

# **The Medical University of South Carolina**

## **Charleston, South Carolina**



### **Comprehensive Annual Financial Report**

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

## **June 30, 2005**

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Prepared by the Controller's Office

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# **Introductory Section**



**Charles P Darby Children's Research Institute**

## President's Letter

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

Dear Friends of MUSC:

I am pleased to share with you this summary of the financial performance of the Medical University of South Carolina for the year ended June 30, 2005. As you will see, we continue to maintain strong fiscal results in all aspects of our operations, despite the many challenges of the general economic environment. This affords me an opportunity to thank all of my colleagues on campus who have worked so hard to improve our efficiency and accountability.

What cannot be portrayed adequately in this report is the remarkable physical transformation that is occurring on our campus. This year, we dedicated and opened the new Charles P. Darby Children's Research Institute. With this institute, we are one of a handful of academic health centers in the country with a facility dedicated to the discovery of the causes of childhood illness and the development of cures of these conditions.

We also completed renovations on our Education Center, converting the University's former administrative offices into classrooms, teaching laboratories and study space for students. As I walk through this building, I am delighted to see it filled to capacity with our talented students studying and relaxing in the heart of our campus.

The former Charleston High School building has been renovated as the new home for the College of Health Professions. This beautiful facility embraces the architecture of the historic property in a context of modern education, and has integrated the latest technology in an environment that respects the historical roots of this building.

The first phase of the addition to the Hollings Cancer Center is completed, with patient care now being delivered there. The second phase should be finished within six months, giving us one of the largest and most sophisticated cancer clinical and research facilities in the Southeast.

The new hospital building is under construction, and the structural steel already is largely in place. We expect this state-of-the-art facility to be completed within two years, and we are already planning for the next phase of the hospital replacement project.

New construction is about to start in the coming year includes a new Drug Discovery and Development Building and a new dental clinical education building. Beyond these projects, we also have plans for developing a Bioengineering Building in partnership with Clemson and the University of South Carolina, and a Clinical Research Building.

With all of this construction underway, we are constantly reminded that our goal is to make the Medical University one of the leading academic medical centers in the United States. It is a dream that is being made tangible every day by our outstanding faculty and staff. We hope that you will come to our campus and see this progress for yourself. And it might be a good idea to bring a hard hat with you.

With grateful appreciation,



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

## Transmittal Letter

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

November 1, 2005

President Raymond S. 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, 2005.

This report includes the audited financial statements for the year ended June 30, 2005, and other information relating to the finances of the University. Responsibility for the accuracy of the information and for the completeness and reliability of its presentation rests with the management of the University. We believe this information is accurate in all material respects and fairly presents the University's financial position.

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, 2005 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, 2005 are fairly presented in conformity with generally accepted accounting principles (GAAP). The independent auditors' report is presented as the first component of the financial section of this report.

Generally accepted accounting principles 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). The Medical University of South Carolina's MD&A immediately follows the independent auditors' report in the financial section. This transmittal letter is designed to complement the MD&A and should be read in conjunction with it.

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, 2004, 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 for the year ended June 30, 2005.
- 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 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 (the University), and seven separate legal entities, which are considered component units of the University. There are five blended component units consisting of two major funds – the Medical University Hospital Authority (the Authority) and University Medical Associates of The Medical University of South Carolina (UMA) – and three non-major funds – CHS Development Company (CHS), Medical University Facilities Corporation (MUFC), and the Pharmaceutical Education and Development Foundation of The Medical University of South Carolina (PEDF). Two other component units, the Health Sciences Foundation (HSF) and the MUSC Foundation for Research Development, are discretely presented. Further information on the reporting entity is contained in Note 1 in the notes to the financial statements.

### **Financial Information**

The University has a relatively small, stable number of students, with fiscal year 2005 fall enrollment of 2,434 full- and part-time students in six colleges. The University has approximately 4,600 employees and the Medical University Hospital Authority has approximately 4,900 employees, making the combined enterprise one of the largest employers in the State system and a major employer in the Charleston Tri-county area.

### **Internal Control Structure**

Management has established a comprehensive internal control framework designed to safeguard the University's assets, to provide reliable accounting data and to ensure that organizational objectives are met. Policies and procedures have been established and made available organization-wide to promote efficiency and ensure compliance with established laws and regulations at University, State and Federal levels. As a recipient of federal financial awards, the University is also responsible for ensuring compliance with all applicable laws and regulations related to these awards.

### **Cash Management**

State law requires that all University cash be on deposit with the State Treasurer, with the exception of petty cash funds approved by the State Auditor and certain trust funds associated with debt instruments. 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 risk that may occur in normal operations. The University participates in a statewide risk management program under which the State assumes substantially all risks for unemployment and workers' compensation benefits and claims of covered employees for health, dental and group-life insurance benefits. 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. The University believes that coverage is sufficient to preclude any significant uninsured losses.

### **Accomplishments**

In 2004-2005, the University's initiatives in education, research, and patient care continued at an unprecedented pace. Improved economic conditions at the state level enabled the State to provide support to the Research Universities through programs such as Research Centers of Economic Excellence Act and the Life Sciences Act. This support, in combination with continued growth in research awards, has allowed the University to recruit outstanding faculty, and improve and expand its educational and research facilities. As a result, the University continues to achieve state and national recognition as reflected in awards received by its faculty and staff for their many accomplishments.

### **Education**

- The University successfully recruited a number of outstanding faculty members, including Dr. John Saunders as Dean of the College of Dental Medicine and Dr. Joseph T. DiPiro as Executive Dean of the newly integrated South Carolina College of Pharmacy.
- The College of Nursing and the College of Medicine received renewed accreditations from their respective reviewing bodies.
- The MUSC Education Center opened. This facility provides classrooms, teaching laboratories and a much needed study center for students.
- The new College of Health Professions facility opened, providing much needed space and updated technology for the University's largest college. The facility was constructed on the site of the former Charleston High School and is a model for the combination of modern and historical beauty and functionality.

### **Research**

- The University exceeded the prior year's record, obtaining over \$180 million of extramural grant awards. Highly sought after Federal grants and contracts continued to account for most of the total awards.
- Construction was completed on the Charles P. Darby Children's Research Institute and the Hollings Cancer Center expansion. These new facilities provide much needed research and clinical space.
- The University obtained additional funding for new and existing Endowed Chairs through the Centers of Economic Excellence Program.
- The University received approval through the Life Sciences Act for \$36 million in funding toward construction of a Drug Discovery Building and for a Pharmacology/Microbiology /Immunology renovation project.

### **Patient Care**

- The Medical University Hospital Authority successfully arranged financing for the new Hospital Building Project, Phase I and for the Central Energy Plant. Construction is underway on both projects.
- The Authority developed an updated comprehensive tactical plan focusing on the Authority's priorities, including patient satisfaction, employee satisfaction, financial performance, quality and patient safety, and information management.
- The Authority and its medical staff received a number of recognitions, including:
  - > The National Research Corporation for the Consumer Choice Award selected the Authority for having the highest quality and image in their market.
  - > U.S. News and World Report named the Authority among America's best hospitals for digestive disorders treatment.
  - > Child Magazine recognized MUSC Children's Hospital among the top in the nation, including a ranking in the top 10 for neonatal services.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

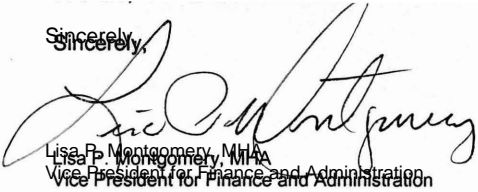
**Award**

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, 2004. This was the twelfth consecutive year The Medical University of South Carolina has achieved this prestigious award (fiscal years ended 1993 through 2004). 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.

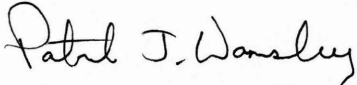
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

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 LLP, 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,



Lisa P. Montgomery, MBA  
Vice President for Finance and Administration



Patrick J. Wamsley, CPA  
Chief Financial Officer



Susan B. Haskill, CPA  
Controller

# 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, 2004

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.



*Nancy L. Ziehl*

President

*Jeffrey R. Emer*

Executive Director

## Board of Trustees and Principal University Officials

*July 1, 2003 – June 30, 2004*

### *Board of Trustees*

The Hon. Mark Sanford  
*Governor*

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

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

Charles L. Appleby, Jr.  
*Florence, SC*

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

Melvyn Berlinsky  
*Charleston, SC*

William H. Bingham, Sr.  
*Cayce-West Columbia, SC*

William B. Hewitt, MSEE (b)  
*Charleston, SC*

Paula E. Orr, M.D. (a)  
*Charleston, SC*

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

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

Charles W. Schulze, CFE CPA  
*Greenwood, SC*

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

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

James E. Wiseman, DMD  
*Prosperity, SC*

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

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

The Hon. Robert C. Lake, Jr., LLB  
*Emeritus*  
*Newberry, SC*

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

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*

John R. Raymond, Sr. M.D.  
*Vice President*  
*Academic Affairs and Provost*

Lisa P. Montgomery, MHA  
*Vice President*  
*Finance and Administration*

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

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

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

Frank C. Clark, Ph.D.  
*Vice President*  
*Information Technology and Chief Information Officer*

### *Deans*

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

Joseph T. DiPiro, Pharm. D.  
*Executive Dean, South Carolina College of Pharmacy*

Arnold W. Karig, Ph.D.  
*MUSC Campus, College of Pharmacy*

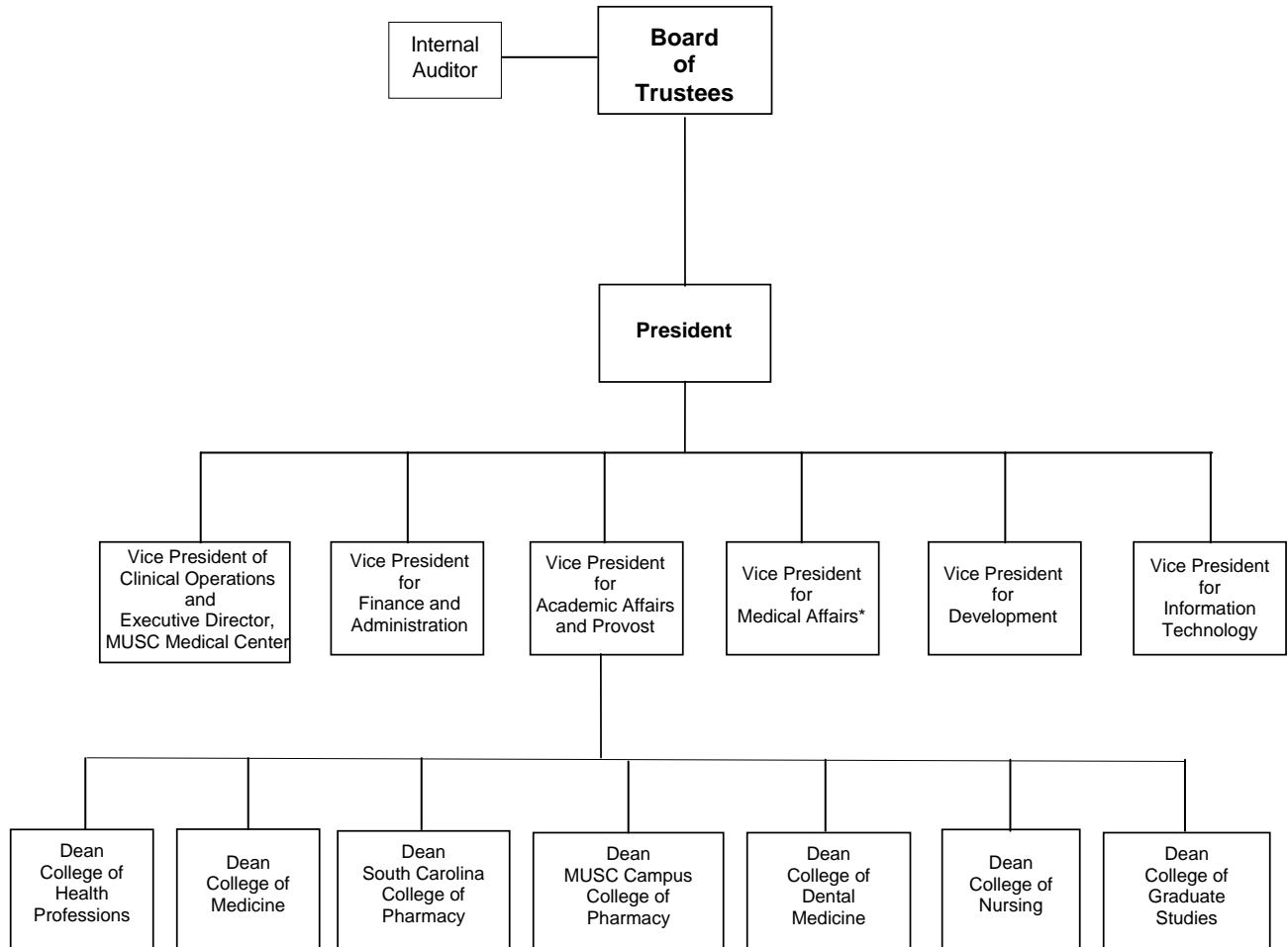
Gail W. Stuart, Ph.D., RN, FAAN, CS  
*College of Nursing*

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

John J. Sanders, DMD  
*Interim, College of Dental Medicine*

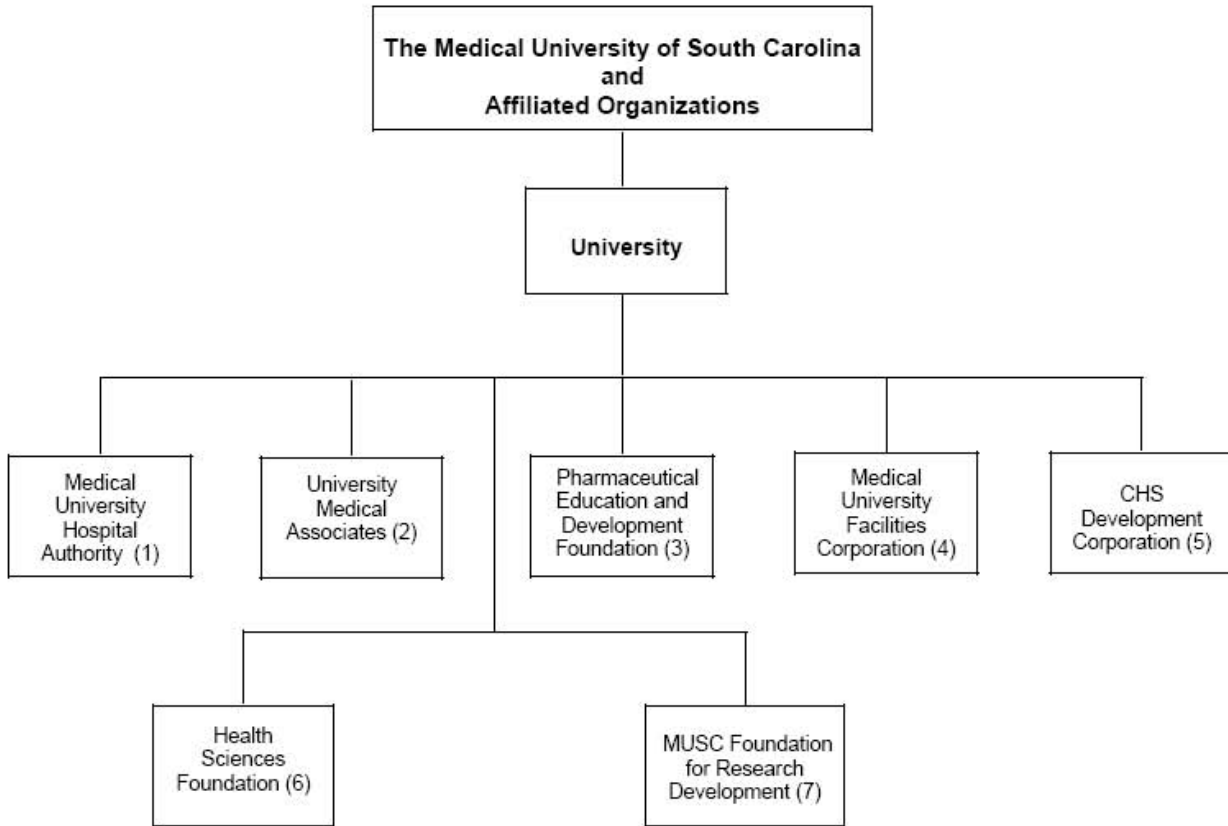
Danielle N. Ripich, Ph.D.  
*College of Health Professions*

ORGANIZATION CHART



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

## The Medical University and Affiliated Organizations



Notes:

1. The Medical University Hospital Authority (MUHA) was formed in June, 2000, to manage and operate the hospitals and clinics of the University.
2. University Medical Associates (UMA) is a non-profit corporation established to promote and support the educational, medical, scientific, and research purposes of the University.
3. 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.
4. Medical University Facilities Corporation (MUFC) is a non-profit corporation established in fiscal year 1991-92 to obtain financing for the University to acquire real property.
5. CHS Development Corporation (CHS) is a non-profit corporation established in fiscal year 2003 to obtain financing for the University to acquire and develop real property.
6. The Health Sciences Foundation (HSF) is a non-profit corporation established in 1966 as an educational, charitable, eleemosynary foundation.
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.

# **Financial Section**



**Hollings Cancer Center**

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 1, 2005

The Honorable Mark Sanford, 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, 2005, 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



KPMG LLP  
Suite 700  
301 N. Elm Street  
Greensboro, NC 27401

## Independent Auditors' Report

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

We have audited the accompanying financial statements of the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Medical University of South Carolina (the University), a department of the State of South Carolina, as of and for the year ended June 30, 2005, which collectively comprise the University's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University Medical Associates, the Health Sciences Foundation, and the MUSC Foundation for Research Development. In addition, we did not audit the financial statements of the Pharmaceutical Education and Development Foundation, which is included as a part of the Nonmajor Enterprise Funds. 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, the Health Sciences Foundation, the MUSC Foundation for Research Development, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Health Sciences Foundation and the MUSC Foundation for Research Development were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. 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 and the reports of other auditors provide a reasonable basis for our opinions.

As discussed in note 1, the financial statements of the University are intended to present the financial position, and the changes in the financial position and, where applicable, the cash flows, of only that portion of the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of South Carolina that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2005, the



Page 2

changes in its financial position or, where applicable, cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the University as of June 30, 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 23, 2005 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on noncompliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 14 through 21 are not a required part of the basic financial statements but are 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 combining nonmajor enterprise fund financial statements, and introductory and statistical sections, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the University. The nonmajor enterprise fund financial statements have been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical 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 23, 2005

## Management's Discussion and Analysis

Required Supplementary Information (unaudited)

### **Introduction**

The management of The Medical University of South Carolina offers readers of the financial statements this narrative overview and analysis of the financial position and activities of The Medical University of South Carolina for the fiscal year ended June 30, 2005 with comparative information for the year ended June 30, 2004. Management's discussion and analysis (MD&A) will focus on the financial position and operations of the primary institution (the University) and the two component units that are reported as major funds, Medical University Hospital Authority (the Authority) and University Medical Associates (UMA). This discussion should be read in conjunction with our letter of transmittal in the introductory section of this report and with the accompanying financial statements and notes.

### **Financial Highlights**

At June 30, 2005, total assets reported by the University were \$495.8 million and total liabilities were \$176.6 million. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, increased \$63.7 million in fiscal year 2005 from \$255.5 to \$319.2 million. Of this amount, \$39.9 million represents unrestricted net assets, which may be used to meet the University's ongoing obligations.

At June 30, 2005, the Authority's assets of \$766.2 million exceeded its liabilities of \$565.7 million by \$200.5 million. Net assets, the residual interest in the assets after liabilities are deducted, increased \$20.3 million in 2005, as compared to \$16.1 million in 2004. The Authority reported operating income in 2005 of \$38.7 million, as compared to \$23.2 million in 2004, an increase of \$15.5 million or 67 percent. Net nonoperating expenses were \$7.2 million for 2005 as compared to \$6.5 million in 2004, an increase of \$0.7 million or 10.8 percent. Transfers to The Medical University of South Carolina in support of academic programs were \$11.2 and \$0.6 million in 2005 and 2004, respectively. As discussed in note 17, \$10.6 million of the fiscal year 2005 transfers related to the excess of purchase price over net book value of real estate purchased from the University.

At June 30, 2005, UMA reported total assets of \$179.3 million and total liabilities of \$113.9 million. Net assets were \$65.4 million, an increase of \$21.6 million or 49.3 percent from the previous year. Of this amount, \$58.8 million represents unrestricted net assets that are available to meet UMA's ongoing obligations. UMA's operating revenues for the year ended June 30, 2005, increased 7.2 percent or \$12.4 million over the fiscal year ended June 30, 2004 to \$186 million. Operating expenses increased by \$10.2 million (7.3 percent) over fiscal year 2004 from \$138.6 million to \$148.8 million.

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

The financial report includes three financial statements:

- Statement of Net Assets
- Statement of Revenues, Expenses, and Changes in Net Assets
- Statement of Cash Flows

These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles as prescribed in 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 an entity wide basis to focus on the university as a whole rather than on individual fund groups.

### **Statement 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. Assets and liabilities are generally reported at current values. Capital assets, however, are reported at historical cost less an allowance for depreciation. 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 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 related 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.

**THE MEDICAL UNIVERSITY OF SOUTH CAROLINA**

**Summary of Net Assets**  
Amounts in thousands

|  | The University    |                   | Medical University Hospital Authority |                   | University Medical Associates |                  |
|--|-------------------|-------------------|---------------------------------------|-------------------|-------------------------------|------------------|
|  | 2005              | 2004              | 2005                                  | 2004              | 2005                          | 2004             |
| <b>ASSETS</b>                                      |                   |                   |                                       |                   |                               |                  |
| Current assets                                     | \$ 120,618        | \$ 101,629        | \$ 166,673                            | \$ 134,484        | \$ 94,721                     | \$ 85,393        |
| Noncurrent assets                                  |                   |                   |                                       |                   |                               |                  |
| Capital assets, net                                | 333,933           | 264,971           | 268,737                               | 228,794           | 45,986                        | 49,158           |
| Other noncurrent assets                            | 41,268            | 46,556            | 330,795                               | 17,947            | 38,615                        | 36,905           |
| Total assets                                       | <u>495,819</u>    | <u>413,156</u>    | <u>766,205</u>                        | <u>381,225</u>    | <u>179,322</u>                | <u>171,456</u>   |
| <b>LIABILITIES</b>                                 |                   |                   |                                       |                   |                               |                  |
| Current liabilities                                | 61,554            | 63,762            | 83,773                                | 77,005            | 22,134                        | 33,250           |
| Noncurrent liabilities                             | 115,041           | 93,886            | 481,932                               | 124,056           | 91,747                        | 94,377           |
| Total liabilities                                  | <u>176,595</u>    | <u>157,648</u>    | <u>565,705</u>                        | <u>201,061</u>    | <u>113,881</u>                | <u>127,627</u>   |
| <b>NET ASSETS</b>                                  |                   |                   |                                       |                   |                               |                  |
| Invested in capital assets,<br>net of related debt | 247,812           | 184,822           | 35,746                                | 98,458            | (2,414)                       | (518)            |
| Restricted   |                   |                   |                                       |                   |                               |                  |
| Nonexpendable                                      | 10,209            | 943               | -                                     | -                 | -                             | -                |
| Expendable   | 21,324            | 29,747            | 71,189                                | 17,557            | 9,081                         | 9,081            |
| Unrestricted                                       | 39,879            | 39,996            | 93,565                                | 64,149            | 58,774                        | 35,266           |
| Total net assets                                   | <u>\$ 319,224</u> | <u>\$ 255,508</u> | <u>\$ 200,500</u>                     | <u>\$ 180,164</u> | <u>\$ 65,441</u>              | <u>\$ 43,829</u> |

The University's increase in total assets of \$82.7 million resulted primarily from additions to capital assets. New buildings completed include the Children's Research Institute, a new facility for the College of Health Professions, and a 640 space parking garage. The College of Health Professions complex and the adjacent parking garage are being leased from CHS Development Company, a blended component unit. The capital lease obligation resulted in an increase in liabilities of \$25 million.

The Authority's total assets increased by 101 percent from 2004 to 2005. Patient accounts receivable, net of estimated uncollectible amounts, increased from \$88.2 million to \$94 million, largely a result of increases in patient activity and a price increase. Capital assets increased during the fiscal year by \$39.9 million, largely a result of construction of the new hospital, as discussed under "Capital Asset and Debt Activities" below. Total liabilities increased by 181.4 percent from 2004 to 2005. Long-term debt increased by \$364.6 million, which was due to the series 2004 bond issuance. Also, accounts payable and other accrued expenses increased by \$10.4 million, largely resulting from increases in patient activity and capital spending.

**Statement 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. Generally speaking, operating revenues are earned by providing goods and services to various customers and constituencies. Operating expenses are incurred 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. 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 earned, both operating and non-operating, and the expenses incurred, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the entity.

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

Amounts in thousands

|   | The University    |                   | Medical University Hospital Authority |                   | University Medical Associates |                  |
|---|-------------------|-------------------|---------------------------------------|-------------------|-------------------------------|------------------|
|   | 2005              | 2004              | 2005                                  | 2004              | 2005                          | 2004             |
| Operating revenues  | \$ 286,328        | \$ 263,785        | \$ 638,026                            | \$ 588,395        | \$ 185,970                    | \$ 173,549       |
| Operating expenses  | (391,761)         | (363,470)         | (599,290)                             | (565,235)         | (148,782)                     | (138,654)        |
| Operating income (loss)   | <u>(105,433)</u>  | <u>(99,685)</u>   | <u>38,736</u>                         | <u>23,160</u>     | <u>37,188</u>                 | <u>34,895</u>    |
| Nonoperating revenues   | 107,008           | 112,998           | 2,826                                 | 216               | 6,108                         | 4,174            |
| Nonoperating expenses   | (4,281)           | (3,740)           | (10,037)                              | (6,681)           | (5,957)                       | (6,220)          |
| Net nonoperating revenues<br>(expenses)   | <u>102,727</u>    | <u>109,258</u>    | <u>(7,211)</u>                        | <u>(6,465)</u>    | <u>151</u>                    | <u>(2,046)</u>   |
| Income (loss) before other<br>revenues, expenses, gains,<br>losses, and transfers | (2,706)           | 9,573             | 31,525                                | 16,695            | 37,339                        | 32,849           |
| Capital appropriations  | 2,868             | 239               | -                                     | -                 | -                             | -                |
| Capital grants and gifts  | 28,181            | 25,780            | -                                     | -                 | -                             | -                |
| Additions to permanent endowments   | 9,250             | -                 | -                                     | -                 | -                             | -                |
| Transfers   | 26,123            | 16,079            | (11,189)                              | (552)             | (15,726)                      | (15,741)         |
| <b>Increase in net assets</b>   | <u>63,716</u>     | <u>51,671</u>     | <u>20,336</u>                         | <u>16,143</u>     | <u>21,613</u>                 | <u>17,108</u>    |
| <b>Net assets at beginning of year</b>  | <u>255,508</u>    | <u>203,837</u>    | <u>180,164</u>                        | <u>164,021</u>    | <u>43,829</u>                 | <u>26,721</u>    |
| <b>Net assets at end of year</b>  | <u>\$ 319,224</u> | <u>\$ 255,508</u> | <u>\$ 200,500</u>                     | <u>\$ 180,164</u> | <u>\$ 65,441</u>              | <u>\$ 43,829</u> |

**THE MEDICAL UNIVERSITY OF SOUTH CAROLINA**

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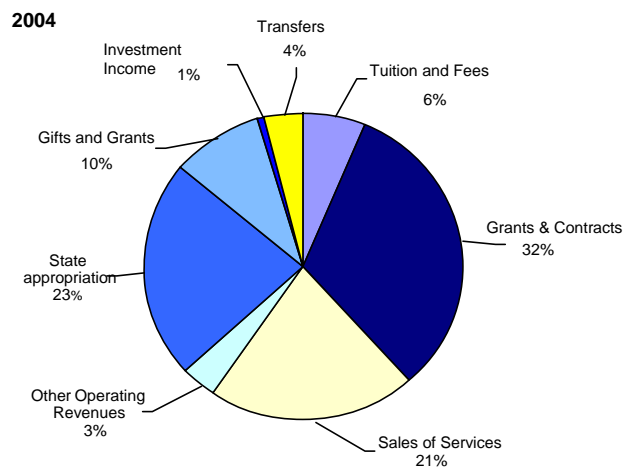
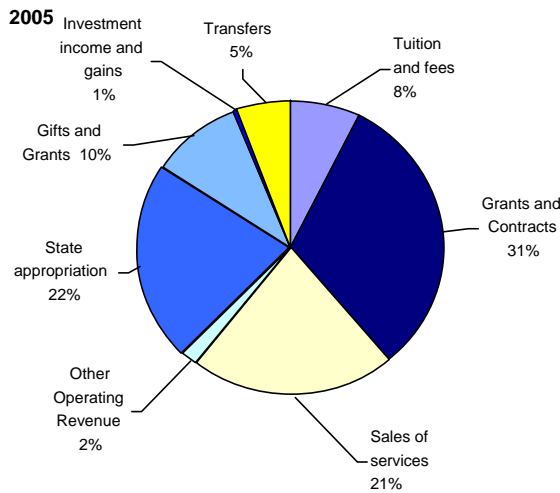
**Revenues**

The University's daily operations are funded primarily from grants and contracts, sales of services, and State appropriations. These three sources account for 74 percent of the total fiscal year 2005 revenues of \$459.8 million and 76 percent of the total fiscal year 2004 revenues of \$419 million. The following table and chart illustrate the University's revenues by source.

**Revenues by Source – The University**

*Amounts in thousands*

|  | 2005              | Percent<br>Of Total | 2004              | Percent<br>Of Total |
|--|-------------------|---------------------|-------------------|---------------------|
| <b>Operating revenues</b>              |                   |                     |                   |                     |
| Student tuition and fees               | \$ 34,985         | 8%                  | \$ 27,217         | 6%                  |
| Grants and contracts                   | 144,346           | 31%                 | 133,743           | 32%                 |
| Sales of services                      | 98,692            | 21%                 | 87,482            | 21%                 |
| Other operating revenues               | 8,305             | 2%                  | 15,343            | 3%                  |
| Total operating revenues               | 286,328           | 62%                 | 263,785           | 62%                 |
| <b>Nonoperating and other revenues</b> |                   |                     |                   |                     |
| State appropriation                    | 100,524           | 22%                 | 96,764            | 23%                 |
| Gifts and grants                       | 45,336            | 10%                 | 40,233            | 10%                 |
| Investment income                      | 1,448             | 1%                  | 2,020             | 1%                  |
| Transfers                              | 26,123            | 5%                  | 16,079            | 4%                  |
| Total nonoperating and other revenues  | 173,431           | 38%                 | 155,096           | 38%                 |
| <b>Total revenues</b>                  | <b>\$ 459,759</b> | 100%                | <b>\$ 418,881</b> | 100%                |



In fiscal year 2005, the University's total revenues increased 9.8 percent or \$40.9 million over the previous fiscal year. The University implemented tuition increases ranging from 17 percent to 34 percent in the various colleges. These increases along with the introduction of a Doctorate in Physical Therapy program and expansion of several other programs, resulted in an increase of \$7.8 million in tuition and fee revenue. Continuing emphasis on the University's commitment to conduct research in the health sciences resulted in an increase of \$10.6 million in revenue from grants and contracts. In fiscal year 2005, the University received funding totaling \$9.25 million from the South Carolina Commission on Higher Education under the Centers of Economic Excellence Matching Endowment. This program funds endowed professorships which are to be used "to recruit and maintain leading scientists and engineers at the senior research universities of South Carolina for the purpose of developing and leveraging the research capabilities of the universities for the creation of well-paying jobs and enhanced economic opportunities for the people of South Carolina."

During fiscal 2005, the University sold to the Authority certain real estate, which was required to facilitate the construction of the new hospital facilities. The negotiated purchase price of the real estate was \$12.5 million, approximately \$1.9 million of which represented the net book value of the real estate on the University's property records. As required by governmental accounting standards, the excess of the purchase price over the net book value of \$10.6 million has been recognized as a transfer from the Authority to the University.

**Operating Revenue by Source for the Component Units**  
Amounts in thousands

|                             | Medical University Hospital Authority |                   | University Medical Associates |                   |
|-----------------------------|---------------------------------------|-------------------|-------------------------------|-------------------|
|                             | 2005                                  | 2004              | 2005                          | 2004              |
| Net patient service revenue | \$ 624,942                            | \$ 578,827        | \$ 172,980                    | \$ 160,682        |
| Educational agreements      | -                                     | -                 | 8,382                         | 8,547             |
| Other operating revenue     | 13,084                                | 9,568             | 4,608                         | 4,320             |
| Total operating revenue     | <u>\$ 638,026</u>                     | <u>\$ 588,395</u> | <u>\$ 185,970</u>             | <u>\$ 173,549</u> |

Compared to fiscal year 2004, the Authority's net patient service revenue increased by approximately \$46.1 million, or 8 percent. Gross patient charges increased by \$115.8 million, or 11.6 percent, from 2004 to 2005 due to increases in patient activity and comprehensive rate increases. Additionally, net revenue received from the Disproportionate Share Program administered by the state Department of Health and Human Services increased in 2005 to \$78.7 million from \$77.7 million in 2004. The Disproportionate Share Program is an important source of patient care financing for the Authority, and any material reduction in such funding would have a correspondingly material adverse effect on the Authority's operations. There can be no assurance that the Authority will continue to qualify for future participation in the program or that the program will not ultimately be discontinued or materially modified.

University Medical Associates' net patient service revenue increased \$12.3 million primarily from an increase in payer reimbursement rates and an increase in patient volume. Approximately \$3.1 million of the increase is due to additional reimbursements under the Supplemental Medicaid Program over the prior year. Educational agreement revenue decreased by \$164,463 to a total of \$8.4 million in support from the Medical University Hospital Authority for the ambulatory care and primary care programs. Nonoperating revenues increased by \$1.9 million primarily due to an increase in investment income as idle funds were actively invested in higher yielding securities and the market value of investments rebounded from the previous year.

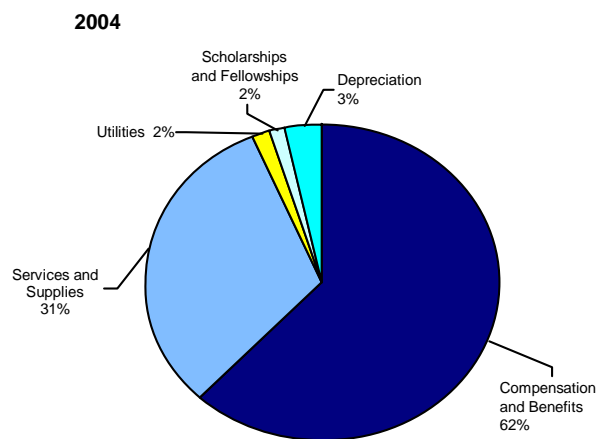
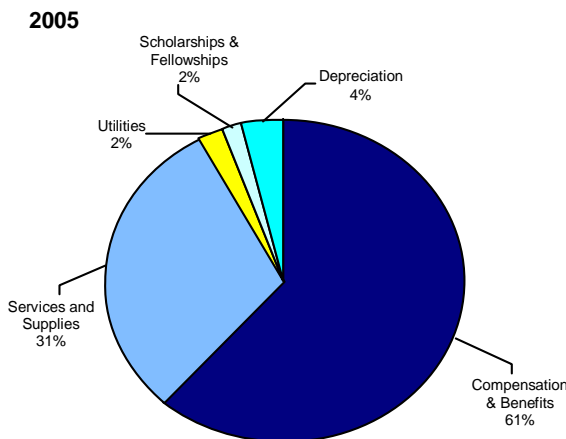
**Expenses**

The University's operating expenses were \$391.8 million for the fiscal year ended June 30, 2005, an increase of \$28.3 million from fiscal year 2004. The increase of 7.8 percent resulted primarily from increases in compensation and benefits of \$15.3 million (6.8 percent) and services and supplies of \$6.1 million (5.2 percent). These increases are the result of growth in both the research and instructional programs of the University. An increase of \$2.3 million (41percent) in utility cost resulted from a combination of rate increases and increased usage due to the new buildings in use in fiscal year 2005. New University funded scholarships totaling approximately \$400,000 contributed to a 41 percent increase in scholarship and fellowship expense.

The operating expenses are reported by natural classification (object) in the financial statement and by functional classification in the notes. The following tables and charts illustrate the University's operating expenses by the two classifications.

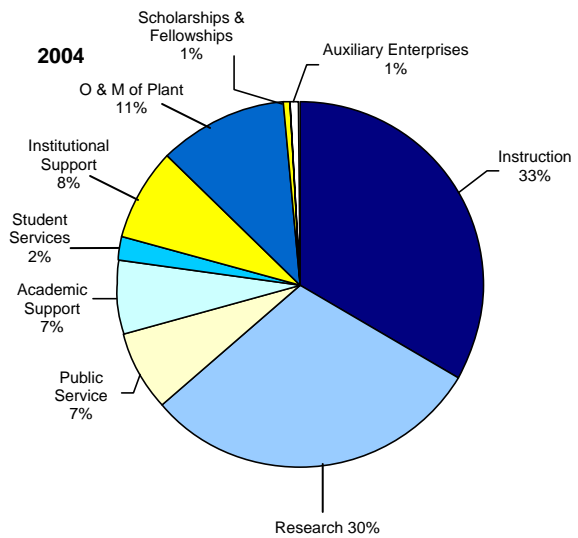
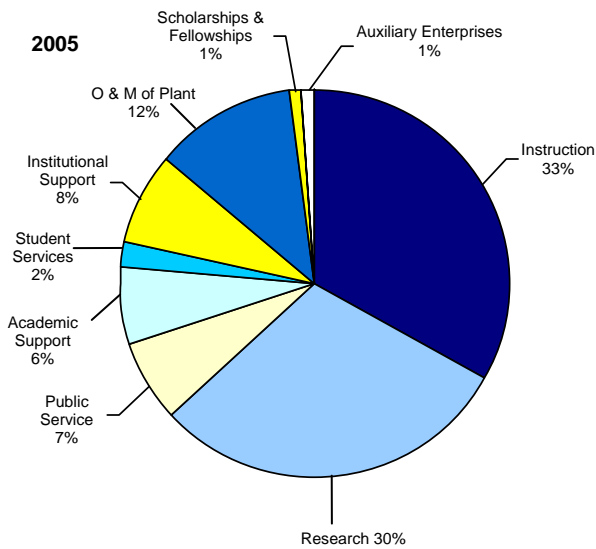
**Operating Expenses by Object – The University**  
Amounts in thousands

|                                    | 2005              | Percent Of Total | 2004              | Percent Of Total |
|------------------------------------|-------------------|------------------|-------------------|------------------|
| Compensation and employee benefits | \$ 240,221        | 61%              | \$ 224,889        | 62%              |
| Services and supplies              | 121,604           | 31%              | 115,544           | 31%              |
| Utilities                          | 7,785             | 2%               | 5,526             | 2%               |
| Scholarships and fellowships       | 8,087             | 2%               | 5,750             | 2%               |
| Depreciation                       | 14,065            | 4%               | 11,761            | 3%               |
| Total operating expenses           | <u>\$ 391,762</u> | 100%             | <u>\$ 363,470</u> | 100%             |



**Operating Expenses by Function – The University**  
 Amounts in thousands

|                                    | 2005              | Percent<br>Of Total | 2004              | Percent<br>Of Total |
|------------------------------------|-------------------|---------------------|-------------------|---------------------|
| Instruction                        | \$ 129,898        | 33%                 | \$ 121,218        | 33%                 |
| Research                           | 117,024           | 30%                 | 109,516           | 30%                 |
| Public service                     | 27,124            | 7%                  | 25,450            | 7%                  |
| Academic support                   | 25,298            | 6%                  | 24,200            | 7%                  |
| Student services                   | 7,194             | 2%                  | 7,410             | 2%                  |
| Institutional support              | 30,295            | 8%                  | 29,432            | 8%                  |
| Operation and maintenance of plant | 47,278            | 12%                 | 41,298            | 11%                 |
| Scholarships and fellowships       | 3,780             | 1%                  | 1,676             | 1%                  |
| Auxiliary enterprises              | 3,871             | 1%                  | 3,270             | 1%                  |
| Total operating expenses           | <u>\$ 391,762</u> | 100%                | <u>\$ 363,470</u> | 100%                |



The Authority's operating expenses increased by \$34.1 million, from \$565.2 million in 2004 to \$599.3 million in 2005. This 6 percent increase is primarily the result of increases in compensation and employee benefits of \$13.7 million, or 5.7 percent, and in service and supplies expense of \$19.6 million, or 6.4 percent. Presently, there is a national shortage of registered nurses and technical personnel in such areas as diagnostic imaging, laboratory, anesthesia, radiation therapy, and pharmacy. The Authority has implemented salary adjustments and other scheduling and staffing initiatives to help address these shortages. Also, supply costs and pharmaceutical costs continue to increase at rates exceeding those of general inflation.

UMA's operating expenses increased by \$10 million primarily due to increases in incentive payments, pension costs, and consultant fees related to the implementation of new software for scheduling, registration, and billing functions. Transfers to the University and its affiliates remained fairly constant at \$15.9 million in support of their educational mission.

**Statement of Cash Flows**

The Statement of Cash Flows presents detailed information about the cash activity during the year. This statement aids in the assessment of the entity's ability to generate future net cash flows and to meet obligations and commitments as they come due. The University's primary sources of operating and noncapital related cash in fiscal 2005 were state appropriations, grants, contracts, and tuition and fees. Uses of these cash sources included salaries and benefits for faculty, staff, and student employees and payments to suppliers of goods and services.

The statement is divided into five sections.

- Cash flows from operating activities include, as examples, cash received for tuition and fees or research grants and salaries paid to employees or payments of invoices to vendors. Since state appropriations and gifts are not considered operating revenues, operating activities of the University produced a net cash outflow of \$83.9 million.
- Non-capital financing activities include state appropriations received for operations and noncapital gifts, and had a net cash inflow of \$137.8 million.

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- The cash flows from capital and related financing activities include the proceeds received from the issuance of long-term debt obligations, capital grants and gifts received, the repayment of debt, and the acquisition of capital assets. Due to the expenditure of funds that were received as bond proceeds in prior years, capital and related financing activities had a net cash outflow of \$37.8 million.
- The net cash inflow from investing activities of \$1.7 million consists of interest received on investments.
- The last section of the statement reconciles the net cash provided or used by operating activities 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 2005. More detailed information can be found in the notes to the financial statements.

**Capital Assets, Net of Depreciation**

*Amounts in thousands*

|                            | The University    |                   | Medical University Hospital Authority |                   | University Medical Associates |                  |
|----------------------------|-------------------|-------------------|---------------------------------------|-------------------|-------------------------------|------------------|
|                            | 2005              | 2004              | 2005                                  | 2004              | 2005                          | 2004             |
| Land                       | \$ 11,646         | \$ 12,223         | \$ 6,093                              | \$ 3,923          | \$ -                          | \$ -             |
| Construction in progress   | 89,308            | 110,817           | 85,051                                | 53,407            | -                             | 1,036            |
| Land improvements          | 1,415             | 1,288             | -                                     | -                 | -                             | -                |
| Buildings and improvements | 181,322           | 106,273           | 116,926                               | 103,998           | 44,409                        | 42,343           |
| Machinery and equipment    | 49,277            | 33,639            | 60,254                                | 66,998            | 727                           | 4,643            |
| Vehicles                   | 964               | 731               | 413                                   | 468               | -                             | -                |
| Intangible assets          | -                 | -                 | -                                     | -                 | 850                           | 1,136            |
|                            | <u>\$ 333,932</u> | <u>\$ 264,971</u> | <u>\$ 268,737</u>                     | <u>\$ 228,794</u> | <u>\$ 45,986</u>              | <u>\$ 49,158</u> |

**The University**

Capital additions, other than construction in progress, totaled \$107.3 million in fiscal year 2005. The \$46.9 million Children's Research Institute was completed along with renovations to the Walton Research Building and Basic Science Building laboratories. The former Charleston High School building has been renovated as the new home for the College of Health Professions. The University also made a significant investment in medical, scientific and laboratory equipment.

Included in construction in progress are renovations of several classroom and research facilities and expansion of the Hollings Cancer Center. The University had outstanding commitments under construction contracts related to these and other projects of approximately \$27 million at June 30, 2005. These projects are being funded by bond proceeds, federal grants, state appropriations, restricted gifts, and unrestricted university funds.

**Construction in Progress – The University**

*Amounts in thousands*

|  |                  |
|--|------------------|
| Childrens Research Building                          | \$ 5,066         |
| Basic Science Building renovation                    | 5,135            |
| Hollings Cancer Center expansion                     | 40,861           |
| Storm Eye Institute renovation                       | 1,160            |
| Clinical Science Building renovation                 | 1,985            |
| Research lab renovation                              | 2,623            |
| College buildings exterior waterproofing             | 1,340            |
| Psychiatric Institute mechanical system              | 1,466            |
| Campus high voltage substation upgrade               | 7,268            |
| Thurmond Gazes Research Building renovation          | 7,051            |
| Hospital relocation project                          | 5,519            |
| Harper Student Center pool repairs                   | 2,068            |
| College of Health Professions leasehold improvements | 1,600            |
| Other  | 6,166            |
|  | <u>\$ 89,308</u> |

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 are legally committed to paying off this debt. The following table shows the amounts and types of bonds, notes, and capital leases outstanding as of June 30, 2005. In fiscal year 2005, the University issued \$19 million in State Institution Bonds to advance refund certain maturities of the original principal amount \$28,000,000 General Obligation State Institution Bonds, Series 2000 A, namely the outstanding principal amount of \$17,845,000 maturing on March 1, 2011 to and including March 1, 2020.

The University's state institution bonds are general obligation bonds of the State of South Carolina. Standard and Poor's has rated these bonds as "AAA" and Moody's Investors Services rates them as "Aaa".

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**Bonds, Notes, Capital Lease Obligations, and Interfund Payables**

Amounts in thousands

|                              | The University   |                  | Medical University Hospital Authority |                   | University Medical Associates |                   |
|------------------------------|------------------|------------------|---------------------------------------|-------------------|-------------------------------|-------------------|
|                              | 2005             | 2004             | 2005                                  | 2004              | 2005                          | 2004              |
| State institution bonds, net | \$ 52,880        | \$ 55,985        | \$ -                                  | \$ -              | \$ -                          | \$ -              |
| Revenue bonds, net           | -                | -                | 474,309                               | 97,845            | -                             | -                 |
| Notes                        | -                | -                | -                                     | 12,392            | -                             | -                 |
| Direct note obligations, net | -                | -                | -                                     | -                 | 91,703                        | 93,553            |
| Line of credit               | -                | -                | -                                     | -                 | -                             | 13,500            |
| Capital lease obligations    | 1,102            | 638              | 13,349                                | 20,098            | 242                           | 580               |
| Interfund payables           | 44,968           | 21,848           | -                                     | -                 | -                             | -                 |
| Structured legal settlement  | -                | -                | -                                     | -                 | -                             | 840               |
|                              | <u>\$ 98,950</u> | <u>\$ 78,471</u> | <u>\$ 487,658</u>                     | <u>\$ 130,335</u> | <u>\$ 91,945</u>              | <u>\$ 108,473</u> |

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, the Children's Research Institute, and a number of major renovation projects. The University expects to pay off this debt with cash collected from student tuition. At June 30, 2005, SIB payable totaled \$52.880 million.

**Capital Leases**

The University has outstanding capital leases with Medical University Facilities Corporation, a blended component unit, for Harborview Office Tower and a portion of the Strom Thurmond Biomedical Research Center. Monthly payments are made to a financial institution as trustee under the leases. At June 30, 2005, the lease liability totalled \$20.2 million. The University also has an outstanding capital lease with CHS Development Company, a blended component unit, for the College of Health Professions complex and a parking garage. Monthly payments are made to a financial institution as trustee under this lease. At June 30, 2005, the lease liability was \$24.7 million. The University has \$1.1 million in capital leases payable at June 30, 2005, 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. The University is using capital improvement bond proceeds to fund the construction of a new facility for the College of Dental Medicine. 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, 2005, the University had approximately \$11.6 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 complete the Harper Student Center and the Children's Research Institute.

**Medical University Hospital Authority**

At the end of 2005, the Authority had \$268.7 million invested in capital assets, net of accumulated depreciation. Total capital asset additions of \$63.8 million in 2005 increased by \$31.8 million over the 2004 level of \$32 million. The 2005 increase is the result of additions to land of \$2.2 million, machinery and equipment of \$9.5 million, \$20.5 million of building improvements, and \$31.6 million of construction in progress.

The Authority has proposed a phased approach replacement of much of its principal patient care facilities, a project planned for completion in stages over the next 20 years. Phase 1 of the project would involve building a facility comprised of a four-story diagnostic and treatment facility, a seven-story hospitality (bed) tower, and a garden atrium uniting the two sections of the building. No new clinical health services will be added as a result of this phase of the project. There are 156 replacement beds involved. On December 22, 2004, the Authority issued \$422,060,000 of FHA Insured Mortgage Hospital Facilities and Refunding Revenue Bonds, Series 2004, consisting of \$303,965,000 Series A Tax-Exempt Bonds and \$118,095,000 Series B Taxable Bonds for the purpose of providing funds, to (a) pay the costs of Phase I of the project mentioned above, (b) pay a portion of the interest accruing on the bonds during construction of Phase I, (c) prepay the outstanding amount of the Charleston County Memorial Hospital Revenue Note, (d) advance refund the \$102,835,000 Hospital Facilities refunding Revenue Bonds, Series 2002A, (e) fund a debt service reserve fund with respect to the bonds, and (f) pay certain costs incurred in connection with the issuance of the bonds.

On December 29, 2004, the South Carolina Jobs-Economic Development Authority issued \$61,000,000 of Economic Development Revenue Bonds (MUFC Central Energy Plant Project), Series 2004. Proceeds of the bonds were loaned to MUFC Central Energy Plant, LLC, a single member limited liability company organized under the laws of the State of South Carolina, whose sole member is Medical University Facilities Corporation. Pursuant to a Loan Agreement between the issuer and the borrower, the borrower will use the proceeds to finance the construction of an approximately 52,000 square foot central energy plant and certain other improvements, renovations, and furnishings, fixtures, and equipment to provide steam and chilled water for the use and benefit of the new 156 bed

Phase I Authority project mentioned above. Pursuant to the loan agreement, the borrower will be obligated to make payments to the issuer in amounts sufficient to pay the principal and interest on the Bonds. Applicable GASB principles indicate that MUFC Central Energy Plant, LLC should be reported as a blended component unit of the Authority. Based on the GASB guidance, the audited financial statements include the Central Energy Plant, LLC using the blended method.

#### **University Medical Associates**

UMA's investment in capital assets as of June 30, 2005, amounts to \$46 million (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.

At year-end, UMA had \$91.9 million in outstanding bonds, notes and capital lease obligations compared to \$108.5 million outstanding in the prior year. This is a decrease of 15.3 percent. UMA added no new debt other than the accrual of vacation pay due to employees. Reductions resulted from scheduled principal payments and there being no need to borrow under the line of credit agreement. UMA's Direct Note Obligations Select Auction Variable Rate Securities (SAVRS) carry an AAA rating due to the impact of bond insurance from MBIA.

#### ***Requests for Information***

These financial statements are designed to provide a general overview of The Medical University of South Carolina and its component units' financial activities and to demonstrate the University's accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Controller's Office, Medical University of South Carolina, 19 Hagood Avenue, Post Office Box 250817, Charleston, South Carolina, 29425. These financial statements may also be obtained from our website: [www.musc.edu/fanda/vpfa/finreports.htm](http://www.musc.edu/fanda/vpfa/finreports.htm)

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

STATEMENT OF NET ASSETS  
JUNE 30, 2005

|   | The University        | Medical University<br>Hospital Authority | University Medical<br>Associates | Nonmajor<br>Enterprise Funds | Total<br>Primary Government |
|---|-----------------------|--|----------------------------------|------------------------------|-----------------------------|
| <b>ASSETS</b>                                   |                       |  |                                  |                              |                             |
| <b>Current Assets</b>                           |                       |  |                                  |                              |                             |
| Cash and cash equivalents                       | \$ 78,435,121         | \$ 36,155,957                            | \$ 36,080,794                    | \$ 309                       | \$ 150,672,181              |
| Investments                                     | -                     | -  | 25,246,679                       | -                            | 25,246,679                  |
| Receivables, net                                | 23,438,763            | 107,323,230                              | 25,748,552                       | 7,177                        | 156,517,722                 |
| Due from other funds                            | 12,769,138            | -  | 5,960,550                        | -                            | 18,729,688                  |
| Due from component units                        | 2,458,077             | -  | -                                | -                            | 2,458,077                   |
| Inventories                                     | -                     | 10,585,408                               | -                                | -                            | 10,585,408                  |
| Prepaid items                                   | 2,737,604             | 2,531,583                                | 631,355                          | 151,807                      | 6,052,349                   |
| Restricted assets                               |                       |  |                                  |                              |                             |
| Cash and cash equivalents                       | 779,065               | 10,076,898                               | -                                | 2,657,770                    | 13,513,733                  |
| Investments                                     | -                     | -  | -                                | 316,247                      | 316,247                     |
| Due from other funds                            | -                     | -  | -                                | 3,091,000                    | 3,091,000                   |
| Other current assets                            | -                     | -  | 1,052,847                        | 122,847                      | 1,175,694                   |
| Total current assets                            | <u>120,617,768</u>    | <u>166,673,076</u>                       | <u>94,720,777</u>                | <u>6,347,157</u>             | <u>388,358,778</u>          |
| <b>Noncurrent Assets</b>                        |                       |  |                                  |                              |                             |
| Student loans receivable, net                   | 742,173               | -  | -                                | -                            | 742,173                     |
| Restricted assets                               |                       |  |                                  |                              |                             |
| Cash and cash equivalents                       | 19,883,805            | 257,283,509                              | 3,079,224                        | 5,345,616                    | 285,592,154                 |
| Investments                                     | -                     | 58,494,733                               | 16,451,745                       | 350,777                      | 75,297,255                  |
| Due from component units                        | 7,750,000             | -  | -                                | -                            | 7,750,000                   |
| Interfund receivables                           | -                     | -  | -                                | 41,876,617                   | 41,876,617                  |
| Student loans receivable                        | 12,862,315            | -  | -                                | -                            | 12,862,315                  |
| Prepaid items                                   | -                     | -  | 11,364,396                       | 2,745,182                    | 14,109,578                  |
| Investment in partnerships                      | -                     | -  | 3,279,290                        | -                            | 3,279,290                   |
| Capital assets, net of accumulated depreciation | 333,932,764           | 268,737,275                              | 45,986,275                       | -                            | 648,656,314                 |
| Other noncurrent assets                         | 31,000                | 15,017,113                               | 4,440,422                        | 1,540,956                    | 21,029,491                  |
| Total noncurrent assets                         | <u>375,202,057</u>    | <u>599,532,630</u>                       | <u>84,601,352</u>                | <u>51,859,148</u>            | <u>1,111,195,187</u>        |
| Total assets                                    | <u>495,819,825</u>    | <u>766,205,706</u>                       | <u>179,322,129</u>               | <u>58,206,305</u>            | <u>1,499,553,965</u>        |
| <b>LIABILITIES</b>                              |                       |  |                                  |                              |                             |
| <b>Current liabilities</b>                      |                       |  |                                  |                              |                             |
| Payables and accrued liabilities                | 20,395,683            | 64,638,431                               | 18,058,981                       | 2,977,225                    | 106,070,320                 |
| Due to other funds                              | 5,278,000             | 13,409,246                               | -                                | 2,485,136                    | 21,172,382                  |
| Due to component units                          | -                     | -  | -                                | 5,444,153                    | 5,444,153                   |
| Deferred revenues                               | 17,528,912            | -  | -                                | -                            | 17,528,912                  |
| Interfund payables                              | 3,091,000             | -  | -                                | -                            | 3,091,000                   |
| Long-term liabilities                           | 14,092,522            | 5,725,662                                | 4,074,992                        | 2,709,171                    | 26,602,347                  |
| Other current liabilities                       | 1,167,971             | -  | -                                | -                            | 1,167,971                   |
| Total current liabilities                       | <u>61,554,088</u>     | <u>83,773,339</u>                        | <u>22,133,973</u>                | <u>13,615,685</u>            | <u>181,077,085</u>          |
| <b>Noncurrent liabilities</b>                   |                       |  |                                  |                              |                             |
| Interfund payables                              | 41,876,617            | -  | -                                | -                            | 41,876,617                  |
| Federal loan program liability                  | 12,574,030            | -  | -                                | -                            | 12,574,030                  |
| Long-term liabilities                           | 60,590,669            | 481,931,942                              | 91,746,687                       | 51,702,514                   | 685,971,812                 |
| Total noncurrent liabilities                    | <u>115,041,316</u>    | <u>481,931,942</u>                       | <u>91,746,687</u>                | <u>51,702,514</u>            | <u>740,422,459</u>          |
| Total liabilities                               | <u>176,595,404</u>    | <u>565,705,281</u>                       | <u>113,880,660</u>               | <u>65,318,199</u>            | <u>921,499,544</u>          |
| <b>NET ASSETS</b>                               |                       |  |                                  |                              |                             |
| Invested in capital assets, net of related debt | 247,811,880           | 35,746,072                               | (2,413,742)                      | -                            | 281,144,210                 |
| Restricted                                      |                       |  |                                  |                              |                             |
| Nonexpendable                                   | 10,208,806            | -  | -                                | -                            | 10,208,806                  |
| Expendable for                                  |                       |  |                                  |                              |                             |
| Education                                       | 8,188,469             | -  | -                                | -                            | 8,188,469                   |
| Loans   | 3,579,127             | -  | -                                | -                            | 3,579,127                   |
| Capital projects                                | 2,656,673             | -  | -                                | 647,305                      | 3,303,978                   |
| Debt service                                    | 6,900,423             | 71,188,739                               | 9,080,953                        | 1,164,609                    | 88,334,724                  |
| Unrestricted                                    | 39,879,043            | 93,565,614                               | 58,774,258                       | (8,923,808)                  | 183,295,107                 |
| Total net assets (deficit)                      | <u>\$ 319,224,421</u> | <u>\$ 200,500,425</u>                    | <u>\$ 65,441,469</u>             | <u>\$ (7,111,894)</u>        | <u>\$ 578,054,421</u>       |

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

**THE MEDICAL UNIVERSITY OF SOUTH CAROLINA**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2005**

|  | <u>The University</u> | <u>Medical University<br/>Hospital Authority</u> | <u>University Medical<br/>Associates</u> | <u>Nonmajor<br/>Enterprise Funds</u> | <u>Total<br/>Primary Government</u> |
|--|-----------------------|--|--|--------------------------------------|-------------------------------------|
| <b>Operating revenues</b>  |                       |  |  |                                      |                                     |
| Student tuition and fees (net of scholarship allowances of \$ 1,575,784)           | \$ 34,984,723         | \$ -   | \$ -                                     | \$ -                                 | \$ 34,984,723                       |
| Federal operating grants and contracts   | 121,833,685           | -  | -  | -                                    | 121,833,685                         |
| State operating grants and contracts   | 5,065,960             | -  | -  | -                                    | 5,065,960                           |
| Local government operating grants and contracts                                    | 104,722               | -  | -  | -                                    | 104,722                             |
| Nongovernmental operating grants and contracts                                     | 17,342,043            | -  | -  | -                                    | 17,342,043                          |
| Interfund services provided  | 62,601,860            | -  | -  | -                                    | 62,601,860                          |
| Sales and services of educational and other activities                             | 30,841,951            | -  | -  | -                                    | 30,841,951                          |
| Net patient service revenue  | -                     | 624,942,225                                      | 172,979,384                              | -                                    | 797,921,609                         |
| Ambulatory care and primary care agreements  | -                     | -  | 8,382,087                                | -                                    | 8,382,087                           |
| Auxiliary enterprises  | 5,248,662             | -  | -  | -                                    | 5,248,662                           |
| Interest income (used as security for revenue bonds and notes)                     | -                     | -  | -  | 2,037,640                            | 2,037,640                           |
| Other operating revenues   | 8,304,647             | 13,083,796                                       | 4,608,241                                | 5,931                                | 26,002,615                          |
| <b>Total operating revenues</b>  | <b>286,328,253</b>    | <b>638,026,021</b>                               | <b>185,969,712</b>                       | <b>2,043,571</b>                     | <b>1,112,367,557</b>                |
| <b>Operating expenses</b>  |                       |  |  |                                      |                                     |
| Compensation and employee benefits   | 240,220,848           | 255,473,799                                      | 104,276,873                              | -                                    | 599,971,520                         |
| Services and supplies  | 121,603,990           | 251,996,332                                      | 42,149,875                               | 58,085                               | 415,808,282                         |
| Utilities  | 7,784,545             | 8,957,900  | -  | -                                    | 16,742,445                          |
| Interfund services used  | -                     | 62,601,860                                       | -  | -                                    | 62,601,860                          |
| Scholarships and fellowships   | 8,086,719             | -  | -  | -                                    | 8,086,719                           |
| Interest expense   | -                     | -  | -  | 1,545,373                            | 1,545,373                           |
| Depreciation and amortization  | 14,065,419            | 20,260,395                                       | 2,355,338                                | 274,654                              | 36,955,806                          |
| <b>Total operating expenses</b>  | <b>391,761,521</b>    | <b>599,290,286</b>                               | <b>148,782,086</b>                       | <b>1,878,112</b>                     | <b>1,141,712,005</b>                |
| <b>Operating income (loss)</b>   | <b>(105,433,268)</b>  | <b>38,735,735</b>                                | <b>37,187,626</b>                        | <b>165,459</b>                       | <b>(29,344,448)</b>                 |
| <b>Nonoperating revenues (expenses)</b>  |                       |  |  |                                      |                                     |
| State appropriations   | 97,655,841            | -  | -  | -                                    | 97,655,841                          |
| Gifts and grants   | 7,904,764             | -  | -  | -                                    | 7,904,764                           |
| Gifts made   | -                     | -  | (156,106)                                | -                                    | (156,106)                           |
| Refunds to grantors  | (381,479)             | -  | -  | -                                    | (381,479)                           |
| Investment income  | 1,447,903             | 2,826,340  | 1,903,880                                | 11                                   | 6,178,134                           |
| Interest expense   | (3,160,562)           | (10,036,790)                                     | (5,801,162)                              | -                                    | (18,998,514)                        |
| Gain (loss) on sale of capital assets  | (739,329)             | -  | 133,274                                  | -                                    | (606,055)                           |
| Other nonoperating revenues  | -                     | -  | 4,071,169                                | 151,807                              | 4,222,976                           |
| <b>Net nonoperating revenues (expenses)</b>  | <b>102,727,138</b>    | <b>(7,210,450)</b>                               | <b>151,055</b>                           | <b>151,818</b>                       | <b>95,819,561</b>                   |
| <b>Income (loss) before other revenues, expenses, gains, losses, and transfers</b> | <b>(2,706,130)</b>    | <b>31,525,285</b>                                | <b>37,338,681</b>                        | <b>317,277</b>                       | <b>66,475,113</b>                   |
| Capital appropriations   | 2,867,790             | -  | -  | -                                    | 2,867,790                           |
| Capital grants and gifts   | 28,181,596            | -  | -  | -                                    | 28,181,596                          |
| Additions to permanent endowments  | 9,250,000             | -  | -  | -                                    | 9,250,000                           |
| Interfund transfers  | 26,443,937            | (11,189,121)                                     | (15,725,811)                             | 470,995                              | -                                   |
| Transfers to other state funds   | (320,595)             | -  | -  | -                                    | (320,595)                           |
| <b>Increase in net assets</b>  | <b>63,716,598</b>     | <b>20,336,164</b>                                | <b>21,612,870</b>                        | <b>788,272</b>                       | <b>106,453,904</b>                  |
| <b>Net assets (deficit) at beginning of year</b>                                   | <b>255,507,823</b>    | <b>180,164,261</b>                               | <b>43,828,599</b>                        | <b>(7,900,166)</b>                   | <b>471,600,517</b>                  |
| <b>Net assets (deficit) at end of year</b>   | <b>\$ 319,224,421</b> | <b>\$ 200,500,425</b>                            | <b>\$ 65,441,469</b>                     | <b>\$ (7,111,894)</b>                | <b>\$ 578,054,421</b>               |

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

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2005

|  | The University       | Medical University<br>Hospital Authority | University Medical<br>Associates | Nonmajor<br>Enterprise Funds | Total<br>Primary Government |
|--|----------------------|--|----------------------------------|------------------------------|-----------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                          |                      |  |                                  |                              |                             |
| Student tuition and fees   | \$ 35,998,333        | \$ -                                     | \$ -                             | \$ -                         | \$ 35,998,333               |
| Grants and contracts   | 143,619,092          | -  | -                                | -                            | 143,619,092                 |
| Auxiliary enterprise charges   | 5,220,372            | -  | -                                | -                            | 5,220,372                   |
| Receipts from interfund services provided                            | 66,277,536           | -  | -                                | -                            | 66,277,536                  |
| Receipts from services of educational activities                     | 34,351,563           | -  | -                                | -                            | 34,351,563                  |
| Receipts from patients and third-party payors                        | -                    | 562,498,254                              | 185,856,723                      | -                            | 748,354,977                 |
| Payments to employees  | (238,989,449)        | (255,388,742)                            | (86,792,517)                     | -                            | (581,170,708)               |
| Payments to suppliers  | (130,219,448)        | (186,247,144)                            | (55,746,159)                     | (82,142)                     | (372,294,893)               |
| Payments for scholarships and fellowships                            | (8,086,719)          | -  | -                                | -                            | (8,086,719)                 |
| Payments for interfund services provided                             | -                    | (66,277,536)                             | -                                | -                            | (66,277,536)                |
| Loans issued to students   | (2,831,861)          | -  | -                                | -                            | (2,831,861)                 |
| Collection of loans to students                                      | 2,630,159            | -  | -                                | -                            | 2,630,159                   |
| Student loan program receipts  | 25,207,232           | -  | -                                | -                            | 25,207,232                  |
| Student loan program disbursements                                   | (25,207,232)         | -  | -                                | -                            | (25,207,232)                |
| Other receipts   | 9,148,140            | 10,371,560                               | 5,302,989                        | 157,738                      | 24,980,427                  |
| Other payments   | (999,806)            | -  | (291,356)                        | -                            | (1,291,162)                 |
| Net cash provided (used) by operating activities                     | <u>(83,882,088)</u>  | <u>64,956,392</u>                        | <u>48,329,680</u>                | <u>75,596</u>                | <u>29,479,580</u>           |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>               |                      |  |                                  |                              |                             |
| State appropriations   | 97,610,608           | -  | -                                | -                            | 97,610,608                  |
| Interfund transfers  | 26,443,937           | (11,189,121)                             | (15,725,811)                     | 470,995                      | -                           |
| Transfers to other state funds                                       | (1,352,635)          | -  | -                                | -                            | (1,352,635)                 |
| Gifts and grants received  | 15,900,097           | -  | -                                | -                            | 15,900,097                  |
| Refunds to grantors  | (381,479)            | -  | -                                | -                            | (381,479)                   |
| Proceeds of loan from affiliated entity                              | -                    | -  | -                                | 70,224                       | 70,224                      |
| Repayments of loan from affiliated entity                            | -                    | -  | -                                | (27,638)                     | (27,638)                    |
| Repayments of note payable   | -                    | -  | (13,500,000)                     | -                            | (13,500,000)                |
| Proceeds from advances   | -                    | -  | 7,000,000                        | -                            | 7,000,000                   |
| Repayment of advances  | -                    | -  | (7,000,000)                      | -                            | (7,000,000)                 |
| Principal paid on noncapital debt                                    | (244,619)            | -  | (840,000)                        | -                            | (1,084,619)                 |
| Interest paid on noncapital debt                                     | (143,559)            | -  | -                                | -                            | (143,559)                   |
| Principal paid on bonds and notes payable                            | -                    | -  | (997,360)                        | (1,513,000)                  | (2,510,360)                 |
| Interest paid on bonds and notes payable                             | -                    | -  | (3,084,730)                      | (1,190,926)                  | (4,275,656)                 |
| Payment of agent fees and bond issuance costs                        | -                    | -  | (116,978)                        | -                            | (116,978)                   |
| Net cash provided (used) by noncapital financing activities          | <u>137,832,350</u>   | <u>(11,189,121)</u>                      | <u>(34,264,879)</u>              | <u>(2,190,345)</u>           | <u>90,188,005</u>           |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>      |                      |  |                                  |                              |                             |
| Proceeds from capital debt   | 19,045,000           | 494,200,157                              | -                                | -                            | 513,245,157                 |
| Capital appropriations   | 3,050,690            | -  | -                                | -                            | 3,050,690                   |
| Capital grants and gifts received                                    | 28,181,596           | -  | -                                | -                            | 28,181,596                  |
| Proceeds from sale of capital assets                                 | 2,026,648            | 2,261,267                                | 208,579                          | -                            | 4,496,494                   |
| Purchases of capital assets  | (62,616,109)         | (63,811,549)                             | (993,360)                        | (16,546,521)                 | (143,967,539)               |
| Principal paid on capital debt and leases                            | (24,275,992)         | (137,451,629)                            | (1,241,361)                      | -                            | (162,968,982)               |
| Interest paid on capital debt and leases                             | (3,182,436)          | (3,550,704)                              | (2,765,488)                      | (394,966)                    | (9,893,594)                 |
| Payment of fees and issuance cost                                    | -                    | (15,360,510)                             | (121,479)                        | -                            | (15,481,989)                |
| Net cash provided (used) by capital and related financing activities | <u>(37,770,603)</u>  | <u>276,287,032</u>                       | <u>(4,913,109)</u>               | <u>(16,941,487)</u>          | <u>216,661,833</u>          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                          |                      |  |                                  |                              |                             |
| Collection of interfund receivables                                  | -                    | -  | -                                | 1,670,047                    | 1,670,047                   |
| Interest received on interfund receivables                           | -                    | -  | -                                | 1,636,875                    | 1,636,875                   |
| Purchases of investments   | -                    | (68,947,394)                             | (65,738,886)                     | (2,607,136)                  | (137,293,416)               |
| Proceeds from sales and maturities of investments                    | -                    | 13,784,412                               | 48,646,763                       | 13,625,818                   | 76,056,993                  |
| Distributions from investments                                       | -                    | -  | 485,290                          | -                            | 485,290                     |
| Interest on investments  | 1,673,807            | 374,841                                  | 1,039,112                        | 452,824                      | 3,540,584                   |
| Net cash provided (used) by investing activities                     | <u>1,673,807</u>     | <u>(54,788,141)</u>                      | <u>(15,567,721)</u>              | <u>14,778,428</u>            | <u>(53,903,627)</u>         |
| Net increase (decrease) in cash and cash equivalents                 | 17,853,466           | 275,266,162                              | (6,416,029)                      | (4,277,808)                  | 282,425,791                 |
| Cash and cash equivalents at beginning of year                       | 81,244,525           | 28,250,202                               | 45,576,047                       | 12,281,503                   | 167,352,277                 |
| Cash and cash equivalents at end of year                             | <u>\$ 99,097,991</u> | <u>\$ 303,516,364</u>                    | <u>\$ 39,160,018</u>             | <u>\$ 8,003,695</u>          | <u>\$ 449,778,068</u>       |

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

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

STATEMENT OF CASH FLOWS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005

|  | The University         | Medical University<br>Hospital Authority | University Medical<br>Associates | Nonmajor<br>Enterprise Funds | Total<br>Primary Government |
|--|------------------------|--|----------------------------------|------------------------------|-----------------------------|
| Cash and cash equivalents is reported in the following Statement of Net Assets captions              |                        |  |                                  |                              |                             |
| Current Assets   | \$ 78,435,121          | \$ 36,155,957                            | \$ 36,080,794                    | \$ 309                       | \$ 150,672,181              |
| Restricted assets  | 779,065                | 10,076,898                               | -                                | 2,657,770                    | 13,513,733                  |
| Noncurrent restricted assets   | 19,883,805             | 257,283,509                              | 3,079,224                        | 5,345,616                    | 285,592,154                 |
| Total cash and cash equivalents  | <u>\$ 99,097,991</u>   | <u>\$ 303,516,364</u>                    | <u>\$ 39,160,018</u>             | <u>\$ 8,003,695</u>          | <u>\$ 449,778,068</u>       |
| <b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b> |                        |  |                                  |                              |                             |
| Operating income (loss)  | \$ (105,433,268)       | \$ 38,735,735                            | \$ 37,187,626                    | \$ 165,459                   | \$ (29,344,448)             |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities |                        |  |                                  |                              |                             |
| Depreciation and amortization  | 14,065,419             | 20,260,395                               | 2,355,338                        | 274,654                      | 36,955,806                  |
| Provision for bad debts  | -                      | 56,073,365                               | 34,414,662                       | -                            | 90,488,027                  |
| Rental income, net   | -                      | -  | 5,064,620                        | 151,807                      | 5,216,427                   |
| Gifts made   | -                      | -  | (156,106)                        | -                            | (156,106)                   |
| Other  | -                      | -  | 208,886                          | -                            | 208,886                     |
| Interest income  | -                      | -  | -                                | (2,037,640)                  | (2,037,640)                 |
| Interest expense   | -                      | -  | -                                | 1,545,373                    | 1,545,373                   |
| Loss on disposal of equipment  | -                      | 1,346,639                                | -                                | -                            | 1,346,639                   |
| Changes in assets and liabilities  |                        |  |                                  |                              |                             |
| Receivables  | 10,933,754             | (58,781,620)                             | (38,041,585)                     | -                            | (85,889,451)                |
| Student loans receivable   | 18,689                 | -  | -                                | -                            | 18,689                      |
| Due from other funds   | 3,295,095              | -  | 3,758,647                        | -                            | 7,053,742                   |
| Due from component unit  | (7,382,140)            | -  | (15,105)                         | -                            | (7,397,245)                 |
| Prepaid items  | (769,948)              | -  | 631,355                          | 4,543                        | (134,050)                   |
| Other assets   | -                      | -  | (281,579)                        | -                            | (281,579)                   |
| Payables and accrued liabilities   | 2,540,703              | 10,349,772                               | 1,882,390                        | (28,600)                     | 14,744,265                  |
| Accrued compensated absences   | 1,531,250              | -  | 118,905                          | -                            | 1,650,155                   |
| Deferred revenues  | 279,783                | -  | -                                | -                            | 279,783                     |
| Due to other funds   | (3,147,908)            | (3,027,894)                              | -                                | -                            | (6,175,802)                 |
| Federal loan program liability   | 165,412                | -  | -                                | -                            | 165,412                     |
| Other liabilities  | 21,071                 | -  | 1,201,626                        | -                            | 1,222,697                   |
| Net cash provided (used) by operating activities   | <u>\$ (83,882,088)</u> | <u>\$ 64,956,392</u>                     | <u>\$ 48,329,680</u>             | <u>\$ 75,596</u>             | <u>\$ 29,479,580</u>        |
| <b>Noncash transactions</b>  |                        |  |                                  |                              |                             |
| Increase in fair market value of investments   | \$ -                   | \$ -                                     | \$ 818,599                       | \$ 2,904                     | \$ 821,503                  |
| Loss from equity investment in partnership   | -                      | -  | (8,809)                          | -                            | (8,809)                     |
| Building acquired through capital lease  | 25,019,749             | -  | -                                | -                            | 25,019,749                  |
| Equipment acquired through capital lease   | 904,530                | -  | -                                | -                            | 904,530                     |
| Donated equipment  | 1,064,185              | -  | -                                | -                            | 1,064,185                   |
| Total noncash transactions   | <u>\$ 26,988,464</u>   | <u>\$ -</u>                              | <u>\$ 809,790</u>                | <u>\$ 2,904</u>              | <u>\$ 27,801,158</u>        |

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

STATEMENT OF FINANCIAL POSITION  
 HEALTH SCIENCES FOUNDATION OF THE MEDICAL UNIVERSITY OF SOUTH CAROLINA  
 NONGOVERNMENTAL DISCRETELY PRESENTED COMPONENT UNIT  
 JUNE 30, 2005

|   |                       |
|---|-----------------------|
| ASSETS                                      |                       |
| Cash and cash equivalents                   | \$ 4,714,938          |
| Receivables                                 |                       |
| Accounts and other receivables              | 39,497                |
| Contributions, net                          | 13,061,669            |
| Investments                                 | 135,625,089           |
| Funds held in trust by the Foundation       | 2,031,630             |
| Funds held in trust by others               | 2,321,647             |
| Income producing property                   | 56,628,687            |
| Property and equipment, net                 | 537,714               |
| Other assets                                | 13,189                |
| Total assets                                | <u>\$ 214,974,060</u> |
| LIABILITIES AND NET ASSETS                  |                       |
| Liabilities                                 |                       |
| Accounts payable and accrued expenses       | \$ 2,276,673          |
| Annuities payable                           | 4,519,438             |
| Long-term debt                              | 42,484,622            |
| Unearned income                             | 14,261,220            |
| Contributions payable to primary government | 17,852,400            |
| Total liabilities                           | <u>81,394,353</u>     |
| Net Assets                                  |                       |
| Unrestricted                                |                       |
| Undesignated                                | 1,351,002             |
| Designated for primary government programs  | 16,647,091            |
| Total unrestricted                          | <u>17,998,093</u>     |
| Temporarily restricted                      | 69,594,484            |
| Permanently restricted                      | 45,987,130            |
| Total net assets                            | <u>133,579,707</u>    |
| Total liabilities and net assets            | <u>\$ 214,974,060</u> |

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

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

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STATEMENT OF ACTIVITIES  
 HEALTH SCIENCES FOUNDATION OF THE MEDICAL UNIVERSITY OF SOUTH CAROLINA  
 NONGOVERNMENTAL DISCRETELY PRESENTED COMPONENT UNIT  
 JUNE 30, 2005

|   | Unrestricted         | Temporarily<br>Restricted | Permanently<br>Restricted | Total                 |
|---|----------------------|---------------------------|---------------------------|-----------------------|
| <b>Revenues, gains, and other support</b> |                      |                           |                           |                       |
| Contributions                             | \$ 425,897           | \$ 11,443,112             | \$ 4,469,908              | \$ 16,338,917         |
| Interest and dividends                    | 1,180,600            | 2,206,615                 | -                         | 3,387,215             |
| Net unrealized and realized gain          | 1,343,138            | 4,813,743                 | -                         | 6,156,881             |
| Special events revenues                   | -                    | 618,979                   | -                         | 618,979               |
| Rental income                             | 3,339,332            | 19,500                    | 19,500                    | 3,378,332             |
| Other income                              | 103,172              | 476,119                   | 100,000                   | 679,291               |
|   | <u>6,392,139</u>     | <u>19,578,068</u>         | <u>4,589,408</u>          | <u>30,559,615</u>     |
| Net assets released from restrictions     |                      |                           |                           |                       |
| Program restrictions satisfied            | 14,265,170           | (14,265,170)              | -                         | -                     |
| Time restrictions                         | (636,174)            | (430,540)                 | 1,066,714                 | -                     |
| Total revenues, gains, and other support  | <u>20,021,135</u>    | <u>4,882,358</u>          | <u>5,656,122</u>          | <u>30,559,615</u>     |
| <b>Expenses and losses</b>                |                      |                           |                           |                       |
| Program expenses                          | 19,070,081           | -                         | -                         | 19,070,081            |
| Supporting services                       |                      |                           |                           |                       |
| General and administrative                | 947,246              | -                         | -                         | 947,246               |
| Fundraising and promotion                 | 1,324,301            | -                         | -                         | 1,324,301             |
| Total expenses                            | <u>21,341,628</u>    | <u>-</u>                  | <u>-</u>                  | <u>21,341,628</u>     |
| Changes in net assets                     | (1,320,493)          | 4,882,358                 | 5,656,122                 | 9,217,987             |
| Net assets at beginning of year           | 19,318,586           | 64,712,126                | 40,331,008                | 124,361,720           |
| Net assets at end of year                 | <u>\$ 17,998,093</u> | <u>\$ 69,594,484</u>      | <u>\$ 45,987,130</u>      | <u>\$ 133,579,707</u> |

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

STATEMENT OF FINANCIAL POSITION  
MUSC FOUNDATION FOR RESEARCH DEVELOPMENT  
NONGOVERNMENTAL DISCRETELY PRESENTED COMPONENT UNIT  
JUNE 30, 2005

ASSETS

|  |                     |
|--|---------------------|
| Cash and cash equivalents                                      | \$ 51,533           |
| Interest receivable  | 18,880              |
| Accounts receivable  | 65,236              |
| Prepaid expense  | 28,026              |
| Investments  | 1,764,483           |
| Property and equipment (at cost less accumulated depreciation) | 6,519               |
| Total assets   | <u>\$ 1,934,677</u> |

LIABILITIES AND NET ASSETS

Liabilities

|                               |                  |
|-------------------------------|------------------|
| Accounts payable              | \$ 121,082       |
| Accrued expenses              | 1,491            |
| Due to primary government     | 941,984          |
| Unearned revenue and deposits | 86,444           |
| Equity held for others        | 195,089          |
| Total liabilities             | <u>1,346,090</u> |

Net Assets

|                                  |                     |
|----------------------------------|---------------------|
| Unrestricted                     | 588,587             |
| Total liabilities and net assets | <u>\$ 1,934,677</u> |

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

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STATEMENT OF ACTIVITIES  
MUSC FOUNDATION FOR RESEARCH DEVELOPMENT  
NONGOVERNMENTAL DISCRETELY PRESENTED COMPONENT UNIT  
JUNE 30, 2005

|   | Unrestricted | Temporarily<br>Restricted | Total      |
|---|--------------|---------------------------|------------|
| <b>Revenues, gains, and other support</b>         |              |                           |            |
| State grants and contracts                        | \$ 753,069   | \$ -                      | \$ 753,069 |
| Corporate contracts and awards                    | 24,400       | 912,805                   | 937,205    |
| Program contributions and private grants          | 366,492      | 24,062                    | 390,554    |
| License fees and royalties                        | 750,059      | -                         | 750,059    |
| Interest and dividend income                      | 110,929      | 180                       | 111,109    |
| Net unrealized and realized (loss) on investments | (55,357)     | -                         | (55,357)   |
| Registration and seminar fees                     | 109,052      | -                         | 109,052    |
| Gain on equity from technology transfer           | 225,089      | -                         | 225,089    |
| Miscellaneous income                              | 4,189        | -                         | 4,189      |
| Subtotal  | 2,287,922    | 937,047                   | 3,224,969  |
| Net assets released from restrictions             |              |                           |            |
| Program restrictions satisfied                    | 1,095,497    | (1,095,497)               | -          |
| Total revenues, gains, and other support          | 3,383,419    | (158,450)                 | 3,224,969  |
| <b>Expenses</b>                                   |              |                           |            |
| Program services                                  |              |                           |            |
| Research  | 668,721      | -                         | 668,721    |
| Training  | 368,317      | -                         | 368,317    |
| Public service                                    | 77,425       | -                         | 77,425     |
| Technology transfer activity                      | 1,353,120    | -                         | 1,353,120  |
| Residuals   | 266,457      | -                         | 266,457    |
| Total program expenses                            | 2,734,040    | -                         | 2,734,040  |
| Supporting services                               |              |                           |            |
| Management and general                            |              |                           |            |
| Operations  | 772,667      | -                         | 772,667    |
| Clinical Innovation Group                         | 17,143       | -                         | 17,143     |
| Total supporting services                         | 789,810      | -                         | 789,810    |
| Total expenses                                    | 3,523,850    | -                         | 3,523,850  |
| Changes in net assets                             | (140,431)    | (158,450)                 | (298,881)  |
| Net assets at beginning of year                   | 729,018      | 158,450                   | 887,468    |
| Net assets at end of year                         | \$ 588,587   | \$ -                      | \$ 588,587 |

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 appoint most of their board members and budget 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*. 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.

#### **Reporting Entity**

The financial reporting entity, as defined by GASB Statement No. 14, *The Financial Reporting Entity* and amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, 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 and the accounts of the following entities as component units.

#### **Blended Component Units**

The University's blended 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 (the Authority), University Medical Associates (UMA), Medical University Facilities Corporation (MUFC), and CHS Development Company (CHS) are considered to be governmental entities that conduct business-type activities and their balances and transactions are blended with those of the University and reported as if they were balances and transactions of the primary entity. Pharmaceutical Education and Development Foundation (PEDF) is deemed not to be a governmental entity because a controlling majority of its governing body is not appointed or approved by government officials, however, its balances and transactions have been reformatted and reported as balances and transactions of the primary entity. The Authority and UMA are reported as major funds and MUFC, CHS, and PEDF are considered nonmajor funds.

#### **Major Funds**

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. 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.

The MUFC Central Energy Plant, LLC (CEP), a single member LLC disregarded for tax purposes, is a conduit debt issuer established for the benefit of the Authority. As such, CEP is fiscally dependent on the Authority and, as required by applicable GASB principles, is considered a blended component unit of the Authority. The financial activities of CEP are blended into the financial statement of the Authority. CEP does not issue separate financial statements.

University Medical Associates (UMA) was organized as a nonprofit corporation under the laws of South Carolina on June 3, 1991, and received tax-exempt status recognition from the Internal Revenue Service. UMA was established by the Board of Trustees of The Medical University of South Carolina to benefit the programs and further the mission of the University and accordingly bills, collects, and administers all clinical income generated by its participating physicians. UMA provides the full-time professional clinical faculty of the University 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. 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. UMA is a blended component unit because it almost exclusively benefits the University even

though UMA does not provide all of its services directly to the University. The bylaws 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.

### **Nonmajor Funds**

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 MUFC are employees of the University or members of the University's Board of Trustees. The agreement between the University and MUFC requires the University to pay all costs of MUFC. 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. MUFC 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.

CHS Development Company (CHS) is a nonprofit corporation organized under the laws of South Carolina on August 27, 2002, to develop and lease property for the University. The development of the property will further the public educational goals of the University by providing necessary classroom, office, and parking space. CHS Development Company 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. CHS is a blended component unit since its only purpose is to provide financing services to the University. CHS Development Company 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 definition of a governmental entity. 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.

### **Discretely Presented Component Units**

Based on the criteria in Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the University reports the Health Sciences Foundation (HSF) and the MUSC Foundation for Research Development (MFRD) as discretely presented component units in its financial statements.

Health Sciences Foundation (HSF) is a legally separate, tax-exempt component unit of the Medical University of South Carolina. HSF acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The board of HSF is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from HSF, the majority of resources, or income thereon, that HSF holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by HSF can only be used by, or for the benefit of the University, HSF is considered a component unit of the University and is discretely presented in the University's financial statements. Copies of the separately issued financial statements of Health Sciences 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.

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 providing the mechanisms by which the University's scientific discoveries, inventions and processes may be developed, applied, or patented, and providing the means by which funds generated by such discoveries or patents can be utilized to stimulate and promote further investigation and research at the University. Based on its close relationship with the University, MFRD is deemed to be financially integrated with the University. Therefore, MFRD is reported as a discretely presented component unit of the University. Copies of the separately issued financial statements of MFRD can be obtained by sending a request to the following address: MUSC Foundation for Research Development, 261 Calhoun Street, P.O. Box 250194, Charleston, SC 29425.

### **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.

Health Sciences Foundation and MUSC Foundation for Research Development are private nonprofit organizations that report under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the foundations' financial information in the University's financial reporting entity for these differences.

### **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 or loss from investment (including realized and unrealized gains and losses on investments and interest) is reported as nonoperating revenue.

### **Receivables**

The University's receivables 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.

The University receives certain supplemental Medicaid payments pursuant to an amendment to the South Carolina Medicaid Plan, approved by the US Department of Health and Human Services on September 20, 2002 to be effective retroactive to October 1, 2001, for inherent inefficiencies of providing care to Medicaid patients while instructing medical students. As of June 30, 2005, the University has recorded a receivable from Medicaid of \$4,713,661 that represents the supplemental Medicaid payment to be received for the period April 1, 2005 through June 30, 2005.

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.

### **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 of prepaid rent.

### **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, the Authority, and CHS 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 2005 were approximately \$1,650,000 for the University, \$4,416,000 for the Authority,

and \$1,100,000 for CHS. 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 5 to 50 years for buildings and improvements and land improvements and 3 to 20 years for machinery, equipment, and vehicles.

### **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.

When an expense is incurred for a purpose for which both restricted and unrestricted resources are available, the University policy is to first apply the restricted resources then the unrestricted resources.

### **Classification of Revenues and Expenses**

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

Operating revenues and expenses 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. Operating expenses consist primarily of payments of compensation and employee benefits and purchases of services and supplies.

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.

Medical University Facilities Corporation and CHS Development Company report interest income as operating revenue because investing constitutes their principal ongoing operations.

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

### **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. In fiscal year 2005, the University included in this category supplemental Medicaid payments received as reimbursement to providers associated with teaching hospitals and clinics.

### ***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. The income of the University is exempt under Section 115(1) of the Internal Revenue Code, as amended. The Authority is also recognized as a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from income tax under Section 501(a) 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). For more information regarding UMA's taxable subsidiaries, see note 16.

Medical University Facilities Corporation, Pharmaceutical Education and Development Foundation, and CHS Development Company are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on related income under Code Section 501(a). The organizations have been classified by the Internal Revenue Service as other than private foundations.

### ***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. In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount in the near term.

### ***Reclassifications***

In certain instances, amounts previously reported in the 2004 financial statements have been reclassified to conform to the 2005 presentation. Such reclassifications had no effect on the increase (decrease) in net assets or net assets (deficit) as previously reported.

## 2. DEPOSITS AND INVESTMENTS

The following schedule reconciles deposits and investments within the notes to the Statement of Net Assets amounts:

|  | The University       | The Authority         | UMA                  | MUFC                | CHS                 | PEDF          |
|--|----------------------|-----------------------|----------------------|---------------------|---------------------|---------------|
| Statement of Net Assets:                                     |                      |                       |                      |                     |                     |               |
| Current assets   |                      |                       |                      |                     |                     |               |
| Cash and cash equivalents                                    | \$ 78,435,121        | \$ 36,155,957         | \$ 36,080,794        | \$ -                | \$ -                | \$ 309        |
| Investments  | -                    | -                     | 25,246,679           | -                   | -                   | -             |
| Restricted assets  |                      |                       |                      |                     |                     |               |
| Cash and cash equivalents                                    | 779,065              | 10,076,898            | -                    | 47,850              | 2,609,920           | -             |
| Investments  | -                    | -                     | -                    | 316,247             | -                   | -             |
| Noncurrent assets  |                      |                       |                      |                     |                     |               |
| Restricted assets  |                      |                       |                      |                     |                     |               |
| Cash and cash equivalents                                    | 19,883,805           | 257,283,509           | 3,079,224            | 1,350,000           | 3,995,616           | -             |
| Investments  | -                    | 58,494,733            | 16,451,745           | 213,000             | 137,777             | -             |
| Total Statement of Net Assets                                | <u>\$ 99,097,991</u> | <u>\$ 362,011,097</u> | <u>\$ 80,858,442</u> | <u>\$ 1,927,097</u> | <u>\$ 6,743,313</u> | <u>\$ 309</u> |
| Disclosure, Deposits and Investments plus reconciling items: |                      |                       |                      |                     |                     |               |
| Carrying value of deposits                                   |                      |                       |                      |                     |                     |               |
| Held by State Treasurer                                      | \$ 99,050,451        | \$ -                  | \$ -                 | \$ -                | \$ -                | \$ -          |
| Other  | -                    | 36,155,957            | 36,250,924           | 1,397,850           | 6,191,864           | 309           |
| Investments, reported amount                                 |                      |                       |                      |                     |                     |               |
| Unrestricted   | -                    | -                     | 25,046,679           | -                   | -                   | -             |
| Restricted   | -                    | 325,855,140           | 19,530,969           | 529,247             | 551,449             | -             |
| Cash on hand   | 47,540               | -                     | 29,870               | -                   | -                   | -             |
| Total Notes plus reconciling items                           | <u>\$ 99,097,991</u> | <u>\$ 362,011,097</u> | <u>\$ 80,858,442</u> | <u>\$ 1,927,097</u> | <u>\$ 6,743,313</u> | <u>\$ 309</u> |

### Deposits Held by State Treasurer

All deposits of the University are under the control of the State Treasurer, who, by law, has sole authority for investing State funds. Information pertaining to the reported amounts, fair values, and various risks of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

### Other Deposits

The Authority's bank balances at June 30, 2005 follows:

|  |                      |
|--|----------------------|
| Insured (FDIC)   | \$ 238,710           |
| Uninsured, uncollateralized, or collateralized by securities held by the pledging institution or by its trust department or agent in other than the Authority's name | <u>44,957,975</u>    |
| Total  | <u>\$ 45,196,685</u> |
| Carrying amount (cash and cash equivalents)  | <u>\$ 36,155,957</u> |

UMA and its blended component units maintain their cash accounts in a commercial bank. Accounts are guaranteed by the Federal Depository Insurance Corporation (FDIC) up to \$100,000 for both demand and time deposits per depositor. At June 30, 2005, the carrying amount of unrestricted deposits was \$36,250,924. Bank balances before reconciling items were \$39,012,771. Of these unrestricted bank balances, \$606,347 was insured by the FDIC, and the remainder was uninsured and uncollateralized.

## Investments

As of June 30, 2005, the investment balances were as follows:

| <u>Investment</u>  | <u>Carrying Value</u> | <u>Percentages</u> | <u>Maturity</u>       | <u>Interest Rate</u> | <u>Credit Rating</u> |
|--|-----------------------|--------------------|-----------------------|----------------------|----------------------|
| Medical University Hospital Authority                        |                       |                    |                       |                      |                      |
| Cash   | \$ 334,319            | 0.1%               | N/A                   | N/A                  | N/A                  |
| State Investment Pool  | 8,680,684             | 2.7%               | N/A                   | N/A                  | N/A                  |
| US Treasury Note   | 5,001,473             | 1.5%               | 9/30/2005             | 1.63%                | N/A                  |
| US Treasury Note   | 4,986,739             | 1.5%               | 10/31/2005            | 1.63%                | N/A                  |
| US Treasury Note   | 6,674,522             | 2.0%               | 2/15/2011             | 5.00%                | N/A                  |
| US Treasury Note   | 8,691,178             | 2.7%               | 5/15/2008             | 2.63%                | N/A                  |
| US Treasury Tri-party Repurchase Agreement                   | 38,108,970            | 11.7%              | N/A                   | N/A                  | N/A                  |
| Guaranteed Investment Contract                               | 98,332,619            | 30.2%              | N/A                   | 3.08%                | AAA                  |
| Guaranteed Investment Contract                               | 119,156,498           | 36.6%              | N/A                   | 2.89%                | AAA                  |
| Commercial Paper   | 33,141,000            | 10.2%              | 8/15/2005             | N/A                  | A1                   |
| Money Market Fund  | 2,747,138             | 0.8%               | N/A                   | N/A                  | AAA                  |
| Total Hospital Authority investments                         | <u>\$ 325,855,140</u> |                    |                       |                      |                      |
| University Medical Associates, unrestricted                  |                       |                    |                       |                      |                      |
| SC Student Loan Corporation Revenue Bonds                    | \$ 6,000,000          |                    | 6/1/2033              |                      | AAA/Aaa              |
| NC Educational Assistance Authority Bonds                    | 6,000,000             |                    | 7/1/2015              |                      | AAA/Aaa              |
| PA Higher Education Assistance Revenue Bonds                 | 6,000,000             |                    | 10/1/2040             |                      | AAA/Aaa              |
| Municipal Electric Authority of GA Revenue Bonds             | 6,000,000             |                    | 1/1/2020              |                      | AAA/Aaa              |
| Mutual Funds   | 1,046,679             |                    |                       |                      | N/A                  |
| Total UMA investments, unrestricted                          | <u>\$ 25,046,679</u>  |                    |                       |                      |                      |
| University Medical Associates, restricted                    |                       |                    |                       |                      |                      |
| Federal National Mortgage Association Discount Notes         | \$ 3,563,788          |                    | 11/15/2005            |                      | N/A                  |
| Philadelphia, PA Authority for Industrial Dev. Pension Bonds | 5,598,724             |                    | 4/15/2028             |                      | AAA/Aaa              |
| US Treasury Notes  | 2,748,536             |                    | 5/31/2006 - 2/15/2010 |                      | N/A                  |
| Federal National Mortgage Association Debentures             | 2,012,006             |                    | 4/15/2007 - 6/15/2009 |                      | N/A                  |
| Federal National Mortgage Association Preassigned Issues     | 1,392,188             |                    | 6/15/2006 - 6/15/2010 |                      | N/A                  |
| Mutual Funds   | 1,136,503             |                    | N/A                   |                      | N/A                  |
| Money Market Funds   | 3,079,224             |                    | N/A                   |                      | N/A                  |
| Total UMA investments, restricted                            | <u>\$ 19,530,969</u>  |                    |                       |                      |                      |
| CHS Development Company                                      |                       |                    |                       |                      |                      |
| Federal Agricultural Mortgage Corporation                    | \$ 413,672            |                    | 8/5/2005              |                      | AAA                  |
| Federal National Mortgage Association                        | 137,777               |                    | 10/3/2005             |                      | Aaa                  |
| Total CHS investments  | <u>\$ 551,449</u>     |                    |                       |                      |                      |

### Custodial Credit risk

Custodial credit risk is risk that the investor will not be able to recover the value of its investments that are in the possession of its safekeeping custodian. The Authority requires investments to be appropriately collateralized, insured or issued by investment grade financial institutions.

To minimize this risk, UMA's investment policy requires that all negotiable instruments shall be held in safekeeping in the trust department of a bank. All investments are held in UMA's name by a safekeeping agent that is independent of all counterparties.

### Credit risk

Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations.

The Authority's investment strategy has been developed to ensure that the investment portfolio remains in compliance with the investments deemed permissible under the indenture agreement. The investment agreements, including guaranteed investment contracts, commercial paper, repurchase agreements and other securities are subject to credit rating minimums, acceptance by related insurers, and other provisions as described in the indenture agreements.

The investment policy adopted by the UMA board allows investment of idle funds in money market and mutual funds, US treasury obligations, Certificates of Deposit and Bankers Acceptances of US or foreign banks rated A1 or higher, repurchase agreements 100% collateralized by US Treasury obligations, commercial paper rated A2 or higher, AAA rated money market auction rate securities, and corporate obligations rated A+ or higher.

CHS Development Company has no investment policy that limits its investment choices other than the limitations imposed by the Indenture of Trust related to the SC Jobs-Economic Development Authority Economic Development Revenue Bonds which limits investments to "Investment Obligations" meeting certain requirements as defined in the indenture.

### **Concentration of credit risk**

An increased risk of loss occurs as more investments are acquired from one issuer. UMA's investment policy limits investment in any one equity issuer to five percent and investment in a particular market segment to 20% of the total portfolio balance. Limits on fixed income investments are no more than 10% of the total portfolio in any one issuer other than federal obligations and maintenance of an average quality rating of A or better with a minimum quality rating of BBB for individual issues.

CHS places no limit on the amount it may invest in any one issuer. At June 30, 2005, 75 percent of CHS investments were in the Federal Agricultural Mortgage Corporation and 25 percent were in the Federal National Mortgage Association.

### **Interest rate risk**

Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. UMA, in accordance with its investment policy, manages its exposure to declines in fair value by limiting the maturities of investments to no longer than 48 months for any individual security and no longer than 12 months average for the entire portfolio. The policy also limits the ratio of equities to fixed income securities to no greater than 70% to 30%, respectively.

CHS has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturities of investments held at June 30, 2005, are provided in the schedule above.

### ***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 is able to exercise significant influence over the partnership, then UMA records the investment under the equity method, whereby UMA's percentage of the net profit or loss increases or decreases the investment and the gain or 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 of Beaufort County, LLC (LCMG). UMA's ownership interest decreased to 33.34% due to members exiting LCMG during the year ended June 30, 2000 and 2003. 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. During fiscal year 2005, LCRP refinanced the mortgage debt on its facilities and distributed a pro-rata share of the loan proceeds as a return of capital to the members of which CPCP received \$345,751. UMA's investment in the partnership at June 30, 2005, is \$2,733,758 and \$542,968 for LCMG and LCRP, respectively. For year ended June 30, 2005, distributions received and reported as investment income were \$119,694 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, 2005, UMA's investment is \$1,564 and for the year ended June 30, 2005, UMA's share of HHCD's net loss is \$8,809.

On February 10, 2004, University Medical Associates entered into a partnership agreement to be effective August 5, 2003, with Georgetown Hospital System to form Georgetown Radiation Therapy Center, L.L.C (GRTC) to provide radiation therapy for patients of Georgetown County, South Carolina. UMA received a one percent equity interest for a contribution of \$1,000. UMA will receive an additional one percent equity for each \$100,000 of cumulative net income the entity produces up to a maximum of ten percent equity for the use of its intellectual property pursuant to a licensing agreement. UMA can appoint one representative to the three-member Executive Committee which makes all management decisions regarding the operations of the entity. This investment is reported on the cost method with all distributions reported as investment income due to the limited ability to influence operations and its relatively minor equity interest. For the year ended June 30, 2005, no distributions were received.

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**3. RECEIVABLES**

Receivables at June 30, 2005, including applicable allowances, were as follows:

|                                      | The University       | The Authority         | UMA                  | MUFC            |
|--------------------------------------|----------------------|-----------------------|----------------------|-----------------|
| Student accounts                     | \$ 1,069,291         | \$ -                  | \$ -                 | \$ -            |
| Patient accounts                     | -                    | 137,663,002           | 84,088,563           | -               |
| Less allowances for:                 |                      |                       |                      |                 |
| Contractual adjustments              | -                    | -                     | (52,267,203)         | -               |
| Uncollectibles                       | -                    | (43,700,000)          | (6,325,582)          | -               |
| Cue from third-party payors          | -                    | 10,318,000            | -                    | -               |
| Federal grants and contracts         | 10,752,847           | -                     | -                    | -               |
| State grants and contracts           | 2,946,881            | -                     | -                    | -               |
| Nongovernmental grants and contracts | 3,086,587            | -                     | -                    | -               |
| Interest                             | 415,461              | -                     | -                    | 7,177           |
| Due from Medicaid                    | 4,713,661            | -                     | -                    | -               |
| Other                                | 454,035              | 3,042,228             | 252,774              | -               |
| Receivables, net                     | <u>\$ 23,438,763</u> | <u>\$ 107,323,230</u> | <u>\$ 25,748,552</u> | <u>\$ 7,177</u> |

**4. RESTRICTED ASSETS**

The purposes and amounts of restricted assets at June 30, 2005, were as follows:

| <u>Asset/Restricted for</u>                           | <u>The University</u> | <u>The Authority</u>  | <u>UMA</u>           | <u>MUFC</u>          | <u>CHS</u>           |
|---|-----------------------|-----------------------|----------------------|----------------------|----------------------|
| Current:  |                       |                       |                      |                      |                      |
| Cash and cash equivalents:                            |                       |                       |                      |                      |                      |
| Debt service  | \$ 779,065            | \$ -                  | \$ -                 | \$ 47,850            | \$ -                 |
| Payables and accrued liabilities for capital projects | -                     | 10,076,898            | -                    | -                    | 2,609,920            |
| Total cash and cash equivalents                       | <u>\$ 779,065</u>     | <u>\$ 10,076,898</u>  | <u>\$ -</u>          | <u>\$ 47,850</u>     | <u>\$ 2,609,920</u>  |
| Investments:  |                       |                       |                      |                      |                      |
| Debt service  | <u>\$ -</u>           | <u>\$ -</u>           | <u>\$ -</u>          | <u>\$ 316,247</u>    | <u>-</u>             |
| Due from other funds:                                 |                       |                       |                      |                      |                      |
| Debt service  | <u>\$ -</u>           | <u>\$ -</u>           | <u>\$ -</u>          | <u>\$ 2,277,670</u>  | <u>\$ 813,330</u>    |
| Noncurrent:   |                       |                       |                      |                      |                      |
| Cash and cash equivalents:                            |                       |                       |                      |                      |                      |
| Debt service  | \$ -                  | \$ -                  | \$ 3,079,224         | \$ 1,350,000         | \$ 3,995,616         |
| Capital projects                                      | 16,525,385            | 257,283,509           | -                    | -                    | -                    |
| Student loan programs                                 | 2,358,137             | -                     | -                    | -                    | -                    |
| Endowments  | 1,000,283             | -                     | -                    | -                    | -                    |
| Total cash and cash equivalents                       | <u>\$ 19,883,805</u>  | <u>\$ 257,283,509</u> | <u>\$ 3,079,224</u>  | <u>\$ 1,350,000</u>  | <u>\$ 3,995,616</u>  |
| Investments   |                       |                       |                      |                      |                      |
| Debt service  | <u>\$ -</u>           | <u>\$ 58,494,733</u>  | <u>\$ 16,451,745</u> | <u>\$ 213,000</u>    | <u>\$ 137,777</u>    |
| Due from component units                              |                       |                       |                      |                      |                      |
| Endowments  | <u>\$ 7,750,000</u>   | <u>\$ -</u>           | <u>\$ -</u>          | <u>\$ -</u>          | <u>\$ -</u>          |
| Interfund receivables:                                |                       |                       |                      |                      |                      |
| Debt service  | <u>\$ -</u>           | <u>\$ -</u>           | <u>\$ -</u>          | <u>\$ 17,933,531</u> | <u>\$ 23,943,086</u> |
| Student loans receivable:                             |                       |                       |                      |                      |                      |
| Student loan programs                                 | <u>\$ 12,862,315</u>  | <u>\$ -</u>           | <u>\$ -</u>          | <u>\$ -</u>          | <u>\$ -</u>          |

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**5. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2005, was as follows:

|   | <u>Beginning<br/>Balance</u> | <u>Additions</u>      | <u>Retirements</u>      | <u>Ending<br/>Balance</u> |
|---|------------------------------|-----------------------|-------------------------|---------------------------|
| <b>The University</b>                             |                              |                       |                         |                           |
| Capital assets not being depreciated              |                              |                       |                         |                           |
| Land  | \$ 12,223,451                | \$ -                  | \$ (577,135)            | \$ 11,646,316             |
| Construction in progress                          | 110,817,085                  | 38,165,438            | (59,674,428)            | 89,308,095                |
| Total capital assets not being depreciated        | <u>123,040,536</u>           | <u>38,165,438</u>     | <u>(60,251,563)</u>     | <u>100,954,411</u>        |
| Other capital assets                              |                              |                       |                         |                           |
| Depreciable land improvements                     | 5,413,037                    | 290,609               | (865)                   | 5,702,781                 |
| Buildings and improvements                        | 223,377,614                  | 84,437,833            | (3,517,233)             | 304,298,214               |
| Machinery and equipment                           | 72,266,648                   | 22,045,645            | (3,935,602)             | 90,376,691                |
| Vehicles  | 4,129,676                    | 520,520               | (161,469)               | 4,488,727                 |
| Total other capital assets at historical cost     | <u>305,186,975</u>           | <u>107,294,607</u>    | <u>(7,615,169)</u>      | <u>404,866,413</u>        |
| Less accumulated depreciation for                 |                              |                       |                         |                           |
| Depreciable land improvements                     | (4,124,929)                  | (163,551)             | 865                     | (4,287,615)               |
| Buildings and improvements                        | (117,104,680)                | (7,788,391)           | 1,916,991               | (122,976,080)             |
| Machinery and equipment                           | (38,627,934)                 | (5,825,167)           | 3,353,423               | (41,099,678)              |
| Vehicles  | (3,399,348)                  | (288,310)             | 162,971                 | (3,524,687)               |
| Total accumulated depreciation                    | <u>(163,256,891)</u>         | <u>(14,065,419)</u>   | <u>5,434,250</u>        | <u>(171,888,060)</u>      |
| Other capital assets, net                         | <u>141,930,084</u>           | <u>93,229,188</u>     | <u>(2,180,919)</u>      | <u>232,978,353</u>        |
| University Capital assets, net                    | <u>264,970,620</u>           | <u>131,394,626</u>    | <u>(62,432,482)</u>     | <u>333,932,764</u>        |
| <b>Medical University Hospital Authority</b>      |                              |                       |                         |                           |
| Capital assets not being depreciated              |                              |                       |                         |                           |
| Land and land improvements                        | 3,922,649                    | 2,170,076             | -                       | 6,092,725                 |
| Construction in progress                          | 53,406,919                   | 51,075,636            | (19,431,492)            | 85,051,063                |
| Total capital assets not being depreciated        | <u>57,329,568</u>            | <u>53,245,712</u>     | <u>(19,431,492)</u>     | <u>91,143,788</u>         |
| Other capital assets                              |                              |                       |                         |                           |
| Buildings and improvements                        | 206,869,529                  | 20,480,698            | -                       | 227,350,227               |
| Machinery and equipment                           | 152,107,218                  | 9,234,866             | (13,844,121)            | 147,497,963               |
| Vehicles  | 1,673,454                    | 281,765               | (15,431)                | 1,939,788                 |
| Total other capital assets at historical cost     | <u>360,650,201</u>           | <u>29,997,329</u>     | <u>(13,859,552)</u>     | <u>376,787,978</u>        |
| Less accumulated depreciation for                 |                              |                       |                         |                           |
| Buildings and improvements                        | (102,871,265)                | (7,553,008)           | -                       | (110,424,273)             |
| Machinery and equipment                           | (85,108,650)                 | (12,386,501)          | 10,251,646              | (87,243,505)              |
| Vehicles  | (1,205,827)                  | (320,886)             | -                       | (1,526,713)               |
| Total accumulated depreciation                    | <u>(189,185,742)</u>         | <u>(20,260,395)</u>   | <u>10,251,646</u>       | <u>(199,194,491)</u>      |
| Other capital assets, net                         | <u>171,464,459</u>           | <u>9,736,934</u>      | <u>(3,607,906)</u>      | <u>177,593,487</u>        |
| Hospital Authority capital assets, net            | <u>228,794,027</u>           | <u>62,982,646</u>     | <u>(23,039,398)</u>     | <u>268,737,275</u>        |
| <b>University Medical Associates</b>              |                              |                       |                         |                           |
| Capital assets not being depreciated              |                              |                       |                         |                           |
| Construction in progress                          | 1,036,086                    | -                     | (1,036,086)             | -                         |
| Total capital assets not being depreciated        | <u>1,036,086</u>             | <u>-</u>              | <u>(1,036,086)</u>      | <u>-</u>                  |
| Other capital assets                              |                              |                       |                         |                           |
| Buildings and improvements                        | 59,049,109                   | 490,530               | (9,200)                 | 59,530,439                |
| Machinery and equipment                           | 8,877,270                    | 347,961               | (363,487)               | 8,861,744                 |
| Intangible assets                                 | 3,196,546                    | 204,183               | -                       | 3,400,729                 |
| Total other capital assets at historical cost     | <u>71,122,925</u>            | <u>1,042,674</u>      | <u>(372,687)</u>        | <u>71,792,912</u>         |
| Less accumulated depreciation for                 |                              |                       |                         |                           |
| Buildings and improvements                        | (13,151,694)                 | (1,970,645)           | 1,292                   | (15,121,047)              |
| Machinery and equipment                           | (7,787,966)                  | (642,598)             | 296,089                 | (8,134,475)               |
| Intangible assets                                 | (2,060,887)                  | (490,228)             | -                       | (2,551,115)               |
| Total accumulated depreciation                    | <u>(23,000,547)</u>          | <u>(3,103,471)</u>    | <u>297,381</u>          | <u>(25,806,637)</u>       |
| Other capital assets, net                         | <u>48,122,378</u>            | <u>(2,060,797)</u>    | <u>(75,306)</u>         | <u>45,986,275</u>         |
| University Medical Associates capital assets, net | <u>49,158,464</u>            | <u>(2,060,797)</u>    | <u>(1,111,392)</u>      | <u>45,986,275</u>         |
| <b>CHS Development Company</b>                    |                              |                       |                         |                           |
| Capital assets not being depreciated              |                              |                       |                         |                           |
| Construction in progress                          | 7,993,764                    | 17,025,985            | (25,019,749)            | -                         |
| CHS Development Company capital assets            | <u>7,993,764</u>             | <u>17,025,985</u>     | <u>(25,019,749)</u>     | <u>-</u>                  |
| Grand Total                                       | <u>\$ 550,916,875</u>        | <u>\$ 209,342,460</u> | <u>\$ (111,603,021)</u> | <u>\$ 648,656,314</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 eligible compensation. Effective July 1, 2004, the employer contribution rate became 10.8 percent, which included a 3.25 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, 2005, 2004, and 2003, were approximately \$7,235,000, \$6,925,000, and \$6,849,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. The Authority's contribution to SCRS for the years ending June 30, 2005, 2004 and 2003 were approximately \$17,900,000, \$17,200,000, and \$16,500,000, respectively. Also, the University paid employer group-life insurance contributions of approximately \$144,000 in the current fiscal year at the rate of 0.15 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 firefighters 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, 2004, the employer contribution rate became 13.55 percent which, as for the SCRS, included the 3.25 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 2005, 2004, and 2003, were approximately \$167,000, \$160,000, and \$161,000, 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 \$3,248 and accidental death insurance contributions of \$3,248 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is 0.20 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 3.25 percent from the employer.

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 approximately \$6,563,000 (excluding the surcharge) from the University as employer and \$3,646,000 from its employees as plan members. Also, the University paid employer group-life insurance contributions of approximately \$91,000 in the current fiscal year. Employee contributions of 6 percent and 5 percent of the employer contribution were remitted directly to the respective annuity policy providers. The balance of the employer portion was remitted to the Retirement Division of the State Budget and Control Board. 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 \$418,000 for lump-sum vacation leave payments to its employees retiring under TERI in fiscal year 2005.

### **Component Unit Pension Plans**

Effective July 1, 2002, the Authority established and began sponsoring a profit sharing plan and trust titled the Special Healthcare Alternative Retirement Plan (SHARP). The SHARP is qualified under Section 401(a) of the Internal Revenue Code. Certain employees, as defined in the SHARP, are eligible to participate at the commencement of employment. Contributions by the Authority to the plan are discretionary and vest ratably over four years after two years of service. Contributions by the Authority in fiscal 2005 totaled approximately \$242,000.

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. The Authority does not match employee contributions.

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 qualified retirement 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) twelve percent of compensation from \$40,001 to \$80,000; (c) twenty-five percent of compensation from \$80,001 to \$150,000; and (d) twenty-nine percent for compensation from \$150,001 to \$200,000. The maximum annual contribution per participant is \$40,000. Participants become fully vested in their accounts after five years of credited service. Total contributions to this plan totaled approximately \$11,203,000 in fiscal year 2005. 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.

Effective July 1 2002, employees of Carolina Primary Care Physicians and Carolina Health Management Services are no longer participants in the UMA defined contribution pension plan. A deferred compensation plan under Internal Revenue Code Section 401(k) has been established which allows employees to defer up to \$16,000 of compensation annually. The employer makes safe-harbor contributions for all employees of three percent of compensation up to \$205,000. A separate employer contribution of five percent of compensation up to \$205,000 is made for all non-physician employees. All employee and employer safe-harbor contributions are 100% vested at the time of contribution. The five percent non-physician employer contribution contributions vest ratably over a five year period. Total employer contributions to this plan for the fiscal year ending June 30, 2005 were \$250,277.

## **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. The University recorded compensation and benefits expense for these insurance benefits for active employees in the approximate amount of \$13,307,000 for the year ended June 30, 2005. The University paid approximately \$3,635,000 applicable to the 3.25 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 provide employee life and disability benefits through commercial insurance companies and have established an employee benefit plan to self-insure employees for health, accident, and dental expenses. 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, 2005 was \$562,052. 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 these benefits and no separate estimate is available for the cost of the coverage for retirees. Twenty-three retirees are covered under UMA's self-insured health plan as of June 30, 2005.

## 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 403(b) plan that was established by the University. The plan is administered by various unrelated financial institutions.

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 \$14,000 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 2005 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 related to capital projects of approximately \$27,000,000 at June 30, 2005. The University anticipates funding these projects out of current resources, current bond issues, private gifts, and state capital improvement bond proceeds.

The Authority's construction in progress consists primarily of costs associated with construction of new hospital facilities funded by the issuance of debt. The estimated total remaining costs to complete at June 30, 2005 is approximately \$220,947,000. These projects are planned for completion at various dates through fiscal year 2008.

On June 28, 2004, the Authority renewed its agreement with a commercial bank for working capital lines of credit totaling approximately \$23,800,000 (bank lines). Advances under the bank lines bear interest at approximately 87% of Adjusted 30-day London Interbank Offered Rate (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. The credit facilities expired in December 2004 and the Authority has not renewed the agreement of June 30, 2005. The Authority is exploring a replacement facility for the lines described above, which will likely require modification to the above terms and conditions to ensure conformity with related requirements of the 2004 bonds described in Note 11. There can be no assurance that such a facility or facilities will ultimately be consummated.

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 \$8,750,000 mortgage debt of Lowcountry Real Property, LLC. This corporate guarantee is based upon 50% of CPCP's equity in the partnership times the outstanding principal balance of the mortgage up to a maximum \$1,531,250. CFC and CPCP are jointly and severally liable for this amount should LCRP default on its obligation.

On October 7, 2004, UMA entered into an agreement with the Authority to provide assistance with respect to the financing of a new hospital facility. This assistance is in the form of an irrevocable \$6 million line of credit with a major bank made available to the Authority to cover any negative arbitrage during the construction phase of the hospital and until the Authority can fully fund a \$20 million Special Reserve Fund required by the bond insurers. The issuance of this line of credit facility has received MBIA approval to issue as parity debt with the outstanding Select Auction Variable Rate Securities. Any draws against the line of credit will be repaid and any expenses of obtaining and maintaining the line of credit shall be reimbursed within six months after construction is substantially complete and the Special Reserve Fund is fully funded or within six years of construction beginning, unless specifically authorized by the UMA board.

CHS had outstanding commitments related to the Charleston High School renovation project of approximately \$2,800,000 at June 30,

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2005. The project is being funded with proceeds of the economic development revenue bonds issued by South Carolina Jobs-Economic Development Authority.

PEDF was named in a lawsuit claiming wrongful termination filed by its former Chief Executive Officer. In addition to a settlement against PEDF in the amount of \$131,000, the former Chief Executive Officer filed a petition for reimbursement of costs in the approximate amount of \$8,000. PEDF has objected to the petition and is awaiting the court's ruling.

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 five years based on the buyer's revenues from the facilities purchased. For the year ended June 30, 2005, the earn-out amount was zero. On June 27, 2005, the United States Bankruptcy Court of the District of Delaware entered an order for this buyer for Chapter 11 proceedings. The bankruptcy proceedings of the buyer raises substantial doubt about PEDF's ability to continue as a going concern. PEDF's financial statements do not include any adjustments that might be necessary if PEDF is unable to continue as a going concern.

**10. PAYABLES AND ACCRUED LIABILITIES**

|   | <u>The University</u> | <u>The Authority</u> | <u>UMA</u>           | <u>MUFC</u>       | <u>CHS</u>          | <u>PEDF</u>       |
|---|-----------------------|----------------------|----------------------|-------------------|---------------------|-------------------|
| Accounts payable                        | \$ 11,741,082         | \$ 27,106,957        | \$ 1,824,433         | \$ -              | \$ 1,519,072        | \$ 131,100        |
| Advances                                | -                     | -                    | 7,000,000            | -                 | -                   | -                 |
| Retainages                              | 2,574,187             | 3,178,871            | -                    | -                 | 401,100             | -                 |
| Accrued payroll and related liabilities | 5,325,503             | 27,444,325           | 6,770,976            | -                 | -                   | -                 |
| Accrued interest                        | 754,911               | 6,835,502            | 189,087              | 191,828           | 734,125             | -                 |
| Other                                   | -                     | 72,776               | 2,274,485            | -                 | -                   | -                 |
|   | <u>\$ 20,395,683</u>  | <u>\$ 64,638,431</u> | <u>\$ 18,058,981</u> | <u>\$ 191,828</u> | <u>\$ 2,654,297</u> | <u>\$ 131,100</u> |

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, 2005. Repayment was made in July, 2005.

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**11. NONCURRENT LIABILITIES**

Noncurrent liability activity for the year ended June 30, 2005, was as follows:

|  | <u>Beginning<br/>Balance</u> | <u>Increases</u>      | <u>Decreases</u>        | <u>Ending<br/>Balance</u> | <u>Current<br/>Portion</u> |
|--|------------------------------|-----------------------|-------------------------|---------------------------|----------------------------|
| <b>University</b>  |                              |                       |                         |                           |                            |
| General obligation bonds payable   | \$ 55,985,000                | \$ 19,045,000         | \$ (20,965,000)         | \$ 54,065,000             | \$ 3,475,000               |
| Capital leases payable   | 638,087                      | 904,530               | (440,945)               | 1,101,672                 | 446,057                    |
| Compensated absences payable   | 19,170,397                   | 11,783,063            | (10,251,813)            | 20,701,647                | 10,251,813                 |
| Less deferred loss on early retirement of<br>general obligation bonds                        | <u>-</u>                     | <u>(1,205,215)</u>    | <u>20,087</u>           | <u>(1,185,128)</u>        | <u>(80,348)</u>            |
| Total University long-term liabilities   | 75,793,484                   | 30,527,378            | (31,637,671)            | 74,683,191                | 14,092,522                 |
| Retainages payable   | 3,610,207                    | -                     | (3,610,207)             | -                         | -                          |
| Interfund payables   | 21,847,667                   | 25,019,749            | (1,899,799)             | 44,967,617                | 3,091,000                  |
| Federal loan program liability   | <u>12,349,272</u>            | <u>397,867</u>        | <u>(173,109)</u>        | <u>12,574,030</u>         | <u>-</u>                   |
| Total University noncurrent liabilities  | <u>113,600,630</u>           | <u>55,944,994</u>     | <u>(37,320,786)</u>     | <u>132,224,838</u>        | <u>17,183,522</u>          |
| <b>Medical University Hospital Authority</b>   |                              |                       |                         |                           |                            |
| Notes payable  | 12,392,318                   | -                     | (12,392,318)            | -                         | -                          |
| Revenue bonds payable  | 102,835,000                  | 422,060,000           | (102,835,000)           | 422,060,000               | -                          |
| Revenue bonds payable - CEP  | -                            | 61,000,000            | -                       | 61,000,000                | -                          |
| Capital leases payable   | <u>20,097,847</u>            | <u>-</u>              | <u>(6,749,031)</u>      | <u>13,348,816</u>         | <u>5,725,662</u>           |
| Subtotal   | 135,325,165                  | 483,060,000           | (121,976,349)           | 496,408,816               | 5,725,662                  |
| Less unamortized bond premium and<br>discounts and deferred losses on<br>bond refunding, net | <u>(4,989,853)</u>           | <u>(11,532,126)</u>   | <u>7,770,767</u>        | <u>(8,751,212)</u>        | <u>-</u>                   |
| Total Authority noncurrent liabilities   | <u>130,335,312</u>           | <u>471,527,874</u>    | <u>(114,205,582)</u>    | <u>487,657,604</u>        | <u>5,725,662</u>           |
| <b>University Medical Associates</b>   |                              |                       |                         |                           |                            |
| Direct note obligations  | 94,550,000                   | -                     | (1,900,000)             | 92,650,000                | 2,400,000                  |
| Interest rate swap liability   | 1,528,819                    | -                     | (77,083)                | 1,451,736                 | 77,083                     |
| Capital leases payable   | 580,409                      | -                     | (338,721)               | 241,688                   | 192,920                    |
| Structured legal settlement  | 840,000                      | -                     | (840,000)               | -                         | -                          |
| Compensated absences payable   | <u>2,305,978</u>             | <u>2,852,992</u>      | <u>(2,734,087)</u>      | <u>2,424,883</u>          | <u>1,454,930</u>           |
| Subtotal   | 99,805,206                   | 2,852,992             | (5,889,891)             | 96,768,307                | 4,124,933                  |
| Less deferred refunding costs on direct<br>note obligations                                  | <u>(996,570)</u>             | <u>-</u>              | <u>49,942</u>           | <u>(946,628)</u>          | <u>(49,941)</u>            |
| Total UMA noncurrent liabilities   | <u>98,808,636</u>            | <u>2,852,992</u>      | <u>(5,839,949)</u>      | <u>95,821,679</u>         | <u>4,074,992</u>           |
| <b>Medical University Facilities Corporation</b>   |                              |                       |                         |                           |                            |
| Revenue bonds payable  | 10,341,000                   | -                     | (513,000)               | 9,828,000                 | 554,000                    |
| Notes payable  | <u>12,500,000</u>            | <u>-</u>              | <u>(1,000,000)</u>      | <u>11,500,000</u>         | <u>1,050,000</u>           |
| Total MUFC noncurrent liabilities  | <u>22,841,000</u>            | <u>-</u>              | <u>(1,513,000)</u>      | <u>21,328,000</u>         | <u>1,604,000</u>           |
| <b>CHS Development Company</b>   |                              |                       |                         |                           |                            |
| Notes payable  | 32,985,000                   | -                     | -                       | 32,985,000                | 1,100,000                  |
| Unamortized premium  | <u>103,856</u>               | <u>-</u>              | <u>(5,171)</u>          | <u>98,685</u>             | <u>5,171</u>               |
| Total CHS noncurrent liabilities   | <u>33,088,856</u>            | <u>-</u>              | <u>(5,171)</u>          | <u>33,083,685</u>         | <u>1,105,171</u>           |
| Grand total  | <u>\$ 398,674,434</u>        | <u>\$ 530,325,860</u> | <u>\$ (158,884,488)</u> | <u>\$ 770,115,806</u>     | <u>\$ 29,693,347</u>       |

## 12. BONDS AND NOTES PAYABLE

### ***Bonds Payable***

At June 30, 2005, the University's bonds payable consisted of the following:

|                               | Interest<br>Rates | Maturity<br>Dates | Balance<br>June 30, 2005 |
|-------------------------------|-------------------|-------------------|--------------------------|
| State Institution Bonds       |                   |                   |                          |
| 1991 C series dated 5/17/91   | 6%                | 03/01/06          | \$ 425,000               |
| 1992 A series dated 5/1/92    | 6%                | 03/01/07          | 1,225,000                |
| 1996 A series dated 7/1/96    | 5.2 – 5.4%        | 03/01/11          | 1,665,000                |
| 2000 A series dated 4/1/00    | 4.8 – 6.25%       | 03/01/20          | 6,705,000                |
| 2001 C series dated 12/01/01  | 4.25 – 5%         | 12/01/16          | 6,175,000                |
| 2003 D series dated 1/1/03    | 3.3 – 4.4%        | 01/01/18          | 7,240,000                |
| 2003 J series dated 12/1/03   | 3.0 – 5.0%        | 12/01/23          | 11,585,000               |
| 2005 A series dated 4/18/05   | 3.0 - 5.0%        | 03/01/20          | <u>19,045,000</u>        |
| Total state institution bonds |                   |                   | <u>\$ 54,065,000</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 service requirement for the payment of principal and interest on state institution bonds. SC 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 \$20,894,770 which results in a legal debt margin at June 30, 2005, of \$18,805,293. The debt service payments for the year ended June 30, 2005, were \$5,629,223.

On April 1, 2005, the University issued Series 2005 A General Obligation State Institution Refunding Bonds (2005 A Refunding Bonds) in the amount of \$19,045,000 to advance refund certain maturities of the original principal amount \$28,000,000 General Obligation State Institution Bonds, Series 2000 A, namely the outstanding principal amount of \$17,845,000 maturing on March 1, 2011 to and including March 1, 2020. The net proceeds (after payment of \$162,873 in underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the Series 2000 A bonds are considered to be defeased and the liability for those bonds has been removed from the statement of net assets.

The advance refunding resulted in a deferred loss on refunding of \$1,205,215, which will be amortized to expense through 2020. The University completed the advance refunding to reduce its total debt service payments over the next 15 years by \$827,536 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$636,134.

The scheduled maturities of the State Institution Bonds are as follows:

| Year ending<br>June 30, | Principal            | Interest             | Total                |
|-------------------------|----------------------|----------------------|----------------------|
| 2006                    | \$ 3,475,000         | \$ 2,271,557         | \$ 5,746,557         |
| 2007                    | 3,495,000            | 2,162,334            | 5,657,334            |
| 2008                    | 3,135,000            | 1,992,180            | 5,127,180            |
| 2009                    | 3,270,000            | 1,857,874            | 5,127,874            |
| 2010                    | 3,390,000            | 1,716,748            | 5,106,748            |
| 2011 - 2015             | 17,500,000           | 6,276,143            | 23,776,143           |
| 2016 - 2020             | 16,450,000           | 2,461,244            | 18,911,244           |
| 2021 - 2026             | <u>3,350,000</u>     | <u>309,563</u>       | <u>3,659,563</u>     |
| Total                   | <u>\$ 54,065,000</u> | <u>\$ 19,047,643</u> | <u>\$ 73,112,643</u> |

Total principal payments on bonds for the year ended June 30, 2005, including the advance refunding, were \$20,965,000. Total interest expense relating to bonds payable for the year ended June 30, 2005 was \$2,509,223.

The total amount of defeased debt outstanding for the University at June 30, 2005, was \$17,845,000.

### ***Hospital Facilities and Refunding Revenue Bonds Payable***

At June 30, 2005, the Authority's hospital facilities and refunding revenue bonds payable consisted of the following:

|   | Interest<br>Rates | Balance<br>June 30, 2005 |
|---|-------------------|--------------------------|
| 2004 A series   | 4.85 - 5.25%      | \$ 303,965,000           |
| 2004 B series   | 3.92 - 5.38%      | <u>118,095,000</u>       |
|   |                   | 422,060,000              |
| Unamortized bond discounts and<br>deferred losses on bond refunding |                   | <u>(8,751,212)</u>       |
|   |                   | 413,308,788              |
| Less current installments   |                   | -                        |
| Total   |                   | <u>\$ 413,308,788</u>    |

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In December 2004, the Authority issued a total of \$422,060,000 of FHA Insured Mortgage Hospital Facilities and Refunding Revenue Bonds, Series 2005 at a premium of \$11,445,157. The net bond proceeds as well as monies from the Series 2002A Hospital Facilities Refunding Revenue Bonds trustee account were used to defease all amounts outstanding under the prior Series 2002A bonds and the promissory note payable to Charleston County, and fund construction of new replacement hospital facilities located in Charleston, South Carolina.

With respect to the 2004 bond defeasance, funds were deposited in an irrevocable trust to provide for the debt service of the bonds payable and, therefore, all related amounts have been removed from the Authority's balance sheet. The deposits in trust have been or will be used to pay all scheduled principal and interest payments on the 2002A Refunding Bonds through 2032.

The 2004 refunding transaction resulted in an accounting loss totaling \$15,475,280, which has been deferred and is being amortized using the interest method through 2032. The deferred loss is related entirely to the in-substance defeasance of bonds payable. The total deferred loss, including previously deferred losses was \$19,740,529 as of June 30, 2005. Aggregate cash flows from the refunding date through contractual maturity of the Series 2002 bonds totaled \$233,603,103, while aggregate cash flows from the refunding series bonds totaled approximately \$180,533,990, resulting in a positive net cash flow differential for the refunding transaction of approximately \$53,069,113. The economic gain (generally defined as the present value of the net cash flow differential discounted at the effective interest rate of the new debt) on the 2004 refunding transaction totals approximately \$107,364.

The 2004 Series A and B bonds bear interest at fixed rates for tranches defined by the principal payments due each year. The interest rates range from 4.85% to 5.25% for the Series A bonds and 3.92% to 5.38% for the Series B bonds. The average interest rates were 5.20% and 4.94% for the Series A and Series B bonds, respectively. The bond indenture contains certain terms and restrictive covenants typical of such agreements, including maintenance of certain debt service coverage levels and limitations on additional indebtedness.

The scheduled maturities of the Authority's hospital facilities and refunding revenue bonds are as follows:

| Fiscal Year End | Series 2004 Bonds     |                       |                       |
|-----------------|-----------------------|-----------------------|-----------------------|
|                 | Principal             | Interest              | Total                 |
| June 30,        |                       |                       |                       |
| 2006            | \$ -                  | \$ 21,494,899         | \$ 21,494,899         |
| 2007            | -                     | 21,494,899            | 21,494,899            |
| 2008            | -                     | 21,494,899            | 21,494,899            |
| 2009            | 4,160,000             | 21,494,899            | 25,654,899            |
| 2010            | 8,570,000             | 21,245,930            | 29,815,930            |
| 2011 - 2015     | 49,030,000            | 100,118,274           | 149,148,274           |
| 2016 - 2020     | 62,795,000            | 86,469,878            | 149,264,878           |
| 2021 - 2025     | 81,615,000            | 67,783,068            | 149,398,068           |
| 2026 - 2030     | 70,895,000            | 44,850,828            | 115,745,828           |
| 2031 - 2035     | 144,995,000           | 29,183,383            | 174,178,383           |
|                 | <u>\$ 422,060,000</u> | <u>\$ 435,630,957</u> | <u>\$ 857,690,957</u> |

The Authority entered into an Enhanced Total Return Contract (the "ETRC") with a bank to assist minimize the difference between the interest rate related to the Series A Tax Exempt Serial Bonds that mature February 15, 2027 through August 15, 2028 and the Series A Tax Exempt Term Bond that matures August 15, 2034 and reinvest earnings related to those respective bonds during the construction period of the construction of the replacement hospital facility. The ETRC essentially convert's the Authority's borrowing costs for the related bonds during the construction period from a fixed rate to a variable rate instrument based on Bond Market Association (BMA) and subject to a cap of 4.93%. The effective term of the ETRC extends from December 29, 2004 until December 1, 2009, although the Authority anticipates terminating the ETRC on or about June 1, 2008, which is the expected date of the Final Endorsement of the Mortgage. The fair value of the ETRC at June 30, 2005 was approximately \$47,000.

The aggregate surplus of funds, if any, to be realized in connection with the ETRC will accumulate during the construction period in a separate custodial account not associated with or pledged as security for any of the bonds. After completion of the project, the ETRC account will be directed to a redemption fund for the special mandatory redemption of the Series A Tax Exempt Bonds commencing with the term bond maturing August 15, 2031 and then with the term bond maturing August 15, 2034.

The defeased Series 2002A Hospital Facilities Refunding Revenue Bonds (2002A Refunding Bonds) were themselves used to defease all prior outstanding Hospital Facilities Revenue Bonds (totaling \$96,540,000).

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 have been or 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 total amount of defeased debt outstanding for the Authority at June 30, 2005, was \$164,590,000.

### **Economic Development Revenue Bonds Payable**

In December 2004, MUFC Central Energy Plant, LLC (CEP), a component unit of the Authority, issued \$61,000,000 of Economic Development Revenue Bonds Series 2004 (CEP Series 2004 Bonds) through the South Carolina – Jobs Economic Development Authority at a discount of \$305,000. The net proceeds of the bonds will be used to build the central energy plant for the new hospital currently being constructed in Charleston, South Carolina.

The CEP Series 2004 Bonds bear interest at a variable interest rate determined by a public auction conducted by the bond trustee. The weighted average interest rate in 2005 was 2.18%.

| Fiscal Year End | CEP 2004 Bonds       |                      |                      |
|-----------------|----------------------|----------------------|----------------------|
|                 | Principal            | Interest             | Total                |
| June 30,        |                      |                      |                      |
| 2006            | \$ -                 | \$ 1,268,800         | \$ 1,268,800         |
| 2007            | 1,585,000            | 1,268,800            | 2,853,800            |
| 2008            | 1,625,000            | 1,235,832            | 2,860,832            |
| 2009            | 1,680,000            | 1,202,032            | 2,882,032            |
| 2010            | 1,730,000            | 1,167,088            | 2,897,088            |
| 2011 - 2015     | 9,450,000            | 5,274,152            | 14,724,152           |
| 2016 - 2020     | 10,950,000           | 4,230,720            | 15,180,720           |
| 2021 - 2025     | 12,710,000           | 3,020,784            | 15,730,784           |
| 2026 - 2030     | 14,740,000           | 1,617,096            | 16,357,096           |
| 2031 - 2032     | 6,530,000            | 204,776              | 6,734,776            |
|                 | <u>\$ 61,000,000</u> | <u>\$ 20,490,080</u> | <u>\$ 81,490,080</u> |

### **Direct Note Obligations**

UMA has issued several Select Auction Variable Rate Securities (SAVRS) Direct Note Obligations to finance the acquisition and renovation of facilities for its ambulatory care operations. The SAVRS are secured by unrestricted receivables and the property under lease with HSF. A brief description of each issue follows.

Proceeds of the \$55 million Series 1994 SAVRS were issued to prepay the non-cancelable lease agreement with HSF of \$37 million, pay off a bank line of credit of \$9 million, provide working capital of \$1.3 million, establish a debt service reserve of \$5.5 million, and pay issue costs of \$2.2 million. Of the \$10.4 million outstanding at year end, \$9.05 million is covered by a swap agreement, which effectively fixed the interest rate at 6.82%. Forty-three point six million of these obligations were refunded through the issuance of Series 1999B SAVRS.

The \$40 million Series 1997 SAVRS proceeds were used to finance the cost of improving, renovating and equipping Rutledge Tower, the property leased from HSF. Of these proceeds, \$35.4 million was used for leasehold improvements, \$3.4 million funded a debt service reserve fund, and \$1.2 million went to the cost of issuance. Thirty-four point forty five million of these obligations were refunded through the issuance of the Series 1999A SAVRS. The remaining outstanding balance of \$5.05 million at year end is not covered by a swap agreement and subject to market fluctuations.

A variable rate of interest accrues on each issue based upon a re-offering of the securities for each auction rate period and is payable in arrears on every fifth Wednesday. The obligations can be converted to fixed rate obligations at the option of UMA, with the consent of the bond issuer, at a rate to be determined by market conditions at the time of conversion.

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, 2005, were \$92,650,000. Debt service requirements to maturity are as follows:

| Year Ending | Principal            | Interest             | Total                 |
|-------------|----------------------|----------------------|-----------------------|
| June 30,    |                      |                      |                       |
| 2006        | \$ 2,400,000         | \$ 5,567,706         | \$ 7,967,706          |
| 2007        | 2,500,000            | 5,419,344            | 7,919,344             |
| 2008        | 2,650,000            | 5,266,332            | 7,916,332             |
| 2009        | 3,050,000            | 5,102,778            | 8,152,778             |
| 2010        | 3,100,000            | 4,917,920            | 8,017,920             |
| 2011 – 2015 | 18,500,000           | 21,492,060           | 39,992,060            |
| 2016 – 2020 | 22,700,000           | 15,408,428           | 38,108,428            |
| 2021 – 2025 | 30,800,000           | 6,906,662            | 37,706,662            |
| 2026 – 2027 | 6,950,000            | 518,485              | 7,468,485             |
| Total       | <u>\$ 92,650,000</u> | <u>\$ 70,599,715</u> | <u>\$ 163,249,715</u> |

The obligation is collateralized by unrestricted receivables and leasehold property leased from Health Sciences Foundation. Under the terms of the Master Trust 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,

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disposition of certain properties, and requires that UMA satisfy certain measures of financial performance as long as the notes are outstanding. As of June 30, 2005, UMA management believes they are in compliance with all significant requirements under the Master Trust Agreement.

The 1999 A and B Refunding SAVRS Direct Note Obligations were issued pursuant to an ordinance by Charleston County, South Carolina in order to obtain tax-exempt status for the interest payments to the bond holders and reduce the total interest costs. These bonds are subject to compliance with the arbitrage regulations of the Internal Revenue Code. Management believes it has complied with all material requirements as of June 30, 2005.

UMA has entered into interest rate swap agreements to modify interest rates on a portion of its Series 1994, and all of the 1999A and 1999B SAVRS in an effort to convert its variable rate debt to a fixed rate of 6.82% on the 1994 and 1999A SAVRS and 5.82% on the 1999B SAVRS. These agreements were required by the municipal bond insurance company MBIA, at a time when UMA was experiencing operating losses.

The SAVRS and related swap agreements mature on May 15, 2024 for the 1994 and 1999A and May 15, 2027 for the 1999B. The notional amounts as of June 30, 2005 are as follows: Series 1994 SAVRS - \$9.05 million; Series 1999A SAVRS - \$35.7 million; and Series 1999B - \$41.5 million, which agrees to the principal outstanding under the various issues except Series 1994, which has outstanding principal of \$10.4 million. Under the swap agreements, UMA pays the counterparty a fixed interest payment of 6.82% on the 1994 and 1999A SAVRS and 5.82% on the 1999B SAVRS and receives a variable payment based upon the auction rate determined every 35 days. The variable rates in effect at June 30, 2005 were 3.10% for the 1994 SAVRS, 2.97% for the 1999A SAVRS and 3.08% for the 1999B SAVRS. On May 1, 2000, these swap agreements were amended 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 remaining life of the agreements. This amount is recorded as 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, 2005, interest expense was reduced by amortization of \$77,083.

Interest rates have declined since execution of the swap agreements resulting in the swaps having a negative fair value of (\$2,806,911) of the 1994 SAVRS, (\$10,484,696) for the 1999A SAVRS, and (\$9,223,802) for the 1999B SAVRS as of June 30, 2005. Because the interest payments on UMA's variable debt adjust to changing interest rates, the SAVRS do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swaps, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

The swap agreements may be terminated if the counterparty's credit quality rating falls below "A3" as issued by Moody's Investor's Service or "A-" as issued by Fitch Ratings or Standard & Poor's. Termination of these agreements would subject UMA to the risk of fluctuating interest rates of the variable rate debt agreements.

Using rates in effect as of June 30, 2005, aggregate debt service requirement of variable-rate debt and net swap payments are as follows. As rates vary, variable-rate debt interest payments and net swap payments will vary.

| Year Ending<br>June 30, | SAVRS<br>Principal   | SAVRS<br>Interest    | Swap<br>Payment, Net | SAVRS<br>Total        |
|-------------------------|----------------------|----------------------|----------------------|-----------------------|
| 2006                    | \$ 2,300,000         | \$ 2,610,445         | \$ 2,838,822         | \$ 7,749,267          |
| 2007                    | 2,350,000            | 2,540,531            | 2,762,456            | 7,652,987             |
| 2008                    | 2,450,000            | 2,468,856            | 2,683,897            | 7,602,753             |
| 2009                    | 2,850,000            | 2,393,190            | 2,599,664            | 7,842,854             |
| 2010                    | 2,950,000            | 2,306,261            | 2,505,266            | 7,761,527             |
| 2011 – 2015             | 17,450,000           | 10,091,519           | 10,919,141           | 38,460,660            |
| 2016 – 2020             | 21,150,000           | 7,250,497            | 7,787,710            | 36,188,207            |
| 2021 – 2025             | 28,650,000           | 3,306,781            | 3,400,410            | 35,357,191            |
| 2026 – 2027             | 6,100,000            | 261,737              | 232,844              | 6,594,581             |
| Total                   | <u>\$ 86,250,000</u> | <u>\$ 33,229,817</u> | <u>\$ 35,730,210</u> | <u>\$ 155,210,027</u> |

### **Lease Revenue Bonds Payable**

On September 20, 1995, Medical University Facilities Corporation issued lease revenue bonds series 1995 A in the amount of \$12,729,000 and series 1995 B 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 \$513,000 in principal and incurred \$751,644 in interest expense on these bonds for the year ended June 30, 2005.

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The scheduled maturities of the bonds are as follows:

| Year ending<br>June 30, | Principal           | Interest            | Total                |
|-------------------------|---------------------|---------------------|----------------------|
| 2006                    | \$ 554,000          | \$ 722,228          | \$ 1,276,228         |
| 2007                    | 595,000             | 680,200             | 1,275,200            |
| 2008                    | 640,000             | 635,042             | 1,275,042            |
| 2009                    | 689,000             | 586,457             | 1,275,457            |
| 2010                    | 741,000             | 534,145             | 1,275,145            |
| 2011 - 2015             | 4,640,000           | 1,736,754           | 6,376,754            |
| 2016 - 2017             | 1,969,000           | 156,264             | 2,125,264            |
| Total                   | <u>\$ 9,828,000</u> | <u>\$ 5,051,090</u> | <u>\$ 14,879,090</u> |

**Notes Payable**

UMA entered into a structured legal settlement of \$5,200,000 with the United States of America dated April 4, 2000 for damages in connection with a lawsuit brought under the False Claims Act. 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 5% on each anniversary date of the settlement agreement. The balance remaining under this settlement agreement of \$840,000 was paid in full as of June 30, 2005.

University Medical Associates has a line of credit a financial institution with a maximum borrowing limit of \$11,500,000 which UMA draws on for working capital. The line of credit bears interest at the 30 day LIBOR rate plus 2.00% and expires on January 31, 2006. The line of credit is secured by the unrestricted receivables of UMA. There was no outstanding amount under this line of credit as of June 30, 2005.

| Line of Credit | Beginning<br>Balance | Increases   | Decreases            | Ending<br>Balance |
|----------------|----------------------|-------------|----------------------|-------------------|
|                | <u>\$ 13,500,000</u> | <u>\$ -</u> | <u>\$ 13,500,000</u> | <u>\$ -</u>       |

On May 21, 2003, the South Carolina Jobs-Economic Development Authority (JEDA) issued Tax-Exempt Adjustable Mode Economic Development Revenue Bonds (Medical University Facilities Corporation) Series 2003 in the amount of \$13,500,000 with final maturity on January 1, 2013. The proceeds were loaned to MUFC and used to currently refund the certificates of participation dated December 1, 1991. Pursuant to the loan agreement, MUFC is obligated to make payments in amounts sufficient to pay the principal and interest on the bonds and certain other fees and expenses. The payment of the principal and interest is secured by an irrevocable, direct-pay letter of credit issued by Wachovia Bank, NA. In July 2003, the net proceeds of the JEDA loan as well as funds from the certificates of participation trustee accounts were used to pay the scheduled principal and interest due on the certificates of participation, to redeem the remaining aggregate principal amount of \$13,525,000, and to pay the redemption premium of \$270,500. As a result of the refunding, MUFC experienced an economic gain (defined as the difference between the present values of the old and new debt service payments) of \$1,345,420 and decreased its total required debt service payments by \$3,126,281.

In connection with the loan from JEDA, MUFC entered into an interest rate swap agreement with Wachovia Bank, NA to hedge its interest rate exposure and establish a fixed rate payment. The swap agreement provides that MUFC will pay the swap provider interest on a notional amount equal to the aggregate principal amount of the loan at a fixed rate of 3.37 percent per annum and the swap provider will pay MUFC a variable rate of interest on such notional amount in an amount sufficient to pay the variable rate of interest on the loan. The notional amount at June 30, 2005, was \$11,500,000 and the variable rate in effect at that date was 2.45 percent. The swap agreement provides that the notional amount will be reduced in the same amount and at the same time the principal of the note is scheduled to be paid upon redemption or at maturity. The loan and the related swap agreement mature on January 1, 2013.

As of June 30, 2005, the swap had a negative fair value of \$2,822. Because the interest payments on the variable rate loan adjust to changing interest rates, the loan does not have a corresponding fair value increase. The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. MUFC or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. Termination of the agreement would subject MUFC to the risk of fluctuating interest rates.

As of June 30, 2005, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable rate interest payments and the net swap payment will vary.

| Year ending<br>June 30, | Variable-Rate Notes  |                     | Interest Rate     | Total                |
|-------------------------|----------------------|---------------------|-------------------|----------------------|
|                         | Principal            | Interest            | Swaps, Net        |                      |
| 2006                    | \$ 1,050,000         | \$ 271,031          | \$ 101,723        | \$ 1,422,754         |
| 2007                    | 1,095,000            | 244,847             | 91,942            | 1,431,789            |
| 2008                    | 1,145,000            | 217,509             | 81,703            | 1,444,212            |
| 2009                    | 1,195,000            | 188,946             | 70,966            | 1,454,912            |
| 2010                    | 1,245,000            | 159,158             | 59,734            | 1,463,892            |
| 2011 - 2013             | 5,770,000            | 268,173             | 100,726           | 6,138,899            |
| Total                   | <u>\$ 11,500,000</u> | <u>\$ 1,349,664</u> | <u>\$ 506,794</u> | <u>\$ 13,356,458</u> |

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Medical University Facilities Corporation paid \$1,000,000 in principal and incurred \$403,935 in interest expense on these notes for the year ended June 30, 2005.

On November 1, 2003, the South Carolina Jobs-Economic Development Authority issued Economic Development Revenue Bonds (CHS Development Company Project) Series 2003 in the amount of \$32,985,000 with final maturity on January 1, 2025. Interest rates range from 3 percent to 4.875 percent. The proceeds were loaned to CHS Development Company and used to finance the renovation and equipping of the old Charleston High School to accommodate approximately 40,000 square feet of classroom and office space, the construction and equipping of an adjacent building consisting of approximately 40,000 square feet of additional classroom and office space, the construction of an adjacent parking garage, and the construction of approximately 10,000 square feet of mixed use retail/services space. The renovated high school building, the new adjacent building, and the parking garage are leased to the University. Pursuant to the loan agreement, CHS is obligated to make payments in amounts sufficient to pay the principal and interest on the bonds and certain other fees and expenses. Payment of principal and interest on the bonds is insured under a financial guaranty insurance policy.

The scheduled maturities are as follows:

| Year ending<br>June 30, | Principal         | Interest          | Total             |
|-------------------------|-------------------|-------------------|-------------------|
| 2006                    | 1,100,000         | 1,468,250         | 2,568,250         |
| 2007                    | 1,130,000         | 1,435,250         | 2,565,250         |
| 2008                    | 1,165,000         | 1,401,350         | 2,566,350         |
| 2009                    | 1,200,000         | 1,366,400         | 2,566,400         |
| 2010                    | 1,235,000         | 1,330,400         | 2,565,400         |
| 2011 - 2015             | 7,135,000         | 5,704,500         | 12,839,500        |
| 2016 - 2020             | 8,870,000         | 3,964,231         | 12,834,231        |
| 2021 - 2025             | 11,150,000        | 1,692,223         | 12,842,223        |
| Total                   | <u>32,985,000</u> | <u>18,362,604</u> | <u>51,347,604</u> |

For the year ended June 30, 2005, CHS Development Company incurred \$1,463,079 in interest expense on these notes, of which the amount of \$1,073,284 was capitalized.

PEDF has an interest free loan payable to the Health Sciences Foundation for advances in prior years of working capital. At June 30, 2005, the balance of the loan was \$5,444,153. 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, 2005, were as follows:

| Year Ending<br>June 30                  | Capital Leases with        |                     | Operating Leases with      |   |                     |
|---|----------------------------|---------------------|----------------------------|---|---------------------|
|   | Blended<br>Component Units | External<br>Parties | Blended<br>Component Units | Discretely Presented<br>Component Units | External<br>Parties |
| 2006                                    | \$ 4,577,740               | \$ 473,269          | \$ 2,736,569               | \$ 354,376                              | \$ 2,072,646        |
| 2007                                    | 4,586,776                  | 421,013             | 1,917,552                  | 351,005                                 | 1,498,148           |
| 2008                                    | 4,599,200                  | 142,588             | 748,914                    | 58,668                                  | 1,385,492           |
| 2009                                    | 4,609,898                  | 104,177             | 52,887                     | -                                       | 645,683             |
| 2010                                    | 4,618,878                  | -                   | -                          | -                                       | 575,553             |
| 2011 - 2015                             | 21,913,833                 | -                   | -                          | -                                       | 816,852             |
| 2016 - 2020                             | 10,986,920                 | -                   | -                          | -                                       | 9,800               |
| 2021 - 2025                             | 8,760,810                  | -                   | -                          | -                                       | -                   |
| Total minimum lease payments            | <u>64,654,055</u>          | <u>1,141,047</u>    | <u>\$ 5,455,922</u>        | <u>\$ 764,049</u>                       | <u>\$ 7,004,174</u> |
| Less interest                           | <u>(19,686,438)</u>        | <u>(39,375)</u>     |                            |   |                     |
| Present value of minimum lease payments | <u>\$ 44,967,617</u>       | <u>\$ 1,101,672</u> |                            |   |                     |

The capital leases with blended component units are reported on the statement of net assets as interfund payables.

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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, 2005, were as follows:

| Year Ending<br>June 30                  | Capital Leases with | Operating Leases with      |   |                     |
|---|---------------------|----------------------------|---|---------------------|
|   | External<br>Parties | Blended<br>Component Units | Discretely Presented<br>Component Units | External<br>Parties |
| 2006                                    | \$ 6,188,586        | \$ 2,852,814               | \$ 1,980,000                            | \$ 3,228,862        |
| 2007                                    | 5,167,728           | 2,601,096                  | 1,980,000                               | 2,525,165           |
| 2008                                    | 2,530,128           | 2,308,147                  | 1,980,000                               | 2,213,328           |
| 2009                                    | 164,519             | 269,457                    | 1,980,000                               | 1,971,989           |
| 2010                                    | -                   | 88,047                     | 1,980,000                               | 1,710,168           |
| 2011 - 2015                             | -                   | -                          | 6,270,000                               | 265,789             |
| Total minimum lease payments            | 14,050,961          | \$ 8,119,561               | \$ 16,170,000                           | \$ 11,915,301       |
| Less interest                           | (702,145)           |                            |   |                     |
| Present value of minimum lease payments | \$ 13,348,816       |                            |   |                     |

**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 a financial institution as trustee under two 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 lease revenue bonds and the note payable (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.

Monthly payments are made to a financial institution as trustee under a capital lease with CHS Development Company for the CHS building, an adjacent office building, and a parking garage.

The following is a summary of the carrying value of assets held under capital leases at June 30, 2005:

|   | Capital leases with<br><u>blended component units</u> | Capital leases with<br><u>external parties</u> |
|---|---|--|
| Equipment                                       | \$ -  | \$ 1,624,419                                   |
| Land  | 2,335,580   | -  |
| Buildings                                       | 71,434,855  | -  |
| Total   | 73,770,435  | 1,624,419                                      |
| Less accumulated amortization                   | (18,908,611)  | (410,667)                                      |
| Total assets acquired under capital leases, net | \$ 54,861,824   | \$ 1,213,752                                   |

Authority equipment with original cost totaling approximately \$34,000,000 and related accumulated amortization of approximately \$11,000,000 is held under the Authority capital leases.

University Medical Associates has entered into capital lease agreements as lessee for the use of facilities and equipment. 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, 2005:

|                         | Capitalized<br><u>Costs</u> | Accumulated<br><u>Depreciation</u> | Net Book<br><u>Value</u> |
|-------------------------|-----------------------------|------------------------------------|--------------------------|
| Leasehold improvements  | \$ 374,798                  | \$ 37,640                          | \$ 337,158               |
| Computers and equipment | 506,487                     | 357,210                            | 149,277                  |
| Total                   | \$ 881,285                  | \$ 394,850                         | \$ 486,435               |

Included in depreciation expense for the year ended June 30, 2005, was \$100,486 for these capital leases.

The future UMA minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2005, were as follows:

|  |            |
|--|------------|
| Year Ending<br><u>June 30,</u>         |            |
| 2006                                   | \$ 208,722 |
| 2007                                   | 45,040     |
| Total minimum lease payments           | 253,762    |
| Less interest                          | (12,074)   |
| Present value of minimum lease payment | 241,688    |
| Less current portion                   | (192,920)  |
| Long term portion                      | \$ 48,768  |

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On January 9, 1995, UMA prepaid MUSC Health Sciences Foundation (HSF) \$37 million in connection with the acquisition of Rutledge Tower from Bon Secours St. Francis Hospital. This facility is used to house ambulatory care clinics, administrative offices and space subleased to others and includes a parking garage. This agreement was entered into because UMA's charter prohibits it from owning real estate. The lease term expires on June 30, 2027 and is renewable for successive five-year terms. This prepayment was allocated based upon appraised values as follows: (a) cost of land was recorded as prepaid rent, (b) cost of buildings and fixed equipment was recorded as building under capital lease, and (c) cost of other equipment was recorded as equipment under capital lease. In October 2003 HSF sold a portion of the property subject to this lease agreement and refunded \$1,000,000 of the prepaid rent attributable to the agreement. These amounts are being amortized on a straight-line basis over the useful lives of 10 years for the equipment and 29.5 years for the land and building. Rent expense of \$631,355 and depreciation expense of \$622,224 was recorded for the year ending 2005. The following schedule reflects the remaining basis of assets acquired under this capital lease as of June 30, 2005.

| <u>Description</u>            | <u>Capitalized<br/>Cost</u> | <u>Accumulated<br/>Depreciation</u> | <u>Net Book<br/>Value</u> |
|-------------------------------|-----------------------------|-------------------------------------|---------------------------|
| Prepaid rent – HSF            | \$ 19,052,400               | \$ 7,056,649                        | \$ 11,995,751             |
| Building under capital lease  | 13,989,600                  | 4,979,349                           | 9,010,251                 |
| Equipment under capital lease | <u>2,958,000</u>            | <u>2,958,000</u>                    | -                         |
| Totals                        | <u>\$ 36,000,000</u>        | <u>\$ 14,993,998</u>                | <u>\$ 21,006,002</u>      |

**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 2005 was approximately \$639,000 for the University and approximately \$15,700,000 for the Authority. The University and the Authority have an annual operating lease agreement with each other that 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 \$2,892,146 under this lease agreement. As discussed in Note 17 and Note 18, for the year ended June 30, 2005, the University and the Authority had certain other operating leases with related parties. In the current fiscal year, in addition to the operating lease expense above, the University incurred expenses of \$575,865 for office copier contingent rentals on a cost-per-copy basis.

University Medical Associates leases facilities and equipment under leases expiring at various dates from 2006 through 2019 including those facilities referred to in Note 18. Rent expense under these various agreements was \$4,256,725 in fiscal year 2005.

The future minimum lease payments under UMA noncancelable leases with initial or remaining terms in excess of one year are as follows:

| Year Ending<br><u>June 30,</u> |                      |
|--------------------------------|----------------------|
| 2006                           | \$ 4,068,930         |
| 2007                           | 3,379,723            |
| 2008                           | 3,071,723            |
| 2009                           | 3,023,998            |
| 2010                           | 2,198,530            |
| 2011 – 2015                    | 7,098,324            |
| 2016 – 2019                    | <u>1,645,730</u>     |
| Total                          | <u>\$ 24,486,958</u> |

UMA subleases various properties to the University and the Authority. UMA received rent of approximately \$5,400,000 for the fiscal year ended June 30, 2005 under these lease agreements. The minimum rentals to be received under non-cancelable leases with remaining terms in excess of one year are as follows:

| Year Ending<br><u>June 30,</u> |                      |
|--------------------------------|----------------------|
| 2006                           | \$ 5,460,548         |
| 2007                           | 4,374,790            |
| 2008                           | 2,938,852            |
| 2009                           | <u>258,242</u>       |
| Total                          | <u>\$ 13,032,432</u> |

**14. 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.

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The original appropriation is the University's base budget amount presented in the General Funds column of Section 5MA-MB of Part IA of the 2004-2005 Appropriation Act. The following is a reconciliation of the original appropriation as enacted by the General Assembly to state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 2005:

### Non-capital appropriations

|   |                      |
|---|----------------------|
| Current year's appropriations   |                      |
| Original appropriations per Annual Appropriations Act                     | \$ 94,701,175        |
| State Budget and Control Board allocations:                               |                      |
| Employee base pay increases and related employee benefits (Proviso 63.46) | 2,464,729            |
| Employer contributions (SC Code of Laws section 1-11-475)                 | 235,090              |
| From Commission on Higher Education:                                      |                      |
| Academic Endowment  | 45,233               |
| Appropriation transfer from Clemson University:                           |                      |
| Agromedicine Program  | 209,614              |
| Total non-capital appropriations recorded as current year revenue         | <u>\$ 97,655,841</u> |

### Capital improvement bond proceeds

|  |                     |
|--|---------------------|
| Capital Improvement Bond proceeds recorded as current year revenue | <u>\$ 2,867,790</u> |
|--|---------------------|

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, 2005, of approximately \$11,600,000. In fiscal year 2005, the University received capital improvement bond proceeds of \$2,867,790.

Proviso 72.30 of the 2004-2005 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 \$102 to fiscal year 2006.

## 15. 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 initially settled for all fiscal years through fiscal 2001.

Revenue from the Medicare program accounted for approximately 26.5% of the Authority's net patient service revenue for the year ended June 30, 2005.

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

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 \$78.7 million in fiscal 2005. The net reimbursement benefits associated with this program are recognized as reductions in related contractual adjustments in the accompanying statement of revenues, expenses, and changes in net assets. 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. Any material reduction in such funds would have a correspondingly material adverse effect on the Authority's operations.

Revenue from the Medicaid program including net disproportionate share payments described above, accounted for approximately 29.8% of the Authority's net patient service revenue for the year ended June 30, 2005.

## 16. INCOME TAXES

The blended component units of University Medical Associates are entities subject to federal and state income taxes. However, they had cumulative estimated net operating loss carryovers totaling approximately \$36,100,000 which may be offset against future taxable income of the respective companies.

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Approximately \$4,300,000 in 2011, \$8,200,000 in 2012, \$9,900,000 in 2013, \$9,500,000 in 2019, \$1,500,000 in 2020, \$500,000 in 2021, \$1,600,000 in 2022, and \$600,000 in 2023, will expire if unused by those years. No tax benefit has been reported in the 2005 financial statements due to the uncertainty regarding future taxable income of the component units.

**17. BLENDED COMPONENT UNITS**

The following is a summary of the receivables and payables between the University and the blended component units and among the blended component units at June 30, 2005:

|   | Due from      | Due to        |
|---|---------------|---------------|
| <b>The University</b>                                   |               |               |
| Medical University Hospital Authority                   | \$ 12,726,696 | \$ -          |
| CHS Development Company                                 | 42,442        | -             |
| University Medical Associates                           | -             | 5,278,000     |
|   | \$ 12,769,138 | \$ 5,278,000  |
| <br>  |               |               |
| Medical University Facilities Corporation - current     |               | \$ 2,277,670  |
| CHS Development Company - current                       |               | 813,330       |
|   |               | \$ 3,091,000  |
| <br>  |               |               |
| Medical University Facilities Corporation - noncurrent  |               | \$ 17,933,531 |
| CHS Development Company - noncurrent                    |               | 23,943,086    |
|   |               | \$ 41,876,617 |
| <br>  |               |               |
| <b>Medical University Hospital Authority</b>            |               |               |
| The University  |               | \$ 12,726,696 |
| University medical Associates                           |               | 682,550       |
|   |               | \$ 13,409,246 |
| <br>  |               |               |
| <b>University Medical Associates</b>                    |               |               |
| The University  | \$ 5,278,000  |               |
| Medical University Hospital Authority                   | 682,550       |               |
|   | \$ 5,960,550  |               |
| <br>  |               |               |
| <b>Medical University Facilities Corporation</b>        |               |               |
| The University - current                                | \$ 2,277,670  |               |
| <br>  |               |               |
| The University - noncurrent                             | \$ 17,933,531 |               |
| <br>  |               |               |
| <b>CHS Development Company</b>                          |               |               |
| The University - current                                | \$ 813,330    |               |
| <br>  |               |               |
| The University - noncurrent                             | \$ 23,943,086 |               |
| <br>  |               |               |
| The University  |               | \$ 42,442     |
| <br>  |               |               |
| <b>Pharmaceutical Education and Development Company</b> |               |               |
| The University  |               | \$ 162,337    |
| University Medical Associates                           |               | 2,280,357     |
|   |               | \$ 2,442,694  |

As of June 30, 2005, the University and UMA have written off as uncollectible the receivables from PEDF of \$162,337 and \$2,280,357, respectively.

***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 renewed July 31, 2005, an automatic renewal of an additional five year term unless either party provides written notification to cancel at least 180 days prior to the end of the term.

The Authority paid the University \$62,601,860 during the fiscal year ended June 30, 2005 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 \$552,241 for academic support. The University paid the Authority approximately \$2,458,000 during the fiscal year ended June 30, 2005 for rent, various administrative and support services.

During fiscal 2005, the Authority purchased certain real estate from the University, which was required to facilitate the construction of the new hospital facilities. The negotiated purchase price of the real estate was \$12,500,000, approximately \$1.9 million of which represented

the net book value of the real estate in the University's property accounting records. As required by governmental accounting standards, the excess of the purchase price over the net book value has been recognized as a fiscal 2005 transfer from the Authority to the University in the accompanying statement of revenues, expenses and changes in net assets.

The Authority owed the University \$12,726,696 at June 30, 2005.

### ***University Medical Associates***

Revenue from the activities of University Medical Associates is available to pay its operating expenses 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, 2005, pursuant to this practice, UMA provided support to the University which totaled \$15,725,811. This amount is reported as interfund transfers.

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, to be paid ratably over the year to UMA as reimbursement of its costs. For the fiscal year ending June 30, 2005, the University paid UMA \$800,000 and the Authority paid UMA \$7,805,307.

The University and UMA entered into an agreement on April 20, 2003 whereby UMA will provide patient care to Medicaid recipients in appropriate clinical and educational settings. The University will reimburse UMA in an amount equal to the supplemental payment made to the University by the South Carolina Department of Health and Human Services (SC DHHS). Payments to the University from SC DHHS are made in accordance with the State plan amendment which provides reimbursement for inherent inefficiencies of providing care to Medicaid patients while instructing medical students. For the fiscal year ended June 30, 2005, the University reported income of \$18,963,977 from SC DHHS and expense to UMA of \$18,963,977.

The Authority and UMA entered into an agreement to provide a facility to treat patients with digestive diseases. 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 2005, UMA under this agreement received from the Authority \$91,230.

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 UMA, the Authority and CMH have entered into an agreement to provide emergency care services to patients. This agreement is renewed annually and can be terminated by any party upon 120 days written notice. UMA has responsibility for the management of the daily operations of the emergency services. Any net gain or loss from operations of the Authority emergency care services is shared equally as defined in the financial accountability and distribution plan. Under the CMH portion of the agreement, UMA is paid a twelve percent billing fee based on net patient revenues and is reimbursed for all costs in excess of revenues.

Billing functions under the Ambulatory Patient Care and Clinical Education Agreements are performed by the Authority except for pharmacy charges and certain supplies charges that were billed by UMA until the Authority billing system became operational during the fiscal year ended June 30, 2000. UMA continues the process of collecting and remitting these bills to the Authority for these prior year receivables less a collection fee. During the year ended June 30, 2005, UMA remitted collections net of refunds of \$102,392 and net of collection fees of \$27,766.

On February 7, 2003, the UMA department of Psychiatry and Behavioral Sciences and the Authority entered into an agreement that created the Institute of Psychiatry to provide psychiatric services to indigent and under-funded patients of the psychiatric and substance abuse treatment programs of the Authority. The agreement is renewed annually and can be terminated by any party upon 365 days written notice. The MUSC Department of Psychiatry has the responsibility for management of the daily operations of the Clinical Enterprise. An annual budget is prepared and approved by both parties with monthly settlement of any expenses in excess of patient service revenues collected. Any gain from operations is paid over to the Authority to cover facility costs and overhead expenses. Annually the operations of the Clinical Enterprise will be reviewed against goals established at the beginning of each year. Based upon this assessment, the Authority will transfer an agreed upon amount of academic support to the University. For the year ended June 30, 2005, this academic support to be received from the Authority has not been determined.

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The University amounts due (to) from UMA as of June 30, 2005, are as follows:

|                                     |                       |
|-------------------------------------|-----------------------|
| Parking fees receivable             | \$ 19,142             |
| Other receivables                   | 54,501                |
| Rent                                | (111,068)             |
| Other payables                      | (196,406)             |
| Grant salary reimbursement          | (330,508)             |
| Medicaid supplemental reimbursement | <u>(4,713,661)</u>    |
| Net due (to) UMA                    | <u>\$ (5,278,000)</u> |

The Authority amounts due (to) from UMA as of June 30, 2005, are as follows:

|  |                   |
|--|-------------------|
| Other receivables                            | \$ 59,438         |
| Ambulatory Care Clinical Education Agreement | 277,678           |
| Rutledge Tower renovations                   | 1,028,612         |
| Other payables                               | (99,955)          |
| Patient receivables                          | (145,812)         |
| Psychiatry Clinical Education Agreement      | <u>(437,411)</u>  |
| Due (to) UMA                                 | <u>\$ 682,550</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. There was no remaining balance under the structured legal settlement at June 30, 2005.

### **Medical University Facilities Corporation**

For the year ended June 30, 2005, pursuant to the trust agreements, MUFC transferred \$35,551 of excess funds on deposit to the University.

### **CHS Development Company**

On November 1, 2003, CHS Development Company entered into a ground lease agreement with Health Sciences Foundation as part of a plan of financing the development of the former Charleston High School property for use by the University. The ground lease required CHS to prepay rent of \$3,140,000 to HSF. The prepayment is being amortized on a straight line basis over 20 years. Amortization expense of \$151,807 was recorded for the year ended June 30, 2005. The lease terminates on the earlier of December 1, 2035, or the payment in full on the bonds. On November 1, 2003, CHS also entered into a lease agreement with the University. Under the terms of the agreement, the University will lease from CHS the site and all improvements thereon, including the buildings. The term of the lease commenced on March 1, 2005, and ends on January 1, 2025. In fiscal year 2005, the University transferred \$506,546 to CHS Development Company as reimbursement for costs incurred in financing the CHS project.

### **Pharmaceutical Education and Development Foundation**

UMA provided payroll and personnel functions to PEDF. PEDF was to reimburse UMA for all funds expended on its behalf plus an administrative fee of one and one-half percent. This agreement was terminated as of November 30, 2002. As of June 30, 2005, the amount due to UMA from PEDF is \$2,280,357. UMA has written this receivable down to zero with its best estimate of future collections of the receivable. UMA's management will pursue its rights under the terms of the agreements.

At June 30, 2005, PEDF owes HSF \$5,441,153 for advances of working capital in current and prior years. HSF has written this receivable down to zero, as HSF management is unable to determine if or when future payments will be received.

In January 2004, PEDF was not successful in a lawsuit claiming wrongful termination filed by its former Chief Executive Officer (former CEO). The former CEO was awarded \$131,100, and neither party has appealed the judgment. At June 30, 2005, PEDF has a liability of \$131,100 recorded for this judgment.

At June 30, 2005, PEDF has deficit net assets of \$(8,017,638). Substantially all its assets were sold on July 1, 2001. Any future contingent payments under this sale agreement will be applied to reduce the existing liabilities.

## **18. DISCRETELY PRESENTED COMPONENT UNITS**

Only Health Sciences Foundation and MUSC Foundation for Research Development report under Financial Accounting Standards Board (FASB) standards. Accordingly, net assets and changes therein are classified as follows:

*Permanently Restricted Net Assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the organization. Generally, the donors of these assets permit the organization to use all or part of the income earned on related investments for general or specific purposes.

*Temporarily Restricted Net Assets* – Net assets subject to donor-imposed stipulations that will be met by actions of the organization and/or passage of time.

*Unrestricted Undesignated Net Assets* – Net assets not subject to donor-imposed restrictions.

*Unrestricted Designated Net Assets* – Net assets not subject to donor-imposed restrictions but subject to the organization's board-imposed stipulations.

Revenues are reported as increases in unrestricted net assets classification unless use of the related assets is limited by donor-imposed restrictions. Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized as revenue until the conditions on which they depend are substantially met.

MFRD recognizes grant and contract revenue based upon work performed at the reporting date under specific contract terms. License fee and royalty income is recognized based on agreement milestones. MFRD recognizes revenue from registration and seminar fees once the event is complete.

Expenses are reported as decreases in unrestricted undesignated or unrestricted designated net assets as appropriate. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted undesignated or unrestricted designated net assets unless their use is restricted by explicit donor stipulation or by law.

### ***Health Sciences Foundation***

The University provides office space and pays certain administrative costs for HSF. The total value of these items was \$205,085 in fiscal year 2005. The University was not reimbursed for these costs. HSF provided support to the University for general and department expenses which totaled \$7,267,372 in fiscal year 2005. The University records this revenue as gifts and the amount due at June 30, 2005 is \$867,921. In addition, the University received from HSF in fiscal year 2005, \$16,055 in donated equipment and \$5,538,838 in capital gifts. HSF leased various properties to the University, to the Authority, and to UMA in fiscal year 2005.

Health Sciences Foundation has an agreement with the University which provides for periodic deposits to HSF of corpus for endowments from the South Carolina Commission on Higher Education under the Centers of Economic Excellence Matching Endowment. HSF will provide earnings at the investment earnings rate, net of investment fees, of its pooled investments to the University. After the first twelve months held by HSF, the principal is due with thirty days written notice by the University. The balance owed under this agreement at June 30, 2005 is \$7,750,000 plus accrued interest of \$648,172.

Health Sciences Foundation acquired the Rutledge Tower building in 1993 and leases the properties to University Medical Associates. During April 1996, HSF's board of directors passed a resolution to transfer the title on Rutledge Tower 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, 2005, PEDF owed HSF \$5,444,153 under this agreement. Health Sciences Foundation has written off this receivable from PEDF and reports a zero balance due at June 30, 2005.

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

MUSC Foundation for Research Development's (MFRD) consolidated financial statements include the amounts of MFRD and its wholly owned, for-profit subsidiary Charleston Health Institute (CHI). CHI was incorporated in April, 2002 as a state-of-the-art prevention, wellness and executive health program. Operations of CHI terminated effective April 26, 2003 due to losses sustained. During the year ended June 30, 2004, supplies and equipment owned by CHI were disposed of and vendors were paid. Notes payable to investors and the associated accrued interest were written off. There was no activity associated with CHI during fiscal year 2005.

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 \$148,976 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, 2005, 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 contract provides for an annual payment of \$590,000. For the fiscal year ended June 30, 2005, MFRD recognized income of \$590,000 from this contract.

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 of approximately \$700,000 recorded as due from MFRD at June 30, 2005. 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.

## 19. 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).

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 including error and omissions

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 provide employee life and disability benefits through commercial insurance companies and have established an employee benefit plan to self-insure employees for health, accident, and dental expenses. UMA records an estimated liability for incurred but not reported claims for this self-insured plan based on estimates of the ultimate cost of reported claims using the gross method. The estimated claims liability at June 30, 2005 was \$562,052. This amount is included as other accrued liabilities on the Statement of Net Assets.

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Changes in the incurred but not reported claims liability for fiscal year ended June 30, 2005 and 2004 were as follows:

|                                  | UMA         |
|----------------------------------|-------------|
| Liability balance, July 1, 2003  | \$ 269,079  |
| Claims and changes in estimate   | 3,794,560   |
| Claims payments                  | (3,796,063) |
| Liability balance, June 30, 2004 | 267,576     |
| Claims and changes in estimate   | 4,945,525   |
| Claims payments                  | (4,651,049) |
| Liability balance, June 30, 2005 | \$ 562,052  |

**20. OPERATING EXPENSES BY FUNCTION**

Operating expenses of the University by functional classification for the year ended June 30, 2005, are as follows:

|                                       | Compensation and<br>Employee Benefits | Services and<br>Supplies | Utilities    | Scholarships<br>and Fellowships | Depreciation  | Total          |
|---------------------------------------|---------------------------------------|--------------------------|--------------|---------------------------------|---------------|----------------|
| Instruction                           | \$ 84,037,555                         | \$ 44,683,086            | \$ 1,668     | \$ 1,175,262                    | \$ -          | \$ 129,897,571 |
| Research                              | 77,140,913                            | 37,073,606               | 9,063        | 2,800,046                       | -             | 117,023,628    |
| Public service                        | 20,574,032                            | 6,309,661                | 5,301        | 235,149                         | -             | 27,124,143     |
| Academic support                      | 18,783,176                            | 6,458,495                | 6,554        | 49,787                          | -             | 25,298,012     |
| Student services                      | 5,997,946                             | 1,147,100                | 3,327        | 45,887                          | -             | 7,194,260      |
| Institutional support                 | 17,745,683                            | 12,444,316               | 104,650      | -                               | -             | 30,294,649     |
| Operation and maintenance of<br>plant | 14,796,133                            | 10,924,458               | 7,491,873    | -                               | 14,065,419    | 47,277,883     |
| Scholarships and fellowships          | -                                     | -                        | -            | 3,780,588                       | -             | 3,780,588      |
| Auxiliary enterprises                 | 1,145,410                             | 2,563,268                | 162,109      | -                               | -             | 3,870,787      |
|                                       | \$ 240,220,848                        | \$ 121,603,990           | \$ 7,784,545 | \$ 8,086,719                    | \$ 14,065,419 | \$ 391,761,521 |

**21. DONOR RESTRICTED ENDOWMENTS**

Endowments are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and that only the income be utilized. The University's endowments require that the income be used for specific purposes. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. Any net appreciation that is spent is required to be spent for the purpose for which the endowment was established. At June 30, 2005, net appreciation of \$796,278 is available to be spent, and is reported in the Statement of Net Assets as restricted, expendable for education.

In fiscal year 2005, the University received funding totaling \$9.25 million from the South Carolina Commission on Higher Education under the Centers of Economic Excellence Matching Endowment. This program funds endowed professorships, which are to be used "to recruit and maintain leading scientists and engineers at the senior research universities of South Carolina for the purpose of developing and leveraging the research capabilities of the universities for the creation of well-paying jobs and enhanced economic opportunities for the people of South Carolina."

**22. SUBSEQUENT EVENTS**

The Board of Trustees has approved the issuance of up to \$30 million in bond anticipation notes to provide interim funding for the construction of a Dental Medicine building. The Budget and Control Board has approved the issuance with an initial term not to exceed one year, and permitting three renewals. A \$10 million State Institution Bond Anticipation Note will be issued in November, 2005 for an initial term of one year, with first renewal expected to occur in fiscal year 2007 for the full \$30 million. The \$40.3 million building will be funded by \$4 million in private gifts and \$6.3 million in Capital Improvement Bonds in addition to the \$30 million in State Institution Bonds.

UMA has decided to close its operations in Hilton Head, South Carolina, including the activity of Hilton Head Cardiac Diagnostics, LLC (HHCD). This partnership will cease operating and wrap up its affairs by December 31, 2005.

On August 26, 2005, UMA purchased substantially all of the assets of Charleston Hand Group, LLC and its principle members joined the staff of the Orthopedic Surgery Department of MUSC. The total purchase price of this acquisition was \$153,665.

23. INFORMATION FOR STATEMENT OF ACTIVITIES

The following information is presented with comparative fiscal year 2004 amounts for use in the State's government-wide Statement of Activities.

|  | 2005                  | 2004                  | Increase/<br>(Decrease) |
|--|-----------------------|-----------------------|-------------------------|
| <b>The University</b>                                      |                       |                       |                         |
| Charges for services                                       | \$ 278,023,606        | \$ 254,279,485        | \$ 23,744,121           |
| Operating grants and contributions                         | 26,907,314            | 25,977,827            | 929,487                 |
| Capital grants and contributions                           | 28,181,596            | 25,780,488            | 2,401,108               |
| Less: expenses   | (396,042,891)         | (367,210,443)         | (28,832,448)            |
| Net program revenue (expense)                              | <u>(62,930,375)</u>   | <u>(61,172,643)</u>   | <u>(1,757,732)</u>      |
| Transfers  |                       |                       |                         |
| State appropriations                                       | 97,655,841            | 96,525,770            | 1,130,071               |
| Capital improvement bond proceeds                          | 2,867,790             | 238,984               | 2,628,806               |
| Other transfers in from state agencies/funds               | 26,443,937            | 16,334,401            | 10,109,536              |
| Less: transfers out to state agencies/funds                | (320,595)             | (255,228)             | (65,367)                |
| Total general revenue and transfers                        | <u>126,646,973</u>    | <u>112,843,927</u>    | <u>13,803,046</u>       |
| Change in net assets                                       | 23,716,598            | 51,671,284            | 12,045,314              |
| Net assets - beginning                                     | 255,507,823           | 203,836,539           | 51,671,284              |
| Net assets - ending  | <u>\$ 319,224,421</u> | <u>\$ 255,507,823</u> | <u>\$ 63,716,598</u>    |
| <b>The Authority</b>                                       |                       |                       |                         |
| Charges for services                                       | \$ 624,942,225        | \$ 578,827,349        | \$ 46,114,876           |
| Operating grants and contributions                         | 15,910,136            | 9,783,754             | 6,126,382               |
| Less: expenses   | (609,327,076)         | (571,916,157)         | (37,410,919)            |
| Net program revenue (expense)                              | <u>31,525,285</u>     | <u>16,694,946</u>     | <u>14,830,339</u>       |
| Transfers  |                       |                       |                         |
| Transfers out to state agencies/funds                      | (11,189,121)          | (552,241)             | (10,636,880)            |
| Total general revenue and transfers                        | <u>(11,189,121)</u>   | <u>(552,241)</u>      | <u>(10,636,880)</u>     |
| Change in net assets                                       | 20,336,164            | 16,142,705            | 4,193,459               |
| Net assets - beginning                                     | 180,164,261           | 164,021,556           | 16,142,705              |
| Net assets - ending  | <u>\$ 200,500,425</u> | <u>\$ 180,164,261</u> | <u>\$ 20,336,164</u>    |
| <b>University Medical Associates</b>                       |                       |                       |                         |
| Charges for services                                       | \$ 181,361,471        | \$ 169,228,490        | \$ 12,132,981           |
| Operating grants and contributions                         | 10,716,564            | 8,493,710             | 2,222,854               |
| Less: expenses   | (154,739,354)         | (144,873,418)         | (9,865,936)             |
| Net program revenue (expense)                              | <u>37,338,681</u>     | <u>32,848,782</u>     | <u>4,489,899</u>        |
| Transfers  |                       |                       |                         |
| Transfers out to state agencies/funds                      | (15,725,811)          | (15,741,152)          | 15,341                  |
| Total general revenue and transfers                        | <u>(15,725,811)</u>   | <u>(15,741,152)</u>   | <u>15,341</u>           |
| Change in net assets                                       | 21,612,870            | 17,107,630            | 4,505,240               |
| Net assets - beginning                                     | 43,828,599            | 26,720,969            | 17,107,630              |
| Net assets - ending  | <u>\$ 65,441,469</u>  | <u>\$ 43,828,599</u>  | <u>\$ 21,612,870</u>    |
| <b>Medical University Facilities Corporation</b>           |                       |                       |                         |
| Operating grants and contributions                         | \$ 1,326,673          | \$ 1,362,720          | \$ (36,047)             |
| Less: expenses   | (1,219,482)           | (1,561,869)           | 342,387                 |
| Net program revenue (expense)                              | <u>107,191</u>        | <u>(199,149)</u>      | <u>306,340</u>          |
| Transfers  |                       |                       |                         |
| Transfers out to state agencies/funds                      | (35,551)              | (41,008)              | 5,457                   |
| Total general revenue and transfers                        | <u>(35,551)</u>       | <u>(41,008)</u>       | <u>5,457</u>            |
| Change in net assets                                       | 71,640                | (240,157)             | 311,797                 |
| Net assets - beginning                                     | 1,092,969             | 1,333,126             | (240,157)               |
| Net assets - ending  | <u>\$ 1,164,609</u>   | <u>\$ 1,092,969</u>   | <u>\$ 71,640</u>        |
| <b>CHS Development Company</b>                             |                       |                       |                         |
| Operating grants and contributions                         | \$ 862,774            | \$ 187,265            | \$ 675,509              |
| Less: expenses   | (633,411)             | (1,182,039)           | 548,628                 |
| Net program revenue (expense)                              | <u>229,363</u>        | <u>(994,774)</u>      | <u>1,224,137</u>        |
| Transfers  |                       |                       |                         |
| Other transfers in from state agencies/funds               | 506,546               | -                     | 506,546                 |
| Total general revenue and transfers                        | <u>506,546</u>        | <u>-</u>              | <u>506,546</u>          |
| Change in net assets                                       | 735,909               | (994,774)             | 1,730,683               |
| Net assets - beginning                                     | (994,774)             | -                     | (994,774)               |
| Net assets - ending  | <u>\$ (258,865)</u>   | <u>\$ (994,774)</u>   | <u>\$ 735,909</u>       |
| <b>Pharmaceutical Education and Development Foundation</b> |                       |                       |                         |
| Operating grants and contributions                         | \$ 5,942              | \$ 1,834              | \$ 4,108                |
| Less: expenses   | (25,219)              | (510,625)             | 485,406                 |
| Net program revenue (expense)                              | <u>(19,277)</u>       | <u>(508,791)</u>      | <u>489,514</u>          |
| Change in net assets                                       | (19,277)              | (508,791)             | 489,514                 |
| Net assets - beginning                                     | (7,998,361)           | (7,489,570)           | (508,791)               |
| Net assets - ending  | <u>\$ (8,017,638)</u> | <u>\$ (7,998,361)</u> | <u>\$ (19,277)</u>      |

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

COMBINING STATEMENT OF NET ASSETS  
NONMAJOR ENTERPRISE FUNDS  
JUNE 30, 2005

|                                     | Medical University<br>Facilities Corporation | CHS Development<br>Company | Pharmaceutical<br>Education and<br>Development<br>Foundation | Total<br>Nonmajor<br>Enterprise<br>Funds |
|-------------------------------------|--|----------------------------|--|--|
| <b>ASSETS</b>                       |  |                            |  |  |
| <b>Current Assets</b>               |  |                            |  |  |
| Cash and cash equivalents           | \$ -   | \$ -                       | \$ 309   | \$ 309                                   |
| Receivables, net                    | 7,177  | -                          | -  | 7,177                                    |
| Prepaid items                       | -  | 151,807                    | -  | 151,807                                  |
| Restricted assets                   |  |                            |  |  |
| Cash and cash equivalents           | 47,850                                       | 2,609,920                  | -  | 2,657,770                                |
| Investments                         | 316,247                                      | -                          | -  | 316,247                                  |
| Due from other funds                | 2,277,670                                    | 813,330                    | -  | 3,091,000                                |
| Other current assets                | 63,903                                       | 58,944                     | -  | 122,847                                  |
| <b>Total current assets</b>         | <b>2,712,847</b>                             | <b>3,634,001</b>           | <b>309</b>   | <b>6,347,157</b>                         |
| <b>Noncurrent Assets</b>            |  |                            |  |  |
| Restricted assets                   |  |                            |  |  |
| Cash and cash equivalents           | 1,350,000                                    | 3,995,616                  | -  | 5,345,616                                |
| Investments                         | 213,000                                      | 137,777                    | -  | 350,777                                  |
| Interfund receivables               | 17,933,531                                   | 23,943,086                 | -  | 41,876,617                               |
| Prepaid items                       | -  | 2,745,182                  | -  | 2,745,182                                |
| Other noncurrent assets             | 475,059                                      | 1,065,897                  | -  | 1,540,956                                |
| <b>Total noncurrent assets</b>      | <b>19,971,590</b>                            | <b>31,887,558</b>          | <b>-</b>   | <b>51,859,148</b>                        |
| <b>Total assets</b>                 | <b>22,684,437</b>                            | <b>35,521,559</b>          | <b>309</b>   | <b>58,206,305</b>                        |
| <b>LIABILITIES</b>                  |  |                            |  |  |
| <b>Current liabilities</b>          |  |                            |  |  |
| Payables and accrued liabilities    | 191,828                                      | 2,654,297                  | 131,100  | 2,977,225                                |
| Due to other funds                  | -  | 42,442                     | 2,442,694  | 2,485,136                                |
| Due to affiliated entities          | -  | -                          | 5,444,153  | 5,444,153                                |
| Long-term liabilities               | 1,604,000                                    | 1,105,171                  | -  | 2,709,171                                |
| <b>Total current liabilities</b>    | <b>1,795,828</b>                             | <b>3,801,910</b>           | <b>8,017,947</b>   | <b>13,615,685</b>                        |
| <b>Noncurrent liabilities</b>       |  |                            |  |  |
| Long-term liabilities               | 19,724,000                                   | 31,978,514                 | -  | 51,702,514                               |
| <b>Total noncurrent liabilities</b> | <b>19,724,000</b>                            | <b>31,978,514</b>          | <b>-</b>   | <b>51,702,514</b>                        |
| <b>Total liabilities</b>            | <b>21,519,828</b>                            | <b>35,780,424</b>          | <b>8,017,947</b>   | <b>65,318,199</b>                        |
| <b>NET ASSETS</b>                   |  |                            |  |  |
| Restricted                          |  |                            |  |  |
| Expendable for                      |  |                            |  |  |
| Capital projects                    | -  | 647,305                    | -  | 647,305                                  |
| Debt service                        | 1,164,609                                    | -                          | -  | 1,164,609                                |
| Unrestricted (deficit)              | -  | (906,170)                  | (8,017,638)  | (8,923,808)                              |
| <b>Total net assets (deficit)</b>   | <b>\$ 1,164,609</b>                          | <b>\$ (258,865)</b>        | <b>\$ (8,017,638)</b>  | <b>\$ (7,111,894)</b>                    |

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

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**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
NONMAJOR ENTERPRISE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005**

|   | Medical University<br>Facilities Corporation | CHS Development<br>Company | Pharmaceutical<br>Education and<br>Development<br>Foundation | Total<br>Nonmajor<br>Enterprise<br>Funds |
|---|--|----------------------------|--|--|
| <b>Operating revenues</b>   |  |                            |  |  |
| Interest income (used as security for<br>revenue bonds and notes)             | \$ 1,326,673                                 | \$ 710,967                 | \$ -   | \$ 2,037,640                             |
| Other operating revenues  | -  | -                          | 5,931  | 5,931                                    |
| Total operating revenues  | <u>1,326,673</u>                             | <u>710,967</u>             | <u>5,931</u>   | <u>2,043,571</u>                         |
| <b>Operating expenses</b>   |  |                            |  |  |
| Services and supplies   | -  | 32,866                     | 25,219   | 58,085                                   |
| Interest expense  | 1,155,579                                    | 389,794                    | -  | 1,545,373                                |
| Amortization  | 63,903                                       | 210,751                    | -  | 274,654                                  |
| Total operating expenses  | <u>1,219,482</u>                             | <u>633,411</u>             | <u>25,219</u>  | <u>1,878,112</u>                         |
| Operating income  | 107,191                                      | 77,556                     | (19,288)   | 165,459                                  |
| <b>Nonoperating revenues (expenses)</b>                                       |  |                            |  |  |
| Investment income   | -  | -                          | 11   | 11                                       |
| Rental income   | -  | 151,807                    | -  | 151,807                                  |
| Net nonoperating revenues (expenses)  | <u>-</u>                                     | <u>151,807</u>             | <u>11</u>  | <u>151,818</u>                           |
| Income (loss) before other revenues<br>expenses, gains, losses, and transfers | 107,191                                      | 229,363                    | (19,277)   | 317,277                                  |
| Interfund transfers   | <u>(35,551)</u>                              | <u>506,546</u>             | <u>-</u>   | <u>470,995</u>                           |
| <b>Increase (decrease) in net assets</b>                                      | 71,640                                       | 735,909                    | (19,277)   | 788,272                                  |
| <b>Net assets at beginning of year (deficit)</b>                              | <u>1,092,969</u>                             | <u>(994,774)</u>           | <u>(7,998,361)</u>   | <u>(7,900,166)</u>                       |
| <b>Net assets at end of year (deficit)</b>                                    | <u>\$ 1,164,609</u>                          | <u>\$ (258,865)</u>        | <u>\$ (8,017,638)</u>  | <u>\$ (7,111,894)</u>                    |

**THE MEDICAL UNIVERSITY OF SOUTH CAROLINA**

**COMBINING STATEMENT OF CASH FLOWS  
NONMAJOR ENTERPRISE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005**

|  | Medical University<br>Facilities Corporation | CHS Development<br>Company | Pharmaceutical<br>Education and<br>Development<br>Foundation | Total<br>Nonmajor<br>Enterprise<br>Funds |
|--|--|----------------------------|--|--|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |  |                            |  |  |
| Payments to suppliers  | \$ -   | \$ (32,866)                | \$ (49,276)  | \$ (82,142)                              |
| Other receipts   | -  | 151,807                    | 5,931  | 157,738                                  |
| Net cash provided (used) by operating activities   | -  | 118,941                    | (43,345)   | 75,596                                   |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>   |  |                            |  |  |
| Proceeds of loan from affiliated entity  | -  | -                          | 70,224   | 70,224                                   |
| Payments of loan from affiliated entity  | -  | -                          | (27,638)   | (27,638)                                 |
| Interfund transfers  | (35,551)                                     | 506,546                    | -  | 470,995                                  |
| Principal paid on bonds and notes payable  | (1,513,000)                                  | -                          | -  | (1,513,000)                              |
| Interest paid on bonds and notes payable   | (1,190,926)                                  | -                          | -  | (1,190,926)                              |
| Net cash provided (used) by noncapital financing activities  | (2,739,477)                                  | 506,546                    | 42,586   | (2,190,345)                              |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>                                      |  |                            |  |  |
| Purchases of capital assets  | -  | (16,546,521)               | -  | (16,546,521)                             |
| Interest paid on capital debt  | -  | (394,966)                  | -  | (394,966)                                |
| Net cash (used) by capital and related financing activities  | -  | (16,941,487)               | -  | (16,941,487)                             |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |  |                            |  |  |
| Collection of interfund receivables  | 1,406,714                                    | 263,333                    | -  | 1,670,047                                |
| Interest received on interfund receivables   | 1,274,436                                    | 362,439                    | -  | 1,636,875                                |
| Purchases of investments   | (1,277,784)                                  | (1,329,352)                | -  | (2,607,136)                              |
| Proceeds from sales and maturities of investments  | 1,277,714                                    | 12,348,104                 | -  | 13,625,818                               |
| Interest on investments  | 51,752                                       | 401,061                    | 11   | 452,824                                  |
| Net cash provided by investing activities  | 2,732,832                                    | 12,045,585                 | 11   | 14,778,428                               |
| Net (decrease) in cash and cash equivalents  | (6,645)                                      | (4,270,415)                | (748)  | (4,277,808)                              |
| Cash and cash equivalents at beginning of year   | 1,404,495                                    | 10,875,951                 | 1,057  | 12,281,503                               |
| Cash and cash equivalents at end of year   | \$ 1,397,850                                 | \$ 6,605,536               | \$ 309   | \$ 8,003,695                             |
| Cash and cash equivalents is reported in the following Statement of Net Assets captions              |  |                            |  |  |
| Current Assets   | \$ -   | \$ -                       | \$ 309   | \$ 309                                   |
| Restricted assets  | 47,850                                       | 2,609,920                  | -  | 2,657,770                                |
| Noncurrent restricted assets   | 1,350,000                                    | 3,995,616                  | -  | 5,345,616                                |
| Total cash and cash equivalents  | \$ 1,397,850                                 | \$ 6,605,536               | \$ 309   | \$ 8,003,695                             |
| <b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b> |  |                            |  |  |
| Operating income (loss)  | \$ 107,191                                   | \$ 77,556                  | \$ (19,288)  | \$ 165,459                               |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities |  |                            |  |  |
| Amortization   | 63,903                                       | 210,751                    | -  | 274,654                                  |
| Rental income  | -  | 151,807                    | -  | 151,807                                  |
| Interest income reclassified   | (1,326,673)                                  | (710,967)                  | -  | (2,037,640)                              |
| Interest expense reclassified  | 1,155,579                                    | 389,794                    | -  | 1,545,373                                |
| Changes in assets and liabilities  |  |                            |  |  |
| Prepaid items  | -  | -                          | 4,543  | 4,543                                    |
| Payables and accrued liabilities   | -  | -                          | (28,600)   | (28,600)                                 |
| Net cash (used) by operating activities  | \$ -   | \$ 118,941                 | \$ (43,345)  | \$ 75,596                                |
| Noncash transactions   |  |                            |  |  |
| Increase in fair market value of investments   | \$ -   | \$ 2,904                   | \$ -   | \$ 2,904                                 |

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# Statistical Section



**College of Health Professions**

## ACCREDITATION STATEMENT

The Medical University of South Carolina is fully accredited by the Southern Association of Colleges and Schools (SACS), which can be contacted at 1866 Southern Lane, Decatur, GA, 30033-4097, telephone (404) 679-4500. Accreditation allows MUSC to award bachelor degrees, master degrees, doctoral and professional degrees. Additionally, each college or program is accredited by numerous national, professional, and specialized accrediting bodies. Documents describing accreditation, approval, or licensing of programs are available for review in each college dean's office by appointment.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

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**SCHEDULE OF REVENUES BY SOURCE (UNIVERSITY ONLY)**

LAST FOUR FISCAL YEARS

(DOLLARS IN THOUSANDS)

|  | For the Year Ended June 30, |            |            |            |
|--|-----------------------------|------------|------------|------------|
|  | 2005                        | 2004       | 2003       | 2002       |
| <b>Operating Revenues</b>                                |                             |            |            |            |
| Student tuition and fees (net of scholarship allowances) | \$ 34,985                   | \$ 27,217  | \$ 22,587  | \$ 21,100  |
| Federal operating grants and contracts                   | 121,834                     | 115,469    | 103,271    | 83,239     |
| State operating grants and contracts                     | 5,066                       | 3,393      | 2,765      | 3,292      |
| Local operating grants and contracts                     | 105                         | 170        | 228        | 247        |
| Nongovernmental operating grants and contracts           | 17,342                      | 14,711     | 15,116     | 19,239     |
| Interfund services                                       | 62,602                      | 60,086     | 55,822     | 51,425     |
| Sales and services of educational and other activities   | 30,842                      | 27,396     | 31,279     | 10,979     |
| Auxiliary enterprises                                    | 5,248                       | 5,838      | 5,971      | 5,178      |
| Other operating revenues                                 | 8,304                       | 9,506      | 10,141     | 9,432      |
| Total operating revenues                                 | 286,328                     | 263,786    | 247,180    | 204,131    |
| <b>Nonoperating Revenues and Other Revenues</b>          |                             |            |            |            |
| State appropriations                                     | 97,656                      | 96,526     | 108,201    | 121,242    |
| Gifts and grants   | 7,905                       | 14,452     | 10,769     | 11,845     |
| Investment income  | 1,448                       | 605        | 2,727      | 2,667      |
| Capital appropriations                                   | 2,868                       | 239        | 2,341      | 1,164      |
| Capital grants and gifts                                 | 28,181                      | 25,780     | 10,155     | 6,258      |
| Additions to permanent endowments                        | 9,250                       | -          | -          | -          |
| Interfund transfers                                      | 26,444                      | 16,334     | 16,602     | 9,071      |
| Total nonoperating revenues                              | 173,752                     | 153,936    | 150,795    | 152,247    |
| Total revenues   | \$ 460,080                  | \$ 417,722 | \$ 397,975 | \$ 356,378 |

*Note: Due to reporting format and definition changes prescribed by Governmental Standards Statements No. 34 and 35, only information for fiscal years 2002 through 2005 is available.*

*Source: The Medical University of South Carolina financial statements.*

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

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**SCHEDULE OF EXPENSES BY USE (UNIVERSITY ONLY)**

LAST FOUR FISCAL YEARS

(DOLLARS IN THOUSANDS)

|  | For the Year Ended June 30, |            |            |            |
|--|-----------------------------|------------|------------|------------|
|  | 2005                        | 2004       | 2003       | 2002       |
| <b>Operating Expenses</b>              |                             |            |            |            |
| Compensation and employee benefits     | \$ 240,221                  | \$ 224,889 | \$ 219,996 | \$ 213,753 |
| Services and supplies                  | 121,604                     | 115,544    | 122,597    | 99,000     |
| Utilities                              | 7,784                       | 5,526      | 5,983      | 6,153      |
| Scholarships and fellowships           | 8,087                       | 5,750      | 5,094      | 5,065      |
| Depreciation                           | 14,065                      | 11,761     | 11,954     | 12,089     |
| Total operating expenses               | 391,761                     | 363,470    | 365,624    | 336,060    |
| <b>Nonoperating Expenses and Other</b> |                             |            |            |            |
| Interest expense                       | 3,161                       | 3,059      | 4,211      | 4,271      |
| (Gain) loss on sales of capital assets | 739                         | (1,415)    | 37         | 316        |
| Refunds to grantors                    | 381                         | 647        | 422        | 403        |
| Other nonoperating expenses            | 321                         | 290        | 166        | 90         |
| Total nonoperating expenses            | 4,602                       | 2,581      | 4,836      | 5,080      |
| Total expenses                         | \$ 396,363                  | \$ 366,051 | \$ 370,460 | \$ 341,140 |

*Note: Due to reporting format and definition changes prescribed by Governmental Standards Statements No. 34 and 35, only information for fiscal years 2002 through 2005 is available.*

*Source: The Medical University of South Carolina financial statements.*

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

ENROLLMENT STATISTICS  
LAST TEN ACADEMIC YEARS  
(FALL ENROLLMENTS)

|                         | 2004        | 2003        | 2002        | 2001        |
|-------------------------|-------------|-------------|-------------|-------------|
| <b>LEVEL</b>            |             |             |             |             |
| Undergraduate           | 353         | 322         | 357         | 400         |
| Graduate                | 973         | 898         | 865         | 888         |
| First Professional      | 1108        | 1085        | 1041        | 1009        |
| <b>STATUS</b>           |             |             |             |             |
| Full-Time               | 2171        | 2034        | 1989        | 1899        |
| Part-Time               | 263         | 271         | 274         | 398         |
| <b>ORIGIN</b>           |             |             |             |             |
| In State                | 1974        | 1901        | 1878        | 1941        |
| Out of State            | 415         | 363         | 348         | 318         |
| Foreign                 | 45          | 41          | 37          | 38          |
| <b>RACE</b>             |             |             |             |             |
| Caucasian               | 1928        | 1836        | 1816        | 1821        |
| African American        | 209         | 214         | 218         | 267         |
| Asian                   | 108         | 110         | 106         | 108         |
| Hispanic                | 57          | 35          | 25          | 20          |
| Other                   | 132         | 110         | 98          | 81          |
| <b>GENDER</b>           |             |             |             |             |
| Women                   | 1605        | 1481        | 1438        | 1482        |
| Men                     | 829         | 824         | 825         | 815         |
| <b>COLLEGES</b>         |             |             |             |             |
| Medicine                | 594         | 604         | 585         | 574         |
| Pharmacy                | 297         | 265         | 242         | 227         |
| Nursing                 | 390         | 364         | 324         | 374         |
| Graduate Studies        | 247         | 218         | 214         | 176         |
| Dental Medicine         | 217         | 216         | 214         | 208         |
| Health Professions      | 675         | 613         | 661         | 695         |
| Non-Degree Seeking      | 14          | 25          | 23          | 43          |
| <b>Total enrollment</b> | <b>2434</b> | <b>2305</b> | <b>2263</b> | <b>2297</b> |

Source: Office of Enrollment Services

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

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*Fall Enrollments*

| <b>2000</b> | <b>1999</b> | <b>1998</b> | <b>1997</b> | <b>1996</b> | <b>1995</b> |
|-------------|-------------|-------------|-------------|-------------|-------------|
| 409         | 422         | 505         | 596         | 682         | 918         |
| 944         | 993         | 931         | 860         | 807         | 562         |
| 1004        | 968         | 919         | 870         | 849         | 799         |
| 2055        | 1792        | 1949        | 1895        | 1922        | 1887        |
| 302         | 591         | 406         | 431         | 416         | 392         |
| 1979        | 1966        | 1946        | 1932        | 1919        | 1869        |
| 341         | 387         | 369         | 340         | 360         | 345         |
| 37          | 30          | 40          | 54          | 59          | 65          |
| 1873        | 1873        | 1892        | 1888        | 1926        | 1892        |
| 273         | 255         | 245         | 201         | 180         | 173         |
| 91          | 108         | 99          | 86          | 81          | 78          |
| 20          | 24          | 21          | 26          | 22          | 23          |
| 100         | 123         | 98          | 125         | 129         | 113         |
| 1488        | 1523        | 1454        | 1383        | 1325        | 1317        |
| 869         | 860         | 901         | 943         | 1013        | 962         |
| 580         | 580         | 576         | 584         | 588         | 572         |
| 210         | 176         | 185         | 181         | 212         | 219         |
| 372         | 399         | 408         | 407         | 410         | 399         |
| 178         | 221         | 225         | 222         | 257         | 220         |
| 214         | 212         | 209         | 204         | 199         | 190         |
| 747         | 726         | 705         | 617         | 573         | 608         |
| 56          | 69          | 47          | 111         | 99          | 71          |
| <b>2357</b> | <b>2383</b> | <b>2355</b> | <b>2326</b> | <b>2338</b> | <b>2279</b> |

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

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**EMPLOYEE STATISTICS (UNIVERSITY ONLY)**

LAST TEN CALENDAR YEARS

(AS OF JANUARY 1)

|   | 2005                | 2004                | 2003                | 2002                |
|---|---------------------|---------------------|---------------------|---------------------|
| <b>EMPLOYEES</b>                            |                     |                     |                     |                     |
| Permanent Full-time and Part-time Employees |                     |                     |                     |                     |
| Full-time classified                        | 1,476               | 1,541               | 1,594               | 1,603               |
| Part-time classified                        | 42                  | 39                  | 35                  | 37                  |
| Full-time unclassified                      | 1,005               | 945                 | 909                 | 911                 |
| Part-time unclassified                      | 228                 | 225                 | 235                 | 229                 |
| Total                                       | <u>2,751</u>        | <u>2,750</u>        | <u>2,773</u>        | <u>2,780</u>        |
| Other Categories                            |                     |                     |                     |                     |
| Residents                                   | 565                 | 563                 | 554                 | 557                 |
| Pre/post doctoral fellows                   | 203                 | 180                 | 205                 | 198                 |
| Externs                                     | -                   | -                   | -                   | -                   |
| Temporary                                   | 947                 | 812                 | 778                 | 725                 |
| Contractual                                 | -                   | -                   | -                   | -                   |
| Dual employment-other agencies              | 20                  | 33                  | 22                  | 17                  |
| Total                                       | <u>1,735</u>        | <u>1,588</u>        | <u>1,559</u>        | <u>1,497</u>        |
| <b>Grand Total Employees</b>                | <b>(a) 4,486</b>    | <b>4,338</b>        | <b>4,332</b>        | <b>4,277</b>        |
| <br>  |                     |                     |                     |                     |
| <b>POSITIONS</b>                            |                     |                     |                     |                     |
| Authorized FTE positions                    |                     |                     |                     |                     |
| State                                       | 1,304               | 1,347               | 1,347               | 1,347               |
| Federal                                     | 364                 | 365                 | 365                 | 349                 |
| Other                                       | 1,235               | 1,704               | 1,704               | 1,720               |
| <b>Total Authorized FTE Positions</b>       | <b><u>2,903</u></b> | <b><u>3,416</u></b> | <b><u>3,416</u></b> | <b><u>3,416</u></b> |

Note: (a) The total number of employees at June 30, 2005 was 4,590.  
 (b) For fiscal year 2004-05, the total authorized FTE positions were reduced by vacant FTEs that were a year old.  
 (c) 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

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

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| 2001                | 2000                | 1999                | 1998                | 1997                | 1996                |
|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| 1,646               | 4,045               | 4,386               | 4,238               | 4,130               | 4,255               |
| 45                  | 730                 | 714                 | 598                 | 592                 | 472                 |
| 961                 | 1,028               | 1,008               | 943                 | 904                 | 896                 |
| 209                 | 199                 | 199                 | 178                 | 179                 | 172                 |
| <u>2,861</u>        | <u>6,002</u>        | <u>6,307</u>        | <u>5,957</u>        | <u>5,805</u>        | <u>5,795</u>        |
| 544                 | 560                 | 540                 | 534                 | 540                 | 550                 |
| 160                 | 167                 | 146                 | 113                 | 106                 | 102                 |
| -                   | -                   | -                   | 1                   | -                   | -                   |
| 738                 | 1,411               | 1,651               | 1,469               | 1,164               | 1,124               |
| -                   | -                   | -                   | -                   | -                   | -                   |
| 20                  | 29                  | 21                  | 25                  | 17                  | 16                  |
| <u>1,462</u>        | <u>2,167</u>        | <u>2,358</u>        | <u>2,142</u>        | <u>1,827</u>        | <u>1,792</u>        |
| <u><b>4,323</b></u> | <u><b>8,169</b></u> | <u><b>8,665</b></u> | <u><b>8,099</b></u> | <u><b>7,632</b></u> | <u><b>7,587</b></u> |
| 1,347               | 1,600               | 1,600               | 1,600               | 1,604               | 1,598               |
| 349                 | 348                 | 348                 | 313                 | 364                 | 418                 |
| 1,720               | 5,016               | 4,640               | 4,360               | 4,163               | 5,221               |
| <u><b>3,416</b></u> | <u><b>6,964</b></u> | <u><b>6,588</b></u> | <u><b>6,273</b></u> | <u><b>6,131</b></u> | <u><b>7,237</b></u> |

**DEBT BURDEN RATIO**  
**LAST FOUR FISCAL YEARS**  
*(DOLLARS IN THOUSANDS)*

|                               | <i>For the Year Ended June 30,</i> |             |             |             |
|-------------------------------|------------------------------------|-------------|-------------|-------------|
|                               | <b>2005</b>                        | <b>2004</b> | <b>2003</b> | <b>2002</b> |
| Debt service requirements (a) | \$ 8,802                           | \$ 9,811    | \$ 8,562    | \$ 7,837    |
| University expenditures (b)   | \$ 386,332                         | \$ 361,380  | \$ 362,209  | \$ 332,044  |
| <b>Debt Burden Ratio</b>      | <b>2.3%</b>                        | <b>2.7%</b> | <b>2.4%</b> | <b>2.4%</b> |

*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 Medical University of South Carolina financial statements.*