling handed down on May 24, 2002. The \$2.15 million award of legal fees and costs has been reported as an extraordinary item in the Statement of Revenues, Expenses and Changes in Net Assets to be consistent with the accounting treatment given to the original settlement. Both the settlement and plaintiff legal fees and costs are considered unusual in nature and are not expected to occur again in the foreseeable future.

In July 2001, PEDF terminated its lease on a building with a net carrying value of \$7,590,825. The termination of the lease relieved PEDF of a capital lease payable and related deferred interest in the amount of \$7,025,942 and lease origination fees of \$10,500, resulting in a total loss from early extinguishment of debt of \$575,383.

### 17. COMPONENT UNITS

#### ***Medical University Hospital Authority***

Effective June 16, 2000, the University and the Authority entered into an affiliation agreement which outlines availability of facilities, use of house staff, and insurance coverage. The agreement ends June 30, 2005 with automatic renewal of an additional five years unless either party provides written notification to cancel at least 180 days prior to the end of the term.

The Authority paid the University \$51,425,594 during the fiscal year ended June 30, 2002 for interns and residents, professional services of the College of Medicine, physical plant, rent, public safety, and other administrative and financial services. Also during the fiscal year, the Authority made nonmandatory transfers to the University of \$3,750,934 for academic support. The University paid the Authority \$1,744,733 during the fiscal year ended June 30, 2002 for rent, various administrative and support services.

The Authority owed the University \$5,187,644 at June 30, 2002.

**University Medical Associates**

Revenues of University Medical Associates are available to pay operating expenses of UMA and support activities of the academic departments at The Medical University of South Carolina including faculty and staff compensation. Any excess may be paid to the University or retained within UMA for future use. For the year ended June 30, 2002, pursuant to this practice, UMA transferred \$5,374,737 to the University.

The University, the Authority, and UMA have entered into agreements whereby UMA will be reimbursed an annual fixed amount for providing an environment for clinical education and research for University residents and students. UMA shall be entitled to reimbursement for, but not limited to expenses for facilities necessary to perform these agreements, personnel costs, insurance, necessary supplies and equipment, and necessary capital improvements. The parties agree each year to an estimated budget, which is net of supplies billing and other revenue, to be paid ratably over the year to UMA as reimbursement of its costs. For the fiscal year ending June 30, 2002, the University paid UMA \$4,000,000 and the Authority paid UMA \$34,162,477.

The Authority and UMA entered into an agreement to provide a digestive disease center for patients with digestive disease. The agreement is renewed annually and can be terminated upon 180 days written notice. UMA has responsibility for the management of the daily operations of the center. The Authority reimburses UMA for certain direct costs of the operation. During fiscal year 2002, UMA under this agreement received from the Authority \$298,828.

Carolina Health Management Services, Inc., a blended component unit of UMA, has a managed care contract and reimbursement agreement with the Authority. CHMS performs services regarding managed care operations for the Authority and its affiliates, including arranging for contracts with various third party payers. The agreement is renewed annually and can be terminated by either party by 30 days prior to the expiration of the term in effect. All costs from these operations of the managed care services are shared between UMA (40%), CHMS (10%) and the Authority (50%).

The Authority entered into an agreement with UMA effective June 27, 1994, to provide urgent care services to Authority patients. This agreement was amended September 1, 2000 for a one-year period with automatic renewal unless terminated by any party upon 120 days written notice. UMA has responsibility for the management of the daily operations of the urgent care services. Any net gain/loss from operations of the Authority emergency care services is shared equally as defined in the financial accountability and distribution plan.

The University amounts due (to) from UMA as of June 30, 2002, are as follows:

	<u>Total</u>
Parking fees receivable	\$ 15,495
Other receivables	484,148
Settlement costs, including accrued interest	(719,928)
Other payables	(130,990)
Rent	(219,048)
Grant salary reimbursement	<u>(409,401)</u>
Net due (to) UMA	<u>\$ (979,724)</u>

The Authority amounts due (to) from UMA as of June 30, 2002, are as follows:

Ambulatory Care Clinical Education Agreement	\$ (162,477)
Patient receivables	(314,853)
Other receivables	249,116
Settlement costs, including accrued interest	(2,422,241)
Other payables	(224,168)
Rutledge Tower rent	(164,306)
Digestive Disease Contract	<u>(28,131)</u>
Due (to) UMA	<u>\$ (3,067,060)</u>

The University, the Authority, and UMA entered into a five-year agreement during fiscal year 2000 for the settlement of the False Claims Act lawsuit. The entire liability was recorded by UMA as a structured legal settlement. Payments of \$260,443 from the University and \$876,278 from the Authority including interest at 6.4 percent are paid to UMA each November 1 starting November 1, 2000 through November 1, 2004.

During the year, the University paid UMA \$3,283,672 in rent for office space and various other properties.

**Pharmaceutical Education and Development Foundation**

The University has an agreement with Pharmaceutical Education and Development Foundation to provide office space, laboratory facilities, and certain administrative services to PEDF. The value of these services is calculated using actual personnel costs and expenses prorated by PEDF effort plus fair market value of similar rental space. As of November 2000, PEDF was no longer using office space or laboratory facilities at the University. Under the agreement, PEDF must provide funds for the University's College of Pharmacy faculty and student support, and other needs in such amounts as may be determined from time to time by PEDF's board. Such amounts must adequately reimburse the University for space, equipment and services provided by the College of Pharmacy or PEDF must reimburse the University. The agreement provides for other terms dealing with personnel compensation, accounting procedures, legal matters, indemnification and other business matters.

PEDF owes the University \$162,337 for rent as of June 30, 2002.

UMA provides payroll and personnel functions to PEDF. PEDF reimburses UMA for all funds expended on its behalf plus an administrative fee of one and one-half percent. The contract is automatically renewed for one-year terms unless either party gives notice. UMA treats the reimbursement received from PEDF as a reduction of related expenses. The reimbursement totaled \$455,044 for the year ending June 30, 2002. As of June 30, 2002, PEDF owes UMA \$2,341,785 under this agreement which will be evaluated periodically in relation to the earnings of PEDF to insure that the receivable is recorded at the net realizable value. UMA discounted this receivable in fiscal year 2001 by \$170,819 and as of June 30, 2002 expects to receive \$2,170,966.

### ***Medical University Facilities Corporation***

For the year ended June 30, 2002, pursuant to the trust agreement, MUFC transferred \$44,236 of excess funds on deposit to the University.

## **18. RELATED PARTIES**

### ***Foundation for Research Development***

MUSC Foundation for Research Development (MFRD) was incorporated in March 1995, as a direct support organization for the University. The mission of MFRD is to support the educational, research and health care mission of the University by fostering creativity and innovation. Additionally, MFRD is charged with initiating and sustaining cooperation and collaboration between the University and business and industry, acting as the University's intellectual property management and technology marketing arm, and advancing health related economic development for South Carolina and the nation.

MFRD and the University have an affiliation agreement which outlines activities requiring MUSC Board approval, conflict of interest, dissolution, insurance, and indemnity. Additionally, the agreement requires an annual accounting of the State property, personnel, and resources used directly by MFRD, as well as, reimbursement or demonstration that adequate in kind reimbursement through provision of funds or services to the University has been made. The value of the State resources utilized by MFRD is estimated to be \$145,061 and is reported as an MFRD in-kind donation and expense. The value is calculated using actual personnel costs prorated by MFRD effort plus an overhead allocation. During the fiscal year ended June 30, 2002, MFRD provided services to the University which offset the support provided.

MFRD entered into a contract with the University to provide management services for research activities and intellectual property activities. The contracts provide for annual payments of \$520,000. For the fiscal year ended June 30, 2002, MFRD has recognized income of \$520,000 from these contracts.

A contract was executed during the fiscal year ended June 30, 1998 between MFRD and the University for support activities and fund management for the MUSC Healthy South Carolina Initiative Program. Specific responsibilities of the Foundation include providing subawards to support the Healthy South Carolina Initiative Program, pursuing intellectual properties and service opportunities emanating from the research, and reporting health benefits inured to South Carolinians.

MFRD recorded the corpus of the Healthy South Carolina funds as a liability to the University and the University has this amount recorded as due from MFRD. These funds have been subawarded for research and other activities performed by University faculty members. Funds are returned to the University as expenses are incurred by the University for these subawards.

The University has assigned the rights to intellectual property owned by the University to MFRD. MFRD incurs the cost of patent prosecution and commercialization of the intellectual property. Legal fees and other costs associated with patent prosecution are expensed as incurred as the future economic benefits are uncertain and not measurable.

The assets, liabilities and financial operations of MFRD, as summarized on the following schedule are not included in the accompanying financial statements of the University.

#### STATEMENT OF FINANCIAL POSITION

Assets	<u>\$ 7,884,624</u>
Liabilities	\$ 5,983,826
Net assets	<u>1,900,798</u>
Total liabilities and net assets	<u>\$ 7,884,624</u>

#### STATEMENT OF ACTIVITIES

Revenues, gains, and other support	\$ 9,447,948
Expenses	<u>10,583,823</u>
Change in net assets	(1,135,875)
Net assets at beginning of year	<u>3,036,673</u>
Net assets at end of year	<u>\$ 1,900,798</u>

### **Health Sciences Foundation**

The Health Sciences Foundation (HSF), a separately chartered legal entity whose activities are related to those of the University, exists primarily to provide financial assistance and other support to the University and its educational program. The financial statements of the Health Sciences Foundation are audited by independent auditors retained by the foundation. The activities of HSF are not included in the University's financial statements. However, the University's statements include transactions between the University and the Foundation.

In conjunction with its implementation of GASB Statement No. 14, management annually reviews its relationship with the Health Sciences Foundation. The University excluded HSF from the reporting entity because it is not financially accountable for the foundation. In May 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an Amendment of GASB Statement No. 14*. This statement addresses certain organizations which warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government or its other component units. Under the criteria of Statement No. 39, management believes that the Health Sciences Foundation will be required to be reported as a component unit of the University. Statement No. 39 is effective for financial statements for periods beginning after June 15, 2003.

The Health Sciences Foundation was incorporated in July 1966, under the laws of the State of South Carolina as an educational, charitable, eleemosynary foundation to promote education, research, clinical, and other facilities and programs of the University. In the event of dissolution of HSF, its assets would be transferred to the University and applied to any function germane to the University's activities.

The University provides office space and pays certain administrative costs for HSF. The total value of these items was \$219,523 in fiscal year 2002. The University was not reimbursed for these costs. HSF provided support to the University for general and department expenses which totaled \$8,898,580 in fiscal year 2002. This revenue is recorded as gifts. In addition, HSF had transactions which totaled \$663,867 for equipment and supply items donated to the University. The University also has a deposit from HSF of \$50,000 included in other liabilities. HSF leased various properties to the University, to the Authority, and to UMA in fiscal year 2002.

Health Sciences Foundation acquired the Rutledge Tower (formerly the St. Francis facilities) in 1993 and these properties are leased to University Medical Associates. During April 1996, HSF's board of directors passed a resolution to transfer the title on the St. Francis Hospital and associated facilities to the University at the end of the lease term which is the later of (1) June 30, 2024, or (2) the date on which all principal of and premium, if any, and interest on the direct note obligations has been paid. This was considered a contribution by HSF, and was recorded by HSF as a contribution payable and contribution expense in 1996 at the value of the land, \$17,852,400. The buildings and equipment do not have a residual value at the end of the lease.

The pledge has not been recorded by the University because the net realizable value is not readily determinable and because of the uncertainties created by the fact that the transfer will not be made until the end of the lease term.

Also, the Health Sciences Foundation provided funds on an interest free basis to PEDF to provide working capital. Provisions of this debt call for voting board seats and conversion to equity rights. At June 30, 2002, PEDF owed HSF \$5,362,792.

## **19. INCOME TAXES**

The blended component units of University Medical Associates are entities subject to federal and state income taxes (see Note 1). However, they had cumulative estimated net operating loss carryovers totaling approximately \$41,500,000 which may be offset against future taxable income of the respective companies.

Approximately \$7,600,000 in 2011, \$8,400,000 in 2012, \$10,000,000 in 2013, \$9,500,000 in 2019, \$1,500,000 in 2020, \$500,000 in 2021, and \$4,000,000 in 2022, will expire if unused by those years. No tax benefit has been reported in the 2002 financial statements due to the uncertainty regarding future taxable income of the component units.

## **20. RISK MANAGEMENT**

The University and its component units are exposed to various risks of loss and maintain State or commercial insurance coverage for each of those risks except health and dental insurance claims for UMA which are self-insured. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year. Settled claims have not exceeded this coverage in any of the past three years. State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered employees for health and dental insurance benefits (Office of Insurance Services); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

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Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan.

The University and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following activities:

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles and watercraft;
4. Torts;
5. Business interruptions;
6. Natural disasters;
7. Medical malpractice claims against covered clinics, hospitals, employees, and third- and fourth-year medical students.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in certain areas. The IRF's rates are determined actuarially.

The University and the Authority obtain coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation. The University also obtains coverage through a commercial insurer for losses related to aircraft.

UMA and its component units are exposed to various risks related to: torts, theft of, damage to and destruction of assets, errors and omissions, and natural disasters. UMA, as the recognized clinical practice plan of The Medical University of South Carolina, is granted statutory protection and recovery limitations for MUSC physicians' clinical activities. Pursuant to State law, these physicians are insured by the South Carolina Insurance Reserve fund, a creation of the State of South Carolina, which is sustained through premiums paid by State agencies and governmental entities. For coverage of all other individuals and activities, UMA maintains coverage from commercial insurance companies. Management believes these coverages are sufficient to preclude any significant uninsured losses to UMA from risks that occur in normal and expected activities. Funds administered by the State of South Carolina or commercial insurance covers the following risks:

1. unemployment compensation benefits;
2. long-term disability benefits for employees;
3. theft of assets;
4. damage to property;
5. tort liability claims.

The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accordance with the insurance policy and benefit program limits. Settlement amounts have not exceeded insurance coverage for the current or preceding three years.

UMA also purchases a portion of its medical malpractice insurance coverage for healthcare providers through the State's insurance enterprise, the Medical Malpractice Patients' Compensation fund and the Joint Underwriters Association. Private insurance companies cover the component units. UMA obtains employee fidelity bond insurance coverage through a commercial insurer for all employees for losses arising from theft or misappropriation.

UMA and its component units have established an employee benefit plan to self-insure employees for health, accident, and dental expenses. Life insurance benefits are insured through commercial insurance companies. UMA records an estimated liability for incurred but not reported claims based on estimates of the ultimate cost of reported claims using the gross method. The estimated claims liability at June 30, 2002 was \$448,675. This amount is included as other accrued liabilities on the Statement of Net Assets.

The following represents the changes in the approximate claims liabilities for self-insured health and dental claims of UMA for 2002 and 2001:

	<u>UMA</u>
Liability balance, July 1, 2000	\$ 495,318
Claims and changes in estimate	5,183,730
Claims payments	<u>(5,072,135)</u>
Liability balance, June 30, 2001	606,913
Claims and changes in estimate	5,517,189
Claims payments	<u>(5,675,427)</u>
Liability balance, June 30, 2002	<u>\$ 448,675</u>

## 21. ACCOUNTING CHANGES AND PRIOR PERIOD ADJUSTMENTS

As a result of the adoption of GASB Statements No. 34 and 35, as discussed in Note 1, the University made certain changes in accounting principles, specifically:

- change of capitalization limits for capital assets;
- adoption of depreciation on capital assets;
- recording of certain summer semester revenues between fiscal years rather than in the fiscal year in which the semester was predominately conducted;
- recording accrued interest on student loans;
- deferring unearned revenue on exchange grants and contracts;
- reporting federal loan program balances as a liability;
- recognition of capital improvement bond revenue when earned rather than when authorized by the legislature;
- recording of accrued revenue on nongovernmental grants and contracts.

The University has restated its beginning net assets as of July 1, 2001, for the above accounting changes as disclosed in the following schedule:

Fund equity at June 30, 2001, as previously reported	\$ 361,988,982
Restatement adjustments:	
Change in capitalization level	(16,156,170)
Accumulated depreciation on capital assets	(136,838,020)
2002 summer semester revenues recognized in 2001	(2,086,659)
Accrued interest on student loans	179,357
Deferred grant revenue	(20,240,797)
Federal loan program liability	(11,117,547)
Capital improvement bond proceeds revenue	(18,206,563)
Accrued grant revenue	<u>3,560,300</u>
Net assets June 30, 2001, as restated	<u>\$ 161,082,883</u>

The Pharmaceutical Education and Development Foundation made a prior period adjustment to correct the recording of capital lease payments on a building paid in the prior year. During the year ended June 30, 2001, PEDF recorded the lease payments as a reduction of the lease obligation payable and expensed the related interest portion. The lease payments were held in escrow by the attorney for PEDF as of June 30, 2001. The escrow account should have been reflected as a cash and cash equivalent as of June 30, 2001. The effect of the prior period adjustment increased net assets by \$768,386, capital lease payable by \$29,962 and restricted cash by \$798,348.

The MUSC Foundation for Research Development (MFRD) was previously included in the University's financial reporting entity as a component unit. For the fiscal year ended June 30, 2002, MFRD amended its bylaws and articles of incorporation and as a result MFRD is no longer considered a component unit. The University has excluded MFRD from its financial reporting entity since the University is not financially accountable for MFRD.

## 22. OPERATING EXPENSES BY FUNCTION

Operating expenses of the University by functional classification for the year ended June 30, 2002, are as follows:

	<u>Compensation and Employee Benefits</u>	<u>Services and Supplies</u>	<u>Utilities</u>	<u>Scholarships and Fellowships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 85,520,903	\$ 30,413,603	\$ -	\$ 578,831	\$ -	\$ 116,513,337
Research	59,500,324	28,126,554	430,214	2,245,035	-	90,302,127
Public service	15,226,998	6,216,076	6,234	26,500	-	21,475,808
Academic support	16,450,583	8,971,198	13,911	70,773	-	25,506,465
Student services	5,028,349	1,354,785	910	56,446	-	6,440,490
Institutional support	17,352,895	9,740,219	40,702	-	-	27,133,816
Operation and maintenance of plant	13,820,627	12,285,472	5,573,339	-	12,089,520	43,768,958
Scholarships and fellowships	-	-	-	2,087,083	-	2,087,083
Auxiliary enterprises	<u>852,183</u>	<u>1,892,522</u>	<u>87,436</u>	<u>-</u>	<u>-</u>	<u>2,832,141</u>
	<u>\$ 213,752,862</u>	<u>\$ 99,000,429</u>	<u>\$ 6,152,746</u>	<u>\$ 5,064,668</u>	<u>\$ 12,089,520</u>	<u>\$ 336,060,225</u>

## 23. INFORMATION FOR STATEMENT OF ACTIVITIES

The following information is presented for use in the state's government-wide statement of activities.

	<u>The University</u>	<u>Medical University Hospital Authority</u>	<u>University Medical Associates</u>	<u>Medical University Facilities Corporation</u>	<u>Pharmaceutical Education and Development Foundation</u>
Charges for services	\$ 206,798,138	\$ 518,505,521	\$ 188,137,876	\$ 2,033,990	\$ 214,437
Operating grants and contracts	11,844,773	-	-	-	-
Capital grants and contributions	7,422,249	-	-	-	-
Less: expenses	<u>(341,139,748)</u>	<u>(504,697,804)</u>	<u>(174,953,154)</u>	<u>(1,947,004)</u>	<u>(1,248,104)</u>
Net program revenue (expense)	<u>(115,074,588)</u>	<u>13,807,717</u>	<u>13,184,722</u>	<u>86,986</u>	<u>(1,033,667)</u>
Extraordinary item	-	-	(2,150,000)	-	(575,383)
Special item	-	-	(2,571,399)	-	-
Transfers:					
State appropriation	121,241,984	-	-	-	-
Other transfers in from state funds	9,169,907	-	-	-	-
Less: transfers out to state funds	<u>(98,687)</u>	<u>(3,750,934)</u>	<u>(5,374,737)</u>	<u>(44,236)</u>	<u>-</u>
Total general revenue and transfers	<u>130,313,204</u>	<u>(3,750,934)</u>	<u>(10,096,136)</u>	<u>(44,236)</u>	<u>(575,383)</u>
Change in net assets	15,238,616	10,056,783	3,088,586	42,750	(1,609,050)
Net assets – beginning (as restated)	<u>161,082,883</u>	<u>141,249,126</u>	<u>(851,813)</u>	<u>1,355,350</u>	<u>(5,718,772)</u>
Net assets - ending	<u>\$ 176,321,499</u>	<u>\$ 151,305,909</u>	<u>\$ 2,236,773</u>	<u>\$ 1,398,100</u>	<u>\$ (7,327,822)</u>

The extraordinary item of University Medical Associates relates to plaintiffs' legal fees in the structured legal settlement described in Note 12. University Medical Associates' special item is the loss incurred on the disposition of a primary care medical practice. The extraordinary item of Pharmaceutical Education and Development Foundation is a loss on the early extinguishment of debt.

## 24. SUBSEQUENT EVENTS

The University Board of Trustees at its August 2002 meeting approved the issuance of \$8,000,000 in State Institution Bonds to finance the renovation of the Thurmond/Gazes Biomedical Research Building.

On July 1, 2002, the Authority and UMA restructured the Ambulatory Patient Care Management Agreement to reflect changes imposed by the U.S. Department of Health and Human Services under regulations governing the Outpatient Prospective Payment System for ancillary services that state "provider-based" employees must be employed by a hospital to be reimbursed. The agreement calls for approximately 475 UMA employees to be transferred to the Authority. UMA will continue to provide management personnel, facilities, and other services in exchange for a payment budgeted at \$9.5 million for the fiscal year ending June 30, 2003.

Effective July 1, 2002, employees of Carolina Primary Care Physicians and Carolina Health Management Services are no longer participants in the UMA pension plan. A deferred compensation plan under Internal Revenue Code Section 401-k has been established which allows employees to defer up to \$12,000 of compensation annually. Matching contributions of three percent of compensation up to \$200,000 are made by the employer. A separate employer contribution of five percent of compensation up to \$40,000 is made for non-physician employees.

# Statistical Section

**Accreditation Statement**

**Debt Service Coverage**

**Debt Burden**

**Enrollment Statistics**

**Employee Statistics**

## **ACCREDITATION STATEMENT**

The Medical University of South Carolina is accredited by the Southern Association of Colleges and Universities (SACS). In addition, the various schools and programs are accredited by their respective professional agencies.

**REVENUE BOND DEBT SERVICE COVERAGE**

**LAST TEN FISCAL YEARS**

(DOLLARS IN THOUSANDS)

	2002	2001	2000	1999
<b>NET PLEDGED REVENUES:</b>				
Parking revenue	\$ 5,036	\$ 3,981	\$ 3,192	\$ 3,137
Related Parking Expense	<u>(2,832)</u>	<u>(2,463)</u>	<u>(1,856)</u>	<u>(1,592)</u>
<b>Net pledged revenues available for debt service</b>	<b><u>\$ 2,204</u></b>	<b><u>\$ 1,518</u></b>	<b><u>\$ 1,336</u></b>	<b><u>\$ 1,545</u></b>
<b>REVENUE BOND DEBT SERVICE:</b>				
Parking debt service requirements	<u>\$ 694</u>	<u>\$ 693</u>	<u>\$ 694</u>	<u>\$ 693</u>
<b>Revenue bond debt service coverage</b>	<b>3.2</b>	<b>2.2</b>	<b>1.9</b>	<b>2.2</b>

Source: Financial Reporting Department

**DEBT BURDEN RATIO**

(DOLLARS IN THOUSANDS)

	For the Year Ended June 30, 2002
Debt service requirements	\$ 7,837
University expenditures	\$ 332,044
Debt Burden Ratio	2.4%

Note: Debt service requirements include the University interest paid on all indebtedness, plus the current year's principal payments. University expenditures include only University operating and non-operating expenses less depreciation expense plus debt service principal payments.

Source: The above information was compiled using the audited basic financial statements of The Medical University of South Carolina for the year ended June 30, 2002.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

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1998	1997	1996	1995	1994	1993
\$ 2,636	\$ 2,357	\$ 1,917	\$ 1,658	\$ 1,647	\$ 1,585
<u>(1,169)</u>	<u>(951)</u>	<u>(878)</u>	<u>(697)</u>	<u>(704)</u>	<u>(484)</u>
<b><u>\$ 1,467</u></b>	<b><u>\$ 1,406</u></b>	<b><u>\$ 1,039</u></b>	<b><u>\$ 961</u></b>	<b><u>\$ 943</u></b>	<b><u>\$ 1,101</u></b>
<b><u>\$ 700</u></b>	<b><u>\$ 695</u></b>	<b><u>\$ 697</u></b>	<b><u>\$ 698</u></b>	<b><u>\$ 702</u></b>	<b><u>\$ 704</u></b>
2.1	2.0	1.5	1.4	1.3	1.6

**ENROLLMENT STATISTICS**  
**LAST TEN ACADEMIC YEARS**

	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>
<b>LEVEL</b>				
Undergraduate	400	409	422	505
Graduate	888	944	993	931
First Professional	1009	1004	968	919
<b>STATUS</b>				
Full-Time	1899	2055	1792	1949
Part-Time	398	302	591	406
<b>ORIGIN</b>				
In State	1941	1979	1966	1946
Out of State	318	341	387	369
Foreign	38	37	30	40
<b>RACE</b>				
Caucasian	1821	1873	1873	1892
African American	267	273	255	245
Asian	108	91	108	99
Hispanic	20	20	24	21
Other	81	100	123	98
<b>GENDER</b>				
Women	1482	1488	1523	1454
Men	815	869	860	901
<b>COLLEGES</b>				
Medicine	574	580	580	576
Pharmacy	227	210	176	185
Nursing	374	372	399	408
Graduate Studies	176	178	221	225
Dental Medicine	208	214	212	209
Health Professions	695	747	726	705
Non-Degree Seeking	43	56	69	47
<b>Total enrollment</b>	<b>2297</b>	<b>2357</b>	<b>2383</b>	<b>2355</b>

Source: Office of Enrollment Services

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

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<i>Fall Enrollments</i>					
1997	1996	1995	1994	1993	1992
596	682	918	904	1010	995
860	807	562	574	525	527
870	849	799	792	775	769
1895	1922	1887	1848	1786	1792
431	416	392	422	524	499
1932	1919	1869	1984	1840	1817
340	360	345	207	379	376
54	59	65	79	91	98
1888	1926	1892	1912	1990	1975
201	180	173	154	138	132
86	81	78	74	58	56
26	22	23	21	22	24
125	129	113	109	102	104
1383	1325	1317	1344	1407	1420
943	1013	962	926	903	871
584	588	572	572	550	544
181	212	219	253	257	260
407	410	399	383	399	435
222	257	220	182	178	166
204	199	190	182	184	177
617	573	608	639	678	673
111	99	71	59	64	36
<b>2326</b>	<b>2338</b>	<b>2279</b>	<b>2270</b>	<b>2310</b>	<b>2291</b>

**EMPLOYEE STATISTICS**  
**LAST TEN CALENDAR YEARS**

	2002	2001	2000	1999
<b>EMPLOYEES</b>				
Permanent Full-time and Part-time Employees				
Full-time classified	1,603	1,646	4,045	4,386
Part-time classified	37	45	730	714
Full-time unclassified	911	961	1,028	1,008
Part-time unclassified	229	209	199	199
Total	2,780	2,861	6,002	6,307
Other Categories				
Residents	557	544	560	540
Pre/post doctoral fellows	198	160	167	146
Externs	-	-	-	-
Temporary	725	738	1,411	1,651
Contractual	-	-	-	-
Dual employment-other agencies	17	20	29	21
Total	1,497	1,462	2,167	2,358
<b>Grand Total Employees</b>	<b>(a) 4,277</b>	<b>4,323</b>	<b>8,169</b>	<b>8,665</b>
 <b>POSITIONS</b>				
Authorized FTE positions				
State	1,347	1,347	1,600	1,600
Federal	349	349	348	348
Other	1,720	1,720	5,016	4,640
<b>Total Authorized FTE Positions</b>	<b>3,416</b>	<b>3,416</b>	<b>6,964</b>	<b>6,588</b>

Note: (a) The total number of employees at June 30, 2002 was 4,239.  
 (b) For fiscal year 2000-01, the reduction in total number of employees and total authorized FTE positions is a result of the Medical Center division becoming a separate entity.

Source: Office of Human Resources Management

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<b>1998</b>	<i>At January 1,</i> <b>1997</b>	<b>1996</b>	<b>1995</b>	<b>1994</b>	<b>1993</b>
4,238	4,130	4,255	4,282	4,821	4,564
598	592	472	421	394	465
943	904	896	907	913	823
178	179	172	156	153	152
<u>5,957</u>	<u>5,805</u>	<u>5,795</u>	<u>5,766</u>	<u>6,281</u>	<u>6,004</u>
534	540	550	552	547	519
113	106	102	99	102	89
1	-	-	-	1	15
1,469	1,164	1,124	1,084	1,324	1,305
-	-	-	-	1	5
25	17	16	30	21	20
<u>2,142</u>	<u>1,827</u>	<u>1,792</u>	<u>1,765</u>	<u>1,996</u>	<u>1,953</u>
<u><b>8,099</b></u>	<u><b>7,632</b></u>	<u><b>7,587</b></u>	<u><b>7,531</b></u>	<u><b>8,277</b></u>	<u><b>7,957</b></u>
1,600	1,604	1,598	1,631	1,764	1,977
313	364	418	426	385	303
4,360	4,163	5,221	5,244	5,007	4,509
<u><b>6,273</b></u>	<u><b>6,131</b></u>	<u><b>7,237</b></u>	<u><b>7,301</b></u>	<u><b>7,156</b></u>	<u><b>6,789</b></u>

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