

Financial  
Section

# The Medical University of South Carolina

## BALANCE SHEET

UNIVERSITY FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS

June 30, 1998

(with totals at June 30, 1997)

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds
	Unrestricted	Restricted			
<b>ASSETS</b>					
Cash and cash equivalents	\$ 92,143,998	\$ 1,021,034	\$ 986,291	\$ 880,135	\$ 30,464,969
Investments	-	-	-	-	-
Accounts receivable:					
Patients	87,832,064	-	-	-	-
Less allowances	(20,369,740)	-	-	-	-
Medicare and Champus cost reimbursements, net	3,742,843	-	-	-	-
Students	1,373,022	-	-	-	-
Other	4,276,381	-	-	-	-
Grants and contracts receivable:					
Federal government	-	10,845,839	-	-	-
Other	-	1,396,194	-	-	-
Accrued interest receivable	809,842	20,054	5,015	-	244,827
Capital improvement bond proceeds receivable	-	-	-	-	8,647,234
Inventories	10,263,462	-	-	-	-
Student loans receivable (less allowance for doubtful accounts of \$82,000)	-	-	12,055,703	-	-
Loan participation deposit	-	-	31,000	-	-
Property held under deferred compensation plan	-	-	-	-	-
Due from other funds	9,200,000	-	-	-	-
Due from The Medical University of South Carolina	-	-	-	-	-
Due from Charleston Memorial Hospital	25,161,043	-	-	-	-
Due from University Medical Associates	9,006,685	-	-	-	-
Due from Pharmaceutical Education and Development Foundation	249,852	-	-	-	-
Due from MUSC Foundation for Research Development	35,865	11,936,591	-	-	-
Due from Medical University Facilities Corporation	-	-	-	-	378,598
Capital lease receivable from The Medical University of South Carolina	-	-	-	-	-
Prepaid items	2,460,713	10,000	-	-	-
Deposit held by The Medical University of South Carolina	-	-	-	-	-
Investments in partnerships and joint ventures	-	-	-	-	-
Land and land improvements	-	-	-	-	20,807,067
Buildings and leasehold improvements	-	-	-	-	327,811,893
Furniture and equipment	-	-	-	-	214,680,941
Library books, periodicals, and other materials	-	-	-	-	12,955,789
Accumulated depreciation	-	-	-	-	-
Construction in progress	-	-	-	-	36,767,695
Intangible assets	-	-	-	-	-
Bond and note issuance costs	-	-	-	-	-
Accumulated amortization	-	-	-	-	-
Other assets	-	-	-	-	-
Total assets	<u>\$ 226,186,030</u>	<u>\$ 25,229,712</u>	<u>\$ 13,078,009</u>	<u>\$ 880,135</u>	<u>\$ 652,759,013</u>

# The Medical University of South Carolina

Agency Funds	Component Units					Totals - Memorandum Only	
	Charleston Memorial Hospital	University Medical Associates	Medical University Facilities Corporation	Pharmaceutical Education and Development Foundation	MUSC Foundation for Research Development	1998	1997 Restated
\$ 973,179	\$ 23,596,785	\$ 16,880,208	\$ 3,258,805	\$ 583,421	\$ 4,599,289	\$ 175,388,114	\$ 241,216,494
-	-	16,217,251	529,168	-	9,193,649	25,940,068	20,346,381
-	2,555,592	43,642,201	-	-	-	134,029,857	124,729,701
-	(1,690,289)	(24,002,220)	-	-	-	(46,062,249)	(48,854,942)
-	-	-	-	-	-	3,742,843	-
-	-	-	-	-	-	1,373,022	1,307,062
-	122,076	107,411	-	-	-	4,505,868	3,862,642
-	-	-	-	-	-	10,845,839	9,427,273
-	-	-	-	423,380	433,717	2,253,291	530,400
-	-	51,921	5,995	1,652	69,019	1,208,325	2,299,511
-	-	-	-	-	-	8,647,234	8,752,086
-	353,757	-	-	48,058	-	10,665,277	8,571,950
-	-	-	-	-	-	12,055,703	11,661,673
-	-	-	-	-	-	31,000	31,000
4,331,881	-	-	-	-	-	4,331,881	2,605,631
-	-	-	-	-	-	9,200,000	-
-	-	4,208,423	-	-	-	4,208,423	2,403,301
-	-	808,655	-	-	-	25,969,698	23,470,509
1,532,855	760,687	-	-	-	-	11,300,227	5,124,888
-	-	1,392,542	-	-	-	1,642,394	1,453,945
7,522	-	-	-	-	-	11,979,978	67,009
-	-	-	-	-	-	378,598	308,725
-	-	-	27,779,128	-	-	27,779,128	28,572,106
-	649,427	18,574,814	-	71,126	15,756	21,781,836	22,889,326
-	-	-	-	1,320	-	1,320	474,016
-	-	6,768,874	-	-	-	6,768,874	3,093,874
-	-	31,218	-	-	-	20,838,285	20,054,356
-	1,747,803	19,032,524	-	26,595	-	348,618,815	339,964,511
-	5,754,165	8,202,755	-	653,248	188,801	229,479,910	206,018,959
-	-	-	-	-	-	12,955,789	12,579,013
-	(4,138,397)	(6,055,304)	-	(163,508)	(18,812)	(10,376,021)	(8,475,768)
-	-	34,846,785	-	94,347	-	71,708,827	27,300,320
-	-	5,803,605	-	-	-	5,803,605	4,423,882
-	-	1,685,706	356,900	-	-	2,042,606	1,263,419
-	-	(665,411)	(47,963)	-	-	(713,374)	(182,966)
-	-	2,360,974	-	-	-	2,360,974	1,806,930
<u>\$ 6,845,437</u>	<u>\$ 29,711,606</u>	<u>\$ 149,892,932</u>	<u>\$ 31,882,033</u>	<u>\$ 1,739,639</u>	<u>\$ 14,481,419</u>	<u>\$ 1,152,685,965</u>	<u>\$ 1,079,077,222</u>

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# The Medical University of South Carolina

## BALANCE SHEET (Continued)

UNIVERSITY FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS

June 30, 1998

(with totals at June 30, 1997)

	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Plant Funds
<b>LIABILITIES AND FUND EQUITY</b>					
Liabilities:					
Accounts payable	18,019,214	1,304,472	\$ 1,200	\$ -	\$ 1,378,643
Retainages payable	-	-	-	-	998,761
Accrued payroll and related liabilities	9,626,873	345,396	-	-	-
Accrued leave and related liabilities	27,003,145	-	-	-	-
Accrued interest payable	-	-	-	-	2,675,911
Cost reimbursement refund payable, net	-	-	-	-	-
Deferred revenues	1,240,371	-	-	-	-
Due to other funds	-	-	-	-	9,200,000
Due to The Medical University of South Carolina	-	-	-	-	-
Due to Charleston Memorial Hospital	-	-	-	-	-
Due to University Medical Associates	4,207,763	660	-	-	-
Due to MUSC Foundation for Research Development	-	-	-	-	-
Deposits held for others	-	-	-	-	-
Deposits held for component units	-	-	-	-	-
Obligations under deferred compensation plan	-	-	-	-	-
Pension plan payable	-	-	-	-	-
Other liabilities	738,909	-	13,098	-	-
Notes payable	-	-	-	-	-
Bonds payable	-	-	-	-	86,810,000
Certificates of participation payable	-	-	-	-	-
Direct note obligations	-	-	-	-	-
Obligations under capital leases	-	-	-	-	1,479,471
Capital lease payable to Medical University Facilities Corporation	-	-	-	-	27,779,128
Total liabilities	60,836,275	1,650,528	14,298	-	130,321,914
Fund equity:					
Retained earnings (deficit)	-	-	-	-	-
Retained earnings designated	-	-	-	-	-
Retained earnings reserved for debt service	-	-	-	-	-
Net assets:					
Unrestricted (deficit)	-	-	-	-	-
Temporarily restricted for research	-	-	-	-	-
Fund balances:					
Restricted	-	23,579,184	1,372,737	880,135	50,786,338
Unrestricted:					
Designated for capital projects	-	-	-	-	3,923,301
Undesignated	165,349,755	-	53,576	-	2,802,723
U. S. government grants refundable	-	-	11,637,398	-	-
Net investment in plant	-	-	-	-	464,924,737
Total fund equity	165,349,755	23,579,184	13,063,711	880,135	522,437,099
Total liabilities and fund equity	\$ 226,186,030	\$ 25,229,712	\$ 13,078,009	\$ 880,135	\$ 652,759,013

The accompanying notes are an integral part of this financial statement

# The Medical University of South Carolina

Agency Funds	Component Units					Totals - Memorandum Only	
	Charleston Memorial Hospital	University Medical Associates	Medical University Facilities Corporation	Pharmaceutical Education and Development Foundation	MUSC Foundation for Research Development	1998	1997 Restated
	\$ 2,341,007	\$ 400,359	\$ 4,807,842	\$ -	\$ 126,220	\$ 135,239	\$ 28,514,196
-	-	-	-	-	-	998,761	587,137
-	446,523	3,086,804	-	-	-	13,505,596	17,178,792
-	713,199	3,414,454	-	-	6,467	31,137,265	29,064,310
-	-	612,607	855,755	-	-	4,144,273	3,983,914
-	236,716	-	-	-	-	236,716	3,749,738
-	-	-	-	116,510	1,102,924	2,459,805	5,093,810
-	-	-	-	-	-	9,200,000	-
-	25,161,043	10,539,540	378,598	249,852	11,979,978	48,309,011	27,635,698
-	-	760,687	-	-	-	760,687	272,726
-	808,655	-	-	1,392,542	-	6,409,620	4,916,377
-	-	-	-	-	-	-	3,581
171,229	-	-	-	-	-	171,229	466,185
1,320	-	-	-	-	-	1,320	474,016
4,331,881	-	-	-	-	-	4,331,881	2,605,631
-	-	602,784	-	-	-	602,784	-
-	75,000	621,355	-	-	-	1,448,362	1,139,099
-	-	14,549,961	-	660,820	-	15,210,781	13,657,557
-	-	-	12,747,000	-	-	99,557,000	108,560,000
-	-	-	16,900,000	-	-	16,900,000	17,450,000
-	-	95,000,000	-	-	-	95,000,000	55,000,000
-	-	2,060,316	-	208,243	-	3,748,030	5,460,177
-	-	-	-	-	-	<u>27,779,128</u>	<u>28,572,106</u>
<u>6,845,437</u>	<u>27,841,495</u>	<u>136,056,350</u>	<u>30,881,353</u>	<u>2,754,187</u>	<u>13,224,608</u>	<u>410,426,445</u>	<u>343,894,724</u>
-	-	3,654,920	(1,036,683)	-	-	2,618,237	14,093,539
-	1,870,111	-	-	-	-	1,870,111	4,259,511
-	-	10,181,662	2,037,363	-	-	12,219,025	8,396,664
-	-	-	-	(1,014,548)	1,143,225	128,677	(666,285)
-	-	-	-	-	113,586	113,586	11,752
-	-	-	-	-	-	76,618,394	75,387,307
-	-	-	-	-	-	3,923,301	1,906,982
-	-	-	-	-	-	168,206,054	198,698,785
-	-	-	-	-	-	11,637,398	10,982,961
-	-	-	-	-	-	<u>464,924,737</u>	<u>422,111,282</u>
-	1,870,111	13,836,582	1,000,680	(1,014,548)	1,256,811	<u>742,259,520</u>	<u>735,182,498</u>
<u>\$ 6,845,437</u>	<u>\$ 29,711,606</u>	<u>\$ 149,892,932</u>	<u>\$ 31,882,033</u>	<u>\$ 1,739,639</u>	<u>\$ 14,481,419</u>	<u>\$ 1,152,685,965</u>	<u>\$ 1,079,077,222</u>

# The Medical University of South Carolina

## STATEMENT OF CHANGES IN FUND BALANCES

For The Year Ended June 30, 1998

(with totals for the year ended June 30, 1997)

	Current Funds	
	Unrestricted	Restricted
Revenues and other additions:		
Unrestricted current funds revenues	\$ 588,523,741	\$ -
Student tuition and fees - restricted	-	-
State appropriation - restricted	-	121,736
Federal grants and contracts - restricted	-	40,601,204
U. S. Government advances	-	-
State grants and contracts - restricted	-	2,505,470
Private gifts, grants, and contracts - restricted	-	15,149,630
Interest and investment income - restricted	-	102,932
Interest on student loans receivable	-	-
Endowment income	-	67,249
Damage claim collected	-	-
Expended for plant facilities (including \$25,903,751 charged to current funds expenditures)	-	-
Donated assets	-	-
Interest capitalized on construction	-	-
Capital improvement bond proceeds	-	-
Retirement of indebtedness - bonds	-	-
Retirement of indebtedness - capital leases	-	-
Other additions	-	22,278
Total revenues and other additions	<u>588,523,741</u>	<u>58,570,499</u>
Expenditures and other deductions:		
Educational and general expenditures	215,377,295	46,352,485
Medical Center expenditures	386,912,418	-
Auxiliary enterprises expenditures	1,169,434	-
Indirect cost recoveries remitted to the State	288,485	-
Indirect cost recovered	-	11,310,363
Refunded to grantors	-	58,633
Expended for plant facilities	-	-
Retirement of indebtedness	-	-
Interest on indebtedness - bonds	-	-
Disposal of plant facilities	-	-
Capital lease additions	-	-
Loan cancellations and write-offs	-	-
Administrative and collection costs	-	-
Bond issue costs	-	-
Noncapitalized expenditures	-	-
Total expenditures and other deductions	<u>603,747,632</u>	<u>57,721,481</u>
Other transfers and additions/(deductions):		
Mandatory:		
Principal and interest	(13,485,080)	-
Loan fund matching grant	(117,703)	-
College work study matching grant	(63,479)	63,479
Endowment income transferred to principal	-	(18,153)
Nonmandatory:		
Transfers from unrestricted current funds	(6,665,420)	-
Transfers to unrestricted current funds	7,858,871	-
Net transfers between current funds	76,914	(76,914)
Transfers from University Medical Associates	2,428,488	-
Transfers from Pharmaceutical Education and Development Foundation	11,000	-
Total transfers	<u>(9,956,409)</u>	<u>(31,588)</u>
Net increase (decrease) for the year	(25,180,300)	817,430
Fund balances at beginning of year, as restated	190,530,055	22,761,754
Fund balances at end of year	<u>\$ 165,349,755</u>	<u>\$ 23,579,184</u>

The accompanying notes are an integral part of this financial statement

# The Medical University of South Carolina

Loan Funds	Endowment and Similar Funds	Plant Funds	Totals - Memorandum Only	
			1998	1997 Restated
\$ -	\$ -	\$ -	\$ 588,523,741	\$ 572,713,383
-	-	1,453,165	1,453,165	1,453,165
-	-	-	121,736	146,077
-	-	1,839,426	42,440,630	42,373,474
120,221	-	-	120,221	121,438
-	-	-	2,505,470	22,218,065
-	-	3,049,208	18,198,838	11,137,885
51,030	-	1,408,259	1,562,221	1,860,995
286,842	-	-	286,842	254,684
85	-	-	67,334	67,290
-	-	-	-	600,000
-	-	34,214,382	34,214,382	51,087,079
-	-	4,687,834	4,687,834	1,980,199
-	-	88,857	88,857	1,096,495
-	-	-	-	8,752,086
-	-	8,695,000	8,695,000	8,115,000
-	-	4,766,715	4,766,715	2,448,471
-	-	<u>157,223</u>	<u>179,501</u>	<u>453,694</u>
<u>458,178</u>	-	<u>60,360,069</u>	<u>707,912,487</u>	<u>726,879,480</u>
-	-	-	261,729,780	225,151,009
-	-	-	386,912,418	347,643,682
-	-	-	1,169,434	973,890
-	-	-	288,485	129,394
-	-	-	11,310,363	11,017,564
-	-	-	58,633	-
-	-	7,736,766	7,736,766	30,476,713
-	-	8,695,000	8,695,000	8,115,000
-	-	5,707,486	5,707,486	6,313,950
-	-	8,843,673	8,843,673	13,121,880
-	-	573,865	573,865	142,889
109,548	-	-	109,548	80,141
37,543	-	17,255	54,798	31,861
-	-	-	-	14,852
-	-	<u>939,159</u>	<u>939,159</u>	<u>1,283,493</u>
<u>147,091</u>	-	<u>32,513,204</u>	<u>694,129,408</u>	<u>644,496,318</u>
-	-	13,485,080	-	-
117,703	-	-	-	-
-	-	-	-	-
-	18,153	-	-	-
235,272	-	6,430,148	-	-
-	-	(7,858,871)	-	-
-	-	-	-	-
-	-	-	2,428,488	4,292,677
-	-	-	<u>11,000</u>	<u>11,000</u>
<u>352,975</u>	<u>18,153</u>	<u>12,056,357</u>	<u>2,439,488</u>	<u>4,303,677</u>
664,062	18,153	39,903,222	16,222,567	86,686,839
<u>12,399,649</u>	<u>861,982</u>	<u>482,533,877</u>	<u>709,087,317</u>	<u>622,400,478</u>
<u>\$ 13,063,711</u>	<u>\$ 880,135</u>	<u>\$ 522,437,099</u>	<u>\$ 725,309,884</u>	<u>\$ 709,087,317</u>

# The Medical University of South Carolina

## STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES

For The Year Ended June 30, 1998

(with totals for the year ended June 30, 1997)

	1998			1997 Total
	Unrestricted	Restricted	Total	Restated
<b>Revenues:</b>				
Student tuition and fees	\$ 11,401,488	\$ -	\$ 11,401,488	\$ 10,220,409
State appropriations - Academic Division	109,502,452	121,736	109,624,188	104,043,732
State appropriations - Medical Center	20,580,819	-	20,580,819	20,092,927
Federal grants and contracts	8,897,073	31,697,356	40,594,429	41,129,256
State grants and contracts	942,833	2,357,202	3,300,035	6,131,090
Local government grants and contracts	324,389	-	324,389	573,632
Private gifts, grants, and contracts	6,613,158	11,972,502	18,585,660	16,632,545
Interest and investment income	8,235,580	102,932	8,338,512	10,030,064
Endowment income	-	33,153	33,153	29,000
Sales and services of educational departments	7,557,369	-	7,557,369	7,194,524
Sales and services of Medical Center:				
Net patient service revenue	339,514,580	-	339,514,580	329,629,140
Disproportionate share revenue, net of match	48,674,904	-	48,674,904	49,954,123
Sales and services of auxiliary enterprises	2,829,353	-	2,829,353	2,533,684
Management fee from Charleston Memorial Hospital	3,016,613	-	3,016,613	3,595,015
Other Academic Division revenues	15,769,810	22,278	15,792,088	12,353,663
Other Medical Center revenues	4,663,320	-	4,663,320	4,754,887
	<u>588,523,741</u>	<u>46,307,159</u>	<u>634,830,900</u>	<u>618,897,691</u>
Total current revenues				
<b>Expenditures and mandatory transfers:</b>				
Educational and general:				
Instruction	118,969,294	1,963,074	120,932,368	106,753,956
Research	15,524,254	39,731,602	55,255,856	52,829,683
Public service	18,322,150	3,604,610	21,926,760	15,469,002
Academic support	24,249,082	4,568	24,253,650	18,168,932
Student services	5,628,967	136,927	5,765,894	4,981,415
Institutional support	15,264,558	248,328	15,512,886	12,126,778
Operation and maintenance of plant	16,299,146	16,845	16,315,991	13,524,947
Scholarships and fellowships	1,119,844	646,531	1,766,375	1,296,296
	<u>215,377,295</u>	<u>46,352,485</u>	<u>261,729,780</u>	<u>225,151,009</u>
Total educational and general expenditures				
Mandatory transfers for:				
Loan fund matching grant	117,703	-	117,703	74,202
College work study matching grant	63,479	(63,479)	-	-
Endowment income transferred to principal	-	18,153	18,153	15,972
	<u>-</u>	<u>18,153</u>	<u>18,153</u>	<u>15,972</u>
Total educational and general	<u>215,558,477</u>	<u>46,307,159</u>	<u>261,865,636</u>	<u>225,241,183</u>

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# The Medical University of South Carolina

## STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES (Continued)

For The Year Ended June 30, 1998  
(with totals for the year ended June 30, 1997)

	1998			1997 Total
	Unrestricted	Restricted	Total	Restated
Medical Center:				
Expenditures	386,912,418	-	386,912,418	347,643,682
Mandatory transfers for principal and interest	<u>12,772,445</u>	<u>-</u>	<u>12,772,445</u>	<u>12,790,951</u>
Total Medical Center	<u>399,684,863</u>	<u>-</u>	<u>399,684,863</u>	<u>360,434,633</u>
Auxiliary enterprises:				
Expenditures	1,169,434	-	1,169,434	973,890
Mandatory transfers for principal and interest	<u>712,635</u>	<u>-</u>	<u>712,635</u>	<u>709,692</u>
Total auxiliary enterprises	<u>1,882,069</u>	<u>-</u>	<u>1,882,069</u>	<u>1,683,582</u>
Total expenditures and mandatory transfers	<u>617,125,409</u>	<u>46,307,159</u>	<u>663,432,568</u>	<u>587,359,398</u>
<b>Other transfers and additions (deductions):</b>				
Transfers to/from current funds:				
To loan funds	(235,272)	-	(235,272)	(83,000)
To unexpended plant funds	(4,769,148)	-	(4,769,148)	(15,797,719)
From retirement of indebtedness funds	7,858,871	-	7,858,871	
To retirement of indebtedness funds	(1,661,000)	-	(1,661,000)	(845,382)
Net transfers between current funds	76,914	(76,914)	-	
Transfers from University Medical Associates	2,428,488	-	2,428,488	4,292,677
Transfers from Pharmaceutical Education and Development Foundation	11,000	-	11,000	11,000
Indirect cost recoveries remitted to the State				
General Fund	(288,485)	-	(288,485)	(129,394)
Refunded to grantors	-	(58,633)	(58,633)	
Excess of restricted receipts over (under) transfers to revenue	<u>-</u>	<u>952,977</u>	<u>952,977</u>	<u>17,640,311</u>
Total other transfers and additions (deductions)	<u>3,421,368</u>	<u>817,430</u>	<u>4,238,798</u>	<u>5,088,493</u>
<b>Net increase (decrease) in fund balances</b>	<u>\$ (25,180,300)</u>	<u>\$ 817,430</u>	<u>\$ (24,362,870)</u>	<u>\$ 36,626,786</u>

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

# The Medical University of South Carolina

## CHARLESTON MEMORIAL HOSPITAL - A Component Unit STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS

For The Year Ended June 30, 1998

(with comparative figures for the year ended June 30, 1997)

	1998	1997 Restated
Operating revenues:		
Net patient service revenue	\$ 26,732,253	\$ 25,537,489
Charleston County appropriations	1,656,173	2,000,000
Medical University of South Carolina contributed services	1,671,303	1,482,605
Other sources	<u>3,121,511</u>	<u>3,041,882</u>
Total operating revenues	<u>33,181,240</u>	<u>32,061,976</u>
Operating expenses:		
Patient services	17,510,904	16,983,961
General and administrative, including all employee taxes and benefits	8,088,072	7,866,425
Provision for uncollectibles, net of recoveries	3,206,359	2,233,709
Lease expense	1,716,420	1,716,420
Depreciation	<u>637,953</u>	<u>635,335</u>
Total operating expenses	<u>31,159,708</u>	<u>29,435,850</u>
Operating income	<u>2,021,532</u>	<u>2,626,126</u>
Nonoperating revenues (expenses):		
Interest income	1,076,633	966,288
Contribution income	3,274	4,412
Loss on disposal of property and equipment	<u>(84,826)</u>	<u>(1,811)</u>
Total nonoperating revenues (expenses)	<u>995,081</u>	<u>968,889</u>
Income before management fee	3,016,613	3,595,015
Management fee to The Medical University of South Carolina	<u>(3,016,613)</u>	<u>(3,595,015)</u>
Net income	0	0
Retained earnings at beginning of year	<u>1,870,111</u>	<u>1,870,111</u>
Retained earnings at end of year	<u>\$ 1,870,111</u>	<u>\$ 1,870,111</u>

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

# The Medical University of South Carolina

## CHARLESTON MEMORIAL HOSPITAL - A Component Unit STATEMENT OF CASH FLOWS

For The Year Ended June 30, 1998

(with comparative figures for the year ended June 30, 1997)

	1998	1997 Restated
Cash flows from operating activities:		
Cash received from patients and third party payors	\$ 33,642,047	\$ 35,416,434
Charleston County appropriations	-	283,580
Cash paid to suppliers and others	(24,587,042)	(24,632,504)
Cash paid to employees	(10,572,314)	(9,965,609)
Other receipts from operations	3,121,511	3,041,882
Contributions received	3,274	4,412
Payment of management fee and other expenses to The Medical University of South Carolina	<u>(1,193,307)</u>	<u>(158,321)</u>
Net cash provided (used) by operating activities	<u>414,169</u>	<u>3,989,874</u>
Cash flows from capital and related financing activities:		
Purchase of property and equipment and construction in progress	(731,189)	(418,193)
Proceeds from sale of property and equipment	<u>6,656</u>	<u>4,050</u>
Net cash provided (used) by capital and related financing activities	<u>(724,533)</u>	<u>(414,143)</u>
Cash flows from investing activities:		
Interest income	<u>1,076,634</u>	<u>966,288</u>
Net cash provided (used) by investing activities	<u>1,076,634</u>	<u>966,288</u>
Net increase (decrease) in cash and cash equivalents	766,270	4,542,019
Cash and cash equivalents at beginning of year	<u>22,830,515</u>	<u>18,288,496</u>
Cash and cash equivalents at end of year	<u>\$ 23,596,785</u>	<u>\$ 22,830,515</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	<u>\$ 2,021,532</u>	<u>\$ 2,626,126</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	637,953	635,335
Provision for uncollectibles	3,206,359	2,233,709
Contributions received	3,274	4,412
Inventory donated to The Medical University of South Carolina	-	162,000
Change in assets and liabilities:		
(Increase) decrease in patient accounts receivable	(3,046,461)	(1,800,533)
(Increase) decrease in miscellaneous and third party payor receivables	130,936	(887,216)
(Increase) decrease in due from University Medical Associates	139,954	108,647
(Increase) decrease in inventories	36,605	23,388
(Increase) decrease in prepaid expenses	49,981	103,881
Increase (decrease) in accounts payable, accrued expenses and other liabilities	(38,611)	(371,466)
Increase (decrease) in third party payor payables	(1,582,014)	901,817
Increase (decrease) in due to The Medical University of South Carolina	(1,193,307)	249,774
Increase (decrease) in due to University Medical Associates	<u>47,968</u>	<u>-</u>
Total adjustments	<u>(1,607,363)</u>	<u>1,363,748</u>
Net cash provided (used) by operating activities	<u>\$ 414,169</u>	<u>\$ 3,989,874</u>
Supplemental Disclosures:		
Noncash operating activities:		
Medical University of South Carolina contributed services received (operating revenue reported) equal to contributor's cost of services (operating expense reported).	<u>\$ 1,671,303</u>	<u>\$ 1,482,605</u>

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

# The Medical University of South Carolina

## UNIVERSITY MEDICAL ASSOCIATES OF THE MEDICAL UNIVERSITY OF SOUTH CAROLINA - A Component Unit STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS

For The Year Ended June 30, 1998  
(with comparative figures for the year ended June 30, 1997)

	1998	1997 Restated
Operating revenues:		
Net clinical service revenue	\$ 119,279,796	\$ 104,890,606
Other operating revenue	3,480,145	1,953,870
Ambulatory care management fee income (loss)	(645,055)	723,484
Ambulatory care clinical education agreement support	15,900,000	-
Primary Care development support	<u>3,500,000</u>	<u>7,000,000</u>
Total operating revenues	<u>141,514,886</u>	<u>114,567,960</u>
Operating expenses:		
Departmental expenses (includes depreciation of \$939,517 and amortization of \$496,717)	94,297,228	83,017,077
Provision for bad debts	17,808,485	15,059,105
Corporate operating expenses (includes depreciation of \$593,451)	16,850,216	12,436,766
Ambulatory care clinical education agreement (includes interest of \$1,390,225 and amortization of \$11,121)	18,570,561	-
Interest expense	<u>2,915,854</u>	<u>2,338,412</u>
Total operating expenses	<u>150,442,344</u>	<u>112,851,360</u>
Operating income (loss)	<u>(8,927,458)</u>	<u>1,716,600</u>
Nonoperating revenues (expenses):		
Rental income	1,074,729	2,155,445
Rent expense (includes depreciation of \$147,428 and amortization of \$4,295)	(252,761)	(871,171)
Interest expense on rental property	(687,017)	(1,045,476)
Interest and investment income	1,819,286	1,938,142
Other income	403,473	2,094,362
Gain (loss) on disposition of fixed assets	(4,865)	(1,903)
Contributions to Health Sciences Foundation	(903,725)	(108,380)
Nonmandatory transfers to The Medical University of South Carolina and its component units	<u>(2,678,488)</u>	<u>(4,667,677)</u>
Total nonoperating revenues (expenses)	<u>(1,229,368)</u>	<u>(506,658)</u>
Net income (loss)	(10,156,826)	1,209,942
Retained earnings at beginning of year, as restated	<u>23,993,408</u>	<u>22,783,466</u>
Retained earnings at end of year	<u>\$ 13,836,582</u>	<u>\$ 23,993,408</u>

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

# The Medical University of South Carolina

## UNIVERSITY MEDICAL ASSOCIATES OF THE MEDICAL UNIVERSITY OF SOUTH CAROLINA - A Component Unit STATEMENT OF CASH FLOWS

For The Year Ended June 30, 1998

(with comparative figures for the year ended June 30, 1997)

	1998	1997 Restated
Cash flows from operating activities:		
Cash received from services	\$ 124,417,791	\$ 103,837,859
Cash paid to employees	(79,453,278)	(65,058,691)
Cash paid to suppliers and others	(45,148,005)	(32,839,543)
Other receipts	1,482,535	3,749,407
Contributions to Health Sciences Foundation	(903,725)	(108,380)
Nonmandatory transfers to The Medical University of South Carolina and its component units	<u>(2,678,488)</u>	<u>(4,667,677)</u>
Net cash provided (used) by operating activities	<u>(2,283,170)</u>	<u>4,912,975</u>
Cash flows from noncapital financing activities:		
Borrowings under revolving line of credit note payable	20,000,000	8,900,000
Repayments of revolving line of credit note payable	(5,500,363)	(2,000,000)
Interest paid on direct note obligations and notes payable	(3,795,770)	(3,622,942)
Payment of agent fees	<u>(15,822)</u>	<u>(17,404)</u>
Net cash provided (used) by noncapital financing activities	<u>10,688,045</u>	<u>3,259,654</u>
Cash flows from capital and related financing activities:		
Acquisition of property, plant, and equipment	(25,419,029)	(5,553,176)
Proceeds from direct note obligations	25,833,124	-
Acquisition of primary care operations	(1,378,380)	(4,379,642)
Repayments of capital lease obligations	(206,321)	(63,785)
Payment of bond issue costs	(61,986)	-
Payment of agent and broker fees	(54,619)	-
Interest paid	<u>(2,081,321)</u>	<u>(20,932)</u>
Net cash provided (used) by capital and related financing activities	<u>(3,368,532)</u>	<u>(10,017,535)</u>
Cash flows from investing activities:		
Acquisition of investments	(27,469,888)	(5,066,352)
Proceeds from sale of investments	27,569,563	9,133,784
Interest and investment income received	<u>1,733,954</u>	<u>1,012,984</u>
Net cash provided (used) by investing activities	<u>1,833,629</u>	<u>5,080,416</u>
Net increase in cash and cash equivalents	6,869,972	3,235,510
Cash and cash equivalents at beginning of year	<u>10,010,236</u>	<u>6,774,726</u>
Cash and cash equivalents at end of year	<u>\$ 16,880,208</u>	<u>\$ 10,010,236</u>

*Continued on next page*

# The Medical University of South Carolina

## UNIVERSITY MEDICAL ASSOCIATES OF THE MEDICAL UNIVERSITY OF SOUTH CAROLINA - A Component Unit STATEMENT OF CASH FLOWS (Continued)

For The Year Ended June 30, 1998

(with comparative figures for the year ended June 30, 1997)

	1998	1997 Restated
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	<u>\$ (8,927,458)</u>	<u>\$ 1,716,600</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Amortization of deferred charge	-	(100,000)
Depreciation and amortization	2,040,806	1,673,650
Provision for bad debts	17,808,485	15,059,105
Contributions to Health Sciences Foundation	(903,725)	(108,380)
Nonmandatory transfers to The Medical University of South Carolina and its component units	(2,678,488)	(4,667,677)
Rental and other income received	1,482,535	3,749,407
Interest expense - reclassified to noncapital financing activities	4,306,079	2,338,412
Agent and broker fees paid - reclassified to noncapital financing activities	70,441	17,404
Change in assets and liabilities:		
(Increase) decrease in accounts receivable - patients	(17,855,674)	(14,352,683)
(Increase) decrease in other receivables	38,667	234,905
(Increase) decrease in due from The Medical University of South Carolina	(1,818,573)	134,414
(Increase) decrease in due from Charleston Memorial Hospital	(685,753)	(122,902)
(Increase) decrease in due from Pharmaceutical Education and Development Foundation	(148,369)	(874,813)
(Increase) decrease in deposit held by The Medical University of South Carolina	470,588	(119,383)
(Increase) decrease in prepaid items	556,192	(175,224)
(Increase) decrease in other assets	(554,044)	(876,267)
Increase (decrease) in accounts payable	(192,749)	326,924
Increase (decrease) in retainages payable	(183,489)	183,489
Increase (decrease) in accrued payroll and related liabilities	441,052	693,013
Increase (decrease) in accrued leave and related liabilities	270,290	439,654
Increase (decrease) in deferred revenues	(3,500,000)	(3,500,000)
Increase (decrease) in due to The Medical University of South Carolina	6,413,443	3,513,816
Increase (decrease) in due to Charleston Memorial Hospital	497,831	14,255
Increase (decrease) in pension plan payable	602,784	(278,664)
Increase (decrease) in other liabilities	<u>165,959</u>	<u>(6,080)</u>
Total adjustments	<u>6,644,288</u>	<u>3,196,375</u>
Net cash provided (used) by operating activities	<u>\$ (2,283,170)</u>	<u>\$ 4,912,975</u>

Supplemental disclosures:

Noncash capital and related financing activities:

In 1998, UMA issued direct note obligations, series 1997. The \$40,000,000 of proceeds were used as follows: \$13,449,676 to pay down a line of credit, \$360,000 for bond insurance, \$357,200 for underwriter bond issuance costs, and the remaining \$25,833,124 were the cash proceeds.

In 1998, UMA acquired \$30,383 of new computer equipment and \$1,882,587 of construction costs through capital leases. In accounts payable and due to The Medical University of South Carolina were \$2,846,120 of construction costs.

In 1997, UMA acquired \$245,146 of new equipment and software through the refinancing of an existing capital lease.

The existing capital lease assets had an original cost basis of \$496,867 and a net book value of \$107,379 which is the new cost basis of these assets. Additionally, included in accounts payable was \$991,682 of construction costs.

Noncash investing activities:

In 1997, \$462,747 of investment income was added to the cost basis of certain investment assets.

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

# The Medical University of South Carolina

## MEDICAL UNIVERSITY FACILITIES CORPORATION - A Component Unit STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS

For the Year Ended June 30, 1998

(with comparative figures for the year ended June 30, 1997)

	1998	1997
Operating revenues:		
Interest income	\$ 121,078	\$ 154,219
Interest income from The Medical University of South Carolina	<u>2,233,388</u>	<u>1,622,526</u>
Total operating revenues	<u>2,354,466</u>	<u>1,776,745</u>
Operating expenses:		
Interest	2,216,736	2,271,954
Amortization of bond issue costs	16,928	16,928
Fees	<u>6,317</u>	<u>634</u>
Total operating expenses	<u>2,239,981</u>	<u>2,289,516</u>
Operating income (loss)	114,485	(512,771)
Retained earnings at beginning of year	<u>886,195</u>	<u>1,398,966</u>
Retained earnings at end of year	<u>\$ 1,000,680</u>	<u>\$ 886,195</u>

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

# The Medical University of South Carolina

## MEDICAL UNIVERSITY FACILITIES CORPORATION - A Component Unit STATEMENT OF CASH FLOWS

For the Year Ended June 30, 1998

(with comparative figures for the year ended June 30, 1997)

	1998	1997
Cash flows from noncapital financing activities:		
Principal paid on bonds payable	\$ (308,000)	\$ (146,000)
Principal paid on certificates of participation	(550,000)	(515,000)
Interest paid on bonds payable	(967,205)	(983,710)
Interest paid on certificates of participation	<u>(1,273,968)</u>	<u>(1,307,959)</u>
Net cash provided (used) by noncapital financing activities	<u>(3,099,173)</u>	<u>(2,952,669)</u>
Cash flows from investing activities:		
Collections of capital lease principal	792,978	597,402
Interest received on capital leases	2,233,388	1,622,526
Purchases of investments	(1,053,892)	(316,168)
Proceeds from sales and maturities of investments	1,053,892	6,869,566
Interest on investments	120,677	267,081
Funds received and held for The Medical University of South Carolina	69,873	-
Bond proceeds and earnings distributed to The Medical University of South Carolina under a capital lease agreement	-	(11,349,731)
Fees paid	<u>(6,317)</u>	<u>(634)</u>
Net cash provided (used) by investing activities	<u>3,210,599</u>	<u>(2,309,958)</u>
Net increase (decrease) in cash and cash equivalents	111,426	(5,262,627)
Cash and cash equivalents at beginning of year	<u>3,147,379</u>	<u>8,410,006</u>
Cash and cash equivalents at end of year	<u>\$ 3,258,805</u>	<u>\$ 3,147,379</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	<u>\$ 114,485</u>	<u>\$ (512,771)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Amortization of bond issue costs	16,928	16,928
Interest income - reclassified to investing activities	(2,354,466)	(1,776,745)
Interest expense - reclassified to investing activities	2,216,736	2,271,954
Fees - reclassified to investing activities	<u>6,317</u>	<u>634</u>
Total adjustments	<u>(114,485)</u>	<u>512,771</u>
Net cash provided by operating activities	<u>\$ 0</u>	<u>\$ 0</u>

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

# The Medical University of South Carolina

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

For The Year Ended June 30, 1998

(with comparative figures for the year ended June 30, 1997)

	1998	1997
Revenues, gains, and other support:		
Sales/contract income	\$ 2,766,491	\$ 1,795,232
Contributions	261,000	386,000
Interest income	12,049	6,729
Other income - from educational support to The Medical University of South Carolina	<u>140,000</u>	<u>-</u>
Total revenues, gains, and other support	<u>3,179,540</u>	<u>2,187,961</u>
Expenses:		
Support services - management and general:		
Contract personnel	2,008,979	1,860,701
Supplies	277,710	225,677
Rent and utilities	253,278	265,904
Services	171,372	143,885
Marketing	99,339	76,757
Bad debts	28,600	-
Miscellaneous	17,920	12,788
Depreciation	82,312	55,824
Insurance	117,702	76,932
Interest	45,454	39,439
Repairs and maintenance	33,793	37,510
Travel and entertainment	<u>56,941</u>	<u>74,497</u>
Subtotal	3,193,400	2,869,914
Programs:		
Contributions to College of Pharmacy	<u>11,000</u>	<u>11,000</u>
Total expenses	<u>3,204,400</u>	<u>2,880,914</u>
Change in unrestricted net assets (decrease)	(24,860)	(692,953)
Net assets at beginning of year (deficit)	<u>(989,688)</u>	<u>(296,735)</u>
Net assets at end of year (deficit)	<u>\$ (1,014,548)</u>	<u>\$ (989,688)</u>

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

# The Medical University of South Carolina

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

For The Year Ended June 30, 1998

(with comparative figures for the year ended June 30, 1997)

	1998	1997
Cash flows from operating activities:		
Cash received for services	\$ 2,809,789	\$ 1,654,245
Contributions received from University Medical Associates	250,000	375,000
Cash paid to suppliers and others	(2,757,911)	(1,795,089)
Contributions paid	(11,000)	(11,000)
Interest income	12,049	6,729
Interest paid	<u>(45,454)</u>	<u>(39,439)</u>
Net cash provided (used) by operating activities	<u>257,473</u>	<u>190,446</u>
Cash flows from investing activities:		
Purchases of property and equipment	<u>(120,470)</u>	<u>(118,343)</u>
Net cash provided (used) by investing activities	<u>(120,470)</u>	<u>(118,343)</u>
Cash flows from financing activities:		
Proceeds from notes payable	-	50,000
Proceeds from obligation payable to Health Sciences Foundation	499,998	-
Payments on unsecured notes payable	(67,535)	(51,325)
Payments on capital lease	<u>(83,734)</u>	<u>(72,267)</u>
Net cash provided (used) by financing activities	<u>348,729</u>	<u>(73,592)</u>
Net increase in cash and cash equivalents	485,732	(1,489)
Cash and cash equivalents at beginning of period	<u>97,689</u>	<u>99,178</u>
Cash and cash equivalents at end of period	<u>\$ 583,421</u>	<u>\$ 97,689</u>
Reconciliation of cash flows from operating activities:		
Change in net assets (decrease)	<u>\$ (24,860)</u>	<u>\$ (692,953)</u>
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	82,312	55,824
Insurance	60,800	51,300
Changes in operating assets and liabilities:		
(Increase) decrease in deposit held by The Medical University of South Carolina	2,108	(3,428)
(Increase) decrease in grants and contracts receivable	(141,572)	(128,349)
(Increase) decrease in prepaid expenses and other assets	(23,441)	(6,865)
(Increase) decrease in inventory	(22,931)	(4,014)
Increase (decrease) in accounts payable	63,138	3,597
Increase (decrease) in deferred revenue and other liabilities	73,470	(12,638)
Increase (decrease) in due to The Medical University of South Carolina	40,080	209,772
Increase (decrease) in due to University Medical Associates	<u>148,369</u>	<u>718,200</u>
Total adjustments	<u>282,333</u>	<u>883,399</u>
Net cash provided by operating activities	<u>\$ 257,473</u>	<u>\$ 190,446</u>
Supplemental Disclosures:		
Noncash operating activities:		
Medical University of South Carolina contributed services received (operating revenue reported) equal to contributor's cost of services (operating expense reported).	\$ 11,000	\$ 11,000
Insurance premiums financed by note	\$ (60,800)	\$ (51,300)
Noncash investing activities:		
Equipment financed by lease obligations	\$ (86,872)	\$ (175,840)
Noncash financing activities:		
Lease obligation to purchase equipment	\$ 86,872	\$ 175,840
Note obligation for insurance premiums	\$ 60,800	\$ 51,300

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

# The Medical University of South Carolina

**MEDICAL UNIVERSITY OF SOUTH CAROLINA  
FOUNDATION FOR RESEARCH DEVELOPMENT -  
A Component Unit**

**STATEMENT OF ACTIVITIES**

For The Year Ended June 30, 1998

(with comparative figures for the year ended June 30, 1997)

	1998			1997 Total
	Unrestricted	Temporarily Restricted	Total	
Revenues, gains, and other support:				
State grants and contracts	\$ 881,742	\$ -	\$ 881,742	\$ 250,000
Corporate contracts and awards	65,017	2,691,407	2,756,424	426,035
Contributions and private grants	619	17,778	18,397	10,720
License fees	30,000	-	30,000	20,000
Investment income	306,585	-	306,585	15,557
Net unrealized and realized gain (loss) on long-term investments	39,336	-	39,336	-
Miscellaneous income	882	-	882	-
Total revenues, gains, and other support	<u>1,324,181</u>	<u>2,709,185</u>	<u>4,033,366</u>	<u>722,312</u>
Net assets released from restrictions:				
Program restrictions satisfied	<u>2,607,351</u>	<u>(2,607,351)</u>	<u>-</u>	<u>-</u>
Totals	<u>3,931,532</u>	<u>101,834</u>	<u>4,033,366</u>	<u>722,312</u>
Expenses:				
Program services:				
Research (includes depreciation of \$4,982)	2,069,529	-	2,069,529	283,870
Training	98,978	-	98,978	17,243
Public service	6,743	-	6,743	-
Residual accounts (includes depreciation of \$1,313)	<u>48,243</u>	<u>-</u>	<u>48,243</u>	<u>3,957</u>
Total program expenses	<u>2,223,493</u>	<u>-</u>	<u>2,223,493</u>	<u>305,070</u>
Supporting services - management and general (includes depreciation of \$4,406):				
Operations	637,729	-	637,729	214,497
Clinical Innovation Group	225,215	-	225,215	-
License activities	<u>25,273</u>	<u>-</u>	<u>25,273</u>	<u>68,949</u>
Total supporting services	<u>888,217</u>	<u>-</u>	<u>888,217</u>	<u>283,446</u>
Total expenses	<u>3,111,710</u>	<u>-</u>	<u>3,111,710</u>	<u>588,516</u>
Change in net assets	819,822	101,834	921,656	133,796
Net assets at beginning of year	<u>323,403</u>	<u>11,752</u>	<u>335,155</u>	<u>201,359</u>
Net assets at end of year	<u>\$ 1,143,225</u>	<u>\$ 113,586</u>	<u>\$ 1,256,811</u>	<u>\$ 335,155</u>

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

# The Medical University of South Carolina

## MEDICAL UNIVERSITY OF SOUTH CAROLINA FOUNDATION FOR RESEARCH DEVELOPMENT - A Component Unit

### STATEMENT OF CASH FLOWS

For The Year Ended June 30, 1998

(with comparative figures for the year ended June 30, 1997)

	1998	1997
Cash flows from operating activities:		
Cash received for services	\$ 4,105,905	\$ 899,260
Cash paid to suppliers and others	(2,505,325)	(540,136)
Cash paid to employees	(272,271)	-
Interest income received	126,383	15,716
Cash received and held for others	12,948,290	-
Cash held for others returned to The Medical University of South Carolina	<u>(1,251,168)</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>13,151,814</u>	<u>374,840</u>
Cash flows from investing activities:		
Purchases of property and equipment	(162,042)	(15,695)
Purchases of investments	(11,499,917)	-
Proceeds from sales and maturities of investments	<u>2,457,000</u>	<u>70,000</u>
Net cash provided (used) by investing activities	<u>(9,204,959)</u>	<u>54,305</u>
Net increase in cash and cash equivalents	3,946,855	429,145
Cash and cash equivalents at beginning of period	<u>652,434</u>	<u>223,289</u>
Cash and cash equivalents at end of period	<u>\$ 4,599,289</u>	<u>\$ 652,434</u>
Reconciliation of cash flows from operating activities:		
Change in net assets	<u>\$ 921,656</u>	<u>\$ 133,796</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	10,701	4,423
Amortization of bond premium and discount	(111,395)	-
Net unrealized and realized gains on investment	(39,336)	-
Change in operating assets and liabilities:		
(Increase) decrease in grants and contracts receivable	(319,558)	(95,595)
(Increase) decrease in accrued interest receivable	(68,807)	179
(Increase) decrease in prepaid expenses	(5,228)	1,578
Increase (decrease) in accounts payable	112,794	19,912
Increase (decrease) in deferred revenues	738,018	288,080
Increase (decrease) in due to The Medical University of South Carolina	<u>11,912,969</u>	<u>22,467</u>
Total adjustments	<u>12,230,158</u>	<u>241,044</u>
Net cash provided by operating activities	<u>\$ 13,151,814</u>	<u>\$ 374,840</u>

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

# The Medical University of South Carolina

## Notes To Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of The Medical University of South Carolina (the University) conform to generally accepted accounting principles (GAAP) applicable to the governmental colleges and universities model as defined in the American Institute of Certified Public Accountants (AICPA) Industry Audit Guide Audits of Colleges and Universities recognized by the Governmental Accounting Standards Board (GASB). GASB is the recognized standard-setting body for GAAP for all State governmental entities including colleges and universities. A summary of significant accounting policies follows.

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

The Medical University of South Carolina is a State-supported, coeducational institution of higher education. The University is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the institution. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of the University. The Medical University of South Carolina was established as an institution of higher education by Section 59-101-10 of the Code of Laws of South Carolina. The University is composed of the Academic Division and the Medical Center. The South Carolina Area Health Education Consortium (AHEC) is included in the Academic Division. The purpose of AHEC is to provide education, recruitment and retention programs for health care providers by linking the State's academic health science colleges with service agencies and practitioners through community based health education centers.

The University is part of the primary government of the State of South Carolina and its funds are reported in the State's higher education funds in the Comprehensive Annual Financial Report of the State of South Carolina. Generally, all State departments, agencies, and colleges are included in the State's reporting entity. These entities are financially accountable to and fiscally dependent on the State. Although the State-supported universities operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and/or the General Assembly appoints most of their board members and budgets a significant portion of their funds. The Board of Trustees, whose members are the Governor (or his designee), ex officio, twelve members elected by the General Assembly in joint assembly, and one member appointed by the Governor, is the governing body of the University. The Board administers, has jurisdiction over, and is responsible for the management of the University.

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn, component units may have component units. An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The financial reporting entity includes the University and all of its component units blended in the primary entity.

A primary government or entity is financially accountable if its officials or appointees appoint a voting majority of an organization's governing body, including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary government or entity unless the

# The Medical University of South Carolina

organization holds all of the following powers:

- (1) Determine its budget without another government's having the authority to approve and modify that budget.
- (2) Levy taxes or set rates or charges without approval by another government.
- (3) Issue bonded debt without approval by another government.

The organization is fiscally independent if it holds all three of those powers. Based on these criteria, the University has determined this financial reporting entity includes the University (a primary entity) and all of its component units blended in the primary entity. Based on the application of the above criteria, certain component units are included in the reporting entity because of the significance of their operational or financial relationships with the University. The following identifies the University's component units and the methods of reporting them in these financial statements. All of the component units are blended in the primary entity in discrete columns.

Charleston Memorial Hospital (CMH) is a not-for-profit acute care facility serving primarily the medically indigent within the County of Charleston. The land, buildings, and improvements utilized by CMH are leased from Charleston County. Charleston Memorial Hospital is considered a component unit because the University entered into a management agreement with Charleston County whereby the University assumed responsibility for CMH. The agreement requires that the University continue to provide all services being provided as of the date of the agreement and that the University is responsible for all expenses of CMH. Under the management agreement, the board of the University serves as the board of Charleston Memorial Hospital and is therefore able to impose its will on CMH. The Governmental Accounting Standards Board in Statement 14 requires that a blended presentation be used when the component unit's governing body is substantively the same as the governing body of the primary entity.

University Medical Associates of The Medical University of South Carolina (UMA) is a component unit of the University because the University is financially accountable for UMA. UMA is a nonprofit, non-stock corporation. UMA was established to deliver inpatient and outpatient professional services for the benefit of the University and accordingly bills, collects, and administers all clinical income generated by its participating physicians. UMA provides the full-time clinical professional faculty and other health professionals with the development of group practice arrangements and operates as a multi-specialty group practice of medicine and related services in the furtherance of medicine, medical research, and education. The by-laws of UMA provide for all of its assets to be transferred to the University upon its dissolution. UMA is considered a component unit because the University has appointment authority over a majority of the UMA board. The fact that certain designated employees of the University are members of the board of UMA under its bylaws constitutes appointment authority. Since the purpose of UMA is to provide services almost entirely to the University, it is considered a blended component unit under Statement 14 of the Governmental Accounting Standards Board.

UMA has formed for-profit subsidiaries for the purpose of creating a primary care and specialty care network by establishing satellite and affiliate offices and contracting with area physicians to carry out primary care functions. Carolina Family Care, Inc. (CFC), Carolina Health Management Services, Inc. (CHMS) and Carolina Specialty Care, Inc. (CSC) are owned 100% by UMA. The primary care offices operate under CFC and the specialty care offices operate under CSC. CHMS employs care management, administrative, and non-medical personnel for these operations. Carolina Primary Care Physicians, P.A. (CPCP) and Carolina Specialty Care Physicians, P.A. (CSCP) are owned 100% by Dr. Howard Evert, but he has assigned all rights in the stock to UMA. CPCP employs the network physicians and clinical staff of CFC and CSCP employs the physicians and clinical staff of CSC. These subsidiaries have been blended as component units into UMA although they are separate legal entities.

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 generally accepted accounting principles, the University's financial statements include UMA and its component units.

# The Medical University of South Carolina

Medical University Facilities Corporation (MUFC) is a nonprofit corporation established in 1992 to obtain the financing for the University to purchase land, an office building, and a parking garage. A majority of the members of the Board of Directors of the corporation are employees of the University or members of the University's Board of Trustees. The agreement between the University and the corporation requires the University to pay all costs of the corporation. Medical University Facilities Corporation is considered to be a component unit because the nature and significance of its relationship with the University is such that exclusion from the reporting entity would render the financial statements incomplete. The corporation is a blended component unit since its only purpose is to provide financing services to the University.

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. Revenues of PEDF are generated from contracts with pharmaceutical companies for a wide variety of services in pharmaceutical research and development. 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.

MUSC Foundation for Research Development (MFRD) was incorporated in March, 1995, as a direct support organization for the University. The mission of MFRD is to support the educational, research, and health care mission of the University by fostering creativity and innovation. Additionally, MFRD is charged with initiating and sustaining cooperation and collaboration between the University and business and industry, acting as the University's intellectual property management and technology marketing arm, and advancing health related economic development for South Carolina and the nation. MFRD is a component unit of the University since it is fiscally dependent on the University. MFRD must have prior written consent from the University's Board of Trustees to sell, lease, exchange or mortgage any of its property or assets. MFRD is a blended component unit since it provides services almost entirely to the University.

Copies of the separately issued financial statements of Charleston Memorial Hospital, University Medical Associates, Pharmaceutical Education and Development Foundation, and MUSC Foundation for Research Development are available from the management of each entity. Medical University Facilities Corporation does not issue separate financial statements.

The accompanying financial statements present the financial position; the changes in fund balances; the current funds revenues, expenditures, and other changes; and the results of operations and cash flows of the component units of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the University and its component units.

## ***Presentation of Component Units***

The University's component units, despite being legally separate from the University (the primary entity), are so intertwined with it that they are, in substance, the same as the primary entity. If the primary entity and its component units use the same reporting model, then such component unit's balances and transactions are blended with those of the primary entity and reported in the applicable fund groups as if they were balances and transactions of the primary entity. However, because the University and its component units use different reporting models, the component units' balances and transactions are reported in discrete columns and included in the "primary entity" totals. Discrete presentation entails reporting component unit financial data which has not been converted to the AICPA college and university model in separate columns or on separate financial statements of the primary entity. The columns and statements are labeled "component units".

# The Medical University of South Carolina

## ***Basis of Accounting***

The financial statements of the University have been prepared on the accrual basis except that, in accordance with accounting practices customarily followed by governmental educational institutions, no provision is made for depreciation of physical plant assets, interest on loans to students is recorded when collected, and revenue from tuition and student fees for summer sessions is reported totally within the fiscal year in which the session is primarily conducted. Otherwise, revenues are reported in the accounting period when earned and become measurable and expenditures when materials or services are received or when incurred, if measurable. Unrestricted state appropriations are recognized as revenue when received or made available. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. The statement does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenue and expenses.

Mandatory transfers are limited to those arising out of binding legal arrangements related to financing the educational plant (e.g., construction, repairs, debt amortization, and interest); agreements to match gifts and grants; or required matching of certain federal loan programs. All other interfund transfers are reported as nonmandatory transfers.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of alterations and renovations and purchases and normal replacement of movable equipment and library books; (2) mandatory transfers in the case of required provisions; and (3) transfers of a nonmandatory nature in all other cases.

## ***Basis of Accounting - Component Units***

The financial statements of all of the component units are prepared on the accrual basis. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Charleston Memorial Hospital, University Medical Associates, and Medical University Facilities Corporation conduct business-like activities. They are financed primarily through user charges. The measurement focus of these entities is on the flow of economic resources and the determination and presentation of net income, financial position, and cash flows. These three component units are considered to be governmental entities and have implemented Governmental Accounting Standards Board (GASB) Statement No. 29, *The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities*. This statement provides that governmental entities that heretofore have applied not-for-profit accounting and financial reporting principles by following the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 78-10, *Accounting Principles and Reporting Practices for Certain Nonprofit Organizations*, or the *Industry Audit Guide, Audits of Voluntary Health and Welfare Organizations*, should apply the governmental model or the AICPA not-for-profit model. CMH, UMA, and MUFC have elected to apply the governmental proprietary fund model. These entities apply all applicable GASB pronouncements and, in accordance with GASB 20, have elected to apply only those FASB pronouncements issued on or before November 30, 1989, and not in conflict with GASB standards. CMH, UMA, and MUFC use only one fund category, proprietary, within which they maintain one fund type, enterprise. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Pharmaceutical Education and Development Foundation and MUSC Foundation for Research Development are deemed not to be governmental entities because a controlling majority of their governing bodies is not appointed or approved by government officials. Both entities have adopted Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, PEDF and MFRD are required to report information regarding financial position and activities according to three classes of net assets: unrestricted net assets, temporarily

restricted net assets, and permanently restricted net assets. At June 30, 1998, PEDF and MFRD had no permanently restricted net assets.

# The Medical University of South Carolina

## ***Fund Accounting***

Fund accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives in accordance with limitations and restrictions imposed by sources outside the institution or in accordance with directions issued by the governing board. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups and subgroups. Accordingly, all financial transactions have been recorded and reported by fund group and subgroup.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may be utilized only in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds, over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owns such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds which is accounted for in the fund to which it is restricted or, if unrestricted, as revenue in unrestricted current funds unless the endowment agreement requires the income to be added to the corpus. Certain endowment agreements require current earnings not used for the restricted purpose to be added to the corpus. The University records a mandatory transfer to move these monies to the endowment fund group.

All other unrestricted revenues are accounted for in unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds.

## ***Current Funds***

The current funds group includes those economic resources which are expendable for operating purposes to perform the primary missions of the University, which are instruction, research, and public service. For a more meaningful disclosure, the current funds are divided into two subgroups: unrestricted and restricted. Separate accounts are maintained for the Medical Center, the Academic Division, the South Carolina Area Health Education Consortium, and auxiliary enterprise operations in the unrestricted current funds. Current funds are considered unrestricted unless the restrictions imposed by the donor or other external agency are so specific that they substantially reduce the University's flexibility in their utilization. Unrestricted gifts are recognized as revenue when received and other unrestricted resources are recorded as revenue when earned. Receipts that are restricted are recorded initially as additions to restricted fund balances and recognized as revenue to the extent that such funds are expended for the restricted purposes during the current fiscal year and met all related requirements.

The Medical Center and auxiliary enterprises, primarily composed of parking facilities, are essentially self-supporting business entities and activities that exist for the purpose of furnishing goods and services primarily to patients, students, faculty, staff, or departments and for which charges are made that directly relate to such goods and services. Revenue and expenditures are reported separately as unrestricted current funds. Assets, liabilities, and fund balances are combined with other unrestricted current funds for reporting purposes; however, each separate enterprise maintains its own assets, liabilities, and fund balance.

## ***Loan Funds***

The loan funds group accounts for the resources available for loans to students from donors, government agencies, and mandatory institutional matching grants. Loan funds have been divided into those provided by the federal government and those provided by other sources. Expenditures include costs of loan collections, loan cancellations and collectibility reserves, uncollectible loan write-offs, and administrative costs under the federal loan programs. To the extent that current funds are used to meet required provisions for grant matching, they are accounted for as mandatory transfers.

# The Medical University of South Carolina

## *Endowment and Similar Funds*

The endowment and similar funds group includes endowment funds and funds functioning as endowments (quasi-endowment). Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be utilized. All of the University's endowments require the income to be used for specified purposes. While quasi-endowment funds have been established by the governing board for the same purposes as permanent endowment funds, subject to any restrictions imposed by the donor of the resources, any unrestricted portion of the principal as well as income may be expended at the discretion of the governing board. The term "principal" is construed to include the original value of an endowment and subsequent additions and realized gains/losses attributable to investment transactions.

## *Plant Funds*

The plant funds group consists of three self-balancing subgroups: (1) unexpended plant funds, (2) funds for retirement of indebtedness, and (3) investment in plant. The three subgroups are combined for reporting purposes. Separate balance sheet and statement of changes in fund balances for the three subgroups are presented in Note 10. The unexpended plant funds subgroup accounts for the resources derived from various sources and any debt related to unexpended resources to finance the acquisition of long-life assets and to provide for routine renewal and replacement of existing plant assets, all construction in progress, and debt related to expended or unexpended resources included in this fund subgroup. Receipts legally designated solely for plant improvements or renewals and replacements are recorded directly in the University's plant funds as revenue. The retirement of indebtedness subgroup accounts for resources that are specifically accumulated for interest and principal payments, debt service reserve funds, and other debt service charges related to plant fund indebtedness except for capital leases. Receipts legally restricted for debt service for state institution bonds are recorded directly in the retirement of indebtedness subgroup. The investment in plant subgroup accounts for all long-life assets in the service of the University and related debt for funds borrowed and expended for the acquisition of plant assets included in this fund subgroup. Net investment in plant represents the excess of the carrying value of plant assets over the related liabilities.

## *Agency Funds*

The agency funds group accounts for the assets held on behalf of others in the capacity of custodian or fiscal agent; consequently, transactions relating to agency funds do not affect the operating statements of the University. They include the accounts of students, student organizations, University Medical Associates, the University's deferred compensation plan, and other groups directly associated with the University.

## ***Investment in Plant***

Physical plant and equipment, except for plant assets acquired prior to July 1, 1982, and equipment acquired under capital lease, are stated at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Plant assets acquired prior to July 1, 1982, are stated at estimated historical cost determined by independent appraisal. Library books as of June 30, 1982, were recorded at cost or at estimated fair value if donated property. Equipment additions purchased through capital leases or installment purchase contracts are capitalized in the investment in plant funds subgroup in the year of acquisition at their total cost, excluding interest charges. Equipment under capital leases is stated at the lower of the present value of minimum lease payments, including the down payment, at the beginning of the lease term or fair value at the inception of the lease. Payments of principal and interest on such contracts are recorded in the applicable functional expenditure categories of the current funds group as the installments are paid. Infra-structure assets include streets, sidewalks, parking lots, drainage systems, lighting systems, utility systems, and similar assets that are immovable and of value only to the University which reports these assets as land improvements and values them at cost.

# The Medical University of South Carolina

Construction in progress is valued at total cost less noncapitalized costs in the unexpended plant funds subgroup when the costs are incurred. Upon completion of the project, these capitalized costs are recorded as expenditures in unexpended plant funds and simultaneously transferred to the investment in plant subgroup and recorded in the appropriate asset accounts.

Library books, periodicals, and other library materials on computer data storage devices are recorded at cost or fair market value at the date of donation. Current funds expenditures for acquisition of capital assets are simultaneously recorded in both the current funds expenditure accounts of the various operating departments and in the investment in plant funds subgroup.

The University capitalizes major additions and renovations to plant assets; qualifying equipment with unit value in excess of \$500 and a useful life in excess of 2 years; and library material purchases at cost.

When plant assets are sold, retired, or otherwise disposed of, the carrying value at cost, estimated historical cost, or fair market value at date of gift, where applicable, is removed from the investment in plant subgroup. The discarded library volumes are removed annually from the investment in plant subgroup at average cost. In accordance with practices followed by governmental educational institutions, depreciation on physical plant and equipment is not recorded.

Property and equipment of the component units are valued at cost and are depreciated using the straight line method over the estimated useful lives of the respective assets. Useful lives range from 3 to 23 years for equipment, from 7 to 39 years for leasehold improvements, and from 10 to 29.5 years for capitalized leased assets. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized as leasehold improvements. When property or equipment is sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is recognized.

## ***Capitalized Interest***

The University capitalizes as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects. Therefore asset values in the investment in plant subgroup include such interest costs.

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

The amounts shown in the financial statements in University funds as "cash and cash equivalents" represent petty cash, cash on deposit with the State Treasurer, cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool, and cash invested in various short-term instruments by the State Treasurer and held in separate agency accounts. For the component units, cash and cash equivalents include cash on hand, cash on deposit and repurchase agreements with local banks, and certain funds invested with investment managers. The component units consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Most State agencies including the University participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. For credit risk information pertaining to the cash management pool, see the deposits disclosures in Note 3.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. Investments in the pool are recorded at fair value. Interest earned by the University's special deposit accounts is posted to the University's account at the end of each month and is retained by the University. Interest earnings are allocated based on the percentage of the University's accumulated daily income receivable to the total income receivable of the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the

# The Medical University of South Carolina

University's percentage ownership in the pool.

Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term, highly liquid securities having an initial maturity of three months or less.

## ***Accounts and Loans Receivable***

The Medical Center, Charleston Memorial Hospital, 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 CMH are established based upon losses and adjustments experienced in prior years and evaluations of the current account portfolios. UMA calculates actual contractual adjustment write-offs and actual bad debt write-offs for the year as a percentage of gross charges processed during the year. These percentages are then applied to the accounts receivable balance to determine the ending allowance balances. Historically, this method has provided adequate allowances for both contractual adjustments and bad debts.

Pharmaceutical Education Development Foundation's contracts receivable at June 30, 1998, consist of accounts with pharmaceutical companies of various sizes in various geographical areas throughout the world. For the year ended June 30, 1998, PEDF received approximately 27% of its sales/contract income under contracts from two customers. The allowance for doubtful accounts of PEDF is based on management's evaluation of outstanding accounts receivable at the end of the year.

MUSC Foundation for Research Development writes off accounts receivable when deemed uncollectible. Management did not record an allowance for uncollectible accounts based on its review of the accounts.

## ***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, and postage. Charleston Memorial Hospital's and University Medical Associates' amounts consist primarily of prepaid lease payments. PEDF's and MFRD's amounts consist primarily of prepaid insurance premiums.

## ***Deferred Charges and Intangible Assets***

Deferred charges for bond issuance costs of University Medical Associates and Medical University Facilities Corporation are reported as assets and are amortized over the lives of the bond issues on a straight-line basis. Amortization of these charges in the current fiscal year was \$44,788 for UMA and \$16,928 for MUFC. Accumulated amortization as of June 30, 1998, was \$121,612 and \$47,963 for UMA and MUFC, respectively.

Intangible assets of UMA consist primarily of amounts paid for goodwill, medical records, noncompete agreements, and other costs associated with the purchases of medical practices by UMA subsidiaries. These intangibles are being amortized over periods ranging from 5 to 15 years using the straight-line method. Amortization expense was \$467,349 in fiscal year 1998.

## ***Intraentity Transactions and Balances***

Transfers between the University and its blended component units and among blended component units are reported as nonmandatory transfers. Similarly, receivables and payables between the University and its blended component units are reported as due from and due to other funds. Current amounts due to/from the same funds are reported net on the balance sheet only if there is a legal right to the offset. In addition, transfers and receivables/payables balances between the primary entity and its blended component units or among blended component units are classified separately as interfund transactions and balances.

Transactions that would be treated as revenue or expenditures if they involved organizations external to

# The Medical University of South Carolina

the University are accounted for as revenues and expenditures in the funds and for the component units involved. Reimbursement transactions for expenditures initially made by one fund or component unit that are applicable to another are recorded as expenditures in the reimbursing fund or component unit. Expenditures initially made by the University for related parties or other external parties and reimbursed by those parties are eliminated.

## ***Income Taxes***

The University is a political subdivision of the State of South Carolina and is consequently exempt from federal and state income taxes.

Charleston Memorial Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Service Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. CMH has been classified as other than a private foundation by the Internal Revenue Service.

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). The five for-profit subsidiaries all have losses in the current year. Therefore, no provision for federal or state income taxes has been made. In the event that the subsidiaries have taxable income from time to time, each company is responsible for its respective income tax.

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

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

MUSC Foundation for Research Development as a not-for-profit organization described in Internal Revenue Code Section 501(c)(3) has received exemption from federal income taxes on related income under Code Section 501(a). However, any income from certain activities not directly related to MFRD's tax-exempt purpose would be subject to taxation as unrelated business income. In addition, MFRD qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and to be classified as an organization that is not a private foundation under Section 509(a)(2).

## ***Indirect Cost Recoveries***

The University records restricted current funds revenue for governmental and private grants and contracts in amounts equal to direct costs incurred. The University reports as unrestricted revenue recoveries of indirect costs applicable to sponsored programs at negotiated fixed rates for each year. The recoveries are also recorded as additions and deductions of restricted current funds. Indirect cost recoveries must be remitted to the State General Fund except those received under research and student aid grants which may be retained by the University.

## ***Deferred Revenues***

In unrestricted current funds, deferred revenues consist primarily of student tuition and fees collected in advance for the summer and fall academic terms. Revenues are recognized in the period in which the sessions are predominantly conducted and services are provided or the semester for which the fee is applicable and earned.

Deferred revenues of MUSC Foundation for Research Development and Pharmaceutical Education and Development Foundation represent the amount of cash that was collected on contracts for services that had not been performed at year end.

## ***Fee Waivers***

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Student tuition and fees revenues include all such amounts assessed against students (net of refunds) for educational purposes even in those cases in which there is no intention of collection. These revenue amounts are offset by equal expenditures. The amounts of such remissions or waivers are recorded and classified as scholarships and fellowships expenditures or as staff benefits in the applicable current funds functional expenditure categories. State law provides that educational fee waivers may be offered to no more than two percent of the undergraduate student body.

## ***Educational Department Revenue***

Revenues from sales and services of educational departments 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 supplies and other services.

## ***Net Patient Service Revenue***

The Medical Center, Charleston Memorial Hospital, 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.

## ***Charity Care***

The Medical Center, Charleston Memorial Hospital, 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.

The amounts estimated for charity care using established rates and gross charges for charity care as a percentage of total gross charges for the year ended June 30, 1998, were as follows:

The Medical Center	\$ 27,382,756	6.0%
Charleston Memorial Hospital	\$ 6,545,036	32.0%
University Medical Associates	\$ 6,587,841	3.6%

## ***Other Academic Division and Medical Center Revenues***

Other Academic Division revenues consist primarily of rental revenue, Student Wellness Center revenues, Wickliffe House revenues, and reimbursements from various hospitals for housestaff services. Other Medical Center revenues consist primarily of cafeteria, pharmacy, and gift shop sales and payments from Medicaid under contracts for the development and administration of managed care projects.

## ***Compensated Absences***

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave. The University's policy enables full-time faculty members to accrue and carry forward at fiscal year end a maximum of 45 days annual vacation leave. Policies regarding sick leave for nonteaching personnel also apply to faculty members. Any employee who works on a holiday is allowed to take compensatory time within one year. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave and compensatory holiday leave earned for which the employees are entitled to paid time off or payment at termination. The University calculates

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the compensated absences liability based on recorded balances of unused leave for which the employer expects to compensate employees through paid time off or cash payments at termination. That liability is inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments and is recorded in unrestricted current funds. The net change in the liability is recorded in the current year in the applicable current funds functional expenditure categories.

Charleston Memorial Hospital accrues leave for each employee based on position and length of service. The maximum leave allowed to be accrued per employee is 360 hours which will be compensated for if unused upon termination. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year end current salary costs and the cost of the salary related benefit payments is recorded in operating expenses.

University Medical Associates employees earn annual leave at rates varying between 10 and 20 days per year to a maximum of 30 days, depending on employee classification and length of service. The maximum annual carryover is 45 days. Employees that were formerly employed by the Professional Staff Office with accumulated annual leave in excess of the maximum carryover were allowed to retain the prior leave accumulated. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year end current salary costs and the cost of the salary related benefit payments is recorded in operating expenses.

Regular employees of MUSC Foundation for Research Development are granted vacation benefits which accrue on a monthly basis. The employees are entitled to accrue vacation leave not to exceed 360 hours upon termination. Accumulated vacation leave is recorded as an expense and liability as benefits accrue to employees.

## ***Restricted and Unrestricted Revenue and Support***

Contributions and other support received by MUSC Foundation for Research Development and Pharmaceutical Education and Development Foundation are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

## ***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures/expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

## ***Comparative Amounts and Totals - Memorandum Only Columns***

Amounts in the "Totals - Memorandum Only" columns of the balance sheet and the statement of changes in fund balances present an aggregation of the financial statement line-items to facilitate financial analysis. Such amounts are not comparable to a consolidation and do not present financial information in conformity with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data. Comparative amounts and totals for the prior year are included to provide a summarized comparison with current year amounts. The prior year totals are not intended to present all of the information necessary for a fair presentation of financial position and operations in accordance with generally accepted accounting principles. Certain prior year amounts have been restated for the prior period adjustments and reclassifications as detailed in Note 23.

## **2. STATE APPROPRIATIONS**

The Medical University of South Carolina is granted an annual appropriation for operating purposes as

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authorized by the General Assembly of the State of South Carolina. State appropriations are recognized as revenue when received and available. Amounts that are not expended by fiscal year-end lapse and are required to be returned to the General Fund of the State unless the University receives authorization from the General Assembly to carry the funds over to the next year. The University's state appropriations include those for academic operations, the Medical Center, and the South Carolina Area Health Education Consortium (AHEC).

The 1998 original appropriation is the University's base budget amount presented in the General Funds column of Sections 18MA-MC of Part IA of the 1997-98 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, 1998.

	<u>AHEC</u>	<u>Academic Division</u>	<u>Medical Center</u>	<u>Total</u>
Original Appropriation	\$ 15,439,893	\$ 85,342,407	\$ 19,254,150	\$ 120,036,450
State Budget and Control Board Allocations:				
Employee Base Pay Increases and Related Employee Benefits (Proviso 17C.13.)	30,384	1,343,933	174,475	1,548,792
State Owned Rent Increase		564		564
Appropriation Allocations from the State Commission on Higher Education:				
From Capital Reserve Fund Appropriations for Additional Formula Funding (June 1997 Joint Resolution R233,H3401)	1,555,019	4,573,745	1,152,194	7,280,958
From Capital Reserve Fund Appropriations for Greenville Physical Therapy Program		300,000		300,000
From the Children's Education Endowment Fund for Need-Based Grants		121,736		121,736
For Access and Equity Desegregation Funding (Proviso 18A.7.)		34,292		34,292
For Performance Funding		602,494		602,494
Appropriation Transfer from Clemson University for Agromedicine Program		<u>279,721</u>		<u>279,721</u>
Revised Appropriations - Legal Basis	17,025,296	92,598,892	20,580,819	130,205,007
Less: Higher Education Grant/Scholarship Funding Reported in Restricted Current Funds		<u>121,736</u>		<u>121,736</u>
Funding Reported in Unrestricted Current Funds	<u>\$ 17,025,296</u>	<u>\$ 92,477,156</u>	<u>\$ 20,580,819</u>	<u>\$ 130,083,271</u>

Proviso 72.44 of the 1997-98 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, South Carolina Area Health Education Consortium brought forward \$59,964 to fiscal year 1998.

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## 3. DEPOSITS AND INVESTMENTS

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

The following schedule reconciles deposits and investments within the notes to the balance sheet amounts:

<u>Balance Sheet</u>		<u>Notes</u>	
Cash and cash equivalents:		The Medical University of South Carolina:	
The Medical University of South Carolina	\$ 126,469,606	Cash on hand	\$ 116,945
Charleston Memorial Hospital	23,596,785	Deposits held by State Treasurer	126,352,661
University Medical Associates	16,880,208	Charleston Memorial Hospital:	
Medical University Facilities Corporation	3,258,805	Cash on hand	975
Pharmaceutical Education and Development Foundation	583,421	Other deposits	23,595,810
MUSC Foundation for Research Development	4,599,289	University Medical Associates:	
Total cash and cash equivalents	<u>175,388,114</u>	Cash on Hand	15,683
Investments:		Other Deposits	320,799
University Medical Associates	16,217,251	Investments	32,760,977
Medical University Facilities Corporation	529,168	Medical University Facilities Corporation:	
MUSC Foundation for Research Development	9,193,649	Other deposits	3,258,805
Total investments	<u>25,940,068</u>	Investments	529,168
		Pharmaceutical Education and Development Foundation:	
		Other deposits	583,421
		MUSC Foundation for Research Development:	
		Other deposits	6,498,289
		Investments	
	<u>7,294,649</u>		
Total	<u>\$ 201,328,182</u>	Total	<u>\$ 201,328,182</u>

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

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

In the University's accounting records \$2,542,532 of the \$126,352,661 identified as "Deposits held by State Treasurer", is attributable to unrealized gains. As disclosed in Note 6, retirement of indebtedness funds include \$7,808,818 in restricted cash held by the State Treasurer for debt service reserve funds as required by the bond indentures.

### ***Other Deposits***

The governmental component units' other deposits are categorized to give an indication of the level of risk assumed by the entity at year end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover deposits if the depository financial institution fails or to recover the value of collateral securities that are in the possession of an outside party if the counterparty to the deposit transaction fails. There are three categories of deposit credit risk as follows:

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

At June 30, 1998, deposits of the governmental component units were as follows:

	<u>Category</u>			<u>Bank Balance</u>	<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Charleston Memorial Hospital	\$ 23,889,022	\$ X	\$ X	\$ 23,889,022	\$ 23,595,810
University Medical Associates	601,099	X	566,931	1,168,030	320,799
Medical University Facilities Corporation	X	X	3,258,805	3,258,805	3,258,805

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At June 30, 1998, Medical University Facilities Corporation's balance included \$1,824,363 for restricted debt service reserve fund (see Note 6).

Pharmaceutical Education and Development Foundation maintains its cash accounts at several financial institutions. All cash accounts are insured in aggregate by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At June 30, 1998, PEDF's cash balances exceeded the insured limits by approximately \$462,000.

MUSC Foundation for Research Development maintains cash and cash equivalent accounts at several financial institutions. Accounts maintained at banking institutions are insured by the Federal Deposit Insurance Corporation up to \$100,000 per institution. Cash and cash equivalents exceeding federally insured limits totaled approximately \$1,710,000 at June 30, 1998. Cash accounts maintained at investment firms are insured by the Securities Investor Protection Corporation up to \$100,000 per institution. At June 30, 1998, MFRD's cash balance at investment firms was \$556,406, which exceeded SIPC coverage by approximately \$450,000.

## Investments

Investments are stated at fair value. Purchases and sales are accounted for on the transaction date. Bond discounts and premiums are amortized.

The governmental component units' investments are categorized to give an indication of the level of risk assumed by the entity at year end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party if the counterparty to the investment transaction fails. There are three categories of investment risk:

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

At June 30, 1998, University Medical Associates' investment balances were as follows:

	Category			
	— 1	— 2	3	
	Fair Value			
Repurchase agreements	\$	\$	\$ 9,912,778	\$ 9,912,778
Federal Home Loan Bonds	—	—	—	<u>3,298,793</u>
				<u>3,298,793</u>
Total categorized investments	<u>\$</u>	<u>\$</u>	<u>\$ 13,211,571</u>	13,211,571
Investments not subject to categorization:				
Mutual funds				<u>19,549,406</u>
Total investments				<u>\$ 32,760,977</u>

The highest balance of repurchase agreements during the year in category 3 was approximately \$24,640,000. UMA makes overnight investments in repurchase agreements and the balance invested depends on daily cash collections. Additionally, UMA owned Government securities, US Treasury bills, and Federal Home Loan Bank bonds that were sold during the year. As of June 30, 1998, the UMA investments included the \$10,129,741 restricted debt service reserve fund (see Note 6).

For Medical University Facilities Corporation legally authorized investments include government and government agency obligations; deposits that are fully insured by FDIC; short-term bank obligations which are rated A-1+ by Standard and Poor's Corporation (S&P); repurchase agreements meeting certain requirements; various debt obligations, money market funds, and other securities meeting certain S&P rating levels; and investment contracts satisfactory to S&P. Medical University Facilities Corporation investments consist of investment agreements under which they are to be paid interest with guaranteed rates from 5.78% to 6.2% and open ended maturity dates. These investments are not subject to credit risk categorization and their fair value is not readily determinable. As of June 30, 1998, the MUFC investments included the \$213,000 restricted debt service reserve fund (see Note 6).

# The Medical University of South Carolina

Investments of MFRD at of June 30, 1998, consisted of government debt securities with amortized cost of \$7,300,374; fair value of \$7,294,649; and unrealized depreciation of \$5,725.

## ***Investments in Partnerships and Joint Ventures***

UMA accounts for investments in partnerships and joint ventures either by the cost or equity method. If UMA is a 20% or more owner and exercises significant influence over the company, then UMA records the investment under the equity method, whereby UMA's percentage of the net profit/loss increases or decreases the investment and the gain/loss is recorded in the income statement. If UMA owns less than 20%, the investment is recorded at cost.

UMA is a 10% partner in Hilton Head Health Systems, L.P. UMA's investment is \$3,093,874, which is stated at cost since it holds a minority interest.

On May 8, 1998, Carolina Specialty Care Physicians, P.A., a blended component unit of UMA, entered into a joint venture with several physicians and medical practices by purchasing a 35% interest in Lowcountry Medical Group, LLC. This investment is recorded on the equity method. For the period from May 8, 1998 (date of inception) to June 30, 1998, the activity was deemed immaterial and accordingly no income has been recorded for the current year. CSCP's investment in the joint venture at June 30, 1998, is \$3,675,000. There are no separately reported financial statements issued for Lowcountry Medical Group, LLC.

## **4. INVENTORIES**

The University and Charleston Memorial Hospital value supply inventories at the lower of cost, using the first-in first-out method, or market except for the University's general store inventory which is valued using the average cost method.

The following is a summary by location of values at June 30, 1998.

<u>Location</u>	<u>Medical University of South Carolina</u>	<u>Charleston Memorial Hospital</u>
General stores	\$ 496,569	\$ 53,540
Operating room	6,279,647	X
Central supply	350,793	30,161
Pharmacy	3,028,413	79,519
Dental	67,150	X
Computer store	40,890	X
Other	X	190,537
	<u>\$ 10,263,462</u>	<u>\$ 353,757</u>

Inventory of Pharmaceutical Education and Development Foundation, which consists of pharmaceutical ingredients and supplies, is valued at cost using the first-in, first-out method.

## **5. STATE CAPITAL IMPROVEMENT BONDS**

In fiscal year 1997, the State authorized funds for improvements and expansion of University facilities using the proceeds of state capital improvement bonds. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the projects. When the funds are authorized, the University records the proceeds as revenue and the bond issue costs as expenditures in the unexpended plant funds subgroup. The University is not obligated to repay these funds to the State. These authorized funds can be requested as needed once State authorities have given approval to begin specific projects. The total balance receivable for the undrawn portions of the authorizations is reported in the balance sheet as "capital improvement bonds proceeds receivable" in the unexpended plant funds subgroup. The \$8,752,086 in bond proceeds allocated by Act 111 in 1997 was to fund deferred maintenance on various university facilities.

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A summary of the activity in the balances available from this authorization during the year ended June 30, 1998 follows:

<u>Act</u>	<u>Total Authorized</u>	<u>Amount Drawn in Prior Years</u>	<u>Amount Drawn in Fiscal Year Ended June 30, 1998</u>	<u>Balance Authorized June 30, 1998</u>
111 of 1997	<u>\$ 8,752,086</u>	—	<u>\$ 104,852</u>	<u>\$ 8,647,234</u>

## 6. BONDS, CERTIFICATES OF PARTICIPATION, AND NOTES PAYABLE

### *Bonds Payable*

At June 30, 1998, the University's bonds payable consisted of the following:

	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Balance June 30, 1998</u>
State Institution Bonds			
1991 C series dated 5/17/91	6%	03/01/06	\$ 2,700,000
1992 A series dated 5/1/92	5.5 - 6%	03/01/07	4,555,000
1997 A series dated 7/1/96	4.7 - 7%	03/01/11	3,035,000
Parking Facilities Revenue Bonds			
1986 series dated 12/3/86	6.8 - 7.375%	07/01/06	4,445,000
Hospital Facilities Revenue Bonds			
1989 series dated 3/1/89	7.29%	06/01/99	1,100,000
1990 series dated 7/17/90:			
Series A	6.9 - 7.2%	07/01/05	38,940,000
Series B	6.9 - 7.2%	07/01/05	6,520,000
1991 series dated 7/15/91	6.3 - 6.4%	07/01/99	4,000,000
1993 series dated 6/1/93	5.3 - 5.6%	07/01/13	<u>21,515,000</u>
Total			86,810,000
Less: Amount Included in Unexpended Plant Fund			<u>4,737,646</u>
Amount Included in Investment in Plant			<u>\$ 82,072,354</u>

The various bond indentures restrict the use of particular revenue sources. State institution bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Student tuition paid to the University is restricted up to the amount of the annual debt requirements for the payment of State Institution Bonds. Parking fees, except on the Harborview Tower parking facility, paid to the University are restricted for the payment of principal and interest on parking facilities revenue bonds. The parking facilities revenue bonds series 1986 require the University to provide net revenues available for debt service of not less than 120% of the debt service payments to become due in each bond year beginning with the bond year beginning July 1, 1987. In fiscal year 1998, parking fees of \$712,635 were transferred to the retirement of indebtedness funds. All revenue or other monies attributable to Medical Center facilities, except those from state appropriations and those monies which are restricted by donors or other sources for purposes inconsistent with their use for debt service, are pledged for the payment of principal and interest on the hospital facilities revenue bonds. In fiscal year 1998, the University transferred \$12,772,445 from the Medical Center accounts to the retirement of indebtedness funds as required by the bond resolution to meet principal and interest payments. In addition, the University must establish and maintain various funds with the State Treasurer for payment of principal and interest for its parking and hospital facilities revenue bonds. Payment of the principal and interest on the 1993 series hospital facilities revenue bonds is insured under a municipal bond insurance policy.

With the exception of the 1991 and 1993 series, the hospital facilities revenue bonds may be redeemed at a premium or at par prior to the mandatory redemption dates and final maturities at the option of the University. The bond redemption dates range between July 1, 1998, and July 1, 2005, and the redemption price (expressed as a percentage of par) ranges from 102 to 100. The 1991 and 1993 series are not subject to optional redemption.

At the option of the University, the parking facilities revenue bonds may be redeemed prior to maturity in whole at any time or if in part in inverse order of maturity and only on a bond payment date. The redemption dates range from July 1, 1998, to July 1, 2006, and the redemption price (expressed as a percentage of par) ranges from 102 to 100.

The State institution bonds issued for the University are subject to redemption at the option of the State, in

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whole or if in part in inverse chronological order of maturity. The redemption dates range from May 1, 2000, to March 1, 2011, and the redemption price (expressed as a percentage of par) ranges from 102 to 100.

All of the bonds are payable in semiannual installments plus interest. Amounts including interest required to complete payment of the revenue bond obligations as of June 30, 1998, are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999	\$ 8,705,000	\$ 4,779,967	\$ 13,484,967
2000	8,190,000	4,180,815	12,370,815
2001	6,500,000	3,692,125	10,192,125
2002	6,940,000	3,239,065	10,179,065
2003	7,410,000	2,754,170	10,164,170
Thereafter	<u>38,775,000</u>	<u>8,086,758</u>	<u>46,861,758</u>
Total	<u>\$ 76,520,000</u>	<u>\$ 26,732,900</u>	<u>\$ 103,252,900</u>

Amounts as of June 30, 1998, including interest required to complete payment of the State general obligation bonds issued for the University are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999	\$ 820,000	\$ 594,010	\$ 1,414,010
2000	870,000	545,185	1,415,185
2001	935,000	492,670	1,427,670
2002	990,000	439,875	1,429,875
2003	1,055,000	383,285	1,438,285
Thereafter	<u>5,620,000</u>	<u>1,043,600</u>	<u>6,663,600</u>
Total	<u>\$ 10,290,000</u>	<u>\$ 3,498,625</u>	<u>\$ 13,788,625</u>

Total principal payments on bonds for the year ended June 30, 1998 were \$8,695,000. Total interest expense relating to bonds payable for the year ended June 30, 1998 was \$5,707,486, of which \$88,857 was capitalized as part of the cost of construction in progress.

Receipts from tuition, matriculation fees, and other fees legally designated solely for the purpose of debt retirement for State general obligation bonds issued for the University are recorded directly in the funds for retirement of indebtedness as student tuition and fees revenues. Mandatory transfers from auxiliary enterprises revenue for debt retirement on parking facilities revenue bonds are reflected as transfers from the unrestricted current funds to the funds for retirement of indebtedness subgroup of the plant funds group.

## ***Lease Revenue Bonds Payable***

On September 20, 1995, Medical University Facilities Corporation issued lease revenue bonds series 1995A in the amount of \$12,729,000 and series 1995B in the amount of \$472,000. Related bond issue costs totaling \$356,900 were capitalized as deferred charges to be amortized over the lives of the bonds. The bonds were issued for the purpose of providing a portion of the payment for the costs of completing the acquisition and construction of the Strom Thurmond Biomedical Research Center. Interest rates range from 7.45% to 7.5%. The final maturity is in 2016, and the bonds are secured by the rental payments received under the capital lease as detailed in Note 9. 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 \$308,000 in principal and incurred \$961,468 in interest expense on these bonds for the year ended June 30, 1998. The bonds may be redeemed, at the option of the Medical University Facilities Corporation, as directed by the University, in whole at any time or in part on any bond payment date at a redemption price equal to the principal to be redeemed plus accrued interest.

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The future debt service requirements for the lease revenue bonds are as follows:

Year Ending <u>June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999	\$ 332,000	\$ 943,806	\$ 1,275,806
2000	356,000	918,619	1,274,619
2001	384,000	891,570	1,275,570
2002	412,000	862,470	1,274,470
2003	444,000	831,173	1,275,173
Thereafter	<u>10,819,000</u>	<u>6,609,782</u>	<u>17,428,782</u>
Total	<u>\$ 12,747,000</u>	<u>\$ 11,057,420</u>	<u>\$ 23,804,420</u>

## **Certificates of Participation Payable**

Medical University Facilities Corporation issued certificates of participation dated December 1, 1991, which require a principal payment on January 1 of each year and interest payments each January 1 and July 1. Interest rates range from 5.6% to 7.5 %. The final maturity is in 2013, and the certificates are secured by the rental payments received under the capital lease (Note 9) which correspond in amount and timing to the debt service payments detailed below. The covenants require that MUFC establish and maintain funds with a trustee for the payment of principal and interest on the certificates of participation. Medical University Facilities Corporation paid \$550,000 in principal and incurred \$1,255,268 in interest expense for the year ended June 30, 1998, on the certificate of participation payable. In the event that the University exercises its option to purchase the Medical University Facilities Corporation's interest in Harborview Office Tower, the certificates may be redeemed beginning January 1, 2002, at a premium prior to the mandatory redemption dates and final maturities at the option of the University. The redemption dates range between January 1, 2002, and January 1, 2005, and the redemption price (expressed as a percentage of the principal) ranges from 103 to 100.

The future debt service requirements for the certificates of participation are as follows:

Year Ending <u>June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999	\$ 585,000	\$ 1,236,569	\$ 1,821,569
2000	625,000	1,195,619	1,820,619
2001	670,000	1,151,244	1,821,244
2002	720,000	1,101,831	1,821,831
2003	775,000	1,048,731	1,823,731
Thereafter	<u>13,525,000</u>	<u>6,519,450</u>	<u>20,044,450</u>
Total	<u>\$ 16,900,000</u>	<u>\$ 12,253,444</u>	<u>\$ 29,153,444</u>

## **Direct Note Obligations**

In fiscal year 1995, UMA issued \$55,000,000 in Direct Note Obligations, Series 1994 Select Auction Variable Rate Securities. On December 1, 1997, UMA issued an additional \$40,000,000 in Direct Note Obligations, Series 1997 Select Auction Variable Rate Securities. The direct note obligations were issued for the purpose of providing payment for the costs of prepayment of its noncancelable lease obligation with HSF and renovating and equipping Rutledge Tower. The variable rate of interest is set every 35 days. The obligations can be converted to fixed rate obligations at the option of UMA, with the consent of the bond insurer, at a rate to be determined by market conditions at the time of conversion.

UMA has entered into an interest rate swap agreement for the \$55,000,000 and the \$40,000,000 variable rate direct note obligations. Based on the swap agreement, UMA owes interest calculated at a fixed rate of 8.79% on the \$55,000,000 issue and 7.09% on the \$40,000,000 issue. If the actual floating variable interest rate is less than these rates UMA pays the counterparty. During the term of the swap agreement UMA effectively pays a fixed rate on the debt. UMA will be exposed to variable rates if the counterparty to this swap defaults or if the swap is terminated. For the year ended June 30, 1998, total interest costs incurred were \$6,385,538. Of this amount, \$1,346,181 was capitalized as construction in progress for renovating Rutledge Tower and \$1,202,295 was included under the old Ambulatory Care agreement.

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

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balance after debt service reserve funds are exhausted.

Direct Note Obligations, Series 1994 and 1997 Select Auction Variable Rate Securities outstanding at June 30, 1998, were \$95,000,000. Interest is paid quarterly with the first principal payment of \$1,250,000 due May 15, 2000.

Debt service requirements to maturity are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Agent Fees</u>	<u>Total</u>
1999	— \$	\$ 8,098,571	\$ 135,826	\$ 8,234,397
2000	1,250,000	7,344,691	122,861	8,717,552
2001	1,100,000	7,977,334	144,343	9,221,677
2002	1,150,000	7,163,994	119,770	8,433,764
2003	1,450,000	7,084,497	118,069	8,652,566
Through 2027	<u>90,050,000</u>	<u>105,717,252</u>	<u>1,860,467</u>	<u>197,627,719</u>
Total	<u>\$ 95,000,000</u>	<u>\$ 143,386,339</u>	<u>\$ 2,501,336</u>	<u>\$ 240,887,675</u>

The obligation is collateralized by unrestricted receivables and leasehold property leased from Health Sciences Foundation (see Notes 9 and 11). Under the terms of the obligation agreement, interest, sinking, and debt service reserve funds were established with the master trustee and will be maintained as long as the obligations remain outstanding. The agreement, among others, limits incurrence of additional borrowing, disposition of certain properties, and requires that UMA satisfy certain measures of financial performance as long as the notes are outstanding.

## **Notes Payable**

University Medical Associates has two lines of credit with two financial institutions with a maximum borrowing limit of \$12,000,000 at one financial institution (60%) and \$8,000,000 at the other (40%), for a total of \$20,000,000 bearing interest at the 30 day LIBOR rate plus 175 basis points. Loan proceeds, repayments, interest payments and fees must be allocated between the financial institutions according to the ratios indicated. The agreement expires on December 31, 1998, and the obligations are collateralized by the unrestricted receivables of UMA. There was a total of \$14,549,961 outstanding as of June 30, 1998. Total interest expense on notes payable was approximately \$1,030,000 for the year.

Pharmaceutical Education and Development Foundation has a \$500,000 line of credit with a local financial institution dated September, 1997, guaranteed unconditionally by Health Sciences Foundation. At June 30, 1998, \$140,000 had been drawn on the line of credit. The interest rate is variable based in the bank's prime rate and is payable quarterly. Financing is structured such that the amount available under the line will be reduced to \$400,000 on June 30, 1998; to \$300,000 on June 30, 1999; with a maturity date of June 30, 2000, for all principal and accrued interest. PEDF also has an unsecured note payable dated December 14, 1997, due in 9 monthly payments. The interest rate is 10.95 percent and the balance at June 30, 1998, was \$20,822.

PEDF has an interest free loan of up to \$1,000,000 payable to the Health Sciences Foundation. At June 30, 1998, only \$499,998 of the loan amount had actually been drawn. The loan is to be used to finance capital improvements and provide working capital. The intention of the borrower and lender is to convert the loan to a 20% equity interest in a for-profit entity anticipated to be spun off of PEDF within one year.

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## Reserve Funds

The debt service reserve requirements and balances for the University, Medical University Facilities Corporation, and University Medical Associates at June 30, 1998, consisted of the following:

	Reserve Requirement at <u>June 30, 1998</u>	Reserve Balance at <u>June 30, 1998</u>
The Medical University of South Carolina:		
Parking Facilities Revenue Bonds	\$ 711,318	\$ 717,805
Hospital Facilities Revenue Bonds	7,097,500	7,148,992
University Medical Associates:		
Direct Note Obligations	10,129,741	10,129,741
Medical University Facilities Corporation:		
Certificates of Participation	1,824,363	1,949,260
Lease Revenue Bonds	213,000	213,000

## 7. MEDICARE AND CHAMPUS COST REIMBURSEMENTS

Services provided patients under the Medicare and Champus programs are reimbursed at tentative rates with final settlements determined after submission of annual cost reports and audits by fiscal intermediaries.

At June 30, 1998, the Medical Center's amounts due (to) from Medicare and Champus (subject to final settlement) are as follows:

Period Ended <u>June 30,</u>	<u>Medicare</u>	<u>Champus</u>	<u>Total</u>
1998	\$ 986,735	\$ 169,589	\$ 1,156,324
1997	1,333,350	X	1,333,350
1996	(14,866)	X	(14,866)
1995	1,241,215	X	1,241,215
1994	670,198	X	670,198
1993	<u>(643,378)</u>	<u>X</u>	<u>(643,378)</u>
Net due (to) from June 30, 1998	<u>\$ 3,573,254</u>	<u>\$ 169,589</u>	<u>\$ 3,742,843</u>

At June 30, 1998, Charleston Memorial Hospital's amounts due (to) from the programs (subject to final approval) are as follows:

Period Ended <u>June 30,</u>	<u>Medicare</u>	<u>Champus</u>	<u>Total</u>
1998	\$ (447,993)	\$ X	\$ (447,993)
1997	75,055	5,163	80,218
1996	<u>131,059</u>	<u>X</u>	<u>131,059</u>
Net due (to) from June 30, 1998	<u>\$ (241,879)</u>	<u>\$ 5,163</u>	<u>\$ (236,716)</u>

Adjustments to cost reimbursements are recorded in the period in which they are determined by final settlement. Medicare and Champus cost reimbursements and adjustments are reflected in net patient service revenue. These two programs provide for settlements between estimated and actual pass through costs attributable to beneficiaries of these programs. The intermediary has a right to offset balances within each program. Also, see Note 23.

## 8. CONSTRUCTION COSTS AND COMMITMENTS

The University has obtained the necessary funding for the acquisition, construction, renovation, and equipping of certain facilities which will be capitalized in the applicable plant asset categories upon completion. Management estimates that the University has sufficient resources available and/or future resources identified to satisfactorily complete the construction of such projects which are expected to be completed in varying phases over the next several years at an estimated total cost of \$350,000,000. Of the total cost, approximately \$96,000,000 was unexpended at June 30, 1998. Of the total expended through June 30, 1998, the University has capitalized substantially complete and in use projects costing approximately \$217,000,000 in the applicable plant asset categories. Of the unexpended balance at June 30, 1998, the University had remaining commitment balances of approximately \$12,500,000 with certain property owners, engineering firms, construction contractors, and vendors related to these projects. At

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June 30, 1998, the University had in progress other capital projects which are not to be capitalized when completed. These projects are for replacements, repairs, and/or renovations to existing facilities. Costs incurred to date on these projects amount to approximately \$13,100,000 at June 30, 1998, and the estimated cost to complete was approximately \$4,400,000. At June 30, 1998, the University had remaining commitment balances of approximately \$269,000 with certain parties related to these projects. The University anticipates funding these projects out of current resources, current and future bond issues, private gifts, and hospital revenues.

University Medical Associates has incurred expenditures for renovating the Rutledge Tower of \$36,574,340 of which \$34,846,785 is in construction in progress. The remaining \$1,727,555 is included in leasehold improvements, since it was for construction costs for two floors of the building that were placed in service in December, 1997 under a rental agreement with the University. The total project costs will amount to approximately \$38,000,000 upon completion in July, 1998. As of June 30, 1998, commitments outstanding totaled approximately \$1,814,000 on this project.

Construction in progress for Pharmaceutical Education and Development Foundation consists of architectural fees for the design of a new facility. There are no outstanding commitments on this project.

## 9. LEASE OBLIGATIONS

The University is obligated under various operating leases for the use of land, buildings and equipment and under capital leases for equipment. The University is obligated to Medical University Facilities Corporation, a component unit, under real property capital leases for the acquisition of the Harborview Office Tower and parking garage and for the acquisition of the Strom Thurmond Biomedical Research Center. 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, 1998, were as follows:

Leases	Year Ending	Capital Leases			Operating	
		Real Property	Equipment	Total	Real Property	Equipment
	June 30					
	1999	\$ 3,099,239	\$ 732,490	\$ 3,831,729	\$ 2,273,034	\$ 22,752
	2000	3,098,289	541,750	3,640,039	2,273,585	7,584
	2001	3,098,914	172,022	3,270,936	2,166,007	XX
	2002	3,099,601	114,203	3,213,804	1,609,630	XX
	2003	3,101,401	48,359	3,149,760	656,489	XX
	Through 2016	<u>36,976,734</u>	<u>—</u>	<u>36,976,734</u>	<u>—</u>	<u>—</u>
	Total minimum					
	lease payments	52,474,178	1,608,824	54,083,002	<u>\$ 8,978,745</u>	<u>\$ 30,336</u>
	Less interest	<u>24,695,050</u>	<u>129,353</u>	<u>24,824,403</u>		
	Present value of minimum					
	lease payments	<u>\$ 27,779,128</u>	<u>\$ 1,479,471</u>	<u>\$ 29,258,599</u>		

### Capital Leases

During the current fiscal year, the University entered into capital leases for copiers in the total amount of \$573,865. Capital leases are generally payable in monthly installments from unrestricted current funds resources and have terms expiring in various years between 1999 and 2016. Equipment capital lease expenditures for fiscal year 1998 were \$3,973,737 of principal and \$337,074 of interest. The University cancelled leases with a remaining balance of \$22,062. The \$22,062 is included in other additions in the Investment in Plant Fund. Interest rates on equipment capital leases range from 1.5% to 8%. The real property lease expenditure includes \$792,978 of principal and \$2,233,388 of interest paid to Medical University Facilities Corporation.

The following is a summary of the carrying values of assets held under capital lease at June 30, 1998:

Copiers	\$ 573,865
Medical Equipment	1,667,770
Other Equipment	481,355
Land	2,335,580
Buildings	<u>45,041,133</u>
Total	<u>\$ 50,099,703</u>

Certain 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.

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Monthly payments are made to a financial institution as trustee under the capital lease with MUFC for the Strom Thurmond Biomedical Research Center and are based on the amount necessary to fund the payments due under the lease revenue bonds, see Note 6. These payment requirements are reduced by interest earned on the cash held by the trustee. The maximum interest rate on the lease, assuming no interest earnings, is 9.79 percent and the final maturity is in 2016. A portion of the building 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 the capital lease with MUFC for the Harborview Office Tower and are based on the amount necessary to fund the payments due under the certificates of participation payable, see Note 6. These payment requirements are reduced by interest earned on the cash held by the trustee. The maximum interest rate on the lease, assuming no interest earnings, is 9.749 percent and the final maturity is in 2013. In fiscal year 1998, interest totaling \$26,735 was returned to the University.

University Medical Associates has entered into a capital lease agreement as lessee for computer equipment and software. The interest rates on the capital leases range from 4.4 percent to 7.7 percent. This lease agreement has been recorded at the present value of future minimum lease payments as of the inception date in the accompanying financial statements. Interest costs on the capital leases was approximately \$51,000 for the year.

Following is an analysis of the leased property under the capital lease at June 30, 1998:

	Computers and <u>Software</u>	Construction <u>in progress</u>
Capitalized cost	\$ 382,907	\$ 1,882,587
Less accumulated depreciation	<u>103,142</u>	<u>—</u>
Total	<u>\$ 279,765</u>	<u>\$ 1,882,587</u>

Included in depreciation and amortization expense for the year ended June 30, 1998, was \$73,765 for these capital leases.

The future UMA minimum lease obligations and the net present value of these minimum lease payments as of June 30, 1998, were as follows:

<u>Year Ending June 30,</u>	
1999	\$ 583,809
2000	583,809
2001	534,950
2002	322,570
2003	<u>229,732</u>
Total minimum lease payments	2,254,870
Less interest	<u>194,554</u>
Present value of minimum lease payment	<u>\$ 2,060,316</u>

On January 9, 1995, UMA used a portion of the proceeds of the direct note obligations to prepay Health Sciences Foundation \$37,000,000 on a non-cancelable lease for St. Francis which expires the later of June 30, 2024, or the date on which all principal and premiums, if any, and interest on the \$55,000,000 Direct Note Obligations, Series 1994 (see Notes 6 and 11) are paid. As a result of the prepayment, \$13,989,600 was recorded as rental buildings under capital lease, \$2,958,000 was recorded as rental equipment under capital lease and \$20,052,400 was recorded as prepaid rent for the land in UMA's financial records. The prepayment is being amortized using the straight-line method over 29.5 years as rent expense. For the year ended June 30, 1998, amortization was \$679,742. The balance included in prepaid expense was approximately \$17,673,000 at June 30, 1998.

Following is an analysis of the leased property under the capital lease at June 30, 1998:

	<u>Building</u>	<u>Equipment</u>
Capitalized costs	\$ 13,989,600	\$ 2,958,000
Less accumulated depreciation	<u>1,659,783</u>	<u>1,035,300</u>
Total	<u>\$ 12,329,817</u>	<u>\$ 1,922,700</u>

The building and equipment are being depreciated on a straight-line method over 29.5 and 10 years, respectively. \$770,024 is included in depreciation expense for the year ended June 30, 1998.

Pharmaceutical Education and Development Foundation leases several pieces of equipment under

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capital leases with various lessors. The following is an analysis of the leased assets at June 30, 1998:

Capitalized costs	\$ 283,199
Less accumulated depreciation	<u>86,054</u>
	<u>\$ 197,145</u>

In addition, on February 2, 1998, PEDF entered into a lease agreement to lease an office building and laboratory facility. The facility will be constructed in accordance with the requirements of PEDF and the term of the lease will commence on January 1, 1999. The lease term is for a period of 25 years. Lease payments are based on an estimated project cost of \$6,333,520 and are anticipated to be \$56,667 per month for a ten year period and increased by 2.5% each year thereafter. At June 30, 1998, there was no asset or liability recorded in connection with disbursements made by the lessor of this lease.

Rent payments under this lease, with a cost of the building not to exceed \$6,500,000, are guaranteed by the Health Sciences Foundation in an amount not to exceed \$4,000,000 against an anticipated annual lease amount of approximately \$700,000 per year, not to exceed 10 years from the commencement of the lease.

Depreciation on capitalized leased assets was \$47,612 for the year ended June 30, 1998.

The minimum lease payments due over the next five years are as follows:

<u>Year Ending June 30.</u>	<u>Equipment</u>	<u>New Facility (Estimated)</u>	<u>Total</u>
1999	\$ 83,987	\$ 340,000	\$ 423,987
2000	76,990	680,000	756,990
2001	68,525	680,000	748,525
2002	34,051	680,000	714,051
2003	6,270	680,000	686,270
Thereafter	—	<u>15,933,708</u>	<u>15,933,708</u>
Total minimum lease payments	269,823	18,993,708	19,263,531
Less interest	<u>61,580</u>	<u>12,660,188</u>	<u>12,721,768</u>
Present value of minimum lease payments	<u>\$ 208,243</u>	<u>\$ 6,333,520</u>	<u>\$ 6,541,763</u>

## **Operating Leases**

The University's noncancellable operating leases having remaining terms of more than one year expire in various fiscal years from 2000 through 2003. The University also has certain short-term operating leases for real property and equipment. Certain 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. The University is responsible for maintenance on most leased property. Total operating lease expenditures in fiscal year 1998 were approximately \$1,630,000 for real property and approximately \$1,412,000 for equipment. The University reports these costs in the applicable current funds functional expenditure categories. As discussed in Note 11, the University had certain operating leases with related parties in the current fiscal year.

Charleston Memorial Hospital is deemed to lease existing real property facilities from Charleston County and will lease related future renovations and additions. These lease payments are equivalent to the County's debt service to fund the renovations and additions to the facility. These payments during fiscal year 1998 were approximately \$1,655,000 and payments approximating \$1,655,000 will be required for each of the fiscal years 1999 through 2006. Based on the terms of the agreement and economic use of the facilities, lease expense determined on the straight line basis was recorded in the amount of approximately \$1,716,000 for fiscal year 1998. Included in prepaid items at June 30, 1998, is \$428,166 which represents the difference between these expense and payment amounts.

Charleston Memorial Hospital has the option to purchase the premises at the completion of the lease term for \$1 or on any February 1, beginning February 1, 2000 for a price equal to the then outstanding principal, premium, if any, and interest due on the County's certificates of participation. Any monies available in the County's debt service payment fund would be used to offset this purchase price. As of June 30, 1998, \$829,723 was in this fund and \$9,015,000 was owed by the County on the certificates of participation.

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University Medical Associates leases certain land, buildings and equipment under leases expiring at various dates from 1999 through 2024 including those facilities referred to in Note 11. The minimum lease payments under UMA noncancelable leases having remaining terms in excess of one year are as follows:

<u>Year Ending June 30,</u>	
1999	\$ 2,820,161
2000	3,055,960
2001	2,576,583
2002	2,257,551
2003	1,915,540
Thereafter	<u>3,002,874</u>
Total	<u>\$ 15,628,669</u>

Pharmaceutical Education and Development Foundation leases its administrative office space under a three year noncancellable operating lease, effective August, 1995. Annual rent is \$24,123 for the year beginning August, 1997. Rental expense for the year ended June 30, 1998 was \$24,063.

In April, 1998, PEDF also entered into a lease commitment agreement to lease equipment with an estimated cost of up to \$1,500,000 over a 60 month term at an interest rate to be fixed at the date of delivery and final acceptance of the equipment. The interest rate will be indexed to like term U.S. Treasuries. Based on the Treasury interest rate in effect at the date of the commitment agreement, monthly lease payments are anticipated to a approximately \$26,557. The equipment will consist of production and laboratory equipment to be acquired through April, 1999, for use in the PEDF's new production facility. The lease is anticipated to be classified as an operating lease.

PEDF was required to pay a \$15,000 origination fee at the signing of the commitment agreement. This amount has been recorded on the statement of financial position as a prepaid expense. The fee will be amortized over a 5 year period which bill begin when the equipment has been received and accepted by PEDF.

The anticipated minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Equipment</u>
1999	\$ 159,340
2000	318,680
2001	318,680
2002	318,680
2003	318,680
Thereafter	<u>159,340</u>
Total	<u>\$ 1,593,400</u>

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## 10. PLANT FUNDS

The University combines the three plant funds subgroups for reporting purposes. The plant funds balance sheet and statement of changes in fund balances by subgroup are as follows.

### BALANCE SHEET

	<u>UNEXPENDED</u>	<u>RETIREMENT OF INDEBTEDNESS</u>	<u>INVESTMENT IN PLANT</u>	<u>TOTAL</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 91,336	\$ 30,373,633	\$ -	\$ 30,464,969
Accrued interest receivable	3,040	241,787	-	244,827
Capital improvement bond proceeds receivable	8,647,234	-	-	8,647,234
Due from Medical University Facilities Corporation	378,598	-	-	378,598
Land and land improvements	-	-	20,807,067	20,807,067
Buildings and leasehold improvements	-	-	327,811,893	327,811,893
Furniture and equipment	-	-	214,680,941	214,680,941
Library books, periodicals, and other materials	-	-	12,955,789	12,955,789
Construction in progress	36,767,695	-	-	36,767,695
<b>Total assets</b>	<u><u>\$ 45,887,903</u></u>	<u><u>\$ 30,615,420</u></u>	<u><u>\$ 576,255,690</u></u>	<u><u>\$ 652,759,013</u></u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 1,378,643	\$ -	\$ -	\$ 1,378,643
Retainages payable	998,761	-	-	998,761
Accrued interest payable	-	2,675,911	-	2,675,911
Due to other funds	3,300,000	5,900,000	-	9,200,000
Bonds payable	4,737,646	-	82,072,354	86,810,000
Obligations under capital leases	-	-	1,479,471	1,479,471
Capital lease payable to Medical University Facilities Corporation	-	-	27,779,128	27,779,128
<b>Total liabilities</b>	<u><u>10,415,050</u></u>	<u><u>8,575,911</u></u>	<u><u>111,330,953</u></u>	<u><u>130,321,914</u></u>
<b>Fund balances:</b>				
Restricted	35,472,853	15,313,485	-	50,786,338
Unrestricted:				
Designated for capital projects	-	3,923,301	-	3,923,301
Undesignated	-	2,802,723	-	2,802,723
Net investment in plant	-	-	464,924,737	464,924,737
<b>Total fund balances</b>	<u><u>35,472,853</u></u>	<u><u>22,039,509</u></u>	<u><u>464,924,737</u></u>	<u><u>522,437,099</u></u>
<b>Total liabilities and fund balances</b>	<u><u>\$ 45,887,903</u></u>	<u><u>\$ 30,615,420</u></u>	<u><u>\$ 576,255,690</u></u>	<u><u>\$ 652,759,013</u></u>

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## STATEMENT OF CHANGES IN FUND BALANCES

	<u>UNEXPENDED</u>	<u>RETIREMENT OF INDEBTEDNESS</u>	<u>INVESTMENT IN PLANT</u>	<u>TOTAL</u>
Revenues and other additions:				
Student tuition and fees - restricted	\$ -	\$ 1,453,165	\$ -	\$ 1,453,165
Federal grants - restricted	1,839,426	-	-	1,839,426
Private gifts and grants - restricted	3,049,208	-	-	3,049,208
Interest and investment income - restricted	159,997	1,248,262	-	1,408,259
Expended for plant facilities	-	-	34,214,382	34,214,382
Donated assets	-	-	4,687,834	4,687,834
Interest capitalized on construction	88,857	-	-	88,857
Retirement of indebtedness - bonds	155,000	-	8,540,000	8,695,000
Retirement of indebtedness - capital leases	-	-	4,766,715	4,766,715
Other additions	135,161	-	22,062	157,223
Total revenues and other additions	<u>5,427,649</u>	<u>2,701,427</u>	<u>52,230,993</u>	<u>60,360,069</u>
Expenditures and other deductions:				
Expended for plant facilities	7,736,766	-	-	7,736,766
Retirement of indebtedness	-	8,695,000	-	8,695,000
Interest on indebtedness - bonds	-	5,707,486	-	5,707,486
Disposal of plant facilities	-	-	8,843,673	8,843,673
Capital lease additions	-	-	573,865	573,865
Administrative costs	-	17,255	-	17,255
Noncapitalized expenditures	939,159	-	-	939,159
Total expenditures and other deductions	<u>8,675,925</u>	<u>14,419,741</u>	<u>9,417,538</u>	<u>32,513,204</u>
Transfers among funds - additions/(deductions)				
Mandatory:				
Principal and interest	-	13,485,080	-	13,485,080
Nonmandatory:				
Transfers from unrestricted current funds	4,769,148	1,661,000	-	6,430,148
Transfers to unrestricted current funds	-	(7,858,871)	-	(7,858,871)
Transfers between plant funds	(170,837)	170,837	-	-
Total transfers	<u>4,598,311</u>	<u>7,458,046</u>	<u>-</u>	<u>12,056,357</u>
Net increase for the year	1,350,035	(4,260,268)	42,813,455	39,903,222
Fund balances at beginning of year, as restated	<u>34,122,818</u>	<u>26,299,777</u>	<u>422,111,282</u>	<u>482,533,877</u>
Fund balances at end of year	<u>\$ 35,472,853</u>	<u>\$ 22,039,509</u>	<u>\$ 464,924,737</u>	<u>\$ 522,437,099</u>

# The Medical University of South Carolina

## 11. RELATED PARTIES

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

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

In conjunction with its implementation of GASB Statement 14, management reviewed its relationship with the Health Sciences Foundation. The University excluded HSF from the reporting entity because it is not financially accountable for the foundation. As part of its affiliated organizations project, the GASB is currently studying other circumstances under which organizations that do not meet the financial accountability criteria would be included in the financial reporting entity. Depending on the outcome of that project and other future GASB pronouncements, the Health Sciences Foundation may become a component unit of the University and part of the financial reporting entity.

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

The University provides office space and pays certain administrative costs for HSF. The total value of these items was approximately \$133,000 in fiscal year 1998. The University was not reimbursed for these costs. HSF provided support to the University for general and department expenditures which totaled \$5,636,460 in fiscal year 1998. This revenue is recorded as private gifts, grants, and contracts in the following amounts and funds: \$2,572,252, unrestricted current funds; \$15,000, restricted current funds; and \$3,049,208, unexpended plant funds. In addition, HSF had transactions which totaled \$255,192 for equipment and supply items donated to the University. The University also has a deposit from HSF of \$50,000 included in other liabilities of the unrestricted current funds.

HSF leased six parcels of property, known as 176 Ashley Avenue Guest House, 20 Ehrhardt Street, 28 Ehrhardt Street, Franke Warehouse, 51 Bee Street, and the Bee-Cannon property, to the University. The total rental payments paid to HSF was \$395,333 in fiscal year 1998.

For the year ended June 30, 1998, HSF transactions with the University's component units include rental income from UMA for the Rutledge/Ashley properties, 30 Bee Street, and Rutledge Tower. Total rental income on these properties was \$1,149,920 for the year ended June 30, 1998. As explained in Note 25, in April 1996, HSF's board passed a resolution to transfer to the University the St. Francis Hospital facilities (Rutledge Tower) which HSF acquired in 1993. As a result, HSF recorded a contribution payable to the University of \$17,852,400.

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

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## STATEMENT OF FINANCIAL POSITION

### ASSETS

	Health Sciences Foundation <u>June 30, 1998</u>
Cash and cash equivalents	\$ 41,620
Receivables	3,782,149
Property and equipment	29,645,986
Long term investments	103,084,019
Deposit held by MUSC	50,000
Other assets	<u>1,322,009</u>
Total Assets	<u>\$ 137,925,783</u>

### LIABILITIES AND NET ASSETS

#### Liabilities:

Accounts and annuities payable	\$ 829,514
Long term debt	7,387,399
Contributions payable - MUSC	17,852,400
Unearned income	<u>17,601,683</u>
Total liabilities	<u>43,670,996</u>

#### Net Assets:

Unrestricted	22,275,439
Temporarily restricted	48,894,203
Permanently restricted	<u>23,085,145</u>
Total net assets	<u>94,254,787</u>

Total Liabilities and Net Assets	<u>\$ 137,925,783</u>
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## STATEMENT OF ACTIVITIES

### Revenues, gains and other support:

Contributions	\$ 10,588,122
Investment and gains	16,986,931
Rental income	1,667,296
Special events revenues and other	<u>1,081,088</u>
Total revenues, gains and other support	<u>30,323,437</u>

### Expenses:

Grants and general support to the University	5,636,460
Equipment donated to the University	255,192
Other disbursements	<u>3,601,742</u>
Total expenses	<u>9,493,394</u>

Change in net assets	20,830,043
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Net assets at beginning of year	<u>73,424,744</u>
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Net assets at end of year	<u>\$ 94,254,787</u>
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### ***Related Party Transactions with Component Units***

Revenues of University Medical Associates are available to pay operating expenses of UMA and support activities of the academic departments at The Medical University of South Carolina including faculty and staff compensation. Any excess may be paid to the University or retained within UMA for future use. For the year ended June 30, 1998, pursuant to this practice, UMA paid \$2,428,488 to the University which is reported in the unrestricted current funds as a nonmandatory transfer. UMA also donated to the University equipment and supply items valued at \$2,413,873.

The University entered into an Ambulatory Care Agreement with UMA dated January 1, 1992. This agreement is renewed annually as of each July 1. This management agreement provides for UMA to

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pay debt service on bonds issued for ambulatory care with University Board approval and all direct costs for the operation of the Medical Center's ambulatory care clinics, and for the University to bear all indirect expenses, primarily the physical plant operating expenses. UMA is responsible for billing all revenue for most services provided to outpatients of the University. The revenue is included in net patient service revenue of the University.

The revenue collected by UMA under this agreement is to be disbursed by UMA as follows:

1. Payment of direct expenses and debt service on bonds;
2. 90% of collections remaining after payment of direct expenses and debt service shall go to the Medical Center;
3. 10% of collections remaining after payment of direct expenses and debt service shall be retained by UMA.

The University records a contractual services expenditure for the direct expenses, interest expense on bonds, and the 10% fee. The ambulatory care portion of the interest expense paid on the Direct Note Obligations was \$1,202,295. This agreement terminated on December 31, 1997. For the six months ended December 31, 1997, the University's share of the operating margin (loss) totaled \$(6,450,552). Assets purchased through the ambulatory care agreement costing more than \$500 are transferred to the University. Per the agreement, these amounts were recorded as a deferred charge on the balance sheet and written off over a 5-year period. However, due to the termination of the agreement in the current year, net assets in the amount of \$2,290,272 were expensed as contributed equipment to the University.

On January 1, 1998, UMA and the University entered into a new ambulatory care agreement whereby the University performs the billing function of ambulatory care ancillary activities. UMA provides all applicable ambulatory care facilities and incurs the costs associated with their operation. The parties agree each year to an estimated budget, which is net of supplies billing and other revenue, to be paid ratably over the year to UMA as reimbursement of its costs. For the six months ending June 30, 1998, the University paid UMA \$15,900,000. Net expenses incurred by UMA were \$15,973,104, which consists of total costs of \$18,570,561 less supplies billing and other revenue of \$2,597,457. \$2,583,460 is included in net clinical service revenue and \$13,997 is included in other operating revenue on the income statement.

As noted under the ambulatory care agreements, all billing functions have been assumed by the University as of January 1, 1998. However, UMA continues to bill for all Pharmacy charges until the University's related billing system is operational. UMA charges the University a 12.5% overhead charge applied to Pharmacy collections. Under this agreement, UMA owes the University \$1,421,733 which consists of total collections of \$1,624,838 less an overhead charge of \$203,105.

Under the ambulatory care clinical education agreement, UMA earns revenue on certain supplies billing performed by the University. The University remits the billings to UMA and withholds a 10% collection fee on these amounts. The University owes UMA \$2,073,926 which consists of total charges of \$2,304,362 less a collection fee of \$230,436.

The University and UMA entered into an agreement to provide a digestive disease center for patients with digestive disease. The agreement is renewed annually and can be terminated upon 180 days written notice. UMA has responsibility for the management of the daily operations of the center. The University reimburses UMA for certain direct costs of the operation. During 1998, UMA, under this agreement, received from the University \$237,082 which is included in UMA's other income.

The University and Charleston Memorial Hospital entered into an agreement with UMA effective June 27, 1994, to provide urgent care services to University and Charleston Memorial Hospital patients. This agreement is renewed annually and may be terminated by any party upon 120 days written notice. UMA has responsibility for the management of the daily operations of the urgent care services. Any net gain/loss from operations between UMA and the University are shared equally. The University reported a net loss from operations of \$189,048 which is reported in Medical Center expenditures. Under the CMH portion of the agreement, UMA is paid a 12% billing fee based on net patient revenues and is reimbursed for all cost in excess of revenues. Total payments to UMA from CMH under this agreement were approximately \$1,280,000 for the year ended June 30, 1998. Amounts under these agreements are

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reported in net clinical service revenues by UMA.

The University owes UMA the following amounts which are included in the current funds as of June 30, 1998:

Ambulatory Care Clinical Educational Agreement support	\$ 900,000
Children's Mental Health and Rehabilitation Services project	652,349
Urgent Care Agreement	24,698
Other	414,451
Amounts due under ambulatory care agreement	140,262
Digestive Disease Center agreement	2,737
Supplies billings, net of overhead charge	<u>2,073,926</u>
Total	<u>\$ 4,208,423</u>

UMA owes the University the following amounts which are included in the current funds as of June 30, 1998:

Underpayment of collections under Ambulatory Care Clinic	
Operational Services agreement	\$ 6,966,822
Agency fund	1,532,855
Pharmacy income billed by UMA, net of overhead charge	1,421,733
Clinical Science building rent	350,000
Development Evaluation Center Contract	54,255
Other	<u>213,875</u>
Total	<u>\$ 10,539,540</u>

During the year, the University paid UMA \$1,016,677 in rent for office space and various other properties. These amounts are reported by the University in the unrestricted current funds under operation and maintenance of plant expenditures.

On January 9, 1995, UMA prepaid the Health Sciences Foundation (HSF) \$37 million on a noncancelable lease. The original lease dated July 1, 1993, was considered an operating lease. This original lease term expired June 30, 2018, with automatic successive five year renewals. On January 9, 1995, the lease was amended to provide that the lease term would expire on the later of June 30, 2024, or the date on which all principal and premiums, if any, and interest on the \$55,000,000 Direct Note Obligations, Series 1994 are paid (see Notes 6 and 9).

As a result of these changes, as of January 9, 1995, \$13,989,600 was recorded as rental buildings under capital lease, \$2,958,000 was recorded as rental equipment under capital lease, and \$20,052,400 was recorded as prepaid rent. Accumulated depreciation on the building and equipment at June 30, 1998, was \$1,155,036. The prepaid rent of \$20,052,400 represents the portion of the prepaid \$37 million lease payment that is attributable to the value of the land for the lease property. The prepayment is being written off using the straight-line method over 29.5 years. The amount amortized for the year ended June 30, 1998, was \$679,742.

UMA also paid CMH \$2,623,817 during the year for rent and operating expenses of the McClennan-Banks Ambulatory Care center. Expenses for the period July 1, 1997, through December 31, 1997, were paid by UMA for the McClennan-Banks Ambulatory Care Center as a direct expense of the old Ambulatory Care Agreement. As a direct expense of the old Ambulatory Care Agreement, \$1,209,750 is recorded as Medical Center expenditures in the unrestricted current fund of the University and in miscellaneous other revenues of CMH. Expenses for the period January 1, 1998, through June 30, 1998, were paid by UMA for the center as a direct expense of the new agreement, Ambulatory Care Clinical Educational agreement. As a direct expense of the new agreement, \$1,414,067 is recorded in Ambulatory Care Clinical Agreement expenses of UMA and in miscellaneous other revenues of CMH.

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As of June 30, 1998, UMA is due \$808,655 from CMH under the McClennan-Banks Ambulatory Care center agreement. UMA owes CMH the following amounts as of June 30, 1998.

McClennan-Banks Ambulatory Care expenses	\$ 463,922
Urgent Care agreement	169,170
Anesthesiology professional services	23,920
Other	<u>103,675</u>
Total	<u>\$ 760,687</u>

Effective July 1, 1990, the University and Charleston County Council entered into a management agreement whereby the University assumed responsibility for Charleston Memorial Hospital. The agreement requires that the University continue to provide all services being provided as of the date of the agreement and the County to construct psychiatric, obstetric, and pediatric units and a clinic for outpatient services. The management agreement also requires the County to pay an annual fee to the University of approximately \$3,800,000 (modified to reflect changes in the consumer price index). This payment represents the county's support for indigent care provided at Charleston Memorial Hospital and therefore is reported as revenue of Charleston Memorial Hospital. This amount was \$1,656,173 in fiscal year 1998. Commencing with July 1, 1998, the County will not pay any appropriation to CMH. All expenses of the operation and maintenance of Charleston Memorial Hospital are the responsibility of the University.

All real property is reported on Charleston County books as they hold title to it, and is deemed leased by the University acting through Charleston Memorial Hospital, as described in Note 9. The management agreement also granted the University the option to purchase the physical facilities of Charleston Memorial Hospital from Charleston County upon giving twelve months' notice to do so.

Under the management agreement, the University is entitled to all earnings and is responsible for all deficits of Charleston Memorial Hospital. The University recognized management fee income of \$3,016,613 during the current year which is included in the unrestricted current funds. CMH owes the University \$25,161,043 for cumulative management fees and expenses as of June 30, 1998.

Charleston Memorial Hospital has significant transactions with the University and with Charleston County. Services received at no cost from the University include certain ancillary procedures performed on Charleston Memorial Hospital patients, as well as the staffing of certain areas by medical and administrative personnel. These services totaled \$1,671,303 in fiscal year 1998 and are recorded as Medical Center expenditures of the unrestricted current fund and operating expense of Charleston Memorial Hospital. Charleston Memorial Hospital records contributed services revenue to equal these expenses. The value of the services is estimated using actual billings for the ancillary procedures plus the actual personnel costs prorated by CMH effort. Charleston Memorial Hospital also entered into an agreement with Charleston County to provide services and support for a detoxification unit for an annual fee of \$108,277.

Additionally, Charleston Memorial Hospital paid \$3,394,112 to the University for dietary services, miscellaneous services, residents and attendings, and supplies for the fiscal year 1998. Charleston Memorial Hospital records these services as hospital expenditures. The University recorded the revenue from Charleston Memorial Hospital in the unrestricted current funds as other academic division revenues.

Charleston Memorial Hospital is allowing the University to use certain equipment with an original cost of approximately \$976,000 and a depreciated book value of approximately \$278,000 as of June 30, 1998. Included in operating expenses is depreciation attributable to this equipment of approximately \$101,000 for the year ended June 30, 1998. CMH is not receiving any consideration from the University for the use of this equipment.

The University received \$11,000 from Pharmaceutical Education and Development Foundation during the year which is included in nonmandatory transfers. In addition, the University has an agreement with PEDF to provide office space, laboratory facilities, and certain administrative services to PEDF. The value of these services is calculated using actual personnel costs and expenditures prorated by PEDF effort plus fair market value of similar rental space. Under this agreement, PEDF recorded contribution revenue and expense of \$11,000 and recorded expenses and a payable to the University in the amount of \$195,850 for these services for the year ended June 30, 1998. The University has recorded the

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\$195,850 in other Academic Division revenues. Under the agreement, PEDF must provide funds for the University's College of Pharmacy faculty and student support, and other needs in such amounts as may be determined from time to time by PEDF's board. Such amounts must adequately reimburse the University for space, equipment and services provided by the College of Pharmacy. The agreement provides for other terms dealing with personnel compensation, accounting procedures, legal matters, indemnification and other business matters. The University also has a deposit from PEDF of \$1,320 included in the agency funds.

On November 1, 1997, the University and PEDF entered into a educational support agreement whereby PEDF will perform various services in support of the College of Pharmacy's graduate and professional degree programs. In consideration of the services provided by PEDF, the University agrees in addition to providing space, utilities and infrastructure as well as certain state owned equipment to PEDF, to pay PEDF for instructional and educational opportunities in an amount of \$210,000 per year. The agreement is for an initial term of one year and shall be automatically renewed for like one year terms unless either party cancels at least 90 days prior to the end of the current contract period. The contract amount is subject to adjustment on an annual basis. For the year ended June 30, 1998, PEDF recognized other income of \$140,000 related to this contract.

PEDF owes the University the following amounts which are included in the current funds as of June 30, 1998:

Rental income	\$ 248,814
Other	<u>1,038</u>
Total	<u>\$ 249,852</u>

Effective October 1, 1995, PEDF has contracted with UMA for the provision of adequate scientific and administrative personnel on an as needed basis, the administration of payroll of UMA provided personnel including all required employment and income tax withholding, and the provision and administration of employee benefits for UMA provided personnel. PEDF will reimburse UMA for all personnel costs at a rate of 101.5% of the amount of all funds expended by UMA in payment of salaries and benefits to UMA provided personnel. The reimbursement totaled \$1,994,862 for the year ending June 30, 1998, and is included in UMA's other operating revenue. As of June 30, 1998, UMA is due \$1,392,542 from PEDF under this agreement. UMA also paid \$250,000 to PEDF in 1998 which is reported as a nonmandatory transfer of UMA and contribution revenue of PEDF.

Also, by resolution of its board, the Health Sciences Foundation has committed to lend \$1,000,000 on an interest free basis to PEDF to finance capital improvements and provide working capital. By resolution, HSF is to generally guarantee PEDF's payment of rent up to \$4,000,000 under the lease for the new facility (see Note 9). PEDF anticipates that around the time it begins its operations in the new facility, a new for-profit entity will be spun off from PEDF to carry on its operations. When the for-profit entity is formed HSF will take an equity position of conversion of debt and in recognition of guaranty made. There are also provisions at HSF's option to require the for-profit entity to buy-back the equity from HSF in the future.

Generally, UMA by letter has agreed to convert \$1,000,000 of its receivable from PEDF to equity position in the for-profit entity.

MUSC Foundation for Research Development 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 \$98,845 and is included in MFRD's expenses. The Foundation reimbursed the University this amount during the year and the University recorded the reimbursement as other revenue in the unrestricted current fund. The value is calculated using actual personnel costs prorated by MFRD effort plus an overhead allocation.

MFRD has entered into contracts with the University to provide management services for research activities. The contracts provide for annual payments of \$500,000. For the fiscal year ended June 30, 1998, MFRD has recognized income of \$500,000 from these contracts and the University reported this

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amount in the unrestricted current funds under institutional support expenditures.

MFRD also entered into a contract with the University to provide administrative and management services for multi-site clinical trials. The contract provides for annual payments of \$750,000. The agreement period is from January 1, 1998, to January 1, 1999, which can be renewed in additional terms of one year. For the fiscal year ended June 30, 1998, MFRD has recognized income of \$375,000 from this contract and the University reported this amount in the unrestricted current funds under research expenditures.

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 Health South Carolina Initiative Program, pursuing intellectual properties and service opportunities emanating from the research, and reporting health benefits inured to South Carolinians. Revenues generated from investment of the funds will be utilized to further the research, training, and educational missions of the University.

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

As of June 30, 1998, MFRD owes the University the following amounts which are recorded in the current funds:

Healthy South Carolina Initiative Program	\$ 11,936,591
Indirect cost recovery	<u>35,865</u>
Total	<u>\$ 11,972,456</u>

Also, MFRD owes the University \$7,522 which is recorded in the agency funds at June 30, 1998, for miscellaneous reimbursements and supplies.

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. MFRD entered into two, separate agreements with privately-held start-up companies during the fiscal year ended June 30, 1997. MFRD purchased securities by contributing the rights in intellectual property assigned to MFRD by the University. As the securities in these corporations are not publicly traded and the economic value of the intellectual property is not measurable, values have not been recorded in the financial statements.

At June 30, 1998, the University had a receivable of \$378,598 from MUFC for proceeds of the lease revenue bonds for completion of the Strom Thurmond Biomedical Research Center.

## ***Related Party Transactions with State***

The University has significant transactions with the State of South Carolina and various State agencies. Services received at no cost from State agencies include maintenance of certain summary accounting records and lump sum disbursement processing by the Comptroller General; banking, investment and bond trustee functions from the State Treasurer; legal services from the Attorney General; and grant services from the Governor's Office. Other services received at no cost from the various offices of the State Budget and Control Board include pension plans administration, insurance plans administration, audit services, personnel management, assistance in the preparation of the State budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

The University had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for pension and insurance plans employee and employer contributions, vehicle rental, surplus property disposal fees, insurance coverage, office supplies, printing, telephone, interagency mail and data processing services. Significant payments were also made for unemployment and workers' compensation coverage for employees

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to the Employment Security Commission and State Accident Fund. The University provides printing services to the College of Charleston and medical services to clients of various State agencies for a fee. The fiscal year 1998 revenue and expenditure amounts applicable to these related party transactions are not readily available. The University also provides public safety assistance to the College of Charleston for a fee which totaled \$1,999,921 for fiscal year 1998 and is reported as other Academic Division revenues in the unrestricted current fund.

## 12. ACCOUNTS RECEIVABLE ALLOWANCES

The patient accounts receivable allowances at June 30, 1998, were comprised of the following amounts.

	Medical Center	Charleston Memorial Hospital	University Medical Associates
Contractual adjustments	\$ 13,547,541	\$ 943,578	\$ 20,301,771
Uncollectibles	<u>6,822,199</u>	<u>746,711</u>	<u>3,700,449</u>
Total	<u>\$ 20,369,740</u>	<u>\$ 1,690,289</u>	<u>\$ 24,002,220</u>

No allowances for uncollectibles were deemed necessary at June 30, 1998, for the University's student and other accounts receivable.

## 13. DEFERRED COMPENSATION PLANS

Several optional deferred compensation plans are available to State employees and employees of its political subdivisions. Certain employees of the University have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are accounted for as agency funds of the State and included in the Comprehensive Annual Financial Report of the State of South Carolina. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

Certain employees have elected to participate in a Section 457 plan that was established by the University. The plan is administered by various unrelated financial institutions. The University has the duty of due care that would be required of an ordinary prudent investor. The assets of the University sponsored plan are recorded in the agency fund at fair market value with a corresponding liability to the plan participants.

Compensation deferred under the Section 401(k) and 403(b) plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Under the Section 457 plans, all deferred compensation plan amounts and earnings remain assets of the employer (the State or the University) subject to the claims of the employer's general creditors, one of whom is the employee participant. It is unlikely, however, that the State or the University would ever use plan assets to satisfy claims of the general creditors. The portion of assets of the Section 457 plan to which the State has access is disclosed in its financial report.

On August 20, 1996, the provisions of Internal Revenue Code Section 457 were amended by adding subsection (g). That subsection provides that new plans will not be considered eligible plans unless all assets and income of the plans are held in trust for the exclusive benefit of the participants and their beneficiaries. Existing plans also must comply with this requirement by January 1, 1999. South Carolina's plan adopted this change effective July 24, 1998. As of October 23, 1998, the University has not amended its plan.

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## 14. PENSION PLANS

The majority of employees of the University 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 of the State Budget and Control Board, 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.

The Retirement Division 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.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6 percent of all compensation. Effective July 1, 1997, the employer contribution rate became 9.466 percent which included a 1.916 percent surcharge to fund retiree health and dental insurance coverage. The University's actual contributions to the SCRS for the years ending June 30, 1998, 1997, and 1996 were approximately \$15,060,000, \$13,480,000, and \$13,015,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of approximately \$299,000 in the current fiscal year at the rate of .15 percent of compensation.

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement plan. Generally all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees.

In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Employees covered under PORS are eligible for a monthly pension payable at age 55 with a minimum of five years service or 25 years credited service regardless of age. In addition, employees who have five years of credited service prior to age 55, can retire yet defer receipt of benefits until they reach age 55. A member is vested for a deferred annuity with five years service. The benefit formula for full benefits effective since July 1, 1989, for the PORS is 2.14 percent of the employee's average final salary multiplied by the number of years of credited service. Disability annuity benefits and the group-life insurance benefits for PORS members are similar to those for SCRS participants. Accidental death benefits provide a monthly pension of 50 percent of the member's budgeted compensation at the time of death.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 1997, the employer contribution rate became 12.216 percent which, as for the SCRS, also included the 1.916 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 1998, 1997, and 1996, were approximately \$344,000, \$321,000, and \$310,000, respectively, and equaled the required contributions of 10.3 percent (excluding the sur-

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charge) for each year. Also, the University paid employer group-life insurance contributions of approximately \$6,800 and accidental death insurance contributions of approximately \$6,800 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is 0.20 percent of compensation.

The amounts paid by the University for pension, group-life insurance, and accidental death benefits are reported as employer contributions expenditures within the applicable current funds' functional expenditure categories to which the related salaries are charged.

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 retirement plan. Any changes require the approval of the South Carolina legislature. Employee and employer contribution rates to SCRS and PORS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The Systems do not make separate measurements of assets and pension liabilities for individual employers. Under Title 9 of the South Carolina Code of Laws, the University's liability under the plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the University's liability under the pension plans is limited to the contribution requirements for the applicable year from amounts appropriated therefor in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the University recognizes no contingent liability for unfunded costs associated with participation in the plans.

At retirement, employees participating in the SCRS or PORS may receive additional service credit (at a rate of 20 days equals one month of service) for up to 90 days for accumulated unused sick leave.

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 four-year 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 1.916 percent from the employer in fiscal year 1998.

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 \$2,870,000 excluding the surcharge from the University as employer and approximately \$2,280,000 from its employees as plan members. In addition, the University paid approximately \$57,000 for group-life insurance coverage for these employees. All amounts were remitted to the Retirement Division of the State Budget and Control Board for distribution to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

The majority of employees of Charleston Memorial Hospital are covered by the South Carolina Retirement System (SCRS). Since July 1, 1988, CMH employees participating in the SCRS have been required to contribute 6 percent of all compensation. The employer contribution rate is 6.7 percent. CMH's actual contributions to the SCRS for the years ended June 30, 1998, 1997, and 1996, were approximately \$578,000, \$541,000, and \$658,000, respectively, and equaled the required contribution of 6.7 percent for each year. CMH paid employer group life insurance premiums of approximately \$12,900 for fiscal year 1998 at the rate of .15 percent of compensation. The amounts paid by CMH for pension, group-life benefits, and accidental death benefits are reported as employer contribution expen-

# The Medical University of South Carolina

ditures within the applicable functional expenditure categories to which the related salaries are charged.

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 does not permit participant contributions except for rollover contributions. UMA's contributions are allocated based upon a three tier percentage determined by a participant's compensation. The plan's allocations are based upon the following: 8% of a participant's compensation up to \$50,000, 14% of a participant's compensation from \$50,001 to \$100,000, and 30% of participant's earnings between \$100,001 and \$160,000. Participants become fully vested in their accounts after five years of credited service. Total contributions to this plan totaled approximately \$8,318,000 in fiscal year 1998. Of this amount, approximately \$420,000 was included under the Ambulatory Care Clinic Operational Services agreement. Copies of the separately issued financial statements of the plan are available from the management of UMA.

University Medical Associates also maintains a defined benefit plan covering former employees of the Professional Staff Office (a predecessor of this organization). Benefit accruals have been curtailed and management has received approval from the Internal Revenue Service to terminate the plan. No gain or loss, if any, from the curtailment has been recognized in these financial statements.

The following table sets forth the plan's funded status using the latest actuarial information applicable:

	As of <u>July 1, 1997</u>
Actuarial present value of accumulated benefit obligation:	
Vested benefit obligation	\$ 1,704,576
Plan assets, at fair value	<u>2,224,774</u>
Plan assets in excess of accumulated benefit obligation	<u>\$ 520,198</u>

The \$520,198 has not been recognized in the accompanying balance sheet.

MUSC Foundation for Research Development adopted a 401(k) plan effective November 1, 1997. The plan covers all regular employees who are at least 21 years of age and employed for a regular work week of at least 30 hours. Duly appointed employees, such as those employees who also receive compensation from the University, are eligible to participate in the plan. MFRD's contribution is 8 percent of each employee's salary. The contribution for the year ended June 30, 1998, was \$13,637.

## 15. 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 postemployment 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 for its 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 number of State retirees that meet these eligibility requirements is not available.

The University recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees in the approximate amount of \$14,110,000 for the year ended June 30, 1998. As discussed in Note 14, the University paid approximately \$4,610,000 applicable to the 1.916 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for

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distribution to the Office of Insurance Services for retiree health and dental insurance benefits. Information regarding the cost of insurance benefits applicable to University retirees is not available. By State law, the University has 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.

Charleston Memorial Hospital provides health benefits for certain employees through a program of self-insurance or a health maintenance organization. CMH sets the premiums for dependent coverage based on claims experience. CMH is responsible for any excess of claims over employee contributions. To insure against catastrophic claims, CMH has obtained reinsurance. The specific and aggregate stop loss agreement provides for claims in excess of \$40,000 and are subject to a \$2,500,000 maximum specific stop loss payment per employee lifetime and \$1,000,000 per policy year in the aggregate. CMH has accrued \$75,000 as of June 30, 1998, for incurred but not reported claims and claims payable which is included in other liabilities based on the ultimate costs of these claims. CMH also provides health and dental insurance to certain employees through a commercial carrier. Total premiums paid under these plans amounted to approximately \$122,400 for 1998.

University Medical Associates has established an employee medical benefit plan to self-insure employees. UMA is liable for \$100,000 per individual employee or dependent per plan year. Amounts exceeding this are covered by stop-loss insurance. UMA records an estimated liability for these claims. The claims liability is based on estimates of the ultimate cost of reported claims and an estimate for claims incurred but not reported based on historical experience. Claims incurred but not reported and claims payable at June 30, 1998, amounted to \$517,308 which is included in other liabilities.

CMH and UMA finance these benefits on a pay-as-you-go basis.

## 16. MEDICAID DISPROPORTIONATE SHARE PROGRAM

The Medical Center and Charleston Memorial Hospital transfer matching funds to the State of South Carolina Department of Health and Human Services to allow them to receive Medicaid disproportionate share payments for providing services to a disproportionately high number of low income patients. These payments are in addition to regular Medicaid reimbursement amounts and are paid in block sums to qualifying facilities which have provided initial matching funds. The South Carolina Area Health Education Consortium also made matching funds transfers during the fiscal year ended June 30, 1998, of \$7,303,034. AHEC's match permits the hospitals in the consortium to receive disproportionate share payments which are not included in these financial statements. The AHEC matching funds are included in the instruction expenditures of the current funds. The Medical Center receipts less matching funds are included in unrestricted current funds revenues. Charleston Memorial Hospital includes the receipts and payments in net patient revenues.

	<u>AHEC</u>	<u>MUSC Medical Center</u>	<u>Charleston Memorial Hospital</u>
Disproportionate Share Pool Revenue	\$ —	\$ 80,283,492	\$ 29,306,357
Matching funds transferred	<u>7,303,034</u>	<u>31,608,588</u>	<u>11,538,269</u>
Net revenue	<u>\$ (7,303,034)</u>	<u>\$ 48,674,904</u>	<u>\$ 17,768,088</u>

# The Medical University of South Carolina

## 17. CONTINGENCIES AND LITIGATION

The University and Charleston Memorial Hospital 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.

In July, 1996, a suit was filed in Circuit Court seeking to enjoin the University from leasing its hospital and selling personal property to Columbia/HCA's subsidiary, Columbia Charleston Healthcare System, Inc. and to prohibit the University's Academic Affiliation and other related contracts with Columbia/HCA. On February 13, 1998, the South Carolina Circuit Court ruled that the statute authorizing the University to enter into the affiliation with Columbia/HCA was invalid based on the procedure the South Carolina Legislature employed in passing the Act and based on the Court's ruling that the statute was "special legislation" prohibited by the South Carolina Constitution. The University has appealed the ruling to the South Carolina Supreme Court. A decision is expected by the end of 1998.

The various federal programs administered by the University for fiscal year 1998 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 and UMA are being sued under the False Claims Act for alleged false or fraudulent filed claims for damages in the amount of \$380,000. In addition, they may be liable for additional amounts including treble damages and civil penalties. The case is in the discovery stage and both the University and UMA are vigorously defending their actions. The loss would not be covered by insurance. The potential recovery or loss is currently unknown.

## 18. NONMANDATORY TRANSFERS

Debt service funds become available for transfer because of the maintenance of minimum balances including reserves for payment of debt service as required by bond indentures and law. Tuition, fees, and revenues pledged for debt service when collected remain in the debt service accounts of the retirement of indebtedness plant funds subgroup until they are transferred by the State Treasurer into a general capital improvements funding account. For state institution bonds issued by the State of South Carolina on behalf of the University, the State Treasurer automatically transfers qualified funds. However, for revenue bonds issued by the University, a written request for the transfer of funds in excess of required minimum balances is submitted by the University to the State Treasurer. As needed, monies are transferred from the general capital funding account to specific capital projects accounts. For the most part, institutions are authorized to make transfers for specific projects with notification to the State Treasurer. As applicable for pre-1986 bond issues, the University obtained approval from the State Budget and Control Board for the transfers.

The University reports its general capital funding account in the retirement of indebtedness subgroup and the unexpended balance thereof as unrestricted fund balance. No transfers from the account were made in fiscal year 1998.

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During fiscal year 1998, the University recorded interfund transfers and transfers with and between its blended component units, as follows:

<u>From</u>	<u>To</u>	<u>Amount</u>	<u>Purpose</u>
Interfund transfers:			
Restricted current funds	Unrestricted current funds	\$ 44,526	Financial Aid administrative charges
Restricted current funds	Unrestricted current funds	32,388	Excess grant funds on completed projects
Unrestricted current funds	Loan funds	235,272	Funding of loan programs
Unrestricted current funds	Unexpended plant funds	4,769,148	Funding of construction projects
Unrestricted current funds	Retirement of indebtedness	1,510,536	Tuition revenue transferred for debt service
Unrestricted current funds	Retirement of indebtedness	150,464	Parking revenue transferred for debt service
Retirement of indebtedness	Unrestricted current funds	7,858,871	Excess debt service funds
Blended component units:			
University Medical Associates Pharmaceutical Education and Development Foundation	Unrestricted current funds	2,428,488	Academic support
University Medical Associates	Unrestricted current funds Pharmaceutical Education and Development Foundation	11,000 250,000	Academic support Support

## 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 insurance claims for CMH and 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. The insurer's promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits. The University pays insurance premiums to certain other State agencies to cover risks that may occur in normal operations. 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. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

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 University assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles and watercraft (inland marine);
4. Torts;
5. Business interruptions;
6. Natural disasters; and
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 the areas of property, boiler and machinery, automobile liability, and medical professional liability insurance. Also, the IRF purchases reinsurance for catastrophic property and medical professional liability insurance. Reinsurance permits partial recovery of losses from

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reinsurers, but the IRF remains primarily liable. The IRF purchases insurance for aircraft and ocean marine coverage. The IRF's rates are determined actuarially. State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and in IRF.

The University 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. The University obtains 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. The University has recorded insurance premium expenditures in the applicable functional expenditure categories of the unrestricted current fund. The University has not transferred the portion of the risk of loss related to insurance policy deductibles and policy limits for all coverages to a State or commercial insurer.

Charleston Memorial Hospital purchases malpractice insurance and general tort liability insurance through the State's Insurance Reserve Fund and insures its equipment through the IRF. CMH obtains coverage through a commercial insurer for employee fidelity bond insurance for losses arising from theft or misappropriation. CMH provides health benefits for certain employees through a program of self-insurance. CMH is responsible for any excess of claims over employee contributions. To insure against catastrophic claims, CMH has obtained reinsurance. The specific and aggregate stop loss agreement provides for claims in excess of \$40,000 and is subject to a \$2,500,000 maximum specific stop loss payment per employee's lifetime and \$1,000,000 per policy year in the aggregate. CMH has accrued \$75,000 as of June 30, 1998, for incurred but not reported claims and claims payable.

University Medical Associates pays insurance premiums to certain State agencies to cover risks that may occur in normal operations. This includes claims for employees for unemployment compensation benefits. Commercial insurance covers workers' compensation benefits, long-term disability, theft of assets, damage to property, and torts. The insurer's promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accordance with insurance policy and benefit program limits. Settlement amounts have not exceeded insurance coverage for the current year or the three prior 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. UMA obtains employee fidelity bond insurance coverage through a commercial insurer for all employees for losses arising from theft or misappropriation. UMA insures against malpractice claims under a state maintained insurance fund. The entire premium is paid by the University, with the full cost of physician premiums being reimbursed by UMA. The affiliates are covered by private insurance companies.

The following represents the changes in the approximate claims liabilities for self-insured health insurance claims of CMH and UMA for 1998:

	<u>CMH</u>	<u>UMA</u>
Liability balance, July 1, 1997	\$ 100,000	\$ 432,750
Claims and changes in estimate	562,648	3,056,594
Claims payments	<u>(587,648)</u>	<u>(2,972,036)</u>
Liability balance, June 30, 1998	<u>\$ 75,000</u>	<u>\$ 517,308</u>

## 20. RETIREMENT INCENTIVE

Section 59-103-150 of the South Carolina Code of Laws allows the University's Board of Trustees to implement an early retirement plan for its faculty. Two objectives of this law were to help institutions of higher education reallocate resources and effect cost-saving measures. The University implemented such a plan effective January 1, 1990. To be eligible, a person must be a full-time faculty member, at least 55 years old, and have at least 10 years experience at the University in a full-time faculty position. The Board of Trustees has delegated to the President full authority to determine implementation and participation in the Plan. The Plan includes incentive bonus payments for early retirement ranging from 100 percent to 200 percent of a person's final annual salary. No payments were made under this plan in 1998. At June 30, 1998, there was no liability related to retirement incentive.

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## 21. INCOME TAXES

The subsidiaries of University Medical Associates are for-profit entities, subject to income tax (see Note 1). However, for the year ended June 30, 1998, all of the subsidiaries incurred losses, resulting in cumulative estimated net operating loss carryovers as follows:

Carolina Health Management Services, Inc.	\$ 1,200,000
Carolina Family Care, Inc.	24,200,000
Carolina Primary Care Physicians, P. A.	600,000
Carolina Specialty Care, Inc.	110,000
Carolina Specialty Care, P.A.	170,000

The above net operating loss carryovers totaling approximately \$26,280,000 may be offset against future taxable income of the respective companies. Approximately \$7,822,000 in 2011, \$8,480,000 in 2012, and \$9,978,000 in 2013 will expire if unused by those years. No tax benefit has been reported in the 1998 financial statements because management believes that it is probable that the carryforward will expire unused. Accordingly, the tax benefit of the loss carryforward has been offset by a valuation allowance of the same amount. The net operating loss carryover is approximately the same for financial statement and income tax purposes.

## 22. INTERFUND LIABILITIES AND BORROWINGS

For the most part, the University operates out of one cash account. At fiscal year-end, entries are made to report interfund liabilities for deficit cash balances in the State's cash management pool accounts. In addition, during the year, certain interfund borrowings occurred. All of the amounts are payable within one year without interest. At June 30, 1998, the unrestricted current fund was owed \$3,300,000 by the unexpended plant fund and \$5,900,000 by the retirement of indebtedness fund.

## 23. PRIOR PERIOD ADJUSTMENTS AND RECLASSIFICATIONS

Effective July 1, 1997, the University and University Medical Associates implemented Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*. This statement requires that most investments of governmental entities be stated at fair value rather than cost. For internal investment pools, this statement requires the equity position of each fund that sponsors the pool to be reported as assets in those funds. As a participant in the State's internal cash management pool, the University has been allocated unrealized gains to reflect its pro rata share of the pool. Consequently, the University decreased cash and cash equivalents and beginning fund balances as of July 1, 1996, by \$314,756 for changes resulting from adoption of Statement No. 31. An additional adjustment was made to increase cash and cash equivalents by \$891,949 and record interest and investment income of \$1,206,705 for the year ended June 30, 1997. UMA increased investments and beginning retained earnings as of July 1, 1996, by \$1,391,779 and recorded an adjustment to decrease investment income by \$1,514,396 for the year ended June 30, 1997.

On December 30, 1997, the University filed a refund claim with the South Carolina Department of Revenue resulting from an overpayment of sales tax on the purchase of prescription drugs sold at retail to outpatients during the claim period January 1, 1995, through June 30, 1997. The claim was granted as requested on July 16, 1998. The University restated accounts receivable - other and beginning fund balances as of July 1, 1996, for amounts totaling \$429,865 for changes resulting from the sales tax refund. An additional adjustment was made to reduce expenditures by \$373,762 and record interest income of \$55,072 for the year ended June 30, 1997.

The Medical Center underreported net patient receivables by \$749,432 attributable to the ambulatory care agreement with UMA as of June 30 1996. As a result, the fund balance of the University increased by 90 percent of the receivable (\$674,489) and UMA's retained earnings increased by their 10 percent

## The Medical University of South Carolina

share (\$74,943). The 1997 receivables were also understated by \$711,745 resulting in a net increase in the University's net patient service revenue of \$711,745 and an increase in hospital expenditures of \$71,174. UMA's ambulatory care management fee income increased by the \$71,174.

UMA also understated their patient receivables by \$1,349,814 (\$2,988,138 less the increase in the allowance of \$1,638,324) as of June 30, 1996, and \$1,528,858 (\$3,263,196 less the increase in the allowance of \$1,734,338) as of June 30, 1997. The 1997 amounts have been adjusted to record an increase in net patient service revenue of \$1,549,226 and an increase in bad debt expense of \$20,368.

The Medical Center and Charleston Memorial Hospital recorded receivables for Medicaid cost reimbursement for the years June 30, 1995 through June 30, 1997. Pursuant to the 1993 Omnibus Budget Reconciliation Act, hospitals which received disproportionate share payments were not entitled to claim any additional Medicaid reimbursement. The University recorded a prior period adjustment of \$11,985,245 as of June 30, 1997 to reverse the receivable as of that date and record a payable of \$1,931,008. Net patient service revenue for the year ended June 30, 1997, was reduced by \$1,904,977. CMH recorded a prior period adjustment of \$1,513,276 as of June 30, 1997 to reverse the receivable as of that date and record a net payable of \$249,794. Net patient service revenue for the year ended June 30, 1997, was reduced by \$408,095. The 1997 adjustment to revenue for CMH includes \$193,899 attributable to an adjustment to the 1994 cost report which was not originally booked in 1997 but should have been based on a letter from the intermediary.

The changes to beginning fund balances and retained earnings as of July 1, 1996, are disclosed in the following table:

	Beginning Fund Balances as of July 1, 1996		
	As Previously Reported	Restatement Adjustment	As Restated
The Medical University of South Carolina:			
Unrestricted current funds	\$ 181,515,724	\$ (10,445,703)	\$ 171,070,021
Restricted current funds	5,588,354	6,647	5,595,001
Loan funds	11,934,600	(1,792)	11,932,808
Endowment and similar funds	846,010	—	846,010
Unexpended plant funds	25,724,505	—	25,724,505
Retirement of indebtedness funds	24,027,326	44,997	24,072,323
Investment in plant	383,159,810	—	
	<u>\$ 632,796,329</u>	<u>\$ (10,395,851)</u>	<u>\$ 622,400,478</u>
University Medical Associates	<u>\$ 20,041,873</u>	<u>\$ 2,741,593</u>	<u>\$ 22,783,466</u>

The Medical Center recorded a Champus receivable of \$1,083,544 for the year ended June 30, 1997 in error. The Medical Center was not entitled to any additional reimbursement from Champus for 1997 because management had entered into a managed care agreement.

The Academic Division reported expenditures of \$415,510 in the restricted current fund as of June 30, 1997, for which they were not entitled to reimbursement from any source. The expenditures should have been recorded as research expenditures in the unrestricted current fund.

The Medical Center and UMA misstated the amount due between them attributable to the ambulatory care agreement by \$1,159,452 as of June 30, 1997. As a result, The Medical Center expenditures increased and UMA's departmental expense decreased by \$1,159,452 for the year ended June 30, 1997.

Prior year comparative totals have been restated to correctly classify certain fiscal year 1997 unrestricted current fund revenues and expenditures. Revenues totaling \$1,936,364 for public safety services provided to the College of Charleston were reclassified from sales and services of educational departments to other Academic Division revenues. Certain expenditures consisting primarily of information techno-

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logy, research support services, and facilities planning have been reclassified from institutional support to the following categories:

Research	\$ 419,793
Academic support	3,211,437
Operation and maintenance of plant	1,096,935
Medical Center	1,298,079

Certain reclassifications were made to the fiscal year 1997 previously presented amounts for UMA to conform to the current year's classifications. An amount of \$3,093,874 was reclassified from investments to investments in partnerships and joint ventures representing UMA's 10 percent investment at cost in Hilton Head Health Systems, L.P. Pharmaceutical Education and Development Foundation revenue of \$1,953,870 was reclassified from net clinical service revenue to other operating revenue. Rental expenses of \$783,433 and interest expense of \$872,828 were reclassified from nonoperating expense to operating expense since the building was not available for rent. Contributions to Health Sciences Foundation of \$108,380 and transfers to PEDF of \$375,000 were reclassified from departmental operating expense to nonoperating expense.

Following is a summary of the effects of the prior period adjustments and reclassifications as of and for the year ended June 30, 1997:

	1997		
	As Previously Reported	Restatement Adjustment	As Restated
Balance Sheet:			
Cash and cash equivalents	\$ 240,324,545	\$ 891,949	\$ 241,216,494
Investments	23,562,872	(3,216,491)	20,346,381
Accounts receivable:			
Patients	120,005,328	4,724,373	124,729,701
Less allowances	(47,120,604)	(1,734,338)	(48,854,942)
Medicare, Medicaid, and			
Champus cost reimbursements, net	12,401,263	(12,401,263)	-
Other	2,993,943	858,699	3,852,642
Due from The Medical University of South Carolina	2,257,184	146,117	2,403,301
Due from Charleston Memorial Hospital	24,983,785	(1,513,276)	23,470,509
Total assets	1,088,227,578	(9,150,356)	1,079,077,222
Cost reimbursement refund payable	1,568,936	2,180,802	3,749,738
Due to The Medical University of South Carolina	30,308,426	(2,672,728)	27,635,698
Due to University Medical Associates	3,610,808	1,305,569	4,916,377
Total liabilities	343,081,081	813,643	343,894,724
Retained earnings	11,751,841	2,341,698	14,093,539
Retained earnings reserved for debt service	8,026,552	370,112	8,396,664
Fund balances - restricted	74,846,518	540,789	75,387,307
Fund balances - unrestricted, undesignated	211,917,726	(13,218,941)	198,698,785
U. S. government grants refundable	10,980,618	2,343	10,982,961
Total fund equity	745,146,497	(9,963,999)	735,182,498
Total liabilities and fund equity	1,088,227,578	(9,150,356)	1,079,077,222

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	1997		
	As Previously Reported	Restatement Adjustment	As Restated
<b>Medical University of South Carolina:</b>			
<b>Statement of Changes in Fund Balances:</b>			
Unrestricted current funds revenues	\$ 574,214,247	\$ (1,500,864)	\$ 572,713,383
Interest and investment income - restricted	1,783,225	77,770	1,860,995
Total revenues and other additions	728,302,574	(1,423,094)	726,879,480
Educational and general expenditures	226,464,917	(1,313,908)	225,151,009
Medical Center expenditures	345,472,910	2,170,772	347,643,682
Total expenditures and other deductions	643,639,454	856,864	644,496,318
Net increase for the year	88,966,797	(2,279,958)	86,686,839
Fund balances at beginning of year, as restated	632,796,329	(10,395,851)	622,400,478
Fund balances at end of year	721,763,126	(12,675,809)	709,087,317
<b>Statement of Current Funds Revenues, Expenditures, and Other Changes:</b>			
Interest and investment income	8,842,598	1,187,466	10,030,064
Sales and services of educational departments	9,130,888	(1,936,364)	7,194,524
Net patient service revenue	331,905,916	(2,276,776)	329,629,140
Management fee from Charleston Memorial Hospital	4,003,110	(408,095)	3,595,015
Other Academic Division revenues	10,417,299	1,936,364	12,353,663
Total current revenues	620,395,096	(1,497,405)	618,897,691
Educational and general expenditures:			
Research	52,409,890	419,793	52,829,683
Public Service	15,484,831	(15,829)	15,469,002
Academic support	14,957,495	3,211,437	18,168,932
Institutional support	18,153,022	(6,026,244)	12,126,778
Operation and maintenance of plant	12,428,012	1,096,935	13,524,947
Total educational and general expenditures	226,464,917	(1,313,908)	225,151,009
Total educational and general	226,555,091	(1,313,908)	225,241,183
Medical Center expenditures	345,472,910	2,170,772	347,643,682
Total Medical Center	358,263,861	2,170,772	360,434,633
Total expenditures and mandatory transfers	586,502,534	856,864	587,359,398
Net increase in fund balance	38,981,055	(2,354,269)	36,626,786
<b>Charleston Memorial Hospital:</b>			
<b>Statement of Revenues, Expenses, and Changes in Retained Earnings:</b>			
Net patient service revenue	25,945,584	(408,095)	25,537,489
Total operating revenues	32,470,071	(408,095)	32,061,976
Operating income	3,034,221	(408,095)	2,626,126
Income before management fee	4,003,110	(408,095)	3,595,015
Management fee to The Medical University of South Carolina	4,003,110	(408,095)	3,595,015
<b>University Medical Associates:</b>			
<b>Statement of Revenues, Expenses, and Changes in Retained Earnings:</b>			
Net clinical service revenue	106,645,064	(1,754,458)	104,890,606
Other operating revenue	-	1,953,870	1,953,870
Ambulatory care management fee income	577,367	146,117	723,484
Total operating revenues	114,222,431	345,529	114,567,960
Departmental expenses	83,876,476	(859,399)	83,017,077
Provision for bad debts	15,038,737	20,368	15,059,105
Interest expense	1,465,584	872,828	2,338,412
Total operating expenses	112,817,563	33,797	112,851,360
Operating income (loss)	1,404,868	311,732	1,716,600
Rent expense	(1,654,604)	783,433	(871,171)
Interest expense on rental property	(1,918,304)	872,828	(1,045,476)
Investment income	1,369,277	568,865	1,938,142
Gain (loss) on sale of investments	2,083,261	(2,083,261)	-
Contributions to Health Sciences Foundation	-	(108,380)	(108,380)
Nonmandatory transfers to The Medical University of South Carolina	(4,292,677)	(375,000)	(4,667,677)
Total nonoperating revenues (expenses)	(165,143)	(341,515)	(506,658)
Net income (loss)	1,239,725	(29,783)	1,209,942
Retained earnings at beginning of year	20,041,873	2,741,593	22,783,466
Retained earnings at end of year	21,281,598	2,711,810	23,993,408

# The Medical University of South Carolina

The MUSC Foundation for Research Development elected to change its policy in regard to the presentation and recording of restricted and unrestricted revenue and support. Based on the old policy, MFRD recognized support that was restricted as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support was recognized. Based on the new policy, MFRD recognized donor-restricted support as an increase in temporarily restricted net assets. When the restriction expires (that is, when a stipulated time ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. This change in MFRD's policy only changes the presentation of support and accordingly has no effect on the change in net assets of the prior year. The change resulted in an increase in temporarily restricted revenues for fiscal year 1997 from corporate contracts and awards of \$414,283 and an increase in contributions and private grants of \$10,695. A corresponding increase in net assets released from restrictions of \$424,978 was also recorded.

## 24. FUND EQUITY

The components of fund balance of the University's unrestricted current funds at June 30, 1998, are as follows:

Academic excluding auxiliary enterprises	\$ 62,419,208
Auxiliary enterprises	1,700,746
Medical Center	<u>101,229,801</u>
Total	<u>\$ 165,349,755</u>

The components of fund balance of the University's restricted current funds at June 30, 1998, are as follows:

Research	\$ 6,070,480
Scholarships and student aid	159,549
Restricted for colleges, departments, and other purposes	<u>17,349,155</u>
Total	<u>\$ 23,579,184</u>

The components of fund balance of the University's endowment and similar funds at June 30, 1998, are as follows:

Endowment - restricted	\$ 838,658
Quasi-endowment - restricted	<u>41,477</u>
Total	<u>\$ 880,135</u>

For the governmental component units, appropriated retained earnings are amounts allocated for specified uses in accordance with the entity's bylaws and by authorization of its board of directors. Generally, reserved retained earnings are amounts related to legally restricted assets required to be held and/or used as specified in debt indentures and resolutions.

The appropriated retained earnings of Charleston Memorial Hospital represent the net assets at the time of the signing of the management agreement which are not available for use by the University.

The unreserved retained earnings of University Medical Associates, excluding the component units, consists of \$355,787 in funds designated for the President of the University and \$5,854,648 designated for the Dean of the College of Medicine to be used in support of the University or for any related purpose. The reserved retained earnings represent the balance in the debt service reserve funds.

The reserved portion of the retained earnings of Medical University Facilities Corporation is restricted for payment of debt service on the Certificates of Participation and the Lease Revenue Bonds under the related covenants. The unappropriated retained earnings deficit results from the manner in which the capital lease on The Strom Thurmond Biomedical Research Center and the related Lease revenue Bonds were structured. Because of timing differences, MUFC had an unappropriated retained earnings deficit of \$1,036,683. As lease payments are received from the University, the deficit will be eliminated.

# The Medical University of South Carolina

Since its inception, the Pharmaceutical Education and Development Foundation has received financial support from other nonprofit organizations and such support has mitigated the effects of operating losses incurred during PEDF's startup period. To attain profitable operations, management has signed a lease for a new facility in the process of being built to its specifications, to permit expansion of its sales. It is anticipated that the new facility will be ready for occupancy in January, 1999. PEDF also anticipates that around the time it begins its operations in the new facility, a new for-profit entity will be spun off from PEDF to carry on its operations. Under this scenario, PEDF will transfer to the for-profit entity all of its contracts, accounts receivable, equipment and other assets and the new entity will assume all of the outstanding debt of PEDF. At June 30, 1998, PEDF had deficit unrestricted net assets of \$1,014,548. To further strengthen the PEDF's financial position, UMA and the Health Sciences Foundation have agreed to delay for one year the collection of the amounts due from PEDF of \$1,392,542 and \$499,998, respectively.

Temporarily restricted net assets of MUSC Foundation for Research Development are available for the conduct of research.

## 25. PLEDGE

Health Sciences Foundation acquired the Rutledge Tower (formally the St. Francis facilities) in 1993 and these properties are leased to University Medical Associates. During April, 1996, HSF's board of directors passed a resolution to transfer the title on the St. Francis Hospital and associated facilities to the University at the end of the lease term which is the later of (i) June 30, 2024, or (ii) 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.

## 26. COMMITMENTS

During the year ended June 30, 1998, the MUSC Foundation for Research Development entered into contractual agreements related to program activities. Subcontracts between MFRD and the University, as well as Pennsylvania State University, were executed for personnel and other resources required to accomplish the work scope of prime agreements between MFRD and external sponsors. These subcontracts may be terminated upon termination of the prime contract.

MFRD also entered into a contract with the University of Pittsburgh to procure additional resources for development of an organization to manage multi-site clinical trials. The contract period is December 1, 1997, through July 30, 2000. The schedule of payments provides for 10 equal quarterly payments of \$11,712 each. As of June 30, 1998, the remaining liability is \$93,696.

On June 1, 1998, MFRD entered into a contract with Guynes Design, Inc. for custom design of clinical space in the Union Heights Clinic, a project sponsored by the University's Healthy South Carolina Initiative Program. As of June 30, 1998, the remaining liability for the \$25,000 contract was \$12,500, which is payable upon completion of a site plan.

Consultancy agreements related to further research and development of ribozyme gene therapy sponsored by Hexal, Inc. are additional liabilities of MFRD. The agreements provide for consultancy payment to five researchers during the period beginning December 18, 1998 through September 30, 2000 for investigation, identification, and examination of research activities of interest and suitable to Hexal, Inc. and the University. The remaining contractual liability as of June 30, 1998 is \$474,140.

# The Medical University of South Carolina

## **27. SUBSEQUENT EVENTS AND OTHER MATTERS**

On October 16, 1995, the University signed a letter of intent with Columbia/HCA Healthcare Corporation to negotiate for the sale of assets associated with or employed in the operation of the Medical Center, and the lease of certain real estate. On February 9, 1996, the Board of Trustees of The Medical University of South Carolina approved in principle seven proposed agreements, and directed that the agreements be presented to the appropriate governmental bodies for review and approval.

On May 22, 1996, the General Assembly of the State of South Carolina authorized the University to enter into the agreements subject to satisfaction of the South Carolina State Budget and Control Board that the compensation paid reflected fair and reasonable value to the state of South Carolina, and that provisions were included in the lease and purchase agreements that would ensure compliance with the conditions set by the General Assembly. The Budget and Control Board approval was granted on August 27, 1996.

On July 24, 1996, a suit was filed in Circuit Court by a third party questioning whether the transaction is a constitutionally illegal joint venture and also questioning the reasonableness of the compensation paid to the state. On February 13, 1998, The South Carolina Circuit Court ruled that the statute authorizing the University to enter into the affiliation agreement with Columbia/HCA was invalid. The University has appealed the ruling to the South Carolina Supreme Court. A decision is expected by the end of 1998.

The Board of Trustees voted at its August, 1998 meeting to authorize the University to refinance its parking facilities revenue bonds and use the proceeds to defease the old bonds. The Board also authorized the refunding of Medical University Facilities Corporation's Certificates of Participation on Harborview Office Tower.

Charleston Memorial Hospital is negotiating a lease with a private company to lease 37 beds for use in a long-term care facility. The lease is expected to commence in November, 1998. The lease provides for CMH receiving \$10,000 per bed annually and includes an option to increase the number of beds by 22. The lease further provides for monthly rents to commence after a three month free rental period.

The State has authorized the University to issue \$20 million in State Institution Bonds to fund an addition to the Basic Science Building. This bond issue should occur in fiscal year 1999.

Supplemental  
Financial  
Schedules

# The Medical University of South Carolina

SCHEDULE 1

**SCHEDULE OF UNRESTRICTED CURRENT FUNDS ASSETS,  
LIABILITIES, AND FUND BALANCES**  
(COLLEGE AND UNIVERSITY BASIS OF ACCOUNTING)  
June 30, 1998

	<b>Academic Division</b>	<b>Medical Center</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 80,287,451	\$ 11,856,547	\$ 92,143,998
Accounts receivable:			
Patients	-	87,832,064	87,832,064
Less allowances	-	(20,369,740)	(20,369,740)
Medicare and Champus cost reimbursements, net	-	3,742,843	3,742,843
Students	1,373,022	-	1,373,022
Other	3,105,661	1,170,720	4,276,381
Accrued interest receivable	196	809,646	809,842
Inventories	604,609	9,658,853	10,263,462
Due from other funds	3,300,000	5,900,000	9,200,000
Due from Charleston Memorial Hospital	6,641,325	18,519,718	25,161,043
Due from University Medical Associates	456,650	8,550,035	9,006,685
Due from Pharmaceutical Education and Development Foundation	249,852	-	249,852
Due from MUSC Foundation for Research Development	35,865	-	35,865
Prepaid items	<u>1,442,863</u>	<u>1,017,850</u>	<u>2,460,713</u>
Total assets	<u>\$ 97,497,494</u>	<u>\$ 128,688,536</u>	<u>\$ 226,186,030</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 6,744,883	\$ 11,274,331	\$ 18,019,214
Accrued payroll and related liabilities	6,255,743	3,371,130	9,626,873
Accrued leave and related liabilities	16,959,122	10,044,023	27,003,145
Deferred revenues	1,240,371	-	1,240,371
Due to University Medical Associates	1,598,345	2,609,418	4,207,763
Other liabilities	<u>579,076</u>	<u>159,833</u>	<u>738,909</u>
Total liabilities	<u>33,377,540</u>	<u>27,458,735</u>	<u>60,836,275</u>
Fund balances	<u>64,119,954</u>	<u>101,229,801</u>	<u>165,349,755</u>
Total liabilities and fund balances	<u>\$ 97,497,494</u>	<u>\$ 128,688,536</u>	<u>\$ 226,186,030</u>

# The Medical University of South Carolina

SCHEDULE 2

## SCHEDULE OF UNRESTRICTED CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES

(COLLEGE AND UNIVERSITY BASIS OF ACCOUNTING)

For The Year Ended June 30, 1998

	Academic Division	Medical Center	Total
<b>REVENUES:</b>			
Student tuition and fees	\$ 11,401,488	\$ -	\$ 11,401,488
State appropriations	109,502,452	20,580,819	130,083,271
Federal grants and contracts	8,897,073	-	8,897,073
State grants and contracts	942,833	-	942,833
Local government grants and contracts	324,389	-	324,389
Private gifts, grants, and contracts	6,613,158	-	6,613,158
Interest and investment income	4,619	8,230,961	8,235,580
Sales and services of educational departments	7,557,369	-	7,557,369
Sales and services of Medical Center:			
Net patient service revenue	-	339,514,580	339,514,580
Disproportionate share revenue, net of match	-	48,674,904	48,674,904
Sales and services of auxiliary enterprises	2,829,353	-	2,829,353
Management fee from Charleston Memorial Hospital	3,016,613	-	3,016,613
Cafeteria sales	-	2,046,545	2,046,545
Other revenues	<u>15,769,810</u>	<u>2,616,775</u>	<u>18,386,585</u>
Total revenues	<u>166,859,157</u>	<u>421,664,584</u>	<u>588,523,741</u>
<b>EXPENDITURES:</b>			
Academic Division:			
Educational and general expenditures:			
Instruction:			
College of Medicine	41,178,669	-	41,178,669
College of Dental Medicine	7,715,454	-	7,715,454
College of Nursing	2,391,495	-	2,391,495
College of Pharmacy	2,833,729	-	2,833,729
College of Health Professions	8,499,963	-	8,499,963
College of Graduate Studies	95,708	-	95,708
Residents	23,072,814	-	23,072,814
Clinical education	15,900,000	-	15,900,000
Area Health Education Consortium	<u>17,281,462</u>	<u>-</u>	<u>17,281,462</u>
Total instruction expenditures	118,969,294	-	118,969,294
Research	15,524,254	-	15,524,254
Public service	18,322,150	-	18,322,150
Academic support	24,249,082	-	24,249,082
Student services	5,628,967	-	5,628,967
Institutional support	15,264,558	-	15,264,558
Operation and maintenance of plant	16,299,146	-	16,299,146
Scholarships and fellowships	<u>1,119,844</u>	<u>-</u>	<u>1,119,844</u>
Total educational and general expenditures	215,377,295	-	215,377,295

*Continued on next page*

# The Medical University of South Carolina

SCHEDULE 2

## SCHEDULE OF UNRESTRICTED CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES (Continued)

(COLLEGE AND UNIVERSITY BASIS OF ACCOUNTING)

For The Year Ended June 30, 1998

	Academic Division	Medical Center	Total
<b>EXPENDITURES: (Continued)</b>			
Mandatory transfers for:			
Loan fund matching grant	117,703	-	117,703
College work study matching grant	63,479	-	63,479
Total educational and general	215,558,477	-	215,558,477
Auxiliary enterprises expenditures	1,169,434	-	1,169,434
Mandatory transfers for principal and interest	712,635	-	712,635
Total auxiliary enterprises	1,882,069	-	1,882,069
Total Academic Division expenditures and mandatory transfers	217,440,546	-	217,440,546
Medical Center:			
Nursing services	-	122,326,558	122,326,558
Other professional services	-	148,619,102	148,619,102
General services	-	33,706,848	33,706,848
Fiscal and administrative services	-	82,259,910	82,259,910
Total Medical Center expenditures	-	386,912,418	386,912,418
Mandatory transfers for principal and interest	-	12,772,445	12,772,445
Total Medical Center expenditures and mandatory transfers	-	399,684,863	399,684,863
Total revenues over (under) expenditures and mandatory transfers	(50,581,389)	21,979,721	(28,601,668)
Other transfers and additions (deductions):			
Nonmandatory transfers to loan fund	(235,272)	-	(235,272)
Nonmandatory transfers to unexpended plant funds	-	(4,769,148)	(4,769,148)
Nonmandatory transfers from retirement of indebtedness	-	7,858,871	7,858,871
Nonmandatory transfers to retirement of indebtedness	(1,661,000)	-	(1,661,000)
Net transfers between current funds	76,914	-	76,914
Transfers between divisions	51,480,092	(51,480,092)	-
Transfers from University Medical Associates	2,423,245	5,243	2,428,488
Transfers from Pharmaceutical Education and Development Foundation	11,000	-	11,000
Indirect cost recoveries remitted to the State	(288,485)	-	(288,485)
Total other transfers and additions (deductions)	51,806,494	(48,385,126)	3,421,368
<b>Net increase (decrease) in fund balances</b>	<b>\$ 1,225,105</b>	<b>\$ (26,405,405)</b>	<b>\$ (25,180,300)</b>

# The Medical University of South Carolina

SCHEDULE 3

**SCHEDULE OF REVENUES AND EXPENSES OF  
THE MEDICAL UNIVERSITY OF SOUTH CAROLINA MEDICAL CENTER  
AND CHARLESTON MEMORIAL HOSPITAL  
(HEALTHCARE PROVIDERS BASIS OF ACCOUNTING)  
For The Year Ended June 30, 1998**

	<b>MUSC Medical Center</b>	<b>Charleston Memorial Hospital</b>
<b>Net patient service revenues</b> (Schedule 4)	\$ 388,189,484	\$ 26,732,253
<b>Other operating revenue:</b>		
State appropriations	20,580,819	-
Charleston County appropriations	-	1,656,173
Medical University of South Carolina contributed services	-	1,671,303
Interest and investment income	8,230,961	1,076,633
Cafeteria sales	2,046,545	-
Other revenues	2,616,775	3,121,511
Total operating revenue	421,664,584	34,257,873
<b>Operating expenses:</b>		
Nursing services	122,193,029	8,069,548
Other professional services	129,563,649	8,823,020
General services	33,690,035	2,918,829
Fiscal and administrative services	43,320,752	5,787,579
Provision for depreciation	13,854,916	637,953
Lease expense	-	1,716,420
Provision for uncollectables, net of recoveries	37,011,353	3,206,359
Interest expense	5,326,910	-
Total operating expenses	384,960,644	31,159,708
<b>Income (loss) from operations</b>	<b>36,703,940</b>	<b>3,098,165</b>
Non-operating revenue/(expenses):		
Contributions income	-	3,274
Loss on disposal of property and equipment	-	(84,826)
Total non-operating revenue	-	(81,552)
Excess of revenue over expenses before management fee	36,703,940	3,016,613
Management fee	-	(3,016,613)
Excess of revenue over expenses	<b>\$ 36,703,940</b>	<b>\$ -</b>

# The Medical University of South Carolina

SCHEDULE 4

## SCHEDULE OF NET PATIENT SERVICE REVENUE OF THE MEDICAL UNIVERSITY OF SOUTH CAROLINA MEDICAL CENTER AND CHARLESTON MEMORIAL HOSPITAL

(HEALTHCARE PROVIDERS BASIS OF ACCOUNTING)

For The Year Ended June 30, 1998

	<b>MUSC Medical Center</b>	<b>Charleston Memorial Hospital</b>
<b>Daily patient services:</b>		
Adults and pediatrics	\$ 48,343,815	\$ 4,944,061
Burn and trauma	3,001,235	-
Intensive care	15,146,829	746,526
Coronary care	2,615,536	-
Psychiatric	12,603,820	-
Nurseries	21,134,196	-
Rehabilitation	2,807,265	-
General Clinical Research Unit	<u>485,877</u>	<u>-</u>
Total daily patient services	<u>106,138,573</u>	<u>5,690,587</u>
<b>Other nursing services:</b>		
Operating rooms	26,417,823	327,092
Heart catheterization	8,782,770	-
Recovery rooms	4,655,060	-
Delivery and labor rooms	4,485,700	-
Central services and supply	<u>42,687,544</u>	<u>2,118,300</u>
Total other nursing services	<u>87,028,897</u>	<u>2,445,392</u>
<b>Other professional services:</b>		
Laboratories and laboratory support	49,959,275	4,173,447
Electrocardiology	7,026,316	347,262
Electroencephalography	844,725	-
Radiology	46,111,785	1,651,287
Outpatient and family practice clinics	16,919,172	1,682,040
Pharmacy	87,921,470	2,510,240
Anesthesiology	17,190,343	-
Physical/Occupational therapy	6,444,654	280,845
Respiratory therapy	10,922,579	1,523,260
Dialysis	1,884,657	-
Transplants	5,010,348	-
Ambulance/patient transportation	3,966,705	-
Other ancillary services	<u>7,850,895</u>	<u>144,815</u>
Total other professional services	<u>262,052,924</u>	<u>12,313,196</u>
<b>Less charity care</b>	<u>(27,382,756)</u>	<u>(6,545,036)</u>
Total patient services revenue	<u>427,837,638</u>	<u>13,904,139</u>
<b>Additions (deductions) to/from patient service revenue:</b>		
Contractual and administrative adjustments	(88,323,058)	(4,939,974)
Medicaid disproportionate share	80,283,492	29,306,357
Match for federal programs	<u>(31,608,588)</u>	<u>(11,538,269)</u>
Net additions (deductions) to/from patient service revenue	<u>(39,648,154)</u>	<u>12,828,114</u>
Net patient service revenue	<u>\$ 388,189,484</u>	<u>\$ 26,732,253</u>

# The Medical University of South Carolina

SCHEDULE 5

**SCHEDULE OF EXPENSES OF  
THE MEDICAL UNIVERSITY OF SOUTH CAROLINA MEDICAL CENTER  
AND CHARLESTON MEMORIAL HOSPITAL  
(HEALTHCARE PROVIDERS BASIS OF ACCOUNTING)  
For The Year Ended June 30, 1998**

	<b>MUSC Medical Center</b>	<b>Charleston Memorial Hospital</b>
<b>Nursing services:</b>		
Administration and education	\$ 7,746,513	\$ 437,923
Medical and surgical	24,804,410	2,627,304
Pediatrics	6,470,007	651,211
Burn and trauma units	3,683,531	-
Intensive care and close observation units	14,278,127	557,225
Coronary care units	1,425,393	-
Psychiatric	11,271,077	-
Nurseries	2,335,355	-
Operating rooms	28,327,764	199,125
Emergency rooms	-	2,465,499
Heart catheterization	4,819,981	-
Recovery rooms	1,689,664	-
Delivery and labor rooms	3,172,215	-
Central services and supply	9,484,703	1,131,261
Obstetrics	2,684,289	-
Total nursing services	\$ 122,193,029	\$ 8,069,548
<b>Other professional services:</b>		
Laboratories and laboratory support	22,127,225	1,761,880
Electrocardiology	3,096,907	107,512
Radiology	10,226,083	1,057,002
Pharmacy	32,688,651	1,221,580
Anesthesiology	4,808,887	-
Nuclear medicine	1,362,208	-
Respiratory therapy	5,006,942	572,678
Physical medicine	4,030,403	472,504
Dialysis	1,115,745	88,636
Pathology	1,821,586	-
Transplant	5,504,136	-
Transportation and other	14,882,351	437,809
Clinics	20,416,972	-
House staff	-	1,900,415
Professional support services:		
Medical records and quality assurance	2,475,553	1,001,329
Social services	-	201,675
Total other professional services	\$ 129,563,649	\$ 8,823,020
<b>General services:</b>		
Dietary	8,661,878	701,778
Plant operations and maintenance including security	18,788,071	1,322,768
Housekeeping	6,240,086	894,283
Total general services	\$ 33,690,035	\$ 2,918,829
<b>Fiscal and administrative services:</b>		
Admitting	2,219,401	1,019,590
Financial administration, accounting and data processing	16,491,060	737,354
Executive administration	8,741,598	963,632
Communications	695,771	-
Personnel, purchasing and other expenses	14,884,632	3,066,020
Auxiliary enterprise/gift shop	288,290	-
Other	-	983
Total fiscal and administrative services	\$ 43,320,752	\$ 5,787,579

# The Medical University of South Carolina

## **NOTES TO SCHEDULES 3, 4, AND 5 OF THE MEDICAL UNIVERSITY OF SOUTH CAROLINA MEDICAL CENTER AND CHARLESTON MEMORIAL HOSPITAL (HEALTHCARE PROVIDERS BASIS OF ACCOUNTING) JUNE 30, 1998**

1. Revenue and expenses of The Medical University of South Carolina Medical Center and Charleston Memorial Hospital included on Schedules 3, 4, and 5 are presented in accordance with generally accepted accounting principles as applied to healthcare providers. The Medical Center's operating revenues and expenses presented on this basis differ from the current funds revenues and expenditures as shown on Schedule 2 which is presented in accordance with the college and university basis of accounting. Several significant differences include the following.
  - a. Current funds expenditures included on Schedule 2, but not included in operating expenses on Schedule 3 and 5:
    - Principal payments on capital leases,
    - Expenditures for property, plant and equipment, and
    - Mandatory and other transfers.
  - b. Operating expenses included on Schedule 3, but not included on Schedule 2:
    - Depreciation, and
    - Interest expense on Hospital Facilities Revenue bonds.
2. Depreciation included in this summary has been calculated on a straight-line basis over the estimated useful lives of depreciable property, plant, and equipment.