



KPMG LLP
Suite 400
300 North Greene Street
Greensboro, NC 27401

Independent Auditors' Report

Board of Trustees
Medical University of South Carolina
Charleston, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Medical University of South Carolina (the University), a department of the State of South Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents. We did not audit the financial statements of the Medical University of South Carolina Foundation and the MUSC Foundation for Research Development. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Medical University of South Carolina Foundation and the MUSC Foundation for Research Development is based on the reports of the other auditors.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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



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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Medical University of South Carolina, as of June 30, 2014, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 22 to the financial statements, during fiscal year 2014, the University adopted Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 17 through 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The combining nonmajor enterprise fund financial statements and the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor enterprise fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor enterprise fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.



Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2014 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

Greensboro, North Carolina
October 10, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplementary Information (unaudited)

Introduction

The management of The Medical University of South Carolina offers readers of the financial statements this narrative overview and analysis of the financial position and activities of The Medical University of South Carolina for the fiscal year ended June 30, 2014 with comparative information for the year ended June 30, 2013. Management's discussion and analysis (MD&A) will focus on the financial position and operations of the primary institution (the University) and the blended component unit that is reported as a major fund, University Medical Associates (UMA). This discussion should be read in conjunction with our letter of transmittal in the introductory section of this report and with the accompanying financial statements and notes.

Financial Highlights

At June 30, 2014, total assets and deferred outflows reported by the University were \$913.0 million and total liabilities were \$280.7 million. Net position, which represent the residual interest in the University's assets after liabilities are deducted, increased \$14.1 million in fiscal year 2014 from \$618.0 (as restated) to \$632.1 million. Of the total net position, \$75.8 million represents unrestricted net position which may be used to meet the University's ongoing obligations. The University's operating revenues for the fiscal year 2014 decreased \$12.4 million, or 2.7 percent, from fiscal year 2013 to \$442.4 million. Operating expenses decreased by \$6.4 million, or 1.0 percent, from fiscal year 2013 to \$602.2 million. Net non-operating revenue for fiscal year 2014 was \$96.3 million, as compared to \$92.2 million for fiscal year 2013.

At June 30, 2014, UMA reported total assets and deferred outflows of \$340.9 million and total liabilities of \$114.4 million. Net position was \$226.5 million, an increase of \$11.6 million, or 5.4 percent, from the previous year's net position of \$214.9 million (as restated). Of this amount, \$180.9 million represents unrestricted net position which is available to meet UMA's ongoing obligations. UMA's operating revenues for the fiscal year 2014 increased \$13.2 million, or 4.1 percent, from fiscal year 2013 to \$339.2 million. Operating expenses increased by \$1.3 million, or 0.5 percent, over fiscal year 2013 to \$262.4 million. Net non-operating expense for fiscal year 2014 was \$0.5 million, as compared to net non-operating revenue of \$2.5 million for fiscal year 2013.

Overview of the Financial Statements

The financial report includes three financial statements:

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

These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles as prescribed in GASB Statement No. 35, *Basic Financial Statements – Management's Discussion and Analysis – for Public Colleges and Universities*. This statement establishes standards for external financial reporting for public colleges and universities, and requires that financial statements be presented on an entity-wide basis to focus on the university as a whole rather than on individual fund groups.

Statement of Net Position

The Statement of Net Position presents the financial position as of the end of the fiscal year and includes all assets, liabilities, deferred outflows, and deferred inflows of the entity. Cash and investments are generally reported at fair values. Capital assets are reported at historical cost less an allowance for depreciation. The difference between total assets and deferred outflows, and total liabilities and deferred inflows (net position) is one indicator of the current financial condition, while the change in net position is an indicator of whether the overall financial condition has improved or worsened during the current year. From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the entity, and how much is owed to vendors, investors, and lending institutions. Finally, the Statement of Net Position provides a picture of the net position and its availability for expenditure.

Net position is classified into components as follows:

- ◆ Net investment in capital assets represents the investment in property, plant, and equipment less any related debt used to acquire those assets .
- ◆ Restricted nonexpendable net position consist of the University's permanent endowment funds.
- ◆ Restricted expendable net position is available for expenditure, but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets.
- ◆ Unrestricted net position is available for any lawful purpose of the entity.

MEDICAL UNIVERSITY OF SOUTH CAROLINA

Unaudited

As discussed in Note 22 of the Notes to Financial Statements, the University implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for fiscal year 2014. The following table reflects comparative data for fiscal year 2013 as it was originally reported prior to the implementation of GASB 65.

Summary of Net Position
Amounts in thousands

	The University		University Medical Associates		Nonmajor Enterprise Funds	
	2014	2013	2014	2013	2014	2013
Assets						
Current assets	\$ 243,922	\$ 226,189	\$ 224,003	\$ 207,690	\$ 4,204	\$ 3,826
Noncurrent assets						
Capital assets, net	537,017	552,439	77,418	77,952	-	-
Other assets & deferred outflows	131,803	133,389	39,487	24,658	18,309	20,589
Total assets & deferred outflows	912,742	912,017	340,908	310,300	22,513	24,415
Liabilities						
Current liabilities	125,643	128,491	35,082	31,435	2,800	2,657
Noncurrent liabilities	155,036	164,817	79,304	63,434	18,484	20,481
Total liabilities	280,679	293,308	114,386	94,869	21,284	23,138
Net Position						
Net investment in capital assets	376,357	388,791	45,657	45,325	-	-
Restricted						
Nonexpendable	85,025	79,072	-	-	-	-
Expendable	94,912	74,979	-	-	1,229	1,277
Unrestricted	75,769	75,867	180,865	170,106	-	-
Total net position	\$ 632,063	\$ 618,709	\$ 226,522	\$ 215,431	\$ 1,229	\$ 1,277

	Interfund Capital Lease Eliminations		Total Primary Government	
	2014	2013	2014	2013
Assets				
Current assets	\$ (2,278)	\$ (2,127)	\$ 469,851	\$ 435,578
Noncurrent assets				
Capital assets, net	-	-	614,435	630,391
Other assets & deferred outflows	(16,285)	(18,563)	173,314	160,073
Total assets & deferred outflows	(18,563)	(20,690)	1,257,600	1,226,042
Liabilities				
Current liabilities	(2,278)	(2,127)	161,247	160,456
Noncurrent liabilities	(16,285)	(18,563)	236,539	230,169
Total liabilities	(18,563)	(20,690)	397,786	390,625
Net Position				
Net investment in capital assets	-	-	422,014	434,116
Restricted				
Nonexpendable	-	-	85,025	79,072
Expendable	-	-	96,141	76,256
Unrestricted	-	-	256,634	245,973
Total net position	\$ -	\$ -	\$ 859,814	\$ 835,417

The University's total assets & deferred outflows increased \$0.7 million or 0.1 percent. Total liabilities decreased \$12.6 million from fiscal year 2014 to fiscal year 2013, primarily due to a decrease in long-term liabilities resulting primarily from scheduled debt repayments.

UMA's total assets & deferred outflows increased \$30.6 million in fiscal year 2014 while liabilities increased \$19.5 million. These increases were due in part to the reclassification of the deferred loss on refunding of debt from a reduction of noncurrent liabilities to a deferred outflow (see Note 1). UMA's unrestricted net position increased \$10.8 million from \$170.1 million at the end of fiscal year 2013 to \$180.9 million at the end of fiscal year 2014.

MEDICAL UNIVERSITY OF SOUTH CAROLINA

Unaudited

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. Operating revenues are earned by providing goods and services to various customers and constituencies. Operating expenses are incurred to acquire or produce the goods and services and to carry out the mission of the entity. Non-operating revenues are revenues received for which goods and services are generally not provided. A public university's dependence on state aid and gifts usually results in operating deficits because state appropriations and gifts are classified as nonoperating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which spreads the cost of an asset over its expected useful life.

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

As discussed in Note 22 of the Notes to Financial Statements, the University implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for fiscal year 2014. While the net position at the beginning of fiscal year 2014 has been adjusted for the impact of GASB 65, the following table reflects comparative data for fiscal year 2013 as it was originally reported prior to the implementation of GASB 65.

Summary of Revenues, Expenses and Changes in Net Position

Amounts in thousands

	The University		University Medical Associates		Nonmajor Enterprise Funds	
	2014	2013	2014	2013	2014	2013
Operating revenues	\$ 442,431	\$ 454,800	\$ 339,214	\$ 325,988	\$ 1,090	\$ 1,331
Operating expenses	(602,225)	(608,612)	(262,414)	(261,120)	(1,071)	(1,543)
Operating income (loss)	(159,794)	(153,812)	76,800	64,868	19	(212)
Nonoperating revenues	122,340	104,660	8,423	10,102	-	-
Nonoperating expenses	(26,073)	(12,492)	(8,882)	(7,651)	-	-
Net nonoperating revenues (expenses)	96,267	92,168	(459)	2,451	-	-
Income (loss) before other revenues, expenses, gains, losses, and transfers	(63,527)	(61,644)	76,341	67,319	19	(212)
Capital appropriations	4,623	13,280	-	-	-	-
Capital grants and gifts	2,583	4,710	-	-	-	-
Additions to permanent endowments	5,953	2,549	-	-	-	-
Transfers	64,459	60,663	(64,759)	(59,793)	300	(870)
Change in net position	14,091	19,558	11,582	7,526	319	(1,082)
Net position at beginning of year, as restated	617,972	599,151	214,940	207,905	910	2,359
Net position at end of year	\$ 632,063	\$ 618,709	\$ 226,522	\$ 215,431	\$ 1,229	\$ 1,277

	Interfund Capital Lease Eliminations		Total Primary Government	
	2014	2013	2014	2013
Operating revenues	\$ (1,028)	\$ (1,220)	\$ 781,707	\$ 780,899
Operating expenses	-	-	(865,710)	(871,275)
Operating income (loss)	(1,028)	(1,220)	(84,003)	(90,376)
Nonoperating revenues	-	-	130,763	114,762
Nonoperating expenses	1,028	1,220	(33,927)	(18,923)
Net nonoperating revenues (expenses)	1,028	1,220	96,836	95,839
Income (loss) before other revenues, expenses, gains, losses, and transfers	-	-	12,833	5,463
Capital appropriations	-	-	4,623	13,280
Capital grants and gifts	-	-	2,583	4,710
Additions to permanent endowments	-	-	5,953	2,549
Transfers	-	-	-	-
Change in net position	-	-	25,992	26,002
Net position at beginning of year, as restated	-	-	833,822	809,415
Net position at end of year	\$ -	\$ -	\$ 859,814	\$ 835,417

MEDICAL UNIVERSITY OF SOUTH CAROLINA

Unaudited

Revenues

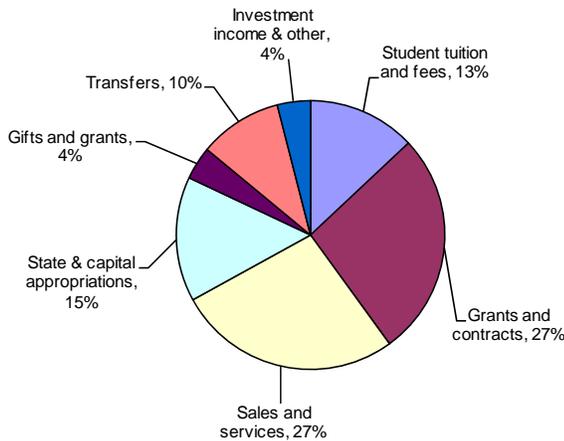
The University's daily operations are funded primarily from grants and contracts, sales and services, and State and capital appropriations. These three sources account for 69 percent of the total fiscal year 2014 revenues of \$642.4 million and 71 percent of the total fiscal year 2013 revenues of \$640.7 million. The following table and chart illustrate the University's revenues by source.

Revenues by Source – The University

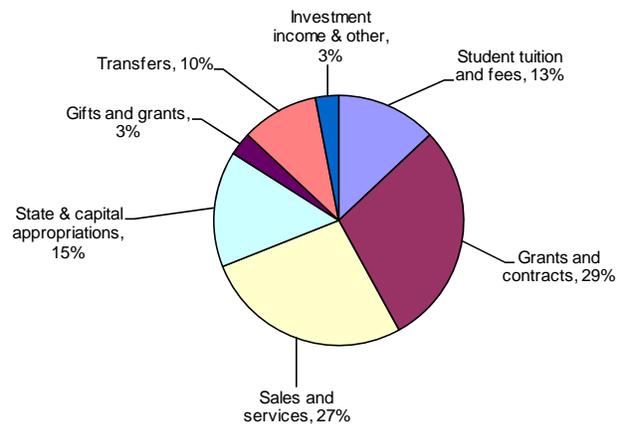
Amounts in thousands

	<u>2014</u>	<u>Percent Of Total</u>	<u>2013</u>	<u>Percent Of Total</u>
Operating revenues				
Student tuition and fees	\$ 86,674	13%	\$ 82,352	13%
Grants and contracts	172,482	27%	187,126	29%
Sales and services	173,053	27%	175,384	27%
Other operating revenues	<u>10,222</u>	<u>2%</u>	<u>9,938</u>	<u>2%</u>
Total operating revenues	<u>442,431</u>	<u>69%</u>	<u>454,800</u>	<u>71%</u>
Nonoperating and other revenues				
State & capital appropriations	97,488	15%	95,605	15%
Gifts and grants	26,645	4%	21,145	3%
Investment income	11,366	2%	8,449	1%
Transfers	<u>64,459</u>	<u>10%</u>	<u>60,663</u>	<u>10%</u>
Total nonoperating and other revenues	<u>199,958</u>	<u>31%</u>	<u>185,862</u>	<u>29%</u>
Total revenues	<u><u>\$ 642,389</u></u>	<u><u>100%</u></u>	<u><u>\$ 640,662</u></u>	<u><u>100%</u></u>

2014



2013



In fiscal year 2014, the University's total revenues increased by \$1.7 million from the previous fiscal year. Tuition revenues increased \$4.3 million. Grants and contracts decreased \$14.6 million due to the net effect of decreases in state and federal grant revenues and an increase in nongovernmental grant revenues. Sales and services revenues decreased \$2.3 million primarily due to a decrease in the supplemental Medicaid payments designated for UMA and increases in auxiliary and other services revenue.

State appropriations, capital and non capital, increased \$1.9 million primarily due to an increase in operating appropriations, new appropriations for telemedicine designated for the Authority, net of a decrease in appropriations to fund deferred maintenance and the impact of the one-time FY 2013 appropriation designated for the Authority for the Ashley River Tower. State appropriations included \$18.6 million in fiscal year 2014 and fiscal year 2013 which was subsequently paid to the Authority as part of the Disproportionate Share Program administered by the South Carolina Department of Health and Human Services.

MEDICAL UNIVERSITY OF SOUTH CAROLINA

Unaudited

Gifts and grants increased \$5.5 million primarily due to the net effect of increases in permanent endowment additions and gifts from the Medical University of South Carolina Foundation and a decrease in capital grants. Investment income increased \$2.9 million primarily due to increased earnings and realized and unrealized gains (losses) from endowments.

Operating Revenue by Source for the Major Blended Component Unit

Amounts in thousands

	University Medical Associates	
	2014	2013
Net patient service revenue	\$ 323,760	\$ 312,252
Educational agreements	5,988	6,077
Other operating revenue	9,466	7,659
Total operating revenue	\$ 339,214	\$ 325,988

UMA's net patient service revenue increased \$11.5 million. Other operating revenue increased \$1.8 million primarily due to an increase in support from the Medical University Hospital Authority for various clinical initiatives during fiscal year 2014 and a reclassification of certain payments for salary reimbursements as a contra-expense.

Nonoperating revenues decreased \$1.7 million primarily due to a loss on the sale of an investment in one of its partnerships.

Expenses

The University's total expenses were \$628.3 million in fiscal year 2014, up \$7.2 million from \$621.1 million in fiscal year 2013.

Non-operating expenses included in the University's total expenses amounted to \$26.1 million and \$12.5 million in fiscal years 2014 and 2013, respectively. This \$13.6 million increase was primarily due to an increase in the pass-through state appropriations paid to the Authority, a federal capital grant in fiscal year 2014 for the Authority, an increase in the loss on disposition of capital assets in fiscal year 2014, net of the impact in fiscal year 2013 of additional interest related to the medical resident FICA refund.

The University's operating expenses were \$602.2 million for the fiscal year ended June 30, 2014, a decrease of \$6.4 million from fiscal year 2013. The decrease of 1.0 percent resulted primarily from the net impact of increases of \$2.8 million in compensation and employee benefits and \$2.6 million in scholarships and fellowships and a decrease of \$10.5 million in services and supplies. The decrease in services and supplies included a \$5.6 million decrease in the supplemental Medicaid payments designated for UMA.

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

Operating Expenses by Object – The University

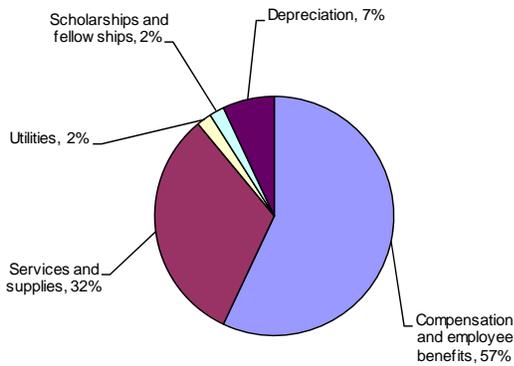
Amounts in thousands

	2014	Percent Of Total	2013	Percent Of Total
	Compensation and employee benefits	\$ 344,183	57%	\$ 341,377
Services and supplies	191,427	32%	201,935	33%
Utilities	13,488	2%	13,332	2%
Scholarships and fellowships	13,517	2%	10,880	2%
Depreciation	39,610	7%	41,088	7%
Total operating expenses	\$ 602,225	100%	\$ 608,612	100%

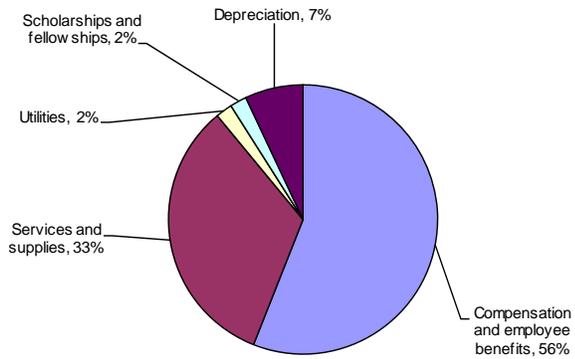
MEDICAL UNIVERSITY OF SOUTH CAROLINA

Unaudited

2014



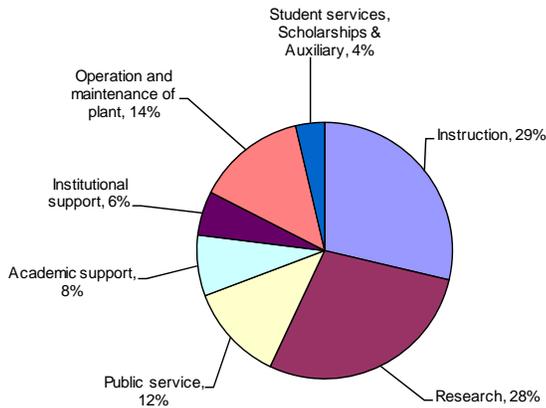
2013



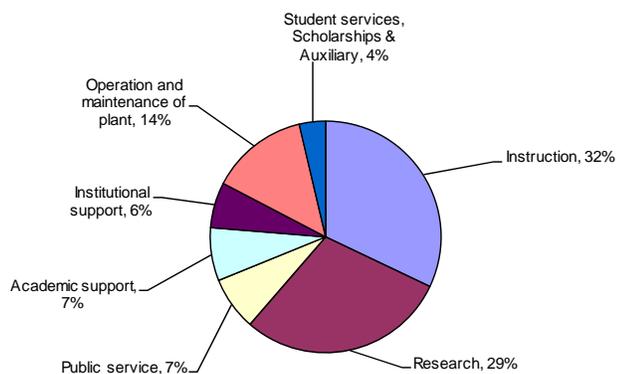
Operating Expenses by Function – The University
Amounts in thousands

	2014	Percent Of Total	2013	Percent Of Total
Instruction	\$ 172,648	29%	\$ 195,119	32%
Research	170,663	28%	178,477	29%
Public service	73,866	12%	45,580	7%
Academic support	46,243	8%	45,032	7%
Student services	8,140	1%	8,388	1%
Institutional support	33,449	6%	38,686	6%
Operation and maintenance of plant	83,325	14%	83,346	14%
Scholarships and fellowships	3,673	1%	3,321	1%
Auxiliary enterprises	10,218	2%	10,663	2%
Total operating expenses	\$ 602,225	100%	\$ 608,612	100%

2014



2013



Unaudited

UMA's operating expenses increased by \$1.3 million due an increase in faculty salaries under various incentivized compensation arrangements and training costs associated with the EPIC revenue cycle software implementation. UMA's nonoperating expenses increased \$1.2 million primarily due to an increase in gifts to the Medical University of South Carolina Foundation.

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the cash activity during the year. This statement aids in the assessment of the entity's ability to generate future net cash flows and to meet obligations and commitments as they come due. The University's primary sources of operating and noncapital related cash in fiscal 2014 were state appropriations, grants and contracts, sales and services of educational and other activities, and tuition and fees. Primary uses of these cash sources were salaries and benefits for faculty, staff, and student employees, and payments to suppliers of goods and services.

The statement is divided into five sections.

- ◆ The University's cash flows from operating activities include cash received for tuition and research grants, salaries paid to employees and payments to vendors. Since State appropriations and gifts are not considered operating revenues, operating activities of the University produced a net cash outflow of \$114.3 million.
- ◆ The University's non-capital financing activities, which include State appropriations received for operations and noncapital gifts and transfers, generated a net cash inflow of \$182.9 million.
- ◆ The University's capital and related financing activities include the proceeds received from the issuance of long-term debt obligations, capital grants and gifts received, repayment of debt, and acquisition of capital assets. Debt proceeds, capital appropriations, grants and gifts received in the current year were more than offset by capital expenditures and payments on debt, resulting in a net cash outflow of \$45.9 million.
- ◆ The University's investing activities consisted of \$2.9 million of earnings on investments and \$6.0 million of endowment corpus deposited with the Medical University of South Carolina Foundation.
- ◆ The last section of the statement reconciles the net cash provided or used by operating activities to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Position.

Capital Asset and Debt Activities

The following is a summary of capital asset and long-term debt activity for the University and its major blended component unit for fiscal year 2014. More detailed information can be found in Note 5 (Capital Assets), Note 12 (Bonds and Notes Payable) and Note 13 (Lease Obligations) of the Notes to the Financial Statements.

Capital Assets, Net of Depreciation

Amounts in thousands

	The University		University Medical Associates	
	2014	2013	2014	2013
Land	\$ 11,646	\$ 11,646	\$ 10,759	\$ 10,759
Construction in progress	33,404	30,252	7,714	3,042
Land improvements	6,853	6,140	-	-
Buildings and improvements	427,549	434,205	48,629	51,465
Machinery and equipment	57,204	69,795	6,989	8,450
Vehicles	361	401	3,327	4,236
	<u>\$ 537,017</u>	<u>\$ 552,439</u>	<u>\$ 77,418</u>	<u>\$ 77,952</u>

The University

Capital additions, net of the change in construction in progress, totaled \$31.3 million in fiscal year 2014 and consisted primarily of costs associated with renovations to administrative and laboratory space, and investments in medical, scientific and laboratory equipment.

The University had outstanding commitments under construction contracts related to these and other projects of approximately \$14.5 million at June 30, 2014. These projects are being funded by bond proceeds, federal grants, state appropriations, restricted gifts, and unrestricted university funds.

MEDICAL UNIVERSITY OF SOUTH CAROLINA

Unaudited

University Medical Associates

UMA's investment in capital assets, net of accumulated depreciation as of June 30, 2014 was \$77.4 million. Significant capital additions in fiscal year 2014 included implementation costs related to the EPIC revenue cycle software system and renovations and equipment for new clinics.

The following table shows the amounts and types of bonds, notes, and capital leases outstanding as of June 30, 2014.

Bonds, Notes, Capital Lease Obligations, and Interfund Payables

Amounts in thousands

	The University		University Medical Associates	
	2014	2013	2014	2013
State institution bonds, net	\$ 40,517	\$ 45,075	\$ -	\$ -
State bond anticipation notes	28,000	28,000	-	-
Revenue bonds, net	31,160	32,415	-	-
Notes payable	-	3,215	17,378	21,169
Variable rate demand bonds	-	-	62,085	62,085
Capital lease obligations	577	835	-	-
Due to component unit	44,346	44,914	-	-
Interfund payables	18,563	20,690	-	-
	<u>\$ 163,163</u>	<u>\$ 175,144</u>	<u>\$ 79,463</u>	<u>\$ 83,254</u>

The University

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

State Institution Bonds (SIB)

These bonds require the University to pledge revenue from student tuition for the repayment of this debt. If the University fails to repay this debt, the State would repay the debt because these bonds are backed by the State's full faith, credit and taxing power. The proceeds from SIBs provided a portion of the funding for the Harper Student Center, the site for the Strom Thurmond Biomedical Research Facility, the Storm Eye Institute addition, the Children's Research Institute, and a number of major renovation projects. The University's SIBs are general obligation bonds of the State of South Carolina. Moody's Investors Services rates them as "Aaa". At June 30, 2014, the net SIB payable totaled \$68.5 million and included a \$28 million State Bond Anticipation Note originally issued to help fund the construction of the School of Dental Medicine Building.

Revenue Bonds

In fiscal year 2007, the University issued a \$38 million revenue bond for the purpose of financing a new parking garage which opened in the Fall of 2008.

Notes Payable

On October 3, 2008, the Board of Trustees approved a resolution authorizing the University to use the South Carolina Master Lease Program for the purpose of financing the costs of purchasing and implementing energy conservation measures that will benefit both the University and the Authority with the understanding that debt service payments will be generated from the associated energy savings. Pursuant to this resolution, the University borrowed \$15,387,340 from Bank of America during fiscal year 2009. The final payment due on this borrowing was made during fiscal year 2014.

Capital Leases

The University has outstanding capital leases with Medical University Facilities Corporation (MUFC), a blended component unit, for Harborview Office Tower and a portion of the Strom Thurmond Biomedical Research Center. Monthly payments are made to a financial institution as trustee under the leases. At June 30, 2014, the capital lease liability payable to MUFC totaled \$2.6 million. The University also has an outstanding capital lease with CHS Development Company (CHS), a blended component unit, for the College of Health Professions complex and a parking garage. Monthly payments are made to a financial institution as trustee under this lease. At June 30, 2014, the capital lease liability payable to CHS was \$16.0 million. The leases with these blended component units are considered Interfund Payables.

In fiscal year 2009, the University entered into capital leases with the Medical University of South Carolina Foundation (MUSCF), a discretely presented component unit, for a garage and two office buildings. As of June 30, 2014, the capital lease liability payable to MUSCF, which is reflected as Due to Component Unit, totaled \$44.3 million.

In addition, the University has \$0.6 million in capital leases payable at June 30, 2014 for various pieces of equipment.

Unaudited

Sources Other Than Debt

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

- ◆ *Federal grants.* Grants were received from the federal government for some of the construction costs of the Hollings Cancer Center, the Drug Discovery and Biosciences Buildings, and the Bee Street Parking Garage. The University is not obligated to repay these monies.
- ◆ *State Capital Improvement Bonds.* The State issues these bonds and makes the proceeds available for the University to spend on approved projects. The University used capital improvement bond proceeds to partially fund the construction of the new College of Dental Medicine Building. The University is not obligated to repay these funds to the State, therefore, the debt is not recorded on the University's financial statements.
- ◆ *Research Infrastructure Bonds.* The State issues these bonds and makes the proceeds available for the University to spend on approved projects. The University used research infrastructure bond proceeds to fund the construction of a new Drug Discovery Building and a Bioengineering Building. The University is not obligated to repay these funds to the State; therefore, the debt is not recorded in the University's financial statements.
- ◆ *Private Gifts and Grants.* Cash and other resources donated to the MUSC Foundation are periodically transferred to the University for capital projects.

University Medical Associates

At June 30, 2014, UMA had \$79.5 million in outstanding bonds, notes and capital lease obligations compared to \$83.3 million outstanding in the prior year, a decrease of 4.6 percent.

Requests for Information

These financial statements are designed to provide a general overview of The Medical University of South Carolina and its component units' financial activities and to demonstrate the University's accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Controller's Office, Medical University of South Carolina, 19 Hagood Avenue, Suite 505, MSC 817, Charleston, South Carolina, 29425. These financial statements may also be obtained from our website:

<http://academicdepartments.musc.edu/vpfa/financialreports>

MEDICAL UNIVERSITY OF SOUTH CAROLINA

STATEMENT OF NET POSITION

June 30, 2014

	The University	University Medical Associates	Nonmajor Enterprise Funds	Interfund Capital Leases Elimination	Total Primary Government
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 144,858,359	\$ 77,154,699	\$ -	\$ -	\$ 222,013,058
Investments	-	79,401,318	-	-	79,401,318
Receivables, net	42,457,020	42,284,267	7,026	-	84,748,313
Student loans receivable	54,014	-	-	-	54,014
Due from other funds	-	21,938,527	-	-	21,938,527
Due from component units	7,806,604	1,161,896	-	-	8,968,500
Prepaid items	4,414,107	338,226	156,349	-	4,908,682
Restricted assets					
Cash and cash equivalents	24,304,614	-	729,272	-	25,033,886
Investments	-	-	1,033,606	-	1,033,606
Due from component units	18,759,490	-	-	-	18,759,490
Interfund receivables	-	-	2,277,496	(2,277,496)	-
Student loans receivable	1,267,473	-	-	-	1,267,473
Other current assets	-	1,724,171	-	-	1,724,171
Total current assets	<u>243,921,681</u>	<u>224,003,104</u>	<u>4,203,749</u>	<u>(2,277,496)</u>	<u>469,851,038</u>
Noncurrent Assets					
Investments	-	9,390,700	-	-	9,390,700
Student loans receivable	505,421	-	-	-	505,421
Restricted assets					
Cash and cash equivalents	35,395,516	-	-	-	35,395,516
Investments	-	-	213,000	-	213,000
Due from component units	84,297,244	-	-	-	84,297,244
Interfund receivables	-	-	16,285,460	(16,285,460)	-
Student loans receivable	10,759,885	-	-	-	10,759,885
Prepaid items	-	8,171,717	1,333,503	-	9,505,220
Investment in partnerships	-	731,195	-	-	731,195
Capital assets, net of accumulated depreciation	537,016,796	77,418,426	-	-	614,435,222
Total noncurrent assets	<u>667,974,862</u>	<u>95,712,038</u>	<u>17,831,963</u>	<u>(16,285,460)</u>	<u>765,233,403</u>
Total assets	<u>911,896,543</u>	<u>319,715,142</u>	<u>22,035,712</u>	<u>(18,562,956)</u>	<u>1,235,084,441</u>
DEFERRED OUTFLOWS					
Deferred loss on refunding of debt	845,404	17,459,127	477,705	-	18,782,236
Accumulated decrease in fair value of hedging derivatives	-	3,733,549	-	-	3,733,549
Total assets and deferred outflows	<u>912,741,947</u>	<u>340,907,818</u>	<u>22,513,417</u>	<u>(18,562,956)</u>	<u>1,257,600,226</u>
LIABILITIES					
Current liabilities					
Payables and accrued liabilities	23,896,240	29,230,697	325,416	-	53,452,353
Due to other funds	21,938,527	-	-	-	21,938,527
Due to component units	613,858	-	-	-	613,858
Unearned revenues	22,560,044	-	-	-	22,560,044
Interfund payables	2,277,496	-	-	(2,277,496)	-
Long-term liabilities	48,438,709	5,851,148	2,475,000	-	56,764,857
Other current liabilities	5,917,996	-	-	-	5,917,996
Total current liabilities	<u>125,642,870</u>	<u>35,081,845</u>	<u>2,800,416</u>	<u>(2,277,496)</u>	<u>161,247,635</u>
Noncurrent liabilities					
Interfund payables	16,285,460	-	-	(16,285,460)	-
Due to component unit	43,732,055	-	-	-	43,732,055
Federal loan program liability	14,392,681	-	-	-	14,392,681
Long-term liabilities	80,626,039	77,044,306	18,484,000	-	176,154,345
Fair value of derivative instruments	-	2,259,686	-	-	2,259,686
Total noncurrent liabilities	<u>155,036,235</u>	<u>79,303,992</u>	<u>18,484,000</u>	<u>(16,285,460)</u>	<u>236,538,767</u>
Total liabilities	<u>280,679,105</u>	<u>114,385,837</u>	<u>21,284,416</u>	<u>(18,562,956)</u>	<u>397,786,402</u>
NET POSITION					
Net investment in capital assets	376,357,119	45,656,765	-	-	422,013,884
Restricted					
Nonexpendable	85,024,831	-	-	-	85,024,831
Expendable for					
Education	32,028,907	-	-	-	32,028,907
Loans	3,898,912	-	-	-	3,898,912
Capital projects	56,190,058	-	-	-	56,190,058
Debt service	2,794,383	-	1,229,001	-	4,023,384
Unrestricted	75,768,632	180,865,216	-	-	256,633,848
Total net position	<u>\$ 632,062,842</u>	<u>\$ 226,521,981</u>	<u>\$ 1,229,001</u>	<u>\$ -</u>	<u>\$ 859,813,824</u>

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

MEDICAL UNIVERSITY OF SOUTH CAROLINA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the year ended June 30, 2014

	The University	University Medical Associates	Nonmajor Enterprise Funds	Interfund Capital Leases Elimination	Total Primary Government
Operating revenues					
Student tuition and fees (net of scholarship allowances of \$ 4,436,654)	\$ 86,674,227	\$ -	\$ -	\$ -	\$ 86,674,227
Federal operating grants and contracts	133,548,441	-	-	-	133,548,441
State operating grants and contracts	6,787,551	-	-	-	6,787,551
Local government operating grants and contracts	15,403	-	-	-	15,403
Nongovernmental operating grants and contracts	32,129,924	-	-	-	32,129,924
Sales and services provided to Medical University Hospital Authority	102,447,829	-	-	-	102,447,829
Sales and services of educational and other activities	57,779,323	-	-	-	57,779,323
Net patient service revenue	-	323,759,830	-	-	323,759,830
Ambulatory care and Medical University Hospital Authority revenue cycle support	-	5,988,202	-	-	5,988,202
Auxiliary enterprises	12,826,076	-	-	-	12,826,076
Interest income (used as security for revenue bonds and notes)	-	-	1,056,731	(1,028,146)	28,585
Other operating revenues	10,222,148	9,466,177	33,029	-	19,721,354
Total operating revenues	442,430,922	339,214,209	1,089,760	(1,028,146)	781,706,745
Operating expenses					
Compensation and employee benefits	344,182,630	191,561,416	-	-	535,744,046
Services and supplies	191,427,101	64,703,354	6,377	-	256,136,832
Utilities	13,487,919	587,577	-	-	14,075,496
Scholarships and fellowships	13,517,479	-	-	-	13,517,479
Interest expense	-	-	907,670	-	907,670
Depreciation and amortization	39,610,061	5,562,113	156,349	-	45,328,523
Total operating expenses	602,225,190	262,414,460	1,070,396	-	865,710,046
Operating income (loss)	(159,794,268)	76,799,749	19,364	(1,028,146)	(84,003,301)
Nonoperating revenues (expenses)					
State appropriations	92,865,399	-	-	-	92,865,399
Gifts and grants	18,108,645	-	-	-	18,108,645
Gifts made	-	(4,722,912)	-	-	(4,722,912)
Investment income	11,365,882	5,282,284	-	-	16,648,166
Interest expense	(7,585,684)	(4,156,102)	-	1,028,146	(10,713,640)
Loss on disposition of capital assets	(7,124,692)	(2,713)	-	-	(7,127,405)
Transfers to other state funds	(462,615)	-	-	-	(462,615)
Other nonoperating revenues (expenses)	(10,900,102)	3,140,494	-	-	(7,759,608)
Net nonoperating revenues (expenses)	96,266,833	(458,949)	-	1,028,146	96,836,030
Income (loss) before other revenues, expenses, gains, losses, and transfers	(63,527,435)	76,340,800	19,364	-	12,832,729
Capital appropriations	4,623,166	-	-	-	4,623,166
Capital grants and gifts	2,582,345	-	-	-	2,582,345
Additions to permanent endowments	5,953,260	-	-	-	5,953,260
Interfund transfers	64,459,025	(64,758,613)	299,588	-	-
Change in net position	14,090,361	11,582,187	318,952	-	25,991,500
Net position at beginning of year, as restated	617,972,481	214,939,794	910,049	-	833,822,324
Net position at end of year	\$ 632,062,842	\$ 226,521,981	\$ 1,229,001	\$ -	\$ 859,813,824

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

MEDICAL UNIVERSITY OF SOUTH CAROLINA

STATEMENT OF CASH FLOWS
For the year ended June 30, 2014

	The University	University Medical Associates	Nonmajor Enterprise Funds	Interfund Capital Leases Elimination	Total Primary Government
CASH FLOWS FROM OPERATING ACTIVITIES					
Student tuition and fees	\$ 87,377,334	\$ -	\$ -	\$ -	\$ 87,377,334
Grants and contracts	179,502,027	-	-	-	179,502,027
Auxiliary enterprise charges	12,826,076	-	-	-	12,826,076
Receipts for services provided to Medical University Hospital Authority	100,841,961	-	-	-	100,841,961
Receipts for services of educational activities	62,106,377	-	-	-	62,106,377
Receipts from patients and third-party payors	-	321,227,963	-	-	321,227,963
Payments to employees	(337,313,447)	(197,336,276)	-	-	(534,649,723)
Payments to suppliers	(220,571,054)	(54,111,893)	(6,377)	-	(274,689,324)
Payments for scholarships and fellowships	(13,517,479)	-	-	-	(13,517,479)
Loans issued to students	(1,759,769)	-	-	-	(1,759,769)
Collection of loans to students	2,237,028	-	-	-	2,237,028
Student loan program receipts	39,124,828	-	-	-	39,124,828
Student loan program disbursements	(38,801,450)	-	-	-	(38,801,450)
Other receipts	15,235,345	19,891,863	-	-	35,127,208
Other payments	(1,547,744)	(25,000)	-	-	(1,572,744)
Net cash provided (used) by operating activities	<u>(114,259,967)</u>	<u>89,646,657</u>	<u>(6,377)</u>	<u>-</u>	<u>(24,619,687)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
State appropriations	92,865,399	-	-	-	92,865,399
Interfund transfers received	64,795,397	-	336,372	-	65,131,769
Interfund transfers paid	(336,372)	(64,758,613)	(36,784)	-	(65,131,769)
Transfers to other state funds	(303,461)	-	-	-	(303,461)
Gifts made	-	(4,722,912)	-	-	(4,722,912)
Gifts and grants received	24,395,947	-	-	-	24,395,947
Interest on medical resident FICA refund received from Internal Revenue Service	1,510,696	-	-	-	1,510,696
Interest paid on noncapital debt	(44,619)	-	-	-	(44,619)
Principal paid on bonds and notes payable	-	(1,849,115)	-	-	(1,849,115)
Interest paid on bonds and notes payable	-	(1,215,081)	-	-	(1,215,081)
Net cash provided (used) by noncapital financing activities	<u>182,882,987</u>	<u>(72,545,721)</u>	<u>299,588</u>	<u>-</u>	<u>110,636,854</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from capital debt	28,000,000	-	-	-	28,000,000
Capital appropriations	9,202,354	-	-	-	9,202,354
Telemedicine appropriation paid to Medical University Hospital Authority	(8,400,000)	-	-	-	(8,400,000)
Capital grants and gifts received	876,505	-	-	-	876,505
Proceeds from sale of capital assets	93,486	8,330	-	-	101,816
Purchases of capital assets	(28,096,472)	(5,962,007)	-	-	(34,058,479)
Principal paid on capital debt and leases	(39,676,476)	(1,942,384)	(2,362,000)	-	(43,980,860)
Interest paid on capital debt and leases	(7,815,496)	(1,263,056)	(877,012)	-	(9,955,564)
Payment of fees and other items	(50,965)	-	-	-	(50,965)
Net cash used by capital and related financing activities	<u>(45,867,064)</u>	<u>(9,159,117)</u>	<u>(3,239,012)</u>	<u>-</u>	<u>(58,265,193)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Collection of interfund receivables	-	-	2,126,842	-	2,126,842
Interest received on interfund receivables	-	-	1,028,146	-	1,028,146
Purchases of investments	-	(39,238,029)	(3,095,177)	-	(42,333,206)
Proceeds from sales and maturities of investments	-	26,753,387	3,077,068	-	29,830,455
Net distributions from joint ventures	-	309,939	-	-	309,939
Deposits of endowment corpus with MUSC Foundation	(5,953,259)	-	-	-	(5,953,259)
Interest on investments	2,859,742	5,069,534	62,357	-	7,991,633
Net cash provided (used) by investing activities	<u>(3,093,517)</u>	<u>(7,105,169)</u>	<u>3,199,236</u>	<u>-</u>	<u>(6,999,450)</u>
Net increase in cash and cash equivalents	19,662,439	836,650	253,435	-	20,752,524
Cash and cash equivalents at beginning of year	184,896,050	76,318,049	475,837	-	261,689,936
Cash and cash equivalents at end of year	<u>\$ 204,558,489</u>	<u>\$ 77,154,699</u>	<u>\$ 729,272</u>	<u>\$ -</u>	<u>\$ 282,442,460</u>

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

MEDICAL UNIVERSITY OF SOUTH CAROLINA

STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended June 30, 2014

	The University	University Medical Associates	Nonmajor Enterprise Funds	Interfund Capital Leases Elimination	Total Primary Government
Cash and cash equivalents as reported in the following Statement of Net Assets sections					
Current assets	\$ 144,858,359	\$ 77,154,699	\$ -	\$ -	\$ 222,013,058
Current restricted assets	24,304,614	-	729,272	-	25,033,886
Noncurrent restricted assets	35,395,516	-	-	-	35,395,516
Total cash and cash equivalents	<u>\$ 204,558,489</u>	<u>\$ 77,154,699</u>	<u>\$ 729,272</u>	<u>\$ -</u>	<u>\$ 282,442,460</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities					
Operating income (loss)	\$ (159,794,268)	\$ 76,799,749	\$ 19,364	\$ (1,028,146)	\$ (84,003,301)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Depreciation and amortization	39,610,061	5,562,113	156,349	-	45,328,523
Provision for bad debts	-	33,567,685	-	-	33,567,685
Rental income, net	-	4,227,209	-	-	4,227,209
Other	-	(62,875)	-	-	(62,875)
Interest income	-	-	(1,089,760)	1,028,146	(61,614)
Interest expense	-	-	907,670	-	907,670
Changes in assets and liabilities					
Receivables	11,778,117	(37,499,861)	-	-	(25,721,744)
Student loans receivable	571,803	-	-	-	571,803
Due from other funds	-	4,183,982	-	-	4,183,982
Due from component units	(1,281,877)	(848,476)	-	-	(2,130,353)
Prepaid items	(277,336)	338,226	-	-	60,890
Other assets	-	374,077	-	-	374,077
Payables and accrued liabilities	(7,794)	5,850,417	-	-	5,842,623
Accrued compensated absences	(234,243)	58,254	-	-	(175,989)
Deferred revenues	767,703	-	-	-	767,703
Due to component units	-	(2,315,892)	-	-	(2,315,892)
Due to other funds	(4,183,982)	-	-	-	(4,183,982)
Federal loan program liability	37,929	-	-	-	37,929
Other liabilities	(1,246,080)	(587,951)	-	-	(1,834,031)
Net cash provided (used) by operating activities	<u>\$ (114,259,967)</u>	<u>\$ 89,646,657</u>	<u>\$ (6,377)</u>	<u>\$ -</u>	<u>\$ (24,619,687)</u>
Noncash transactions					
Equipment acquired via capital leases	\$ 28,792	\$ -	\$ -	\$ -	\$ 28,792
Donated equipment included in capital grants and gifts	128,907	-	-	-	128,907
Change in capital asset payables	3,093,886	664,392	-	-	3,758,278
Increase in fair value of investments	-	2,063,150	-	-	2,063,150
Pro rata loss from joint ventures	-	(1,395,278)	-	-	(1,395,278)
Total noncash transactions	<u>\$ 3,251,585</u>	<u>\$ 1,332,264</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,583,849</u>

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

MEDICAL UNIVERSITY OF SOUTH CAROLINA

STATEMENT OF NET POSITION
MEDICAL UNIVERSITY HOSPITAL AUTHORITY
 Governmental Discretely Presented Component Unit
 June 30, 2014

ASSETS

Current Assets:

Cash and cash equivalents	\$ 65,306,824
Cash restricted for capital improvements	14,240,889
Patient accounts receivable, net of allowance for uncollectible accounts of \$91,800,000	185,967,616
Due from third-party payors	7,736,020
Other current assets	<u>52,731,797</u>
Total current assets	325,983,146
Investments held by trustees under indenture agreements	44,526,123
Capital assets, net	<u>529,810,043</u>
Total assets	900,319,312

DEFERRED OUTFLOWS

Deferred loss on refunding of debt	<u>40,905,223</u>
Total assets and deferred outflows	<u><u>\$ 941,224,535</u></u>

LIABILITIES AND NET POSITION

Current Liabilities:

Current installments of long-term debt	\$ 17,063,535
Accounts payable	57,285,376
Accrued payroll, withholdings and benefits	57,017,997
Due to Medical University of South Carolina	6,209,946
Due to University Medical Associates	817,965
Due to third party payors	2,439,623
Other accrued expenses	<u>7,376,474</u>
Total current liabilities	<u>148,210,916</u>

Long-term debt	383,960,446
Other liabilities	<u>1,411,593</u>
Total noncurrent liabilities	<u>385,372,039</u>
Total liabilities	<u><u>533,582,955</u></u>

Net Position:

Net investment in capital assets	165,859,820
Restricted under indenture agreements	44,526,123
Restricted for capital projects	3,357,463
Restricted for telemedicine program	10,883,426
Unrestricted	<u>183,014,748</u>
Total net position	<u>407,641,580</u>
Total liabilities and net position	<u><u>\$ 941,224,535</u></u>

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

MEDICAL UNIVERSITY OF SOUTH CAROLINA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
MEDICAL UNIVERSITY HOSPITAL AUTHORITY
Governmental Discretely Presented Component Unit
For the Year Ended June 30, 2014

Operating revenues:	
Net patient service revenue, net of provision for bad debts of \$161,309,000	\$ 1,149,001,785
Other revenue	<u>24,299,147</u>
Total operating revenues	<u>1,173,300,932</u>
Operating expenses:	
Compensation and employee benefits	469,904,152
Services and supplies	594,287,425
Depreciation and amortization	<u>58,460,907</u>
Total operating expenses	<u>1,122,652,484</u>
Operating income	50,648,448
Nonoperating revenue (expense):	
State appropriations	17,900,000
Gifts and grants	5,311,747
Investment income	1,357,304
Interest expense	(16,087,241)
Refinancing issuance costs	<u>(1,254,064)</u>
Increase in net position	57,876,194
Net position, beginning, as restated	<u>349,765,386</u>
Net position, ending	<u>\$ 407,641,580</u>

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

MEDICAL UNIVERSITY OF SOUTH CAROLINA

STATEMENT OF FINANCIAL POSITION
MEDICAL UNIVERSITY OF SOUTH CAROLINA FOUNDATION
Nongovernmental Discretely Presented Component Unit
June 30, 2014

ASSETS	
Cash and cash equivalents	\$ 10,444,636
Receivables:	
Accounts and other receivables	412,406
Unconditional promises to give, net	12,652,427
Investments	391,508,333
Funds held in trust by the Foundation	5,036,621
Funds held in trust by others	15,047
Income producing property	76,271,526
Property and equipment, net	426,398
Other assets	16,116
Total assets	<u>\$ 496,783,510</u>
 LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable	\$ 1,547,131
Accrued interest payable	18,809,036
Annuities payable	4,525,877
Notes payable to primary government	84,297,244
Notes and bonds payable	37,505,143
Interest rate swap	1,203,583
Deferred rent	7,991,965
Contributions payable to primary government	17,852,400
Total liabilities	<u>173,732,379</u>
Net Assets:	
Unrestricted:	
Undesignated	12,242,838
Designated for primary government programs	26,214,472
Total unrestricted	<u>38,457,310</u>
Temporarily restricted	150,969,645
Permanently restricted	133,624,176
Total net assets	<u>323,051,131</u>
Total liabilities and net assets	<u>\$ 496,783,510</u>

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

MEDICAL UNIVERSITY OF SOUTH CAROLINA

STATEMENT OF ACTIVITIES
MEDICAL UNIVERSITY OF SOUTH CAROLINA FOUNDATION
 Nongovernmental Discretely Presented Component Unit
 For the Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support				
Contributions, net of gift management fees	\$ 1,201,786	\$ 9,538,637	\$ 5,889,295	\$ 16,629,718
Interest and dividends, net	857,200	2,499,028	-	3,356,228
Net unrealized and realized gains	4,466,283	33,739,335	-	38,205,618
Unrealized gain on interest rate swap	105,458	-	-	105,458
Special events revenue	-	2,661,083	-	2,661,083
Rental income	6,345,357	34,344	24,905	6,404,606
Change in value of split-interest agreements	-	(556,903)	-	(556,903)
Gain on disposal of property and equipment	3,161	-	-	3,161
Loss on property held for investment	(8,802)	(4,803,190)	-	(4,811,992)
Other income	4,338	3,131,502	1,652,500	4,788,340
	12,974,781	46,243,836	7,566,700	66,785,317
Net assets released from restrictions:				
Transfers	(1,053,755)	(786,340)	1,840,095	-
Payments of recurring management fees	2,639,331	(2,639,331)	-	-
Program restrictions satisfied	22,009,177	(22,009,177)	-	-
Total revenues, gains, and other support	36,569,534	20,808,988	9,406,795	66,785,317
Expenses and losses				
Program expenses	33,262,070	-	-	33,262,070
Supporting services:				
General and administrative	1,549,284	-	-	1,549,284
Fund-raising	2,383,344	-	-	2,383,344
Total expenses	37,194,698	-	-	37,194,698
Changes in net assets	(625,164)	20,808,988	9,406,795	29,590,619
Net assets at beginning of year	39,082,474	130,160,657	124,217,381	293,460,512
Net assets at end of year	\$ 38,457,310	\$ 150,969,645	\$ 133,624,176	\$ 323,051,131

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

MEDICAL UNIVERSITY OF SOUTH CAROLINA

STATEMENT OF FINANCIAL POSITION
MUSC FOUNDATION FOR RESEARCH DEVELOPMENT
Nongovernmental Discretely Presented Component Unit
June 30, 2014

ASSETS	
Cash and cash equivalents	\$ 825,628
Interest receivable	2,470
Accounts receivable, net	293,006
Due from primary government	61,516
Accounts receivable - other	11,512
Prepaid expenses	23,834
Investments	333,558
Property and equipment, net	306
Total assets	<u>\$ 1,551,830</u>
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts payable	\$ 92,896
Due to primary government	444,228
Due to University Medical Associates	191,951
Unearned revenue and deposits	76,188
Total liabilities	805,263
Net Assets	
Unrestricted	746,567
Total liabilities and net assets	<u>\$ 1,551,830</u>

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

MEDICAL UNIVERSITY OF SOUTH CAROLINA

STATEMENT OF ACTIVITIES
MUSC FOUNDATION FOR RESEARCH DEVELOPMENT
Nongovernmental Discretely Presented Component Unit
For the Year Ended June 30, 2014

Revenues, gains, and other support	
State grants and contracts	\$ 1,307,093
License fees and royalties	442,325
Other program services	92,399
Interest and dividend income	10,932
Net unrealized and realized gain on investments	19,047
Patent expense recovery from prior years	51,973
Miscellaneous income	67,959
Total revenues, gains, and other support	<u>1,991,728</u>
Expenses	
Program services	
Research	5,760
Technology transfer activity	1,303,707
Other	214,489
Total program expenses	<u>1,523,956</u>
Supporting services	
Management and general	<u>719,261</u>
Total expenses	<u>2,243,217</u>
Changes in net assets	(251,489)
Net assets at beginning of year	<u>998,056</u>
Net assets at end of year	<u>\$ 746,567</u>

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

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Prior to fiscal year 2013, the University was treated as a part of the primary government of the State of South Carolina, and it and its blended component units were reported in the State's higher education fund and other enterprise funds in the Comprehensive Annual Financial Report of the State of South Carolina. Effective with fiscal year 2013, the State of South Carolina implemented GASB Statement No. 61, an amendment to GASB Statements No. 14 and No. 34 (which is further discussed below). As a result, beginning with fiscal year 2013, the University and its component units are presented as a discretely presented component unit in the Comprehensive Annual Financial Report of the State of South Carolina.

Financial Statement Presentation

The financial statements of the University have been prepared in accordance with U.S. generally accepted accounting principles, as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, and Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*. The financial statement presentation provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net position, and cash flows, where applicable.

Reporting Entity

The financial reporting entity, as defined by GASB Statement No. 14, *The Financial Reporting Entity*, and amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and further amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, consists of the primary government and all of its component units. Component units are legally separate organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the financial statements to be misleading or incomplete. Based on the criteria provided by GASB Statement No. 39, the financial statements include the accounts of the University, as the primary government, and the accounts of the entities referenced below as component units.

Effective with fiscal year 2013, the University implemented GASB Statement No. 61, an amendment to GASB Statements No. 14 and No. 34. While this pronouncement did not significantly change the definition of a component unit, it did change the criteria for inclusion as a blended component unit. As applied to the University, the modified criteria for inclusion as a blended component unit require that a blended unit a) have a substantively similar governing board, and either provide a financial benefit or impose a financial burden on the University or be operationally managed by the University; or b) exclusively or almost exclusively benefit the University even though it may not provide services exclusively to the University; or c) rely on University resources to repay the component unit's debt.

The University determined that none of aforementioned modified criteria apply to the University's relationship with the the Medical University Hospital Authority (the Authority). In particular, the University does not have operational responsibility for the Authority and does not receive a financial benefit or incur a financial burden from its relationship with the Authority. Therefore, effective with fiscal year 2013, the University determined that the Authority would no longer be considered a blended component unit of the University; and instead, would be considered a discretely presented component unit of the University. Furthermore, due to the significance of its relationship with the University, the Authority is considered a major discretely presented component unit.

Blended Component Units

The University's blended component units, although legally separate from the University, are so intertwined with it that they are, in substance, the same as the primary entity. University Medical Associates (UMA), Medical University Facilities Corporation (MUFC), and CHS Development Company (CHS) are considered to be governmental entities that conduct business-type activities. Their balances and transactions are blended with those of the University and reported as if they were balances and transactions of the primary entity. UMA is reported as a major fund and MUFC and CHS are reported as nonmajor funds.

Major Blended Fund

University Medical Associates of The Medical University of South Carolina (UMA) was organized as a non-profit corporation under the laws of South Carolina on June 3, 1991 and has received tax-exempt status recognition from the Internal Revenue Service. UMA was established by the Board of Trustees of the Medical University of South Carolina to benefit the programs and further the mission of the University. UMA bills, collects, and administers all clinical income generated by its participating physicians and provides the full-time professional clinical faculty of the University and other health professionals with the development of group practice arrangements. UMA operates as a multi-specialty group practice of medicine and related services in the furtherance of medicine, medical research, and education. UMA is considered a component unit because the University is financially accountable for UMA, has appointment authority

over a majority of the UMA board, and is able to affect UMA's operations. UMA is a blended component unit because it almost exclusively benefits the University even though UMA does not provide all of its services directly to the University. In addition, the bylaws of UMA provide for all of its assets to be transferred to the University upon its dissolution.

UMA has formed for-profit and nonprofit subsidiaries for the purpose of creating a primary care network by establishing satellite and affiliate offices and contracting with area physicians to provide primary care and other services. Carolina Family Care, Inc. (CFC) and Carolina Primary Care Physicians, P.A. (CPCP) are organized as for-profit corporations under South Carolina law, whereas Carolina Health Management Services (CHMS) is organized as a nonprofit public benefit corporation. During fiscal year 2014, UMA established a new taxable corporate subsidiary, Comprehensive Psychiatric Care Specialists (CPS). Since all of these companies serve an essentially identical purpose, all financial activities of these companies are blended into the financial statements of UMA. Some of UMA's component units are income taxable under state and federal law. UMA's component units do not issue separate financial statements.

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

Nonmajor Blended Funds

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

CHS Development Company (CHS) is a nonprofit corporation organized under the laws of South Carolina on August 27, 2002 to develop and lease property for the University. The development of the property furthers the public educational goals of the University by providing necessary classroom, office, and parking space. CHS is considered to be a component unit because the nature and significance of its relationship with the University is such that exclusion from the reporting entity would render the financial statements incomplete. CHS is a blended component unit since it relies on the University's resources to service its debt. CHS does not issue separate financial statements.

Discretely Presented Component Units

Under criteria set forth in GASB Statement No. 61, the University determined that, effective with fiscal year 2013, the Medical University Hospital Authority (the Authority) will be reported as a discretely presented component unit of the University. As described above, based on the criteria in GASB Statement No. 39, the University reports the Medical University of South Carolina Foundation (MUSCF) and the MUSC Foundation for Research Development (MFRD) as discretely presented component units in its financial statements.

Major Discretely Presented Component Unit

The Medical University Hospital Authority (the Authority) was created on June 16, 2000, for the purpose of managing and operating the Medical University Hospitals and Clinics. While the legislation establishing the Authority as a stand-alone healthcare system requires that the members of the University's Board of Trustees also constitute the Board of Trustees of the Authority, the Authority's component unit relationship to the University arises principally because the nature and significance of its relationship with the primary government is such that exclusion would cause the University's financial statements to be misleading or incomplete. The Authority is considered a discretely presented unit because, while it does have the same governing board as the University, it does not provide a significant financial benefit to or impose a financial burden on the University. It is considered a major discretely presented component unit because of the significance of its relationship with the University. Copies of the separately issued financial statements of the Authority can be obtained by sending a request to the following address: Medical University Hospital Authority, Chief Financial Officer, P.O. Box 250332, Charleston, SC 29425.

During fiscal year 2014, the MUFC Central Energy Plant, LLC (CEP), a single member LLC disregarded for tax purposes which served as a conduit debt issuer established for the benefit of the Authority, was dissolved. Therefore, effective with fiscal year 2014, CEP is no longer included as a blended component unit of the Authority.

Nonmajor Discretely Presented Component Units

The Medical University of South Carolina Foundation (MUSCF) was incorporated in July 1966 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. In 2005, MUSCF expanded its purpose by amending its bylaws to promote the same types of programs through the Authority. MUSCF acts primarily as a fund-raising organization to supplement the resources that are available to the University and the

Authority in support of its programs. Although the University does not control the timing or amount of receipts from MUSCF, the majority of resources or income thereon that MUSCF holds and invests is restricted by the donors for support of the activities of the University.

The MUSCF reporting entity includes the Parking Garage Associates, LLC, (PGA), 135 Cannon Street, LLC, and 55 Bee Street, LLC, all of which are single member limited liability companies and wholly-owned subsidiaries of MUSCF. PGA owns and leases a parking garage to the University. 135 Cannon Street, LLC owns and leases an office building and parking lot to the University. 55 Bee Street, LLC owns and leases an office building to the University.

Because the restricted resources held by MUSCF can only be used by, or for the benefit of the University or the Authority, and if MUSCF is dissolved, its assets shall be transferred to the University, MUSCF is considered a discretely-presented component unit of the University. Copies of the separately issued financial statements of the MUSCF can be obtained by sending a request to the following address: MUSC Foundation, 18 Bee Street, P.O. Box 250450, Charleston, SC 29425-4500.

MUSC Foundation for Research Development (MFRD) was incorporated in March 1995 as a direct support organization for the University. The mission of MFRD is to support the educational, research, and health care mission of the University by fostering creativity and innovation. Additionally, MFRD is charged with providing the mechanisms by which the University's scientific discoveries, inventions and processes may be developed, applied, or patented, and the means by which funds generated by such discoveries or patents can be used to stimulate and promote further investigation and research at the University.

Based on its close relationship with the University, MFRD is deemed to be financially integrated with the University; therefore, MFRD is reported as a discretely presented component unit of the University. Copies of the separately issued financial statements of MFRD can be obtained by ending a request to the following address: MUSC Foundation for Research Development, MSC 828, 19 Hagood Avenue, Suite 909, Charleston, SC 29425.

Basis of Accounting

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

The University and its governmental component units (the Authority, UMA, MUFC and CHS) apply all applicable GASB pronouncements and, in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, have elected to apply only those Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 which do not conflict with GASB standards.

The Medical University of South Carolina Foundation and MUSC Foundation for Research Development are private nonprofit organizations that report under FASB standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications for these differences have been made to the financial information for MUSCF and MFRD in the University's financial reporting entity.

Cash and Cash Equivalents

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

Investments and Investment Income

Investments are carried at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Investment income or loss from investment (including realized and unrealized gains and losses on investments and interest) is reported as nonoperating revenue.

Receivables

The University's receivables consist primarily of tuition and fee charges to students and amounts due from government and private sources in connection with reimbursement of allowable expenses under grants and contracts.

Pursuant to an amendment to the South Carolina Medicaid Plan, approved by the US Department of Health and Human Services on September 20, 2002 to be effective retroactive to October 1, 2001, the University receives certain supplemental Medicaid payments for inherent inefficiencies of providing care to Medicaid patients while instructing medical students. As of June 30, 2014, the University has recorded a net receivable from Medicaid of \$16,687,974.

UMA grants 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 UMA are established based upon losses and adjustments experienced in prior years and evaluations of the current account portfolios.

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, prepaid items consist primarily of insurance premiums, subscriptions, maintenance contracts, and deposits on equipment not yet received. UMA's prepaid items consist of prepaid rent and an other postemployment benefit (OPEB) asset (see Note 7) .

Capital Assets

Capital assets are recorded at cost at the date of acquisition or, if received as a gift, at fair market value at the date of donation. The University follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The University capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years, and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$100,000. The University and UMA capitalize, as a component of construction in progress, interest cost in excess of earnings on debt associated with the capital projects. Interest amounts capitalized in fiscal year 2014 were \$297,374 for the University and \$149,016 for UMA. Routine repairs and maintenance and library materials, except individual items costing in excess of \$5,000, are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 5 to 50 years for buildings, building services, and land improvements, and 3 to 20 years for machinery, equipment, vehicles, and software.

Compensated Absences

Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability is recorded as accrued compensated absences in the Statement of Net Position (see Note 11) and the related expense is a component of compensation and employee benefits expense in the Statement of Revenues, Expenses and Changes in Net Position.

Unearned Revenues

Unearned revenues include net tuition and fees received prior to the end of the fiscal year which relate to the subsequent accounting period. Unearned revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Derivative Instruments

The University and its blended units account for its derivative instruments in accordance with the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The University and its blended units classify derivative instruments into hedging derivative instruments and investment derivative instruments. If a derivative is classified as a hedging derivative instrument, changes in its fair value are deferred on the Statement of Net Position as either deferred inflows or deferred outflows. If the derivative is classified as an investment derivative instrument, changes in its fair value are reported in investment income on the Statement of Revenues, Expenses and Changes in Net Position in the period in which the changes occur. The University and its blended units formally assess the effectiveness of hedging derivative instruments at each year-end. Using regression analysis, UMA found its hedging derivative instruments to be fully effective for the year ended June 30, 2014.

Deferred Loss on Refunding of Debt

In transactions involving refundings of debt, the difference between the reacquisition price (total cost of new debt) and the net carrying value of the old debt is deferred and amortized to interest expense over the shorter of the remaining life of the old debt or the life of the new debt. Effective with the fiscal year 2014 implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the unamortized amount of the deferred loss on refunding of debt is reflected as a deferred outflow instead of as a liability.

Net Position

The net position of the University and the governmental component units is classified as follows:

Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt incurred to acquire or construct the assets. To the extent debt has been incurred but not yet expended for capital assets, it is not included as a component of the net investment in capital assets.

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

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

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

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

Classification of Revenues and Expenses

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

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

Transactions deemed by UMA to be related to its clinical services' offerings or to the use of its facilities and personnel for educational purposes are reported as operating revenues and operating expenses. Peripheral or incidental transactions are reported as nonoperating revenues and expenses. The principal operating revenues of UMA are patient services revenues.

MUFC and CHS report interest income and interest expense as operating revenue and expense because investing and financing constitute their principal ongoing operations.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts, contributions and contracts that are not classified as operating revenue or restricted by the grantor to be used exclusively for capital purposes, State appropriations, investment income (except for MUFC and CHS), and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34. The principal nonoperating expenses are interest (except for MUFC and CHS), refunds to grantors, transfers to other State funds and gifts made.

Scholarship Allowances

Student tuition and fee revenues are recorded net of scholarship allowances in the Statement of Revenues, Expenses and Changes in Net Position. A scholarship allowance is defined as the difference between the stated charge for goods and services provided by the University and the amount that is paid by the student and/or third parties making payments on behalf of the student.

Net Patient Service Revenue

UMA has 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, and a provision for uncollectible accounts. 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, Blue Cross, etc.) based upon a fee schedule it has developed for physician services. These insurers audit UMA's claims at various times during the year.

Sales and Services of Educational and Other Activities

Revenues from sales and services of educational and other activities generally consist of amounts received from instructional, laboratory, research, and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public. The University receives such revenues primarily from seminar fees, clinic services, pharmacy sales, and sales of other services. This category includes supplemental Medicaid payments received as reimbursement to providers associated with teaching hospitals and clinics.

Interfund Transfers and Balances

Transfers of funds between blended component units are accounted for as Interfund Transfers. The principal purpose of Interfund Transfers is to support the academic department activities of the University.

Transfers of funds to entities external to the Primary Government are presented as Transfers to Other State Funds.

Amounts owed to (by) the Primary Government by (to) discretely presented component units are presented as Due From (To) Component Unit(s). Activities between blended component units that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are presented as Interfund Receivables and Interfund Payables. All other outstanding balances between blended component units, which are primarily related to services provided or used, are presented as Due to/from Other Funds.

Charity Care

UMA provides care to patients who meet certain criteria under charity care policies without charge or at amounts less than established rates. Since management does not expect payment for charity care, the estimated charges are excluded from revenue.

Income Taxes

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

UMA, MUFC, MUSCF, and MFRD are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on related income under Code Section 501(a). However, UMA does have two for-profit subsidiaries and a nonprofit subsidiary which are all subject to federal income tax.

Prior to fiscal year 2013, CHS was recognized as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in 501(c)(3). CHS's exempt status was revoked effective November 15, 2012 for failure to file Form 990-N for three years. In June 2014, CHS's exempt status was restored retroactive to the revocation date.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires that management make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates. In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount in the near term.

New Accounting Pronouncements

The University implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for fiscal year 2014. This new pronouncement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows or inflows of resources, certain items that were previously reported as assets and liabilities. More information about the impact of this statement may be found in Note 22, Change in Accounting Principle.

The University implemented GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, for fiscal year 2014. This statement requires that a governmental entity which extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the governmental entity will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. The statement also specifies information required to be disclosed by governments that extend nonexchange guarantees. More information about the impact of this statement may be found in Note 9, Commitments, Contingencies and Litigation.

GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which is effective for financial statements for periods beginning after June 15, 2014. This Statement addresses the accounting and financial reporting for employer pension plans provided to employees by pension plans administered through trusts that have certain characteristics. These characteristics mirror the criteria and definitions set forth in GASB Statement No. 67. GASB Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred inflows and outflows of resources, and expenses as they relate to pension plans. More specifically, this Statement details how cost-sharing multiple-employer defined benefit plans, such as the one administered by the Public Employee Benefit Authority (PEBA) on behalf of the University, will recognize pension liabilities based upon the employer's proportionate share of the collective net pension liability of the trust. This Statement also addresses the note disclosure and required supplementary information requirements for reporting the pension liability. This Statement will be applicable to the University in fiscal 2015, and is expected to have a material impact on the University's financial statements as the University contributes to a pension plan as administered by the PEBA.

2. DEPOSITS AND INVESTMENTS

The following schedule reconciles deposits and investments within the Notes to the Statement of Net Position amounts:

	The University	UMA	---- Nonmajor Enterprise Funds ----	
			MUFC	CHS
Statement of Net Position:				
Current assets				
Cash and cash equivalents	\$ 144,858,359	\$ 77,154,699	\$ -	\$ -
Investments	-	79,401,318	-	-
Restricted assets				
Cash and cash equivalents	24,304,614	-	-	729,272
Investments	-	-	316,168	717,438
Noncurrent assets				
Investments	-	9,390,700	-	-
Restricted assets				
Cash and cash equivalents	35,395,516	-	-	-
Investments	-	-	213,000	-
Total Statement of Net Position	<u>\$ 204,558,489</u>	<u>\$ 165,946,717</u>	<u>\$ 529,168</u>	<u>\$ 1,446,710</u>
Disclosure, Deposits and Investments plus reconciling items:				
Carrying value of deposits				
Held by State Treasurer	\$ 204,489,409	\$ -	\$ -	\$ -
Other	-	50,907,216	-	28,072
Investments, reported amount				
Unrestricted	-	115,003,229	-	-
Restricted	-	-	529,168	1,418,638
Cash on hand	69,080	36,272	-	-
Total Notes plus reconciling items	<u>\$ 204,558,489</u>	<u>\$ 165,946,717</u>	<u>\$ 529,168</u>	<u>\$ 1,446,710</u>

Deposits Held by State Treasurer

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

Other Deposits

UMA and its blended component units maintain their cash accounts in commercial banks. Accounts are guaranteed by the Federal Depository Insurance Corporation (FDIC) up to \$250,000 for both demand and time deposits per depositor. At June 30, 2014, the carrying amount of deposits was \$50,907,216. Bank balances before reconciling items were \$52,034,000. Of these unrestricted bank balances, \$1,427,854 was insured by the FDIC and the remainder was uninsured and uncollateralized.

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Investments

As of June 30, 2014, the investment balances were as follows:

<u>Investment</u>	<u>Carrying Value</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Credit Rating</u>
University Medical Associates				
Certificates of deposit	\$ 5,199,930	07/25/2014	0.25%	N/A
Fixed income securities:				
U.S. Government Agency issues	6,910,242	03/19/2032	6.31%	N/A
U.S. Government Agency CMO's	2,943,940	10/25/2034	6.21%	N/A
Auction rate debt securities:				
Merrill Lynch Bonds	9,390,700	12/29/2049	0.74%	A3/A-
Commercial paper	19,988,033	07/01/2013 - 02/12/2014	0.22% - 0.47%	A1- P1, A2/P2
Corporate bonds	23,990,616	08/01/2013 - 03/18/2019	0.63 - 5.00%	A-AA
Money market funds:				
Wells Fargo Bank Institutional	1,165,503	average 39 days	0.10%	N/A
Federated Prime Mortgage Obligations Inst.	5,052,203	average 39 days	0.08%	N/A
Mutual Funds:				
Bond funds - domestic	12,927,541	N/A	2.08%	N/A
Equity funds - domestic	19,845,680	N/A	1.75%	N/A
Equity funds - foreign	7,588,841	N/A	1.63%	N/A
Total UMA investments	<u>\$ 115,003,229</u>			
<u>Nonmajor Enterprise Funds</u>				
Medical University Facilities Corporation				
Berkshire Hathaway GIC	\$ 316,168	open-ended	5.78%	N/A
Berkshire Hathaway GIC	213,000	open-ended	6.20%	N/A
Total MUFC investments	<u>\$ 529,168</u>			
CHS Development Company				
Federal Home Loan Bank discount notes	\$ 119,405	12/10/2014	4.62%	Aaa/P1
Federal Home Loan Mortgage Corporation discount notes	238,130	12/10/2014	4.57%	Aaa/P1
Federal National Mortgage Association discount notes	359,903	12/10/2014	4.57%	Aaa/P1
Money market funds:				
TD Asset Management U.S. Government Institutional	701,200	average 52 days	0.01%	AAAm
Total CHS investments	<u>\$ 1,418,638</u>			

Custodial Credit Risk

Custodial credit risk is the risk that the investor will not be able to recover the value of its investments that are in the possession of its safekeeping custodian.

To minimize this risk, UMA's investment policy requires that all negotiable instruments shall be held in safekeeping in the trust department of a bank. All investments are held in UMA's name by a safekeeping agent that is independent of all counterparties. UMA does not have a policy related to insurance or collateralization of deposits.

Credit Risk

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

UMA has structured its cash resources in order to ensure preservation of principal and maximize investment returns subject to cash flow requirements and manage credit risk within its portfolio. UMA has adopted two investment policies depending on whether the funds are invested on a self-directed or professionally managed basis. The self-directed investment policy approved by the UMA Board of Directors allows investment in money market mutual funds, U.S. Treasury and Agency obligations, obligations of U.S. or foreign banks rated A1/P1 by Standard & Poors (S&P) or Moody's Investor Services (Moody's), repurchase agreements with major banks collateralized by U.S. Treasury obligations, Eurodollar time deposits rated A or higher, commercial paper rated A2/P2/F2 or higher, and other corporate obligations including bonds and medium term notes rated A+ or A1 or higher.

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

Concentration of Credit Risk

An increased risk of loss occurs as more investments are acquired from one issuer.

UMA's professionally managed portfolio includes both equity and fixed income investments. As of June 30, 2014, fixed income investments comprise 55%, while equities comprise 45% of the total. Allowable fixed income investments include obligations issued or guaranteed by the US government, mortgage backed securities including GNMA, FNMA and FHLMC, other asset backed securities, corporate debt securities, taxable municipal securities, short-term obligations including commercial paper, and debt of developed foreign sovereign nations as well as closely monitored emerging markets sovereign debt, commercial bonds and senior debt. The policy allows investment in instruments with maturity from one to two and a half years with the average credit quality to be no lower than A/Aa by S&P and Moody's. No more than 10% may be invested in a single issuer except for the U.S. Government and its agencies. This limit may be exceeded with the approval of the Board of Directors of UMA. As of June 30, 2014, UMA has no investments in securities of a single issuer other than the U. S. Government that comprise more than 10% of its total unrestricted portfolio.

The equity portion of UMA's professionally managed investment policy provides for domestic and international equities, real estate funds, and alternative investments, including hedge funds, private equity funds, energy limited partnerships, commodities, and derivative securities, with all having diversification among issuers, class of issuers and industrial sectors. UMA's policy is to limit investment in any one equity issuer to 5% and limit investment in a particular market segment to 20% of the total portfolio balance. Alternative investments shall not exceed 25% of the fund's total market value unless approved by the Executive Committee of the Board of Directors of UMA.

CHS places no limit on the amount it may invest in any one issuer.

Interest Rate Risk

Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value.

UMA, in accordance with its self-directed investment policy, manages its exposure to interest rate risk by limiting the maturities of investments to no longer than 60 months for any individual security and no longer than 18 months average for the entire portfolio. As June 30, 2014, investments subject to this policy were the certificates of deposit, corporate and auction rate securities, commercial paper, and money market funds.

CHS has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investments in Partnerships

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

On May 8, 1998, Carolina Primary Care Physicians, P.A. (CPCP), a blended component unit of UMA, entered into a joint venture with several physicians and medical practices by purchasing a 35 percent interest in Lowcountry Medical Group of Beaufort County, LLC (LCMG). During the fiscal year ended June 30, 2000, the members of LCMG invested in Lowcountry Real Property, LLC (LCRP), which reflected the same proportionate ownership as LCMG and holds title to all real estate occupied by LCMG. During the year ended June 30, 2010, there was a reallocation of partnership interests from a withdrawing partner bringing CPCP's total interest in the capital of LCRP to 43.35 percent. The operating agreements of LCMG and LCRP state that all powers to control normal operations are exercised exclusively by the managers except for veto authority over certain transactions affecting the acquisition and disposition of significant assets or changes to the members of each partnership. CPCP is prohibited from serving as a manager, but no other party has a controlling interest. These two joint ventures are accounted for using the equity method. On February 3, 2014, CPCP sold its interest in LCMG back to the remaining members of LCMG for \$259,621, representing its 35 percent share of the fair value of the company's net position, and recorded a loss on the transaction of \$1,856,681.

On February 10, 2004, UMA entered into a partnership, with an effective date of August 5, 2003, with Georgetown Hospital System to form Georgetown Radiation Therapy Center, L.L.C. (GRTC) to provide radiation therapy for patients of Georgetown County, South Carolina. UMA received a one percent equity interest for a contribution of \$1,000. Pursuant to a licensing agreement, in exchange for GRTC's use of UMA's intellectual property, UMA has been entitled to receive an additional one percent equity interest in GRTC for each \$100,000 of cumulative net income the entity produces up to a maximum of ten percent. In prior years, UMA received an additional nine percent interest in the partnership as a result of increases in accumulated earnings bringing the total interest in GRTC to the maximum ten percent. UMA appointed its CEO as the one representative to the three-member Executive Committee which makes all management decisions regarding the operations of the entity. This investment is reported on the cost method with all distributions being reported as investment income.

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The following schedule reflects the changes in the carrying value of UMA's joint venture and partnership investments:

	LCMG	LCRP	GRTC	Total
UMA's carrying value at June 30, 2013	\$ 1,833,154	\$ 602,259	\$ 1,000	\$ 2,436,413
Capital contribution made in fiscal year 2014	-	32,315	-	32,315
UMA's share of partnership income (loss) for fiscal year 2014	365,781	97,530	-	463,311
Loss on sale of interest	(1,856,681)	(1,909)	-	(1,858,590)
Partnership distributions to UMA in fiscal year 2014	(342,254)	-	-	(342,254)
UMA's carrying value at June 30, 2014	<u>\$ -</u>	<u>\$ 730,195</u>	<u>\$ 1,000</u>	<u>\$ 731,195</u>

3. RECEIVABLES

Receivables at June 30, 2014, including applicable allowances, were as follows:

	The University	UMA	Nonmajor Enterprise Funds MUFC
Student accounts	\$ 423,034	\$ -	\$ -
Patient accounts	-	164,350,187	-
Less allowances for:			
Contractual adjustments	-	(88,517,407)	-
Uncollectibles	-	(34,780,341)	-
Federal grants and contracts	11,308,509	-	-
State grants and contracts	11,330	-	-
Nongovernmental grants and contracts	4,545,541	-	-
Interest	602,235	-	7,026
Medicaid supplemental reimbursement, net	16,687,974	-	-
Research Infrastructure Bond proceeds	605,399	-	-
State capital appropriation	2,400,320	-	-
Medical resident FICA refund	346,964	-	-
Other	5,525,714	1,231,828	-
Receivables, net	<u>42,457,020</u>	<u>\$ 42,284,267</u>	<u>\$ 7,026</u>

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4. RESTRICTED ASSETS

The purposes and amounts of restricted assets at June 30, 2014 were as follows:

Asset/Restricted for	The University	-- Nonmajor Enterprise Funds --	
		MUFC	CHS
Current:			
Cash and cash equivalents:			
Debt service	\$ 3,611,089	\$ -	\$ 729,272
Research & education	20,693,525	-	-
Total cash and cash equivalents	<u>\$ 24,304,614</u>	<u>\$ -</u>	<u>\$ 729,272</u>
Investments:			
Debt service	<u>\$ -</u>	<u>\$ 316,168</u>	<u>\$ 717,438</u>
Due from component units			
Earnings on endowments	<u>\$ 18,759,490</u>	<u>\$ -</u>	<u>\$ -</u>
Interfund receivables:			
Debt service	<u>\$ -</u>	<u>\$ 1,073,869</u>	<u>\$ 1,203,627</u>
Student loans receivable:			
Student loan programs	<u>\$ 1,267,473</u>	<u>\$ -</u>	<u>\$ -</u>
Noncurrent:			
Cash and cash equivalents:			
Capital projects	\$ 29,820,451	\$ -	\$ -
Student loan programs	4,806,001	-	-
Endowments	769,064	-	-
Total cash and cash equivalents	<u>\$ 35,395,516</u>	<u>\$ -</u>	<u>\$ -</u>
Investments			
Debt service	<u>\$ -</u>	<u>\$ 213,000</u>	<u>\$ -</u>
Due from component units			
Endowments	<u>\$ 84,297,244</u>	<u>\$ -</u>	<u>\$ -</u>
Interfund receivables:			
Debt service	<u>\$ -</u>	<u>\$ 1,500,807</u>	<u>\$ 14,784,653</u>
Student loans receivable:			
Student loan programs	<u>\$ 10,759,885</u>	<u>\$ -</u>	<u>\$ -</u>

5. CAPITAL ASSETS

University and Blended Component Units

Capital asset activity for the year ended June 30, 2014 for the University and its blended component units was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
<u>The University</u>				
Capital assets not being depreciated				
Land	\$ 11,646,316	\$ -	\$ -	\$ 11,646,316
Construction in progress	30,252,180	26,067,390	(22,915,770)	33,403,800
Total capital assets not being depreciated	<u>41,898,496</u>	<u>26,067,390</u>	<u>(22,915,770)</u>	<u>45,050,116</u>
Other capital assets				
Depreciable land improvements	12,849,331	1,287,475	-	14,136,806
Buildings and improvements	708,738,058	21,648,280	(1,936,428)	728,449,910
Machinery and equipment	160,632,269	5,173,413	(25,743,887)	140,061,795
Vehicles	3,422,709	87,269	(304,554)	3,205,424
Total other capital assets at historical cost	<u>885,642,367</u>	<u>28,196,437</u>	<u>(27,984,869)</u>	<u>885,853,935</u>
Less accumulated depreciation for				
Depreciable land improvements	(6,709,380)	(574,513)	-	(7,283,893)
Buildings and improvements	(274,533,117)	(28,033,405)	1,665,710	(300,900,812)
Machinery and equipment	(90,836,610)	(10,875,891)	18,854,489	(82,858,012)
Vehicles	(3,022,425)	(126,252)	304,139	(2,844,538)
Total accumulated depreciation	<u>(375,101,532)</u>	<u>(39,610,061)</u>	<u>20,824,338</u>	<u>(393,887,255)</u>
Other capital assets, net	<u>510,540,835</u>	<u>(11,413,624)</u>	<u>(7,160,531)</u>	<u>491,966,680</u>
University capital assets, net	<u>552,439,331</u>	<u>14,653,766</u>	<u>(30,076,301)</u>	<u>537,016,796</u>
<u>University Medical Associates</u>				
Capital assets not being depreciated				
Land	10,759,298	-	-	10,759,298
Construction in progress	3,042,083	5,637,753	(966,372)	7,713,464
Total capital assets not being depreciated	<u>13,801,381</u>	<u>5,637,753</u>	<u>(966,372)</u>	<u>18,472,762</u>
Other capital assets				
Buildings and improvements	86,582,817	761,710	(104,000)	87,240,527
Machinery and equipment	14,004,056	756,914	(682,006)	14,078,964
Intangible assets	7,164,704	-	(77,000)	7,087,704
Total other capital assets at historical cost	<u>107,751,577</u>	<u>1,518,624</u>	<u>(863,006)</u>	<u>108,407,195</u>
Less accumulated depreciation for				
Buildings and improvements	(35,117,452)	(3,493,837)	-	(38,611,289)
Machinery and equipment	(5,554,440)	(2,183,826)	648,614	(7,089,652)
Intangible assets	(2,929,300)	(908,290)	77,000	(3,760,590)
Total accumulated depreciation	<u>(43,601,192)</u>	<u>(6,585,953)</u>	<u>725,614</u>	<u>(49,461,531)</u>
Other capital assets, net	<u>64,150,385</u>	<u>(5,067,329)</u>	<u>(137,392)</u>	<u>58,945,664</u>
UMA capital assets, net	<u>77,951,766</u>	<u>570,424</u>	<u>(1,103,764)</u>	<u>77,418,426</u>
Grand Total	<u>\$ 630,391,097</u>	<u>\$ 15,224,190</u>	<u>\$ (31,180,065)</u>	<u>\$ 614,435,222</u>

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Major Discretely Presented Component Unit

Capital asset activity for the year ended June 30, 2014 for the Authority was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Medical University Hospital Authority				
Capital assets not being depreciated				
Land	\$ 6,092,725	\$ -	\$ -	\$ 6,092,725
Assets not in service	19,857,031	22,508,179	(1,126,728)	41,238,482
Construction in progress	43,259,564	21,614,573	(56,276,400)	8,597,737
Total capital assets not being depreciated	<u>69,209,320</u>	<u>44,122,752</u>	<u>(57,403,128)</u>	<u>55,928,944</u>
Other capital assets				
Buildings, improvements & fixed equipment	657,819,897	55,512,229	(15,236)	713,316,890
Machinery and equipment	271,381,867	32,729,702	(53,626,125)	250,485,444
Software	21,706,506	1,138,397	-	22,844,903
Vehicles	3,414,746	85,585	(1,490,989)	2,009,342
Total other capital assets at historical cost	<u>954,323,016</u>	<u>89,465,913</u>	<u>(55,132,350)</u>	<u>988,656,579</u>
Less accumulated depreciation for				
Buildings, improvements & fixed equipment	(280,967,506)	(30,912,950)	4,803	(311,875,653)
Machinery and equipment	(200,922,516)	(35,599,916)	50,580,630	(185,941,802)
Software	(11,798,671)	(3,266,990)	-	(15,065,661)
Vehicles	(3,153,361)	(229,992)	1,490,989	(1,892,364)
Total accumulated depreciation	<u>(496,842,054)</u>	<u>(70,009,848)</u>	<u>52,076,422</u>	<u>(514,775,480)</u>
Other capital assets, net	<u>457,480,962</u>	<u>19,456,065</u>	<u>(3,055,928)</u>	<u>473,881,099</u>
Authority capital assets, net	<u>\$ 526,690,282</u>	<u>\$ 63,578,817</u>	<u>\$ (60,459,056)</u>	<u>\$ 529,810,043</u>

6. 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 Benefits Division of the South Carolina Public Employee Benefit Authority (PEBA). Generally, all full-time or part-time equivalent State employees in a permanent position 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, as amended, or are eligible and elect to participate in the State Optional Retirement Program (ORP). The SCRS plan provides life-time monthly retirement annuity benefits to eligible members as well as disability, survivor options, annual benefit adjustments, and incidental death benefits to eligible employees and retired members.

The Retirement Division maintains five 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 South Carolina Public Employee Benefit Authority, P.O. Box 11960, Columbia, South Carolina 29211-1960. Furthermore, the Division and the five pension plans are included in the State of South Carolina's CAFR.

Under the SCRS, Class II members are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years of credited service regardless of age. Employees who first became members of the System after June 30, 2012 are considered Class III members and are eligible for a full service retirement annuity upon reaching age 65 or upon meeting the rule of 90 requirement (i.e., the members age plus the years of service add up to a total of at least 90). The benefit formula for full service retirement annuity effective since July 1, 1989 for the SCRS is 1.82 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. Early retirement options with reduced benefits are available as early as age 55 for Class II members and age 60 for Class III members. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Disability annuity benefits are available to Class II members if they have permanent incapacity to perform regular duties of the member's job and they have at least 5 years of earned service (this requirement does not apply if the disability is a result of a job related injury). Class III members can apply for disability annuity benefits provided they have a permanent incapacity to perform the regular duties of the member's job and they have a minimum of eight years of credited service. For disability applications received after December 31, 2013, a member of SCRS will have to be approved for disability benefits from the Social Security Administration in order to be eligible for SCRS disability retirement benefits.

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An incidental death 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 or to a working retired contributing member. There is no service requirement for death resulting from actual performance of duties for an active member. For eligible retired members, a lump-sum payment is made to the retiree's beneficiary of up to \$6,000 based on years of service at retirement. TERI participants and retired contributing members are eligible for the increased death benefit equal to their annual salary in lieu of the standard retired member benefit.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any benefit adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit and are ineligible for disability retirement benefits. The TERI program will end effective June 30, 2018 and a member's participation may not continue after this date.

Effective July 1, 2013, employees participating in the SCRS were required to contribute 7.50% of all earnable compensation. The employer contribution rate for SCRS was 15.52%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.45%, 0.15% for the incidental death benefit program and a 4.92% surcharge that will fund retiree health and dental insurance coverage. The University's actual contributions to the SCRS for the years ended June 30, 2014, 2013, and 2012 were approximately \$11,718,000, \$11,867,000 and \$10,439,000, respectively, and equaled the base required retirement contribution rate, excluding retiree insurance surcharge and incidental death benefit program contributions, of 10.45% for 2014, 10.45% for 2013, and 9.385% for 2012. Also, the University paid employer incidental death benefit program contributions of approximately \$168,000, \$170,000, and \$167,000 at the rate of 0.15% of compensation for the current fiscal years ended June 30, 2014, 2013, and 2012 respectively.

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 PORS as a condition of employment. This plan provides for lifetime monthly annuity benefits as well as disability, survivor benefits and incidental death benefits to eligible employees and retirees. In addition, participating employers in the PORS may elect to contribute to the accidental death program 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.

Under the PORS, Class II members are eligible for a full service retirement annuity upon reaching age 55 or completion of 25 years of credited service regardless of age. Class III members are eligible for a full service retirement annuity upon reaching age 55 or 27 years of credited service. The benefit formula for full benefits for the PORS is 2.14 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. PORS does not have an early retirement option. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Effective July 1, 2013, employees participating in the PORS were required to contribute 7.84% of all earnable compensation. The employer contribution rate for PORS was 17.76%. Included in the total PORS employer contribution rate is a base retirement contribution of 12.44%, 0.20% for the incidental death benefit program, 0.20% for the accidental death program, and a 4.92% surcharge that will fund retiree health and dental insurance coverage. The University's actual contributions to the PORS for the years ended June 30, 2014, 2013, and 2012 were approximately \$382,000, \$355,000 and \$331,000 respectively, and equaled the base retirement required contribution rate, excluding surcharge and death program contributions, of 12.44% for 2014, 11.90% for 2013, and 11.363% for 2012. The University also paid employer incidental death benefit program contributions of approximately \$6,137, \$5,959, and \$5,822, at the rate of 0.20% of compensation for the fiscal years ended June 30, 2014, 2013, and 2012, respectively. In addition, the University paid accidental death program contributions of approximately \$6,137, \$5,959, and \$5,822, respectively, at the rate of 0.20% of compensation for the fiscal years ended June 30, 2014, 2013, and 2012, respectively.

As an alternative to membership in the SCRS, newly hired State and school district employees may elect to participate in the State Optional Retirement Program (ORP), a defined contribution retirement plan. The ORP was established in 1987 under Title 9, Chapter 20, of the South Carolina Code of Laws. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. The State assumes no liability for the State ORP plan other than for the employer's payment of contributions to designated companies. To elect participation in the ORP, eligible employees must elect membership within their first 30 days of employment. Under State law, contributions to the ORP are required at the same rates as for the SCRS, 10.60% plus the retiree surcharge of 4.92% from the employer in fiscal year 2014. Of the 10.60% employer contribution rate, the employer remits 5.00% directly to the participant's ORP account and the remaining 5.45% retirement contribution and 0.15% incidental death benefit program contribution amounts are remitted to SCRS.

For fiscal year 2014, total retirement contributions requirements to the ORP were approximately \$12,931,000 (excluding the surcharge) from the University as employer and approximately \$9,281,000 from its employees as plan members. In addition, the University paid incidental death benefit program contributions of approximately \$186,000 in fiscal year 2014.

The amounts paid by the University for pension, incidental death benefit program, and accidental death program contributions are reported as employer contribution expenditures within the applicable 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, benefit, and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS and PORS are actuarially determined.

While the surcharge to fund retiree health and dental insurance benefits is collected by the Retirement Benefits Division of PEBA, it is remitted to the Insurance Benefits Division of PEBA, which is responsible for administration of retiree health and dental insurance benefits and establishment of the applicable retiree insurance surcharge rate.

For the current fiscal year, the SCRS and PORS do not make separate measurements of assets and pension benefit obligations for individual employers within the cost-sharing plan. Under Title 9 of the South Carolina Code of Laws, the University's liability under the plans is limited to the amount of required employer contributions (stated as a percentage of covered payroll) as established by the South Carolina Public Employee Benefit Authority and as appropriated in the South Carolina Appropriation Act and from other applicable revenue sources. Accordingly, the University recognizes no contingent liability for unfunded costs associated with participation in the plans.

University Medical Associates

University Medical Associates maintains several defined contribution pension plans established under the authority of Internal Revenue Code Section 401A. The plan titled "the UMA Retirement Plan" covering all UMA employees provides for contributions by UMA in such amounts as the Board of Directors may annually determine. The plan prohibits participant contributions except for rollovers from other qualified retirement plans. Current year contributions are based upon a three-tier percentage determined by the participant's compensation as follows: (a) eleven percent of compensation up to \$40,000, (b) fourteen percent of compensation from \$40,001 to \$80,000, and (c) twenty-five percent of compensation from \$80,001 to \$244,000. The maximum annual contribution per participant was \$51,000 for fiscal year 2014. Participants become fully vested in their accounts after five years of credited service. Contributions to this plan for fiscal year 2014 were \$28,281,026, net of forfeitures of \$1,438,575.

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

7. POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

The State of South Carolina provides certain health care, dental, vision, life insurance, long-term disability, and flexible spending benefits to certain active State employees. All permanent full-time and certain permanent part-time employees of the University are eligible to receive these benefits. The University recorded expense of \$23,811,335 for the year ended June 30, 2014 for these insurance benefits for active employees.

Plan Description

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The University contributes to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF), cost-sharing multiple employer defined benefit postemployment healthcare and long-term disability plans administered by the Insurance Benefits Division (IB) of the South Carolina Public Employee Benefit Authority (PEBA).

Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15 through 24 years of service for 50% employer funding.

Benefits become effective when the former employee retires under a State retirement system. Basic Long-Term Disability (BLTD) benefits are provided to active state, public school district, and participating local government employees approved for disability.

Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB, for its active employees who are not funded by State General Fund appropriations. Employers participating in the Retiree Medical Plan are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 4.92%, 4.55%, and 4.30% of

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annual covered payroll for fiscal years 2014, 2013, and 2012, respectively. The IB sets the employer contribution rate based on a pay-as-you-go basis. The University paid approximately \$11,756,000, \$10,837,000, and \$9,983,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2014, 2013, and 2012, respectively. BLTD benefits are funded through a person's premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to IB was \$3.22 for the fiscal years ended June 30, 2014, 2013, and 2012. The University recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately \$ 152,000, \$152,000, and \$151,000 for the years ended June 30, 2014, 2013, and 2012, respectively. Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The SCRHITF is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated IB reserves, and income generated from investments. The SCLTDITF is primarily funded through investment income and employer contributions.

A copy of the separately issued financial statements for the benefit plans and the trust funds may be obtained by writing to the South Carolina Public Employee Benefit Authority – Insurance Benefits Division, P.O. Box 11960, Columbia, South Carolina 29211-1960.

University Medical Associates

UMA and its component units provide employee life and disability benefits through commercial insurance companies and have established an employee benefit plan to self-insure employees for health, accident, and dental expenses. UMA records an estimated liability for incurred but not reported claims based on estimates of the ultimate cost of reported claims using the gross method. The estimated claims liability at June 30, 2014 was \$700,000 amount is included in "Payables and accrued liabilities" on the Statement of Net Position.

UMA sponsors the Retiree Benefit Plan for Employees of University Medical Associates, a single-employer defined benefit healthcare plan. The plan provides provide continuation of medical, dental and prescription drug benefits for certain retirees and their dependents through an irrevocable trust agreement adopted by the UMA Board with an effective date of June 26, 2008. The trust meets the definition of a qualifying trust as defined in GASB Statement No. 45. Eligible employees are those reaching age 62 with 15 years of service. The plan was amended in January 2013 to extend eligibility of employees hired after January 1, 2002 to those reaching age 62 with 20 years of service. This coverage is considered primary until age 65 or until the employee is covered under Medicare, at which time it becomes the secondary payer. The plan may be amended by future actions of the UMA Board of Directors. The plan, which has a June 30 year-end, issued a separate stand-alone financial report as of June 30, 2013. This report may be obtained by sending a request to the Controller, University Medical Associates, 1180 Sam Rittenberg Blvd., Suite 335, Charleston, SC 29407.

The obligations of plan members and UMA are established each year by action of the UMA Board pursuant to changes in the healthcare environment to ensure its self-insured healthcare plan remains viable. Retirees are required to pay monthly premiums as approved by the UMA Board depending on the selected level of coverage. UMA's required contribution for the Retiree Benefit Plan is due to the implicit rate subsidy for retirees who pay the same premiums as active employees and is determined by an actuarial review of the plan provisions and participants. UMA decided to fully fund the actuarial accrued liability as of June 30, 2008, which is being amortized to expense over a 30 year period, and will fund the remaining actuarial accrued liability based upon the annual required contribution using an annual charge of \$462 per covered employee. All costs of administering the plan are paid by UMA.

UMA's annual OPEB cost (expense) is calculated based on the *annual required contribution* (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of UMA's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in UMA's net OPEB obligation:

Annual OPEB Cost	Fiscal Year Ending June 30, 2014
Annual required contribution (ARC)	\$ 364,053
Interest on net OPEB asset	(43,012)
Adjustment to ARC	35,764
OPEB expense	356,805
Net OPEB contributions made during the year	(364,053)
Increase in OPEB asset	(7,248)
Net (Prepaid) OPEB asset at beginning of year	(573,495)
Net (Prepaid) OPEB asset at end of year	\$ (580,743)

The prepaid OPEB asset is included in the Prepaid items reflected in the noncurrent assets section of the Statement of Net Position.

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UMA's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net prepaid OPEB asset as of June 30, 2008 (the first year of implementation) through June 30, 2014 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net Prepaid OPEB Asset
June 30, 2014	\$ 356,805	102.03%	\$ 580,743
June 30, 2013	\$ 353,474	101.80%	\$ 573,495
June 30, 2012	\$ 327,446	98.00%	\$ 567,075
June 30, 2011	\$ 235,120	131.60%	\$ 573,695
June 30, 2010	\$ 333,063	86.40%	\$ 499,343
June 30, 2009	\$ 77,894	44.00%	\$ 544,338
June 30, 2008	\$ 75,173	882.00%	\$ 587,933

The most recent actuarial valuation was dated July 1, 2013. As of the valuation date, the actuarial accrued liability (AAL) was \$5,347,174 and the actuarial value of plan assets was \$2,582,959 resulting in an unfunded actuarial accrued liability (UAAL) of \$2,764,215, representing a funding ratio of 48.31%. Current year contributions to the trust totaled \$364,053. The UAAL represents approximately 5.22% of covered payroll (annual payroll of active employees covered by the plan) of approximately \$53 million for the year ended June 30, 2014.

Actuarial valuations of an ongoing plan include estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2013 actuarial valuation, the *projected unit credit actuarial cost method* was used to determine plan liabilities. The actuarial assumptions included a 7.5% investment rate of return and a general inflation rate of 3.0% per year. The annual healthcare cost trend rate for pre-age 65 retirees is assumed to be 8.0% for 2014, decreasing gradually to 4.5% by 2021 and thereafter. The healthcare cost trend rate for post-age 65 retirees is assumed to be 5.5% for 2014, decreasing to 4.5% in 2016 and thereafter. The UAAL is being amortized as a level cost per active employee over a thirty year closed amortization period. The next actuarial valuation for this plan will be prepared as of July 1, 2015.

8. DEFERRED COMPENSATION PLANS

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

Certain employees have elected to participate in a Section 403(b) plan through a financial provider approved by the University. The University believes it is compliant with Internal Revenue Service regulations that went into effect January 1, 2009. The plan is administered by various unrelated financial institutions.

Employees of Carolina Primary Care Physicians, P.A. (CPCP) and Carolina Health Management Services (CHMS), component units of UMA, participate in a deferred compensation plan under Internal Revenue Code Section 401(k) which allows employees to defer up to \$23,000 of compensation annually. The employer makes safe-harbor contributions for all employees of three percent of compensation up to \$260,000. A separate employer contribution of five percent for all physicians and eight percent for all non-physician employees is made for all eligible compensation. All employee and employer safe-harbor contributions are 100% vested at the time of contribution. The five and eight percent employer contributions vest ratably over a 5-year period. Total employer contributions to this plan for the fiscal year ending June 30, 2014 were \$653,236.

9. COMMITMENTS, CONTINGENCIES AND LITIGATION

The various federal programs administered by the University for fiscal year 2014 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 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 and faculty contracts. In the opinion of management, the outcome of the legal proceedings and claims is not expected to have a material adverse effect on the financial positions of the entities.

The University had outstanding commitments related to capital projects of \$14,526,916 at June 30, 2014. The University anticipates funding these projects out of current resources, proceeds from debt issuances, private gifts, federal capital grants, special appropriations, and state capital improvement bond proceeds.

Carolina Primary Care Physicians, P.A. (CPCP), a component unit of UMA, signed a corporate guarantee with a financial institution for 17.50 percent of the \$8,750,000 mortgage debt of Lowcountry Real Property, LLC (LCRP). This corporate guarantee is based upon 50 percent of CPCP's equity in the partnership multiplied by the outstanding principal balance of the mortgage up to a maximum \$1,531,250. CPCP and the other guarantors are jointly and severally liable for this amount should LCRP default on its obligation. During the fiscal year ended June 30, 2014, UMA implemented GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement requires that a governmental entity, which extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the governmental entity will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. The statement also specifies information required to be disclosed by governments that extend nonexchange guarantees. As of June 30, 2014, no anticipated liability has been recorded for the above referenced guarantee.

UMA has recorded a liability for future payments to a previously employed physician provider under a deferred compensation agreement. The agreement calls for specified payments over the joint life expectancy of the physician and his spouse based upon his term of employment. At June 30, 2014, the discounted value of these expected future payments is \$194,830 and is reflected in Payables and accrued liabilities on the Statement of Net Position.

On May 18, 2014, UMA reached an agreement in principle with a former member of its senior management to terminate her employment. This agreement provides for salary and health benefit continuation for a period of 4 months ending on October 31, 2014. In accordance with GASB Statement No. 47, *Accounting for Termination Benefits*, \$45,586 was accrued as of June 30, 2014. This amount is reflected in Payables and accrued liabilities on the Statement of Net Position.

10. PAYABLES AND ACCRUED LIABILITIES

The following table reflects the payables and accrued liabilities as of June 30, 2014:

	The University	UMA	-- Nonmajor Enterprise Funds --	
			MUFC	CHS
Accounts payable	\$ 11,724,755	\$ 7,126,087	\$ -	\$ -
Retainages	733,308	-	-	-
Accrued payroll & related liabilities	10,194,710	20,449,979	-	-
Accrued interest	1,243,467	205,159	56,616	268,800
Other	-	1,449,472	-	-
	<u>\$ 23,896,240</u>	<u>\$ 29,230,697</u>	<u>\$ 56,616</u>	<u>\$ 268,800</u>

11. NONCURRENT LIABILITIES

University and Blended Component Units

Noncurrent liability activity for the year ended June 30, 2014 for the University and its blended component units was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
<u>The University</u>					
State institution bonds payable	\$ 43,505,000	\$ -	\$ (4,225,000)	\$ 39,280,000	\$ 4,210,000
State bond anticipation notes	28,000,000	28,000,000	(28,000,000)	28,000,000	28,000,000
Revenue bond payable	32,415,000	-	(1,255,000)	31,160,000	1,305,000
Energy note payable	3,214,751	-	(3,214,751)	-	-
Capital leases payable	834,815	28,792	(286,656)	576,951	257,997
Compensated absences payable	29,044,748	14,130,149	(14,364,391)	28,810,506	14,364,391
Premium on state institution bond	1,570,746	-	(333,455)	1,237,291	301,321
Total University long-term liabilities	138,585,060	42,158,941	(51,679,253)	129,064,748	48,438,709
Interfund payables	20,689,798	-	(2,126,842)	18,562,956	2,277,496
Due to component unit	44,914,140	-	(568,227)	44,345,913	613,858
Federal loan program liability	14,305,947	264,407	(177,673)	14,392,681	-
Total University noncurrent liabilities	218,494,945	42,423,348	(54,551,995)	206,366,298	51,330,063
<u>University Medical Associates</u>					
Variable rate demand bonds	62,085,000	-	-	62,085,000	-
Term loan payable	21,169,208	-	(3,791,499)	17,377,709	3,791,501
Compensated absences payable	3,374,491	4,627,085	(4,568,831)	3,432,745	2,059,647
Total UMA long-term liabilities	86,628,699	4,627,085	(8,360,330)	82,895,454	5,851,148
Fair value of derivative instruments	1,691,473	568,213	-	2,259,686	-
Total UMA noncurrent liabilities	88,320,172	5,195,298	(8,360,330)	85,155,140	5,851,148
<u>Nonmajor Enterprise Funds</u>					
Medical University Facilities Corporation					
Revenue bonds payable	4,031,000	-	(992,000)	3,039,000	1,070,000
Total MUFC noncurrent liabilities	4,031,000	-	(992,000)	3,039,000	1,070,000
CHS Development Company					
Notes payable	19,290,000	-	(1,370,000)	17,920,000	1,405,000
Total CHS noncurrent liabilities	19,290,000	-	(1,370,000)	17,920,000	1,405,000
Grand total	\$ 330,136,117	\$ 47,618,646	\$ (65,274,325)	\$ 312,480,438	\$ 59,656,211

Major Discretely Presented Component Unit

Noncurrent liability activity for the year ended June 30, 2014 for the Authority was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
<u>Medical University Hospital Authority</u>					
Bonds payable	\$ 49,075,000	\$ -	\$ (49,075,000)	\$ -	\$ -
GNMA mortgage backed securities (Series 2012)	354,953,332	-	(13,236,810)	341,716,522	13,631,263
GNMA mortgage backed securities (Series 2013)	-	47,442,000	(787,964)	46,654,036	1,943,415
GE notes payable	607,004	-	(607,004)	-	-
Wells Fargo note payable	13,481,590	-	(1,181,570)	12,300,020	1,223,471
Capital leases payable	615,154	-	(261,751)	353,403	265,386
Total Authority long-term liabilities	418,732,080	47,442,000	(65,150,099)	401,023,981	17,063,535
Fair value of derivative instruments	2,262,745	-	(2,262,745)	-	-
Other noncurrent liabilities	6,049,680	-	(2,218,215)	3,831,465	2,419,872
Total Authority noncurrent liabilities	\$ 427,044,505	\$ 47,442,000	\$ (69,631,059)	\$ 404,855,446	\$ 19,483,407

12. BONDS AND NOTES PAYABLE

Bonds Payable - University and Blended Component Units

The University's bonds payable at June 30, 2014 consisted of the following:

	Interest Rates	Maturity Dates	Balance June 30, 2014
State Institution Bonds:			
2005A refunding dated 04/01/2005	3.00 - 5.00%	03/01/2020	\$ 11,475,000
2011D series dated 03/01/2011	2.00 - 5.00%	03/01/2031	16,750,000
2012B refunding dated 05/01/2012	2.50 - 5.00%	04/01/2024	11,055,000
Total state institution bonds			<u>39,280,000</u>
State Institution Bond Anticipation Note:			
2013 series dated 12/10/2013	0.41%	12/08/2014	28,000,000
Higher Education Facilities Revenue Bond:			
2006 series dated 11/01/2006	4.00 - 4.30%	04/01/2031	31,160,000
			<u>\$ 98,440,000</u>

State Institution Bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition revenue is pledged up to the amount of the annual debt service requirement for the payment of principal and interest on State Institution Bonds. SC Code of Laws section 59-107-90 states that the maximum amount of annual debt service on state institution bonds for each institution shall not exceed ninety percent of the sums received from tuition fees for the preceding fiscal year. Tuition fees designated for debt service for the preceding year were \$9,860,573 which resulted in a legal debt margin at June 30, 2014, of \$8,874,516.

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

Year Ending June 30,	State Institution Bonds		
	Principal	Interest	Total
2015	\$ 4,210,000	\$ 1,697,800	\$ 5,907,800
2016	4,360,000	1,524,863	5,884,863
2017	4,495,000	1,346,263	5,841,263
2018	4,035,000	1,155,863	5,190,863
2019	3,460,000	989,313	4,449,313
2020 - 2024	10,430,000	3,148,763	13,578,763
2025 - 2029	5,635,000	1,471,594	7,106,594
2030 - 2031	2,655,000	200,750	2,855,750
	<u>\$ 39,280,000</u>	<u>\$ 11,535,209</u>	<u>\$ 50,815,209</u>

For the year ended June 30, 2014, the University made principal payments of \$4,225,000 and interest payments of \$1,866,600 related to the State Institution Bonds.

The scheduled maturities of the Higher Education Facilities Revenue Bond are as follows:

Year Ending June 30,	Higher Education Revenue Bond		
	Principal	Interest	Total
2015	\$ 1,305,000	\$ 1,294,638	\$ 2,599,638
2016	1,360,000	1,242,438	2,602,438
2017	1,415,000	1,188,038	2,603,038
2018	1,470,000	1,131,438	2,601,438
2019	1,530,000	1,072,638	2,602,638
2020 - 2024	8,620,000	4,388,450	13,008,450
2025 - 2029	10,575,000	2,434,803	13,009,803
2030 - 2031	4,885,000	317,340	5,202,340
	<u>\$ 31,160,000</u>	<u>\$ 13,069,783</u>	<u>\$ 44,229,783</u>

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For the year ended June 30, 2014, the University made principal payments of \$1,255,000 and interest payments of \$1,344,838 related to the Higher Education Facilities Revenue Bond.

During fiscal year 2014, the University issued a State Bond Anticipation Note in the amount of \$28,000,000. The proceeds of this State Bond Anticipation Note were used to repay the State Bond Anticipation Note issued in fiscal year 2013. The proceeds of the related original Bond Anticipation Note (issued in fiscal year 2008) were used to finance the construction of the College of Dental Medicine Building. For the year ended June 30, 2014, the University made interest payments totaling \$139,611 related to the State Bond Anticipation Note issued in fiscal year 2013.

The State Bond Anticipation Note issued in fiscal year 2014 will mature during fiscal year 2015, at which time it will be repaid via an issuance of a new State Bond Anticipation Note. Interest payments related to the State Bond Anticipation Note during fiscal year 2015 are anticipated to total \$114,481.

There was no defeased debt outstanding at June 30, 2014 for the University.

On December 18, 2008, UMA issued Series 2008 South Carolina Jobs-Economic Development Authority Variable Rate Demand Bonds (Series 2008 Bonds) in the amount of \$62,085,000 in conjunction with the refunding of its 1994, 1997, 1999A and 1999B Select Auction Variable Rate Securities (SAVRS). The proceeds of the Series 2008 Bonds were used to fully redeem the 1999 A&B SAVRS and pay certain costs of issuance. The Series 2008 Bonds mature in various installments ranging from \$1,700,000 to \$3,900,000 beginning on July 1, 2019 with final maturity on July 1, 2037.

Payments relative to the Series 2008 Bonds were originally secured by, among other things, an irrevocable, direct-pay letter of credit (Credit Facility) issued by Wells Fargo Bank, NA (successor by merger to Wachovia Bank, NA) pursuant to a Reimbursement and Security Agreement between UMA and Wells Fargo dated December 1, 2008. The original Credit Facility was due to expire on December 18, 2011. Due to the upcoming initial expiration date of the Credit Facility, UMA requested that the South Carolina Jobs Economic Development Authority and the Bond trustee execute a mandatory tender for purchase of the Series 2008 Bonds and amend and restate the Master Trust Indenture to provide for the Index Rate Mode relative to the interest due on the Bonds. The transaction was executed on June 23, 2011. Following the amendment of the original Master Trust Indenture, the Bonds were reissued and purchased at par in the Index Rate Mode by Wells Fargo Bank, NA (Wells Fargo) pursuant to a Continuing Covenant Agreement dated June 23, 2011 between UMA and Wells Fargo. The original Credit Facility and the related Reimbursement and Security Agreement were terminated as of the closing of Wells Fargo's direct purchase of the reissued Bonds (Reissued Bonds).

Under the Index Rate Mode during the initial period, interest accruing to Wells Fargo is computed at 75% of the one-month LIBOR plus 0.88%. The initial term was set at sixty-six months ending on December 31, 2016 at which time the Reissued Bonds will be subject to a mandatory tender to the borrower. If not successfully remarketed on that date, all amounts outstanding will be converted to a bank loan subject to repayment in sixty consecutive monthly installments of \$1,034,750 beginning 180 days after the mandatory tender date (July 1, 2017) with interest computed at the greater of (1) Wells Fargo's Prime Rate plus 2%, (2) the Federal Funds Rate plus 3%, or (3) 8%.

As of June 30, 2014, the annual effective variable interest rate incurred on the Reissued Bonds was 0.99325%, determined in accordance with the Index Rate Mode formula described above. However, UMA has synthetically converted the overall interest cost to a variable rate that, because of the structure of the payer-side arrangement, is a near fixed rate proxy using derivative financial instruments as described below.

As security for repayment of the Reissued Bonds and other obligations issued under the Master Trust Indenture (as amended and restated on June 23, 2011), UMA has granted to the master trustee a security interest in its Pledged Assets, subject to permitted liens and subject to the right of the Members of the Obligated Group to transfer property, plant and equipment and cash and investments free of the security interest created in the Pledged Assets under certain specified circumstances as further set forth in the Master Indenture. Pledged Assets consist of the UMA Receipts of each Member of the Obligated Group (as defined, which currently consists solely of UMA). "UMA Receipts" means all accounts and assignable general intangibles of each Member of the Obligated Group, now owned or hereafter acquired, and all proceeds thereof and therefrom whether cash or noncash; excluding, however, (a) gifts, grants, bequests, donations, contributions, charitable pledges, or other contract or property rights to any Member of the Obligated Group heretofore or hereafter made, and the income and gains and other proceeds derived therefrom, to the extent any of the foregoing are specifically restricted by the donor or grantor to a particular purpose which is inconsistent with their use for payments required under the Master Indenture or on any obligations; (b) mandatory transfers to MUSC and MUSCF; (c) transfers under the ambulatory care and primary care agreements; and (d) non-UMA revenues. All obligations issued under the Master Indenture are secured *pari passu* by the security interest in the Pledged Assets created by the Master Indenture. The Members of the Obligated Group are also subject to certain covenants under the Master Indenture restricting, among other things, incurrence of indebtedness, existence of liens, consolidation or merger and disposition of assets. UMA is currently the only Member of the Obligated Group.

The Reissued Bonds were issued pursuant to a resolution by the South Carolina Jobs-Economic Development Authority in order to obtain tax-exempt status for the interest payments to the bond holders and reduce the total interest costs. These Bonds are subject to compliance with the arbitrage regulations of the Internal Revenue Code.

The original proceeds of the Series 2008 Bonds and the Wells Fargo Term Loan (described in the Notes Payable section) were used in fiscal 2009 to advance refund outstanding SAVRS direct note obligations, terminate previous swap agreements and pay issue costs. The refunding transaction resulted in a loss of \$26,736,722 which was amortized over the shorter life of the refunded debt, that is the period ending on May 15, 2027, using the effective interest method.

The mandatory tender of the Series 2008 Bonds and the direct purchase of the Reissued Bonds executed on June 23, 2011, as described above, were accounted for as a refunding transaction under GASB Statement No. 23, *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities*. The proceeds of \$62,085,000 from the direct purchase of the Reissued Bonds by Wells Fargo were used, along with \$314,542 of UMA's cash, to advance refund outstanding Series 2008 South Carolina Jobs Economic Development Authority Variable Rate Revenue Bonds of \$62,085,000, to pay accrued interest of \$1,462 and issue costs of \$313,080. This refunding resulted in an economic loss of \$7,341,936 and an increase in cash flows of \$9,807,716 due to increased interest costs. The deferred loss on refunding resulting from the most recent refunding, together with the unamortized difference from the previous refunding described in the preceding paragraph, in the total amount of \$22,346,892, are being amortized over the original amortization period remaining from the previous refunding, i.e. the period ending on May 15, 2027, using the effective interest method.

UMA has entered into an interest rate swap agreement with Wells Fargo to modify interest rates on both of the Bonds (represented first by the Series 2008 Bonds and then by the Reissued Bonds). The swap related to the Reissued Bonds limits the impact of fluctuations in the LIBOR by converting the variable interest rate paid on the Bonds into a rate equal to 2.9828% plus 8% of the one-month LIBOR. The Bonds swap agreement was entered into on December 5, 2008 with an effective date of December 18, 2008, and matures on July 1, 2037. The notional amount as of June 30, 2014 was \$62,085,000 which equals the principal outstanding. Under the Reissued Bonds swap agreement, UMA pays Wells Fargo a fixed interest payment of 2.1028% and receives a variable payment equal to 67% of the one-month LIBOR. The variable rate in effect at June 30, 2014 was 0.1016%.

The Reissued Bonds swap agreement is considered a hedging derivative instrument under GASB Statement No. 53 as of June 30, 2014. The previously established hedging relationship between the original Series 2008 Bonds and the related interest rate swap was discontinued in connection with the refunding transaction executed on June 23, 2011. At that time, the deferred inflows associated with the hedging derivative instrument of \$1,696,000 were included in the calculation of the loss on the refunding transaction in accordance with GASB Statement No. 23. Following the refunding, the existing swap, which was not terminated in connection with the refunding, was associated with the Reissued Bonds and proven to constitute an effective hedging derivative instrument under GASB Statement No. 53. Accordingly, changes in the swap's fair value since the time it was associated with the Reissued Bonds are being reported as deferred inflows/outflows. The fair value of the swap at the time of the refunding is being amortized as an adjustment of deferred inflows/outflows and interest expense on a straight-line basis over the remaining life of the swap.

As of June 30, 2014, the fair value of the Reissued Bonds swap agreement was a negative (\$1,592,082). The fair value was estimated by independent financial advisors using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Consistent with the guidance provided by GASB Statement No. 53, the negative fair value of the Reissued Bonds swap agreement has been recorded on the Statement of Net Position and offset by an identical amount for the deferred outflows from this swap since the swap is considered an effective hedging instrument. The decrease in the fair value of the Series 2008 Bonds' cash flow hedge swap during fiscal year 2014 of \$829,100 is not recognized in these financial statements.

UMA is exposed to counterparty credit risk in the amount of the derivative's fair value. Wells Fargo Bank, counterparty to this swap, is rated Aa2 by Moody's Investor Services, and AA by Standard & Poor's as of June 30, 2014. Should the estimated termination value of the Series 2008 Bonds swap or the Term Loan swap, which is discussed in the Notes Payable section of this note, (assuming their early termination) become negative to UMA, UMA may be required to post collateral with the swap counterparty in the form of cash or negotiable debt securities of the U.S. Treasury Department, provided that in any case the collateral held by the swap counterparty shall at no time exceed \$8,200,000. As of the date of issuance of this report, UMA has not been required to post any such collateral.

Interest rate swaps are normally based on a fixed payment and an indexed variable receipt instead of the actual variable debt payment. Any difference between the indexed variable receipt and the actual market-determined variable borrowing rate on the bonds is called "basis risk." UMA is subject to this basis risk on the Reissued Bonds as of June 30, 2014 as the indexed variable rate is 67% of the one month LIBOR and the actual market-determined borrowing rate is 75% of the one-month LIBOR plus 0.88%.

The Reissued Bonds swap derivative contract incorporates the International Swap Dealers Association Master Agreement ("Master Agreement"), which includes standard termination events, such as failure to pay and bankruptcy. UMA or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. UMA may also terminate the swap at its discretion upon two business days notice to the counterparty. If the swap were terminated, the variable rate debt would no longer carry a synthetic interest rate. In addition, if at the time of the termination the swap has a negative fair value, UMA would generally be liable to the counterparty for a payment equal to the swap's fair value. Conversely, if the fair value is positive at termination, UMA would generally receive a payment from the counterparty.

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Using rates as of June 30, 2014, debt service requirements of UMA's Reissued South Carolina Jobs-Economic Development Authority Variable Rate Demand Bonds and net swap payments, assuming current interest rates remain the same for their term, are as follows. As rates vary, the variable-rate notes interest payments and the net swap payments will vary.

Fiscal Year Ending <u>June 30,</u>	Reissued SC JEDA Variable Rate Demand Bonds			
	Principal	Interest	Swap Payment, Net	Total Debt Service
2015	\$ -	\$ 616,659	\$ 1,242,427	\$ 1,859,086
2016	-	616,659	1,242,426	1,859,085
2017	-	616,659	1,242,426	1,859,085
2018	-	616,659	1,242,427	1,859,086
2019	1,700,000	599,774	1,208,407	3,508,181
2020 - 2024	14,185,000	2,555,782	5,149,311	21,890,093
2025 - 2029	14,505,000	1,869,446	3,766,501	20,140,947
2030 - 2034	16,645,000	1,087,261	2,190,580	19,922,841
2035 - 2038	15,050,000	229,590	462,571	15,742,161
Totals	\$ 62,085,000	\$ 8,808,489	\$ 17,747,076	\$ 88,640,565

On September 20, 1995, the Medical University Facilities Corporation (MUFC) issued lease revenue bonds series 1995A in the amount of \$12,729,000 and series 1995B in the amount of \$472,000. The bonds were issued for the purpose of providing a portion of the payment for the costs of completing the acquisition and construction of the Strom Thurmond Biomedical Research Center. Interest rates range from 7.45% to 7.5%. The final maturity is in 2016, and the bonds are secured by the rental payments received under the capital lease as detailed in Note 13. The bond covenants require that MUFC establish and maintain funds with a trustee for the payment of principal and interest on the lease revenue bonds. During the year ended June 30, 2014, MUFC paid \$992,000 in principal and \$282,237 in interest related to these bonds.

The scheduled maturities of the MUFC lease revenue bonds are as follows:

Fiscal Year Ending <u>June 30,</u>	Lease Revenue Bonds		
	Principal	Interest	Total
2015	\$ 1,070,000	\$ 206,900	\$ 1,276,900
2016	1,149,000	125,712	1,274,712
2017	820,000	30,553	850,553
Total	\$ 3,039,000	\$ 363,165	\$ 3,402,165

Mortgage Backed Securities - Major Discretely Presented Component Unit

On December 19, 2012, the Authority refinanced its 2004 Series A and B bonds with Government National Mortgage Agency (GNMA) mortgage backed securities (MBS) (Series 2012). The annual interest rate associated with the GNMA MBS (Series 2012) is a fixed 2.94%. The scheduled maturities of the Authority's GNMA MBS (Series 2012) are as follows:

Fiscal Year Ending <u>June 30,</u>	GNMA MBS (Series 2012)		
	Principal	Interest	Total
2015	\$ 13,631,263	\$ 9,863,758	\$ 23,495,021
2016	14,037,467	9,457,555	23,495,022
2017	14,455,775	9,039,246	23,495,021
2018	14,886,549	8,608,473	23,495,022
2019	15,330,159	8,164,862	23,495,021
2020 - 2024	83,781,666	33,693,439	117,475,105
2025 - 2029	97,031,379	20,443,727	117,475,106
2030 - 2033	88,562,264	5,417,820	93,980,084
Total	\$ 341,716,522	\$ 104,688,880	\$ 446,405,402

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On December 30, 2013, the Authority refinanced its 2004 Central Energy Plant Economic Development Revenue Bonds (CEP Series 2004 bonds) with Government National Mortgage Agency (GNMA) mortgage backed securities (MBS) (Series 2013). The annual interest rate associated with the GNMA MBS (Series 2013) is a fixed 3.85%. The scheduled maturities of the Authority's GNMA MBS (Series 2013) are as follows:

Fiscal Year Ending June 30,	GNMA MBS (Series 2013)		
	Principal	Interest	Total
2015	\$ 1,943,415	\$ 1,762,125	\$ 3,705,540
2016	2,019,571	1,685,969	3,705,540
2017	2,098,711	1,606,829	3,705,540
2018	2,180,953	1,524,587	3,705,540
2019	2,266,417	1,439,123	3,705,540
2020 - 2024	12,735,968	5,791,732	18,527,700
2025 - 2029	15,434,760	3,092,940	18,527,700
2030 - 2032	7,974,241	362,157	8,336,398
	<u>\$ 46,654,036</u>	<u>\$ 17,265,462</u>	<u>\$ 63,919,498</u>

Notes Payable - University and Blended Component Units

On October 3, 2008, the Board of Trustees approved a resolution authorizing the University to use the South Carolina Master Lease Program for the purpose of financing the costs of purchasing and implementing energy conservation measures that will benefit both the University and the Authority with the understanding that debt service payments will be generated from the associated energy savings. Pursuant to this resolution, the University borrowed \$15,387,340 from Bank of America during fiscal year 2009.

In the year ended June 30, 2014, the University paid \$3,214,751 (including a prepayment of \$1,149,279) in principal and 165,238 in interest related to the energy note. The energy note payable was fully repaid as of June 30, 2014.

On December 18, 2008, UMA borrowed \$37,915,000 via a taxable term loan payable to Wells Fargo Bank, NA (the Term Loan) to cover the taxable portion of the refunding of the aforementioned SAVRS. The proceeds of the Term Loan were used to fully redeem the outstanding 1994 and 1997 SAVRS, terminate the previously outstanding swap agreements, and pay certain costs of issuance. The Term Loan is being amortized over a ten year period and payable in level monthly principal installments of \$315,958 plus interest through January 1, 2019. The ten-year repayment schedule was originally conditional on the successful renewal or replacement of the above-referenced Credit Facility (see Bonds Payable section). In connection with the above described direct purchase of the Reissued Bonds by Wells Fargo on June 23, 2011, the term of the Term Loan was extended to match the initial term of the Interest Rate Mode of the Reissued Bonds held by Wells Fargo.

UMA pays interest on the Term Loan at the rate equal to the one-month LIBOR plus 1.30%. As of June 30, 2014, the annual effective variable interest rate incurred on the Term Loan was 1.451%. However, UMA has synthetically converted the overall interest cost to a fixed rate using derivative financial instruments as described below.

The Term Loan is governed by a conventional loan agreement and additional security documents entered into by UMA in favor of the bank. These security documents include a Leasehold Mortgage and Security Agreement under which, among other things, UMA grants to the bank a leasehold mortgage and security interest in its rights under and in respect of the Rutledge Tower lease and subleases.

UMA has entered into an interest rate swap agreement with Wells Fargo to hedge changes in cash flows on the Term Loan in an effort to convert its variable rate to a synthetic fixed rate of 3.869%. The swap agreement related to the Term Loan was entered into on December 5, 2008 with an effective date of December 18, 2008 and matures January 2, 2019. The notional amount as of June 30, 2014 was \$17,377,709 which equaled the principal outstanding. Under the swap agreement, UMA pays Wells Fargo a fixed interest payment of 3.869% on the Term Loan. UMA receives a variable payment equal to the one-month LIBOR plus 1.30% on the swap associated with the Term Loan. The variable rate for the Wells Fargo term loan in effect at June 30, 2014 was 1.451%.

As of June 30, 2014, the fair value of the Term Loan swap was a negative (\$667,604). The fair value was estimated by independent financial advisors using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

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Consistent with the guidance provided by GASB Statement No. 53, the negative fair value of the Term Loan swap agreement has been recorded on the Statement of Net Position and offset by an identical amount for the deferred outflows from this swap since the swap is considered an effective hedging instrument. The increase in the fair value of the term loan cash flow hedge swap during fiscal year 2014 of \$260,887 is not recognized in these financial statements.

As of June 30, 2014, UMA is exposed to counterparty credit risk in the amount of the swap agreement's fair value. Wells Fargo, the counterparty to this swap, is rated Aa2 by Moody's Investor Services, and AA by Standard & Poor's as of June 30, 2014. Should the estimated termination value of the Term Loan swap or the Reissued 2008 Bonds swap, which is discussed in the Bonds Payable section of this note, (assuming their early termination) become negative to UMA, UMA may be required to post collateral with the swap counterparty in the form of cash or negotiable debt securities of the U.S. Treasury Department, provided that in any case the collateral held by the swap counterparty shall at no time exceed \$8,200,000. As of the date of issuance of this report, UMA has not been required to post any such collateral.

Interest rate swaps are normally based on a fixed payment and an indexed variable receipt instead of the actual variable debt payment. Any difference between the indexed variable receipt and the actual market-determined variable borrowing rate on the bonds is called "basis risk." Basis risk has been eliminated on the Term Loan as both the payment received and the borrowing rate are determined based on the one month LIBOR plus a spread of 1.30%.

The Term Loan swap derivative contract incorporates the International Swap Dealers Association Master Agreement ("Master Agreement"), which includes standard termination events, such as failure to pay and bankruptcy. UMA or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. UMA may also terminate the swap at its discretion upon two business days notice to the counterparty. If the swap were terminated, the variable rate debt would no longer carry a synthetic interest rate. In addition, if at the time of the termination the swap has a negative fair value, UMA would generally be liable to the counterparty for a payment equal to the swap's fair value. Conversely, if the fair value is positive at termination, UMA would generally receive a payment from the counterparty.

Using rates as of June 30, 2014, debt service requirements of UMA's Wells Fargo Term Loan and net swap payments, assuming current interest rates remain the same for their term, are as follows. As rates vary, the variable-rate notes interest payments and the net swap payments will vary.

Fiscal Year Ending <u>June 30,</u>	Wells Fargo term loan			
	Principal	Interest	Swap Payment, Net	Total Debt Service
2015	\$ 3,791,501	\$ 224,643	\$ 378,673	\$ 4,394,817
2016	3,791,501	169,629	285,937	4,247,067
2017	3,791,501	114,614	193,201	4,099,316
2018	3,791,501	59,599	100,464	3,951,564
2019	2,211,705	16,046	27,048	2,254,799
Totals	<u>\$ 17,377,709</u>	<u>\$ 584,531</u>	<u>\$ 985,323</u>	<u>\$ 18,947,563</u>

UMA has a line of credit with Wells Fargo Bank with a maximum borrowing limit of \$10 million, on which UMA could draw for working capital. The loan bears interest at the 30-day LIBOR plus 1.15% and is secured by all unrestricted accounts receivable. During fiscal year 2014, there were no advances under this line of credit, and there was no outstanding balance as of June 30, 2014. In June 2014, this line of credit expired and was renewed with basically the same terms through June 30, 2015.

On November 1, 2003, the South Carolina Jobs-Economic Development Authority issued Economic Development Revenue Bonds (CHS Development Company Project) Series 2003 (CHS Series 2003 Bonds) in the amount of \$32,985,000 with final maturity on January 1, 2025. Interest rates range from 3 percent to 5 percent. The proceeds were loaned to CHS Development Company and used to finance the renovation and equipping of the old Charleston High School to accommodate approximately 40,000 square feet of classroom and office space, the construction and equipping of an adjacent building consisting of approximately 40,000 square feet of additional classroom and office space, the construction of an adjacent parking garage, and the construction of approximately 10,000 square feet of mixed use retail/services space. The renovated high school building, the new adjacent building, and the parking garage are leased to the University. Pursuant to the loan agreement, CHS is obligated to make payments in amounts sufficient to pay the principal and interest on the bonds and certain other fees and expenses. Payment of principal and interest on the bonds is insured under a financial guaranty insurance policy.

On December 21, 2012, the South Carolina Jobs-Economic Development Authority issued Economic Development Refunding Revenue Bonds (CHS Development Company Project) Series 2012 (CHS Series 2012 Bonds) in the amount of \$19,290,000. After deducting the related closing costs of \$312,747.35, the net proceeds of the CHS Series 2012 Bonds of \$18,977,252.65 along with \$6,080,447.35 of cash held by the trustee of the CHS Series 2003 Bonds was deposited in escrow for the purpose of redeeming all of the outstanding principal and accrued interest of the CHS Series 2003 Bonds. Subsequently, on January 1, 2013, the CHS Series 2003 Bonds were fully redeemed.

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This refunding resulted in an accounting loss of \$610,399 which has been deferred and will be amortized over the pre-refunding remaining life of the refinanced obligation using the effective interest method. As a result of this refunding, CHS reduced its total debt service payments over the next twelve years by approximately \$3,468,000 and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$2,081,000.

Effective August 1, 2014, the CHS Series 2012 Bonds were converted to tax-exempt status. The sole impact of this tax-exempt conversion was to lower the annual interest rate (effective August 1, 2014 forward) on all then-outstanding bonds to 2.25%.

The scheduled maturities of the CHS Series 2012 bonds (including the impact of the lowered interest rate) are as follows:

Fiscal Year Ending June 30,	SC JEDA Refunding Revenue Bonds - CHS Series 2012		
	Principal	Interest	Total
2015	\$ 1,405,000	\$ 481,600	\$ 1,886,600
2016	1,450,000	371,588	1,821,588
2017	1,490,000	338,963	1,828,963
2018	1,535,000	305,438	1,840,438
2019	1,580,000	270,900	1,850,900
2020 - 2024	8,590,000	801,113	9,391,113
2025 - 2025	1,870,000	42,075	1,912,075
Total	<u>\$ 17,920,000</u>	<u>\$ 2,611,677</u>	<u>\$ 20,531,677</u>

During the year ended June 30, 2014, CHS paid \$1,370,000 in principal and \$594,775 in interest related to these bonds.

Notes Payable - Major Discretely Presented Component Unit

In April 2013, the Authority entered into a \$13.8 million equipment lease/purchase agreement with Wells Fargo Bank, NA for the purpose of obtaining energy conservation equipment for the Authority's central energy plant. This 10-year note bears an annual interest rate of 3.5%.

Fiscal Year Ending June 30,	Wells Fargo note		
	Principal	Interest	Total
2015	\$ 1,223,471	\$ 414,559	\$ 1,638,030
2016	1,266,858	371,172	1,638,030
2017	1,311,783	326,247	1,638,030
2018	1,358,302	279,729	1,638,031
2019	1,406,470	231,560	1,638,030
2020 - 2023	5,733,136	409,476	6,142,612
Total	<u>\$ 12,300,020</u>	<u>\$ 2,032,743</u>	<u>\$ 14,332,763</u>

13. LEASE OBLIGATIONS

The University's future commitments for capital leases and for operating leases having remaining noncancelable terms in excess of one year as of June 30, 2014, are as follows.

On the Statement of Net Position, the University's capital leases with blended component units are reported as interfund payables and the capital leases with the discretely presented component unit are reported as due to component unit.

Fiscal Year Ending June 30,	Capital Leases with			Operating Leases with			Total Operating Leases
	Blended Component Units	Discretely Presented Component Unit	External Entities	Blended Component Unit	Discretely Presented Component Units	External Entities	
2015	\$ 3,154,987	\$ 4,058,863	\$ 286,422	\$ 2,214,437	\$ 2,243,433	\$ 1,159,557	\$ 5,617,427
2016	3,154,987	4,058,863	282,916	2,077,119	386,713	704,935	3,168,767
2017	2,199,984	4,058,863	33,142	2,063,926	350,047	374,285	2,788,258
2018	1,877,316	4,058,853	19,718	2,063,926	3,371	113,244	2,180,541
2019	1,877,316	4,058,863	-	1,145,803	-	88,000	1,233,803
2020 - 2024	9,386,582	20,294,316	-	-	-	-	-
2025 - 2029	1,251,545	20,294,316	-	-	-	-	-
2030 - 2034	-	20,294,316	-	-	-	-	-
2035 - 2039	-	19,279,611	-	-	-	-	-
Total minimum lease payments	22,902,717	100,456,864	622,198	\$ 9,565,211	\$ 2,983,564	\$ 2,440,021	\$ 14,988,796
Less interest	(4,339,761)	(56,110,951)	(45,247)				
Present value of minimum lease payments	\$ 18,562,956	\$ 44,345,913	\$ 576,951				

Operating Leases

The University's noncancelable operating leases provide for renewal options for periods from one to five years at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases.

Operating leases are generally payable on a monthly basis. Total operating lease expense in fiscal year 2014 for the University was \$6,342,716. Included in this amount and pursuant to an operating lease agreement with the Authority that covers space each entity uses in real property owned by the other entity, the University paid the Authority \$2,321,756.

As discussed in Note 16 and Note 17, for the year ended June 30, 2014, the University had certain other operating leases with related parties.

University Medical Associates leases facilities and equipment under operating leases expiring at various dates. Rent expense under these various agreements was \$5,749,064 in fiscal year 2014.

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

Fiscal Year Ending June 30,	Amount
2015	\$ 5,706,853
2016	4,656,353
2017	3,635,629
2018	2,681,468
2019	1,806,532
2020 - 2023	3,642,752
Total	\$ 22,129,587

UMA subleases various properties to the University, the Authority, and external parties. Under these lease agreements for the fiscal year ended June 30, 2014, UMA received rent of \$4,437,484, composed of \$2,137,418 from the University, \$2,282,832 from the Authority, and \$17,234 from external parties.

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The minimum rentals to be received under non-cancelable leases with remaining terms in excess of one year are as follows:

Fiscal Year Ending June 30,	Operating Leases with		Total Operating Leases
	University	Discreted-Presented Component Unit	
2015	\$ 2,178,875	\$ 2,299,867	\$ 4,478,742
2016	2,063,926	2,243,764	4,307,690
2017	2,063,926	2,204,840	4,268,766
2018	2,063,926	1,892,435	3,956,361
2019	2,063,926	1,683,395	3,747,321
2020 - 2024	8,541,507	7,434,994	15,976,501
Totals	<u>\$ 18,976,086</u>	<u>\$ 17,759,295</u>	<u>\$ 36,735,381</u>

Capital Leases

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

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

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

In fiscal year 2009, the University entered into capital lease agreements with MUSCF for a parking garage and two office buildings. The amount recorded as buildings related to these properties was \$47.2 million. During fiscal year 2014, the University made principal payments of \$568,227 and interest payments of \$3,490,636 related to these capital lease agreements with MUSCF.

The column in the University capital and operating lease schedule titled Capital Leases with Blended Component Units reflects the repayment schedule for the capital leases with MUFC and CHS, and the column titled Capital Leases with Discretely Presented Component Unit reflects the repayment schedule for the capital leases with MUSCF.

The following is a summary of the carrying value of all assets held by the University associated with capital leases at June 30, 2014:

	Capital Leases with		
	Blended Component Units	Discretely Presented Component Unit	External Entities
Equipment	\$ -	\$ -	\$ 2,358,222
Buildings	72,245,292	47,200,000	-
Total cost	72,245,292	47,200,000	2,358,222
Less accumulated depreciation	(37,100,859)	(8,260,000)	(1,244,377)
Carrying value	<u>\$ 35,144,433</u>	<u>\$ 38,940,000</u>	<u>\$ 1,113,845</u>

On January 9, 1995, UMA prepaid MUSCF \$37 million in connection with the acquisition of Rutledge Tower from Bon Secours St. Francis Hospital. This facility is used to house ambulatory care clinics, administrative offices and space subleased to others and includes a parking garage. The lease term originally expired on June 30, 2027, but was extended to July 1, 2037 in connection with the fiscal year 2009 refunding of certain acquisition indebtedness. The lease is renewable for successive five-year terms. This prepayment was allocated based upon appraised values as follows: (a) cost of land was recorded as prepaid rent, (b) cost of buildings and fixed equipment was recorded as building under capital lease, and (c) cost of other equipment was recorded as equipment under capital lease. In October 2003, MUSCF sold a portion of the property subject to this lease agreement and refunded \$1,000,000 of the prepaid rent attributable to the agreement. These amounts are being amortized on a straight-line basis over the useful lives of 10 years for the equipment and 39.5 years for the prepaid land rent and building. Rent expense of \$338,226 and depreciation expense of \$474,224 was recorded for the year ending June 30, 2014.

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The following schedule reflects the remaining basis of assets acquired under this capital lease as of June 30, 2014.

Description	Capitalized Cost	Accumulated Depreciation	Carrying Value
Prepaid rent - MUSCF	\$ 19,052,400	\$ (11,123,200)	\$ 7,929,200
Building under capital lease	13,989,600	(9,247,365)	4,742,235
Equipment under capital lease	2,958,000	(2,958,000)	-
Totals	<u>\$ 36,000,000</u>	<u>\$ (23,328,565)</u>	<u>\$ 12,671,435</u>

14. STATE APPROPRIATIONS

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

The original appropriation is the University's base budget amount presented in the General Funds column of Sections 23 and 24 of Part IA of the 2013-2014 Appropriation Act. The following schedule 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, 2014.

Non-capital appropriations

Current year appropriations:

Original appropriation per Annual Appropriations Act:

Designated for the University \$ 63,832,375

Designated for telemedicine program 4,000,000

Other appropriations:

Institute of Medicine 400,000

Mobile cancer screening and early detection 600,000

Rural hospital transformation 400,000

State Budget and Control Board Allocations:

For employer share of health and dental insurance 737,776

Interagency transfers:

From Commission on Higher Education:

Academic Endowment 41,541

Appropriation Transfers from the Department of Health and Human Services:

Disproportionate Share 18,628,621

Telemedicine program 4,000,000

Maxillofacial 225,086

Total non-capital appropriations recorded as current year revenue \$ 92,865,399

Capital appropriations

Deferred maintenance appropriation \$ 2,351,936

Research Infrastructure bond proceeds 2,271,230

Total capital appropriations recorded as current year revenue \$ 4,623,166

Capital Improvement and Research Infrastructure bonds are issued by the State to fund improvements and expansion of various State facilities. The University is not obligated to repay these funds to the State. Authorized funds can be requested as needed once State authorities have given approval to begin specific projects and project expenses have been incurred. In fiscal year 2014, the University received research infrastructure bond proceeds of \$2,271,230. As of June 30, 2014, the University has \$2,188,161 of authorized research infrastructure bond funds.

The telemedicine program, rural hospital transformation, disproportionate share, and maxillofacial appropriations were designated for the Authority. The University paid the amounts received for these items to the Authority during fiscal year 2014.

15. INCOME TAXES

The University, as a political subdivision of the State of South Carolina, is exempt from federal and state income taxes. The income of the University is exempt under Section 115(1) of the Internal Revenue Code, as amended. However, in certain cases, revenue may be generated from activities that are not related to the University's tax-exempt purpose. These activities could result in unrelated business income and, if so, would be subject to tax and filing requirements according to Internal Revenue Code Section 511(a)(2)(B). The University timely filed its report of unrelated business activity (Form 990-T) with the Internal Revenue Service for the year ending June 30, 2013. No tax liability from unrelated business activities was reported in fiscal year 2013. The University does not believe it will incur any income tax liability for fiscal year 2014 from its unrelated business activities; therefore, no tax provision has been recorded for fiscal year 2014.

UMA is exempt from federal and state income taxes under Section 501(a) of the Internal Revenue Code as an organization described in 501(c)(3). As such, UMA is generally not subject to federal or state income taxes. However, UMA remains subject to income taxes on any net income that is derived from a trade or business, regularly carried on and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded. If there is net income from any unrelated trade or business, such a provision is not believed to be material to the financial statements taken as a whole. The blended component units of UMA have cumulative unused net operating losses totaling \$11,798,258 that may be offset against future taxable income of the respective companies. These net operating loss carry-forwards will expire as follows if not used: \$8,689,507 in 2019, \$1,033,426 in 2020, \$8,717 in 2021, \$1,369,632 in 2022, \$606,307 in 2023, \$12,734 in 2029, \$9,759 in 2033, and 68,176 in 2034. Current year income tax expense resulted from the 90% limitation on the utilization of net operating losses for alternative minimum tax purposes and exhaustion of all loss carryforwards for CPCP. No associated deferred tax assets been recognized due to the uncertainty regarding future taxable income of the taxable component units.

As discussed in Note 1, CHS has previously been recognized as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in 501(c)(3). CHS's exempt status was revoked effective November 15, 2012 for failure to file Form 990-N for three years. In June 2014, CHS's exempt status was restored retroactive to the revocation date.

16. BLENDED COMPONENT UNITS

The following is a summary of the receivables and payables between and among the University and the blended component units at June 30, 2014.

	<u>Due From</u>	<u>Due To</u>
The University		
University Medical Associates - current		\$ 21,938,527
Medical University Facilities Corporation - current		\$ 1,073,869
CHS Development Company - current		1,203,627
		<u>\$ 2,277,496</u>
Medical University Facilities Corporation - noncurrent		\$ 1,500,807
CHS Development Company - noncurrent		14,784,653
		<u>\$ 16,285,460</u>
University Medical Associates		
The University - current	<u>\$ 21,938,527</u>	
Nonmajor Enterprise Funds		
Medical University Facilities Corporation		
The University - current	<u>\$ 1,073,869</u>	
The University - noncurrent	<u>\$ 1,500,807</u>	
CHS Development Company		
The University - current	<u>\$ 1,203,627</u>	
The University - noncurrent	<u>\$ 14,784,653</u>	

University Medical Associates

Revenue from the activities of University Medical Associates is available to pay its operating expenses and support activities of the academic departments at the Medical University of South Carolina including faculty and staff compensation. Any excess may be paid to the University or retained within UMA for future use. Pursuant to this practice, UMA provided support to the University totaling \$64,758,613 for the year ended June 30, 2014. This support is reported as interfund transfers.

On April 20, 2003, the University and UMA entered into an agreement whereby UMA will provide patient care to Medicaid recipients in appropriate clinical and educational settings. The University will reimburse UMA in an amount equal to the supplemental payment made to the University by the South Carolina Department of Health and Human Services (SC DHHS). Payments to the University from SC DHHS are made in accordance with a South Carolina Medicaid Plan amendment which provides reimbursement for inherent inefficiencies of providing care to Medicaid patients while instructing medical students. For the fiscal year ended June 30, 2014, the University reported revenue of \$36,504,168 from SC DHHS and an expense to UMA of \$36,504,168. The South Carolina Medicaid Plan is an important source of patient care funding for UMA. There can be no assurance that UMA will continue to qualify for future participation in the South Carolina Medicaid Plan or that the Plan will not ultimately be discontinued or materially modified. Any material reduction in the funding received from the Plan would have a correspondingly material adverse effect on UMA's operations.

UMA amounts due from the University as of June 30, 2014, were as follows:

Description	Amount
Agency fund amount in excess of prepaid	\$ 38,047
Rental income	39,002
Supplemental Medicaid payments	20,900,000
Salary reimbursements	955,091
Other receivables	6,387
Net due (to) from the University	<u>\$ 21,938,527</u>

The above amount is reflected on the Statement of Net Position as Due from other funds.

The physicians of UMA practice medicine at the Authority facilities and perform various services under several cooperative agreements which resulted in the net payment from the Authority to UMA of \$47,326,625 during the fiscal year ended June 30, 2014. This amount includes various salary reimbursement arrangements as well as the ambulatory patient care and clinical education and other agreements discussed below.

UMA and the Authority have entered into an agreement whereby UMA will be reimbursed an annual fixed amount for providing an environment for ambulatory and community based primary care clinical education and research for University residents and students. UMA will also be reimbursed for applicable shared costs of their joint revenue cycle operations. In addition, UMA shall be entitled to reimbursement for, but not limited to: expenses for facilities necessary to perform this agreement, personnel costs, insurance, necessary supplies and equipment and necessary capital improvements. The parties agree each year to an estimated budget to be paid ratably over the year to UMA as reimbursement of its costs. The following reflects the activity reported under this agreement for the fiscal year ended June 30, 2014:

Revenues:	
Ambulatory Care and Authority revenue cycle support	\$ 5,988,202
Operating Expenses:	
Ambulatory Care and Authority revenue cycle support	(4,141,082)
Interest expense allocated to Agreement	(1,658,931)
Issue cost writeoff as prior period adjustment	(188,189)
Change in net position	<u>\$ -</u>

UMA has entered into a managed care contract and reimbursement agreement with the Authority. UMA performs services regarding managed care operations for the Authority and its affiliates, including arranging for contracts with various third party payers. The agreement is renewed annually and may be terminated, by either party, 30 days prior to the expiration of the term in effect. All costs from these operations of the managed care services are shared as follows: UMA (40%), Carolina Management Services (CHMS), a blended unit of UMA (10%), and the Authority (50%). For the year ended June 30, 2014, of total managed care costs of \$516,212, the Authority and CHMS shared expenses of \$258,106 and \$51,622, respectively.

UMA also provides billing and collection services to the Authority related to certain limited clinical services, for which UMA receives an administrative fee. Total billings by UMA for these services were approximately \$42,446,000 in fiscal year 2014. During fiscal year 2014, the amounts collected and remitted by UMA to the Authority with respect to these billings amounted to approximately \$9,434,000, net of administrative fees of \$921,447.

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During fiscal year 2012, UMA and the Authority agreed to jointly fund (on a 50-50 basis), the cost of the revenue cycle component of a software suite acquired from EPIC Systems Corporation. The total cost of the project, including hardware, consulting services, and ancillary software, is expected to be approximately \$20 million. As of June 30, 2014, UMA has capitalized a total of \$6,321,016 associated with this project, which is expected to be completed in July 2014.

UMA amounts due (to) from the Authority as of June 30, 2014, were as follows:

Description	Amount
Ambulatory care and Authority revenue cycle support	\$ 564,108
Psychiatry clinical enterprise agreement	(791,722)
Patient receivables	(1,678,462)
Salary reimbursements	3,138,306
Managed care contract	35,495
Rental income	90,426
Electronic medical record system & revenue cycle expenditures	350,855
Rutledge Tower renovations	(36,223)
Other receivables	19,870
Other payables	(874,688)
Net amount due (to) from the Authority	<u>\$ 817,965</u>

The above amount is reflected on the Statement of Net Position as Due to component unit.

Medical University Facilities Corporation

During fiscal year 2014, MUFC recognized interest income of \$303,163 associated with its capital leases with the University.

Pursuant to the trust agreements, MUFC transferred \$36,784 of excess funds on deposit to the University during the year ended June 30, 2014.

CHS Development Company

On November 1, 2003, CHS Development Company entered into a ground lease agreement with the Medical University of South Carolina Foundation (MUSCF) as part of a plan of financing the development of the former Charleston High School property for use by the University. The ground lease required CHS to prepay rent of \$3,140,000 to MUSCF. The prepayment is being amortized on a straight line basis over 20 years. Amortization expense of \$156,349 was recorded for the year ended June 30, 2014. The lease terminates on the earlier of December 1, 2035, or the date that the related bonds are paid in full. On November 1, 2003, CHS also entered into a lease agreement with the University. Under the terms of the agreement, the University will lease from CHS the site and all improvements thereon, including the buildings. The term of the lease began on March 1, 2005 and ends on January 1, 2025. During fiscal year 2014, CHS recognized interest income of \$724,983 associated with its capital lease with the University.

During fiscal year 2014, the University transferred \$336,672 to CHS as reimbursement for costs incurred in financing the CHS project.

17. DISCRETELY PRESENTED COMPONENT UNITS

Only MUSCF and MFRD report under Financial Accounting Standards Board (FASB) standards. Accordingly, net assets and changes therein are classified as follows:

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

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

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

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

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

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

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

Medical University Hospital Authority

Effective June 16, 2000, the University and the Authority entered into an affiliation agreement which outlines the availability of facilities, use of house staff, and insurance coverage. The affiliation agreement has been renewed several times since June 2000. The most recent renewal is effective from July 1, 2013 through June 30, 2018.

The University billed the Authority \$102,447,828 during the fiscal year ended June 30, 2014 for the use of interns and residents, professional services of the College of Medicine, physical plant, rent, public safety, and other administrative and financial services. The University paid the Authority approximately \$2,154,000 during the fiscal year ended June 30, 2014 for rent, various administrative and support services.

At June 30, 2014, the net amount due the Authority from the University was \$6,209,946.

The Authority and the University entered into an agreement in fiscal year 2007 whereby the Authority will provide patient care to Medicaid and medically indigent patients, and appropriate clinical and educational settings for patient care, education and research to all residents and students of the University. In exchange for these services, the University will reimburse the Authority an amount equal to the appropriation transfer from the South Carolina Department of Health and Human Services. For the fiscal year ended June 30, 2014, the University reported State appropriations revenue of \$18,628,621 and an operating expense to the Authority of \$18,628,621. Since this payment relates directly or indirectly to patient care, the Authority has included this amount in net patient service revenue.

During fiscal year 2014, the University received \$8,400,000 in State appropriations designated for the Authority to be used for telemedicine programs and rural hospital transformation. This amount, which was paid by the University to the Authority during fiscal year 2014, is included in the University's State appropriation revenues and in the University's non-operating expenditures.

Medical University of South Carolina Foundation

The University provides office space and pays certain administrative costs for MUSCF which are reimbursed throughout the year. MUSCF provided support to the University for general and departmental expenses totaling \$15,925,459 in fiscal year 2014. The University recorded this revenue as gifts. In addition, the University received from MUSCF in fiscal year 2014, \$97,959 in donated capitalized equipment and \$204,856 in equipment and services expensed by the University. The amount due the University for gifts from MUSCF at June 30, 2014 was \$1,213,945.

During fiscal year 2014, MUSCF leased various properties via operating leases to the University, the Authority, and UMA. In addition, as described in Note 13, during fiscal year 2009, MUSCF entered into capital lease agreements with the University.

MUSCF has an agreement with the University which allows the University to make periodic deposits to MUSCF of the corpus of endowments received by the University primarily from the South Carolina Commission on Higher Education under the SmartState Centers of Economic Excellence program. MUSCF will provide earnings to the University at the investment earnings rate, net of investment fees, of the pooled investments of MUSCF. After the first twelve months held by MUSCF, the principal is due with thirty days written notice by the University. The balance owed under this agreement at June 30, 2014 is \$103,056,734 which includes accrued interest and realized and unrealized net gains and losses of \$18,759,490.

MUSCF acquired the Rutledge Tower building in 1993 and leased the properties to UMA. During April 1996, MUSCF's board of directors passed a resolution to transfer the title on Rutledge Tower and associated facilities to the University at the end of the lease term which is the later of (1) June 30, 2024, or (2) the date on which all principal of and premium, if any, and interest on the direct note obligations have been paid. This was considered a contribution by MUSCF, and was recorded by MUSCF 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.

MUSC Foundation for Research Development

MFRD has entered into an annual contract with the University to provide management services for research and intellectual property activities. The agreement incorporates the contractual obligations for the intellectual property activities and addresses insurance, indemnity and other basic contractual obligations. 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 agreement provides for automatic annual renewal unless either party notifies the other six months prior to the renewal date. MFRD recognized support of \$1,050,000 related to this agreement during the fiscal year ended June 30, 2014.

The University has assigned the rights to certain 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.

As of June 30, 2014, the net amount due the University from MFRD was \$382,712.

18. RISK MANAGEMENT

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

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

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

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

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

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

The University obtain coverage through commercial insurers for employee fidelity insurance for all employees for losses arising from theft or misappropriation as well as for Directors and Officers insurance and extra general liability insurance. The University also obtains coverage through a commercial insurer for a second layer of professional liability insurance for certain practitioners practicing outside the State of South Carolina. The University also has policies which cover cyber risk.

UMA and its component units are exposed to various risks related to: torts, theft of, damage to and destruction of assets, errors and omissions, and natural disasters. UMA, as the recognized clinical practice plan of the Medical University of South Carolina (MUSC), is granted statutory protection and recovery limitations for MUSC physicians' clinical activities. Pursuant to State law, these physicians are insured by the South Carolina Insurance Reserve fund which is sustained through premiums paid by State agencies and governmental entities. For coverage of all other individuals and activities, UMA maintains coverage from commercial insurance companies. Management believes these coverages are sufficient to preclude any significant uninsured losses to UMA from risks that occur in normal and expected activities. Funds administered by the State of South Carolina or commercial insurance covers the following risks: 1) unemployment and worker's compensation benefits, 2) long-term disability benefits for employees, 3) theft of assets, 4) damage to property, and 5) tort liability claims including error and omissions. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accordance with the insurance policy and benefit program limits. Settlement amounts have not exceeded insurance coverage for the current or preceding three years. Insurance coverage has been consistently maintained over this period with no significant reductions in coverage.

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UMA also purchases a portion of its medical malpractice insurance coverage for healthcare providers through the State's insurance enterprises, the Medical Malpractice Patients' Compensation fund and the Joint Underwriters Association, with the majority of practicing physicians being covered by the State Insurance Reserve Fund discussed above. UMA obtains employee fidelity bond insurance coverage through a commercial insurer for all employees for losses arising from theft or misappropriation.

UMA and its component units provide employee life and disability benefits through commercial insurance companies and have established an employee benefit plan to self-insure employees for health, accident, and dental expenses. UMA records an estimated liability for incurred but not reported claims for this self-insured plan based on estimates of the ultimate cost of reported claims using the gross method. This liability is included in "Payables and accrued liabilities" on the Statement of Net Position. Changes in the incurred but not reported claims liability for fiscal years ended June 30, 2014 and 2013 were as follows:

	2014	2013
Liability balance - beginning	\$ 1,251,000	\$ 954,000
Current year claims and changes in estimates	7,220,194	8,489,656
Claims payments	(7,771,194)	(8,192,656)
Liability balance - ending	\$ 700,000	\$ 1,251,000

19. OPERATING EXPENSES BY FUNCTION

Operating expenses of the University by functional classification for the year ended June 30, 2014 are as follows:

	Compensation and Employee Benefits	Services and Supplies	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 94,269,772	\$ 76,283,522	\$ 3,108	\$ 2,091,676	\$ -	\$ 172,648,078
Research	106,489,997	58,808,270	126,387	5,238,515	-	170,663,169
Public service	62,382,074	11,371,225	1,833	110,580	-	73,865,712
Academic support	28,900,900	15,006,975	6,825	2,328,297	-	46,242,997
Student services	6,494,553	1,578,981	-	66,775	-	8,140,309
Institutional support	24,145,614	9,123,009	180,554	-	-	33,449,177
Operation and maintenance of plant	18,277,984	12,784,816	12,652,177	-	39,610,061	83,325,038
Scholarships and fellowships	-	-	-	3,673,303	-	3,673,303
Auxiliary enterprises	3,221,736	6,470,303	517,035	8,333	-	10,217,407
	\$ 344,182,630	\$ 191,427,101	\$ 13,487,919	\$ 13,517,479	\$ 39,610,061	\$ 602,225,190

20. DONOR RESTRICTED ENDOWMENTS

Endowments are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and that only the income be utilized. The University's endowments require that the income be used for specific purposes. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. Any net appreciation that is spent is required to be spent for the purpose for which the endowment was established. Cumulative net realized and unrealized gains and losses, net of earned interest income, totaled \$18,759,490 at June 30, 2014.

In fiscal year 2014, the University received endowment funding totaling \$5,806,078 from the South Carolina Commission on Higher Education for the SmartState Centers of Economic Excellence (COEE). This program funds endowed chair professorships, which are to be used "to recruit and maintain leading scientists and engineers at the senior research universities of South Carolina for the purpose of developing and leveraging the research capabilities of the universities for the creation of well-paying jobs and enhanced economic opportunities for the people of South Carolina." In addition to the COEE funding, the University received, in fiscal year 2014, \$147,182 for other endowed purposes.

21. MEDICAL RESIDENT FICA RECEIVABLE

In March 2010, the Internal Revenue Service (IRS) published its administrative determination that, based on the "student exception", medical residents are exempt from Federal Insurance Contributions Act (FICA) payroll taxes for tax periods ending prior to April 1, 2005, the date new IRS regulations went into effect. The University timely filed protective claims with the IRS for medical resident FICA taxes paid for the period January 1, 1996 through March 31, 2005 and is expecting a refund from IRS for the FICA taxes paid during this period. In February 2011, the University perfected its refund claims and then estimated that it was due a refund of approximately \$13.0 million for FICA taxes paid and approximately \$11.7 million for interest on the overpayment, for a total refund of approximately \$24.7 million.

As of June 30, 2012, the University had a receivable of \$22,241,258 representing the refund due net of a valuation allowance. During fiscal year 2013, the University eliminated the valuation allowance by recording an additional \$2,409,918 in interest on the overpayment. Also during fiscal year 2013, the University received a total of \$20,711,175 in payments from IRS. As of June 30, 2013, the remaining receivable due from IRS was \$3,940,001. During fiscal year 2014, the University received a total of \$3,593,037 in payments from IRS reducing the remaining receivable to \$346,964 as of June 30, 2014.

Since the Authority, as the predominant contractual user of the University's medical residents, previously reimbursed the University for the majority of the compensation costs of the University's medical residents, the University agreed to remit to the Authority approximately 90% of the total expected refund (approximately \$22.2 million). During fiscal year, 2013, the University remitted the \$20.7 million received from IRS to the Authority. The balance due the Authority as of June 30, 2013 of approximately \$1.5 million was paid to the Authority during fiscal year 2014.

22. CHANGE IN ACCOUNTING PRINCIPLE

In March 2013, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognized as outflows of resources or inflow of resources, certain items previously reported as assets and liabilities. As a result, costs related to the issuance of bonds which were previously deferred have been reclassified as if they had been reported as an outflow of resources when incurred.

The following schedule reflects the impact of this GASB 65 change:

	<u>The University</u>	<u>UMA</u>	<u>Nonmajor Enterprise Funds</u>	
			<u>MUFC</u>	<u>CHS</u>
Net position - beginning of period, as previously reported	\$ 618,709,428	\$ 215,430,705	\$ 34,619	\$ 1,242,324
Unamortized bond issue costs as of June 30, 2013	<u>(736,947)</u>	<u>(490,911)</u>	<u>(55,016)</u>	<u>(311,878)</u>
Net position - beginning of period, as restated	<u>\$ 617,972,481</u>	<u>\$ 214,939,794</u>	<u>\$ (20,397)</u>	<u>\$ 930,446</u>

MEDICAL UNIVERSITY OF SOUTH CAROLINA

23. INFORMATION FOR STATEMENT OF ACTIVITIES

	Fiscal Year 2014	Fiscal Year 2013	Increase (Decrease)
The University			
Charges for services	\$ 432,208,774	\$ 444,862,453	\$ (12,653,679)
Operating grants and contributions	39,696,675	32,272,814	7,423,861
Capital grants and contributions	2,582,345	4,710,654	(2,128,309)
Less: expenses	(627,835,668)	(620,922,050)	(6,913,618)
Net program expense	(153,347,874)	(139,076,129)	(14,271,745)
Additions to permanent endowments	5,953,260	2,549,213	3,404,047
Transfers:			
State appropriations	92,865,399	82,324,884	10,540,515
Capital appropriations	2,351,936	11,210,334	(8,858,398)
Research infrastructure bond proceeds	2,271,230	2,069,311	201,919
Other transfers in from state agencies/funds	64,459,025	60,663,070	3,795,955
Less: transfers out to state agencies/funds	(462,615)	(182,206)	(280,409)
Total general revenue and transfers	167,438,235	158,634,606	8,803,629
Change in net position	14,090,361	19,558,477	(5,468,116)
Net position - beginning (restated for FY 2014 - see Note 22)	617,972,481	599,150,951	18,821,530
Net position - ending	\$ 632,062,842	\$ 618,709,428	\$ 13,353,414
University Medical Associates			
Charges for services	\$ 329,748,032	\$ 318,329,215	\$ 11,418,817
Operating grants and contributions	17,888,955	17,760,904	128,051
Less: expenses	(271,296,187)	(268,771,226)	(2,524,961)
Net program revenue	76,340,800	67,318,893	9,021,907
Transfers out to state agencies/funds	(64,758,613)	(59,793,098)	(4,965,515)
Total general revenue and transfers	(64,758,613)	(59,793,098)	(4,965,515)
Change in net position	11,582,187	7,525,795	4,056,392
Net position - beginning (restated for FY 2014 - see Note 22)	214,939,794	207,904,910	7,034,884
Net position - ending	\$ 226,521,981	\$ 215,430,705	\$ 11,091,276
Nonmajor Enterprise Funds			
Medical University Facilities Corporation			
Operating grants and contributions	\$ 336,192	\$ 479,001	\$ (142,809)
Less: expenses	(263,757)	(424,466)	160,709
Net program revenue	72,435	54,535	17,900
Transfers out to state agencies/funds	(36,784)	(1,387,744)	1,350,960
Total general revenue and transfers	(36,784)	(1,387,744)	1,350,960
Change in net position	35,651	(1,333,209)	1,368,860
Net position - beginning (restated for FY 2014 - see Note 22)	(20,397)	1,367,828	(1,388,225)
Net position - ending	\$ 15,254	\$ 34,619	\$ (19,365)
CHS Development Company			
Operating grants and contributions	\$ 753,568	\$ 852,253	\$ (98,685)
Less: expenses	(806,639)	(1,119,127)	312,488
Net program expense	(53,071)	(266,874)	213,803
Transfers in from state agencies/funds	336,372	517,772	(181,400)
Total general revenue and transfers	336,372	517,772	(181,400)
Change in net position	283,301	250,898	32,403
Net position - beginning (restated for FY 2014 - see Note 22)	930,446	991,426	(60,980)
Net position - ending	\$ 1,213,747	\$ 1,242,324	\$ (28,577)

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MEDICAL UNIVERSITY OF SOUTH CAROLINA

COMBINING STATEMENT OF NET POSITION
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2014

	Medical University Facilities Corporation	CHS Development Company	Total Nonmajor Enterprise Funds
ASSETS			
Current Assets			
Cash and cash equivalents	\$ -	\$ -	\$ -
Receivables, net	7,026	-	7,026
Prepaid items	-	156,349	156,349
Restricted assets			
Cash and cash equivalents	-	729,272	729,272
Investments	316,168	717,438	1,033,606
Interfund receivables	1,073,869	1,203,627	2,277,496
Total current assets	<u>1,397,063</u>	<u>2,806,686</u>	<u>4,203,749</u>
Noncurrent Assets			
Restricted assets			
Investments	213,000	-	213,000
Interfund receivables	1,500,807	14,784,653	16,285,460
Prepaid items	-	1,333,503	1,333,503
Total noncurrent assets	<u>1,713,807</u>	<u>16,118,156</u>	<u>17,831,963</u>
Total assets	<u>3,110,870</u>	<u>18,924,842</u>	<u>22,035,712</u>
DEFERRED OUTFLOWS			
Deferred loss on debt refinancing	-	477,705	477,705
Total assets & deferred outflows	<u>3,110,870</u>	<u>19,402,547</u>	<u>22,513,417</u>
LIABILITIES			
Current liabilities			
Payables and accrued liabilities	56,616	268,800	325,416
Long-term liabilities	1,070,000	1,405,000	2,475,000
Total current liabilities	<u>1,126,616</u>	<u>1,673,800</u>	<u>2,800,416</u>
Noncurrent liabilities			
Long-term liabilities	1,969,000	16,515,000	18,484,000
Total noncurrent liabilities	<u>1,969,000</u>	<u>16,515,000</u>	<u>18,484,000</u>
Total liabilities	<u>3,095,616</u>	<u>18,188,800</u>	<u>21,284,416</u>
NET POSITION			
Restricted			
Expendable for:			
Debt service	15,254	1,213,747	1,229,001
Total net position	<u>\$ 15,254</u>	<u>\$ 1,213,747</u>	<u>\$ 1,229,001</u>

See accompanying independent auditors' report.

MEDICAL UNIVERSITY OF SOUTH CAROLINA

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Medical University Facilities Corporation</u>	<u>CHS Development Company</u>	<u>Total Nonmajor Enterprise Funds</u>
Operating revenues			
Interest income (used as security for revenue bonds and notes)	\$ 303,163	\$ 753,568	\$ 1,056,731
Other operating revenues	33,029	-	33,029
Total operating revenues	<u>336,192</u>	<u>753,568</u>	<u>1,089,760</u>
Operating expenses			
Services and supplies	-	6,377	6,377
Interest expense	263,757	643,913	907,670
Amortization	-	156,349	156,349
Total operating expenses	<u>263,757</u>	<u>806,639</u>	<u>1,070,396</u>
Operating income (loss)	<u>72,435</u>	<u>(53,071)</u>	<u>19,364</u>
Income (loss) before other revenues, expenses gains, losses, and transfers	72,435	(53,071)	19,364
Interfund transfers	<u>(36,784)</u>	<u>336,372</u>	<u>299,588</u>
Change in net position	35,651	283,301	318,952
Net position at beginning of year, as restated	<u>(20,397)</u>	<u>930,446</u>	<u>910,049</u>
Net position at end of year	<u>\$ 15,254</u>	<u>\$ 1,213,747</u>	<u>\$ 1,229,001</u>

See accompanying independent auditors' report.

MEDICAL UNIVERSITY OF SOUTH CAROLINA

**COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Medical University Facilities Corporation	CHS Development Company	Total Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers	\$ -	\$ (6,377)	\$ (6,377)
Net cash provided by operating activities	-	(6,377)	(6,377)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Interfund transfers received	-	336,372	336,372
Interfund transfers paid	(36,784)	-	(36,784)
Net cash provided (used) by noncapital financing activities	(36,784)	336,372	299,588
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal paid on capital debt and leases	(992,000)	(1,370,000)	(2,362,000)
Interest paid on capital debt and leases	(282,237)	(594,775)	(877,012)
Net cash (used) by capital and related financing activities	(1,274,237)	(1,964,775)	(3,239,012)
CASH FLOWS FROM INVESTING ACTIVITIES			
Collection of interfund receivables	974,508	1,152,334	2,126,842
Interest received on interfund receivables	303,163	724,983	1,028,146
Purchases of investments	(1,276,026)	(1,819,151)	(3,095,177)
Proceeds from sales and maturities of investments	1,276,026	1,801,042	3,077,068
Interest on investments	33,350	29,007	62,357
Net cash provided by investing activities	1,311,021	1,888,215	3,199,236
Net increase (decrease) in cash and cash equivalents	-	253,435	253,435
Cash and cash equivalents at beginning of year	-	475,837	475,837
Cash and cash equivalents at end of year	\$ -	\$ 729,272	\$ 729,272
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ 72,435	\$ (53,071)	\$ 19,364
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Amortization	-	156,349	156,349
Interest income	(336,192)	(753,568)	(1,089,760)
Interest expense	263,757	643,913	907,670
Net cash provided by operating activities	\$ -	\$ (6,377)	\$ (6,377)

See accompanying independent auditors' report.



THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

OMB Circular A-133 Reports

Year ended June 30, 2014

(With Independent Auditors' Reports Thereon)

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

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THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
Research and Development Cluster*:		
U.S. Department of Agriculture:		
Passed-through programs:		
Clemson University	10.500	\$ <u>38</u>
Total U.S. Department of Agriculture		<u>38</u>
U.S. Department of Commerce:		
Direct programs:		
National Institute of Standards and Technology	11.609	<u>227,351</u>
		<u>227,351</u>
Passed-through programs:		
South Carolina Sea Grant Consortium	11.999	<u>7,521</u>
		<u>7,521</u>
Total U.S. Department of Commerce		<u>234,872</u>
U.S. Department of Defense:		
Direct programs:		
Department of the Navy, Office of the Chief of Naval Research	12.300	65,498
U.S. Army Materiel Command	12.420	9,284,478
U.S. Army Research, Development & Engineering	12.431	(1,276)
U.S. Department of Defense	12.999	<u>1,399</u>
		<u>9,350,099</u>
Passed-through programs:		
Advanced Technology Institute	12.999	(769)
Charleston Research Institute	12.420	49,602
Clemson University	12.420	3,772
Institute for Molecular Neuroscience	12.420	440,792
Institute for Molecular Neuroscience	12.999	83,762
South Carolina Research Authority	12.420	(14,758)
South Carolina Research Authority	12.999	140,515
University of Central Florida	12.420	41,014
University of Maryland	12.999	26,190
University of Michigan	12.420	356,883
University of Pennsylvania	12.420	49,093
University of Virginia	12.420	203,465
Veterans Education and Research Association	12.420	139,080
Veterans Medical Research Foundation	12.420	21,957
Veterans Medical Research Foundation	12.999	<u>5,381</u>
		<u>1,545,979</u>
Total U.S. Department of Defense		<u>10,896,078</u>
U.S. Department of Justice:		
Direct programs:		
Missing Children's Assistance	16.543	<u>416,909</u>
		<u>416,909</u>
Passed-through programs:		
Johns Hopkins University	16.541	<u>23,104</u>
		<u>23,104</u>
Total U.S. Department of Justice		<u>440,013</u>
National Aeronautics and Space Administration:		
Direct programs:		
Exploration	43.003	<u>110,687</u>
		<u>110,687</u>

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
Passed-through programs:		
College of Charleston	43.999	\$ 23,372
		<u>23,372</u>
Total National Aeronautics and Space Administration		<u>134,059</u>
National Science Foundation:		
Direct programs:		
Mathematical and Physical Sciences	47.049	112,715
Biological Sciences	47.074	206,837
		<u>319,552</u>
Passed-through programs:		
College of Charleston	47.041	(17,993)
South Carolina Research Authority	47.076	(1,080)
University of South Carolina	47.080	40,058
South Carolina Research Authority	47.081	(299,685)
University of South Carolina	47.081	928,559
		<u>649,859</u>
ARRA Passed-through programs:		
South Carolina Research Authority	47.082	2,964
		<u>972,375</u>
U.S. Department of Veteran Affairs:		
Direct programs:		
U.S. Department of Veteran Affairs-Other Federal	64.999	1,751,771
		<u>1,751,771</u>
U.S. Department of Energy:		
Direct programs:		
Advanced Research and Projects Agency Energy Financial Assistance Program	81.135	564,681
		<u>564,681</u>
Passed-through programs:		
South Carolina Universities Research and Education Foundation	81.114	(694)
South Carolina Universities Research and Education Foundation	81.121	1,823,039
South Carolina Universities Research and Education Foundation	81.999	(1,030)
		<u>1,821,315</u>
Total U.S. Department of Energy		<u>2,385,996</u>
U.S. Department of Education:		
Direct programs:		
National Institute on Disability and Rehabilitation Research	84.133	1,342,230
Graduate Assistance in Areas of National Need	84.200	190,654
		<u>1,532,884</u>
ARRA Passed-through programs:		
Charleston County School District	84.389	(73)
		<u>(73)</u>
Total U.S. Department of Education		<u>1,532,811</u>
U.S. Department of Health and Human Services:		
Direct programs:		
Family Smoking Prevention and Tobacco Control Act Regulatory Research	93.077	1,183,437
Maternal and Child Health Federal Consolidated Programs	93.110	424,177
Environmental Health	93.113	618,290
Oral Diseases and Disorders Research	93.121	3,357,951
Injury Prevention and Control Research and State and Community Based Programs	93.136	18,532
Research Related to Deafness and Communication Disorders	93.173	2,961,509
Research and Training in Complementary and Alternative Medicine	93.213	(1,129)
Research on Healthcare Costs, Quality and Outcomes	93.226	906,302

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

Federal grantor/pass-through grantor/program title	Federal CFDA number	Federal expenditures
Mental Health Research Grants	93.242	\$ 3,397,176
Alcohol National Research Service Awards for Research Training	93.272	406,757
Alcohol Research Programs	93.273	5,478,622
Drug Abuse and Addiction Research Programs	93.279	14,916,348
Mental Health Research Career/Scientist Development Awards	93.281	(6,576)
Mental Health National Research Service Awards for Research Training	93.282	1,830
Centers for Disease Control and Prevention, Investigations and Technical Assistance	93.283	508,705
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	401,717
Minority Health and Health Disparities Research	93.307	283,586
National Center for Advancing Translational Sciences	93.350	3,701,438
Nursing Research	93.361	1,170,441
National Center for Research Resources	93.389	(290,834)
Cancer Cause and Prevention Research	93.393	3,465,861
Cancer Detection and Diagnosis Research	93.394	242,455
Cancer Treatment Research	93.395	3,645,416
Cancer Biology Research	93.396	3,400,668
Cancer Centers Support Grants	93.397	1,627,649
Cancer Research Manpower	93.398	576,518
The Patient Protection and Affordable Care Act of 2010 (ACA)	93.541	(1,465)
Cardiovascular Diseases Research	93.837	5,004,086
Lung Diseases Research	93.838	10,565
Blood Diseases and Resources Research	93.839	718,349
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	2,344,734
Diabetes, Digestive and Kidney Diseases Extramural Research	93.847	3,897,799
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	6,775,272
Allergy, Immunology and Transplantation Research	93.855	1,934,428
Microbiology and Infectious Diseases Research	93.856	(3,095)
Biomedical Research and Research Training	93.859	8,652,831
Child Health and Human Development Extramural Research	93.865	1,907,661
Aging Research	93.866	1,425,007
Vision Research	93.867	1,891,011
Medical Library Assistance	93.879	236,630
Grants for Training in Primary Care Medicine and Dentistry	93.884	502,797
Assistance Programs for Chronic Disease Prevention and Control	93.945	(1,269)
Other Federal Assistance	93.999	984,046
		<hr/>
		88,676,233
		<hr/>
ARRA - National Institutes of Health:		
ARRA - Trans-NIH Recovery Act Research Support	93.701	40,641
ARRA - Recovery Act - Comparative Effectiveness	93.715	338,717
Other Federal Assistance	93.999	173,956
		<hr/>
Total ARRA - National Institutes of Health		553,314
		<hr/>
Passed-through programs:		
Academic Pediatric Association	93.847	12,374
Actuated Medical, Inc	93.866	37,159
American Academy of Child and Adolescent Psychiatry	93.279	(3,685)
American Academy of Child and Adolescent Psychiatry	93.999	7,440
American College of Radiology	93.394	(3,886)
American College of Radiology	93.999	(10,906)
Apogee Biotechnology Corporation	93.395	(3,155)
Apogee Biotechnology Corporation	93.855	25,845
Apogee Biotechnology Corporation	93.999	259,052
Arizona State University	93.395	(4)
Arizona State University	93.859	31,468
Baltimore Foundation	93.999	396,606
Baylor University	93.839	(9,071)
Beth Israel Deaconess Medical Center	93.837	55,747
Beth Israel Deaconess Medical Center	93.853	294,935
Boston University	93.846	83,439
Brigham and Women's Hospital	93.838	66,124
Brigham and Women's Hospital	93.855	5,866

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

Federal grantor/pass-through grantor/program title	Federal CFDA number	Federal expenditures
Case Western Reserve University	93.286	\$ 3,122
Case Western Reserve University	93.394	10,682
Case Western Reserve University	93.838	40,821
Case Western Reserve University	93.847	157,167
Cell & Tissue Systems, Inc	93.837	29,116
Cell & Tissue Systems, Inc	93.847	28,132
Children's Hospital Medical Center at the University of Cincinnati	93.839	346,710
Children's Hospital of Philadelphia	93.395	98,481
Children's Hospital of Philadelphia	93.999	275
Children's Hospital of Wisconsin	93.837	1,035
Children's Hospital Research Foundation	93.859	53,133
City College of New York	93.279	444
Clemson University	93.121	142,709
Clemson University	93.307	(3,629)
Clemson University	93.389	248,129
Clemson University	93.837	(3,749)
Clemson University	93.867	(8)
Cornell University Medical Center	93.853	4,889
Communication Disorders Technology, Inc	93.173	88,199
Duke University	93.173	26,023
Duke University	93.184	4,475
Duke University	93.393	107,812
Duke University	93.837	4,209
Duke University	93.838	(16,261)
Duke University	93.847	18,712
Duke University	93.855	(5,594)
Duke University	93.999	146,397
Emory University	93.393	16,841
Emory University	93.853	302,367
Emory University	93.865	14,943
Emory University	93.867	1,713
Evidence Based Practice Institute	93.242	44,878
Georgia Regents University	93.847	47,241
Gynecologic Oncology Group	93.395	3,658
Harvard University	93.855	1,567
Health Research, Inc.	93.077	8,669
Health Research, Inc.	93.393	21,961
Jackson Laboratory	93.846	50,956
Jaeb Center for Health Research, Inc	93.867	5,666
John Snow, Inc.	93.999	32,063
Johns Hopkins University	93.103	103
Johns Hopkins University	93.173	123,163
Johns Hopkins University	93.226	22,434
Johns Hopkins University	93.837	16,718
Johns Hopkins University	93.846	17,017
Johns Hopkins University	93.853	5,911
Johns Hopkins University	93.866	101,989
Leidos Biomedical Research, Inc.	93.999	111,605
Lentigen Corporation	93.395	(5,967)
Loyola University Chicago	93.395	885,395
Loyola University Chicago	93.846	109,396
Massachusetts General Hospital	93.213	14,906
Massachusetts General Hospital	93.853	3,228
Mayo Clinic	93.837	(23,146)
Mayo Clinic	93.999	30,895
Medical College of Georgia	93.393	(114)
Medical College of Wisconsin	93.853	39,371
Memorial Sloan-Kettering Cancer Center	93.999	6,000
Michigan State University	93.173	951
Miriam Hospital	93.837	8,256

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

Federal grantor/pass-through grantor/program title	Federal CFDA number	Federal expenditures
Mitohealth, Inc.	93.113	\$ 93,796
Mitohealth, Inc.	93.859	145
Moffitt Cancer Center	93.393	(464)
Moffitt Cancer Center	93.855	172,013
Morehouse School of Medicine, Inc	93.283	11,964
Mt. Sinai School of Medicine	93.242	24,279
National Childhood Cancer Foundation	93.837	6
National Marrow Donor Program	93.839	9,823
New England Research Institutes	93.837	69,431
New York University	93.837	2,139
Northwestern University	93.855	80,314
Northwestern University	93.865	6,320
Omega Optics, Inc.	93.999	37,858
Optima Neuroscience, Inc	93.853	83,689
Oregon Health Sciences University	93.173	29,203
Pediatric Heart Network	93.837	69,964
Radiation Therapy Oncology Group	93.395	7,825
Rutgers University	93.853	58,096
Schnellgen Inc.	93.113	14,742
Shepherd Center	93.999	51,069
South Carolina Department of Health and Environmental Control	93.283	828
South Carolina Department of Health and Environmental Control	93.531	500,962
South Carolina Department of Health and Human Services	93.999	(700)
South Carolina Experimental Program to Stimulate Competitive Research (EPSCoR)	93.389	35
South West Oncology Group	93.395	4,673
State University of New York at Stony Brook	93.395	137,713
Temple University	93.853	6,027
Temple University	93.999	164,259
Tufts Medical Center	93.847	82,356
Tulane University	93.113	53,320
University of Alabama at Birmingham	93.847	179,516
University of Alabama at Birmingham	93.999	39,013
University of Buffalo	93.262	4,692
University of California at Los Angeles	93.838	8,597
University of California at San Diego	93.866	129,014
University of California, San Francisco	93.838	26,635
University of California, San Francisco	93.853	268,373
University of California, San Francisco	93.999	9,487
University of Chicago	93.999	(3,941)
University of Cincinnati	93.853	44,561
University of Delaware	93.859	273,879
University of Florida	93.361	21,010
University of Florida	93.853	9,142
University of Georgia	93.226	(411)
University of Ibadan	93.310	133,579
University of Illinois at Chicago	93.242	22,278
University of Illinois at Chicago	93.393	6,110
University of Illinois at Chicago	93.865	37,097
University of Iowa	93.837	1,604
University of Maryland	93.242	52,566
University of Medicine and Dentistry of New Jersey	93.853	131,702
University of Michigan	93.173	292
University of Michigan	93.399	14,394
University of Michigan	93.846	2,520
University of Michigan	93.847	59,033
University of Michigan	93.853	7,682
University of Nebraska	93.077	13,649
University of New Mexico Health Sciences Center	93.847	100,729
University of North Carolina at Chapel Hill	93.395	4,851
University of North Carolina at Chapel Hill	93.397	90,552

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

Federal grantor/pass-through grantor/program title	Federal CFDA number	Federal expenditures
University of North Carolina at Chapel Hill	93.847	\$ 18,185
University of North Carolina at Chapel Hill	93.945	128,198
University of Oklahoma	93.110	84,360
University of Oklahoma	93.393	3,753
University of Pennsylvania	93.279	(1,919)
University of Pennsylvania	93.307	159,018
University of Pennsylvania	93.393	145,171
University of Pittsburgh	93.393	10,433
University of Pittsburgh	93.838	2,812
University of Pittsburgh	93.847	(63)
University of Rochester	93.213	19,424
University of Rochester	93.838	19,078
University of South Carolina	93.113	17,387
University of South Carolina	93.173	381,739
University of South Carolina	93.184	27,750
University of South Carolina	93.236	46,084
University of South Carolina	93.307	(4,450)
University of South Carolina	93.389	194,913
University of South Carolina	93.393	2,735
University of South Carolina	93.837	102,363
University of South Carolina	93.846	(12)
University of South Carolina	93.847	2,994
University of South Carolina	93.848	(713)
University of South Carolina	93.859	70,565
University of South Carolina	93.865	16,088
University of South Carolina	93.999	(516)
University of South Florida	93.113	46,590
University of South Florida	93.847	2,850
University of Texas Health Science Center at Houston	93.307	81,013
University of Texas Health Science Center at Houston	93.853	91,792
University of Texas at San Antonio	93.853	9,630
University of Texas Health Science Center of San Antonio	93.999	18,681
University of Texas Southwestern Medical Center	93.847	610,710
University of Toledo	93.838	23,285
University of Utah	93.837	323
University of Vermont	93.837	(27,488)
University of Virginia	93.853	295,182
University of Washington at Seattle	93.361	(137)
University of Waterloo	93.393	32,426
University of Wisconsin	93.999	478
Utah State University	93.866	667
Vanderbilt University	93.838	103,543
Washington University	93.839	8,523
Wayne State University	93.837	24,365
Westat, Inc.	93.999	36,256
		<u>11,061,369</u>
ARRA Passed-through programs:		
Audiology, Inc	93.701	61,208
Duke University	93.701	(3,911)
University of California at San Diego	93.701	18,326
University of California at San Francisco	93.701	(254)
University of Colorado	93.701	5,988
University of Miami	93.701	4,034
University of South Carolina	93.701	(8,929)
University of Toledo Health Science Campus	93.701	14,148
University of Texas Southwestern Medical Center	93.701	639
		<u>91,249</u>
Total U.S. Department of Health and Human Services		<u>100,382,165</u>

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
Other Federal Assistance:		
Passed-through programs:		
Manpower Demonstration Research Corporation	94.999	\$ 190,245
Total Other Federal Assistance		<u>190,245</u>
U.S. Department of Homeland Security:		
Passed-through programs:		
South Carolina Emergency Preparedness Division	97.017	123,279
South Carolina Universities Research and Education Foundation	97.130	1,678,484
State of South Carolina	97.999	3,946
Total U.S. Department of Homeland Security		<u>1,805,709</u>
Agency for International Development:		
Passed-through programs:		
Johns Hopkins University	98.999	15,832
Total Research and Development Cluster		<u>120,741,964</u>
Student Financial Assistance Cluster:		
U.S. Department of Education:		
Direct programs:		
Federal Supplemental Educational Opportunity Grant Program	84.007	19,467
Federal Direct Student Loan Program	84.268	84,390,049
Federal Work-Study Program	84.033	238,892
Federal Perkins Loan Program	84.038	167,351
Federal Pell Grant Program	84.063	93,500
Total U.S. Department of Education		<u>84,909,259</u>
U.S. Department of Health and Human Services:		
Direct programs:		
Nurse Faculty Loan Program	93.264	56,210
Total U.S. Department of Health and Human Services		<u>56,210</u>
Total Student Financial Assistance Cluster		<u>84,965,469</u>
Other Programs:		
U.S. Department of Defense:		
Direct programs:		
U.S. Department of Defense	12.420	47,857
Total U.S. Department of Defense		<u>47,857</u>
U.S. Department of Justice:		
Passed-through programs:		
South Carolina Department of Public Safety	16.575	137,859
South Carolina Department of Public Safety	16.588	115,339
Total U.S. Department of Justice		<u>253,198</u>
Total U.S. Department of Justice		<u>253,198</u>
U.S. Department of Transportation:		
Passed-through programs:		
Think First Foundation	20.218	(16,715)
Total U.S. Department of Transportation		<u>(16,715)</u>
National Science Foundation:		
Direct programs:		
National Science Foundation	47.076	120,427
Total National Science Foundation		<u>120,427</u>
U.S. Department of Veteran Affairs:		

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
Direct programs:		
Veteran's Administration Medical Center	64.999	\$ 518,489
Total U.S. Department of Veteran Affairs		<u>518,489</u>
Environmental Protection Agency:		
Passed-through programs:		
National Environmental Education and Training	66.999	<u>3,573</u>
Total Environmental Protection Agency		<u>3,573</u>
U.S. Department of Energy:		
Direct programs:		
U.S. Department of Energy	81.136	<u>743,357</u>
		<u>743,357</u>
Passed-through programs:		
South Carolina State University	81.999	<u>262,453</u>
		<u>262,453</u>
Total U.S. Department of Energy		<u>1,005,810</u>
U.S. Department of Health and Human Services:		
Direct programs:		
Office of Minority Health	93.004	(6,757)
Health Resources and Services Administration	93.059	350,894
Health Resources and Services Administration	93.107	406,044
Health Resources and Services Administration	93.124	38,247
Health Resources and Services Administration	93.153	520,320
Health Resources and Services Administration	93.191	140,193
National Institutes of Health	93.242	721
Substance Abuse and Mental Health Services Administration	93.243	1,186,964
Health Resources and Services Administration	93.247	268,629
National Institutes of Health	93.279	491,116
Centers for Disease Control and Prevention	93.283	462,418
Health Resources and Services Administration	93.358	349,920
National Institutes of Health	93.394	4,480
ARRA – Health Resources and Services Administration	93.403	339,364
Health Resources and Services Administration	93.505	115,172
Health Resources and Services Administration	93.510	465,547
Health Resources and Services Administration	93.513	415,800
Centers for Medicare and Medicaid Services	93.611	483,273
ARRA – National Center for Research Resources, Recovery Act	93.701	(131)
ARRA – Construction Support	93.702	413,798
Health Resources and Services Administration	93.732	153,908
National Institutes of Health	93.847	(1,802)
U.S. Department of Health and Human Services-Other Federal	93.999	<u>30,256</u>
		<u>6,628,374</u>
Passed-through programs:		
University of South Carolina	93.145	3,847
South Carolina Department of Health and Environmental Control	93.153	(24,115)
Duke University	93.173	1,710
Hermes, LLC	93.242	(20,853)

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

Federal grantor/pass-through grantor/program title	Federal CFDA number	Federal expenditures
Allegheny-Singer Research Institute	93.243	\$ 60,274
South Carolina Eat Smart Move More Coalition	93.531	98,364
University of South Carolina	93.531	114,443
Allegheny General Hospital	93.732	26,354
South Carolina Department of Health and Human Services	93.767	15,477
South Carolina Department of Health and Environmental Control	93.917	1,526,913
South Carolina Department of Health and Environmental Control	93.943	33,381
University of South Carolina	93.969	59,622
South Carolina Department of Health and Environmental Control	93.994	(24,028)
Center for Public Service Communications	93.999	70,742
IFC Consulting	93.999	58,777
National Reach Coalition	93.999	214,451
South Carolina Department of Health and Human Services	93.999	638,998
South Carolina Tobacco Collaborative	93.999	15,697
University of Maryland	93.999	23,775
		<u>2,893,829</u>
Total U.S. Department of Health and Human Services		<u>9,522,203</u>
U.S. Department of Homeland Security:		
Direct programs:		
PDM Competitive Grant Program	97.017	330
Assistance to Firefighters	97.044	197,410
		<u>197,740</u>
Passed-through programs:		
South Carolina Emergency Preparedness Divisor	97.017	2,449,137
Total U.S. Department of Homeland Security		<u>2,646,877</u>
Total Federal Expenditures		<u>\$ 219,809,152</u>

* Denotes major program.

See accompanying notes to schedule of expenditures of federal awards.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of the Medical University of South Carolina (the University) and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

(2) Summary of Significant Accounting Policies for Federal Award Expenditures

Expenditures for student financial aid programs include the federal share of students' Federal Supplemental Educational Opportunity Grant (FSEOG) program grants and Federal Work Study (FWS) program earnings, certain other federal financial aid for students and administrative cost allowances, where applicable. Federal Pell grant awards are recognized as agency transactions and are not recorded as expenditures in the financial statements.

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

(3) Non-Cash Assistance

Most federal financial assistance is in the form of cash awards. However, there are a number of federal programs that do not involve cash transactions with the University. These non cash transactions in which the University obtains other assistance are the Federal Direct Student Loan Program, which includes the Federal Direct Stafford Student Loan program (subsidized and unsubsidized) and the Federal Direct Parent Loans for Undergraduate Students (PLUS) and revolving loan programs such as the Federal Perkins Loan program.

The loans advanced and related expenditures are as follows for the various student loan programs:

	<u>CFDA number</u>	<u>Amount</u>
Federal Perkins Loan Program:		
Student loans advanced	84.038	\$ 1,063,398
Cancellation of loans		<u>95,156</u>
Total Federal Perkins Loan Program		<u>\$ 1,158,554</u>
Federal Direct Student Loan Program –		
Student loans advanced:	84.268	
Direct Stafford Loan Program		\$ 839,829
Direct Unsubsidized Stafford Loan Program		57,918,882
Federal Direct PLUS Loan Program		247,774
Federal Direct Graduate PLUS Loan Program		<u>25,383,564</u>
Total Federal Direct Student Loan Program		<u>\$ 84,390,049</u>

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

	<u>CFDA number</u>	<u>Amount</u>
Health Professions Student Loans, including Primary Care Loans/Loans for disadvantaged students:		
Loans advanced	93.264	\$ 637,621
Cancellation of loans		<u>56,210</u>
Total Health Professions Student Loans		<u>\$ 693,831</u>

The Federal Perkins Loan, the Health Professions Student Loan (HPSL) and the Nurse Faculty Loan (NFLP) programs are administered directly by the University and balances and transactions relating to these programs are included in the University's basic financial statements. The balance of loans outstanding under the Federal Perkins, HPSL and Nurse Faculty Loan programs were \$4,585,060, \$6,526,057, and \$922,908, respectively, as of June 30, 2014.

The University is responsible only for the performance of certain administrative duties with respect to the guaranteed student loan programs and, accordingly, these loans are not included in its financial statements. It is not practicable to determine the balance of loans outstanding to students and former students of the University under these programs as of June 30, 2014.

(4) Matching

Under the FWS program, the University matched \$73,315 in total compensation for the year ended June 30, 2014 in addition to the federal share of expenditures in the accompanying schedule of expenditures of federal awards.

Under the FSEOG program, the University matched \$6,489 in funds awarded to students for the year ended June 30, 2014 in addition to the federal share of expenditures in the accompanying schedule of expenditures of federal awards.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

(5) Subrecipients

Of the federal expenditures presented in the schedule, the University provided federal awards to subrecipients as follows:

<u>Federal granting agency</u>	<u>Federal CFDA number</u>	<u>Amount provided to subrecipients</u>
U.S. Department of Defense:		
Department of Defense	12.RD	\$ 389,728
Total U.S. Department of Defense		<u>389,728</u>
U.S. Department of Justice:		
U.S. Department of Justice	16.RD	<u>233,798</u>
Total U.S. Department of Justice		<u>233,798</u>
National Science Foundation:		
National Science Foundation	47.RD	<u>49,007</u>
Total National Science Foundation		<u>49,007</u>
U.S. Department of Energy:		
U.S. Department of Energy	81.RD	869
U.S. Department of Energy – ARRA	81.RD	328,741
Pass-through programs from:		
SC Universities Research and Education Foundation	81.RD	<u>25,991</u>
Total U.S. Department of Energy		<u>355,601</u>
U.S. Department of Education:		
U.S. Department of Education	84.RD	<u>250,557</u>
Total U.S. Department of Education		<u>250,557</u>
U.S. Department of Health & Human Services:		
U.S. Department of Health & Human Services	93.RD	8,511,950
U.S. Department of Health & Human Services – ARRA	93.RD	244,234
Pass-through programs from:		
Duke University	93.RD	44,615
John Hopkins	93.RD	<u>47,904</u>
Total U.S. Department of Health & Human Services		<u>8,848,703</u>
U.S. Department of Homeland Security:		
Pass-through programs from:		
SC Universities Research & Education Foundation	97.RD	<u>504,247</u>
Total U.S. Department of Homeland Security		<u>504,247</u>
Total Research & Development		\$ <u><u>10,631,641</u></u>



KPMG LLP
Suite 2000
303 Peachtree Street, N.E.
Atlanta, GA 30308-3210

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
The Medical University of South Carolina
Charleston, South Carolina:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Medical University of South Carolina (the University) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 10, 2014. Our report includes an emphasis of matter paragraph explaining that during fiscal year 2014, the University adopted Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our report includes a reference to other auditors who audited the financial statements of the Medical University of South Carolina Foundation and the MUSC Foundation for Research Development, as described in our report on University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Medical University of South Carolina Foundation and the MUSC Foundation for Research Development were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may



exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as finding 2014-01 that we consider to be a significant deficiency.

Compliance and Other Matters

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

The University's Response to Findings

The University's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

KPMG LLP

Atlanta, Georgia
October 10, 2014



KPMG LLP
Suite 2000
303 Peachtree Street, N.E.
Atlanta, GA 30308-3210

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

The Board of Trustees
The Medical University of South Carolina
Charleston, South Carolina:

Report on Compliance for Each Major Federal Program

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

The University's basic financial statements include the operations of the Medical University Hospital Authority (the Authority), which received \$344,271,274 in federal awards which is not included in the Schedule of Expenditures of Federal Awards during the year ended June 30, 2014. Our audit, described below, did not include the operations of the Authority because the Authority's federal awards are separately audited in accordance with OMB Circular A-133.

Management's Responsibility

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

Auditors' Responsibility

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

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



Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the University as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated October 10, 2014, which contained unmodified opinions on those financial statements. Our report includes an emphasis of matter paragraph explaining that during fiscal year 2014, the University adopted Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our report includes a reference to other auditors who audited the financial statements of the Medical University of South Carolina Foundation and the MUSC Foundation for Research Development, as described in our report on University's financial statements. This report does not include the results of the other auditors'



testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Medical University of South Carolina Foundation and the MUSC Foundation for Research Development were not audited in accordance with *Government Auditing Standards*. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Atlanta, Georgia
January 29, 2015

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

(1) Summary of Auditors' Results

- (a) The type of report issued on the basic financial statements: **Unmodified opinion**
- (b) Significant deficiencies in internal control were disclosed by the audit of the basic financial statements: **Yes, see finding 2014-01** Material weaknesses: **None**
- (c) Noncompliance which is material to the basic financial statements: **None**
- (d) Significant deficiencies in internal control over major programs: **None reported** Material weaknesses: **None**
- (e) The type of report issued on compliance for major programs: **Unmodified opinion**
- (f) Any audit findings which are required to be reported under Section 0.510(a) of OMB Circular A-133: **No**
- (g) Major Federal program: **Research and Development Cluster (various CFDA numbers)**
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (i) Auditee qualified as a low-risk auditee under Section 0.530 of OMB Circular A-133: **Yes**

(2) Findings Relating to the Basic Financial Statements Reported in Accordance with *Government Auditing Standards*

Finding 2014-01

Payroll supervisor approval of employee timecards as required by MUSC policy.

Criteria

Time sheets are required to be reviewed and approved by a supervisor.

Condition, Cause, and Effect

Compensation and employee benefit costs are a significant element to the University's operations representing approximately 57% of total operating expenses. During our test work over payroll, we noted that although the control over supervisor approval of timecards was designed and implemented properly, the control was not operating effectively during fiscal year 2014. Of the 25 sample timesheets selected for testing, 5 from one department did not show sufficient evidence of supervisory review and approval. This deficiency increases the potential for payments for unauthorized time charges. This instance potentially affects the existence, accuracy, and presentation of the operating expense financial statement caption "Compensation and Employee Benefits", as employee time records are a direct input into this significant account.

In some circumstances, a control deficiency may be mitigated by appropriate compensating controls. To have a mitigating effect, the compensating control should operate at a level of precision that would prevent or detect material misstatements of the account impacted by the deficiency. However, we did not identify relevant compensating controls to mitigate the risks associated with the above control deficiency.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Recommendation

We recommend the University strengthen its monitoring of payroll time sheet submissions and follow up on supervisory review compliance. We also recommend the University obtain detailed documentation from the departments to support amounts being submitted to ensure information recorded in the general ledger is complete and accurate.

Management Response

We concur with KPMG's cited deficiency. The appropriate management within the department has been notified. Mandatory online training sessions with University timekeepers to review leave documentation policies and procedures has already taken place. MUSC Finance has developed a leave-balance confirmation report that will now be sent electronically to Vice Presidents, Deans or Directors so they may address areas of concern. Additionally, we are working closely with MUSC Internal Audit to enhance compliance with policies and procedures.

(3) Findings and Questioned Cost Relating to Federal Awards

None