

# **Medical University of South Carolina Foundation**

## ***Report on Consolidated Financial Statements***

***For the years ended June 30, 2018 and 2017***

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# Medical University of South Carolina Foundation and Subsidiaries

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## **Independent Auditor's Report**

Board of Directors  
Medical University of South Carolina Foundation  
Charleston, South Carolina

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of the Medical University of South Carolina Foundation (the "Foundation") and its subsidiaries which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Medical University of South Carolina Foundation and its subsidiaries as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Elliott Davis, LLC*

Columbia, South Carolina  
September 19, 2018

# Medical University of South Carolina Foundation

## Consolidated Statements of Financial Position

As of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 18,739,281	\$ 9,975,634
Receivables:		
Accounts and other receivables (Note 2)	187,948	1,038,936
Unconditional promises to give, net (Note 3)	40,611,840	36,343,454
Investments (Notes 4 and 5)	470,307,621	435,169,472
Investment in affiliate (Note 18)	6,899,271	5,074,094
Funds held in trust by the Foundation (Note 6)	4,700,250	4,628,782
Funds held in trust by others (Note 6)	16,027	15,421
Income producing property (Note 8)	81,923,002	84,231,681
Property and equipment, net (Note 7)	392,208	423,966
Other assets	22,657	19,892
Total assets	<u>\$ 623,800,105</u>	<u>\$ 576,921,332</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 1,882,694	\$ 1,557,947
Accrued interest payable	19,463,451	15,986,611
Annuities payable	3,564,747	3,627,293
Notes payable - MUSC (Notes 10 and 11)	90,587,225	90,199,786
Notes and bonds payable (Note 11)	42,475,167	44,349,463
Interest rate swaps (Note 11)	227,705	1,108,550
Deferred rent (Note 12)	5,030,505	5,767,283
Contributions payable - MUSC (Note 12)	17,852,400	17,852,400
Total liabilities	<u>181,083,894</u>	<u>180,449,333</u>
<b>Net assets</b>		
Unrestricted:		
Undesignated	33,066,973	32,327,441
Designated for MUSC programs	27,511,400	25,629,229
Total unrestricted	<u>60,578,373</u>	<u>57,956,670</u>
Temporarily restricted (Note 16)	207,538,327	178,281,807
Permanently restricted (Note 17)	174,599,511	160,233,522
Total net assets	<u>442,716,211</u>	<u>396,471,999</u>
Total liabilities and net assets	<u>\$ 623,800,105</u>	<u>\$ 576,921,332</u>

See Notes to Consolidated Financial Statements.

## Medical University of South Carolina Foundation

### Consolidated Statement of Activities

For the year ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue, Gains And Other Support</b>				
Contributions, net of gift management fees	\$ 1,157,666	\$ 25,805,693	\$ 11,820,704	\$ 38,784,063
Interest and dividends, net	1,771,392	2,853,995	-	4,625,387
Net unrealized and realized gains	1,981,968	24,820,195	-	26,802,163
Unrealized gain on investment in affiliate	750,363	-	-	750,363
Unrealized gain on interest rate swap	880,845	-	-	880,845
Special events revenue	-	3,488,230	7,950	3,496,180
Rental income	5,587,019	34,344	35,889	5,657,252
Changes in value of split-interest agreements	-	(360,471)	-	(360,471)
Gain (loss) on asset disposal	(321,125)	94,738	-	(226,387)
Other income	546,143	8,050,114	665,000	9,261,257
	<u>12,354,271</u>	<u>64,786,838</u>	<u>12,529,543</u>	<u>89,670,652</u>
Net assets released from restrictions				
Transfers	(1,733,213)	(103,233)	1,836,446	-
Payments of recurring management fees	3,300,700	(3,300,700)	-	-
Program restrictions satisfied	32,126,385	(32,126,385)	-	-
Total released from restrictions (Note 16)	<u>33,693,872</u>	<u>(35,530,318)</u>	<u>1,836,446</u>	<u>-</u>
Total revenue, gains and other support	<u>46,048,143</u>	<u>29,256,520</u>	<u>14,365,989</u>	<u>89,670,652</u>
<b>Expenses</b>				
Program expenses	39,291,289	-	-	39,291,289
Supporting services:				
General and administrative	1,371,054	-	-	1,371,054
Fundraising and promotion	2,764,097	-	-	2,764,097
Total expenses (Note 13)	<u>43,426,440</u>	<u>-</u>	<u>-</u>	<u>43,426,440</u>
Change in net assets	2,621,703	29,256,520	14,365,989	46,244,212
<b>Net Assets, July 1, 2017</b>	<u>57,956,670</u>	<u>178,281,807</u>	<u>160,233,522</u>	<u>396,471,999</u>
<b>Net Assets, June 30, 2018</b>	<u>\$ 60,578,373</u>	<u>\$ 207,538,327</u>	<u>\$ 174,599,511</u>	<u>\$ 442,716,211</u>

See Notes to Consolidated Financial Statements.

## Medical University of South Carolina Foundation

### Consolidated Statement of Activities

For the year ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue, Gains And Other Support</b>				
Contributions, net of gift management fees	\$ 1,081,665	\$ 23,701,086	\$ 9,579,672	\$ 34,362,423
Interest and dividends, net	1,320,019	1,580,943	-	2,900,962
Net unrealized and realized gains	3,112,500	30,365,306	-	33,477,806
Unrealized gain on interest rate swap	1,505,537	-	-	1,505,537
Special events revenue	126	3,046,370	13,855	3,060,351
Rental income	6,419,443	44,597	31,058	6,495,098
Changes in value of split-interest agreements	-	(423,189)	-	(423,189)
Gain on asset disposal	4,352,450	-	-	4,352,450
Other income	2,784	3,952,631	660,070	4,615,485
	<u>17,794,524</u>	<u>62,267,744</u>	<u>10,284,655</u>	<u>90,346,923</u>
Net assets released from restrictions				
Transfers	(428,509)	161,903	266,606	-
Payments of recurring management fees	2,977,505	(2,977,505)	-	-
Program restrictions satisfied	51,896,483	(51,896,483)	-	-
Total released from restrictions (Note 16)	<u>54,445,479</u>	<u>(54,712,085)</u>	<u>266,606</u>	<u>-</u>
Total revenue, gains and other support	<u>72,240,003</u>	<u>7,555,659</u>	<u>10,551,261</u>	<u>90,346,923</u>
<b>Expenses</b>				
Program expenses	61,706,301	-	-	61,706,301
Supporting services:				
General and administrative	1,755,519	-	-	1,755,519
Fundraising and promotion	3,037,381	-	-	3,037,381
Total expenses (Note 13)	<u>66,499,201</u>	<u>-</u>	<u>-</u>	<u>66,499,201</u>
Change in net assets	5,740,802	7,555,659	10,551,261	23,847,722
<b>Net Assets, July 1, 2016</b>	<u>52,215,868</u>	<u>170,726,148</u>	<u>149,682,261</u>	<u>372,624,277</u>
<b>Net Assets, June 30, 2017</b>	<u>\$ 57,956,670</u>	<u>\$ 178,281,807</u>	<u>\$ 160,233,522</u>	<u>\$ 396,471,999</u>

See Notes to Consolidated Financial Statements.

## Medical University of South Carolina Foundation

### Consolidated Statements of Cash Flows

For the years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Operating Activities</b>		
Changes in net assets	\$ 46,244,212	\$ 23,847,722
Adjustments to reconcile changes in net assets to net cash used for operating activities:		
Donation of securities	(2,671,846)	(6,627,380)
Donation of property held for investment	(405,000)	-
Depreciation	1,042,064	1,268,387
Gain on sale of income producing properties	-	(4,346,950)
Re-investment of net investment income	(4,553,504)	(2,867,687)
Net unrealized and realized gains on long term investments	(26,802,163)	(33,477,806)
In-kind investment transfer	138,466	-
Unrealized gain on investment in affiliate	(750,363)	-
(Gain) loss on disposal of property and equipment	226,387	(5,500)
Change in discount - contributions receivable	(339,651)	(605,916)
Change in allowance for unconditional promises to give and bad debt	436,526	85,705
Change in value of split interest agreements	360,471	423,189
Change in cash surrender value of life insurance	(53,954)	(63,277)
Contributions, other income and transfers restricted to permanent investment	(14,365,989)	(10,551,261)
Unrealized gain on interest rate swaps	(880,845)	(1,505,537)
Changes in accrued and deferred amounts:		
Accounts and other receivables	850,988	(236,615)
Unconditional promises to give	(4,365,261)	(457,051)
Other assets	(2,765)	(182)
Accounts payable	324,747	(388,105)
Accrued interest payable	3,476,840	5,012,857
Deferred rent	(736,778)	(751,439)
Net cash used for operating activities	<u>(2,827,418)</u>	<u>(31,246,846)</u>
<b>Investing Activities</b>		
Purchases of income producing property	-	(5,540)
Purchases of property and equipment	-	(52,833)
Purchases for construction in progress	(97,566)	(1,443,560)
Proceeds from sales of income producing properties	-	10,557,501
Purchases of investments	(365,136,985)	(98,736,452)
Proceeds from sales of investments	364,370,107	116,069,672
Net cash provided by (used for) investing activities	<u>(864,444)</u>	<u>26,388,788</u>
Net decrease in cash and cash equivalents -carried forward	<u>(3,691,862)</u>	<u>(4,858,058)</u>

See Notes to Consolidated Financial Statements.



## Medical University of South Carolina Foundation

### Consolidated Statements of Cash Flows

For the years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Net decrease in cash and cash equivalents -brought forward	<u>(3,691,862)</u>	<u>(4,858,058)</u>
<b>Financing Activities</b>		
Contributions, other income and transfers invested in endowments	14,365,989	10,551,261
Payments of annuity obligations	(467,949)	(488,816)
Liability for new split-interest agreements	40,669	4,265
Proceeds from (payments of) remainder of annuity obligations	3,657	(40,151)
Proceeds from long-term obligations	487,439	575,839
Payments on long-term obligations	<u>(1,974,296)</u>	<u>(12,118,887)</u>
Net cash provided by (used for) financing activities	<u>12,455,509</u>	<u>(1,516,489)</u>
Net increase (decrease) in cash and cash equivalents	8,763,647	(6,374,547)
<b>Cash And Cash Equivalents, Beginning Of Year</b>		
	<u>9,975,634</u>	<u>16,350,181</u>
<b>Cash And Cash Equivalents, End Of Year</b>	<u><u>\$ 18,739,281</u></u>	<u><u>\$ 9,975,634</u></u>
<b>Supplemental Cash Flow Information</b>		
Noncash investing and financing activities:		
Investment in affiliate	<u>\$ 1,074,814</u>	<u>\$ 5,074,094</u>
Interest paid	<u>\$ 1,143,768</u>	<u>\$ 1,403,876</u>

See Notes to Consolidated Financial Statements.

# Medical University of South Carolina Foundation

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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### Note 1. Summary of Significant Accounting Policies

#### Nature of activities:

The Medical University of South Carolina Foundation (the "Foundation") was incorporated in July 1966 under the laws of South Carolina as an educational, charitable, eleemosynary foundation to promote educational, research, clinical, and other facilities and programs of the Medical University of South Carolina ("MUSC"). In 2005, the Foundation expanded its purpose by amending its bylaws to promote the same types of programs through the Medical University Hospital Authority ("MUHA"), a component unit of MUSC. If the Foundation is dissolved, its assets shall be transferred to MUSC and used by MUSC in its activities. Therefore, the Foundation meets the definition established by the Governmental Accounting Standards Board as a component unit of MUSC. MUSC is required to include financial information of the Foundation in its reporting.

Primary sources of support and revenue of the Foundation are donor contributions and investment income.

#### Principles of consolidation:

The Foundation's consolidated financial statements include Parking Garage Associates, LLC (PGA), 135 Cannon Street, LLC, 55 Bee Street, LLC, and 165 Cannon Street, LLC, which are single member limited liability companies and wholly owned subsidiaries of the Foundation. PGA owns and leases a parking garage to MUSC. 135 Cannon Street, LLC owns and leases an office building and parking lot to MUSC. 55 Bee Street, LLC owns and leases land that is used for parking to MUSC. 165 Cannon Street, LLC owns property. All material inter-organization transactions have been eliminated.

#### Basis of presentation:

The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting. The Foundation's consolidated financial statements follow the recommendations of Financial Accounting Standards Board in its Accounting Standards Codification, *Financial Statements of Not-for-Profit Organizations*. Under *Financial Statements of Not-for-Profit Organizations*, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

#### Unrestricted net assets:

The Foundation reports that part of its net assets that is neither temporarily nor permanently restricted by donor-imposed stipulations as unrestricted net assets. The Foundation's governing board has internally earmarked the investment earnings on temporarily restricted net assets to provide additional support for MUSC programs for future years, which is reported as unrestricted designated.

#### Temporarily restricted net assets:

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated resources. When a donor restriction expires, that is, when the stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets or permanently restricted net assets and reported in the Consolidated Statements of Activities as net assets released from restrictions.

# Medical University of South Carolina Foundation

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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### Note 1. Summary of Significant Accounting Policies, Continued

#### Temporarily restricted net assets, continued:

Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. All contributions receivable are considered temporarily restricted until received by the Foundation. Once the funds have been received, they are then reclassified to another net asset classification if needed.

#### Permanently restricted net assets:

Permanently restricted net assets consist of that part of the Foundation's net assets resulting from contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise be removed by actions of the Foundation. Presently, these net assets represent the permanent endowed funds established by donors for the benefit of the Foundation. Gifts and contributions are permanently invested, with the income derived being accumulated or expended in accordance with the donor-imposed restrictions. Accordingly, investment earnings available for restricted use are reported in temporarily restricted net assets.

#### Revenue recognition:

Contributions are recognized as revenue when they are received or unconditionally pledged. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

#### Cash and cash equivalents:

Cash and cash equivalents consist of demand deposit, money market, and other deposit accounts with financial institutions. The Foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents, with the exception of cash temporarily held in its long-term investment portfolio which is excluded.

#### Donated services, goods, and facilities:

A substantial number of volunteers have donated an undetermined number of hours to the Foundation's program services and fund-raising campaigns; however, these donated services are not reflected in the consolidated financial statements since the services do not require specialized skills. In addition, donated goods of \$1,220,487 and \$2,185,515 were received and recorded as "Contributions, net of gift management fees" in the Consolidated Statements of Activities during June 30, 2018 and 2017, respectively.

#### Donated property and equipment:

The Foundation reports gifts of property and equipment, as well as goods, at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless explicit donor stipulations specify how the assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

# Medical University of South Carolina Foundation

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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### Note 1. Summary of Significant Accounting Policies, Continued

#### Donated property and equipment, continued:

Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service as instructed by the donor. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time. Donated property of \$405,000 was received and recorded as "Contributions, net of gift management fees" in the Consolidated Statement of Activities during June 30, 2018. The Foundation did not receive any donated real property during the year ended June 30, 2017.

#### Receivables:

Other receivables are recorded when the Foundation receives information supporting the amount to be received. Receivables are considered past due when not paid within 30 days of contractual terms.

Management determines the allowance for doubtful accounts by reviewing individual accounts and using historical experience. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

#### Unconditional promises to give:

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

The Foundation uses the allowance method to account for uncollectible promises to give. The allowance is based on management's estimate of the collectability of the promises and historical experience.

Promises to give are discounted to the net present value based on when they are expected to be collected and the average estimated earnings rate of both the expendable and long-term investment pools.

#### Investments:

Investments consist of money market funds and marketable equity and debt securities carried at fair value. Alternative investments (including positions in partnerships and hedge funds) are carried at capital account value. The capital account value, which approximates fair value, is determined by adding the historical investment cost, the amount of any income allocated to the Foundation, and deducting any expenses allocated to the Foundation, including realized gains or losses, dividends, interest income, investment expenses, and unrealized gains or losses. Cash and money market funds held in the investment portfolio are a part of the diversification strategies established by the investment policy. Management determines the portion of the investment portfolio to be held in money market funds based on projected cash needs by beneficiaries. Investment income or loss (including gains and losses on investment, interest, and dividends) is included in the Consolidated Statements of Activities as increases or decreases in unrestricted net assets unless the income or loss is specifically restricted by donor or law.

# Medical University of South Carolina Foundation

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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### Note 1. Summary of Significant Accounting Policies, Continued

#### Investments, continued:

Securities or other investments donated are recorded at their estimated fair value at the date of the gift. Donated life insurance policies are carried at their current respective cash surrender values. Property held for investment is measured at the lower of cost or market. Gains and losses on property held for sale whether realized or unrealized are included in the Consolidated Statements of Activities as increases or decreases in unrestricted net assets unless the income or loss is specifically restricted by donor or law.

#### Investment pools:

The Foundation maintains master investment accounts for its individual accounts. Realized and unrealized gains and losses and income from the investments in the master investment accounts are allocated periodically to the individual accounts based on the relationship of the market value of each individual account to the total market value of the master investment accounts, and adjusted for additions to or deductions from those accounts. Allocated investment income and gains with restrictions based on original donation are reported as increases in temporarily restricted net assets depending on the nature of the restrictions.

#### Management of institutional funds:

In August 2009, *Endowments of Not-for-Profit Organizations* was issued, and its guidance was effective for fiscal years ending after December 15, 2008, with earlier adoption permitted. A key component of this standard is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. Another component of the standard is a requirement for expanded disclosures for all endowment funds.

The Foundation's management and investment of donor restricted endowment funds was subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA). In 2009, the Uniform Law Commission approved the model act, Uniform Prudent Management of Institutional Funds Act (UPMIFA) that serves as a guideline to states to use in enacting legislation. Among UPMIFA's most significant changes is the elimination of UMIFA's important concept of historic dollar threshold, the amount below which an organization could not spend from the fund, in favor of a more robust set of guidelines about what constitutes prudent spending.

For the year ended December 31, 2008, South Carolina adopted the State Prudent Management of Institutional Funds Act (SPMIFA). In accordance with the South Carolina Uniform Prudent Management of Institution Funds Act (the Act), gifts restricted by the donor in perpetuity or for a specified time are preserved by the Foundation at the fair value of the original gifts as valued on the date of the gift, unless donor stipulations explicitly provide contrary terms. The Board has interpreted the "institutional endowment funds" requiring compliance with the Act to exclude its annuity funds, trust funds for which it is named remainder beneficiary, perpetual funds for which it is named a beneficiary, expendable funds, funds used for the accounting for its income producing property and the related activity, and its operational funds.

# Medical University of South Carolina Foundation

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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### Note 1. Summary of Significant Accounting Policies, Continued

#### Management of institutional funds, continued:

The Foundation has established its accounting policies to report the gifts to “institutional endowment funds” as permanently restricted net assets. Earnings from investments of these gifts are reported as temporarily restricted until approval for disbursement through request from MUSC or MUHA or authorized by the Board of Directors. Approvals for disbursements include consideration as required by the Act of the duration and preservation of the fund, the donor stipulated purpose, economic conditions and outlook, investment performance, and other available resources of the Foundation.

In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) the duration and preservation of the fund
- 2) the purposes of the Foundation and the donor-restricted endowment fund
- 3) general economic conditions
- 4) the possible effect of inflation and deflation
- 5) the expected total return from income and the appreciation of investments
- 6) other resources of the Foundation
- 7) the investment policies of the Foundation

#### Return objectives and risk parameters:

The Foundation’s Board of Directors has enacted investment and spending policies for the Foundation’s resources including its “institutional endowment funds” which seek to maintain and increase the purchasing power of annual grants from the Foundation. The investment policies address levels of risk appropriated for the expected holding period and size of the Foundation’s resources. The Foundation’s objective combines the goal of total return and preservation of capital with prudent tolerance over the investment time frame while recognizing that with normal market cycles greater than the investment time frame there may be periods of year over year absolute market declines. The Foundation maintains several investment portfolios in which resources from “institutional endowment funds” and expendable resources are pooled based on the projected economy and needs of the charitable purpose of the Foundation. The Foundation expects its investments to achieve a total rate of return over a rolling ten year period which exceeds the rate of inflation by 5.0% per year on average. Actual returns in any given year may vary from this amount.

#### Strategies employed for achieving objectives:

Assets of the Foundation are diversified to protect against large investment losses and to reduce the probability of excessive performance volatility. Asset allocation is determined by the Investment Committee in conjunction with the independent investment consultant. The need to rebalance is monitored at least quarterly by the Investment Committee and investment consultant.

# Medical University of South Carolina Foundation

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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### Note 1. Summary of Significant Accounting Policies, Continued

#### Management of institutional funds, continued:

#### Spending policy and how the investment objectives relate to spending policy:

The Foundation has a policy of appropriating for distribution a board approved percentage of its endowment fund's three year moving average of the market values as of the previous calendar year end. The spending policy is reviewed and approved, at least annually, establishing the payout or spending rate. In reviewing this policy, the Foundation considers the long-term expected return on its endowments of a total rate of return over a rolling ten year period which exceeds the rate of inflation by 5.0% per year on average. This is consistent with the Foundation's objective to seek long-term growth of capital to maintain the purchasing power of the investment assets in perpetuity and to meet the needs of the Foundation's distributions policy. The spending rate was 5.0% and 5.25%, including the management fee assessment, for the fiscal years ended June 30, 2018 and 2017, respectively.

#### Property, equipment, and depreciation:

The Foundation capitalizes all expenditures for property and equipment in excess of \$5,000. Property and equipment is carried at cost, or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, ranging from 5 to 40 years.

#### Income producing property:

The Foundation holds and manages certain income producing properties to achieve the educational, research, clinical, and property objectives of MUSC and MUHA. These properties are carried at cost, or if donated, at fair value at the date received. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Additional information on these assets is included in Note 8 with information on related party lease transactions in Note 12.

#### Assets held in trust:

Assets held in trust consist of split-interest agreements that name the Foundation as a beneficiary.

#### By the Foundation:

Trust agreements that name the Foundation as trustee are held in trust accounts that are measured at fair value in the Consolidated Statements of Financial Position. Changes in fair value are included in the Consolidated Statements of Activities as investment income in the temporarily restricted net assets unless the income or loss is permanently restricted by the donor. Distributions from the trust accounts are recognized as expenses in the Consolidated Statements of Activities.

# Medical University of South Carolina Foundation

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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### Note 1. Summary of Significant Accounting Policies, Continued

#### Assets held in trust, continued:

##### By Others:

Trust agreements under which the Foundation has no control over the investment of assets are measured at the present value of the expected future cash flows from the trust account. The discount rate used to determine the present value is determined at the date of the gift and remains constant throughout the life of the trust. Changes in the value of the assets are included in the Consolidated Statements of Activities as investment income in temporarily restricted net assets unless the income or loss is permanently restricted by the donor. Distributions to the Foundation during the life of the agreement are recognized as investment earnings in the appropriated net asset classification in accordance with the donor's wishes.

#### Annuity obligations:

The amounts reported as annuity obligations represent amounts due to donors and others under various split-interest agreements and trust agreements. The related assets are reported together with other assets (investments or held in trust) of the Foundation, as there is no legal requirement to maintain these separately. Discount rates and actuarial assumptions vary by type of agreement.

#### Deferred rent:

The Foundation leases facilities and grounds to several entities. Rent paid in advance is recorded as deferred rent on the Consolidated Statements of Financial Position. Revenue is being recognized over the terms of the leases at the contract rate annually.

#### Income tax status:

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, any income from activities not directly related to the Foundation's tax-exempt purpose would be subject to taxation as unrelated business income. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(3). Tax exempt status arises from the fact that the Foundation's sole reason for existence is as a support organization for MUSC and MUHA.

Management has evaluated the tax positions of the Foundation and does not believe that any uncertain tax positions or unrecognized tax benefits exist for the years ended June 30, 2018 or 2017. The Foundation's policy is to report accrued interest related to unrecognized tax benefits, when applicable, as interest expense and to report penalties as other expense. With few exceptions, the Foundation is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for tax years before 2014.

#### Expense allocation:

The costs of providing various programs and activities have been summarized on a functional basis in the Consolidated Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.



# Medical University of South Carolina Foundation

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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### Note 1. Summary of Significant Accounting Policies, Continued

#### Expense allocation, continued:

Expenses are charged to programs and supporting services on the basis of time and expense analysis. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation. See Note 13.

#### Management fees:

A management fee is assessed on individual funds to help cover the Foundation's administrative costs. The management fee policy is reviewed and approved, at least annually, establishing the management fee rate. The fee is computed quarterly as a percentage of the market value of each fund and is used to pay professional fees, overhead, and a limited number of grants to MUSC and MUHA. For the years ended June 30, 2018 and 2017, annual management fees were 1% for endowed funds, 2.25% for non-endowed invested funds, and 2.5% on real estate income. In those instances where temporarily restricted expendable funds are held in money market type accounts and short-term bond funds, the Foundation receives the interest earned in lieu of management fees. Additionally, the Foundation charges a gift fee of 5% on new gifts capped at \$50,000 (excluding special events revenue, fundraising revenue, and other income) when it is not in violation of the gift agreement.

#### Estimates:

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Transfers of net assets:

Transfers are made between unrestricted, temporarily and/or permanently restricted net assets when a donor requests that his or her past donations be redirected for specific purposes, when restrictions expire or when cash is received for a promise to give. The transfers are reported in the Consolidated Statements of Activities when they occur.

#### Recently issued pronouncements:

The FASB ("Financial Accounting Standards Board") on August 18, 2016, published ASU ("Accounting Standards Update") No. 2016-14, *Not for Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*. The standard changes how not-for-profit organizations classify their net assets, with groups required to categorize assets as either those with donor restrictions or without. The standard also requires new information about an organization's liquidity and an analysis of expenses by nature and function. The update, which aims to help charities, universities, foundations, and other not-for-profit groups better convey how they spend and manage their resources, goes into effect for fiscal years beginning after December 31, 2017. The Foundation is currently evaluating the impact of this new guidance on its financial statement presentation.

# Medical University of South Carolina Foundation

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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### Note 1. Summary of Significant Accounting Policies, Continued

#### Recently issued pronouncements, continued:

In May 2015, the FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The amendments in this ASU remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. However, sufficient information must be provided to permit reconciliation of the fair value of assets categorized within the fair value hierarchy to the amounts presented in the statements of net assets available for benefits. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. The amendments in this ASU are effective for fiscal years beginning after December 15, 2016. Upon adoption, the amendments shall be applied retrospectively to all periods presented. The Foundation adopted this ASU for the 2018 fiscal year, and it was retrospectively applied to 2017. Prior year disclosures have been revised to reflect the retrospective application of this ASU. The impact of adopting this ASU is reflected in Note 15.

In February 2016, the FASB issued new guidance to change accounting for leases and that will generally require most leases to be recognized on the statements of financial position. The new lease standard only contains targeted changes to accounting by lessors, however, lessees will be required to recognize most leases in their statements of financial position as lease liabilities for lease payments and right-of-use assets representing the lessee's rights to use the underlying assets for the lease terms for lease arrangements longer than 12 months. Under this approach, a lessee will account for most existing capital/finance leases as Type A leases and most existing operating leases as Type B leases. Type A and Type B leases have unique accounting and disclosure requirements. Existing sale-leaseback guidance, including guidance for real estate, will be replaced with a new model applicable to both lessees and lessors. The new guidance will be effective for annual periods beginning after December 15, 2019. Early adoption is permitted. The Foundation is currently evaluating the impact of this new guidance on its financial statement presentation.

In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. In August 2015, the FASB deferred the effective date of ASU 2014-09, Revenue from Contracts with Customers. As a result of the deferral, the guidance in ASU 2014-09 will be effective for the Foundation for reporting periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Foundation is currently evaluating the impact of this new guidance on its financial statement presentation.

In June 2018, the FASB issued an update to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The clarifying guidance will be effective for annual periods beginning after December 15, 2019. Early adoption is permitted. The Foundation is currently in the process of evaluating the impact of adoption of this guidance on the consolidated financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Foundation's net assets or changes in net assets.

# Medical University of South Carolina Foundation

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

### Note 1. Summary of Significant Accounting Policies, Continued

#### Subsequent events:

In preparing these consolidated financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 19, 2018 the date the consolidated financial statements were available to be issued.

### Note 2. Accounts and Other Receivables

At June 30, 2018, accounts and other receivables consisted of \$187,948 in student loans receivable and miscellaneous reimbursements and receivables. At June 30, 2017, accounts and other receivables consisted of \$198,936 in student loans receivable, tenant reimbursements, and miscellaneous loans receivables, as well as \$840,000 in loans receivable from the WestEdge Foundation (formerly Horizon Project Foundation).

### Note 3. Unconditional Promises to Give, Net

Unconditional promises to give, net, at June 30 is as follows:

	<u>2018</u>	<u>2017</u>
Receivable in less than one year	\$ 15,763,495	\$ 10,127,546
Receivable in one to five years	28,593,329	27,554,147
Receivable in more than five years	<u>6,067,249</u>	<u>8,377,119</u>
	50,424,073	46,058,812
Less discount to present value	4,369,826	4,709,477
Less allowance for doubtful accounts	<u>5,442,407</u>	<u>5,005,881</u>
Unconditional promises to give, net	<u>\$ 40,611,840</u>	<u>\$ 36,343,454</u>

The discount to present value was calculated using the estimated earnings rate of 2.66% and 2.75% as of June 30, 2018 and 2017, respectively.

At June 30, 2018, 2 donors had pledge balances totaling \$21,200,000 representing 42% of total promises to give - receivables. At June 30, 2017, 2 donors had pledge balances totaling \$23,631,000 representing 51% of total promises to give - receivables.

The Foundation received \$2,679,000 and \$1,895,985 in conditional promises to give for support of MUSC programs for the years ended June 30, 2018 and 2017, respectively. Total conditional promises to give as of June 30, 2018 are \$22,050,745. The donors have stipulated specific compliance requirements to be met prior to the availability of the resources. These promises will not be recognized in the consolidated financial statements until all conditions are satisfied.

# Medical University of South Carolina Foundation

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

### Note 4. Property Held for Investment

Included in "Investments" in the Consolidated Statements of Financial Position is the Foundation's ownership interest in three tracts of land in Greenwood, SC. The gift agreements under which these were received required the Foundation to hold the property for two years after each complete tract was gifted. As of June 30, 2013, the Foundation had met the donor requirements to hold the property for 2 years. The 3 tracts of land are held by the Foundation at an estimated fair value of \$470,010. The Foundation also owns property in North Charleston with an estimated fair value of \$270,790. The Foundation sold their previously owned property on Paradise Island with a value of \$335,200 during the year ended June 30, 2018 for \$368,890. Property held for investment is included in Other Investments in Note 5.

### Note 5. Investments

The Foundation's pooled investments are managed by various portfolio management companies. The book entry custody of the investments is performed by Northern Trust. The alternative investments are invested in various restricted corporations and limited partnerships.

The Board of Directors has a formal investment policy and has hired Colonial Consulting as an independent investment consultant to provide advice and review the performance of its investment managers.

Investments were comprised of the following at June 30, 2018:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gains(Losses)</u>
General Pool:			
Debt securities	\$ 34,086,167	\$ 34,842,921	\$ 756,754
Domestic equities	79,778,422	81,231,877	1,453,455
Fixed income funds	47,771,745	47,000,859	(770,886)
International equity	49,350,637	49,765,596	414,959
Partnerships	93,387,425	102,043,317	8,655,892
Hedge funds	97,321,607	98,988,594	1,666,987
Other investments	4,030,354	4,030,354	-
Money market funds	<u>47,421,890</u>	<u>47,421,890</u>	<u>-</u>
Total general pool	<u>453,148,247</u>	<u>465,325,408</u>	<u>12,177,161</u>
Annuity Pool:			
Fixed income funds	863,347	838,990	(24,357)
Domestic equity funds	1,186,250	2,025,856	839,606
Money market funds	<u>93,237</u>	<u>93,237</u>	<u>-</u>
Total annuity pool	<u>2,142,834</u>	<u>2,958,083</u>	<u>815,249</u>
Other Investments	<u>2,024,130</u>	<u>2,024,130</u>	<u>-</u>
Total investments	<u>\$ 457,315,211</u>	<u>\$ 470,307,621</u>	<u>\$ 12,992,410</u>

# Medical University of South Carolina Foundation

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

### Note 5. Investments, Continued

As of June 30, 2018, there was \$4,030,354 of investments within the General Pool that had been redeemed for which the cash had not been received. The cash received would remain in the General Pool to be redeployed, therefore, the amount is shown as an Other Investment.

Investments were comprised of the following at June 30, 2017:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gains(Losses)</u>
General Pool:			
Debt securities	\$ 32,523,572	\$ 34,868,632	\$ 2,345,060
Domestic equities	104,691,792	125,305,207	20,613,415
Fixed income funds	47,771,745	47,586,628	(185,117)
International equity	35,104,827	40,648,868	5,544,041
Partnerships	70,636,839	86,479,377	15,842,538
Hedge funds	58,623,010	64,977,417	6,354,407
Money market funds	<u>29,748,069</u>	<u>29,748,069</u>	<u>-</u>
Total general pool	<u>379,099,854</u>	<u>429,614,198</u>	<u>50,514,344</u>
Annuity Pool:			
Fixed income funds	783,803	778,581	(5,222)
Domestic equity funds	1,294,102	2,002,812	708,710
Money market funds	<u>7,784</u>	<u>7,784</u>	<u>-</u>
Total annuity pool	<u>2,085,689</u>	<u>2,789,177</u>	<u>703,488</u>
Other Investments	<u>2,766,097</u>	<u>2,766,097</u>	<u>-</u>
Total investments	<u>\$ 383,951,640</u>	<u>\$ 435,169,472</u>	<u>\$ 51,217,832</u>

There was one investment within the General Pool fixed income funds that has been in an unrealized loss position for greater than one year at June 30, 2018, amounting to a cumulative unrealized loss of \$770,886. There were no significant investments with unrealized losses aggregated by investment category that have been in a continuous loss position for greater than one year at June 30, 2017.

Investment income, net, including net investment income from Funds Held in Trust disclosed in Note 4, is comprised of the following for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 5,436,482	\$ 4,031,834
Investment fees	<u>(811,095)</u>	<u>(1,130,872)</u>
Interest and dividends, net	<u>4,625,387</u>	<u>2,900,962</u>
Realized gains	64,881,994	9,762,145
Unrealized gains (losses)	<u>(38,079,781)</u>	<u>23,715,661</u>
Net unrealized and realized gains	<u>26,802,163</u>	<u>33,477,806</u>
Net investment income	<u>\$ 31,427,550</u>	<u>\$ 36,378,768</u>

# Medical University of South Carolina Foundation

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

### Note 6. Assets Held in Trust

Under various charitable trust agreements, the Foundation has been named the trustee and remainder beneficiary by donors. As trustee, the Foundation administers the payment of distributions to the beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Foundation's use. The Foundation reports the assets held under the trust agreements at the fair value at year-end as "Funds Held in Trust by the Foundation" in the Consolidated Statements of Financial Position. A liability is calculated annually for the amount estimated based on the discount rate at the creation of the trust and the life expectancy of the beneficiaries as determined by the Internal Revenue Service (ranging from 2.6% to 7.6%). The liability is included in "Annuities Payable" in the Consolidated Statements of Financial Position.

The Foundation has also been designated as the residual beneficiary but not trustee of a charitable trust agreement. These assets are reported as "Funds Held in Trust by Others" in the Consolidated Statements of Financial Position. Valuation is based on the present value of the remainder interest using the donor or beneficiary's life expectancy and interest rates applicable at the creation of the trust. Over the term of the trust, the remainder interest will be revalued based on current fair market values of the assets held in trust and changes in the life expectancy of the beneficiary.

Assets held in trust at fair value are comprised of the following at June 30:

	<u>2018</u>	<u>2017</u>
Held by the Foundation	\$ 4,700,250	\$ 4,628,782
Held by others	<u>16,027</u>	<u>15,421</u>
Total assets held in trust	<u>\$ 4,716,277</u>	<u>\$ 4,644,203</u>

Investment income from funds held in trust, included in net investment income reported in Note 5, is comprised of the following for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 99,959	\$ 95,390
Investment fees	<u>(32,972)</u>	<u>(31,869)</u>
Interest and dividends, net	<u>66,987</u>	<u>63,521</u>
Realized gains	135,387	187,813
Unrealized gains	<u>145,639</u>	<u>250,704</u>
Net investment income	<u>\$ 348,013</u>	<u>\$ 502,038</u>

The Foundation received no distributions from funds held in trust by others for the years ended June 30, 2018 or 2017.

# Medical University of South Carolina Foundation

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

### Note 7. Property and Equipment, Net

Major classifications of property and equipment used in operations as of June 30, 2018 and 2017 are summarized below:

	<u>2018</u>	<u>2017</u>
Land	\$ 66,944	\$ 66,944
Building and improvements	558,197	558,197
Furniture and equipment	<u>151,521</u>	<u>159,628</u>
Total	776,662	784,769
Accumulated depreciation	<u>(384,454)</u>	<u>(360,803)</u>
Property and equipment, net	<u>\$ 392,208</u>	<u>\$ 423,966</u>

Depreciation expense on these assets for the years ended June 30, 2018 and 2017 was \$31,759 and \$26,406, respectively.

### Note 8. Income Producing Property

In addition to the property and equipment used in operations, major classifications of income producing property and equipment as of June 30 are summarized below:

	<u>2018</u>	<u>2017</u>
Land	\$ 54,714,084	\$ 55,788,899
Building and improvement	40,033,852	40,453,852
Furniture and equipment	339,875	339,875
Non-depreciable assets	<u>1,729,590</u>	<u>1,632,024</u>
Total	96,817,401	98,214,650
Accumulated depreciation	<u>(14,894,399)</u>	<u>(13,982,969)</u>
Property and equipment, net	<u>\$ 81,923,002</u>	<u>\$ 84,231,681</u>

As of June 30, 2018 and 2017, the non-depreciable assets are primarily antique furnishings and fixtures, along with \$1,541,126 and \$1,443,560, respectively, in construction in progress related to preliminary work on a parking garage project related to the 165 Cannon Street property held, a project which has been put on hold by MUSC and for which the intended future purpose is unknown as of June 30, 2018.

Depreciation expense on these assets for the years ended June 30, 2018 and 2017 was \$1,010,305 and \$1,241,981, respectively.

### Note 9. Credit Risk

The Foundation maintains multiple cash accounts at three local banking institutions. Cash accounts held at these banks are guaranteed in aggregate by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank per entity. From time to time, cash balances may exceed insurance limits. The Foundation has not experienced any losses on its cash and cash equivalents. Management monitors the risk of exposure to loss through monitoring the performance of the financial institutions through publicly available agencies.

## Medical University of South Carolina Foundation

### Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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#### Note 9. Credit Risk, Continued

Management believes that the Foundation's investments do not represent significant concentrations of market risk because the Foundation's investments portfolio is adequately diversified among issuers and management believes that the Foundation has the ability to hold its investment portfolio during periods of temporary market decline.

#### Note 10. Related Parties

The Foundation provided support payments to MUSC and MUHA for general and departmental expenditures and for equipment purchases, which totaled \$29,894,547 and \$50,652,012 for 2018 and 2017, respectively. The Foundation had accounts payable to MUSC and MUHA of a combined \$1,459,519 and \$1,068,913 at June 30, 2018 and 2017, respectively.

The Foundation has entered into the following note agreements with MUSC:

**SmartState Program** - Under the agreement signed on August 13, 2004, the Foundation has agreed to accept periodic deposits of corpus for endowments under the South Carolina Education Lottery SmartState program. This agreement was originally set to expire in August 2014 with subsequent automatic annual extensions at the approval of MUSC and the Foundation. As of the report date, the second automatic annual extension has been exercised. Either party may terminate this agreement at any time upon a one hundred eighty day written notice. Funds loaned by MUSC to the Foundation must remain on deposit with the Foundation for not less than twelve months. The Foundation will provide interest at the investment earnings rate, net of investment fees, of its pooled investments and management fees (see Note 1). Upon a thirty day written notice to the Foundation, MUSC may request the return of funds for use in MUSC programs to be paid quarterly in accordance with the Foundation's current spending policy.

**Other Contributions** - Under the agreement signed on August 13, 2004, the Foundation has agreed to accept periodic deposits of corpus gifts provided to MUSC by donors. This agreement was originally set to expire in August 2014 with subsequent automatic annual extensions at the approval of MUSC and the Foundation. As of the report date, the second automatic annual extension has been exercised. Either party may terminate this agreement at any time upon a one hundred eighty day written notice. Funds loaned by MUSC to the Foundation must remain on deposit with the Foundation for not less than twelve months. The Foundation will provide interest at its investments earnings rate, net of investment fees, earned from its pooled investments and management fees (see Note 1).

Upon a thirty day written notice to the Foundation, MUSC may request the return of funds for use in MUSC programs to be paid quarterly in accordance with the Foundation's current spending policy.

As of June 30, 2018 and 2017, the Foundation owed \$87,099,999 for the SmartState program funds. Under the Other Contributions agreement, the Foundation owed \$3,487,226 and \$3,099,787 as of June 30, 2018 and 2017, respectively. Interest owed for the SmartState program was \$18,737,387 and \$15,470,746, and under the Other Contributions agreement was \$693,578 and \$485,329, respectively, as of June 30, 2018 and 2017. Amounts are included in accrued interest payable on the Consolidated Statements of Financial Position.



## Medical University of South Carolina Foundation

### Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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#### Note 10. Related Parties, Continued

The Foundation has also entered into several lease agreements with MUSC and MUHA during the years ended June 30, 2018 and 2017. See Note 12.

#### Note 11. Long-Term Obligations

The long-term obligations of the Foundation are comprised of the following as of June 30, 2018 and 2017:

##### Note payable:

**WestEdge (formally known as Horizon District)** - Originated in the amount of \$10,200,000 and paid in full during the year ended June 30, 2017. Amount was due to South State Bank, requiring interest only payments for 2 years, annual principal payments of \$610,000 plus monthly interest payable beginning in December 2016, and a balloon payment due at maturity. Interest was calculated at a fixed rate of 2.95% per annum. The loan was unsecured; however, with a recorded negative pledge agreement on the Faber Place property which was sold during the year ended June 30, 2017.

##### Bonds Payable:

**165 Cannon Revenue Bond Series 2018 Issue** - Originated in the amount of \$15,600,000. Loan was amended during the year ended June 30, 2018 to a revenue bond, increasing principal borrowings to \$15,755,000. Due to South State Bank, requiring annual principal payments of \$500,000 plus monthly interest payable beginning in June 2018, until maturity on May 9, 2028, when all principal and outstanding interest is due. Interest is calculated at a fixed rate of 3.05% per annum through May 8, 2025. Beginning May 9, 2025 through maturity, interest is calculated at 78% of One-Month LIBOR plus 0.858% per annum. The bond is unsecured; however, with a recorded negative pledge agreement on the 165 Cannon and 52 Courtenay properties which have a carrying value of \$10,250,000 and \$1,244,154, respectively, and an assignment of leases, rents, and profits.

**JEDA 135 Cannon Street – Medical Building December 2009 Issue** - Originated in the amount of \$20,858,099 requiring monthly principal and interest payments escalating over the life of the loan. The loan was amended during the year ended June 30, 2015 to incorporate changes to the interest rate and maturity date. The interest rate is variable, determined using 68% of One-Month LIBOR rate plus 0.7150% with no floor. Final payment of outstanding principal and interest is due upon maturity on October 17, 2029. A mortgage on real property with a carrying value of \$17,848,000 and assignments of lease revenue serve as collateral.

Effective as of November 17, 2014, the Foundation entered into an amended interest rate swap agreement to effectively exchange the Foundation's variable interest rate exposure of 68% of One-Month LIBOR rate plus 0.7150% with no floor on the notional amount of the bond to a fixed 2.73% rate. This agreement was amended as of February 17, 2018 to effectively exchange the Foundation's variable interest rate exposure of 68% of One-Month LIBOR rate plus 0.7150% with no floor on the notional amount of the bond to a fixed 3.34% rate. As of June 30, 2018, the bond held a notional amount of \$12,792,547. This interest rate swap agreement matures October 17, 2029.

# Medical University of South Carolina Foundation

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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### Note 11. Long-Term Obligations, Continued

#### Bonds Payable, continued:

**JEDA 135 Cannon Street – Parking Lot December 2009 Issue** - Originated in the amount of \$2,360,428 requiring monthly principal and interest payments escalating over the life of the loan. The loan was amended during the year ended June 30, 2015 to incorporate changes to the interest rate and maturity date. The interest rate is variable determined using 68% of One-Month LIBOR rate plus 0.7150% with no floor. Final payment of outstanding principal and interest is due upon maturity on October 17, 2029. A mortgage on real property with a carrying value of \$1,289,500 and assignments of lease revenue serve as collateral.

Effective as of November 17, 2014, the Foundation entered into an amended interest rate swap agreement to effectively exchange the Foundation's variable interest rate exposure of 68% of One-Month LIBOR rate plus 0.7150% with no floor on the notional amount of the bond to a fixed 2.73% rate. This agreement was amended as of February 17, 2018 to effectively exchange the Foundation's variable interest rate exposure of 68% of One-Month LIBOR rate plus 0.7150% with no floor on the notional amount of the bond to a fixed 3.34% rate. As of June 30, 2018, the bond held a notional amount of \$1,447,421. This interest rate swap agreement matures October 17, 2029.

**JEDA 55 Bee Street December 2009 Issue** - Originated in the amount of \$1,083,280 requiring monthly principal and interest payments escalating over the life of the loan. The loan was amended during the year ended June 30, 2015 to incorporate changes to the interest rate and maturity date. The interest rate is variable determined using 68% of One-Month LIBOR rate plus 0.7150% with no floor. Final payment of outstanding principal and interest is due upon maturity on October 17, 2029. A mortgage on real property with a carrying value of \$680,000 and assignments of lease revenue serve as collateral.

Effective as of November 17, 2014, the Foundation entered into an amended interest rate swap agreement to effectively exchange the Foundation's variable interest rate exposure of 68% of One-Month LIBOR rate plus 0.7150% with no floor on the notional amount of the bond to a fixed 2.73% rate. This agreement was amended as of February 17, 2018 to effectively exchange the Foundation's variable interest rate exposure of 68% of One-Month LIBOR rate plus 0.7150% with no floor on the notional amount of the bond to a fixed 3.34% rate. As of June 30, 2018, the bond held a notional amount of \$664,689. This interest rate swap agreement matures October 17, 2029.

**JEDA Parking Garage January 2010 Issue** - Originated in the amount of \$19,381,084 requiring monthly principal and interest payments escalating over the life of the loan. The loan was amended during the year ended June 30, 2015 to incorporate changes to the interest rate and maturity date. The interest rate is variable determined using 68% of One-Month LIBOR rate plus 0.7150% with no floor. Final payment of outstanding principal and interest is due upon maturity on October 17, 2029. Collateral is offered as a mortgage on real property with a carrying value of \$14,957,034 as well as assignments of lease revenue.

# Medical University of South Carolina Foundation

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

### Note 11. Long-Term Obligations, Continued

#### Bonds Payable, continued:

Effective as of November 17, 2014, the Foundation entered into an amended interest rate swap agreement to effectively exchange the Foundation's variable interest rate exposure of 68% of One-Month LIBOR rate plus 0.7150% with no floor on the notional amount of the bond to a fixed 2.73% rate. This agreement was amended as of February 17, 2018 to effectively exchange the Foundation's variable interest rate exposure of 68% of One-Month LIBOR rate plus 0.7150% with no floor on the notional amount of the bond to a fixed 3.34% rate. As of June 30, 2018, the bond held a notional amount of \$11,870,510. This interest rate swap agreement matures October 17, 2029.

The Foundation has various debt covenants related to the notes and bonds noted above, including maintaining a maximum level of funded direct debt not to exceed 100% of unrestricted net assets, a debt service ratio of at least 1.10:1, and fiscal year rental income greater than 100% of debt service. In addition, one bond covenant requires the Foundation to maintain a depository banking account balance of at least \$1,000,000 with the lending institution throughout the term of the loan and not less than \$125 million of permitted unencumbered cash, cash equivalents, and investments measured at June 30 each year. At June 30, 2018 and 2017, the Foundation was not aware of any bond covenant violations.

In addition to the Notes and Bonds Payable through financial institutions, the Foundation has entered into note agreements with MUSC as described in Note 10.

Long-term obligations for the Foundation were comprised of the following at June 30:

	<u>2018</u>	<u>2017</u>
Notes Payable - MUSC		
MUSC	\$ 90,587,225	\$ 90,199,786
Notes and Bonds Payable		
JEDA Parking Garage January 2010	11,870,510	12,745,795
JEDA 135 Cannon Street-Medical Building December 2009	12,792,547	13,735,819
JEDA 135 Cannon Street-Parking Lot December 2009	1,447,421	1,554,148
JEDA 55 Bee Street December 2009	664,689	713,701
165 Cannon Street	<u>15,700,000</u>	<u>15,600,000</u>
	<u>42,475,167</u>	<u>44,349,463</u>
Total long-term obligations	<u>\$133,062,392</u>	<u>\$134,549,249</u>

As of June 30, 2018, maturities on long-term obligations for the next five years are as follows:

2019	\$ 93,118,528
2020	2,589,957
2021	2,650,305
2022	2,712,396
2023	2,776,280
Thereafter	<u>29,214,926</u>
Total	<u>\$ 133,062,392</u>

# Medical University of South Carolina Foundation

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

### Note 11. Long-Term Obligations, Continued

Interest expense for the years ended June 30, 2018 and 2017 relating to note agreements with MUSC was \$3,474,890 and \$5,026,821, respectively. Interest expense for the years ended June 30, 2018 and 2017 relating to all other long-term obligations was \$1,144,930 and \$1,389,912, respectively.

### Note 12. Leased Property

The Foundation leases its income producing property (Note 8) as part of its real estate policy.

#### Operating leases:

The properties leased to MUSC, MUHA, and MUSC Physicians are intended to cover all debt service and expenses incurred by the Foundation as a result of its ownership of these properties. All of these leases are classified as operating leases due to the short duration of the lease period. The following is a summary of major terms under which the properties to related parties are rented:

<u>Property</u>	<u>Tenant</u>	<u>Term</u>	<u>Annual rent installments for the year ended June 30, 2018</u>
30 Bee Street	MUSC Physicians	Lease to 8/31/2023 with automatic renewals	\$ 188,441
4295 Arco Lane	MUSC	Lease to 6/30/2022 with renewal provisions	136,800
20 Ehrhardt Street	MUSC	Lease to 6/30/2022 with renewal provisions	52,308
45 Bee Street	MUSC	Lease to 6/30/2022 with renewal provisions	19,776
28 Ehrhardt Street	MUSC	Lease to 6/30/2022 with renewal provisions	15,036
51 Bee Street	MUHA	Lease to 6/30/2022 with renewal provisions	15,864
17 Ehrhardt Street	MUHA	Lease to 6/30/2022 with renewal provisions	68,976
56 Courtenay Street	MUSC	Lease to 2/28/2023 with renewal provisions	88,000
59 Bee Street	MUSC	Lease to 7/31/2022 with renewal provisions	40,449
57 Bee Street	MUSC	Lease to 6/30/2022 with renewal provisions	34,344
52 Courtney Drive	MUHA	Lease to 5/31/2022 with renewal provisions	45,462

In addition, the Foundation's subsidiary, 135 Cannon Street, LLC, has entered into a long term lease with MUSC for a flat parking lot providing annual rent for the years ended June 30, 2018 and 2017 in the amount of \$219,398 and \$219,398, respectively, and expiring March 31, 2039.

## Medical University of South Carolina Foundation

### Notes to Consolidated Financial Statements

June 30, 2018 and 2017

#### Note 12. Leased Property, Continued

##### Operating leases, continued:

The following is a summary of major terms under which the properties to unrelated parties are rented:

<u>Property location</u>	<u>Tenant</u>	<u>Term</u>	<u>Annual rent installments for the year ended June 30, 2018</u>
178 Ashley Avenue	Mediterra Catering	Lease to 3/31/2021 with renewal provisions. Base rent will be adjusted annually by 3% over the annual base rent.	\$ 72,371
176 A/B Ashley Avenue (Wickliffe Apartments)	Individual Tenants	Lease to 6/30/2019.	32,723
Lockwood Parking (28 spaces)	10 WestEdge	Lease to 10/10/2020.	35,280

As of June 30, 2018, future minimum rentals to be received on all non-cancelable operating leases are:

2019	\$ 1,071,915
2020	1,033,515
2021	989,563
2022	924,854
2023	504,216
Thereafter	<u>3,486,926</u>
Total	<u>\$ 8,010,989</u>

The Foundation entered into a rental management agreement with Luxury Simplified for 176 Ashley Avenue which was effective February 21, 2018 and expires February 2019. Income collected during the year ended June 30, 2018 was \$3,635.

##### Long-term leases:

The Foundation's subsidiaries have entered into long-term lease agreements under the following terms:

<u>Property location</u>	<u>Tenant</u>	<u>Term</u>	<u>Annual rent installments for the year ended June 30, 2018</u>
21 Courtenay Street Parking Garage	MUSC	Lease to 3/31/2039 with automatic renewals	\$ 1,800,892
135 Cannon Street Office Building	MUSC	Lease to 3/31/2039 with automatic renewals	1,938,016
55 Bee Street Office Building	MUSC	Lease to 3/31/2039 with automatic renewals	100,557

# Medical University of South Carolina Foundation

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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### Note 12. Leased Property, Continued

#### Long-term leases, continued:

As of June 30, 2018, future minimum rentals to be received on all capital leases are:

2019	\$ 3,839,465
2020	3,839,465
2021	3,839,465
2022	3,839,465
2023	3,839,465
Thereafter	<u>60,471,577</u>
Total	<u>\$ 79,668,902</u>

For the year ended June 30, 2018, the carrying value of the assets provided under capital leases was \$33,485,034 consisting of \$42,952,410 in cost and \$9,467,376 in accumulated depreciation. Depreciation expense of \$818,353 and \$818,292, respectively, was recognized for these properties during the years ended June 30, 2018 and 2017.

#### Other rent transactions:

In addition, the Foundation had deferred rent revenue of \$5,030,505 and \$5,767,283 as of June 30, 2018 and 2017, respectively, for the following leases:

**Rutledge Tower Facilities (formerly St. Francis) Lease** - During the year ended June 1995, the Foundation and MUSC Physicians extended the Rutledge Tower lease for an expiration date to the later of (i) June 30, 2024, or (ii) the date on which all principal of and premium, if any, and interest on the loan has been paid. At the same time, MUSC Physicians prepaid rent to the Foundation for the full term of the Rutledge Tower and Charleston High School leases. The Foundation used the funds from the prepaid rents to pay all outstanding principal and interest owed to Bank of America on the loan related to Rutledge Tower. The Foundation, as owner of the Rutledge Tower, executed a Mortgage and Security Agreement and a Subordination Agreement in favor of the Master Trustee, as well as a Nonrecourse Guaranty Agreement and an Amendment to the Nonrecourse Guaranty Agreement. Therefore, recovery against the Foundation under these agreements is limited to the Rutledge Tower. Revenue is being recognized over the term of the lease at the contract rate annually.

**Charleston High School (CHS) Lease** - During the year ended June 30, 2004, the Foundation entered into a ground lease agreement with CHS Development Company (the "Corporation"), a nonprofit corporation affiliated with MUSC, as part of a plan of financing the development, renovation and equipping of the CHS building and the development, construction and equipping of buildings and other improvements on the land for MUSC. The ground lease required the Corporation to prepay rent of \$3,140,000 to the Foundation. The ground lease shall terminate upon the earlier of December 31, 2035 or the payment in full of bonds issued by the Corporation. Revenue is being recognized over the term of the lease at the contract rate annually.

# Medical University of South Carolina Foundation

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

### Note 12. Leased Property, Continued

#### Other rent transactions, continued:

**170 Ashley Avenue Lease** - The Foundation's lease agreement with the tenant is for a 25 year term expiring November 30, 2030 with four 5-year renewal options. The lease was prepaid in the amount of \$360,000 at the issuance of the certificate of occupancy, which occurred during the fiscal year ended June 30, 2007. Revenue is being recognized over the term of the lease at the contract rate annually.

**Other Properties** - From time to time other tenants of properties leased to unaffiliated entities may provide excess payments above the required minimum lease payments. For the years ended June 30, 2018 and 2017, the Foundation had received \$2,400 and \$350, respectively, from unaffiliated tenants.

The Foundation received \$6,800 and \$0 in prepaid rent and escrow deposits during the years ended June 30, 2018 and 2017, respectively. In addition, the deferred rent income recognized for the years ended June 30 is as follows and is included in rental income on the Consolidated Statements of Activities.

	<u>2018</u>	<u>2017</u>
Rutledge Tower Facilities	\$ 626,908	\$ 626,908
CHS	97,870	97,870
170 Ashley Avenue	14,400	14,400
Other Properties	-	<u>12,261</u>
	<u>\$ 739,178</u>	<u>\$ 751,439</u>

During April 1996, the Foundation's Board of Directors passed a resolution to transfer the title for the Rutledge Tower and associated facilities to MUSC at the end of the lease term. This is considered a contribution by the Foundation and is recorded as a contribution payable of \$17,852,400, the estimated value of the land at the time of the gift.

# Medical University of South Carolina Foundation

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

### Note 13. Expense Allocation

Grants and support to MUSC and MUHA includes scholarships, academic programs, enrichment activities, equipment, rental property expenses, and other academic programs. General and administrative expenses include those expenses that are not identifiable with any other specific function but provide for the overall support and direction of the Foundation.

For the year ended June 30, 2018, expenses were allocated as follows:

	<u>Program</u>	<u>General and administrative</u>	<u>Fundraising and promotion</u>	<u>Total</u>
Support to MUSC and MUHA	\$ 26,373,447	\$ -	\$ -	\$ 26,373,447
Interest	4,619,820	-	-	4,619,820
Other programs	4,252,338	-	-	4,252,338
Development costs	-	-	1,834,170	1,834,170
Scholarships	1,819,630	-	-	1,819,630
Depreciation	1,010,305	31,759	-	1,042,064
Personnel	399,398	515,509	-	914,907
Special events	-	-	762,040	762,040
Investment and bank fees	638	481,626	-	482,264
Capital support	461,176	-	-	461,176
Property expenses	198,385	-	-	198,385
Professional fees	107,464	90,733	-	198,197
Donated goods/services	-	-	144,349	144,349
Office expense	-	126,298	-	126,298
Contracted services	-	62,225	23,538	85,763
Miscellaneous	-	55,195	-	55,195
Awards	48,688	-	-	48,688
Travel and professional development	-	7,709	-	7,709
	<u>\$ 39,291,289</u>	<u>\$ 1,371,054</u>	<u>\$ 2,764,097</u>	<u>\$ 43,426,440</u>



# Medical University of South Carolina Foundation

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

### Note 13. Expense Allocation, Continued

For the year ended June 30, 2017, expenses were allocated as follows:

	<u>Program</u>	<u>General and administrative</u>	<u>Fundraising and promotion</u>	<u>Total</u>
Support to MUSC and MUHA	\$ 46,348,678	\$ -	\$ -	\$ 46,348,678
Interest	6,416,733	-	-	6,416,733
Other programs	3,659,657	-	-	3,659,657
Scholarships	1,953,968	-	-	1,953,968
Development costs	-	-	1,704,237	1,704,237
Depreciation	1,241,981	26,406	-	1,268,387
Personnel	354,573	861,292	-	1,215,865
Capital support	980,941	-	-	980,941
Special events	-	-	751,504	751,504
Property expenses	650,736	-	-	650,736
Donated goods/services	-	-	548,978	548,978
Investment and bank fees	576	542,356	-	542,932
Professional fees	64,360	91,175	-	155,535
Office expense	-	128,658	-	128,658
Contracted services	-	44,408	32,662	77,070
Miscellaneous	-	55,747	-	55,747
Awards	34,098	-	-	34,098
Travel and professional development	-	5,477	-	5,477
	<u>\$ 61,706,301</u>	<u>\$ 1,755,519</u>	<u>\$ 3,037,381</u>	<u>\$ 66,499,201</u>

### Note 14. Classification of Endowment Funds

The Foundation's "institutional endowment funds" consist of donor-restricted resources segregated into "funds" for management and monitoring for which the gifts are held intact in perpetuity. The income generated from these resources is to be used for various programs within the charitable purpose of the Foundation. As required by generally accepted accounting principles, net assets associated with the "institutional endowment funds" are classified and reported based on the existence or absence of donor-imposed restrictions. The following depicts the net asset composition of the "institutional endowment funds" as of the years ended June 30:

	<u>2018</u>	<u>2017</u>
Net asset classification:		
Unrestricted	\$ 16,906,804	\$ 16,027,302
Temporarily restricted	69,776,715	59,635,102
Permanently restricted	174,599,511	160,233,522
Funds held for MUSC invested in endowment pool	<u>110,018,190</u>	<u>106,155,860</u>
Total endowment funds	371,301,220	342,051,786
Funds not meeting the definition	<u>71,414,991</u>	<u>54,420,213</u>
Total reported net assets	<u>\$442,716,211</u>	<u>\$ 396,471,999</u>

# Medical University of South Carolina Foundation

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

### Note 14. Classification of Endowment Funds, Continued

The following depicts the net asset composition of the “institutional endowment funds” by type of fund as of the years ended June 30:

	2018				
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Funds held for MUSC</u>	<u>Total</u>
Board designated endowment funds	\$ 16,906,804	\$ -	\$ -	\$ -	\$ 16,906,804
Donor-restricted endowment funds	<u>-</u>	<u>69,776,715</u>	<u>174,599,511</u>	<u>110,018,190</u>	<u>354,394,416</u>
Total funds	<u>\$ 16,906,804</u>	<u>\$ 69,776,715</u>	<u>\$ 174,599,511</u>	<u>\$ 110,018,190</u>	<u>\$ 371,301,220</u>

	2017				
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Funds held for MUSC</u>	<u>Total</u>
Board designated endowment funds	\$ 16,027,302	\$ -	\$ -	\$ -	\$ 16,027,302
Donor-restricted endowment funds	<u>-</u>	<u>59,635,102</u>	<u>160,233,522</u>	<u>106,155,860</u>	<u>326,024,484</u>
Total funds	<u>\$ 16,027,302</u>	<u>\$ 59,635,102</u>	<u>\$ 160,233,522</u>	<u>\$ 106,155,860</u>	<u>\$ 342,051,786</u>

The following depicts the changes in endowments for the year ended June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Funds held for MUSC</u>	<u>Total</u>
Beginning net assets	\$ 16,027,302	\$ 59,635,102	\$ 160,233,522	\$ 106,155,860	\$ 342,051,786
Contributions, net	<u>-</u>	<u>87,163</u>	<u>11,820,704</u>	<u>-</u>	<u>11,907,867</u>
	<u>16,027,302</u>	<u>59,722,265</u>	<u>172,054,226</u>	<u>106,155,860</u>	<u>353,959,653</u>
Investment return:					
Investment income, net	2,637,823	41,525,264	-	19,445,413	63,608,500
Net unrealized gains/losses	<u>(1,440,912)</u>	<u>(23,022,129)</u>	<u>-</u>	<u>(10,694,887)</u>	<u>(35,157,928)</u>
Total investment Return	<u>1,196,911</u>	<u>18,503,135</u>	<u>-</u>	<u>8,750,526</u>	<u>28,450,572</u>
Other income	505	33,749	708,839	387,439	1,130,532
Program releases and transfers	6,342,760	(8,482,434)	1,836,446	(1,091,632)	(1,394,860)
Board approved Payouts	<u>(6,660,674)</u>	<u>-</u>	<u>-</u>	<u>(4,184,003)</u>	<u>(10,884,677)</u>
	<u>(317,409)</u>	<u>(8,448,685)</u>	<u>2,545,285</u>	<u>(4,888,196)</u>	<u>(11,109,005)</u>
Total funds	<u>\$ 16,906,804</u>	<u>\$ 69,776,715</u>	<u>\$ 174,599,511</u>	<u>\$ 110,018,190</u>	<u>\$ 371,301,220</u>

# Medical University of South Carolina Foundation

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

### Note 14. Classification of Endowment Funds, Continued

The following depicts the changes in endowments for the year ended June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Funds held for MUSC</u>	<u>Total</u>
Beginning net assets	\$ 14,733,288	\$ 47,032,975	\$ 149,682,261	\$ 100,553,201	\$312,001,725
Contributions, net	-	153,519	9,579,672	-	9,733,191
	<u>14,733,288</u>	<u>47,186,494</u>	<u>159,261,933</u>	<u>100,553,201</u>	<u>321,734,916</u>
Investment return:					
Investment income, net	444,812	6,624,034	-	3,287,104	10,355,950
Net unrealized gains/losses	<u>1,087,636</u>	<u>14,118,906</u>	<u>-</u>	<u>6,995,631</u>	<u>22,202,173</u>
Total investment Return	<u>1,532,448</u>	<u>20,742,940</u>	<u>-</u>	<u>10,282,735</u>	<u>32,558,123</u>
Other income	465	535	704,983	575,838	1,281,821
Program releases and transfers	6,610,408	(8,294,867)	266,606	(1,025,970)	(2,443,823)
Board approved Payouts	<u>(6,849,307)</u>	<u>-</u>	<u>-</u>	<u>(4,229,944)</u>	<u>(11,079,251)</u>
	<u>(238,434)</u>	<u>(8,294,332)</u>	<u>971,589</u>	<u>(4,680,076)</u>	<u>(12,241,253)</u>
Total funds	<u>\$ 16,027,302</u>	<u>\$ 59,635,102</u>	<u>\$ 160,233,522</u>	<u>\$ 106,155,860</u>	<u>\$342,051,786</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. The deficiencies were \$865 and \$6,058 as of June 30, 2018 and 2017, respectively. These deficiencies resulted from unfavorable market fluctuations related to permanently restricted contributions. Management believes that these declines are temporary and investment strategies have seen improvement in the investment performance. The Foundation has sufficient unrestricted resources to replenish the deficiencies if the market performance of investment does not fully recover in the funds.

### Note 15. Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.
- Level 2: Inputs to the valuation methodology include observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

# Medical University of South Carolina Foundation

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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### Note 15. Fair Value Measurements, Continued

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

**Partnerships and hedge funds** - Value is determined by the General Partner in accordance with the partnership agreement. The General Partner estimates the fair value of the Fund's investments in investment funds on the basis of the net asset value (NAV) per share of the investment (or its equivalent), as a practical expedient, wherever a) the underlying investment manager's calculation of NAV is fair value based, and b) the NAV has been calculated as of the Fund's fiscal year end date.

**Money market funds** - Valued at NAV. The money market funds are invested in various funds. The Foundation invests in money market funds to provide daily liquidity. Fair values are based on the NAV that can be validated with a sufficient level of observable activity (i.e. purchases and sales at NAV) and were therefore classified within Level 1 of the fair value hierarchy.

**Other investments** - As of June 30, 2018, there was \$4,030,354 of investments within the General Pool that had been redeemed for which the cash had not been received. Fair value is based on the cash flows received subsequent to yearend which remained in the General Pool and was redeployed.

**Debt securities & fixed income funds** - (Includes government bonds and securities, as well as corporate bonds.) Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

**\*Common stocks** - Valued at the closing price reported on the active market on which the individual securities are traded.

**Interest rate swap liability** - Valued at expected cash flows over the life of the instrument. Expected cash flows are determined by evaluating transactions with a pricing model using a specific market environment.

**Assets held in charitable gift annuities and trusts** - Value of the assets is the fair value of the underlying investments as provided by the investment companies.

# Medical University of South Carolina Foundation

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

### Note 15. Fair Value Measurements, Continued

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy at June 30:

	Carrying Value	2018			Total
		Level 1	Level 2	Level 3	
Investments:					
Debt securities	\$ 34,086,167	\$ 34,842,921	\$ -	\$ -	\$ 34,842,921
Domestic equities*	79,778,422	81,231,877	-	-	81,231,877
Fixed income funds	47,771,745	47,000,859	-	-	47,000,859
International equity*	49,350,637	49,765,596	-	-	49,765,596
Other investments	4,030,354	4,030,354	-	-	4,030,354
Money market funds	47,421,890	47,421,890	-	-	47,421,890
Assets held in charitable gift annuities:					
Fixed income funds	863,347	838,990	-	-	838,990
Domestic equity funds*	1,186,250	2,025,856	-	-	2,025,856
Money market funds	93,237	93,237	-	-	93,237
Assets held in charitable trusts by Foundation:	4,700,250	4,700,250	-	-	4,700,250
Assets held in charitable trusts by Others:	16,027	16,027	-	-	16,027
Interest rate swap liability	227,705	-	227,705	-	227,705
Total assets and liabilities in the fair value hierarchy		<u>\$ 271,967,857</u>	<u>\$ 227,705</u>	<u>\$ -</u>	<u>272,195,562</u>
Investments measured at NAV (a)					<u>201,031,911</u>
Total assets and liabilities at fair value					<u>\$ 473,227,473</u>

# Medical University of South Carolina Foundation

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

### Note 15. Fair Value Measurements, Continued

	Carrying Value	2017			Total
		Level 1	Level 2	Level 3	
Investments:					
Debt securities	\$ 32,523,572	\$ 34,868,632	\$ -	\$ -	\$ 34,868,632
Domestic equities*	104,691,792	125,305,207	-	-	125,305,207
Fixed income funds	47,771,745	47,586,628	-	-	47,586,628
International equity*	35,104,827	40,648,868	-	-	40,648,868
Money market funds	29,748,069	29,748,069	-	-	29,748,069
Assets held in charitable gift annuities:					
Fixed income funds	783,803	778,581	-	-	778,581
Domestic equity funds*	1,294,102	2,002,812	-	-	2,002,812
Money market funds	7,784	7,784	-	-	7,784
Assets held in charitable trusts by Foundation:	4,628,782	4,628,782	-	-	4,628,782
Assets held in charitable trusts by Others:	15,421	15,421	-	-	15,421
Interest rate swap liability	1,108,550	-	1,108,550	-	1,108,550
Total assets and liabilities in the fair value hierarchy		<u>285,590,784</u>	<u>1,108,550</u>	-	<u>286,699,334</u>
Investments measured at NAV (a)					<u>151,456,794</u>
Total assets and liabilities at fair value					<u>\$ 438,156,128</u>

- (a) Certain investments that were measured at NAV per share or its equivalent have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of net assets available for benefits.

Certain financial instruments and all nonfinancial instruments are excluded from the fair value disclosure requirements. Accordingly, the aggregate fair value amounts presented do not necessarily represent the value of the Foundation.

The following table sets forth a summary of the Foundation's investments by investment category type reported at NAV as a practical expedient to estimate fair value as of June 30, 2018 and 2017:

Investment	June 30, 2018			
	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Partnerships (a)	\$ 102,043,317	\$ 28,800,000	Monthly – no liquidity	7 days – no liquidity
Hedge funds (b)	<u>98,988,594</u>	<u>600,000</u>	Monthly – no liquidity	3 days – no liquidity
Total	<u>\$ 201,031,911</u>	<u>\$ 29,400,000</u>		

# Medical University of South Carolina Foundation

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

### Note 15. Fair Value Measurements, Continued

<u>Investment</u>	<u>June 30, 2017</u>			
	<u>Fair Value</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Partnerships (a)	\$ 86,479,377	\$ 40,970,000	Quarterly – no liquidity	30 days – no liquidity
Hedge funds (b)	<u>64,977,417</u>	<u>-</u>	Quarterly	30 – 60 days
Total	<u>\$ 151,456,794</u>	<u>\$ 40,970,000</u>		

(a) **Partnerships** - The Foundation holds ownership positions in several partnerships with investment strategies including private equity partnerships, energy and natural resources, fund of fund hedge funds investing primarily in equity and fixed income securities, real estate and real estate related securities. For the majority of these partnerships, the Foundation is subject to redemption restrictions and cannot redeem from its investment in the fund. The manager has discretion on the timing of distributing the capital.

(b) **Hedge Funds** - The Foundation holds ownership shares in several hedge funds with investment strategies including fund of fund long/short equity managers. Management believes that the investment strategies employed and availability of other Foundation resources allow the Foundation to be unaffected by lock-ups.

### Note 16. Temporarily Restricted

At June 30, 2018 and 2017, temporarily restricted net assets of \$207,538,327 and \$178,281,807, respectively, were available for scholarships, faculty support, and other support of MUSC and MUHA.

Net assets released from donor restrictions by incurring expenses, satisfying the restricted purposes, or by occurrence of other events specified by donors were \$33,693,872 and \$54,445,479 for the years ended June 30, 2018 and 2017, respectively.

### Note 17. Permanently Restricted

Permanently restricted net assets of \$174,599,511 and \$160,233,522 at June 30, 2018 and 2017, respectively, are restricted to investments in perpetuity, the income from which is expendable to support the Foundation's objectives.

## **Medical University of South Carolina Foundation**

### ***Notes to Consolidated Financial Statements***

***June 30, 2018 and 2017***

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#### **Note 18. Investment in WestEdge Foundation**

During the year ended June 30, 2018, under the Master Option Agreement, WestEdge Foundation exercised its option for certain properties totaling 0.62 acres which were contributed by the Foundation to WestEdge Foundation (see Note 19) with a book value of \$1,074,814. Additionally, during the year ended June 30, 2018, \$750,363 of the Foundation's share of income from WestEdge Foundation was recorded. During the year ended June 30, 2017, under the Master Option Agreement, WestEdge Foundation exercised its option for certain properties totaling 2.67 acres which were contributed by the Foundation to WestEdge Foundation with a book value of \$5,074,094. The Foundation has determined it is not required to receive payment for the transferred assets, although payment of investment return on the transferred assets is expected. This investment of property is reflected as "Investment in affiliate" in the Consolidated Statements of Financial Position. Management evaluated the investment as of June 30, 2018 and 2017, and noted no impairment to be recorded.

#### **Note 19. Commitments and Contingencies**

On March 22 2011, the Foundation signed a memorandum of understanding ("MOU") between the City of Charleston (the "City"), the South Carolina Research Authority ("SCRA"), and the Foundation setting forth each parties' adopted resolution to endorse an initiative to support the education, research and clinical activities of MUSC and MUHA, the mission of the SCRA to foster knowledge based economy jobs, and the City's objective to create economic development opportunities and improved quality of life in its neighborhoods. The respective resolutions find that such an initiative may be advanced through a cooperative effort among the parties to participate in implementation of the redevelopment project plan for the area known as the WestEdge Project (formally known as the Horizon Redevelopment Project Area) as defined by City Council through establishment of a special purpose entity not-for-profit corporation known as the WestEdge Foundation (formerly Horizon Project Foundation). Per the Articles of Incorporation dated April 1, 2013, the WestEdge Foundation ("WEF"), a 501(c)(3) organization, was formed as outlined in the MOU. In addition, all three parties will each hold two board positions on the Board of Directors of the WEF. On June 15, 2011, the Foundation signed an MOU between the City, the SCRA, and the WEF setting forth the general terms regarding contributions of funds to the WEF. The Foundation committed to contribute up to \$200,000 per year for three years beginning July 1, 2011 for operating capital for the WEF. These contributions were in the form of a loan and will be paid back out of the first proceeds distributed from the WEF with any accrued interest.

In September 2012, the Foundation entered into a new agreement with WEF and the City amending the original MOU as described above which set the general terms regarding contributions of funds to the WEF which was amended in May 2015. The City and the Foundation are known as Supported Organizations. This amended agreement reflects the withdrawal of SCRA as a supported organization of the WEF. The Foundation and the City committed to continue to contribute up to \$200,000 per calendar year from 2011 through 2018 for operating capital for the WEF. However, either or both parties may notify WEF that they will not continue to make a contribution after 2015. These contributions were in the form of a loan and will be returned from the first proceeds distributed from the WEF. In addition, the agreement states that the amount of capital contributed will include the itemized expenditures paid on behalf of the WEF by the Foundation and the City. As of June 30, 2018 and 2017, the Foundation had advanced \$940,000 and \$840,000, respectively, to WEF. WEF reimbursed the Foundation the full \$940,000 outstanding during the year ended June 30, 2018. See Note 2.



# Medical University of South Carolina Foundation

## Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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### Note 19. Commitments and Contingencies, Continued

The Foundation entered into an agreement with the City and the WEF in December 2014 to be known as the Master Option Agreement. In this agreement, both the Foundation and the City will grant to the WEF freely assignable, irrevocable options to acquire, or to accommodate acquisition by third parties of, certain parcels of real estate located within the WestEdge Project area for \$1, and both the Foundation and the City will retain the other rights to distributions from the WEF as noted above. These parcels are identified by approximate acreage and Charleston County Tax Map Number and owned by the Foundation and the City. During the years ended June 30, 2018 and 2017, the WEF exercised options for 0.62 acres and 2.67 acres, respectively, resulting in the Foundation recording an investment in affiliate of \$1,074,814 and \$5,074,094, respectively. The Master Option Agreement provides the term of the options which will be 99 years from the date of the full execution of the Master Option Agreement. The Master Option Agreement will entitle the WEF to acquire good and marketable title to all or any portion of the contributed parcels at any time during the option term, with the purchase price to be paid at closing to the applicable Supported Organization(s) for each such conveyance. From the effective date of this agreement through the date of either, the closing on an option for a specified parcel or the end of the 99 year option term, the Foundation and the City will maintain and operate these parcels, respectively.

On October 29, 2014, the Foundation purchased a parcel of land from C&A Rentals, LLC for \$772,000. On December 16, 2014, the Foundation purchased certain parcels of land in the City for \$9,260,000. Both of these properties are pivotal to the WestEdge Project mentioned above and the options to the properties will be given to the WEF once certain conditions are met. The latter property is currently being leased back to the tenant of the building on the property on a month-to-month basis. The Foundation financed these purchases with a note payable for \$10,200,000 which was paid in full during the year ended June 30, 2017. With the exception of the two options on the 3.29 acres discussed above, certain other conditions have not been met as of June 30, 2018 or 2017 on the remaining parcels; therefore amounts are not recorded as a liability to WEF. See Notes 8 and 11.

On March 25, 2016, the Foundation entered into an agreement with the City and 99 West Edge Developer, LLC (the "Developer"), a developer of the WestEdge property, to guarantee the prompt, complete, and full payment, when due, of the projected development costs in accordance with the terms of the Development Agreement between WEF and the Developer. If these costs are not punctually paid by WEF, the costs will be due from the Foundation upon written-demand. The Foundation's individual guarantor liability with respect to these costs shall be limited to the lessor of 50% of any project development costs or \$3,735,536. As of June 30, 2018 and 2017, there was no liability recorded in relation to this agreement.

The Foundation is occasionally involved in legal proceedings (predominately civil suits) and claims with various parties, which arise in the normal course of business. Although any litigation has an element of uncertainty, it is management's opinion that the outcome of litigation pending or threatened, or the combination thereof, will not have a materially adverse effect on the financial position of the Foundation. No provision has been made in these consolidated financial statements for losses, if any, which might result from litigation pending, threatened or the combination thereof because there is no evidence to indicate that a loss and liability should be recorded at year-end.



**Independent Auditor's Report  
on the Supplementary Information**

Board of Directors  
Medical University of South Carolina Foundation  
Charleston, South Carolina

We have audited the consolidated financial statements of the Medical University of South Carolina Foundation and its subsidiaries as of and for the years ended June 30, 2018 and 2017, and have issued our report thereon which contains an unmodified opinion on those consolidated financial statements (see page 1). Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. We have not performed any procedures with respect to the audited consolidated financial statements subsequent to September 19, 2018.

The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Elliott Davis, LLC*

Columbia, South Carolina  
September 19, 2018

## **Supplementary Information**

# Medical University of South Carolina Foundation

## Consolidating Schedule of Statements of Financial Position

As of June 30, 2018

	Foundation	PGA	135 Cannon	55 Bee	165 Cannon	Total	Eliminating	Reported
<b>Assets</b>								
Cash and cash equivalents	\$ 15,065,916	\$ 1,433,118	\$ 1,629,651	\$ 73,188	\$ 537,408	\$ 18,739,281	\$ -	\$ 18,739,281
Receivables:								
Accounts and other receivables	187,948	-	-	-	-	187,948	-	187,948
Unconditional promises to give receivable, net	40,611,840	-	-	-	-	40,611,840	-	40,611,840
Interfund receivable	-	2,543	-	-	2,561,705	2,564,248	(2,564,248)	-
Investments	470,307,621	-	-	-	-	470,307,621	-	470,307,621
Investment in affiliate	6,899,271	-	-	-	-	6,899,271	-	6,899,271
Funds held in trust by the Foundation	4,700,250	-	-	-	-	4,700,250	-	4,700,250
Funds held in trust by others	16,027	-	-	-	-	16,027	-	16,027
Income producing property	35,357,342	14,957,034	19,137,500	680,000	11,791,126	81,923,002	-	81,923,002
Property and equipment, net	392,208	-	-	-	-	392,208	-	392,208
Other assets	19,739	-	2,346	572	-	22,657	-	22,657
Total assets	<u>\$ 573,558,162</u>	<u>\$ 16,392,695</u>	<u>\$ 20,769,497</u>	<u>\$ 753,760</u>	<u>\$ 14,890,239</u>	<u>\$ 626,364,353</u>	<u>\$ (2,564,248)</u>	<u>\$ 623,800,105</u>
<b>Liabilities and Net Assets</b>								
<b>Liabilities:</b>								
Accounts payable	\$ 1,882,694	\$ -	\$ -	\$ -	\$ -	\$ 1,882,694	\$ -	\$ 1,882,694
Interfund payable	2,564,248	-	-	-	-	2,564,248	(2,564,248)	-
Accrued interest payable	19,430,966	14,215	17,469	801	-	19,463,451	-	19,463,451
Annuities payable	3,564,747	-	-	-	-	3,564,747	-	3,564,747
Notes payable - MUSC	90,587,225	-	-	-	-	90,587,225	-	90,587,225
Notes and bonds payable	-	11,870,510	14,239,968	664,689	15,700,000	42,475,167	-	42,475,167
Interest rate swaps	-	100,951	121,101	5,653	-	227,705	-	227,705
Deferred rent	5,030,505	-	-	-	-	5,030,505	-	5,030,505
Contributions payable - MUSC	17,852,400	-	-	-	-	17,852,400	-	17,852,400
Total liabilities	<u>140,912,785</u>	<u>11,985,676</u>	<u>14,378,538</u>	<u>671,143</u>	<u>15,700,000</u>	<u>183,648,142</u>	<u>(2,564,248)</u>	<u>181,083,894</u>
<b>Net assets:</b>								
<b>Unrestricted:</b>								
Undesignated	22,996,139	4,407,019	6,390,959	82,617	(809,761)	33,066,973	-	33,066,973
Designated for MUSC programs	27,511,400	-	-	-	-	27,511,400	-	27,511,400
Total unrestricted	50,507,539	4,407,019	6,390,959	82,617	(809,761)	60,578,373	-	60,578,373
Temporarily restricted	207,538,327	-	-	-	-	207,538,327	-	207,538,327
Permanently restricted	174,599,511	-	-	-	-	174,599,511	-	174,599,511
Total net assets	<u>432,645,377</u>	<u>4,407,019</u>	<u>6,390,959</u>	<u>82,617</u>	<u>(809,761)</u>	<u>442,716,211</u>	<u>-</u>	<u>442,716,211</u>
Total liabilities and net assets	<u>\$ 573,558,162</u>	<u>\$ 16,392,695</u>	<u>\$ 20,769,497</u>	<u>\$ 753,760</u>	<u>\$ 14,890,239</u>	<u>\$ 626,364,353</u>	<u>\$ (2,564,248)</u>	<u>\$ 623,800,105</u>

## Medical University of South Carolina Foundation

### Consolidating Schedule of Statements of Activities

For the year ended June 30, 2018

	Foundation	PGA	135 Cannon	55 Bee	165 Cannon	Total	Eliminating	Reported
<b>Revenue, Gains And Other Support</b>								
Contributions, net of gift management fees	\$ 38,784,063	\$ -	\$ -	\$ -	\$ -	\$ 38,784,063	\$ -	\$ 38,784,063
Interest and dividends, net	4,624,922	465	-	-	-	4,625,387	-	4,625,387
Net unrealized and realized loss	26,802,163	-	-	-	-	26,802,163	-	26,802,163
Unrealized gain on investment in affiliate	750,363	-	-	-	-	750,363	-	750,363
Unrealized gain on interest rate swap	-	390,514	468,465	21,866	-	880,845	-	880,845
Special events revenue	3,496,180	-	-	-	-	3,496,180	-	3,496,180
Rental income	1,598,386	1,800,894	2,157,414	100,558	-	5,657,252	-	5,657,252
Changes in value of split-interest agreements	(360,471)	-	-	-	-	(360,471)	-	(360,471)
Gain (loss) on asset disposal	94,738	-	-	(321,125)	-	(226,387)	-	(226,387)
Other income	9,261,257	-	-	-	-	9,261,257	-	9,261,257
Net assets released from restrictions:								
Payments of recurring management fees	101,471	(45,022)	(53,935)	(2,514)	-	-	-	-
Total revenue, gains and other support	<u>85,153,072</u>	<u>2,146,851</u>	<u>2,571,944</u>	<u>(201,215)</u>	<u>-</u>	<u>89,670,652</u>	<u>-</u>	<u>89,670,652</u>
<b>Expenses</b>								
Program expenses	37,226,010	765,103	879,419	28,275	392,482	39,291,289	-	39,291,289
Supporting services:								
General and administrative	1,371,054	-	-	-	-	1,371,054	-	1,371,054
Fundraising and promotion	2,764,097	-	-	-	-	2,764,097	-	2,764,097
Total expenses	<u>41,361,161</u>	<u>765,103</u>	<u>879,419</u>	<u>28,275</u>	<u>392,482</u>	<u>43,426,440</u>	<u>-</u>	<u>43,426,440</u>
Changes in net assets	43,791,911	1,381,748	1,692,525	(229,490)	(392,482)	46,244,212	-	46,244,212
<b>Net Assets, July 1, 2017</b>	<u>388,853,466</u>	<u>3,025,271</u>	<u>4,698,434</u>	<u>312,107</u>	<u>(417,279)</u>	<u>396,471,999</u>	<u>-</u>	<u>396,471,999</u>
<b>Net Assets, June 30, 2018</b>	<u>\$ 432,645,377</u>	<u>\$ 4,407,019</u>	<u>\$ 6,390,959</u>	<u>\$ 82,617</u>	<u>\$ (809,761)</u>	<u>\$ 442,716,211</u>	<u>\$ -</u>	<u>\$ 442,716,211</u>

## Medical University of South Carolina Foundation

### Consolidating Schedule of Statements of Cash Flows

For the year ended June 30, 2018

	Foundation	PGA	135 Cannon	55 Bee	165 Cannon	Eliminating	Reported
<b>Operating Activities</b>							
Changes in net assets	\$ 43,791,911	\$ 1,381,748	\$ 1,692,525	\$ (229,490)	\$ (392,482)	\$ -	\$ 46,244,212
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:							
Donation of securities	(2,671,846)	-	-	-	-	-	(2,671,846)
Donation of property held for investment	(405,000)	-	-	-	-	-	(405,000)
Depreciation	223,711	388,103	425,000	5,250	-	-	1,042,064
Re-investment of net investment income	(4,553,504)	-	-	-	-	-	(4,553,504)
Net unrealized and realized gain on long term investments	(26,802,163)	-	-	-	-	-	(26,802,163)
In-kind investment transfer	138,466	-	-	-	-	-	138,466
Unrealized gain on investment in affiliate	(750,363)	-	-	-	-	-	(750,363)
(Gain) loss on disposal of property and equipment and property held for sale	(94,738)	-	-	321,125	-	-	226,387
Change in discount - contributions receivable	(339,651)	-	-	-	-	-	(339,651)
Change in allowance for unconditional promises to give and bad debt	436,526	-	-	-	-	-	436,526
Change in value of split interest agreement	360,471	-	-	-	-	-	360,471
Change in cash surrender value of life insurance	(53,954)	-	-	-	-	-	(53,954)
Contributions, other income and transfers restricted to permanent investment	(14,365,989)	-	-	-	-	-	(14,365,989)
Unrealized gains on interest rate swaps	-	(390,514)	(468,465)	(21,866)	-	-	(880,845)
Changes in accrued and deferred amounts:							
Accounts and other receivables	850,988	-	-	-	-	-	850,988
Unconditional promises to give	(4,365,261)	-	-	-	-	-	(4,365,261)
Interfund receivable	-	-	-	-	414,711	(414,711)	-
Other assets	(2,179)	-	(500)	(86)	-	-	(2,765)
Accounts payable	324,747	-	-	-	-	-	324,747
Interfund payable	(414,711)	-	-	-	-	414,711	-
Accrued interest payable	3,474,892	1,799	2,257	90	(2,198)	-	3,476,840
Deferred rent	(736,778)	-	-	-	-	-	(736,778)
Net cash provided by (used for) operating activities	(5,954,425)	1,381,136	1,650,817	75,023	20,031	-	(2,827,418)
Net increase (decrease) in cash and cash equivalents - carried forward	(5,954,425)	1,381,136	1,650,817	75,023	20,031	-	(2,827,418)

## Medical University of South Carolina Foundation

### Consolidating Schedule of Statements of Cash Flows

For the year ended June 30, 2018

	Foundation	PGA	135 Cannon	55 Bee	165 Cannon	Eliminating	Reported
Net increase (decrease) in cash and cash equivalents - brought forward	(5,954,425)	1,381,136	1,650,817	75,023	20,031	-	(2,827,418)
<b>Investing Activities</b>							
Purchases for construction in progress	\$ -	\$ -	\$ -	\$ -	\$ (97,566)	\$ -	\$ (97,566)
Purchases of investments	(365,136,985)	-	-	-	-	-	(365,136,985)
Proceeds from sales of investments	364,370,107	-	-	-	-	-	364,370,107
Net cash used for investing activities	(766,878)	-	-	-	(97,566)	-	(864,444)
<b>Financing Activities</b>							
Contributions, other income and transfers invested in endowments	14,365,989	-	-	-	-	-	14,365,989
Payments of annuity obligations	(467,949)	-	-	-	-	-	(467,949)
Liability for new split-interest agreements	40,669	-	-	-	-	-	40,669
Proceeds from remainder of annuity obligations	3,657	-	-	-	-	-	3,657
Proceeds from long-term obligations	387,439	-	-	-	100,000	-	487,439
Payments on long-term obligations	-	(875,285)	(1,049,999)	(49,012)	-	-	(1,974,296)
Net cash provided by (used for) financing activities	14,329,805	(875,285)	(1,049,999)	(49,012)	100,000	-	12,455,509
Net increase in cash and equivalents	7,608,502	505,851	600,818	26,011	22,465	-	8,763,647
<b>Cash And Cash Equivalents, Beginning Of Year</b>	7,457,414	927,267	1,028,833	47,177	514,943	-	9,975,634
<b>Cash And Cash Equivalents, End Of Year</b>	<u>\$ 15,065,916</u>	<u>\$ 1,433,118</u>	<u>\$ 1,629,651</u>	<u>\$ 73,188</u>	<u>\$ 537,408</u>	<u>\$ -</u>	<u>\$ 18,739,281</u>
<b>Supplemental Cash Flow Information</b>							
Noncash investing and financing activities:							
Investment in affiliate	\$ 1,074,814	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,074,814
Interest paid	\$ -	\$ 371,792	\$ 449,062	\$ 20,839	\$ 302,075	\$ -	\$ 1,143,768

## Medical University of South Carolina Foundation

### Selected Financial Data

For the years ended June 30,

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Investments	\$ 190,380	\$ 203,941	\$ 186,749	\$ 233,626	\$ 291,966	\$ 304,472	\$ 350,486	\$ 391,508	\$ 409,237	\$ 409,522	\$ 435,169	\$ 470,308
Property (net)	57,944	84,230	84,175	82,892	81,668	80,498	77,957	76,698	85,467	95,701	84,656	82,315
Total assets	272,372	315,168	298,720	346,349	402,853	412,517	457,520	496,784	541,147	562,305	576,921	623,800
Total revenue	49,216	34,481	8,706	65,946	67,609	26,982	72,560	66,785	63,938	47,096	90,347	89,671
<b>Percent of Revenue</b>												
Contributions	34%	72%	332%	38%	26%	52%	41%	25%	63%	77%	38%	44%
Investment income	49	(9)	(361)	35	50	3	43	54	21	(2)	40	35
Rental and other income	17	37	129	27	24	45	16	21	16	25	22	21
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
Total expenses	\$ 20,060	\$ 20,938	\$ 29,007	\$ 30,436	\$ 29,021	\$ 21,564	\$ 30,547	\$ 37,195	\$ 29,779	\$ 31,682	\$ 66,499	\$ 43,426
<b>Percent of Expenses</b>												
Benefit of MUSC	58%	72%	75%	77%	76%	69%	57%	59%	78%	77%	80%	76%
Upkeep & general (investment property)	28	11	13	13	11	15	30	31	9	15	13	14
Other	14	17	12	10	13	16	13	10	13	8	7	10
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

All dollar amounts are reported in thousands.

Investments are stated at carrying value plus accrued interest.



## Medical University of South Carolina Foundation

### Schedule of Income Producing Property and Equipment by Location

As of June 30, 2018

Location	Land	Building and Improvements	Furniture and Equipment	Non- Depreciable Assets	Subtotal	Accumulated Depreciation	Property and Equipment, net
135 Cannon Street	\$ 6,600,000	\$ 17,000,000	\$ 27,770	\$ -	\$ 23,627,770	\$ (4,490,270)	\$ 19,137,500
160 Ashley Avenue	170,808	-	-	-	170,808	-	170,808
164 Cannon Street	164,200	64,140	-	-	228,340	(64,140)	164,200
17 Ehrhardt Street	175,000	695,839	-	-	870,839	(376,170)	494,669
170 Ashley Avenue	200,953	54,854	-	-	255,807	(16,745)	239,062
176 Ashley Avenue-Guest House	-	124,015	14,456	14,988	153,459	(126,365)	27,094
178 Ashley Avenue-Apartments	-	85,527	128,545	-	214,072	(43,220)	170,852
20 Ehrhardt Street	253,560	244,251	-	-	497,811	(236,865)	260,946
28 Ehrhardt Street	125,000	45,000	-	-	170,000	(26,539)	143,461
30 Bee Street	1,122,349	1,986,872	-	-	3,109,221	(1,559,766)	1,549,455
51 Bee Street	36,000	144,149	-	-	180,149	(79,159)	100,990
55 Bee Street	680,000	-	-	-	680,000	-	680,000
56 Courtenay Drive	178,000	544,926	115,000	-	837,926	(408,422)	429,504
57 Bee Street	86,000	344,000	-	-	430,000	(141,863)	288,137
59 Bee Street	769,627	-	-	-	769,627	-	769,627
151 Rutledge Avenue	4,120,000	-	-	-	4,120,000	-	4,120,000
4295 Arco Lane	375,680	2,351,056	-	-	2,726,736	(1,627,837)	1,098,899
21 Courtenay Drive	4,410,000	15,524,140	-	-	19,934,140	(4,977,106)	14,957,034
135 Rutledge Avenue	17,782,800	69,600	-	-	17,852,400	-	17,852,400
178 Ashley Avenue – Wickliffe House	20,000	755,483	54,104	173,476	1,003,063	(714,086)	288,977
Lockwood Property Horizon District	5,944,107	-	-	-	5,944,107	-	5,944,107
52 Courtenay Drive	1,250,000	-	-	-	1,250,000	(5,846)	1,244,154
165 Cannon Street	10,250,000	-	-	1,541,126	11,791,126	-	11,791,126
	<u>\$ 54,714,084</u>	<u>\$ 40,033,852</u>	<u>\$ 339,875</u>	<u>\$ 1,729,590</u>	<u>\$ 96,817,401</u>	<u>\$ (14,894,399)</u>	<u>\$ 81,923,002</u>

## Medical University of South Carolina Foundation

### Schedule of Income Producing Property and Equipment by Location

As of June 30, 2017

Location	Land	Building and Improvements	Furniture and Equipment	Non- Depreciable Assets	Subtotal	Accumulated Depreciation	Property and Equipment, net
135 Cannon Street	\$ 6,600,000	\$ 17,000,000	\$ 27,770	\$ -	\$ 23,627,770	\$ (4,065,270)	\$ 19,562,500
160 Ashley Avenue	170,808	-	-	-	170,808	-	170,808
164 Cannon Street	164,200	64,140	-	-	228,340	(64,140)	164,200
17 Ehrhardt Street	175,000	695,839	-	-	870,839	(358,328)	512,511
170 Ashley Avenue	200,953	54,854	-	-	255,807	(15,340)	240,467
176 Ashley Avenue-Guest House	-	124,015	14,456	14,988	153,459	(125,448)	28,011
178 Ashley Avenue-Apartments	-	85,527	128,545	-	214,072	(37,842)	176,230
20 Ehrhardt Street	253,560	244,251	-	-	497,811	(235,060)	262,751
250 Spring Street	282,860	-	-	-	282,860	-	282,860
28 Ehrhardt Street	125,000	45,000	-	-	170,000	(25,385)	144,615
30 Bee Street	1,122,349	1,986,872	-	-	3,109,221	(1,500,219)	1,609,002
360 Spring Street	7,902	-	-	-	7,902	-	7,902
51 Bee Street	36,000	144,149	-	-	180,149	(75,463)	104,686
55 Bee Street	680,000	420,000	-	-	1,100,000	(93,625)	1,006,375
56 Courtenay Drive	178,000	544,926	115,000	-	837,926	(394,449)	443,477
57 Bee Street	86,000	344,000	-	-	430,000	(133,043)	296,957
59 Bee Street	769,627	-	-	-	769,627	-	769,627
151 Rutledge Avenue	4,120,000	-	-	-	4,120,000	-	4,120,000
4295 Arco Lane	375,680	2,351,056	-	-	2,726,736	(1,560,625)	1,166,111
21 Courtenay Drive	4,410,000	15,524,140	-	-	19,934,140	(4,589,003)	15,345,137
135 Rutledge Avenue	17,782,800	69,600	-	-	17,852,400	-	17,852,400
178 Ashley Avenue – Wickliffe House	20,000	755,483	54,104	173,476	1,003,063	(706,806)	296,257
Lockwood Property Horizon District	6,728,160	-	-	-	6,728,160	-	6,728,160
52 Courtenay Drive	1,250,000	-	-	-	1,250,000	(2,923)	1,247,077
165 Cannon Street	10,250,000	-	-	1,443,560	11,693,560	-	11,693,560
	<u>\$ 55,788,899</u>	<u>\$ 40,453,852</u>	<u>\$ 339,875</u>	<u>\$ 1,632,024</u>	<u>\$ 98,214,650</u>	<u>\$ (13,982,969)</u>	<u>\$ 84,231,681</u>