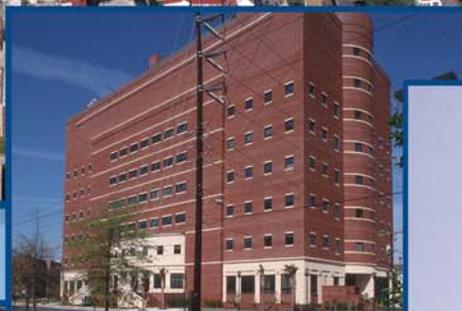


The Medical University of South Carolina

Charleston, South Carolina



Comprehensive Annual Financial Report

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

June 30, 2004

The Medical University of South Carolina

Charleston, South Carolina

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June 30, 2004

Prepared by the Controller's Office

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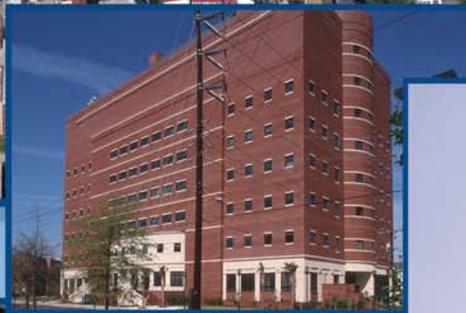
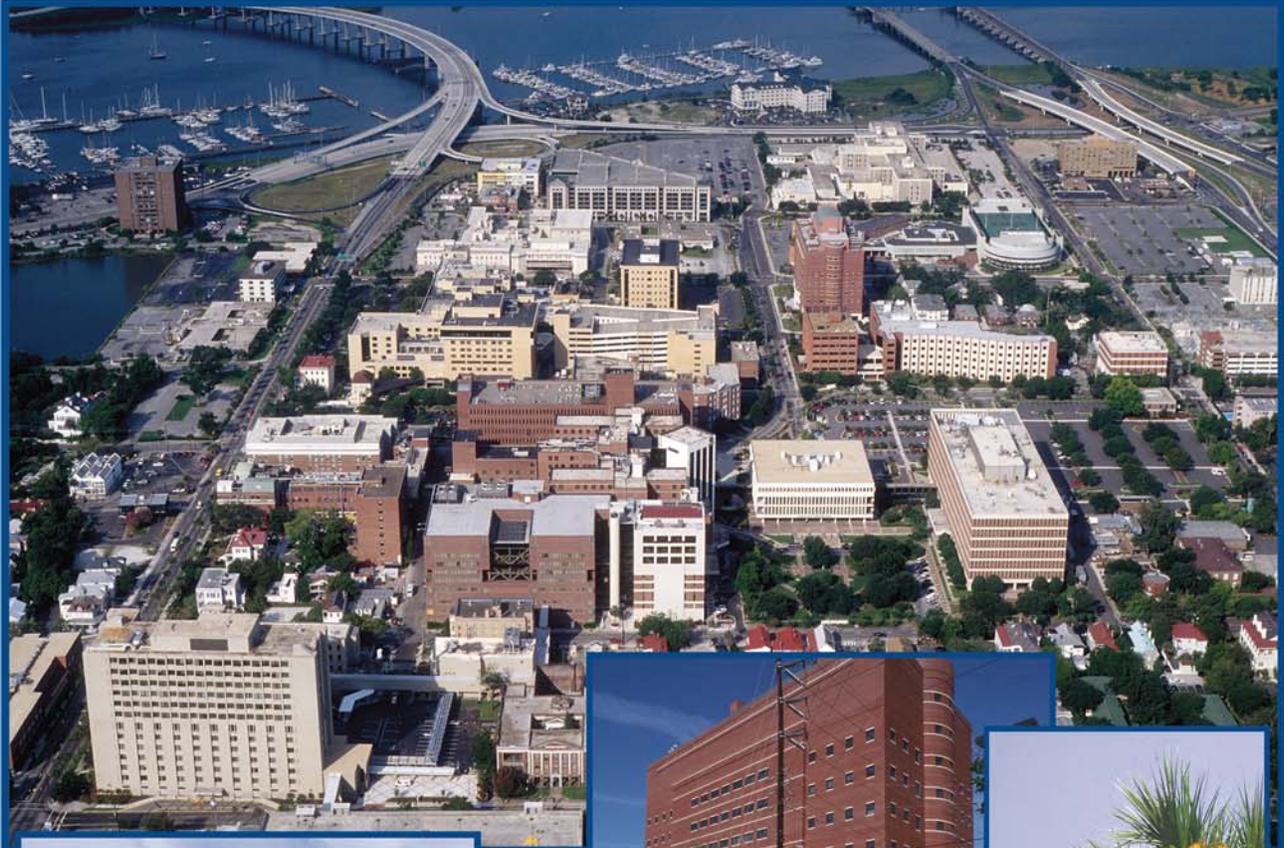
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Introductory Section



President's Letter

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



"The good things which belong to prosperity are to be wished, but the good things that belong to adversity are to be admired."
- Sir Francis Bacon, with attribution to Seneca

Dear Friends and Colleagues,

If Sir Francis Bacon were alive today, he likely would find much to admire in the way that the Medical University has coped with adverse fiscal circumstances. For the fourth year in a row, the Medical University faced declining state appropriations, yet improved its financial and operating performance. The faculty and staff of the Medical University have risen to the challenge of diminished state resources and shown that we can do more with less.

Once again, we set a record for outside research funding received by any university in South Carolina, with approximately \$175 million in support. The Medical University is the only South Carolina institution in the top 100 recipients of federal research funding, and we have one of the fastest rates of growth in the country. Five of our departments were ranked in the top 20 among their respective peers for National Institutes of Health funding, and several of our other departments are rapidly approaching that level.

In the education arena, our dental school received eight commendations during its accreditation visit and *US News and World Report* ranked the medical school among the top 25 in the country for primary care. Our clinical programs continue to garner national recognition, with *US News and World Report* singling out the Digestive Diseases Center and Rheumatology in the top 25 of their respective disciplines.

Once again, private philanthropy reached an all-time high of about \$34 million. The Medical University also joined with the University of South Carolina in announcing a philanthropic partnership with the Greenville Hospital System and Palmetto Health in Columbia. The newly created entity, Health Sciences South Carolina, will translate the latest research advances into clinical care and will help build the statewide infrastructure for economic development in the life sciences.

Indeed, there is much to admire in the accomplishments of the past year and even more excitement about the opportunities that lie ahead.

Sincerely,

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

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

Transmittal Letter

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

November 22, 2004

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

We are pleased to present the Comprehensive Annual Financial Report for The Medical University of South Carolina (the University) for the fiscal year ended June 30, 2004.

This report includes the audited financial statements for the year ended June 30, 2004, and other information relating to the finances of the University. Management has established a comprehensive internal control framework designed to protect the University's assets from loss, to provide reliable information for the preparation of the University's financial statements in conformity with generally accepted accounting principles in the United States of America (GAAP), and to provide reasonable assurance that the financial statements will be free from material misstatement. Management assumes responsibility for the completeness and reliability of the information presented in this report. To the best of our knowledge, we assert that this financial report is complete and reliable in all material respects.

KPMG LLP, a firm of licensed certified public accountants, has audited the Medical University of South Carolina's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the University for the fiscal year ended June 30, 2004 are free of material misstatement. Based on the audit, the independent auditor has rendered an unqualified opinion that the Medical University of South Carolina's financial statements for the year ended June 30, 2004 are fairly presented in conformity with generally accepted accounting principles (GAAP). The independent auditors' report is presented as the first component of the financial section of this report.

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

The Comprehensive Annual Financial Report is presented in three sections:

- ◆ The Introductory Section consists of the President's message, the transmittal letter, the Certificate of Achievement for Excellence in Financial Reporting awarded for the year ended June 30, 2003, listings of the Board of Trustees and principal University officials, and an organization chart. This section is intended to provide the reader with an overview of the University.
- ◆ The Financial Section presents the report of the independent auditors, Management's Discussion and Analysis and the basic financial statements of the University for the year ended June 30, 2004.
- ◆ The Statistical Section includes selected financial, non-financial, and demographic information generally presented on a multi-year basis. This section is intended to present a broad overview of trends in the financial activities of the University.

Profile of the Government

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

The Medical University of South Carolina, located in Charleston, South Carolina, was created by an act of the General Assembly in 1824 as the "Medical College of South Carolina". Historically, it is recognized as the first medical college in the South. The University is governed by a fourteen-member Board of Trustees consisting of the Governor or his designee (ex officio), twelve members elected by the General Assembly, and one member appointed by the Governor. As determined by the Board, the University's purpose is to preserve and optimize human life for the citizens of South Carolina and the nation through education of health care professionals and biomedical scientists, research in the health sciences, and provision of comprehensive health care.

The financial reporting entity consists of the primary government, The Medical University of South Carolina (the University), and seven legally separate legal entities, which are considered component units of the University. The five blended component units consist of two major funds – the Medical University Hospital Authority (the Authority) and University Medical Associates of The Medical University of South Carolina

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

(UMA) – and three non-major funds – CHS Development Company (CHS), Medical University Facilities Corporation (MUFC), and the Pharmaceutical Education and Development Foundation of The Medical University of South Carolina (PEDF). Two other component units, the Health Sciences Foundation (HSF) and the MUSC Foundation for Research Development, are discretely presented. Further information on the reporting entity is contained in Note 1 in the notes to the financial statements.

Factors Affecting Financial Condition

The University has a relatively small, stable number of students, with enrollment for the fiscal year 2004 fall semester totaling 2,305 full- and part-time students in six colleges. The University employs approximately 4,500 administration, faculty and staff. When viewed together with the Medical University Hospital Authority's approximately 4,800 employees, the University is one of the largest employers in the State system and the largest non-federal employer in the Charleston tri-county area.

The Economy

Economic factors on both the national and state levels impact the environment in which the University operates. The University has experienced permanent reductions in state appropriations in each of the past four years as the state of South Carolina experienced revenue shortfalls. However, with an improving economy, the fiscal year 2004 reduction was much less than in the prior years and further reductions are not expected for fiscal year 2005. Also, the South Carolina lottery funds, made available through the South Carolina Research Centers of Economic Excellence Act of 2003, continued to be available to the University during fiscal year 2004. The University has aggressively pursued other sources of revenue with notable success, particularly in the areas of charitable giving and federal research. These efforts have enabled the University to continue an aggressive program of capital building and faculty recruitment in support of its growing research commitment.

Long-term Planning

The University's goals for the next few years remain heavily centered on research and include reaching new milestones in extramurally funded research. Construction of the Children's Research Institute and the Hollings Cancer Center addition are nearing completion, making available approximately 100,000 square feet of new laboratory space. The University will continue to recruit outstanding investigators to the University and to identify funding for additional research space. The University will also endeavor to secure additional state bond capacity to fund new research space and will compete for another round of endowed chairs from the South Carolina Lottery Center of Economic Excellence, hopefully repeating this year's success.

The Medical University Hospital Authority will complete a feasibility study, arrange financing and begin construction of Phase 1 of the hospital replacement project, a major project that is planned in three phases and will extend over several years.

Cash Management

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

Risk Management

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

Accomplishments

The University continues to excel in its endeavors to achieve state and national recognition as reflected in awards received by its faculty and staff for their many accomplishments. During the year ended June 30, 2004:

- ◆ The University set a new research record in South Carolina, garnering just over \$175 million of external grants and contracts, breaking the previous year's record \$150 million. Highly sought after Federal grants and contracts account for most of this increase and constitute 75% of the total awards.
- ◆ The growth in MUSC's research enterprise was ranked ninth among all institutions in the nation. During the last decade MUSC faculty has submitted 9,951 proposals requesting \$1.82 billion in funding, and has received 7,356 awards for \$1.01 billion.
- ◆ MUSC's research successes occurred in several programs and research areas, with significant awards that demonstrate the University's leadership in several areas. Awards were received by:
 - ◆ the College of Dental medicine to improve research infrastructure in US dental schools;
 - ◆ a campus-wide team of researchers led by the Department of Biochemistry for a program project grant in sphingolipids in cancer therapy and angiogenesis;
 - ◆ the Division of Cardiology to renew a program project grant in heart failure;
 - ◆ the Office of Research Development to be the coordinating center for ten National Heart, Lung and Blood Institute Centers of Excellence in Proteomics;
 - ◆ the College of Graduate Studies for training and other grants to address minority health, training and faculty development.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

- ◆ MUSC investigators, along with collaborators from the University of South Carolina, the College of Charleston and Clemson University, successfully competed for nearly \$20 million of lottery matching funds for SC Centers of Economic Excellence Endowed Chairs in marine biology, brain imaging, cancer drug discovery, neuroscience, proteomics and regenerative medicine.
- ◆ The CHS Development Company was formed and construction begun on a \$33 million complex that will house the College of Health Professions, a parking garage and retail space for other services such as the University Bookstore.
- ◆ The Health Sciences Foundation's fundraising campaigns have secured \$12.7 million in commitments for the Children's Research Institute and \$12.7 million in commitments for the James B. Edwards College of Dental Medicine. In spite of a national trend of declining giving to nonprofit organizations, the Foundation set a new record receiving over \$34 million in private gifts and pledges in fiscal year 2004.
- ◆ The Medical University Hospital Authority successfully completed:
 - ◆ The design and financing work for Phase One of the three-phase hospital replacement project. Phase one will add 156 beds to accommodate the growing number of patients.
 - ◆ The design and financing work for a central energy plant and a 1500 space parking garage that will support the new hospital.
 - ◆ the JCAHO accreditation survey.
- ◆ The Authority and its medical staff were recognized in the following areas:
 - ◆ The National Research Corporation awarded the Authority the Consumer Choice Award for overall quality and image among hospitals in the primary care service area for the sixth consecutive year.
 - ◆ The MUHA Children's Hospital was ranked in the top 25 in the 2004 survey of Best Pediatric Hospitals in America by Child magazine.

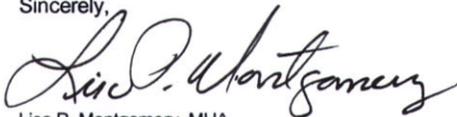
Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to The Medical University of South Carolina for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2003. This was the eleventh consecutive year The Medical University of South Carolina has achieved this prestigious award (fiscal years ended 1993 through 2003). In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

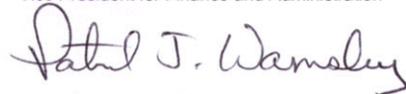
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

Sincerely,



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



Patrick J. Wamsley, CPA
Chief Financial Officer



Susan B. Haskill, CPA
Controller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

The Medical University of
South Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

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



President

Executive Director

**Board of Trustees and
Principal University Officials**

July 1, 2003 – June 30, 2004

Board of Trustees

The Hon. Mark Sanford
Governor

Charles L. Appleby, Jr.
Florence, SC

William H. Bingham, Sr.
Columbia, SC

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

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

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

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

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

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

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

William B. Hewitt. (b)
Charleston, SC

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

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

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

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

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

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

Melvyn Berlinsky
Charleston, SC

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

Charles W. Schulze, CPA
Greenwood, SC

James E. Wiseman, Ph. D.
Prosperity, SC

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

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

(a) Governor's designee
(b) Governor's appointee

Officers of The Medical University of South Carolina

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

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

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

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

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

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

Deans

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

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

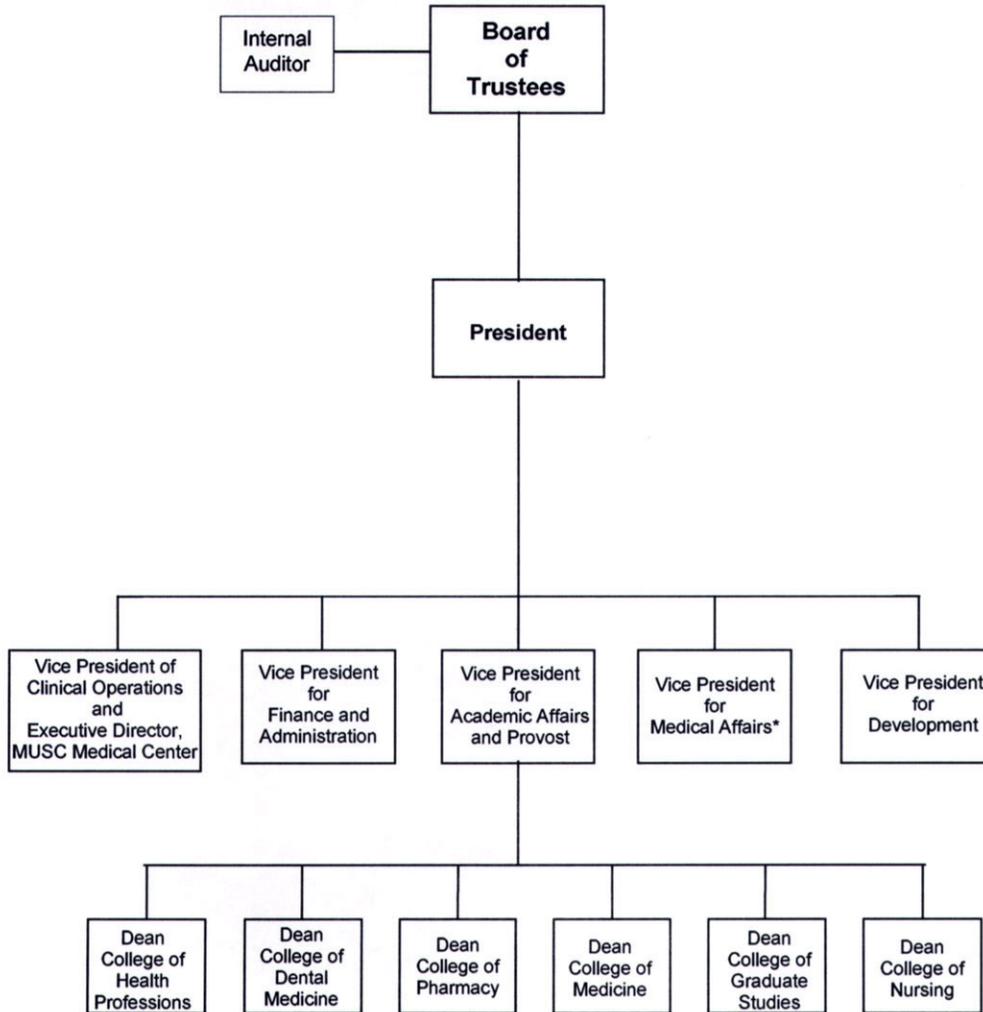
Arnold W. Karig, Ph.D.
Interim, College of Pharmacy

John J. Sanders, D.D.S.
Interim, College of Dental Medicine

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

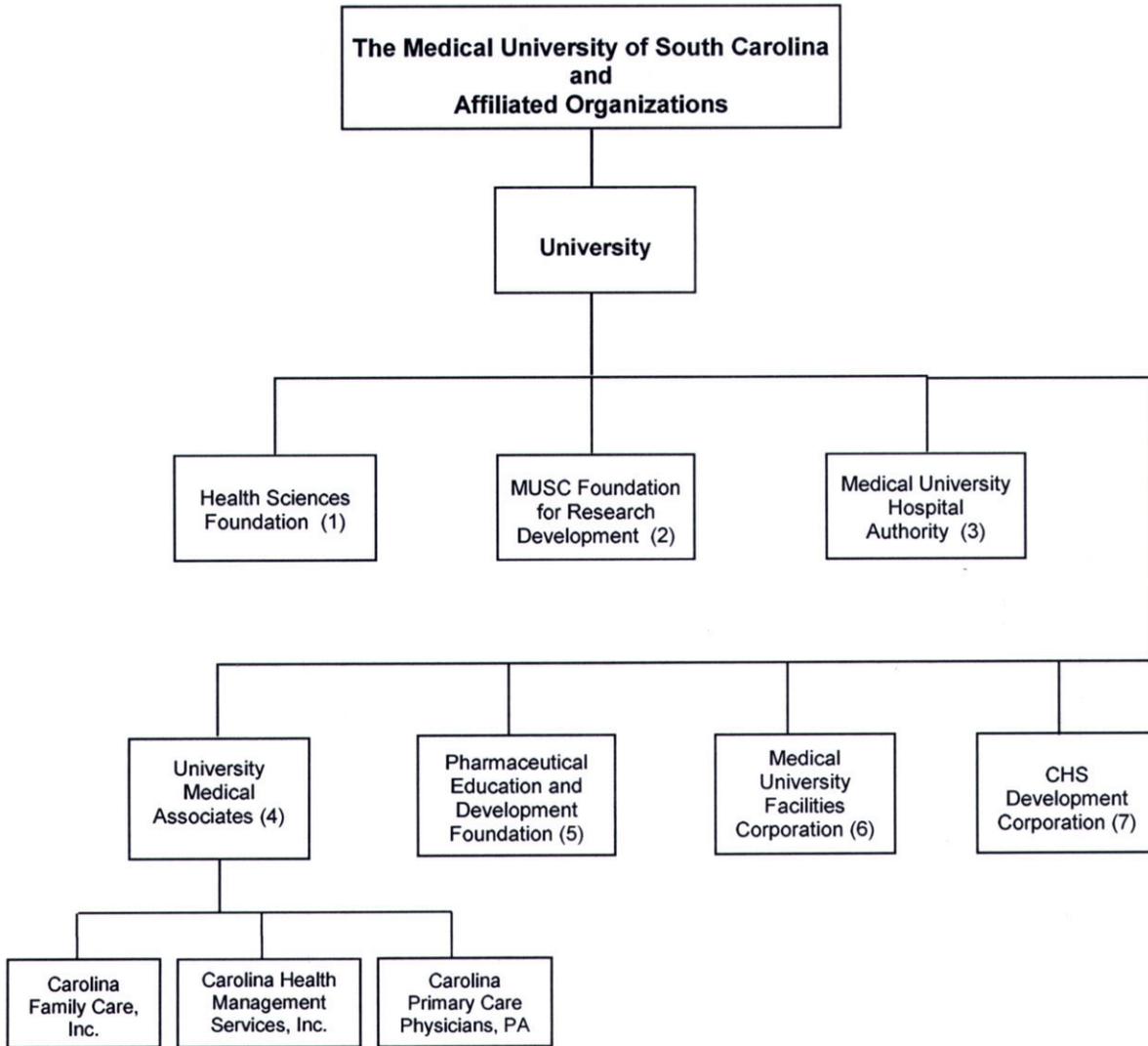
Danielle Ripich, Ph.D.
College of Health Professions

Organization Chart



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

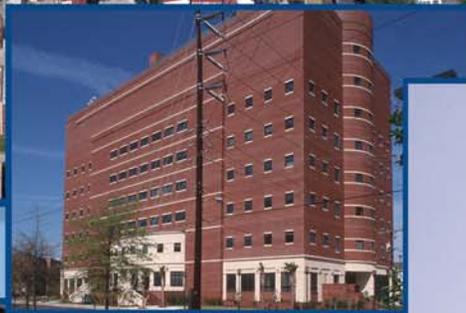
**The Medical University and
Affiliated Organizations Chart**



Notes:

- (1) The Health Sciences Foundation (HSF) is a non-profit corporation established in 1966 as an educational, charitable, eleemosynary foundation.
- (2) The MUSC Foundation for Research Development (MFRD) is a non-profit corporation established in 1995 to manage the University's intellectual property and technology marketing and to foster cooperation between the University and business and industry.
- (3) The Medical University Hospital Authority (MUHA) was formed in June, 2000, to manage and operate the hospitals and clinics of the University.
- (4) University Medical Associates (UMA) is a non-profit corporation established to promote and support the educational, medical, scientific, and research purposes of the University.
- (5) The Pharmaceutical Education and Development Foundation of The Medical University of South Carolina (PEDF) is a non-profit corporation established to provide pharmaceutical students with practical education and experience in the field of industrial pharmaceuticals.
- (6) Medical University Facilities Corporation (MUFC) is a non-profit corporation established in fiscal year 1991-92 to obtain financing for the University to acquire real property.
- (7) CHS Development Corporation (CHS) is a non-profit corporation established in fiscal year 2003 to obtain financing for the University to acquire and develop real property.

Financial Section



State of South Carolina



Office of the State Auditor

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

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

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

November 22, 2004

The Honorable Mark Sanford, Governor
and
Members of the Board of Trustees
The Medical University of South Carolina
Charleston, South Carolina

This report on the audit of the basic financial statements of The Medical University of South Carolina for the fiscal year ended June 30, 2004, was issued by KPMG, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

A handwritten signature in black ink that reads "Tom Wagner".

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc



KPMG LLP
301 North Elm Street
Suite 700
Greensboro, NC 27401-2159

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, 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, 2004, which collectively comprise the University's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University Medical Associates, the Pharmaceutical Education and Development Foundation, the Health Sciences 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 University Medical Associates, the Pharmaceutical Education and Development Foundation, the Health Sciences Foundation, and the MUSC Foundation for Research Development, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Health Sciences Foundation and the MUSC Foundation for Research Development were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

As discussed in note 1, the financial statements of the University are intended to present the financial position, changes in the financial position and the cash flows, where applicable, of only that portion of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of South Carolina that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2004, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the University as of June 30, 2004, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 24, 2004 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on noncompliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 14 through 21 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The combining nonmajor enterprise fund financial statements, and introductory and statistical sections, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the University. The nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

September 24, 2004

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, 2004 with comparative information for the year ended June 30, 2003. Management's discussion and analysis (MD&A) will focus on the financial position and operations of the primary institution (the University) and the two component units that are reported as major funds, Medical University Hospital Authority (the Authority) and University Medical Associates (UMA). This discussion should be read in conjunction with our letter of transmittal in the introductory section of this report and with the accompanying financial statements and notes.

Financial Highlights

At June 30, 2004, total assets reported by the University were \$413.1 million and total liabilities were \$157.6 million. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, increased \$51.7 million in fiscal year 2004 from \$203.8 to \$255.5 million. Of this amount, \$40 million represents unrestricted net assets, which may be used to meet the University's ongoing obligations.

At June 30, 2004, the Authority's assets of \$381.2 million exceeded its liabilities of \$201.1 million by \$180.1 million. Net assets, the residual interest in the assets after liabilities are deducted, increased \$16.1 million in 2004, as compared to \$12.7 million in 2003. The Authority reported operating income in 2004 of \$23.2 million, as compared to \$24.3 million in 2003, a decrease of \$1.1 million or 4.5%. Net nonoperating expenses were \$6.5 million for 2004 as compared to \$5.8 million in 2003, an increase of \$0.7 million or 12.1%. Transfers to The Medical University of South Carolina in support of academic programs decreased by \$5.2 million or 90% from 2003 to 2004.

At June 30, 2004, UMA reported total assets of \$171.4 million and total liabilities of \$127.6 million. Net assets were \$43.8 million, an increase of \$17.1 million or 64 percent from the previous year. Of this amount, \$35.3 million represents unrestricted net assets that are available to meet the UMA's ongoing obligations. UMA's operating revenues for the year ended June 30, 2004, increased 3.8 percent or \$6.4 million over the fiscal year ended June 30, 2003 to \$173.5 million. Operating expenses increased by \$9 million (7 percent) over fiscal year 2003.

Overview of the Financial Statements

The financial report includes three financial statements:

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

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

Statement of Net Assets

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

Net assets are classified as follows:

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

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Summary of Net Assets

Amounts in thousands

	The University		Medical University Hospital Authority		University Medical Associates	
	2004	2003	2004	2003	2004	2003
ASSETS						
Current assets	\$ 101,629	\$ 102,555	\$ 134,484	\$ 112,341	\$ 85,393	\$ 71,601
Noncurrent assets						
Capital assets, net	264,971	212,137	228,794	216,826	49,158	50,209
Other noncurrent assets	46,556	45,705	17,947	27,532	36,905	39,099
Total assets	<u>413,156</u>	<u>360,397</u>	<u>381,225</u>	<u>356,699</u>	<u>171,456</u>	<u>160,909</u>
LIABILITIES						
Current liabilities	63,762	68,888	77,005	62,127	33,250	36,835
Noncurrent liabilities	93,886	87,672	124,056	130,551	94,377	97,352
Total liabilities	<u>157,648</u>	<u>156,560</u>	<u>201,061</u>	<u>192,678</u>	<u>127,627</u>	<u>134,187</u>
NET ASSETS						
Invested in capital assets, net of related debt	184,822	154,987	98,458	78,815	(518)	(1,329)
Restricted						
Nonexpendable	943	926	-	-	-	-
Expendable	29,747	25,418	17,557	19,490	9,081	9,081
Unrestricted	39,996	22,506	64,149	65,716	35,266	18,969
Total net assets	<u>\$ 255,508</u>	<u>\$ 203,837</u>	<u>\$ 180,164</u>	<u>\$ 164,021</u>	<u>\$ 43,829</u>	<u>\$ 26,721</u>

The University's increase in total assets of \$52.8 million resulted primarily from additions to capital assets. Two major construction projects are underway increasing construction in progress by \$43.8 million. In addition, the University purchased \$5 million of new equipment for use in the new facilities.

The Authority's total assets increased by 6.9% from 2003 to 2004. Patient accounts receivable, net of estimated uncollectible amounts, increased from \$76.5 million to \$88.2 million, largely a result of increases in patient activity and a price increase. Capital assets increased during the fiscal year by \$12 million, largely a result of continuing capital projects. Total liabilities increased by 4.4% from 2003 to 2004. Accounts payable increased by \$4.2 million, largely resulting from increases in patient activity. Accrued payroll increased by \$3.1 million, as a result of increases in the number of employees during the year, and long term capital lease obligations decreased by \$6.9 million, a result of payments during the year.

Statement of Revenues, Expenses and Changes in Net Assets

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

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

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Summary of Revenues, Expenses, and Changes in Net Assets

Amounts in thousands

	The University		Medical University Hospital Authority		University Medical Associates	
	2004	2003	2004	2003	2004	2003
Operating revenues	\$ 263,785	\$ 247,180	\$ 588,395	\$ 548,324	\$ 173,549	\$ 167,163
Operating expenses	(363,470)	(365,624)	(565,235)	(524,016)	(138,654)	(129,606)
Operating income (loss)	(99,685)	(118,444)	23,160	24,308	34,895	37,557
Nonoperating revenues	112,998	121,698	216	63	4,174	6,184
Nonoperating expenses	(3,740)	(4,708)	(6,681)	(5,846)	(6,220)	(8,375)
Net nonoperating revenues (expenses)	109,258	116,990	(6,465)	(5,783)	(2,046)	(2,191)
Income (loss) before other revenues, expenses, gains, losses, and transfers	9,573	(1,454)	16,695	18,525	32,849	35,366
Capital appropriations	239	2,341	-	-	-	-
Capital grants and gifts	25,780	10,154	-	-	-	-
Transfers	16,079	16,474	(552)	(5,810)	(15,741)	(10,757)
Special and extraordinary items	-	-	-	-	-	470
Increase in net assets	51,671	27,515	16,143	12,715	17,108	25,079
Net assets at beginning of year	203,837	176,322	164,021	151,306	26,721	1,642
Net assets at end of year	\$ 255,508	\$ 203,837	\$ 180,164	\$ 164,021	\$ 43,829	\$ 26,721

Revenues

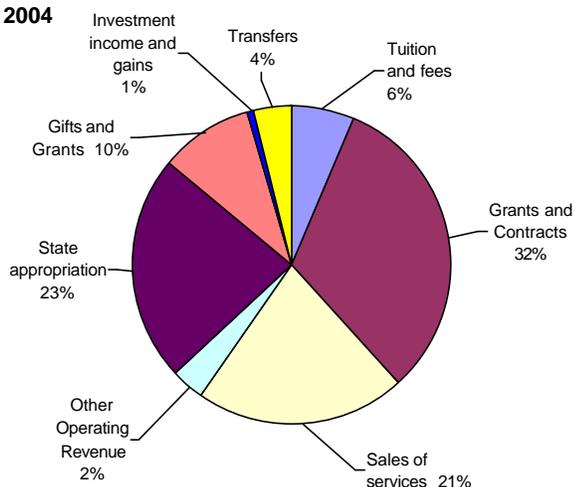
The University's daily operations are funded primarily from State appropriations and grants and contracts. These two sources account for 55 percent of the total fiscal year 2004 revenues of \$419 million and 59 percent of the total fiscal year 2003 revenues of \$398 million. The following table and chart illustrate the University's revenues by source.

Revenues by Source – The University

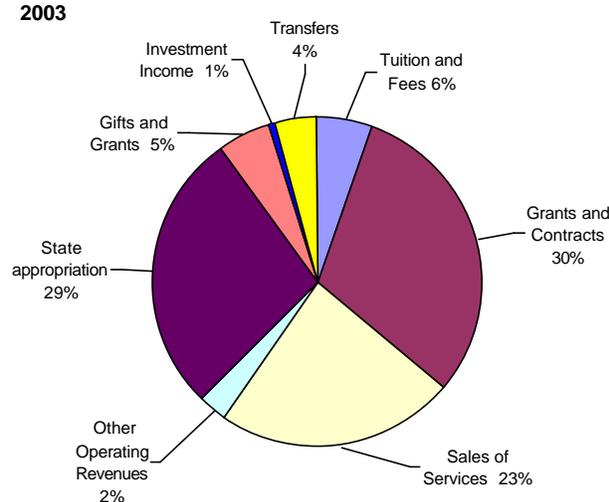
Amounts in thousands

	2004		2003	
	Amount	Percent Of Total	Amount	Percent Of Total
Operating revenues				
Student tuition and fees	\$ 27,217	6%	\$ 22,587	6%
Grants and contracts	133,743	32%	121,380	30%
Sales of services	87,482	21%	93,072	23%
Other operating revenues	15,343	2%	10,141	2%
Total operating revenues	263,785	61%	247,180	61%
Nonoperating and other revenues				
State appropriation	96,764	23%	110,542	29%
Gifts and grants	40,233	10%	20,924	5%
Investment income and gains	2,020	1%	2,727	1%
Transfers	16,079	4%	16,602	4%
Total nonoperating and other revenues	155,096	39%	150,795	39%
Total revenues	\$ 418,881	100%	\$ 397,975	100%

2004



2003



THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

In fiscal year 2004, the University's total revenues increased 5.3% or \$20.9 million over the previous fiscal year. The increase was due primarily to increases in grants and contracts revenue which offset a decrease of \$13.8 million in the state appropriation resulting from declining state revenues. Since 2001, the University's general fund appropriation has decreased by \$29 million. Continuing emphasis on the University's commitment to conduct research in the health sciences resulted in an increase of \$12.4 million in revenue from grants and contracts. The University receives supplemental Medicaid payments that reimburse physicians associated with a teaching university for the inherent inefficiencies of providing care to Medicaid patients while instructing medical students. This revenue, reported as sales of services and totaling \$16.2 million in fiscal year 2004, decreased by \$4.4 million from 2003. Fiscal year 2003, as the first year under a new provision of the South Carolina Medicaid Plan, included payments retroactive to October 1, 2001.

Operating revenue by source for the component units

Amounts in thousands

	Medical University Hospital Authority		University Medical Associates	
	2004	2003	2004	2003
Net patient service revenue	\$ 578,827	\$ 535,211	\$ 160,682	\$ 150,691
Educational agreements	-	-	8,547	12,159
Other operating revenue	9,568	13,113	4,320	4,313
Total operating revenue	\$ 588,395	\$ 548,324	\$ 173,549	\$ 167,163

Compared to fiscal year 2003, the Authority's net patient service revenue increased by approximately \$43.6 million, or 8.1%. Gross patient charges increased by \$123.8 million, or 14.1%, from 2003 to 2004 due to increases in patient activity and comprehensive rate increases. Additionally, revenue received from the Disproportionate Share Program administered by the state Department of Health and Human Services increased in 2004 to \$77.7 million from \$65 million in 2003. The Disproportionate Share Program is an important source of patient care financing for the Authority, and any material reduction in such funding would have a correspondingly material adverse effect on the Authority's operations. There can be no assurance that the Authority will continue to qualify for future participation in the program or that the program will not ultimately be discontinued or materially modified.

University Medical Associates' net clinical service revenue increased \$10 million primarily from an increase in payer reimbursement rates and an increase in patient volume. Educational agreement revenue reflected a decrease of \$3.6 million in support from the Medical University Hospital Authority for the primary care program.

Expenses

The University's operating expenses were \$363.5 million for the fiscal year ended June 30, 2004, a decrease of \$2.2 million from fiscal year 2003. An increase of \$4.9 million in compensation and employee benefits was offset by a decrease of \$7 million in purchases of services and supplies resulting primarily from a reduction in payments to UMA for the purchase of Medicaid clinical education services to allow for education utilizing Medicaid patients.

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.

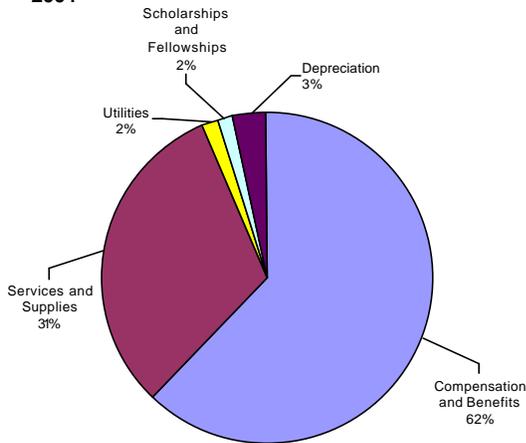
THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Operating Expenses by Object – The University

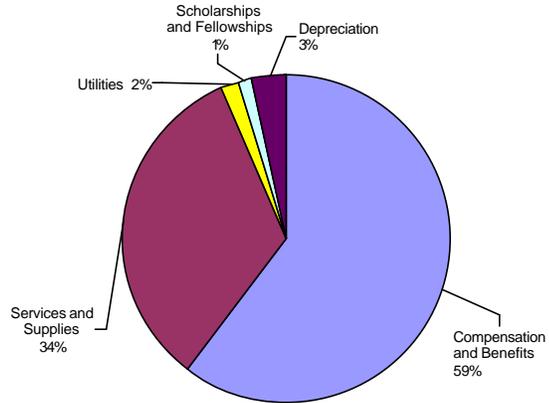
Amounts in thousands

	2004	Percent Of Total	2003	Percent Of Total
Compensation and employee benefits	\$ 224,889	62%	\$ 219,996	59%
Services and supplies	115,544	31%	122,597	34%
Utilities	5,526	2%	5,983	2%
Scholarships and fellowships	5,750	2%	5,094	1%
Depreciation	11,761	3%	11,954	3%
Total operating expenses	\$ 363,470	100%	\$ 365,624	100%

2004



2003

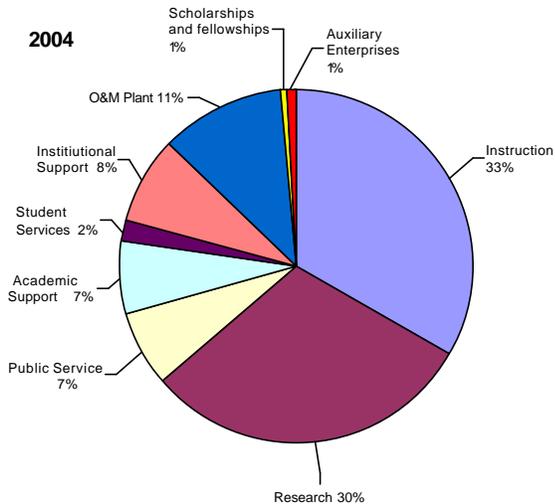


Operating Expenses by Function – The University

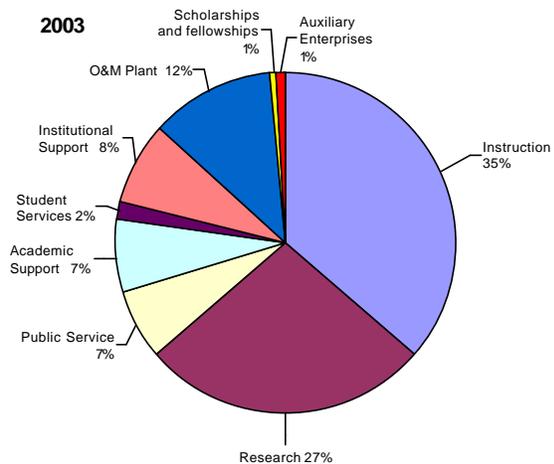
Amounts in thousands

	2004	Percent Of Total	2003	Percent Of Total
Instruction	\$ 121,218	33%	\$ 132,804	35%
Research	109,516	30%	99,871	27%
Public service	25,450	7%	24,762	7%
Academic support	24,200	7%	24,431	7%
Student services	7,410	2%	6,839	2%
Institutional support	29,432	8%	27,701	8%
Operation and maintenance of plant	41,298	11%	44,441	12%
Scholarships and fellowships	1,676	1%	1,525	1%
Auxiliary enterprises	3,270	1%	3,250	1%
Total operating expenses	\$ 363,470	100%	\$ 365,624	100%

2004



2003



THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

The Authority's operating expenses increased by \$41.2 million, from \$524 million in 2003 to \$565.2 million in 2004. This 7.9% increase is the result of increases in compensation and employee benefits of \$16.5 million, or 7.3%, and in service and supplies expense of \$22.5 million, or 8%. Presently, there is a national shortage of registered nurses and technical personnel in such areas as diagnostic imaging, laboratory, anesthesia, radiation therapy, and pharmacy. The Authority has implemented salary adjustments and other scheduling and staffing initiatives to help address these shortages. Also, supply costs and pharmaceutical costs continue to increase at rates exceeding those of general inflation.

UMA's operating expenses increased by \$9 million primarily due to increases in incentive payments, pension costs, and consultant fees related to the implementation of new software for scheduling, registration, and billing functions

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 2004 were state appropriations, grants, contracts, and tuition and fees. Uses of these cash sources included salaries and benefits for faculty, staff, and student employees and payments to suppliers of goods and services.

The statement is divided into five sections.

- Cash flows from operating activities include, as examples, cash received for tuition and fees or research grants and salaries paid to employees or payments of invoices to vendors. Since state appropriations and gifts are not considered operating revenues, operating activities of the University produced a net cash outflow of \$102.8 million.
- Non-capital financing activities include state appropriations received for operations and noncapital gifts, and had a net cash inflow of \$126.5 million.
- The cash flows from capital and related financing activities include the proceeds received from the issuance of long-term debt obligations, capital grants and gifts received, the repayment of debt, and the acquisition of capital assets. Due to the expenditure of funds that were received as bond proceeds in prior years, capital and related financing activities had a net cash outflow of \$32 million.
- The net cash inflow from investing activities of \$659 thousand consists of interest received on investments.
- The last section of the statement reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Capital Asset and Debt Activities

The following is a summary of capital asset and long-term debt activity for fiscal year 2004. More detailed information can be found in the notes to the financial statements.

Capital Assets, Net of Depreciation

Amounts in thousands

	The University		Medical University Hospital Authority		University Medical Associates	
	2004	2003	2004	2003	2004	2003
Land	\$ 12,223	\$ 13,536	\$ 3,923	\$ 3,270	\$ -	\$ -
Construction in progress	110,817	58,682	53,407	49,144	1,036	202
Land improvements	1,288	1,453	-	-	-	-
Buildings and improvements	106,273	112,064	103,998	94,860	42,343	43,825
Machinery and equipment	33,639	25,909	66,998	69,515	4,643	4,668
Vehicles	731	493	468	37	-	-
Intangible assets	-	-	-	-	1,136	1,514
	<u>\$ 264,971</u>	<u>\$ 212,137</u>	<u>\$ 228,794</u>	<u>\$ 216,826</u>	<u>\$ 49,158</u>	<u>\$ 50,209</u>

The University

Capital additions, other than construction in progress, totaled \$13.9 million in fiscal year 2004 and consisted of renovations of various campus buildings as well as significant investment in medical, scientific and laboratory equipment. These additions were funded primarily with grant and contract revenues and unrestricted university funds.

Included in construction in progress are renovations of several classroom and research facilities, expansion of the Hollings Cancer Center, and construction of the Children's Research Building. The University had outstanding commitments under construction contracts related to these and other projects of approximately \$27 million at June 30, 2004. These projects are being funded by bond proceeds, federal grants, state appropriations, restricted gifts, and unrestricted university funds.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Construction in Progress – The University

Amounts in thousands

Childrens Research Building	\$ 45,188
Basic Science Building renovation	11,308
Hollings Cancer Center expansion	32,206
Walton Research Building renovation	2,211
Storm Eye Institute renovation	1,149
Clinical Science Building renovation	2,343
Research lab renovation	2,306
College buildings exterior waterproofing	1,072
Psychiatric Institute mechanical system	1,229
Campus high voltage substation upgrade	3,497
Other	8,308
	<u>\$ 110,817</u>

The University acquires many capital assets by borrowing the money to purchase the asset and then paying off the debt in future years. Cash collections from student tuition are legally committed to paying off this debt. The following table shows the amounts and types of bonds, notes, and capital leases outstanding as of June 30, 2004. In fiscal year 2004, the University issued \$12 million in State Institution Bonds to finance improvements to the Strom Thurmond Biomedical Research Center and upgrades to the University electrical substations.

In fiscal year 2003, Moody's Investors Service upgraded the general obligation bond rating for the University to "A3" from "Baa1" and the Standard and Poor's rating was upgraded to "A" from "BBB+". The University's state institution bonds are general obligation bonds of the State of South Carolina. Standard and Poor's has rated these bonds as "AAA" and Moody's Investors Services rates them as "Aaa".

Bonds, Notes, and Capital Lease Obligations

Amounts in thousands

	The University		Medical University Hospital Authority		University Medical Associates	
	2004	2003	2004	2003	2004	2003
State institution bonds	\$ 55,985	\$ 46,550	\$ -	\$ -	\$ -	\$ -
Revenue bonds, net	-	2,155	97,845	96,963	-	-
Notes	-	-	12,392	12,882	-	44
Direct note obligations, net	-	-	-	-	93,553	95,953
Interest rate swap liability	-	-	-	-	1,529	1,606
Capital lease obligations	638	861	20,098	28,166	580	1,136
Structured legal settlement	-	-	-	-	840	1,680
	<u>\$ 56,623</u>	<u>\$ 49,566</u>	<u>\$ 130,335</u>	<u>\$ 138,011</u>	<u>\$ 96,502</u>	<u>\$ 100,419</u>

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

State Institution Bonds (SIB)

These bonds require the University to pledge revenue from student tuition for the repayment of this debt. If the University fails to pay this debt, the State would pay since these bonds are backed by the State's full faith, credit and taxing power. The proceeds from State Institution Bonds provided a portion of the funding for the Harper Student Center, the site for the Strom Thurmond Biomedical Research Facility, the Storm Eye Institute addition, the Children's Research Institute, and a number of major renovation projects. The University expects to pay off this debt with cash collected from student tuition. At June 30, 2004, SIB payable totaled \$55.985 million.

Capital Leases

The University has outstanding capital leases with Medical University Facilities Corporation, a blended component unit, for Harborview Office Tower and a portion of the Strom Thurmond Biomedical Research Center. Monthly payments are made to a financial institution as trustee under the leases. At June 30, 2004, the lease liability totalled \$21.6 million. Also, the University has approximately \$638,000 in capital leases payable at June 30, 2004, for various pieces of equipment.

Sources Other Than Debt

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

- *Federal grants.* Grants were received from the federal government for some of the construction costs of the Hollings Cancer Center and the Substance Abuse Center. The University is not obligated to repay these monies.
- *State Capital Improvement Bonds.* The State issues these bonds and makes the proceeds available for the University to spend on approved projects. In prior fiscal years, the University spent capital improvement bond proceeds on a portion of the construction of the Harper Student Center. The University is not obligated to repay these funds to the State; therefore, the debt is not recorded on the University's financial statements. As of June 30, 2004, the University had approximately \$14.7 million of State capital improvement bonds approved for several building renovations.
- *Private Gifts and Grants.* Cash and other resources donated to the Health Sciences Foundation (HSF) are periodically transferred to the University. For example, the HSF raised funds on behalf of the University to help restore the St. Luke's Chapel and to complete the Harper Student Center.

Medical University Hospital Authority

At the end of 2004, the Authority had \$228.8 million invested in capital assets, net of accumulated depreciation. Total capital asset additions of \$32 million in 2004 decreased by \$21.3 million over the 2003 level of \$53.3 million. The 2004 additions relate to machinery and equipment of \$11.1 million, \$15.9 million of building improvements, and \$4.3 million of construction in progress.

The Authority has proposed a phased approach replacement of much of its principal patient care facilities, a project planned for completion in stages over the next 20 years. Phase 1 of the project would involve building a facility comprised of a four-story diagnostic and treatment facility, a seven-story hospitality (bed) tower, and a garden atrium uniting the two sections of the building. No new clinical health services will be added as a result of this phase of the project. There are 156 replacement beds involved. The required Certificate of Need for this phase of the project has been received from the state licensing agency. The Authority has applied with the Department of Housing and Urban Development, through its Section 242 Program, for an insured mortgage loan for project financing. In association with the application, the Authority is in the process of structuring a transaction to facilitate the issuance of \$401 million Series A Tax Exempt and Series B Taxable Bonds for the purpose of financing the construction of new hospital facilities, refunding the outstanding mortgage payable to Charleston County, purchasing and defeasing certain outstanding Hospital Facilities Refunding Revenue Bonds Series 2002 A, funding a debt service fund, and paying certain transaction costs. While the Authority hopes to issue the new bonds late in calendar 2004, there can be no assurances given that this financing transaction will in fact be consummated. Completion of this phase of the project and occupancy in the new facility is expected to be in spring 2008.

University Medical Associates

UMA's investment in capital assets as of June 30, 2004, amounts to \$49.2 million (net of accumulated depreciation). This investment in capital assets consists of leasehold improvements for the various facilities occupied by clinics and administrative personnel, clinical diagnostic and therapeutic equipment, data processing hardware and software, and various office furnishings and equipment. During the current year, there were several decreases in capital assets related to the disposition of various computer equipment and software as part of the new system implementation.

At year-end, UMA had \$96.5 million in outstanding bonds, notes and capital lease obligations compared to \$100.4 million outstanding in the prior year. This is a decrease of 3.9 percent. UMA added no new debt other than the accrual of vacation pay due to employees. Reductions resulted from scheduled principal payments. UMA's Direct Note Obligations Select Auction Variable Rate Securities (SAVRS) carry an AAA rating due to the impact of bond insurance from MBIA.

Requests for Information

These financial statements are designed to provide a general overview of The Medical University of South Carolina and its component units' financial activities and to demonstrate the University's accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Controller's Office, Medical University of South Carolina, 19 Hagood Avenue, Post Office Box 250817, Charleston, South Carolina, 29425.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

STATEMENT OF NET ASSETS

June 30, 2004

	The University	Medical University Hospital Authority	University Medical Associates	Nonmajor Enterprise Funds	Total Primary Government
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 46,851,517	\$ 16,497,079	\$ 43,658,755	\$ 1,057	\$ 107,008,408
Investments	-	-	9,182,714	-	9,182,714
Receivables, net	33,215,665	98,240,388	21,923,862	43,265	153,423,180
Due from other funds	16,063,258	-	9,086,543	-	25,149,801
Due from component units	2,071,269	-	-	-	2,071,269
Inventories	-	10,000,034	-	-	10,000,034
Prepaid items	1,967,655	9,491,544	631,355	156,350	12,246,904
Restricted assets					
Cash and cash equivalents	1,459,469	255,671	-	8,360,927	10,076,067
Investments	-	-	-	11,488,666	11,488,666
Due from other funds	-	-	-	2,277,670	2,277,670
Other current assets	-	-	909,264	122,847	1,032,111
Total current assets	101,628,833	134,484,716	85,392,493	22,450,782	343,956,824
Noncurrent Assets					
Student loans receivable, net	942,176	-	-	-	942,176
Restricted assets					
Cash and cash equivalents	32,933,539	11,497,452	1,917,292	3,919,519	50,267,802
Investments	-	5,803,468	14,604,988	213,000	20,621,456
Accrued interest	-	-	87,637	-	87,637
Interfund receivables	-	-	-	19,340,245	19,340,245
Student loans receivable	12,681,002	-	-	-	12,681,002
Prepaid items	-	-	11,995,751	2,896,990	14,892,741
Investment in partnerships	-	-	3,633,850	-	3,633,850
Capital assets, net of accumulated depreciation	264,970,620	228,794,027	49,158,464	7,993,764	550,916,875
Other noncurrent assets	-	645,709	4,664,939	1,663,803	6,974,451
Total noncurrent assets	311,527,337	246,740,656	86,062,921	36,027,321	680,358,235
Total assets	413,156,170	381,225,372	171,455,414	58,478,103	1,024,315,059
LIABILITIES					
Current liabilities					
Payables and accrued liabilities	20,612,279	54,288,659	15,202,009	2,467,239	92,570,186
Due to other funds	10,853,417	16,437,140	-	2,579,607	29,870,164
Due to component units	-	-	116,170	5,401,567	5,517,737
Deferred revenues	17,249,129	-	-	-	17,249,129
Lines of credit	-	-	13,500,000	-	13,500,000
Long-term liabilities	13,763,264	6,279,744	4,431,279	1,518,171	25,992,458
Other current liabilities	1,284,547	-	-	-	1,284,547
Total current liabilities	63,762,636	77,005,543	33,249,458	11,966,584	185,984,221
Noncurrent liabilities					
Retainages payable	165,974	-	-	-	165,974
Interfund payables	19,340,245	-	-	-	19,340,245
Federal loan program liability	12,349,272	-	-	-	12,349,272
Long-term liabilities	62,030,220	124,055,568	94,377,357	54,411,685	334,874,830
Total noncurrent liabilities	93,885,711	124,055,568	94,377,357	54,411,685	366,730,321
Total liabilities	157,648,347	201,061,111	127,626,815	66,378,269	552,714,542
NET ASSETS					
Invested in capital assets, net of related debt	184,822,116	98,458,715	(518,107)	-	282,762,724
Restricted					
Nonexpendable	942,593	-	-	-	942,593
Expendable for					
Education	4,895,393	-	-	-	4,895,393
Loans	3,583,657	-	-	-	3,583,657
Capital projects	10,814,068	8,408,123	-	-	19,222,191
Debt service	10,454,013	9,148,468	9,080,953	1,092,969	29,776,403
Unrestricted	39,995,983	64,148,955	35,265,753	(8,993,135)	130,417,556
Total net assets (deficit)	\$ 255,507,823	\$ 180,164,261	\$ 43,828,599	\$ (7,900,166)	\$ 471,600,517

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

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

STATEMENT OF FINANCIAL POSITION
HEALTH SCIENCES FOUNDATION OF THE MEDICAL UNIVERSITY OF SOUTH CAROLINA
NONGOVERNMENTAL DISCRETELY PRESENTED COMPONENT UNIT
June 30, 2004

ASSETS	
Cash and cash equivalents	\$ 2,371,382
Receivables	
Accounts and other receivables	72,350
Unconditional promises to give/receivable, net	13,690,730
Investments (stated at fair value)	112,507,618
Property held for sale	4,206,898
Contributions receivable from remainder trusts	2,451,255
Cash value of life insurance	714,155
Property and equipment (at cost less accumulated depreciation)	41,922,996
Other assets	<u>69,827</u>
Total assets	<u>\$ 178,007,211</u>
 LIABILITIES	
Accounts payable and accrued expenses	\$ 453,513
Due to primary government	645,256
Annuities payable	3,496,746
Long-term debt	16,186,578
Unearned income	15,010,998
Contributions payable to primary government	<u>17,852,400</u>
Total liabilities	<u>53,645,491</u>
 NET ASSETS	
Unrestricted	
Undesignated	3,437,612
Designated for primary government programs	<u>15,880,974</u>
Total unrestricted	19,318,586
Temporarily restricted	64,712,126
Permanently restricted	<u>40,331,008</u>
Total net assets	<u>124,361,720</u>
Total liabilities and net assets	<u>\$ 178,007,211</u>

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

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

STATEMENT OF FINANCIAL POSITION
MUSC FOUNDATION FOR RESEARCH DEVELOPMENT
NONGOVERNMENTAL DISCRETELY PRESENTED COMPONENT UNIT
June 30, 2004

ASSETS	
Cash and cash equivalents	\$ 429,899
Interest receivable	25,693
Accounts receivable	313,701
Income taxes receivable	4,707
Prepaid expenses	29,424
Investments	2,179,702
Property and equipment (at cost less accumulated depreciation)	180,530
Total assets	<u>\$ 3,163,656</u>
LIABILITIES	
Accounts payable	138,581
Due to primary government	1,309,843
Accrued expenses	27,781
Unearned revenue and deposits	799,983
Total liabilities	<u>2,276,188</u>
NET ASSETS	
Unrestricted	726,018
Temporarily restricted	161,450
Total net assets	<u>887,468</u>
Total liabilities and net assets	<u>\$ 3,163,656</u>

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

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the year ended June 30, 2004

	The University	Medical University Hospital Authority	University Medical Associates	Nonmajor Enterprise Funds	Total Primary Government
Operating revenues					
Student tuition and fees (net of scholarship allowances of \$ 1,310,133)	\$ 27,217,293	\$ -	\$ -	\$ -	\$ 27,217,293
Federal operating grants and contracts	115,468,784	-	-	-	115,468,784
State operating grants and contracts	3,392,497	-	-	-	3,392,497
Local government operating grants and contracts	170,390	-	-	-	170,390
Nongovernmental operating grants and contracts	14,711,406	-	-	-	14,711,406
Interfund services provided	60,085,626	-	-	-	60,085,626
Sales and services of educational and other activities	27,395,838	-	-	-	27,395,838
Net patient service revenue (pledged for hospital facilities revenue bonds)	-	578,827,349	-	-	578,827,349
Net patient service revenue	-	-	160,681,940	-	160,681,940
Ambulatory care and primary care agreements	-	-	8,546,550	-	8,546,550
Auxiliary enterprises	5,837,651	-	-	-	5,837,651
Interest income (used as security for revenue bonds and notes)	-	-	-	1,549,985	1,549,985
Other operating revenues	9,505,487	9,567,898	4,320,358	-	23,393,743
Total operating revenues	<u>263,784,972</u>	<u>588,395,247</u>	<u>173,548,848</u>	<u>1,549,985</u>	<u>1,027,279,052</u>
Operating expenses					
Compensation and employee benefits	224,889,159	241,756,873	97,980,324	-	564,626,356
Services and supplies	115,543,825	236,809,223	38,057,403	679,453	391,089,904
Utilities	5,525,480	7,059,257	-	-	12,584,737
Interfund services used	-	60,085,626	-	-	60,085,626
Scholarships and fellowships	5,750,420	-	-	-	5,750,420
Interest expense	-	-	-	2,114,061	2,114,061
Bond redemption premium	-	-	-	270,500	270,500
Depreciation and amortization	11,760,956	19,524,279	2,615,730	190,519	34,091,484
Total operating expenses	<u>363,469,840</u>	<u>565,235,258</u>	<u>138,653,457</u>	<u>3,254,533</u>	<u>1,070,613,088</u>
Operating income (loss)	<u>(99,684,868)</u>	<u>23,159,989</u>	<u>34,895,391</u>	<u>(1,704,548)</u>	<u>(43,334,036)</u>
Nonoperating revenues (expenses)					
State appropriations	96,525,770	-	-	-	96,525,770
Gifts and grants	14,452,277	-	-	-	14,452,277
Gifts made	-	-	(137,724)	-	(137,724)
Refunds to grantors	(646,581)	-	-	-	(646,581)
Investment income	604,781	215,856	395,343	1,834	1,217,814
Interest expense	(3,059,004)	(6,680,899)	(5,968,432)	-	(15,708,335)
Gain (loss) on sale of capital assets	1,415,282	-	(113,805)	-	1,301,477
Other nonoperating revenues (expenses)	(35,018)	-	3,778,009	-	3,742,991
Net nonoperating revenues (expenses)	<u>109,257,507</u>	<u>(6,465,043)</u>	<u>(2,046,609)</u>	<u>1,834</u>	<u>100,747,689</u>
Income (loss) before other revenues, expenses, gains, losses, and transfers	9,572,639	16,694,946	32,848,782	(1,702,714)	57,413,653
Capital appropriations	238,984	-	-	-	238,984
Capital grants and gifts	25,780,488	-	-	-	25,780,488
Interfund transfers	16,334,401	(552,241)	(15,741,152)	(41,008)	-
Transfers to other state funds	(255,228)	-	-	-	(255,228)
Increase (decrease) in net assets	51,671,284	16,142,705	17,107,630	(1,743,722)	83,177,897
Net assets (deficit) at beginning of year (restated)	<u>203,836,539</u>	<u>164,021,556</u>	<u>26,720,969</u>	<u>(6,156,444)</u>	<u>388,422,620</u>
Net assets (deficit) at end of year	<u>\$ 255,507,823</u>	<u>\$ 180,164,261</u>	<u>\$ 43,828,599</u>	<u>\$ (7,900,166)</u>	<u>\$ 471,600,517</u>

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

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

STATEMENT OF ACTIVITIES
HEALTH SCIENCES FOUNDATION OF THE MEDICAL UNIVERSITY OF SOUTH CAROLINA
NONGOVERNMENTAL DISCRETELY PRESENTED COMPONENT UNIT
June 30, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains, and other support				
Contributions	\$ 68,554	\$ 13,917,081	\$ 3,167,119	\$ 17,152,754
Interest and dividends	1,006,522	1,577,215	-	2,583,737
Net unrealized and realized gain on investments	3,469,665	7,399,150	-	10,868,815
Special events revenues, net of \$497,621 for direct benefit to donors	3,706	168,679	-	172,385
Rental income	2,575,676	23,780	-	2,599,456
Gain on sale of property	-	129,552	-	129,552
Gain on sale of lease	519,359	-	-	519,359
Other income	45,549	112,653	69,854	228,056
Changes in value of split interest agreements	-	(56,740)	-	(56,740)
	<u>7,689,031</u>	<u>23,271,370</u>	<u>3,236,973</u>	<u>34,197,374</u>
Net assets released from restrictions				
Program restrictions satisfied	18,257,520	(18,257,520)	-	-
Payment of administrative surcharges	1,504,630	(1,353,589)	(151,041)	-
Transfer of funds	705,293	(172,712)	(532,581)	-
	<u>28,156,474</u>	<u>3,487,549</u>	<u>2,553,351</u>	<u>34,197,374</u>
Expenses and losses				
Program				
Grants and general support to primary government	15,441,681	-	-	15,441,681
Student scholarships	526,133	-	-	526,133
Academic departments	431,646	-	-	431,646
Meetings, conferences, and entertainment	423,573	-	-	423,573
Equipment purchased and donated to primary government	989,053	-	-	989,053
Upkeep and general expenses of investment properties	1,519,723	-	-	1,519,723
Other program expense	326,062	-	-	326,062
Total program expenses	<u>19,657,871</u>	<u>-</u>	<u>-</u>	<u>19,657,871</u>
Supporting services				
General and administrative (including investment fees of \$144,867)	891,264	-	-	891,264
Fundraising and promotion	753,354	-	-	753,354
Total supporting services	<u>1,644,618</u>	<u>-</u>	<u>-</u>	<u>1,644,618</u>
Total expenses	21,302,489	-	-	21,302,489
Losses				
Provision for delinquent unconditional promises to give and write-offs	-	234,359	-	234,359
Total expenses and losses	<u>21,302,489</u>	<u>234,359</u>	<u>-</u>	<u>21,536,848</u>
Increase in net assets	6,853,985	3,253,190	2,553,351	12,660,526
Net assets at beginning of year	12,464,601	61,458,936	37,777,657	111,701,194
Net assets at end of year	<u>\$ 19,318,586</u>	<u>\$ 64,712,126</u>	<u>\$ 40,331,008</u>	<u>\$ 124,361,720</u>

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

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

STATEMENT OF ACTIVITIES
MUSC FOUNDATION FOR RESEARCH DEVELOPMENT
NONGOVERNMENTAL DISCRETELY PRESENTED COMPONENT UNIT
June 30, 2004

	Unrestricted	Temporarily Restricted	Total
Revenues, gains, and other support			
State grants and contracts	\$ 520,000	\$ 325,438	\$ 845,438
Corporate contracts and awards	374,811	1,794,271	2,169,082
Program contributions and private grants	211,886	537,714	749,600
License fees and royalties	1,379,050	-	1,379,050
Interest and dividend income	125,897	6,511	132,408
Net unrealized and realized (loss) on investments	(122,862)	(774)	(123,636)
Registration and seminar fees	131,187	-	131,187
Gain on disposal of equipment	428	-	428
Miscellaneous income	3,300	-	3,300
Subtotal	<u>2,623,697</u>	<u>2,663,160</u>	<u>5,286,857</u>
Net assets released from restrictions			
Program restrictions satisfied	<u>2,763,482</u>	<u>(2,763,482)</u>	<u>-</u>
Total revenues, gains, and other support	<u>5,387,179</u>	<u>(100,322)</u>	<u>5,286,857</u>
Expenses			
Program services			
Research	2,007,643	-	2,007,643
Training	355,373	-	355,373
Public service	20,273	-	20,273
Technology transfer activity	1,502,615	-	1,502,615
Residuals	<u>312,712</u>	<u>-</u>	<u>312,712</u>
Total program expenses	<u>4,198,616</u>	<u>-</u>	<u>4,198,616</u>
Supporting services			
Management and general			
Operations	962,349	-	962,349
Clinical Innovation Group	<u>386,210</u>	<u>-</u>	<u>386,210</u>
Total supporting services	<u>1,348,559</u>	<u>-</u>	<u>1,348,559</u>
Total expenses	<u>5,547,175</u>	<u>-</u>	<u>5,547,175</u>
Change in net assets from continuing operations	(159,996)	(100,322)	(260,318)
Discontinued operations - gain from operations of Charleston Health Institute	<u>367,101</u>	<u>-</u>	<u>367,101</u>
Change in net assets	207,105	(100,322)	106,783
Net assets at beginning of year	<u>518,913</u>	<u>261,772</u>	<u>780,685</u>
Net assets at end of year	<u>\$ 726,018</u>	<u>\$ 161,450</u>	<u>\$ 887,468</u>

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

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

STATEMENT OF CASH FLOWS
For the year ended June 30, 2004

	The University	Medical University Hospital Authority	University Medical Associates	Nonmajor Enterprise Funds	Total Primary Government
CASH FLOWS FROM OPERATING ACTIVITIES					
Student tuition and fees	\$ 27,763,465	\$ -	\$ -	\$ -	\$ 27,763,465
Grants and contracts	128,242,627	-	-	-	128,242,627
Auxiliary enterprise charges	5,842,745	-	-	-	5,842,745
Receipts from interfund services provided	52,945,582	-	-	-	52,945,582
Receipts from services of educational activities	30,383,452	-	-	-	30,383,452
Receipts from patients and third-party payors	-	509,400,450	171,137,886	-	680,538,336
Payments to employees	(224,146,802)	(238,645,558)	(81,417,860)	-	(544,210,220)
Payments to suppliers	(125,627,549)	(193,754,958)	(50,668,653)	(3,675,547)	(373,726,707)
Payments for scholarships and fellowships	(5,750,420)	-	-	-	(5,750,420)
Payments for interfund services provided	-	(52,945,582)	-	-	(52,945,582)
Loans issued to students	(3,433,301)	-	-	-	(3,433,301)
Collection of loans to students	3,013,554	-	-	-	3,013,554
Student loan program receipts	22,689,591	-	-	-	22,689,591
Student loan program disbursements	(22,689,591)	-	-	-	(22,689,591)
Other receipts	9,230,309	10,789,794	5,091,601	-	25,111,704
Other payments	(1,290,620)	-	(126,061)	-	(1,416,681)
Net cash provided (used) by operating activities	<u>(102,826,958)</u>	<u>34,844,146</u>	<u>44,016,913</u>	<u>(3,675,547)</u>	<u>(27,641,446)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
State appropriations	96,525,770	-	-	-	96,525,770
Interfund transfers	16,334,401	(552,241)	(15,741,152)	(41,008)	-
Transfers to other state funds	(98,688)	-	-	-	(98,688)
Gifts and grants received	14,915,718	-	-	-	14,915,718
Refunds to grantors	(646,581)	-	-	-	(646,581)
Loan from component unit	-	-	-	38,775	38,775
Borrowings under note payable	-	-	13,500,000	-	13,500,000
Repayments of note payable	-	-	(15,500,000)	-	(15,500,000)
Proceeds from advances	-	-	7,000,000	-	7,000,000
Repayment of advances	-	-	(7,000,000)	-	(7,000,000)
Proceeds from noncapital debt	-	-	-	-	-
Principal paid on noncapital debt	(229,751)	-	(840,000)	-	(1,069,751)
Interest paid on noncapital debt	(305,072)	-	-	-	(305,072)
Principal paid on bonds, notes, and certificates of participation	-	-	(1,158,450)	(15,003,000)	(16,161,450)
Interest paid on bonds, notes, and certificates of participation	-	-	(2,892,574)	(1,733,778)	(4,626,352)
Bond redemption premium paid	-	-	-	(270,500)	(270,500)
Payment of agent fees and bond issuance costs	-	-	(64,052)	(9,973)	(74,025)
Net cash provided (used) by noncapital financing activities	<u>126,495,797</u>	<u>(552,241)</u>	<u>(22,696,228)</u>	<u>(17,019,484)</u>	<u>86,227,844</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from capital debt	12,036,040	-	-	33,169,454	45,205,494
Capital appropriations	238,984	-	-	-	238,984
Capital grants and gifts received	25,780,488	-	-	-	25,780,488
Proceeds from sale of capital assets	1,499,974	66,600	754	-	1,567,328
Purchases of capital assets	(62,350,043)	(31,959,947)	(2,221,492)	(6,510,613)	(103,042,095)
Principal paid on capital debt and leases	(6,347,666)	(8,557,514)	(1,891,612)	-	(16,796,792)
Interest paid on capital debt and leases	(2,928,359)	(5,768,173)	(3,170,661)	(233,068)	(12,100,261)
Payment of fees and issuance cost	-	-	(71,647)	(1,219,197)	(1,290,844)
Net cash provided (used) by capital and related financing activities	<u>(32,070,582)</u>	<u>(46,219,034)</u>	<u>(7,354,658)</u>	<u>25,206,576</u>	<u>(60,437,698)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Collection of interfund receivables	-	-	-	1,369,082	1,369,082
Interest received on interfund receivables	-	-	-	1,324,355	1,324,355
Purchases of investments	-	-	(23,306,811)	(12,331,779)	(35,638,590)
Proceeds from sales and maturities of investments	-	677,675	9,127,303	1,159,281	10,964,259
Distributions from investments	-	-	155,379	-	155,379
Interest on investments	658,951	902,161	599,236	191,376	2,351,724
Net cash provided (used) by investing activities	<u>658,951</u>	<u>1,579,836</u>	<u>(13,424,893)</u>	<u>(8,287,685)</u>	<u>(19,473,791)</u>
Net increase (decrease) in cash and cash equivalents	<u>(7,742,792)</u>	<u>(10,347,293)</u>	<u>541,134</u>	<u>(3,776,140)</u>	<u>(21,325,091)</u>
Cash and cash equivalents at beginning of year	<u>88,987,317</u>	<u>38,597,495</u>	<u>45,034,913</u>	<u>16,057,643</u>	<u>188,677,368</u>
Cash and cash equivalents at end of year	<u>\$ 81,244,525</u>	<u>\$ 28,250,202</u>	<u>\$ 45,576,047</u>	<u>\$ 12,281,503</u>	<u>\$ 167,352,277</u>

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

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

STATEMENT OF CASH FLOWS (continued)

For the year ended June 30, 2004

	<u>The University</u>	<u>Medical University Hospital Authority</u>	<u>University Medical Associates</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total Primary Government</u>
Cash and cash equivalents is reported in the following Statement of Net Assets captions					
Current Assets	\$ 46,851,517	\$ 16,497,079	\$ 43,658,755	\$ 1,057	\$ 107,008,408
Restricted assets	1,459,469	255,671	-	8,360,927	10,076,067
Noncurrent restricted assets	<u>32,933,539</u>	<u>11,497,452</u>	<u>1,917,292</u>	<u>3,919,519</u>	<u>50,267,802</u>
Total cash and cash equivalents	<u>\$ 81,244,525</u>	<u>\$ 28,250,202</u>	<u>\$ 45,576,047</u>	<u>\$ 12,281,503</u>	<u>\$ 167,352,277</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities					
Operating income (loss)	\$ (99,684,868)	\$ 23,159,989	\$ 34,895,391	\$ (1,704,548)	(43,334,036)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					-
Depreciation and amortization	11,760,956	19,524,279	2,615,730	190,519	34,091,484
Provision for bad debts	-	50,597,721	29,268,772	-	79,866,493
Rental income, net	-	-	4,807,291	-	4,807,291
Agent fees on operational debt	-	-	135,699	-	135,699
Gifts made	-	-	(137,724)	-	(137,724)
Interest income	-	-	-	(1,549,985)	(1,549,985)
Interest expense	-	-	-	2,114,061	2,114,061
Bond redemption premium	-	-	-	270,500	270,500
Loss on sale of equipment	-	401,384	-	-	401,384
Changes in assets and liabilities					-
Receivables	(177,224)	(69,427,380)	(32,651,966)	-	(102,256,570)
Student loans receivable	(449,400)	-	-	-	(449,400)
Due from other funds	(8,144,185)	-	5,381,555	-	(2,762,630)
Due from component unit	174,860	-	-	-	174,860
Prepaid items	464,100	-	1,647,485	(3,144,543)	(1,032,958)
Other assets	-	(5,470,793)	(273,764)	-	(5,744,557)
Payables and accrued liabilities	(966,180)	6,705,589	(135,149)	148,449	5,752,709
Accrued compensated absences	157,734	-	178,370	-	336,104
Deferred revenues	(2,372,163)	-	-	-	(2,372,163)
Due to other funds	(3,830,361)	9,353,357	(1,658,318)	-	3,864,678
Federal loan program liability	292,599	-	-	-	292,599
Other liabilities	(52,826)	-	(56,459)	-	(109,285)
Net cash provided (used) by operating activities	<u>\$ (102,826,958)</u>	<u>\$ 34,844,146</u>	<u>\$ 44,016,913</u>	<u>\$ (3,675,547)</u>	<u>\$ (27,641,446)</u>
Noncash transactions					
Equipment acquired through capital leases	\$ 36,040	\$ -	\$ -	\$ -	36,040
Donated equipment	<u>1,147,112</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,147,112</u>
Total noncash transactions	<u>\$ 1,183,152</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,183,152</u>

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

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Statement Presentation

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

Reporting Entity

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

Blended Component Units

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

Major Funds

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

University Medical Associates (UMA) was organized as a nonprofit corporation under the laws of South Carolina on June 3, 1991, and received tax-exempt status recognition from the Internal Revenue Service. UMA was established by the Board of Trustees of The Medical University of South Carolina to benefit the programs and further the mission of the University and accordingly bills, collects, and administers all clinical income generated by its participating physicians. UMA provides the full-time professional clinical faculty of the University and other health professionals with the development of group practice arrangements and operates as a multi-specialty group practice of medicine and related services in the furtherance of medicine, medical research, and education. UMA is a component unit because the University is financially accountable for UMA. The University has appointment authority over a majority of the UMA board and is able to affect UMA's operations. UMA is a blended component unit because it almost exclusively benefits the University even though UMA does not provide all of its services directly to the University. The bylaws of UMA provide for all of its assets to be transferred to the University upon its dissolution.

UMA has formed for-profit and non-profit subsidiaries for the purpose of creating a primary care network by establishing satellite and affiliate offices and contracting with area physicians to carry out primary care functions. Carolina Family Care, Inc. (CFC) and Carolina Primary

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Care Physicians, P.A. (CPCP) are organized as for-profit corporations under South Carolina law, whereas Carolina Health Management Services (CHMS) is organized as a non-profit public benefit corporation. All financial activities of these companies are blended into the financial statements of UMA since they serve an essentially identical purpose. All three component units are income taxable under state and federal law. These component units do not issue separate financial statements.

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

Nonmajor Funds

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

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

Pharmaceutical Education and Development Foundation of The Medical University of South Carolina (PEDF) was incorporated in September, 1994, under the laws of South Carolina as an educational, charitable, eleemosynary foundation to promote educational, research, clinical, and other facilities and programs of the University's College of Pharmacy. If PEDF is dissolved, its assets will be transferred to the Health Sciences Foundation for the benefit of the College of Pharmacy, or if the College of Pharmacy is not in existence at that time, such assets will be transferred to the Health Sciences Foundation for the benefit of such other activities of the University as its Board of Trustees shall determine. PEDF is considered a component unit because it is fiscally dependent on the University. Any revenue distribution policy adopted by PEDF requires approval by the University's Board of Trustees. PEDF is a blended component unit since its purpose is to provide services almost entirely to the University. PEDF is considered a nongovernmental component unit since it does not meet the definition of a governmental entity. Copies of the separately issued financial statements of Pharmaceutical Education and Development Foundation can be obtained by sending a request to the following address: Health Sciences Foundation, 18 Bee Street, P.O. Box 250450, Charleston, SC 29425.

Discretely Presented Component Units

For the year ended June 30, 2004, the University adopted Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with a primary government. The statement also clarifies reporting requirements for those organizations. Based on these criteria, the University is now reporting the Health Sciences Foundation (HSF) and the MUSC Foundation for Research Development (MFRD) as discretely presented component units.

Health Sciences Foundation (HSF) is a legally separate, tax-exempt component unit of the Medical University of South Carolina. HSF acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The board of HSF is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from HSF, the majority of resources, or income thereon, that HSF holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by HSF can only be used by, or for the benefit of the University, HSF is considered a component unit of the University and is discretely presented in the University's financial statements. Copies of the separately issued financial statements of Health Sciences Foundation can be obtained by sending a request to the following address: Health Sciences Foundation, 18 Bee Street, P.O. Box 250450, Charleston, SC 29425.

MUSC Foundation for Research Development (MFRD) was incorporated in March, 1995, as a direct support organization for the University. The mission of MFRD is to support the educational, research, and health care mission of the University by fostering creativity and innovation. Additionally, MFRD is charged with initiating and sustaining cooperation and collaboration between the University and business and industry, acting as the University's intellectual property management and technology marketing arm, and advancing health related economic development for South Carolina and the nation. Based on its close relationship with the University, MFRD is deemed to be financially integrated with the University. Therefore, MFRD is reported as a discretely presented component unit of the University. Copies of the separately issued financial statements of MFRD can be obtained by sending a request to the following address: MUSC Foundation for Research Development, 261 Calhoun Street, PO Box 250194, Charleston, SC 29425.

Basis of Accounting

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

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

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

Cash and Cash Equivalents

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

Investments and Investment Income

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

Receivables

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

The University receives certain supplemental Medicaid payments pursuant to an amendment to the South Carolina Medicaid Plan, approved by the US Department of Health and Human Services on September 20, 2002 to be effective retroactive to October 1, 2001, for inherent inefficiencies of providing care to Medicaid patients while instructing medical students. As of June 30, 2004, the University has recorded a receivable from Medicaid of \$8,227,595 that represents the supplemental Medicaid payment to be received for the period January 1, 2004 through June 30, 2004.

The Authority and University Medical Associates grant credit without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. Bad debt and contractual allowances for loans receivable and various accounts receivable including patient accounts receivable, for the University and the Authority are established based upon losses and adjustments experienced in prior years and evaluations of the current account portfolios.

Inventories

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

Prepaid Items

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The University follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The University capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$100,000. The University, the Authority, and CHS capitalize as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects. Amounts capitalized in fiscal year 2004 were approximately \$1,205,000 for the University,

\$2,891,000 for the Authority, and \$12,000 for CHS. Routine repairs and maintenance and library materials, except individual items costing in excess of \$5,000, are charged to operating expense in the year in which the expense was incurred.

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

Compensated Absences

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

Deferred Revenues

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

Net Assets

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

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

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

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

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

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

Classification of Revenues

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

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

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

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

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

Scholarship Allowances

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

Net Patient Service Revenue

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

Sales and Services of Educational and Other Activities

Revenues from sales and services of educational and other activities generally consist of amounts received from instructional, laboratory, research, and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public. The University receives such revenues primarily from seminar fees, dental clinic services, pharmacy sales, and sales of other services. In fiscal year 2004, the University included in this category supplemental Medicaid payments received as reimbursement to providers associated with teaching hospitals and clinics.

Charity Care

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

Income Taxes

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

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

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

Use of Estimates

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

Impairment of Long-lived Assets

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

2. DEPOSITS AND INVESTMENTS

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

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

	The University	The Authority	UMA	MUFC	CHS	PEDF
Statement of Net Assets:						
Current assets						
Cash and cash equivalents	\$ 46,851,517	\$ 16,497,079	\$ 43,658,755	\$ -	\$ -	\$ 1,057
Investments	-	-	9,182,714	-	-	-
Restricted assets						
Cash and cash equivalents	1,459,469	255,671	-	54,495	8,306,432	-
Investments	-	-	-	316,177	11,172,489	-
Noncurrent assets						
Restricted assets						
Cash and cash equivalents	32,933,539	11,497,452	1,917,292	1,350,000	2,569,519	-
Investments	-	5,803,468	14,604,988	213,000	-	-
Total Statement of Net Assets	<u>\$ 81,244,525</u>	<u>\$ 34,053,670</u>	<u>\$ 69,363,749</u>	<u>\$ 1,933,672</u>	<u>\$ 22,048,440</u>	<u>\$ 1,057</u>
Notes, Deposits and Investments plus reconciling items:						
Cash on hand	\$ 49,694	\$ 4,130	\$ 25,020	\$ -	\$ -	\$ -
Deposits held by State Treasurer	81,163,831	8,264,691	-	-	-	-
Other deposits	31,000	19,981,381	43,833,868	1,404,495	10,875,951	1,057
Investments - unrestricted	-	-	8,982,581	-	-	-
Investments - restricted	-	5,803,468	16,522,280	529,177	11,172,489	-
Total Notes plus reconciling items	<u>\$ 81,244,525</u>	<u>\$ 34,053,670</u>	<u>\$ 69,363,749</u>	<u>\$ 1,933,672</u>	<u>\$ 22,048,440</u>	<u>\$ 1,057</u>

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 2004, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

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

Other Deposits

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

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

At June 30, 2004, other deposits were as follows:

	Category			Bank Balance	Reported Amount
	1	2	3		
The University	\$ —	\$ —	\$ 31,000	\$ 31,000	\$ 31,000
University Medical Associates	634,332	—	46,329,147	46,963,479	43,833,868
Medical University Facilities Corporation	—	—	1,404,495	1,404,495	1,404,495
CHS Development Company	—	—	10,875,951	10,875,951	10,875,951

The Authority's deposits of \$19,981,381 at June 30, 2004, were classified as category 1.

At June 30, 2004, Pharmaceutical Education and Development Foundation's carrying amount of deposits was \$1,057 and the bank balance totaled \$2,729. The entire balance was covered by the Federal Deposit Insurance Corporation and no amount was uninsured and uncollateralized.

Investments

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

The investments are categorized as to credit risk as:

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

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At June 30, 2004, the investment balances were as follows:

	Category			Not Subject To Categorization	Fair Value
	1	2	3		
Medical University Hospital Authority					
U. S. Treasury Obligations	\$ 5,803,468	\$ -	\$ -	\$ -	\$ 5,803,468
University Medical Associates, unrestricted					
Federal Home Loan Bank Bonds	\$ 2,023,584	\$ -	\$ -	\$ -	\$ 2,023,584
SC Student Loan Corporation Bonds	2,000,000	-	-	-	2,000,000
PA Higher Education Assistance Bonds	2,000,000	-	-	-	2,000,000
GMAC Participation Notes	-	-	2,000,000	-	2,000,000
Mutual Funds	-	-	-	958,997	958,997
Total UMA investments, unrestricted	<u>\$ 6,023,584</u>	<u>\$ -</u>	<u>\$ 2,000,000</u>	<u>\$ 958,997</u>	<u>\$ 8,982,581</u>
University Medical Associates, restricted					
Federal National Mortgage Association					
Discount Notes	\$ 3,563,076	\$ -	\$ -	\$ -	\$ 3,563,076
Municipal Bonds	4,861,690	-	-	-	4,861,690
US Treasury Notes	2,768,356	-	-	-	2,768,356
Federal National Mortgage Association					
Debentures	3,411,866	-	-	-	3,411,866
Money Market Funds	-	-	-	1,917,292	1,917,292
Total UMA investments, restricted	<u>\$ 14,604,988</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,917,292</u>	<u>\$ 16,522,280</u>
CHS Development Company					
Commercial paper	\$ -	\$ -	\$ 8,894,265	\$ -	\$ 8,894,265
Federal Home Loan Bank Note	-	-	532,351	-	532,351
Federal Home Loan Mortgage Corp. Notes	-	-	1,271,345	-	1,271,345
Federal National Mortgage Association Note	-	-	474,528	-	474,528
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,172,489</u>	<u>\$ -</u>	<u>\$ 11,172,489</u>

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

For Medical University Facilities Corporation legally authorized investments include government and government agency obligations; deposits that are fully insured by FDIC; short-term bank obligations, repurchase agreements, various debt obligations, money market funds, and other securities meeting certain requirements; and investment contracts satisfactory to Standard and Poor's. Medical University Facilities Corporation's investments consist of investment agreements under which they are to be paid interest with guaranteed rates from 5.78% to 6.2% and open ended maturity dates. These investments are not subject to credit risk categorization and their fair value is not readily determinable. As of June 30, 2004, the MUFC investments included the \$213,000 restricted debt service reserve fund.

For CHS Development Company, investments are limited to "Investment Obligations" meeting certain requirements as defined in the Indenture of Trust related to the SC Jobs-Economic Development Authority Economic Development Revenue Bonds (CHS Development Company Project) Series 2003.

Investments in Partnerships

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

On May 8, 1998, Carolina Primary Care Physicians, P.A., a blended component unit of UMA, entered into a partnership with several physicians and medical practices by purchasing a 35% interest in Lowcountry Medical Group of Beaufort County, LLC (LCMG). UMA's ownership interest increased to 36.76% due to members exiting LCMG during the year ended June 30, 2000. Also during fiscal year ended June 30, 2000, the members of LCMG invested in Lowcountry Real Property, L.L.C. (LCRP), which reflected the same proportionate ownership as LCMG and holds title to all real estate occupied by LCMG. The operating agreements of LCMG and LCRP state that all powers to control normal operations are exercised exclusively by the managers except for veto authority over certain transactions affecting the acquisition and disposition of significant assets or changes to the members of each partnership. CPCM is prohibited from serving as a manager. Due to this limited ability to influence normal operations of these entities, the investments are carried on the cost method with all distributions reported as investment income. UMA's investment in the partnership at June 30, 2004, is \$2,733,758 and \$888,719 for LCMG and LCRP, respectively. For the year ended June 30, 2004, distributions received and reported as investment income were \$159,324 for LCMG.

On November 14, 2000, Carolina Family Care, Inc. (CFC) entered into a partnership with Hilton Head Internists, L.L.C. to form Hilton Head Cardiac Diagnostics, L.L.C. (HHCD), to provide cardiac diagnostic services. HHCD did not begin operations until January, 2001. CFC is a 50

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percent owner. This investment is reported on the equity method with all changes in equity reported as either a return of capital or investment income. At June 30, 2004, UMA's investment is \$10,373 and for the year ended June 30, 2004, UMA's share of HHCD's net loss is \$2,640.

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

3. RECEIVABLES

Receivables at June 30, 2004, including applicable allowances, were as follows:

	<u>The University</u>	<u>The Authority</u>	<u>UMA</u>	<u>MUFC</u>	<u>CHS</u>
Student accounts	\$ 1,096,323	\$ -	\$ -	\$ -	\$ -
Patient accounts	-	124,792,396	63,420,038	-	-
Less allowances for:					
Contractual adjustments	-	-	(36,913,369)	-	-
Uncollectibles	-	(36,600,000)	(4,637,814)	-	-
Federal grants and contracts	18,367,736	-	-	-	-
State grants and contracts	1,878,571	-	-	-	-
Nongovernmental grants and contracts	2,250,667	-	-	-	-
Interest	582,019	-	-	6,692	36,573
Due from Medicaid	8,227,595	-	-	-	-
Other	812,754	10,047,992	55,007	-	-
Receivables, net	<u>\$ 33,215,665</u>	<u>\$ 98,240,388</u>	<u>\$ 21,923,862</u>	<u>\$ 6,692</u>	<u>\$ 36,573</u>

4. RESTRICTED ASSETS

The purposes and amounts of restricted assets at June 30, 2004, were as follows:

<u>Asset/Restricted for</u>	<u>The University</u>	<u>The Authority</u>	<u>UMA</u>	<u>MUFC</u>	<u>CHS</u>
Current:					
Cash and cash equivalents:					
Debt service	<u>\$ 1,459,469</u>	<u>\$ 255,671</u>	<u>\$ -</u>	<u>\$ 54,495</u>	<u>\$ 8,306,432</u>
Investments:					
Debt service	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 316,177</u>	<u>\$ 11,172,489</u>
Due from other funds:					
Debt service	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,277,670</u>	<u>\$ -</u>
Noncurrent:					
Cash and cash equivalents:					
Debt service	\$ -	\$ 3,089,329	\$ 1,917,292	\$ 1,350,000	\$ 2,569,519
Capital projects	29,977,392	8,408,123	-	-	-
Student loan programs	2,013,554	-	-	-	-
Endowments	942,593	-	-	-	-
Total cash and cash equivalents	<u>\$ 32,933,539</u>	<u>\$ 11,497,452</u>	<u>\$ 1,917,292</u>	<u>\$ 1,350,000</u>	<u>\$ 2,569,519</u>
Investments and accrued interest					
Debt service	<u>\$ -</u>	<u>\$ 5,803,468</u>	<u>\$ 14,692,625</u>	<u>\$ 213,000</u>	<u>\$ -</u>
Interfund receivables:					
Debt service	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,340,245</u>	<u>\$ -</u>
Student loans receivable:					
Student loan programs	<u>\$ 12,681,002</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
The University				
Capital assets not being depreciated				
Land	\$ 13,536,329	\$ -	\$ (1,312,878)	\$ 12,223,451
Construction in progress	58,682,506	59,719,856	(7,585,277)	110,817,085
Total capital assets not being depreciated	<u>72,218,835</u>	<u>59,719,856</u>	<u>(8,898,155)</u>	<u>123,040,536</u>
Other capital assets				
Depreciable land improvements	5,413,037	-	-	5,413,037
Buildings and improvements	221,369,635	2,007,979	-	223,377,614
Machinery and equipment	64,069,849	11,494,084	(3,297,285)	72,266,648
Vehicles	4,061,499	355,487	(287,310)	4,129,676
Total other capital assets at historical cost	<u>294,914,020</u>	<u>13,857,550</u>	<u>(3,584,595)</u>	<u>305,186,975</u>
Less accumulated depreciation for				
Depreciable land improvements	(3,959,929)	(165,000)	-	(4,124,929)
Buildings and improvements	(109,306,125)	(7,798,555)	-	(117,104,680)
Machinery and equipment	(38,160,928)	(3,672,701)	3,205,695	(38,627,934)
Vehicles	(3,568,856)	(124,700)	294,208	(3,399,348)
Total accumulated depreciation	<u>(154,995,838)</u>	<u>(11,760,956)</u>	<u>3,499,903</u>	<u>(163,256,891)</u>
Other capital assets, net	<u>139,918,182</u>	<u>2,096,594</u>	<u>(84,692)</u>	<u>141,930,084</u>
University Capital assets, net	<u>212,137,017</u>	<u>61,816,450</u>	<u>(8,982,847)</u>	<u>264,970,620</u>
Medical University Hospital Authority				
Capital assets not being depreciated				
Land and land improvements	3,269,980	652,669	-	3,922,649
Construction in progress	49,143,752	20,052,088	(15,788,921)	53,406,919
Total capital assets not being depreciated	<u>52,413,732</u>	<u>20,704,757</u>	<u>(15,788,921)</u>	<u>57,329,568</u>
Other capital assets				
Buildings and improvements	190,955,082	15,914,448	-	206,869,530
Machinery and equipment	146,983,362	10,545,154	(5,421,298)	152,107,218
Vehicles	1,088,944	584,510	-	1,673,454
Total other capital assets at historical cost	<u>339,027,388</u>	<u>27,044,112</u>	<u>(5,421,298)</u>	<u>360,650,202</u>
Less accumulated depreciation for				
Buildings and improvements	(96,094,570)	(6,776,695)	-	(102,871,265)
Machinery and equipment	(77,468,774)	(12,593,190)	4,953,313	(85,108,651)
Vehicles	(1,051,433)	(154,394)	-	(1,205,827)
Total accumulated depreciation	<u>(174,614,777)</u>	<u>(19,524,279)</u>	<u>4,953,313</u>	<u>(189,185,743)</u>
Other capital assets, net	<u>164,412,611</u>	<u>7,519,833</u>	<u>(467,985)</u>	<u>171,464,459</u>
Hospital Authority capital assets, net	<u>216,826,343</u>	<u>28,224,590</u>	<u>(16,256,906)</u>	<u>228,794,027</u>
University Medical Associates				
Capital assets not being depreciated				
Construction in progress	201,407	1,036,086	(201,407)	1,036,086
Total capital assets not being depreciated	<u>201,407</u>	<u>1,036,086</u>	<u>(201,407)</u>	<u>1,036,086</u>
Other capital assets				
Buildings and improvements	58,572,074	475,620	-	59,047,694
Machinery and equipment	9,268,446	1,045,962	(1,435,723)	8,878,685
Intangible assets	3,186,266	137,332	(127,052)	3,196,546
Total other capital assets at historical cost	<u>71,026,786</u>	<u>1,658,914</u>	<u>(1,562,775)</u>	<u>71,122,925</u>
Less accumulated depreciation for				
Buildings and improvements	(14,747,194)	(1,957,381)	-	(16,704,575)
Machinery and equipment	(4,600,278)	(955,969)	1,321,162	(4,235,085)
Intangible assets	(1,672,023)	(515,916)	127,052	(2,060,887)
Total accumulated depreciation	<u>(21,019,495)</u>	<u>(3,429,266)</u>	<u>1,448,214</u>	<u>(23,000,547)</u>
Other capital assets, net	<u>50,007,291</u>	<u>(1,770,352)</u>	<u>(114,561)</u>	<u>48,122,378</u>
University Medical Associates capital assets, net	<u>50,208,698</u>	<u>(734,266)</u>	<u>(315,968)</u>	<u>49,158,464</u>
CHS Development Company				
Capital assets not being depreciated				
Construction in progress	-	7,993,764	-	7,993,764
CHS Development Company capital assets	<u>-</u>	<u>7,993,764</u>	<u>-</u>	<u>7,993,764</u>
Grand Total	<u>\$ 479,172,058</u>	<u>\$ 97,300,538</u>	<u>\$ (25,555,721)</u>	<u>\$ 550,916,875</u>

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

	<u>The University</u>	<u>UMA</u>
Gain on disposal	\$ 1,499,986	\$ 203
Loss on disposal	(84,704)	(114,008)
Net gain (loss) on disposal	<u>\$ 1,415,282</u>	<u>\$ (113,805)</u>

6. PENSION PLANS

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

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

South Carolina Retirement System

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

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2001, the employer contribution rate became 10.4 percent, which included a 2.85 percent surcharge to fund retiree health and dental insurance coverage. The University's actual contributions to the SCRS for the three most recent fiscal years ending June 30, 2004, 2003, and 2002, were approximately \$6,925,000, \$6,849,000, and \$6,786,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. The Authority's contribution to SCRS for the years ending June 30, 2004, 2003 and 2002 were approximately \$17,200,000, \$16,500,000, and \$14,500,000, respectively. Also, the University paid employer group-life insurance contributions of approximately \$137,600 in the current fiscal year at the rate of .15 percent of compensation.

Police Officers Retirement System

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

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2001, the employer contribution rate became 13.15 percent which, as for the SCRS, included the 2.85 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 2004, 2003, and 2002, were approximately \$160,000, \$161,000, and \$156,000, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$3,105 and accidental death insurance contributions of \$3,105 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

Optional Retirement Program

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

ORP participation is limited to faculty and administrative staff of the State's higher education institutions who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment. Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 2.85 percent from the employer.

Certain of the University's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were approximately \$3,909,000 (excluding the surcharge) from the University as employer and \$3,106,000 from

its employees as plan members. Also, the University paid employer group-life insurance contributions of approximately \$78,000 in the current fiscal year. All amounts were remitted to the Retirement Division of the State Budget and Control Board for distribution to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

Teacher and Employee Retention Incentive

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows active members of the South Carolina Retirement System who are eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for a program period of up to five years. The length of the program period must be specified by the employee prior to retirement. Each participant is entitled to be paid for up to 45 days of accumulated unused annual vacation leave upon retirement and again at the end of the program period for annual vacation leave earned during the program period. The University recorded expenses of approximately \$1,359,000 for lump-sum vacation leave payments to its employees retiring under TERI in fiscal year 2004.

Component Unit Pension Plans

Effective July 1, 2002, the Authority established and began sponsoring a profit sharing plan and trust titled the Special Healthcare Alternative Retirement Plan (SHARP). The SHARP is qualified under Section 401(a) of the Internal Revenue Code. Certain employees, as defined in the SHARP, are eligible to participate at the commencement of employment. Contributions by the Authority to the plan are discretionary and vest ratably over four years after two years of service. Contributions by the Authority in fiscal 2004 totaled approximately \$250,000.

The Authority also independently sponsors a tax-advantaged defined contribution plan for its employees. Substantially all Authority employees are eligible to participate in this plan. The Authority does not match employee contributions.

University Medical Associates provides a defined contribution plan covering all employees. The plan provides for contributions by UMA in such amounts as the Board of Directors may annually determine. The plan prohibits participant contributions except for rollovers from other plans. Current year contributions are based upon a four-tier percentage determined by the participant's compensation as follows: (a) eight percent of compensation up to \$40,000; (b) twelve percent of compensation from \$40,001 to \$80,000; (c) twenty-five percent of compensation from \$80,001 to \$150,000; and (d) twenty-nine percent for compensation from \$150,001 to \$200,000. The maximum annual contribution per participant is \$40,000. Participants become fully vested in their accounts after five years of credited service. Total contributions to this plan totaled approximately \$10,607,000 in fiscal year 2004. Copies of the separately issued financial statements of the plan are available from the management of UMA.

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

Effective July 1 2002, employees of Carolina Primary Care Physicians and Carolina Health Management Services are no longer participants in the UMA defined contribution pension plan. A deferred compensation plan under Internal Revenue Code Section 401(k) has been established which allows employees to defer up to \$13,000 of compensation annually. The employer makes safe-harbor contributions for all employees of three percent of compensation up to \$200,000. A separate employer contribution of five percent of compensation up to \$200,000 is made for all non-physician employees. All employee and employer safe-harbor contributions are 100% vested at the time of contribution. The five percent non-physician employer contribution contributions vest ratably over a five year period. Total employer contributions to this plan for the fiscal year ending June 30, 2004 were \$310,444.

7. POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

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

These benefits are provided through annual appropriations by the General Assembly to the University for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the University and the Authority for their active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. The University recorded compensation and benefits expense for these insurance benefits for active employees in the approximate amount of \$12,865,000 for the year ended June 30, 2004. The University paid approximately \$4,786,000 applicable to the 2.85 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to University and Authority retirees is not available. By State law, the University and the Authority have no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements. In addition, the State General Assembly periodically directs the Retirement Systems to

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pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS and PORS benefits.

UMA and its component units have established an employee benefit plan to self-insure employees for health, accident, and dental expenses. Life insurance benefits are insured through commercial insurance companies. UMA records an estimated liability for incurred but not reported claims based on estimates of the ultimate cost of reported claims using the gross method. The estimated claims liability at June 30, 2004 was \$267,576. This amount is included under the caption "other accrued liabilities" on the Statement of Net Assets.

UMA provides post-retirement health and dental care benefits for retirees and their dependents. Substantially all employees who retire under the pension plan at age 60 and have 10 years of credited service are eligible to continue their coverage by paying the current employee premiums under the plan. UMA's self-insured health and dental plan provides the coverage for those benefits. Twelve retirees are covered under UMA's self-insured health plan as of June 30, 2004.

8. DEFERRED COMPENSATION PLANS

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

Certain employees have elected to participate in a Section 403(b) plan that was established by the University. The plan is administered by various unrelated financial institutions.

The Authority also independently sponsors a tax-advantaged defined contribution plan for its employees. Substantially all Authority employees are eligible to participate in this plan. The Authority does not match employee contributions.

9. COMMITMENTS, CONTINGENCIES AND LITIGATION

The various federal programs administered by the University for fiscal year 2004 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the University believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the University. Therefore, an estimated loss has not been recorded.

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

The University had outstanding commitments related to capital projects of approximately \$27,000,000 at June 30, 2004. The University anticipates funding these projects out of current resources, current bond issues, private gifts, and state capital improvement bond proceeds. The University also had in progress other capital projects which are not to be capitalized when completed. These projects are for replacements, repairs, or renovations to existing facilities. At June 30, 2004, the University had remaining commitment balances of approximately \$173,000 related to these projects.

The Authority's construction in progress consists primarily of costs associated with medical center access, children's hospital and operating room renovations. The estimated total remaining costs to complete at June 30, 2004 are approximately \$1,100,000. These projects are planned for completion at various dates through fiscal year 2005. The Authority also began construction of certain new hospital facilities in fiscal 2004, a project planned for final completion in fiscal 2008, and currently estimated to cost approximately \$240,000,000.

On June 28, 2004, the Authority renewed its agreement with a commercial bank for working capital lines of credit totaling approximately \$23,800,000 (bank lines). Advances under the bank lines bear interest at approximately 87% of Adjusted 30-day London Interbank Offered Rate (LIBOR), as defined, and are due on demand. The bank lines are secured by gross revenues (as defined) of the Authority. The security interest of the bank lines is subordinate to the security interest of the Series 2002A Revenue Bonds. No amounts were outstanding under these facilities at June 30, 2004, and the Authority anticipates that it will renew these credit facilities with similar terms and conditions in December 2004.

Carolina Family Care, Inc. and Carolina Primary Care Physicians, PA, component units of UMA, have signed corporate guarantees with a financial institution for a portion of the \$7,729,000 mortgage debt of Lowcountry Real Property, LLC. This corporate guarantee is based upon 50% of CPCP's equity in the partnership times the outstanding principal balance of the mortgage up to a maximum \$1,502,863. CFC and CPCP are jointly and severally liable for this amount should LCRP default on its obligation.

UMA has entered into a contract with IDX Information Systems Corporation to replace its non-integrated patient registration and billing systems at an estimated cost of \$1.5 million. The project began in June 2003 and will be completed in March, 2005.

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CHS had outstanding commitments related to the Charleston High School renovation project of approximately \$18,400,000 at June 30, 2004. The project is being funded with proceeds of the economic development revenue bonds issued by South Carolina Jobs-Economic Development Authority.

PEDF was named in a lawsuit claiming wrongful termination filed by its former Chief Executive Officer. In January, 2004, the former Chief Executive Officer was awarded \$131,000 and neither party has appealed the judgment. At June 30, 2004, PEDF has a liability of \$131,000 for this settlement. In addition to the settlement, the former Chief Executive Officer filed a petition for reimbursement of costs in the approximate amount of \$8,000. PEDF has objected to the petition and is awaiting the court's ruling.

In an agreement dated July 1, 2001, PEDF sold substantially all of its assets and transferred certain liabilities to a company for a base price of \$875,000 plus contingent payments over a five years based on the buyer's revenues from the facilities purchased. For the year ended June 30, 2004, the earn-out amount was \$0.

10. PAYABLES AND ACCRUED LIABILITIES

	<u>The University</u>	<u>The Authority</u>	<u>UMA</u>	<u>MUFC</u>	<u>CHS</u>	<u>PEDF</u>
Accounts payable	\$ 10,619,878	\$ 23,991,462	\$ 1,358,469	\$ -	\$ 918,954	\$ 159,701
Advances	-	-	7,000,000	-	-	-
Retainages	3,444,233	255,671	-	-	427,284	-
Accrued payroll and related liabilities	5,624,201	27,359,269	5,675,850	-	-	-
Accrued interest	923,967	2,608,621	211,002	227,175	734,125	-
Other	-	73,636	956,688	-	-	-
	<u>\$ 20,612,279</u>	<u>\$ 54,288,659</u>	<u>\$ 15,202,009</u>	<u>\$ 227,175</u>	<u>\$ 2,080,363</u>	<u>\$ 159,701</u>

UMA received non-interest bearing advances from a major third party insurance carrier that were secured by claims for reimbursement against the carrier. These advances total \$7,000,000 as of June 30, 2004. Repayment was made in July, 2004.

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11. NONCURRENT LIABILITIES

Noncurrent liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
University					
General obligation bonds payable	\$ 46,550,000	\$ 12,000,000	\$ (2,565,000)	\$ 55,985,000	\$ 3,120,000
Revenue bonds payable	2,155,000	-	(2,155,000)	-	-
Capital leases payable	860,631	36,040	(258,584)	638,087	262,311
Compensated absences payable	<u>19,012,663</u>	<u>10,538,687</u>	<u>(10,380,953)</u>	<u>19,170,397</u>	<u>10,380,953</u>
Total University long-term liabilities	68,578,294	22,574,727	(15,359,537)	75,793,484	13,763,264
Retainages payable	1,436,495	2,398,749	(225,037)	3,610,207	3,444,233
Interfund payables	23,461,365	-	(1,613,698)	21,847,667	2,507,422
Federal loan program liability	<u>12,002,503</u>	<u>404,053</u>	<u>(57,284)</u>	<u>12,349,272</u>	<u>-</u>
Total University noncurrent liabilities	<u>105,478,657</u>	<u>25,377,529</u>	<u>(17,255,556)</u>	<u>113,600,630</u>	<u>19,714,919</u>
Medical University Hospital Authority					
Notes payable	12,881,827	-	(489,509)	12,392,318	508,832
Revenue bonds payable	102,835,000	-	-	102,835,000	-
Capital leases payable	<u>28,165,852</u>	<u>-</u>	<u>(8,068,005)</u>	<u>20,097,847</u>	<u>5,770,912</u>
Subtotal	143,882,679	-	(8,557,514)	135,325,165	6,279,744
Less unamortized bond discount and deferred refunding costs on revenue bonds payable	<u>(5,871,672)</u>	<u>-</u>	<u>881,819</u>	<u>(4,989,853)</u>	<u>-</u>
Total Authority noncurrent liabilities	<u>138,011,007</u>	<u>-</u>	<u>(7,675,695)</u>	<u>130,335,312</u>	<u>6,279,744</u>
University Medical Associates					
Notes payable	44,355	-	(44,355)	-	-
Direct note obligations	97,000,000	-	(2,450,000)	94,550,000	1,850,000
Interest rate swap liability	1,605,903	-	(77,084)	1,528,819	77,083
Capital leases payable	1,136,116	-	(555,707)	580,409	330,550
Structured legal settlement	1,680,000	-	(840,000)	840,000	840,000
Compensated absences payable	<u>2,127,608</u>	<u>178,370</u>	<u>-</u>	<u>2,305,978</u>	<u>1,383,587</u>
Subtotal	103,593,982	178,370	(3,967,146)	99,805,206	4,481,220
Less deferred refunding costs on direct note obligations	<u>(1,046,512)</u>	<u>-</u>	<u>49,942</u>	<u>(996,570)</u>	<u>(49,941)</u>
Total UMA noncurrent liabilities	<u>102,547,470</u>	<u>178,370</u>	<u>(3,917,204)</u>	<u>98,808,636</u>	<u>4,431,279</u>
Medical University Facilities Corporation					
Revenue bonds payable	10,819,000	-	(478,000)	10,341,000	513,000
Certificates of participation payable	13,525,000	-	(13,525,000)	-	-
Notes payable	<u>13,500,000</u>	<u>-</u>	<u>(1,000,000)</u>	<u>12,500,000</u>	<u>1,000,000</u>
Total MUFC noncurrent liabilities	<u>37,844,000</u>	<u>-</u>	<u>(15,003,000)</u>	<u>22,841,000</u>	<u>1,513,000</u>
CHS Development Company					
Notes payable	-	32,985,000	-	32,985,000	-
Unamortized premium	<u>-</u>	<u>106,963</u>	<u>(3,107)</u>	<u>103,856</u>	<u>5,171</u>
Total CHS noncurrent liabilities	<u>-</u>	<u>33,091,963</u>	<u>(3,107)</u>	<u>33,088,856</u>	<u>5,171</u>
Grand total	<u>\$ 383,881,134</u>	<u>\$ 58,647,862</u>	<u>\$ (43,854,562)</u>	<u>\$ 398,674,434</u>	<u>\$ 31,944,113</u>

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12. BONDS AND NOTES PAYABLE

Bonds Payable

At June 30, 2004, the University's bonds payable consisted of the following:

	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Balance June 30, 2004</u>
State Institution Bonds			
1991 C series dated 5/17/91	6%	03/01/06	\$ 825,000
1992 A series dated 5/1/92	5.9 – 6%	03/01/07	1,785,000
1996 A series dated 7/1/96	4.8 – 5.4%	03/01/11	1,890,000
2000 series dated 4/1/00	4.8 – 6.25%	03/01/20	25,305,000
2001 C series dated 12/01/01	4.25 – 5%	12/01/16	6,550,000
2003 D series dated 1/1/03	3.3 – 4.4%	01/01/18	7,630,000
2003 J series dated 12/1/03	3.0 – 5.0%	12/01/23	<u>12,000,000</u>
Total state institution bonds			<u>\$ 55,985,000</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. S.C. Code of Laws section 59-107-90 states that the maximum amount of annual debt service on state institution bonds for each institution shall not exceed ninety percent of the sums received from tuition fees for the preceding fiscal year. Tuition fees for the preceding year were \$11,539,062 which results in a legal debt margin at June 30, 2004, of \$10,385,156. The debt service payments for the year ended June 30, 2004, were \$5,099,318.

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

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 3,120,000	\$ 2,623,924	\$ 5,743,924
2006	3,310,000	2,466,354	5,776,354
2007	3,415,000	2,295,178	5,710,178
2008	3,055,000	2,127,424	5,182,424
2009	3,185,000	1,995,518	5,180,518
2010 - 2014	16,785,000	7,801,889	24,586,889
2015 - 2019	16,990,000	3,775,235	20,765,235
2020 - 2025	<u>6,125,000</u>	<u>586,819</u>	<u>6,711,819</u>
Total	<u>\$ 55,985,000</u>	<u>\$ 23,672,341</u>	<u>\$ 79,657,341</u>

Total principal payments on bonds for the year ended June 30, 2004 were \$2,565,000. Total interest expense relating to bonds payable for the year ended June 30, 2004 was \$2,450,588.

Hospital Facilities Refunding Revenue Bonds Payable

At June 30, 2004, the Authority's hospital facilities refunding revenue bonds payable consisted of the following:

	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Balance June 30, 2004</u>
2002A series dated 6/27/02	5.6 – 6.5%	08/15/32	\$ 102,835,000
Unamortized bond discounts and deferred losses on bond refunding			<u>(4,989,853)</u>
Total			<u>\$ 97,845,147</u>

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

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

The entire 2002 refunding transaction resulted in a deferred loss on refunding of \$5,024,809, which will be amortized to expense through

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2019 using the interest method. The deferred loss is related entirely to the in-substance defeasance of bonds payable.

The Series 2002A Refunding Bonds are secured by the unrestricted revenues (as defined) of the Authority and certain trusteed funds. Finally, related bond agreements subject the Authority to financial and nonfinancial covenants customary for such agreements.

The scheduled maturities of the bonds are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ -	\$ 6,525,681	\$ 6,525,681
2006	-	6,525,682	6,525,682
2007	-	6,525,681	6,525,681
2008	-	6,525,681	6,525,681
2009	-	6,525,681	6,525,681
2010 – 2014	5,055,000	32,329,756	37,384,756
2015 – 2019	15,660,000	28,848,611	44,508,611
2020 – 2024	21,385,000	23,132,637	44,517,637
2025 – 2029	29,370,000	15,150,938	44,520,938
2030 – 2033	<u>31,365,000</u>	<u>4,242,713</u>	<u>35,607,713</u>
Total	<u>\$ 102,835,000</u>	<u>\$ 136,333,061</u>	<u>\$ 239,168,061</u>

Direct Note Obligations

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

Proceeds of the \$55 million Series 1994 SAVRS were issued to prepay the non-cancelable lease agreement with HSF of \$37 million, pay off a bank line of credit of \$9 million, provide working capital of \$1.3 million, establish a debt service reserve of \$5.5 million, and pay issue costs of \$2.2 million. Of the \$10.7 million outstanding at year end, \$9.3 million is covered by a swap agreement, which effectively fixed the interest rate at 6.82%. Forty-three point six million of these obligations were refunded through the issuance of Series 1999B SAVRS.

The \$40 million Series 1997 SAVRS proceeds were used to finance the cost of improving, renovating and equipping Rutledge Tower, the property leased from HSF. Of these proceeds, \$35.4 million was used for leasehold improvements, \$3.4 million funded a debt service reserve fund, and \$1.2 million went to the cost of issuance. Thirty-four point four million of these obligations were refunded through the issuance of the Series 1999A SAVRS. The remaining outstanding balance of \$5.15 million at year end is not covered by a swap agreement and subject to market fluctuations.

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

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

Direct Note Obligations, Series 1994, 1997, 1999A and 1999B Select Auction Variable Rate Securities outstanding at June 30, 2004, were \$94,550,000. Debt service requirements to maturity are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 1,900,000	\$ 5,687,199	\$ 7,587,199
2006	2,400,000	5,567,706	7,967,706
2007	2,500,000	5,419,344	7,919,344
2008	2,650,000	5,266,332	7,916,332
2009	3,050,000	5,102,778	8,152,778
2010 – 2014	17,350,000	22,568,151	39,918,151
2015 – 2019	21,000,000	16,693,513	37,693,513
2020 – 2024	33,500,000	8,937,278	42,437,278
2025 – 2027	<u>10,200,000</u>	<u>1,044,613</u>	<u>11,244,613</u>
Total	<u>\$ 94,550,000</u>	<u>\$ 76,286,914</u>	<u>\$ 170,836,914</u>

The obligation is collateralized by unrestricted receivables and leasehold property leased from Health Sciences Foundation. Under the terms of the Master Trust Agreement, interest, sinking, and debt service reserve funds were established with the master trustee and will be maintained as long as the obligations remain outstanding. The agreement, among others, limits incurrence of additional borrowing, disposition of certain properties, and requires that UMA satisfy certain measures of financial performance as long as the notes are outstanding. As of June 30, 2004, UMA management believes they are in compliance with all significant requirements under the Master Trust Agreement.

UMA has entered into interest rate swap agreements to modify interest rates on a portion of its Series 1994, and all of the 1999A and

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

The SAVRS and related swap agreements mature on May 15, 2024 for the 1994 and 1999A and May 15, 2027 for the 1999B. The notional amounts as of June 30, 2004 are as follows: Series 1994 SAVRS - \$9.3 million; Series 1999A SAVRS - \$36.55 million; and Series 1999B - \$42.15 million, which agrees to the principal outstanding under the various issues except Series 1994, which has outstanding principal of \$10.7 million. Under the swap agreements, UMA pays the counterparty a fixed interest payment of 6.82% on the 1994 and 1999A SAVRS and 5.82% on the 1999B SAVRS and receives a variable payment based upon the auction rate determined every 35 days. The variable rates in effect at June 30, 2004 were 1.37% for the 1994 SAVRS, 1.25% for the 1999A SAVRS and 1.288% for the 1999B SAVRS. On May 1, 2000, these swap agreements were amended to mitigate adverse income tax consequences to the counterparty should certain triggering events occur in the future resulting in a payment to UMA of \$1,850,000 for the remaining life of the agreements. This amount is recorded as deferred revenue and is being amortized as a reduction of interest expense over the terms of the related obligations on the straight-line method. For the year ended June 30, 2004, interest expense was reduced by amortization of \$77,083.

Interest rates have declined since execution of the swap agreements resulting in the swaps having a negative fair value of (\$2,472,634) of the 1994 SAVRS, (\$9,316,576) for the 1999A SAVRS, and (\$7,314,393) for the 1999B SAVRS as of June 30, 2004. Because the interest payments on UMA's variable debt adjust to changing interest rates, the SAVRS do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swaps, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

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

Using rates in effect as of June 30, 2004, aggregate debt service requirement of variable-rate debt and net swap payments are as follows. As rates vary, variable-rate debt interest payments and net swap payments will vary.

Year Ending June 30,	SAVRS Principal	SAVRS Interest	Swap Payment, Net	Total Debt Service
2005	\$ 1,750,000	\$ 1,124,413	\$ 4,441,774	\$ 7,316,187
2006	2,300,000	1,101,137	4,348,130	7,749,267
2007	2,350,000	1,071,697	4,231,290	7,652,987
2008	2,450,000	1,041,462	4,111,291	7,602,753
2009	2,850,000	1,009,564	3,983,290	7,842,854
2010 – 2014	16,400,000	4,468,213	17,601,015	38,469,228
2015 – 2019	19,600,000	3,311,171	12,985,863	35,897,034
2020 – 2024	31,300,000	1,788,272	6,910,057	39,998,329
2025 – 2027	9,000,000	220,769	776,804	9,997,573
Total	<u>\$ 88,000,000</u>	<u>\$ 15,136,698</u>	<u>\$ 59,389,514</u>	<u>\$ 162,526,212</u>

Lease Revenue Bonds Payable

On September 20, 1995, Medical University Facilities Corporation issued lease revenue bonds series 1995A in the amount of \$12,729,000 and series 1995B in the amount of \$472,000. Related bond issue costs totaling \$356,900 were capitalized as deferred charges to be amortized over the lives of the bonds. The bonds were issued for the purpose of providing a portion of the payment for the costs of completing the acquisition and construction of the Strom Thurmond Biomedical Research Center. Interest rates range from 7.45% to 7.5%. The final maturity is in 2016, and the bonds are secured by the rental payments received under the capital lease as detailed in Note 13. The bond covenants require that MUFC establish and maintain funds with a trustee for the payment of principal and interest on the lease revenue bonds. Medical University Facilities Corporation paid \$478,000 in principal and incurred \$788,586 in interest expense on these bonds for the year ended June 30, 2004.

The scheduled maturities of the bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 513,000	\$ 761,201	\$ 1,274,201
2006	554,000	722,228	1,276,228
2007	595,000	680,200	1,275,200
2008	640,000	635,042	1,275,042
2009	689,000	586,456	1,275,456
2010 – 2014	4,311,000	2,063,999	6,374,999
2015 – 2017	3,039,000	363,164	3,402,164
Total	<u>\$ 10,341,000</u>	<u>\$ 5,812,290</u>	<u>\$ 16,153,290</u>

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Notes Payable

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

Year Ending June 30,	Principal	Interest	Total
2005	\$ 508,832	\$ 624,645	\$ 1,133,477
2006	528,155	597,931	1,126,086
2007	547,477	570,203	1,117,680
2008	571,094	547,757	1,118,851
2009	594,711	523,485	1,118,196
2010 – 2014	3,379,330	2,177,318	5,556,648
2015 – 2019	4,248,854	1,219,360	5,468,214
2020 – 2021	<u>2,013,865</u>	<u>159,944</u>	<u>2,173,809</u>
Total	<u>\$ 12,392,318</u>	<u>\$ 6,420,643</u>	<u>\$ 18,812,961</u>

On June 28, 2004, the Authority renewed its agreement with a commercial bank for working capital lines of credit totaling approximately \$23,800,000 (bank lines). Advances under the bank lines bear interest at approximately 87% of Adjusted 30-day London Interbank Offered Rate (LIBOR), as defined, and are due on demand. The bank lines are secured by gross revenues (as defined) of the Authority. The security interest of the bank lines is subordinate to the security interest of the Series 2002A Revenue Bonds. No amounts were outstanding under these facilities at June 30, 2004, and the Authority anticipates that it will renew these credit facilities with similar terms and conditions in December 2004.

UMA entered into a structured legal settlement of \$5,200,000 with the United States of America dated April 4, 2000 for damages in connection with a lawsuit brought under the False Claims Act. A \$1,000,000 principal payment was paid during the year ended June 30, 2000. The remainder of the settlement is payable in five equal annual installments of \$840,000 plus interest at 5% on each anniversary date of the settlement agreement. The scheduled maturities are as follows at June 30, 2004:

Year Ending June 30,	Principal	Interest	Total
2005	<u>\$ 840,000</u>	<u>\$ 42,000</u>	<u>\$ 882,000</u>

University Medical Associates has a line of credit a financial institution with a maximum borrowing limit of \$13,500,000 which UMA draws on for working capital. The line of credit bears interest at the 30 day LIBOR rate plus 2.75% and expires on January 31, 2004. The line of credit is secured by the unrestricted receivables of UMA. There was a total of \$13,500,000 outstanding as of June 30, 2004.

	Beginning Balance	Increases	Decreases	Ending Balance
Line of Credit	<u>\$ 15,500,000</u>	<u>\$ 13,500,000</u>	<u>\$ 15,500,000</u>	<u>\$ 13,500,000</u>

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

In connection with the loan from JEDA, MUFC entered into an interest rate swap agreement with Wachovia Bank, NA to hedge its interest rate exposure and establish a fixed rate payment. The swap agreement provides that MUFC will pay the swap provider interest on a notional amount equal to the aggregate principal amount of the loan at a fixed rate of 3.37 percent per annum and the swap provider will pay MUFC a variable rate of interest on such notional amount in an amount sufficient to pay the variable rate of interest on the loan. The notional amount at June 30, 2004, was \$12,500,000 and the variable rate in effect at that date was 1.07 percent. The swap agreement provides that the notional amount will be reduced in the same amount and at the same time the principal of the note is scheduled to be paid upon redemption or at maturity. The loan and the related swap agreement mature on January 1, 2013.

As of June 30, 2004, the swap had a fair value of \$85,501. The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. MUFC or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. Termination of the agreement would subject MUFC to the risk of fluctuating interest rates.

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As of June 30, 2004, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable rate interest payments and the net swap payment will vary.

Year ending June 30,	Variable-Rate Notes		Interest Rate	Total
	Principal	Interest	Swaps, Net	
2005	\$ 1,000,000	\$ 129,292	\$ 277,936	\$ 1,407,228
2006	1,050,000	118,369	254,385	1,422,754
2007	1,095,000	106,933	229,856	1,431,789
2008	1,145,000	94,994	204,218	1,444,212
2009	1,195,000	82,519	177,393	1,454,912
2010 - 2013	<u>7,015,000</u>	<u>186,631</u>	<u>401,160</u>	<u>7,602,791</u>
Total	<u>\$ 12,500,000</u>	<u>\$ 718,738</u>	<u>\$ 1,544,948</u>	<u>\$ 14,763,686</u>

Medical University Facilities Corporation paid \$1,000,000 in principal and incurred \$438,879 in interest expense on these notes for the year ended June 30, 2004.

On November 1, 2003, the South Carolina Jobs-Economic Development Authority issued Economic Development Revenue Bonds (CHS Development Company Project) Series 2003 in the amount of \$32,985,000 with final maturity on January 1, 2025. The proceeds were loaned to CHS Development Company and are being 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. Upon completion, the facilities will be leased to the University. Pursuant to the loan agreement, CHS is obligated to make payments in amounts sufficient to pay the principal and interest on the bonds and certain other fees and expenses. Payment of principal and interest on the bonds is insured under a financial guaranty insurance policy.

The scheduled maturities are as follows:

Year Ending June 30	Principal	Interest	Total
2005	\$ -	\$ 1,468,250	\$ 1,468,250
2006	1,100,000	1,468,250	2,568,250
2007	1,130,000	1,435,250	2,565,250
2008	1,165,000	1,401,350	2,566,350
2009	1,200,000	1,366,400	2,566,400
2010 - 2014	6,820,000	6,016,300	12,836,300
2015 - 2019	8,490,000	4,347,850	12,837,850
2020 - 2024	10,630,000	2,207,766	12,837,766
2025	<u>2,450,000</u>	<u>119,438</u>	<u>2,569,438</u>
Total	<u>\$ 32,985,000</u>	<u>\$ 19,830,854</u>	<u>\$ 52,815,854</u>

CHS Development Company incurred \$886,595 in interest expense on these notes for the year ended June 30, 2004.

PEDF has an interest free loan payable to the Health Sciences Foundation for advances in prior years of working capital. At June 30, 2004, the balance of the loan was \$5,401,567. Provisions of this debt call for voting board seats and conversion to equity rights.

13. LEASE OBLIGATIONS

The University's future commitments for capital leases and for operating leases having remaining noncancelable terms in excess of one year as of June 30, 2004, were as follows:

Year Ending June 30	Capital Leases with		Operating Leases with		
	Blended Component Unit	External Parties	Blended Component Unit	Discretely Presented Component Unit	External Parties
2005	\$ 2,684,898	\$ 295,465	\$ 2,895,375	\$ 386,713	\$ 1,236,227
2006	2,700,424	202,884	2,472,358	349,635	875,133
2007	2,709,460	194,440	1,900,414	346,264	285,131
2008	2,721,883	2,350	771,424	77,400	170,103
2009	2,732,582	-	52,887	-	137,571
2010 - 2014	13,991,143	-	-	-	51,591
2015 - 2017	<u>2,878,008</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total minimum lease payments	30,418,398	695,139	<u>\$ 8,092,458</u>	<u>\$ 1,160,012</u>	<u>\$ 2,755,756</u>
Less interest	<u>(8,800,483)</u>	<u>(57,052)</u>			
Present value of minimum lease payments	<u>\$ 21,617,915</u>	<u>\$ 638,087</u>			

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The capital leases with blended component unit are reported on the statement of net assets as due to other funds (current portion) and interfund payables (noncurrent portion).

The Authority's future commitments for capital leases and for operating leases having remaining noncancelable terms in excess of one year as of June 30, 2004, were as follows:

Year Ending June 30	Capital Leases with	Operating Leases with		
	External Parties	Blended Component Units	Discretely Presented Component Unit	External Parties
2005	\$ 6,563,163	\$ 2,778,582	\$ 1,368,173	\$ 4,542,495
2006	6,484,963	2,784,639	1,484,840	3,944,842
2007	5,725,926	2,578,894	1,484,840	2,629,660
2008	2,934,833	2,180,712	1,400,000	2,067,728
2009	-	164,307	1,400,000	1,163,647
2010 - 2014	-	-	2,916,667	4,672,387
2015 - 2017	-	-	-	3,087,108
Total minimum lease payments	21,708,885	<u>\$ 10,487,134</u>	<u>\$ 10,054,520</u>	<u>\$ 22,107,867</u>
Less interest	<u>(1,611,038)</u>			
Present value of minimum lease payments	20,097,847			
Less current portion	<u>(5,770,912)</u>			
Long term portion	<u>\$ 14,326,935</u>			

Capital Leases

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

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

The following is a summary of the carrying value of assets held under capital leases at June 30, 2004:

	Capital leases with <u>blended component units</u>	Capital leases with <u>external parties</u>
Equipment	\$ -	\$ 1,138,731
Land	2,335,580	-
Buildings	<u>45,793,923</u>	<u>-</u>
Total	48,129,503	1,138,731
Less accumulated amortization	<u>(16,890,100)</u>	<u>(277,348)</u>
Total assets acquired under capital leases, net	<u>\$ 31,239,403</u>	<u>\$ 861,383</u>

Authority equipment with original cost totaling approximately \$37,000,000 and related accumulated amortization of approximately \$8,000,000 is held under the Authority capital leases.

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

Following is an analysis of the leased property under capital leases at June 30, 2004:

	Capitalized <u>Costs</u>	Accumulated <u>Depreciation</u>	Net Book <u>Value</u>
Leasehold improvements	\$ 374,798	\$ 28,030	\$ 346,768
Computers and equipment	<u>1,129,144</u>	<u>736,934</u>	<u>392,210</u>
Total	<u>\$ 1,503,942</u>	<u>\$ 764,964</u>	<u>\$ 738,978</u>

Included in depreciation expense for the year ended June 30, 2004, was \$225,017 for these capital leases.

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The future UMA minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2004, were as follows:

Year Ending	
<u>June 30,</u>	
2005	\$ 361,291
2006	208,560
2007	<u>54,387</u>
Total minimum lease payments	624,238
Less interest	<u>(43,829)</u>
Present value of minimum lease payment	580,409
Less current portion	<u>(330,550)</u>
Long term portion	<u>\$ 249,859</u>

On January 9, 1995, UMA prepaid MUSC Health Sciences Foundation (HSF) \$37 million in connection with the acquisition of Rutledge Towers from Bon Secours St. Francis Hospital. This facility is used to house ambulatory care clinics, administrative offices and space subleased to others and includes a parking garage. This agreement was entered into because UMA's charter prohibits it from owning real estate. The lease term expires on June 30, 2027 and is renewable for successive five-year terms. This prepayment was allocated based upon appraised values as follows: (a) cost of land was recorded as prepaid rent, (b) cost of buildings and fixed equipment was recorded as building under capital lease, and (c) cost of other equipment was recorded as equipment under capital lease. In October, 2003, HSF sold a portion of the property subject to this lease agreement and refunded \$1,000,000 of the prepaid rent attributable to the agreement. These amounts are being amortized on a straight-line basis over the useful lives of 10 years for the equipment and 29.5 years for the land and building. Rent expense of \$647,484 and depreciation expense of \$770,024 was recorded for the year ending 2004. The following schedule reflects the remaining basis of assets acquired under this capital lease as of June 30, 2004.

<u>Description</u>	<u>Capitalized Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Prepaid rent – HSF	\$ 19,052,400	\$ 6,425,293	\$ 12,627,107
Building under capital lease	13,989,600	4,505,125	9,484,475
Equipment under capital lease	<u>2,958,000</u>	<u>2,810,100</u>	<u>147,900</u>
Totals	<u>\$ 36,000,000</u>	<u>\$ 13,740,518</u>	<u>\$ 22,259,482</u>

Operating Leases

The University's and the Authority's noncancelable operating leases provide for renewal options for periods from one to five years at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis. Total operating lease expense in fiscal year 2004 was approximately \$7,598,000 for the University and approximately \$14,580,000 for the Authority. The University and the Authority have an annual operating lease agreement with each other which covers space each uses in real property owned by the other. During the fiscal year the University paid the Authority \$1,105,340 and the Authority paid the University \$2,892,146 under this lease agreement. As discussed in Note 17 and Note 18, for the year ended June 30, 2004, the University and the Authority had certain other operating leases with related parties. In the current fiscal year, in addition to the operating lease expense above, the University incurred expenses of \$727,742 for office copier contingent rentals on a cost-per-copy basis.

University Medical Associates leases facilities and equipment under leases expiring at various dates from 2005 through 2019 including those facilities referred to in Note 18. Rent expense under these various agreements was \$5,037,133 in fiscal year 2004. The future minimum lease payments under UMA noncancelable leases with initial or remaining terms in excess of one year are as follows:

Year Ending	
<u>June 30,</u>	
2005	\$ 3,756,890
2006	3,588,754
2007	2,942,253
2008	2,765,903
2009	2,066,688
2010 – 2014	9,098,916
2015 – 2019	<u>3,456,644</u>
Total	<u>\$ 27,676,048</u>

UMA subleases various properties to the University and the Authority. UMA received rent of approximately \$4,400,000 for the fiscal year ended June 30, 2004 under these lease agreements. The minimum rentals to be received under non-cancelable leases with remaining terms in excess of one year are as follows:

Year Ending	
<u>June 30,</u>	
2005	\$ 5,371,677
2006	5,192,101
2007	4,254,791
2008	2,894,111
2009	<u>217,193</u>
Total	<u>\$ 17,929,873</u>

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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 Section 5MA-MC of Part IA of the 2003-2004 Appropriation Act. The following is a reconciliation of the original appropriation as enacted by the General Assembly to state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 2004:

Non-capital appropriations	
Current year's appropriations	
Original appropriations per Annual Appropriations Act	\$ 97,246,692
From Commission on Higher Education:	
Academic Endowment	43,084
Appropriation transfer from Clemson University:	
Agromedicine Program	208,461
Less 1% reduction	<u>(972,467)</u>
Total non-capital appropriations	<u>\$ 96,525,770</u>
 Capital appropriations	
Capital Improvement Bond proceeds recorded as current year revenue	<u>\$ 238,984</u>

Capital improvement bonds are issued by the State to fund improvements and expansion of various State facilities. The University is not obligated to repay these funds to the State. Authorized funds can be requested as needed once State authorities have given approval to begin specific projects and project expenses have been incurred. The University has authorized state capital improvement bond funds at June 30, 2004, of approximately \$14,700,000. In fiscal year 2004, the University received capital improvement bond proceeds of \$56,084 and recorded a receivable at June 30, 2004, of \$182,900.

Proviso 72.41 of the 2003-2004 Appropriation Act authorized each agency to bring forward unspent State General Fund appropriations from the prior year into the current fiscal year up to a maximum of ten percent of its original appropriation less any appropriation reductions. Agencies which have separate carry-forward authority had to exclude the amount brought forward by such separate authority from their base for purposes of calculating the ten percent carry-forward. Pursuant to this proviso, the University carried forward \$111 to fiscal year 2005.

15. MEDICARE AND MEDICAID COST REIMBURSEMENTS

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

Substantially all of the Authority's inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Additionally, the Authority is reimbursed for both its direct and indirect medical education costs (as defined), based principally on per-resident prospective payment amounts and certain adjustments to prospective rate-per-discharge operating reimbursement payments. The Authority generally is reimbursed for retroactively determined items at a tentative rate, with final settlement determined after submission of annual cost reports by the Authority and audits by the Medicare fiscal intermediary. The Authority's cost reports have been audited and initially settled for all fiscal years through fiscal 2001.

Revenue from the Medicare program accounted for approximately 26.1% of the Authority's net patient service revenue for the year ended June 30, 2004.

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

The Authority participates in a voluntary contribution program available to certain qualifying hospitals in the South Carolina Medicaid program. Amounts received or accrued by the Authority in excess of amounts paid into this program totaled approximately \$77.7 million in fiscal 2004. The net reimbursement benefits associated with this program are recognized as reductions in related contractual adjustments in the accompanying statement of revenues, expenses, and changes in net assets. There can be no assurance that the Authority will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified. Any material reduction in such funds would have a correspondingly material adverse effect on the Authority's operations.

Revenue from the Medicaid program including net disproportionate share payments described above, accounted for approximately 29.7% of the Authority's net patient service revenue for the year ended June 30, 2004.

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16. INCOME TAXES

The blended component units of University Medical Associates are entities subject to federal and state income taxes. However, they had cumulative estimated net operating loss carryovers totaling approximately \$38,100,000 which may be offset against future taxable income of the respective companies.

Approximately \$6,200,000 in 2011, \$8,300,000 in 2012, \$9,800,000 in 2013, \$9,500,000 in 2019, \$1,600,000 in 2020, \$500,000 in 2021, \$1,600,000 in 2022, and \$600,000 in 2023, will expire if unused by those years. No tax benefit has been reported in the 2004 financial statements due to the uncertainty regarding future taxable income of the component units.

17. BLENDED COMPONENT UNITS

Due To/From Other Funds

The following is a summary of the receivables and payables between the University and the blended component units and among the blended component units at June 30, 2004:

	Due from	Due (to)
The University		
Medical University Hospital Authority	\$ 15,926,344	\$ -
CHS Development Company	136,914	-
University Medical Associates	-	(8,575,747)
Medical University Facilities Corporation - current	-	(2,277,670)
	\$ 16,063,258	\$ (10,853,417)
Medical University Facilities Corporation - noncurrent		\$ (19,340,245)
Medical University Hospital Authority		
The University		\$ (15,926,344)
University Medical Associates		(510,796)
		\$ (16,437,140)
University Medical Associates		
The University	\$ 8,575,747	
Medical University Hospital Authority	510,796	
	\$ 9,086,543	
Medical University Facilities Corporation		
The University - current restricted	\$ 2,277,670	
The University - noncurrent restricted	\$ 19,340,245	
CHS Development Company		
The University		\$ (136,914)
Pharmaceutical Education and Development Company		
The University		\$ (162,337)
University Medical Associates		(2,280,356)
		\$ (2,442,693)

As of June 30, 2004, the University and UMA have written off as uncollectible the receivables from PEDF of \$162,337 and \$2,280,356, respectively.

Medical University Hospital Authority

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

The Authority paid the University \$60,085,626 during the fiscal year ended June 30, 2004 for interns and residents, professional services of the College of Medicine, physical plant, rent, public safety, and other administrative and financial services. Also during the fiscal year, the Authority made nonmandatory transfers to the University of \$552,241 for academic support. The University paid the Authority approximately \$1,925,000 during the fiscal year ended June 30, 2004 for rent, various administrative and support services.

The Authority owed the University \$15,926,344 at June 30, 2004.

The Authority was party to certain agreements executed in March, 2004 between the University and Charleston County, South Carolina

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related to the sale of a parking garage and associated real property. The University agreed, with and on behalf of its affiliate, the Authority, to deposit \$6.8 million into an escrow account in May, 2004 in association with the anticipated consummation of the purchase and sale transaction. Such deposit is included in prepaid items in the accompanying statement of net assets of June 30, 2004, with an accompanying amount recorded as an obligation to the University in due to related parties. Subsequent to June 30, 2004, this obligation to the University was settled.

University Medical Associates

Revenues of University Medical Associates are available to pay operating expenses of UMA and support activities of the academic departments at The Medical University of South Carolina including faculty and staff compensation. Any excess may be paid to the University or retained within UMA for future use. For the year ended June 30, 2004, pursuant to this practice, UMA provided support to the University which totaled \$15,741,152. This amount is reported as interfund transfers.

The University, the Authority, and UMA have entered into agreements whereby UMA will be reimbursed an annual fixed amount for providing an environment for clinical education and research for University residents and students. UMA shall be entitled to reimbursement for, but not limited to expenses for facilities necessary to perform these agreements, personnel costs, insurance, necessary supplies and equipment, and necessary capital improvements. The parties agree each year to an estimated budget, to be paid ratably over the year to UMA as reimbursement of its costs. For the fiscal year ending June 30, 2004, the University paid UMA \$800,000 and the Authority paid UMA \$7,746,550.

The University and UMA entered into an agreement on April 20, 2003 whereby UMA will provide patient care to Medicaid recipients in appropriate clinical and educational settings. The University will reimburse UMA in an amount equal to the supplemental payment made to the University by the South Carolina Department of Health and Human Services (SC DHHS). Payments to the University from SC DHHS are made in accordance with the State plan amendment which provides reimbursement for inherent inefficiencies of providing care to Medicaid patients while instructing medical students. For the fiscal year ended June 30, 2004, the University reported income of \$16,231,713 from SC DHHS and expense to UMA of \$16,109,221.

The Authority and UMA entered into an agreement to provide a facility to treat patients with digestive diseases. The agreement is renewed annually and can be terminated upon 180 days written notice. UMA has responsibility for the management of the daily operations of the center. The Authority reimburses UMA for certain direct costs of the operation. During fiscal year 2004, UMA under this agreement received from the Authority \$91,190.

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

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

Billing functions under the Ambulatory Patient Care and Clinical Education Agreements are performed by the Authority except for pharmacy charges and certain supplies charges that were billed by UMA until the Authority billing system became operational during the fiscal year ended June 30, 2000. UMA continues the process of collecting and remitting these bills to the Authority for these prior year receivables less a collection fee. During the year ended June 30, 2004, UMA remitted collections net of refunds of \$128,476 and net of collection fees of \$34,028.

On February 7, 2003, the UMA department of Psychiatry and Behavioral Sciences and the Authority entered into an agreement that created the Institute of Psychiatry to provide psychiatric services to indigent and under-funded patients of the psychiatric and substance abuse treatment programs of the Authority. The agreement is renewed annually and can be terminated by any party upon 365 days written notice. UMA has the responsibility for management of the daily operations of the Clinical Enterprise. An annual budget is prepared and approved by both parties with monthly settlement of any expenses in excess of patient service revenues collected. Any gain from operations is paid over to the Authority to cover facility costs and overhead expenses. Annually the operations of the Clinical Enterprise will be reviewed against goals established at the beginning of each year. Based upon this assessment, the Authority will transfer an agreed upon amount of academic support to the University and UMA. For the year ended June 30, 2004, this academic support to be received from the Authority has not been determined.

The University amounts due (to) from UMA as of June 30, 2004, are as follows:

Parking fees receivable	\$ 18,486
Other receivables	29,323
Rent	(52,713)
Other payables	(88,079)
Settlement costs, including accrued interest	(255,169)
Medicaid supplemental reimbursement	<u>(8,227,595)</u>
Net due (to) UMA	<u>\$ (8,575,747)</u>

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The Authority amounts due (to) from UMA as of June 30, 2004, are as follows:

Psychiatry Clinical Education Agreement	\$ 509,653
Rent	123,563
Ambulatory Care Clinical Education Agreement	102,581
Other payables	(281,521)
Salary reimbursement	(106,543)
Settlement costs, including accrued interest	<u>(858,529)</u>
Due (to) UMA	<u>\$ (510,796)</u>

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

Medical University Facilities Corporation

For the year ended June 30, 2004, pursuant to the trust agreements, MUFC transferred \$41,008 of excess funds on deposit to the University.

CHS Development Company

On November 1, 2003, CHS Development Company entered into a ground lease agreement with Health Sciences Foundation as part of a plan of financing the development, renovation and equipping of the former Charleston High School building and the development, construction and equipping of buildings and other improvements on the land for the University. The renovation and construction is being done by CHS through the issuance of Economic Development Revenue Bonds. The ground lease required CHS to prepay rent of \$3,140,000 to HSF. The prepayment is being amortized on a straight line basis over 20 years. Amortization expense of \$91,203 was recorded for the year ended June 30, 2004. The lease terminates on the earlier of December 1, 2035, or the payment in full on the bonds. On November 1, 2003, CHS also entered into a lease agreement with the University. Under the terms of the agreement, the University will lease from CHS the site and all improvements thereon, including the buildings. The term of the lease commences on March 1, 2005, and ends on January 1, 2025.

Pharmaceutical Education and Development Foundation

UMA provided payroll and personnel functions to PEDF. PEDF was to reimburse UMA for all funds expended on its behalf plus an administrative fee of one and one-half percent. This agreement was terminated as of November 30, 2002. As of June 30, 2004, the amount due to UMA from PEDF is \$2,280,356. UMA has written this receivable down to zero to agree with its best estimate of future collections of the receivable. UMA's management will pursue its rights under the terms of the agreements.

During the year ended June 30, 2004, PEDF received loans in the amount of \$38,775 from Health Sciences Foundation. At June 30, 2004, PEDF owes HSF \$5,401,567 for advances of working capital in current and prior years. HSF has written this receivable down to zero, as HSF management is unable to determine if or when future payments will be received.

At June 30, 2004, PEDF has deficit net assets of \$(7,998,361). Substantially all its assets were sold on July 1, 2001. Any future contingent payments under this sale agreement will be applied to reduce the existing liabilities.

18. DISCRETELY PRESENTED COMPONENT UNITS

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

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

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

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

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

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

MFRD recognizes grant and contract revenue based upon work performed at the reporting date under specific contract terms. License

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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.

Due To/From Component Units

The following is a summary of the receivables and payables between the primary entity and the discretely presented component units and among the discretely presented component units at June 30, 2004:

	Due from (to)
The University	
Health Sciences Foundation	\$ 761,426
MUSC Foundation for Research Development	1,309,843
	<u>\$ 2,071,269</u>
University Medical Associates	
Health Sciences Foundation	<u>\$ (116,170)</u>
Pharmaceutical Education and Development Foundation	
Health Sciences Foundation	<u>\$ (5,401,567)</u>
Health Sciences Foundation	
The University	\$ (761,426)
University Medical Associates	116,170
	<u>\$ (645,256)</u>
MUSC Foundation for Research Development	
The University	<u>\$ (1,309,843)</u>

As of June 30, 2004, Health Sciences Foundation has written off as uncollectible the receivable of \$5,401,567 from PEDF.

Health Sciences Foundation

The University provides office space and pays certain administrative costs for HSF. The total value of these items was \$174,123 in fiscal year 2004. The University was not reimbursed for these costs. HSF provided support to the University for general and department expenses which totaled \$13,634,154 in fiscal year 2004. The University records this revenue as gifts and the amount due at June 30, 2004 is \$761,426. In addition, the University received from HSF \$1,052,624 in donated equipment. HSF leased various properties to the University, to the Authority, and to UMA in fiscal year 2004.

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

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

Also, the Health Sciences Foundation provided funds on an interest free basis to PEDF to provide working capital. Provisions of this debt call for voting board seats and conversion to equity rights. At June 30, 2004, HSF wrote off its receivable from PEDF by \$2,804,704. The HSF receivable from PEDF is \$0 at June 30, 2004.

Foundation for Research Development

MUSC Foundation for Research Development's (MFRD) consolidated financial statements include the amounts of MFRD and its wholly owned, for-profit subsidiary Charleston Health Institute (CHI). CHI was incorporated in April, 2002 as a state-of-the-art prevention, wellness and executive health program. Operations of CHI terminated effective April 26, 2003 due to losses sustained. During the year ended June 30, 2004, supplies and equipment owned by CHI were disposed of and vendors were paid. Notes payable to investors and the associated accrued interest were written off.

MFRD and the University have an affiliation agreement which outlines activities requiring MUSC Board approval, conflict of interest, dissolution, insurance, and indemnity. Additionally, the agreement requires an annual accounting of the State property, personnel, and resources used directly by MFRD, as well as, reimbursement or demonstration that adequate in kind reimbursement through provision of funds or services to the University has been made. The value of the State resources utilized by MFRD is estimated to be \$211,886 and is reported as an MFRD in-kind donation and expense. The value is calculated using actual personnel costs prorated by MFRD effort plus an

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overhead allocation. During the fiscal year ended June 30, 2004, MFRD provided services to the University which offset the support provided.

MFRD entered into a contract with the University to provide management services for research activities and intellectual property activities. The contracts provide for annual payments of \$520,000. For the fiscal year ended June 30, 2004, MFRD recognized income of \$520,000 from this contract.

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

MFRD recorded the corpus of the Healthy South Carolina funds as a liability to the University, and the University has this amount of approximately \$870,000 recorded as due from MFRD at June 30, 2004. These funds have been subawarded for research and other activities performed by University faculty members. Funds are returned to the University as expenses are incurred by the University for these subawards.

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

19. RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

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

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

UMA and its component units have established an employee benefit plan to self-insure employees for health, accident, and dental expenses. Life insurance benefits are insured through commercial insurance companies. UMA records an estimated liability for incurred but not reported claims based on estimates of the ultimate cost of reported claims using the gross method. The estimated claims liability at June 30, 2004 was \$267,576. This amount is included as other accrued liabilities on the Statement of Net Assets.

Changes in the incurred but not reported claims liability for fiscal year ended June 30, 2004 and 2003 were as follows:

	UMA
Liability balance, July 1, 2002	\$ 448,675
Claims and changes in estimate	3,384,009
Claims payments	<u>3,563,605</u>
Liability balance, June 30, 2003	269,079
Claims and changes in estimate	3,794,560
Claims payments	<u>(3,796,063)</u>
Liability balance, June 30, 2004	<u>\$ 267,576</u>

20. INFORMATION FOR STATEMENT OF ACTIVITIES

The following information is presented with comparative fiscal year 2003 amounts for use in the State's government-wide Statement of Activities.

	2004	2003	Increase/ (Decrease)
The University			
Charges for services	\$ 254,279,485	\$ 237,038,195	\$ 17,241,290
Operating grants and contributions	25,977,827	23,637,649	2,340,178
Capital grants and contributions	25,780,488	10,154,446	15,626,042
Less: expenses	<u>(367,210,443)</u>	<u>(370,331,445)</u>	<u>3,121,002</u>
Net program revenue (expense)	<u>(61,172,643)</u>	<u>(99,501,155)</u>	<u>38,328,512</u>
Transfers			
State appropriations	96,525,770	108,201,184	(11,675,414)
Capital improvement bond proceeds	238,984	2,341,207	(2,102,223)
Other transfers in from state agencies/funds	16,334,401	16,601,790	(267,389)
Less: transfers out to state agencies/funds	<u>(255,228)</u>	<u>(127,986)</u>	<u>(127,242)</u>
Total general revenue and transfers	<u>112,843,927</u>	<u>127,016,195</u>	<u>(14,172,268)</u>
Change in net assets	51,671,284	27,515,040	24,156,244
Net assets - beginning	203,836,539	176,321,499	27,515,040
Net assets - ending	<u>\$ 255,507,823</u>	<u>\$ 203,836,539</u>	<u>\$ 51,671,284</u>
The Authority			
Charges for services	\$ 578,827,349	\$ 535,211,188	\$ 43,616,161
Operating grants and contributions	9,783,754	13,176,209	(3,392,455)
Less: expenses	<u>(571,916,157)</u>	<u>(529,861,579)</u>	<u>(42,054,578)</u>
Net program revenue (expense)	<u>16,694,946</u>	<u>18,525,818</u>	<u>(1,830,872)</u>
Transfers			
Transfers out to state agencies/funds	<u>(552,241)</u>	<u>(5,810,171)</u>	<u>5,257,930</u>
Total general revenue and transfers	<u>(552,241)</u>	<u>(5,810,171)</u>	<u>5,257,930</u>
Change in net assets	16,142,705	12,715,647	3,427,058
Net assets - beginning	164,021,556	151,305,909	12,715,647
Net assets - ending	<u>\$ 180,164,261</u>	<u>\$ 164,021,556</u>	<u>\$ 16,142,705</u>
University Medical Associates			
Charges for services	\$ 169,228,490	\$ 184,452,959	\$ (15,224,469)
Operating grants and contributions	8,493,710	10,496,515	(2,002,805)
Less: expenses	<u>(144,873,418)</u>	<u>(159,583,921)</u>	<u>14,710,503</u>
Net program revenue (expense)	<u>32,848,782</u>	<u>35,365,553</u>	<u>(2,516,771)</u>
Transfers			
Transfers out to state agencies/funds	(15,741,152)	(10,756,917)	(4,984,235)
Special items	-	(457,464)	457,464
Extraordinary items	-	927,080	(927,080)
Total general revenue and transfers	<u>(15,741,152)</u>	<u>(10,287,301)</u>	<u>(5,453,851)</u>
Change in net assets	17,107,630	25,078,252	(7,970,622)
Net assets - beginning	26,720,969	1,642,717	25,078,252
Net assets - ending	<u>\$ 43,828,599</u>	<u>\$ 26,720,969</u>	<u>\$ 17,107,630</u>

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

	2004	2003	Increase/ (Decrease)
Medical University Facilities Corporation			
Operating grants and contributions	\$ 1,362,720	\$ 1,909,609	\$ (546,889)
Less: expenses	<u>(1,561,869)</u>	<u>(1,939,881)</u>	<u>378,012</u>
Net program revenue (expense)	<u>(199,149)</u>	<u>(30,272)</u>	<u>(168,877)</u>
Transfers			
Transfers out to state agencies/funds	<u>(41,008)</u>	<u>(34,702)</u>	<u>(6,306)</u>
Total general revenue and transfers	<u>(41,008)</u>	<u>(34,702)</u>	<u>(6,306)</u>
Change in net assets	(240,157)	(64,974)	(175,183)
Net assets - beginning	1,333,126	1,398,100	(64,974)
Net assets - ending	<u>\$ 1,092,969</u>	<u>\$ 1,333,126</u>	<u>\$ (240,157)</u>
CHS Development Company			
Operating grants and contributions	\$ 187,265	\$ -	\$ 187,265
Less: expenses	<u>(1,182,039)</u>	<u>-</u>	<u>(1,182,039)</u>
Net program revenue (expense)	<u>(994,774)</u>	<u>-</u>	<u>(994,774)</u>
Transfers			
Transfers out to state agencies/funds	<u>-</u>	<u>-</u>	<u>-</u>
Total general revenue and transfers	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	(994,774)	-	(994,774)
Net assets - beginning	-	-	-
Net assets - ending	<u>\$ (994,774)</u>	<u>\$ -</u>	<u>\$ (994,774)</u>
Pharmaceutical Education and Development Foundation			
Operating grants and contributions	\$ 1,834	\$ 105,422	\$ (103,588)
Less: expenses	<u>(510,625)</u>	<u>(267,170)</u>	<u>(243,455)</u>
Net program revenue (expense)	<u>(508,791)</u>	<u>(161,748)</u>	<u>(347,043)</u>
Transfers			
Transfers out to state agencies/funds	<u>-</u>	<u>-</u>	<u>-</u>
Total general revenue and transfers	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	(508,791)	(161,748)	(347,043)
Net assets - beginning	(7,489,570)	(7,327,822)	(161,748)
Net assets - ending	<u>\$ (7,998,361)</u>	<u>\$ (7,489,570)</u>	<u>\$ (508,791)</u>

21. OPERATING EXPENSES BY FUNCTION

Operating expenses of the University by functional classification for the year ended June 30, 2004, are as follows:

	Compensation and Employee Benefits	Services and Supplies	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 79,307,138	\$ 40,727,864	\$ 986	\$ 1,181,869	\$ -	\$ 121,217,857
Research	71,269,100	35,720,524	21,639	2,504,300	-	109,515,563
Public service	17,694,185	7,466,831	6,026	282,860	-	25,449,902
Academic support	17,898,831	6,243,990	6,211	51,158	-	24,200,190
Student services	5,925,826	1,429,853	3,385	50,684	-	7,409,748
Institutional support	17,289,154	12,050,123	89,831	3,168	-	29,432,276
Operation and maintenance of plant	14,520,571	9,722,814	5,293,479	-	11,760,956	41,297,820
Scholarships and fellowships	-	-	-	1,676,381	-	1,676,381
Auxiliary enterprises	984,354	2,181,826	103,923	-	-	3,270,103
	<u>\$ 224,889,159</u>	<u>\$ 115,543,825</u>	<u>\$ 5,525,480</u>	<u>\$ 5,750,420</u>	<u>\$ 11,760,956</u>	<u>\$ 363,469,840</u>

22. RESTATEMENT OF NET ASSETS

UMA's net assets balance as of June 30, 2003 has been reduced by \$693,530 to reflect a correction in the obligation to various states and other parties for unclaimed property. Improved information systems and more rigorous processes for identifying unclaimed property resulted in identification of additional unclaimed property which should have been recorded in prior years.

23. SUBSEQUENT EVENTS

On October 7, 2004, UMA entered into an agreement with the Authority to provide assistance with respect to the financing of a new hospital facility. This assistance will be in the form of an \$11 million line of credit with a major bank made available to the Authority to cover any negative arbitrage during the construction phase of the hospital and until the Authority can fully fund a \$20 million Special Reserve Fund required by the bond insurers. The issuance of this line of credit facility is contingent upon the approval to issue as parity debt and the imposition of no additional restrictive covenants by MBIA, the insurer for the outstanding Select Auction Variable Rate Securities. Any draws against the line of credit will be repaid and any expenses of obtaining and maintaining the line of credit shall be reimbursed within six months after construction is substantially complete and the Special Reserve Fund is fully funded or within six years of construction beginning, unless specifically authorized by the UMA board.

The Authority is in the process of structuring a transaction to facilitate the issuance of \$401 million Series A Tax Exempt and Series B Taxable Bonds for the purpose of financing the construction of new hospital facilities, refunding the outstanding mortgage payable to Charleston County, purchasing and defeasing certain outstanding Hospital Facilities Revenue Bonds Series 2002A, funding a debt service fund, and paying certain transaction costs. While the Authority hopes to issue new bonds late in calendar 2004, there can be no assurances given that this financing transaction will in fact be consummated.

At its August, 2004, meeting the board of directors of Medical University Facilities Corporation authorized the creation of a limited liability company to provide funding for the acquisition of a central energy plant to provide steam and chilled water exclusively for the use and benefit of a new hospital to be constructed by Medical University Hospital Authority. The funding will be provided by the issuance by the South Carolina Jobs-Economic Development Authority of its not exceeding \$61,000,000 principal amount Economic Development Revenue Bonds (MUFC Central Energy Plant Project) proceeds of which will be loaned to the limited liability company or to MUFC.

In August, 2004, Health Sciences Foundation established Parking Garage Associates, LLC, a wholly owned limited liability company (the LLC). The LLC acquired a parking garage at Calhoun Street and Lockwood Boulevard in Charleston, South Carolina from Charleston County for approximately \$16 million. The acquisition was financed with a one year bridge loan. The loan is secured by a first mortgage on the real estate and assignment of lease and operating revenues of the facility. Principal on the loan is payable at maturity, provided all excess cash flow, defined as net operating income after interest payments, shall be applied to principal. HSF has executed a lease agreement with the Authority for use of the garage, which the University will manage and operate.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

**COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS**

June 30, 2004

	<u>Medical University Facilities Corporation</u>	<u>CHS Development Company</u>	<u>Pharmaceutical Education and Development Foundation</u>	<u>Total Nonmajor Enterprise Funds</u>
ASSETS				
Current Assets				
Cash and cash equivalents	\$ -	\$ -	\$ 1,057	\$ 1,057
Receivables, net	6,692	36,573	-	43,265
Prepaid items	-	151,807	4,543	156,350
Restricted assets				
Cash and cash equivalents	54,495	8,306,432	-	8,360,927
Investments	316,177	11,172,489	-	11,488,666
Due from other funds	2,277,670	-	-	2,277,670
Other current assets	<u>63,903</u>	<u>58,944</u>	<u>-</u>	<u>122,847</u>
Total current assets	<u>2,718,937</u>	<u>19,726,245</u>	<u>5,600</u>	<u>22,450,782</u>
Noncurrent Assets				
Restricted assets				
Cash and cash equivalents	1,350,000	2,569,519	-	3,919,519
Investments	213,000	-	-	213,000
Interfund receivables	19,340,245	-	-	19,340,245
Prepaid items	-	2,896,990	-	2,896,990
Capital assets, net of accumulated depreciation	-	7,993,764	-	7,993,764
Other noncurrent assets	<u>538,962</u>	<u>1,124,841</u>	<u>-</u>	<u>1,663,803</u>
Total noncurrent assets	<u>21,442,207</u>	<u>14,585,114</u>	<u>-</u>	<u>36,027,321</u>
Total assets	<u>24,161,144</u>	<u>34,311,359</u>	<u>5,600</u>	<u>58,478,103</u>
LIABILITIES				
Current liabilities				
Payables and accrued liabilities	227,175	2,080,363	159,701	2,467,239
Due to other funds	-	136,914	2,442,693	2,579,607
Due to affiliated entities	-	-	5,401,567	5,401,567
Long-term liabilities	<u>1,513,000</u>	<u>5,171</u>	<u>-</u>	<u>1,518,171</u>
Total current liabilities	<u>1,740,175</u>	<u>2,222,448</u>	<u>8,003,961</u>	<u>11,966,584</u>
Noncurrent liabilities				
Long-term liabilities	<u>21,328,000</u>	<u>33,083,685</u>	<u>-</u>	<u>54,411,685</u>
Total noncurrent liabilities	<u>21,328,000</u>	<u>33,083,685</u>	<u>-</u>	<u>54,411,685</u>
Total liabilities	<u>23,068,175</u>	<u>35,306,133</u>	<u>8,003,961</u>	<u>66,378,269</u>
NET ASSETS				
Restricted				
Expendable for				
Debt service	1,092,969	-	-	1,092,969
Unrestricted	<u>-</u>	<u>(994,774)</u>	<u>(7,998,361)</u>	<u>(8,993,135)</u>
Total net assets (deficit)	<u>\$ 1,092,969</u>	<u>\$ (994,774)</u>	<u>\$ (7,998,361)</u>	<u>\$ (7,900,166)</u>

See accompanying independent auditors' report.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
NONMAJOR ENTERPRISE FUNDS**

For the Year Ended June 30, 2004

	Medical University Facilities Corporation	CHS Development Company	Pharmaceutical Education and Development Foundation	Total Nonmajor Enterprise Funds
Operating revenues				
Interest income (used as security for revenue bonds and notes)	\$ 1,362,720	\$ 187,265	\$ -	\$ 1,549,985
Total operating revenues	1,362,720	187,265	-	1,549,985
Operating expenses				
Services and supplies	-	168,828	510,625	679,453
Interest expense	1,227,466	886,595	-	2,114,061
Bond redemption premium	270,500	-	-	270,500
Depreciation and amortization	63,903	126,616	-	190,519
Total operating expenses	1,561,869	1,182,039	510,625	3,254,533
Operating income (loss)	(199,149)	(994,774)	(510,625)	(1,704,548)
Nonoperating revenues (expenses)				
Investment income	-	-	1,834	1,834
Net nonoperating revenues (expenses)	-	-	1,834	1,834
Income (loss) before other revenues, expenses, gains, losses, and transfers	(199,149)	(994,774)	(508,791)	(1,702,714)
Interfund transfers	(41,008)	-	-	(41,008)
Increase (decrease) in net assets	(240,157)	(994,774)	(508,791)	(1,743,722)
Net assets (deficit) at beginning of year	1,333,126	-	(7,489,570)	(6,156,444)
Net assets (deficit) at end of year	\$ 1,092,969	\$ (994,774)	\$ (7,998,361)	\$ (7,900,166)

See accompanying independent auditors' report.

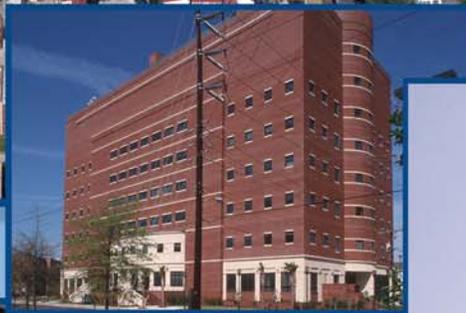
THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

**COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
For the Year Ended June 30, 2004**

	Medical University Facilities Corporation	CHS Development Company	Pharmaceutical Education and Development Foundation	Total Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Payments to suppliers	\$ -	\$ (3,308,828)	\$ (366,719)	\$ (3,675,547)
Net cash provided (used) by operating activities	-	(3,308,828)	(366,719)	(3,675,547)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interfund transfers	(41,008)	-	-	(41,008)
Loan from component unit	-	-	38,775	38,775
Principal paid on bonds, notes, and certificates of participation	(15,003,000)	-	-	(15,003,000)
Interest paid on bonds, notes, and certificates of participation	(1,733,778)	-	-	(1,733,778)
Bond redemption premium paid	(270,500)	-	-	(270,500)
Payment of agent fees and bond issuance costs	(9,973)	-	-	(9,973)
Net cash provided (used) by noncapital financing activities	(17,058,259)	-	38,775	(17,019,484)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from capital debt	-	33,169,454	-	33,169,454
Purchases of capital assets	-	(6,510,613)	-	(6,510,613)
Interest paid on capital debt and leases	-	(233,068)	-	(233,068)
Payment of fees and issuance cost	-	(1,219,197)	-	(1,219,197)
Net cash provided (used) by capital and related financing activities	-	25,206,576	-	25,206,576
CASH FLOWS FROM INVESTING ACTIVITIES				
Collection of interfund receivables	1,369,082	-	-	1,369,082
Interest received on interfund receivables	1,324,355	-	-	1,324,355
Purchases of investments	(1,159,290)	(11,172,489)	-	(12,331,779)
Proceeds from sales and maturities of investments	1,159,281	-	-	1,159,281
Interest on investments	38,850	150,692	1,834	191,376
Net cash provided (used) by investing activities	2,732,278	(11,021,797)	1,834	(8,287,685)
Net increase (decrease) in cash and cash equivalents	(14,325,981)	10,875,951	(326,110)	(3,776,140)
Cash and cash equivalents at beginning of year	15,730,476	-	327,167	16,057,643
Cash and cash equivalents at end of year	\$ 1,404,495	\$ 10,875,951	\$ 1,057	\$ 12,281,503
Cash and cash equivalents is reported in the following Statement of Net Assets captions				
Current Assets	\$ -	\$ -	\$ 1,057	\$ 1,057
Restricted assets	54,495	8,306,432	-	8,360,927
Noncurrent restricted assets	1,350,000	2,569,519	-	3,919,519
Total cash and cash equivalents	\$ 1,404,495	\$ 10,875,951	\$ 1,057	\$ 12,281,503
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ (199,149)	\$ (994,774)	\$ (510,625)	(1,704,548)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation and amortization	63,903	126,616	-	190,519
Interest income	(1,362,720)	(187,265)	-	(1,549,985)
Interest expense	1,227,466	886,595	-	2,114,061
Bond redemption premium	270,500	-	-	270,500
Changes in assets and liabilities				
Prepaid items	-	(3,140,000)	(4,543)	(3,144,543)
Payables and accrued liabilities	-	-	148,449	148,449
Net cash provided (used) by operating activities	\$ -	\$ (3,308,828)	\$ (366,719)	\$ (3,675,547)

See accompanying independent auditors' report.

Statistical Section



ACCREDITATION STATEMENT

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

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

SCHEDULE OF REVENUES BY SOURCE (UNIVERSITY ONLY)

LAST THREE FISCAL YEARS

(DOLLARS IN THOUSANDS)

	For the Year Ended June 30,		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Revenues			
Student tuition and fees (net of scholarship allowances)	\$ 27,217	\$ 22,587	\$ 21,100
Federal operating grants and contracts	115,469	103,271	83,239
State operating grants and contracts	3,393	2,765	3,292
Local operating grants and contracts	170	228	247
Nongovernmental operating grants and contracts	14,711	15,116	19,239
Interfund services	60,086	55,822	51,425
Sales and services of educational and other activities	27,396	31,279	10,979
Auxiliary enterprises	5,838	5,971	5,178
Other operating revenues	<u>9,506</u>	<u>10,141</u>	<u>9,432</u>
Total operating revenues	<u>263,786</u>	<u>247,180</u>	<u>204,131</u>
Nonoperating Revenues and Other Revenues			
State appropriations	96,526	108,201	121,242
Gifts and grants	14,452	10,769	11,845
Investment income	605	2,727	2,667
Capital appropriations	239	2,341	1,164
Capital grants and gifts	25,780	10,155	6,258
Interfund transfers	<u>16,334</u>	<u>16,602</u>	<u>9,071</u>
Total nonoperating revenues	<u>153,936</u>	<u>150,795</u>	<u>152,247</u>
Total revenues	<u>\$ 417,722</u>	<u>\$ 397,975</u>	<u>\$ 356,378</u>

Note: Due to reporting format and definition changes prescribed by Governmental Standards Statements No. 34 and 35, only information for fiscal years 2002 through 2004 is available.

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

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

SCHEDULE OF EXPENSES BY OBJECT (UNIVERSITY ONLY)

LAST THREE FISCAL YEARS

(DOLLARS IN THOUSANDS)

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

Note: Due to reporting format and definition changes prescribed by Governmental Standards Statements No. 34 and 35, only information for fiscal years 2002 through 2004 is available.

Source: The Medical University of South Carolina financial statements.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

ENROLLMENT STATISTICS
LAST TEN ACADEMIC YEARS
(FALL ENROLLMENTS)

	2003	2002	2001	2000
LEVEL				
Undergraduate	322	357	400	409
Graduate	898	865	888	944
First Professional	1085	1041	1009	1004
STATUS				
Full-Time	2034	1989	1899	2055
Part-Time	271	274	398	302
ORIGIN				
In State	1901	1878	1941	1979
Out of State	363	348	318	341
Foreign	41	37	38	37
RACE				
Caucasian	1836	1816	1821	1873
African American	214	218	267	273
Asian	110	106	108	91
Hispanic	35	25	20	20
Other	110	98	81	100
GENDER				
Women	1481	1438	1482	1488
Men	824	825	815	869
COLLEGES				
Medicine	604	585	574	580
Pharmacy	265	242	227	210
Nursing	364	324	374	372
Graduate Studies	218	214	176	178
Dental Medicine	216	214	208	214
Health Professions	613	661	695	747
Non-Degree Seeking	25	23	43	56
Total enrollment	2305	2263	2297	2357

Source: Office of Enrollment Services

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

<i>Fall Enrollments</i>					
1999	1998	1997	1996	1995	1994
422	505	596	682	918	904
993	931	860	807	562	574
968	919	870	849	799	792
1792	1949	1895	1922	1887	1848
591	406	431	416	392	422
1966	1946	1932	1919	1869	1984
387	369	340	360	345	207
30	40	54	59	65	79
1873	1892	1888	1926	1892	1912
255	245	201	180	173	154
108	99	86	81	78	74
24	21	26	22	23	21
123	98	125	129	113	109
1523	1454	1383	1325	1317	1344
860	901	943	1013	962	926
580	576	584	588	572	572
176	185	181	212	219	253
399	408	407	410	399	383
221	225	222	257	220	182
212	209	204	199	190	182
726	705	617	573	608	639
69	47	111	99	71	59
2383	2355	2326	2338	2279	2270

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

EMPLOYEE STATISTICS
LAST TEN CALENDAR YEARS
(AS OF JANUARY 1)

	2004	2003	2002	2001
EMPLOYEES				
Permanent Full-time and Part-time Employees				
Full-time classified	1,541	1,594	1,603	1,646
Part-time classified	39	35	37	45
Full-time unclassified	945	909	911	961
Part-time unclassified	225	235	229	209
Total	<u>2,750</u>	<u>2,773</u>	<u>2,780</u>	<u>2,861</u>
Other Categories				
Residents	563	554	557	544
Pre/post doctoral fellows	180	205	198	160
Externs	-	-	-	-
Temporary	812	778	725	738
Contractual	-	-	-	-
Dual employment-other agencies	33	22	17	20
Total	<u>1,588</u>	<u>1,559</u>	<u>1,497</u>	<u>1,462</u>
Grand Total Employees	<u>(a) 4,338</u>	<u>4,332</u>	<u>4,277</u>	<u>4,323</u>
 POSITIONS				
Authorized FTE positions				
State	1,347	1,347	1,347	1,347
Federal	365	365	349	349
Other	1,704	1,704	1,720	1,720
Total Authorized FTE Positions	<u>3,416</u>	<u>3,416</u>	<u>3,416</u>	<u>3,416</u>

Note: (a) The total number of employees at June 30, 2004 was 4,459.
 (b) For fiscal year 2000-01, the reduction in total number of employees and total authorized FTE positions is a result of the Medical Center division becoming a separate entity

Source: Office of Human Resources Management

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

2000	1999	1998	1997	1996	1995
4,045	4,386	4,238	4,130	4,255	4,282
730	714	598	592	472	421
1,028	1,008	943	904	896	907
199	199	178	179	172	156
<u>6,002</u>	<u>6,307</u>	<u>5,957</u>	<u>5,805</u>	<u>5,795</u>	<u>5,766</u>
560	540	534	540	550	552
167	146	113	106	102	99
-	-	1	-	-	-
1,411	1,651	1,469	1,164	1,124	1,084
-	-	-	-	-	-
29	21	25	17	16	30
<u>2,167</u>	<u>2,358</u>	<u>2,142</u>	<u>1,827</u>	<u>1,792</u>	<u>1,765</u>
<u>8,169</u>	<u>8,665</u>	<u>8,099</u>	<u>7,632</u>	<u>7,587</u>	<u>7,531</u>
1,600	1,600	1,600	1,604	1,598	1,631
348	348	313	364	418	426
5,016	4,640	4,360	4,163	5,221	5,244
<u>6,964</u>	<u>6,588</u>	<u>6,273</u>	<u>6,131</u>	<u>7,237</u>	<u>7,301</u>

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

DEBT BURDEN RATIO
LAST THREE FISCAL YEARS
(DOLLARS IN THOUSANDS)

	For the Year Ended June 30,		
	2004	2003	2002
Debt service requirements	\$ 9,811	\$ 8,562	\$ 7,837
University expenditures	\$ 361,380	\$ 362,209	\$ 332,044
Debt Burden Ratio	2.7%	2.4%	2.4%

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

Source: The Medical University of South Carolina financial statements.