

Medical University of South Carolina Foundation

Report on Consolidated Financial Statements

For the years ended June 30, 2017 and 2016

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, 2017 and 2016, and 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 audits 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, 2017 and 2016, 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 Decosimo, LLC

Columbia, South Carolina
September 15, 2017

Medical University of South Carolina Foundation

Consolidated Statements of Financial Position

As of June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents	\$ 9,975,634	\$ 16,350,181
Receivables:		
Accounts and other receivables (Note 2)	1,038,936	758,368
Unconditional promises to give, net (Note 3)	36,343,454	35,366,192
Investments (Notes 4 and 5)	435,169,472	409,521,850
Investment in affiliate (Note 18)	5,074,094	-
Funds held in trust by the Foundation (Note 6)	4,628,782	4,573,474
Funds held in trust by others (Note 6)	15,421	14,153
Income producing property (Note 8)	84,231,681	95,303,679
Property and equipment, net (Note 7)	423,966	397,567
Other assets	19,892	19,710
Total assets	<u>\$ 576,921,332</u>	<u>\$ 562,305,174</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 1,557,947	\$ 1,902,099
Accrued interest payable	15,986,611	10,973,754
Annuities payable	3,627,293	3,727,538
Notes payable - MUSC (Notes 10 and 11)	90,199,786	89,623,947
Notes and bonds payable (Note 11)	44,349,463	56,468,350
Interest rate swaps (Note 11)	1,108,550	2,614,087
Deferred rent (Note 12)	5,767,283	6,518,722
Contributions payable - MUSC (Note 12)	17,852,400	17,852,400
Total liabilities	<u>180,449,333</u>	<u>189,680,897</u>
Net assets		
Unrestricted:		
Undesignated	32,327,441	26,698,683
Designated for MUSC programs	25,629,229	25,517,185
Total unrestricted	<u>57,956,670</u>	<u>52,215,868</u>
Temporarily restricted (Note 16)	178,281,807	170,726,148
Permanently restricted (Note 17)	160,233,522	149,682,261
Total net assets	<u>396,471,999</u>	<u>372,624,277</u>
Total liabilities and net assets	<u>\$ 576,921,332</u>	<u>\$ 562,305,174</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
Revenue, Gains And Other Support				
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>
Expenses				
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
Net Assets, July 1, 2016	<u>52,215,868</u>	<u>170,726,148</u>	<u>149,682,261</u>	<u>372,624,277</u>
Net Assets, June 30, 2017	<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 Statement of Activities

For the year ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains And Other Support				
Contributions, net of gift management fees	\$ 1,166,458	\$ 28,536,938	\$ 6,476,654	\$ 36,180,050
Interest and dividends, net	1,325,615	3,833,115	-	5,158,730
Net unrealized and realized gains (losses)	6,299,842	(12,342,453)	-	(6,042,611)
Unrealized loss on interest rate swap	(1,277,662)	-	-	(1,277,662)
Special events revenue	-	3,409,795	-	3,409,795
Rental income	6,595,994	34,344	26,613	6,656,951
Changes in value of split-interest agreements	-	48,223	-	48,223
Gain on asset disposal	-	6,383	-	6,383
Other income	23,311	122,613	2,810,100	2,956,024
	<u>14,133,558</u>	<u>23,648,958</u>	<u>9,313,367</u>	<u>47,095,883</u>
Net assets released from restrictions				
Transfers	(132,540)	43,367	89,173	-
Payments of recurring management fees	2,882,551	(2,882,551)	-	-
Program restrictions satisfied	24,269,664	(24,269,664)	-	-
Total released from restrictions (Note 16)	<u>27,019,675</u>	<u>(27,108,848)</u>	<u>89,173</u>	<u>-</u>
Total revenue, gains and other support	<u>41,153,233</u>	<u>(3,459,890)</u>	<u>9,402,540</u>	<u>47,095,883</u>
Expenses				
Program expenses	27,570,645	-	-	27,570,645
Supporting services:				
General and administrative	1,622,953	-	-	1,622,953
Fundraising and promotion	2,488,543	-	-	2,488,543
Total expenses (Note 13)	<u>31,682,141</u>	<u>-</u>	<u>-</u>	<u>31,682,141</u>
Change in net assets	9,471,092	(3,459,890)	9,402,540	15,413,742
Net Assets, July 1, 2015	<u>42,744,776</u>	<u>174,186,038</u>	<u>140,279,721</u>	<u>357,210,535</u>
Net Assets, June 30, 2016	<u>\$ 52,215,868</u>	<u>\$ 170,726,148</u>	<u>\$ 149,682,261</u>	<u>\$ 372,624,277</u>

See Notes to Consolidated Financial Statements.

Medical University of South Carolina Foundation

Consolidated Statements of Cash Flows

For the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Activities		
Changes in net assets	\$ 23,847,722	\$ 15,413,742
Adjustments to reconcile changes in net assets to net cash used for operating activities:		
Donation of securities	(6,627,380)	(6,946,508)
Depreciation	1,268,387	1,274,563
Gain on sale of income producing properties	(4,346,950)	-
Re-investment of net investment income	(2,867,687)	(5,041,417)
Net unrealized and realized (gains) losses on long term investments	(33,477,806)	13,784,412
Offset against unrealized losses due to reduction of accrued interest for losses on MUSC funds	-	(7,741,801)
Gain on disposal of property and equipment	(5,500)	-
Change in discount - contributions receivable	(605,916)	230,278
Change in allowance for unconditional promises to give and bad debt	85,705	379,514
Change in value of split interest agreements	423,189	644
Change in cash surrender value of life insurance	(63,277)	(126,496)
Contributions, other income and transfers restricted to permanent investment	(10,551,261)	(9,402,540)
Unrealized (gain) loss on interest rate swaps	(1,505,537)	1,277,662
Changes in accrued and deferred amounts:		
Accounts and other receivables	(236,615)	(209,111)
Unconditional promises to give	(457,051)	(3,795,140)
Other assets	(182)	(3,399)
Accounts payable	(388,105)	(79,813)
Accrued interest payable	5,012,857	(2,572)
Deferred rent	(751,439)	(732,665)
Net cash used for operating activities	<u>(31,246,846)</u>	<u>(1,720,647)</u>
Investing Activities		
Purchases of income producing property	(5,540)	(11,500,000)
Purchases of property and equipment	(52,833)	(9,094)
Purchases for construction in progress	(1,443,560)	-
Proceeds from sales of income producing properties	10,557,501	-
Purchases of investments	(98,736,452)	(192,210,915)
Proceeds from sales of investments	116,069,672	190,524,902
Net cash provided by (used for) investing activities	<u>26,388,788</u>	<u>(13,195,107)</u>
Net decrease in cash and cash equivalents -carried forward	<u>(4,858,058)</u>	<u>(14,915,754)</u>

See Notes to Consolidated Financial Statements.

Medical University of South Carolina Foundation

Consolidated Statements of Cash Flows

For the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Net decrease in cash and cash equivalents -brought forward	<u>(4,858,058)</u>	<u>(14,915,754)</u>
Financing Activities		
Contributions, other income and transfers invested in endowments	10,551,261	9,402,540
Payments of annuity obligations	(488,816)	(489,545)
Liability for new split-interest agreements	4,265	-
Payments of remainder of annuity obligations	(40,151)	(13,436)
Proceeds from long-term obligations	575,839	17,991,442
Payments on long-term obligations	<u>(12,118,887)</u>	<u>(4,465,033)</u>
Net cash provided by (used for) financing activities	<u>(1,516,489)</u>	<u>22,425,968</u>
Net increase (decrease) in cash and cash equivalents	(6,374,547)	7,510,214
Cash And Cash Equivalents, Beginning Of Year	<u>16,350,181</u>	<u>8,839,967</u>
Cash And Cash Equivalents, End Of Year	<u><u>\$ 9,975,634</u></u>	<u><u>\$ 16,350,181</u></u>
Supplemental Cash Flow Information		
Noncash investing and financing activities:		
Investment in affiliate	<u>\$ 5,074,094</u>	<u>\$ -</u>
Interest paid	<u>\$ 1,403,876</u>	<u>\$ 1,233,640</u>

See Notes to Consolidated Financial Statements.

Medical University of South Carolina Foundation

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

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 an office building 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, 2017 and 2016

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 \$2,185,515 and \$423,638 were received and recorded as "Contributions, net of gift management fees" in the Consolidated Statements of Activities during June 30, 2017 and 2016, 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, 2017 and 2016

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. The Foundation did not receive any donated real property during the years ended June 30, 2017 or 2016.

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, 2017 and 2016

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, 2017 and 2016

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 5.5% 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, 2017 and 2016

Note 1. Summary of Significant Accounting Policies, 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 5.5% 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 5.25%, including the management fee assessment, for both the fiscal years ended June 30, 2017 and 2016.

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 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. Distributions to the Foundation during the life of the agreement are recognized as reductions in the investment earnings in the appropriate net asset classification in accordance with the donor's wishes.

Medical University of South Carolina Foundation

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

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, 2017 or 2016. 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 2013.

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, 2017 and 2016

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, 2017 and 2016, 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 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 Financial Accounting Standards Board on August 18, 2016, published Accounting Standards update (ASU) 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, 2017 and 2016

Note 1. Summary of Significant Accounting Policies, Continued

Recently issued pronouncements, continued

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 for all Associations. 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.

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.

Subsequent events:

In preparing these consolidated financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 15, 2017 the date the consolidated financial statements were available to be issued.

Note 2. Accounts and Other 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). At June 30, 2016, accounts and other receivables consisted of \$118,368 in student loans receivable, tenant reimbursements, and miscellaneous receivables, as well as \$640,000 in loans receivable from the WestEdge Foundation.

Medical University of South Carolina Foundation

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Note 3. Unconditional Promises to Give, Net

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

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 10,127,546	\$ 9,145,668
Receivable in one to five years	27,554,147	24,999,480
Receivable in more than five years	<u>8,377,119</u>	<u>11,456,613</u>
	46,058,812	45,601,761
Less discount to present value	4,709,477	5,315,393
Less allowance for doubtful accounts	<u>5,005,881</u>	<u>4,920,176</u>
Unconditional promises to give, net	<u>\$ 36,343,454</u>	<u>\$ 35,366,192</u>

The discount to present value was calculated using the estimated earnings rate of 2.75% and 2.91% as of June 30, 2017 and 2016, respectively.

At June 30, 2017, 2 donors had pledge balances totaling \$23,631,000 representing 51% of total promises to give - receivables. At June 30, 2016, 2 donors had pledge balances of \$28,460,000 representing 62% of total promises to give - receivables.

The Foundation received \$1,895,985 and \$3,050,468 in conditional promises to give for support of MUSC programs for the years ended June 30, 2017 and 2016, respectively. Total conditional promises to give as of June 30, 2017 are \$20,925,027. 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.

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 properties in North Charleston and on Paradise Island with an estimated fair value of \$605,990. 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 LCG Associates as an independent investment consultant to provide advice and review the performance of its investment managers.

Medical University of South Carolina Foundation

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Note 5. Investments, Continued

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>

Investments were comprised of the following at June 30, 2016:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gains</u>
General Pool:			
Debt securities	\$ 32,103,068	\$ 34,991,318	\$ 2,888,250
Domestic equities	115,672,365	119,575,125	3,902,760
Fixed income funds	47,771,745	47,834,880	63,135
International equity	31,455,099	32,136,007	680,908
Partnerships	71,026,913	84,417,558	13,390,645
Hedge funds	47,166,494	53,440,346	6,273,852
Money market funds	<u>30,343,107</u>	<u>30,343,107</u>	<u>-</u>
Total general pool	<u>375,538,791</u>	<u>402,738,341</u>	<u>27,199,550</u>
Annuity Pool:			
Fixed income funds	786,888	789,239	2,351
Domestic equity funds	1,317,004	1,867,978	550,974
Money market funds	<u>41,464</u>	<u>41,464</u>	<u>-</u>
Total annuity pool	<u>2,145,356</u>	<u>2,698,681</u>	<u>553,325</u>
Other Investments	<u>4,084,828</u>	<u>4,084,828</u>	<u>-</u>
Total investments	<u>\$ 381,768,975</u>	<u>\$ 409,521,850</u>	<u>\$ 27,752,875</u>

Medical University of South Carolina Foundation

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Note 5. Investments, Continued

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 or 2016.

Investment income is comprised of the following for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 4,031,834	\$ 6,016,128
Investment fees	<u>(1,130,872)</u>	<u>(857,398)</u>
Interest and dividends, net	<u>2,900,962</u>	<u>5,158,730</u>
Realized gains	9,762,145	12,605,307
Unrealized gains (losses)	<u>23,715,661</u>	<u>(18,647,918)</u>
Net unrealized and realized gains (losses)	<u>33,477,806</u>	<u>(6,042,611)</u>
Net investment income (loss)	<u>\$ 36,378,768</u>	<u>\$ (883,881)</u>

In the year ended June 30, 2016, unrealized losses of \$26,389,719 were offset by the reduction in earnings owed to MUSC for funds held for MUSC totaling \$7,741,801, resulting in a net unrealized losses above of \$18,647,918. This is not applicable in the year ended June 30, 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 1.0% to 7.8%). 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 various charitable trust agreements. 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 (ranging from 2.6% to 7.8%). 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>2017</u>	<u>2016</u>
Held by the Foundation	\$ 4,628,782	\$ 4,573,474
Held by others	<u>15,421</u>	<u>14,153</u>
Total assets held in trust	<u>\$ 4,644,203</u>	<u>\$ 4,587,627</u>

Medical University of South Carolina Foundation

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Note 6. Assets Held in Trust, Continued

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>2017</u>	<u>2016</u>
Interest and dividends	\$ 95,390	\$ 106,103
Investment fees	<u>(31,869)</u>	<u>(32,198)</u>
Interest and dividends, net	<u>63,521</u>	<u>73,905</u>
Realized gains	186,545	45,821
Unrealized gains (losses)	<u>250,704</u>	<u>(82,238)</u>
Net investment income	<u>\$ 500,770</u>	<u>\$ 37,488</u>

The Foundation received no distributions from funds held in trust by others for the years ended June 30, 2017 and 2016.

Note 7. Property and Equipment, Net

Major classifications of property and equipment used in operations as of June 30, 2017 and 2016 are summarized below:

	<u>2017</u>	<u>2016</u>
Land	\$ 66,944	\$ 66,944
Building and improvement	558,197	542,972
Furniture and equipment	<u>159,628</u>	<u>166,358</u>
Total	784,769	776,274
Accumulated depreciation	<u>(360,803)</u>	<u>(378,707)</u>
Property and equipment, net	<u>\$ 423,966</u>	<u>\$ 397,567</u>

Depreciation expense on these assets for the years ended June 30, 2017 and 2016 was \$26,406 and \$24,684, 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>2017</u>	<u>2016</u>
Land	\$ 55,788,899	\$ 61,717,994
Building and improvement	40,453,852	49,487,338
Furniture and equipment	339,875	339,873
Non-depreciable assets	<u>1,632,024</u>	<u>188,464</u>
Total	98,214,650	111,733,669
Accumulated depreciation	<u>(13,982,969)</u>	<u>(16,429,990)</u>
Property and equipment, net	<u>\$ 84,231,681</u>	<u>\$ 95,303,679</u>

The non-depreciable assets are primarily antique furnishings and fixtures, along with \$1,443,560 in construction in progress related to preliminary work on a parking garage project related to the 165 Cannon Street property held.

Medical University of South Carolina Foundation

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Note 8. Income Producing Property, Continued

Depreciation expense on these assets for the years ended June 30, 2017 and 2016 was \$1,241,981 and \$1,249,879, respectively.

Note 9. Credit Risk

The Foundation maintains nine 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.

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 \$50,652,012 and \$22,456,753 for 2017 and 2016, respectively. The Foundation had accounts payable to MUSC and MUHA of a combined \$1,068,913 and \$1,379,786 at June 30, 2017 and 2016, 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.

Medical University of South Carolina Foundation

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Note 10. Related Parties, Continued

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, 2017 and 2016, the Foundation owed \$87,099,999 and \$87,099,999 for the SmartState program funds, respectively. Under the Other Contributions agreement, the Foundation owed \$3,099,787 and \$2,523,948 as of June 30, 2017 and 2016, respectively.

The Foundation has also entered into several lease agreements with MUSC and MUHA during the years ended June 30, 2017 and 2016. See Note 12.

Note 11. Long-Term Obligations

The long-term obligations of the Foundation are comprised of the following as of June 30, 2017 and 2016:

Notes 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.

165 Cannon - Originated in the amount of \$15,600,000. Due to South State Bank, requiring interest only payments until maturity on June 27, 2019, when all principal and outstanding interest is due. Interest is calculated at a fixed rate of 1.69% per annum through June 26, 2018. Beginning June 27, 2018 through maturity, interest is calculated at One-Month LIBOR plus 1.25% per annum. The loan is unsecured; however, with a recorded negative pledge agreement on the 165 Cannon property which has a carrying value of \$10,250,000 and an assignment of leases, rents, and profits.

Medical University of South Carolina Foundation

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Note 11. Long-Term Obligations, Continued

Bonds Payable:

Jobs-Economic Development Alliance (JEDA) - Originated in the amount of \$7,400,000. Through a series of agreements, the applicable interest had effectively been fixed at a weighted average of 2.61%, which included a required letter of credit and other fees. The bond was due in future installments ranging from \$500,000 to \$600,000 through December 2019. Interest was paid quarterly. Real property and assignments of lease revenue served as collateral. The outstanding balance was paid in full during the year ended June 30, 2016.

On December 28, 2001 the Foundation entered into an interest rate swap agreement with an effective date of December 28, 2001, to effectively exchange the Foundation's variable interest rate exposure of the Weekly BMA Municipal Swap Index Rate on notional amounts of approximately \$5,500,000 of its bond to a fixed 4.705% rate. This interest rate swap agreement matured December 1, 2016, but was terminated upon the payoff of the above JEDA bond payable.

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 are due upon maturity on October 17, 2029. A mortgage on real property with a carrying value of \$18,273,000 and assignments of lease revenue serve as collateral.

On January 17, 2010 the Foundation entered into an interest rate swap agreement with an effective date of January 17, 2010, to effectively exchange the Foundation's variable interest rate exposure of 68% of one month LIBOR rate plus 1.1375% with no floor on a notional amount of \$20,268,469 of its bond to a fixed 2.985% rate. This interest rate swap agreement was amended as of November 17, 2014 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. As of June 30, 2017, the bond held a notional amount of \$13,735,819. This interest rate swap agreement matures October 17, 2029.

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 are 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.

Medical University of South Carolina Foundation

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Note 11. Long-Term Obligations, Continued

Bonds Payable, continued:

On January 17, 2010 the Foundation entered into an interest rate swap agreement with an effective date of January 17, 2010, to effectively exchange the Foundation's variable interest rate exposure of 68% of one month LIBOR rate plus 1.1375% with no floor on a notional amount of \$2,294,544 of its bond to a fixed 2.985% rate. This interest rate swap agreement was amended as of November 17, 2014 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. As of June 30, 2017, the bond held a notional amount of \$1,554,148. 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 are due upon maturity on October 17, 2029. A mortgage on real property with a carrying value of \$1,006,375 and assignments of lease revenue serve as collateral.

On January 17, 2010 the Foundation entered into an interest rate swap agreement with an effective date of January 17, 2010, to effectively change the Foundation's variable interest rate exposure of 68% of one month LIBOR rate plus 1.1375% with no floor on a notional amount of \$1,051,666 of its bond to a fixed 2.985% rate. This interest rate swap agreement was amended as of November 17, 2014 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. As of June 30, 2017, the bond held a notional amount of \$713,701. 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 are due upon maturity on October 17, 2029. Collateral is offered as a mortgage on real property with a carrying value of \$15,345,137 as well as assignments of lease revenue.

On January 17, 2010 the Foundation entered into an interest rate swap agreement with an effective date of January 17, 2010, to effectively change the Foundation's variable interest rate exposure of 68% of one month LIBOR rate plus 1.1375% with no floor on a notional amount of \$18,834,379 of its bond to a fixed 2.985% rate. This interest rate swap agreement was amended as of November 17, 2014 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. As of June 30, 2017, the bond held a notional amount of \$12,745,795. This interest rate swap agreement matures October 17, 2029.

Medical University of South Carolina Foundation

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Note 11. Long-Term Obligations, Continued

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 1.10:1, fiscal year rental income greater than 100% of debt service, and unencumbered permitted investments of not less than \$50 million in fair value. In addition, one bond covenant requires the Foundation to maintain a depository banking account balance of at least \$500,000 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, 2017 and 2016, 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>2017</u>	<u>2016</u>
Notes Payable - MUSC		
MUSC	\$ 90,199,786	\$ 89,623,947
Notes and Bonds Payable		
JEDA Parking Garage January 2010	12,745,795	13,596,515
JEDA 135 Cannon Street-Medical Building December 2009	13,735,819	14,652,618
JEDA 135 Cannon Street-Parking Lot December 2009	1,554,148	1,657,880
JEDA 55 Bee Street December 2009	713,701	761,337
165 Cannon Street	15,600,000	15,600,000
WestEdge	-	10,200,000
	<u>44,349,463</u>	<u>56,468,350</u>
Total long-term obligations	<u>\$134,549,249</u>	<u>\$ 146,092,297</u>

As of June 30, 2017, maturities on long-term obligations for the next five years are as follows:

2018	\$ 92,174,081
2019	17,631,303
2020	2,089,957
2021	2,150,306
2022	2,212,396
Thereafter	<u>18,291,206</u>
Total	<u>\$ 134,549,249</u>

Interest expense for the years ended June 30, 2017 and 2016 relating to note agreements with MUSC was \$5,026,821 and \$0, respectively. Interest expense for the years ended June 30, 2017 and 2016 relating to all other long-term obligations was \$1,389,912 and \$1,231,068, respectively.

Medical University of South Carolina Foundation

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

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, 2017</u>
30 Bee Street	MUSC Physicians	Lease to 8/31/2018 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, 2017 and 2016 in the amount of \$219,398 and \$219,398, respectively, and expiring March 31, 2039.

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, 2017</u>
4221 Faber Place	aai Pharma	Property was sold during the year ended June 30, 2017.	\$ 793,201
178 Ashley Avenue	Meditera Catering	Lease to 3/31/2021 with renewal provisions. Base rent will be adjusted annually by 3% over the annual base rent.	62,115
250 Spring Street	Charleston Hotel Owners, LLC	Lease was terminated 10/12/2016.	21,414

Medical University of South Carolina Foundation

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Note 12. Leased Property, Continued

Operating leases, continued:

As of June 30, 2017, future minimum rentals to be received on all non-cancelable operating leases are:

2018	\$ 1,065,878
2019	874,344
2020	842,937
2021	799,519
2022	732,625
Thereafter	<u>3,729,621</u>
Total	<u>\$ 8,044,924</u>

The Foundation also leases 382 Spring Street and 176 Ashley Avenue to unrelated parties on a short-term lease basis. Monthly lease payments range from \$1,500 to \$4,800. The lease for 382 Spring Street may be terminated by the Foundation at any time. The Foundation leased the Lockwood property parking spaces to MUSC on a month to month basis. For the years ended June 30, 2017 and 2016, the Foundation recorded imputed rental income and corresponding in-kind support to MUSC for \$25,606 and \$167,988, respectively. The Lockwood property land was transferred to the WestEdge Foundation (formerly Horizon Project Foundation) during the year, and the lease was terminated with the Foundation.

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, 2017</u>
21 Courtney 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

As of June 30, 2017, future minimum rentals to be received on all capital leases are:

2018	\$ 3,839,465
2019	3,839,465
2020	3,839,465
2021	3,839,465
2022	3,839,465
Thereafter	<u>64,311,042</u>
Total	<u>\$ 83,508,367</u>

For the year ended June 30, 2017, the carrying value of the assets provided under capital leases was \$34,624,512 consisting of \$43,372,410 in cost and \$8,747,898 in accumulated depreciation. Depreciation expense of \$818,292 and \$828,916, respectively, was recognized for these properties during the years ended June 30, 2017 and 2016.

Medical University of South Carolina Foundation

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Note 12. Leased Property, Continued

Other rent transactions:

In addition, the Foundation had deferred rent revenue of \$5,767,283 and \$6,518,722 as of June 30, 2017 and 2016, 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.

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, 2017 and 2016, the Foundation had received \$350 and \$23,911, respectively, from unaffiliated tenants.

The Foundation received \$0 and \$12,261 in prepaid rent and escrow deposits during the years ended June 30, 2017 and 2016, 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>2017</u>	<u>2016</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>5,748</u>
	<u>\$ 751,439</u>	<u>\$ 744,926</u>

Medical University of South Carolina Foundation

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Note 12. Leased Property, Continued

Other rent transactions:

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.

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, 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>

Medical University of South Carolina Foundation

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Note 13. Expense Allocation, Continued

For the year ended June 30, 2016, 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	\$ 19,438,412	\$ -	\$ -	\$ 19,438,412
Other programs	3,033,321	-	-	3,033,321
Scholarships	1,733,391	-	-	1,733,391
Development costs	-	-	1,699,750	1,699,750
Depreciation	1,249,879	24,684	-	1,274,563
Interest	1,231,068	-	-	1,231,068
Personnel	315,813	805,949	30,245	1,152,007
Special events	-	-	534,226	534,226
Investment and bank fees	420	495,104	-	495,524
Capital support	252,428	-	-	252,428
Property expenses	185,789	-	-	185,789
Donated goods/services	-	-	185,479	185,479
Professional fees	52,007	74,168	-	126,175
Contracted services	-	55,990	38,843	94,833
Office expense	-	85,063	-	85,063
Miscellaneous	-	78,961	-	78,961
Awards	78,117	-	-	78,117
Travel and professional development	-	3,034	-	3,034
	<u>\$ 27,570,645</u>	<u>\$ 1,622,953</u>	<u>\$ 2,488,543</u>	<u>\$ 31,682,141</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>2017</u>	<u>2016</u>
Net asset classification:		
Unrestricted	\$ 16,027,302	\$ 14,733,288
Temporarily restricted	59,635,102	47,032,975
Permanently restricted	160,233,522	149,682,261
Funds held for MUSC invested in endowment pool	<u>106,155,860</u>	<u>100,553,201</u>
Total endowment funds	342,051,786	312,001,725
Funds not meeting the definition	<u>54,420,213</u>	<u>60,622,552</u>
Total reported net assets	<u>\$ 396,471,999</u>	<u>\$ 372,624,277</u>

Medical University of South Carolina Foundation

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

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:

	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>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>

	2016				
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Funds held for MUSC</u>	<u>Total</u>
Board designated endowment funds	\$ 14,733,288	\$ -	\$ -	\$ -	\$ 14,733,288
Donor-restricted endowment funds	-	<u>47,032,975</u>	<u>149,682,261</u>	<u>100,553,201</u>	<u>297,268,437</u>
Total funds	<u>\$ 14,733,288</u>	<u>\$ 47,032,975</u>	<u>\$ 149,682,261</u>	<u>\$ 100,553,201</u>	<u>\$ 312,001,725</u>

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	-	<u>153,519</u>	<u>9,579,672</u>	-	<u>9,733,191</u>
	<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>6,995,631</u>	<u>22,202,173</u>
Total investment Return	<u>1,532,448</u>	<u>20,742,940</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>(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>

Medical University of South Carolina Foundation

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Note 14. Classification of Endowment Funds, Continued

The following depicts the changes in endowments for the year ended June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Funds held for MUSC</u>	<u>Total</u>
Beginning net assets	\$ 15,852,604	\$ 60,608,059	\$ 140,279,721	\$ 105,903,560	\$322,643,944
Contributions, net	<u>100</u>	<u>74,047</u>	<u>6,476,654</u>	<u>-</u>	<u>6,550,801</u>
	<u>15,852,704</u>	<u>60,682,106</u>	<u>146,756,375</u>	<u>105,903,560</u>	<u>329,194,745</u>
Investment return:					
Investment income, net	713,327	9,977,557	-	5,177,556	15,868,440
Net unrealized gains/losses	<u>(1,269,546)</u>	<u>(15,480,992)</u>	<u>-</u>	<u>(8,149,041)</u>	<u>(24,899,579)</u>
Total investment Return	<u>(556,219)</u>	<u>(5,503,435)</u>	<u>-</u>	<u>(2,971,485)</u>	<u>(9,031,139)</u>
Other income	-	975	2,836,713	2,391,442	5,229,130
Program releases and transfers	5,833,402	(8,146,671)	89,173	(1,025,918)	(3,250,014)
Board approved Payouts	<u>(6,396,599)</u>	<u>-</u>	<u>-</u>	<u>(3,744,398)</u>	<u>(10,140,997)</u>
	<u>(563,197)</u>	<u>(8,145,696)</u>	<u>2,925,886</u>	<u>(2,378,874)</u>	<u>(8,161,881)</u>
Total funds	<u>\$ 14,733,288</u>	<u>\$ 47,032,975</u>	<u>\$ 149,682,261</u>	<u>\$ 100,553,201</u>	<u>\$312,001,725</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 \$6,058 and \$144,502 as of June 30, 2017 and 2016, 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, 2017 and 2016

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, 2017 and 2016.

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.

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, 2017 and 2016

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	2017			Total
		Level 1	Level 2	Level 3	
Investments:					
Debt securities	\$ 34,868,632	\$ 34,868,632	\$ -	\$ -	\$ 34,868,632
Domestic equities*	125,305,207	125,305,207	-	-	125,305,207
Fixed income funds	47,586,628	47,586,628	-	-	47,586,628
International equity*	40,648,868	40,648,868	-	-	40,648,868
Partnerships	86,479,377	-	-	86,479,377	86,479,377
Hedge funds	64,977,417	-	64,977,417	-	64,977,417
Money market funds	29,748,069	29,748,069	-	-	29,748,069
Assets held in charitable gift annuities:					
Fixed income funds	778,581	778,581	-	-	778,581
Domestic equity funds*	2,002,812	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

The table below presents a reconciliation of beginning and ending asset balances measured at fair value on a recurring basis as Level 3 at June 30, 2017.

	Fair Value Measurements Using Significant Unobservable Inputs Level 3
Beginning balance:	<u>Partnerships</u> \$ 84,417,558
Included in earnings (and changes in net assets)	7,688,411
Capital contribution and redemptions, net	(5,626,592)
Ending balance	<u>\$ 86,479,377</u>
Amount of total gains for the period included in earnings (and changes in net assets) attributable to the change in unrealized gains (losses) relating to assets still held at the reporting date.	<u>\$ 2,451,892</u>

Medical University of South Carolina Foundation

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Note 15. Fair Value Measurements, Continued

	2016				Total
	Carrying Value	Level 1	Level 2	Level 3	
Investments:					
Debt securities	\$ 34,991,318	\$ 34,991,318	\$ -	\$ -	\$ 34,991,318
Domestic equities*	119,575,125	119,575,125	-	-	119,575,125
Fixed income funds	47,834,880	47,834,880	-	-	47,834,880
International equity*	32,136,007	32,136,007	-	-	32,136,007
Partnerships	84,417,558	-	-	84,417,558	84,417,558
Hedge funds	53,440,346	-	53,440,346	-	53,440,346
Money market funds	30,343,107	30,343,107	-	-	30,343,107
Assets held in charitable gift annuities:					
Fixed income funds	789,239	789,239	-	-	789,239
Domestic equity funds*	1,867,978	1,867,978	-	-	1,867,978
Money market funds	41,464	41,464	-	-	41,464
Assets held in charitable trusts by Foundation:	4,573,474	4,573,474	-	-	4,573,474
Assets held in charitable trusts by Others:	14,153	14,153	-	-	14,153
Interest rate swap liability	2,614,087	-	2,614,087	-	2,614,087

The table below presents a reconciliation of beginning and ending asset balances measured at fair value on a recurring basis as Level 3 at June 30, 2016.

**Fair Value Measurements
Using Significant
Unobservable Inputs
Level 3**

	<u>Partnerships</u>
Beginning balance:	\$ 98,235,075
Included in earnings (and changes in net assets)	(1,955,041)
Capital contribution and redemptions, net	<u>(11,862,476)</u>
Ending balance	<u>\$ 84,417,558</u>

Amount of total losses for the period included in earnings
(and changes in net assets) attributable to the change in unrealized
gains (losses) relating to assets still held at the reporting date. \$ (5,034,016)

Medical University of South Carolina Foundation

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Note 15. Fair Values of Financial Instruments, Continued

The investments reported as level 2 and 3 consist of Partnerships and Hedge Funds for which the ownership terms and conditions restrict the marketability of the investments resulting in the valuation method previously described. The following describes the restrictions to assist in the assessment of the investment holdings:

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. These funds are in the early stages of their lives and have an estimated 10 years left until the majority of the capital has been returned. One of the partnerships requires 90 days written notice for annual liquidity and accepts additional purchases on a monthly basis. The amount of unfunded commitments related to these investments is \$40.97 million at June 30, 2017.

Hedge Funds - The Foundation holds ownership shares in several hedge funds with investment strategies including fund of fund long/short equity managers. The funds' requirements for liquidity/withdrawals range from 30 to 60 days written notice for quarterly liquidations and contributions/purchases are accepted either monthly or quarterly. Management believes that the investment strategies employed and availability of other Foundation resources allow the Foundation to be unaffected by lock-ups. There were no unfunded commitments related to these investments as of June 30, 2017 or 2016.

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.

Note 16. Temporarily Restricted

At June 30, 2017 and 2016, temporarily restricted net assets of \$178,281,807 and \$170,726,148, 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 \$54,445,479 and \$27,019,675 for the years ended June 30, 2017 and 2016, respectively.

Note 17. Permanently Restricted

Permanently restricted net assets of \$160,233,522 and \$149,682,261 at June 30, 2017 and 2016, 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, 2017 and 2016

Note 18. Investment in WestEdge Foundation

During the year ended June 30, 2017, under the Master Option Agreement, WestEdge Foundation exercised its option for certain properties totaling 2.76 acres which were contributed by the Foundation to WestEdge Foundation (see Note 19) 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, 2017 and noted no impairment to be recorded.

Note 19. Commitments and Contingencies

On June 29, 2004, the Foundation entered into a ground lease agreement with the South Carolina Research Authority for the lease of 4.658 acres of land bounded by Hagood Avenue and Line Street in Charleston, South Carolina. The lease was \$1 per annum for a term of 99 years through June 29, 2103. The property was to be used as a surface parking lot initially with the possibility of a multi-story research facility being constructed on it in the future. Subsequent to June 30, 2009, the lease was amended in accordance with its renegotiation clause. The amended lease provided the South Carolina Research Authority an option for a long-term lease of one floor (approximately 15,000 square feet) of the proposed future facility. On June 23, 2014, the 2009 lease was amended to terminate the Foundation's option to build a multi-story research facility on the property. In addition, the amended agreement states SCRA will sign a non-binding agreement with Gateway to lease certain space in the new Horizon Innovation Center pursuant to terms substantially similar to those contained in the prior lease. The Foundation will continue to use the property as a surface parking lot until such time SCRA provides a three month written notice of termination of the lease. At the beginning of fiscal year 2016, South Carolina Research Authority sold the land being utilized by the Foundation, effectively terminating the lease.

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 (formerly Horizon Project 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.

Medical University of South Carolina Foundation

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Note 19. Commitments and Contingencies, Continued

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, 2017 and 2016, the Foundation had advanced \$840,000 and \$640,000, respectively, to WEF. See Note 2.

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 year ended June 30, 2017, the WEF exercised an option for 2.67 acres, resulting in the Foundation recording an investment in affiliate of \$5,074,094. 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. Certain conditions have not been met as of June 30, 2017 or 2016; 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, 2017 and 2016, there was no liability recorded in relation to this agreement.

Medical University of South Carolina Foundation

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Note 19. Commitments and Contingencies, Continued

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 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.

Note 20. Subsequent Events

In July 2017, under the Master Option Agreement, the Foundation contributed the option for certain properties totaling 0.62 acres to WestEdge Foundation (see Note 19) with a book value of \$1,074,815.



**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, 2017 and 2016, 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. The 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 Decosimo, LLC

Columbia, South Carolina
September 15, 2017

Supplementary Information

Medical University of South Carolina Foundation
Consolidating Schedule of Statements of Financial Position
As of June 30, 2017

	<u>Foundation</u>	<u>PGA</u>	<u>135 Cannon</u>	<u>55 Bee</u>	<u>165 Cannon</u>	<u>Total</u>	<u>Eliminating</u>	<u>Reported</u>
Assets								
Cash and cash equivalents	\$ 7,457,414	\$ 927,267	\$ 1,028,833	\$ 47,177	\$ 514,943	\$ 9,975,634	\$ -	\$ 9,975,634
Receivables:								
Accounts and other receivables	1,038,936	-	-	-	-	1,038,936	-	1,038,936
Unconditional promises to give receivable, net	36,343,454	-	-	-	-	36,343,454	-	36,343,454
Interfund receivable	-	2,543	-	-	2,976,416	2,978,959	(2,978,959)	-
Investments	435,169,472	-	-	-	-	435,169,472	-	435,169,472
Investment in affiliate	5,074,094	-	-	-	-	5,074,094	-	5,074,094
Funds held in trust by the Foundation	4,628,782	-	-	-	-	4,628,782	-	4,628,782
Funds held in trust by others	15,421	-	-	-	-	15,421	-	15,421
Income producing property	36,624,109	15,345,137	19,562,500	1,006,375	11,693,560	84,231,681	-	84,231,681
Property and equipment, net	423,966	-	-	-	-	423,966	-	423,966
Other assets	17,560	-	1,846	486	-	19,892	-	19,892
Total assets	<u>\$ 526,793,208</u>	<u>\$ 16,274,947</u>	<u>\$ 20,593,179</u>	<u>\$ 1,054,038</u>	<u>\$ 15,184,919</u>	<u>\$ 579,900,291</u>	<u>\$(2,978,959)</u>	<u>\$ 576,921,332</u>
Liabilities and Net Assets								
Liabilities:								
Accounts payable	\$ 1,557,947	\$ -	\$ -	\$ -	\$ -	\$ 1,557,947	\$ -	\$ 1,557,947
Interfund payable	2,978,959	-	-	-	-	2,978,959	(2,978,959)	-
Accrued interest payable	15,956,074	12,416	15,212	711	2,198	15,986,611	-	15,986,611
Annuities payable	3,627,293	-	-	-	-	3,627,293	-	3,627,293
Notes payable - MUSC	90,199,786	-	-	-	-	90,199,786	-	90,199,786
Notes and bonds payable	-	12,745,795	15,289,967	713,701	15,600,000	44,349,463	-	44,349,463
Interest rate swaps	-	491,465	589,566	27,519	-	1,108,550	-	1,108,550
Deferred rent	5,767,283	-	-	-	-	5,767,283	-	5,767,283
Contributions payable - MUSC	17,852,400	-	-	-	-	17,852,400	-	17,852,400
Total liabilities	<u>137,939,742</u>	<u>13,249,676</u>	<u>15,894,745</u>	<u>741,931</u>	<u>15,602,198</u>	<u>183,428,292</u>	<u>(2,978,959)</u>	<u>180,449,333</u>
Net assets:								
Unrestricted:								
Undesignated	24,708,908	3,025,271	4,698,434	312,107	(417,279)	32,327,441	-	32,327,441
Designated for MUSC programs	25,629,229	-	-	-	-	25,629,229	-	25,629,229
Total unrestricted	50,338,137	3,025,271	4,698,434	312,107	(417,279)	57,956,670	-	57,956,670
Temporarily restricted	178,281,807	-	-	-	-	178,281,807	-	178,281,807
Permanently restricted	160,233,522	-	-	-	-	160,233,522	-	160,233,522
Total net assets	<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>
Total liabilities and net assets	<u>\$ 526,793,208</u>	<u>\$ 16,274,947</u>	<u>\$ 20,593,179</u>	<u>\$ 1,054,038</u>	<u>\$ 15,184,919</u>	<u>\$ 579,900,291</u>	<u>\$(2,978,959)</u>	<u>\$ 576,921,332</u>

Medical University of South Carolina Foundation

Consolidating Schedule of Statements of Activities

For the year ended June 30, 2017

	Foundation	PGA	135 Cannon	55 Bee	165 Cannon	Total	Eliminating	Reported
Revenue, Gains And Other Support								
Contributions, net of gift management fees	\$ 34,362,423	\$ -	\$ -	\$ -	\$ -	\$ 34,362,423	\$ -	\$ 34,362,423
Interest and dividends, net	2,900,557	405	-	-	-	2,900,962	-	2,900,962
Net unrealized and realized loss	33,477,806	-	-	-	-	33,477,806	-	33,477,806
Unrealized gain on interest rate swap	-	667,465	800,697	37,375	-	1,505,537	-	1,505,537
Special events revenue	3,060,351	-	-	-	-	3,060,351	-	3,060,351
Rental income	2,436,235	1,800,892	2,157,414	100,557	-	6,495,098	-	6,495,098
Changes in value of split-interest agreements	(423,189)	-	-	-	-	(423,189)	-	(423,189)
Gain on asset disposal	4,352,450	-	-	-	-	4,352,450	-	4,352,450
Other income	4,615,485	-	-	-	-	4,615,485	-	4,615,485
Net assets released from restrictions:								
Payments of recurring management fees	101,471	(45,022)	(53,935)	(2,514)	-	-	-	-
Total revenue, gains and other support	84,883,589	2,423,740	2,904,176	135,418	-	90,346,923	-	90,346,923
Expenses								
Program expenses	58,710,356	1,291,866	1,500,944	31,762	171,373	61,706,301	-	61,706,301
Supporting services:								
General and administrative	1,755,519	-	-	-	-	1,755,519	-	1,755,519
Fundraising and promotion	3,037,381	-	-	-	-	3,037,381	-	3,037,381
Total expenses	63,503,256	1,291,866	1,500,944	31,762	171,373	66,499,201	-	66,499,201
Changes in net assets	21,380,333	1,131,874	1,403,232	103,656	(171,373)	23,847,722	-	23,847,722
Net Assets, July 1, 2016	367,473,133	1,893,397	3,295,202	208,451	(245,906)	372,624,277	-	372,624,277
Net Assets, June 30, 2017	<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>

Medical University of South Carolina Foundation
Consolidating Schedule of Statements of Cash Flows
For the year ended June 30, 2017

	<u>Foundation</u>	<u>PGA</u>	<u>135 Cannon</u>	<u>55 Bee</u>	<u>165 Cannon</u>	<u>Eliminating</u>	<u>Reported</u>
Operating Activities							
Changes in net assets	\$ 21,380,333	\$ 1,131,874	\$ 1,403,232	\$ 103,656	\$ (171,373)	\$ -	\$ 23,847,722
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:							
Donation of securities	(6,627,380)	-	-	-	-	-	(6,627,380)
Depreciation	450,096	388,103	419,688	10,500	-	-	1,268,387
Re-investment of net investment income	(2,867,687)	-	-	-	-	-	(2,867,687)
Net unrealized and realized gain on long term investments	(33,477,806)	-	-	-	-	-	(33,477,806)
Gain on disposal of property and equipment	(5,500)	-	-	-	-	-	(5,500)
Gain on sale of income producing properties	(4,346,950)	-	-	-	-	-	(4,346,950)
Change in discount - contributions receivable	(605,916)	-	-	-	-	-	(605,916)
Change in allowance for unconditional promises to give and bad debt	85,705	-	-	-	-	-	85,705
Change in value of split interest agreement	423,189	-	-	-	-	-	423,189
Change in cash surrender value of life insurance	(63,277)	-	-	-	-	-	(63,277)
Contributions, other income and transfers restricted to permanent investment	(10,551,261)	-	-	-	-	-	(10,551,261)
Unrealized losses on interest rate swaps	-	(667,465)	(800,697)	(37,375)	-	-	(1,505,537)
Changes in accrued and deferred amounts:							
Accounts and other receivables	(283,111)	-	43,953	-	-	2,543	(236,615)
Unconditional promises to give	(457,051)	-	-	-	-	-	(457,051)
Interfund receivable	-	-	-	-	367,267	(367,267)	-
Other assets	(227)	-	17	28	-	-	(182)
Accounts payable	(200,236)	-	-	(43,953)	(143,916)	-	(388,105)
Interfund payable	(364,724)	-	-	-	-	364,724	-
Accrued interest payable	5,015,118	(1,081)	(1,129)	(52)	1	-	5,012,857
Deferred rent	(751,439)	-	-	-	-	-	(751,439)
Net cash provided by (used for) operating activities	<u>(33,248,124)</u>	<u>851,431</u>	<u>1,065,064</u>	<u>32,804</u>	<u>51,979</u>	<u>-</u>	<u>(31,246,846)</u>
Net increase (decrease) in cash and cash equivalents - carried forward	<u>(33,248,124)</u>	<u>851,431</u>	<u>1,065,064</u>	<u>32,804</u>	<u>51,979</u>	<u>-</u>	<u>(31,246,846)</u>

Medical University of South Carolina Foundation

Consolidating Schedule of Statements of Cash Flows

For the year ended June 30, 2017

	Foundation	PGA	135 Cannon	55 Bee	165 Cannon	Eliminating	Reported
Net increase (decrease) in cash and cash equivalents - brought forward	(33,248,124)	851,431	1,065,064	32,804	51,979	-	(31,246,846)
Investing Activities							
Purchase of income producing properties	\$ (5,540)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (5,540)
Purchases of property and equipment	(52,833)	-	-	-	-	-	(52,833)
Purchases for construction in progress	-	-	-	-	(1,443,560)	-	(1,443,560)
Proceeds from sales of income producing properties	10,557,501	-	-	-	-	-	10,557,501
Purchases of investments	(98,736,452)	-	-	-	-	-	(98,736,452)
Proceeds from sales of investments	116,069,672	-	-	-	-	-	116,069,672
Net cash provided by (used for) investing activities	27,832,348	-	-	-	(1,443,560)	-	26,388,788
Financing Activities							
Contributions, other income and transfers invested in endowments	10,551,261	-	-	-	-	-	10,551,261
Payments of annuity obligations	(488,816)	-	-	-	-	-	(488,816)
Liability for new split-interest agreements	4,265	-	-	-	-	-	4,265
Payments of remainder of annuity obligations	(40,151)	-	-	-	-	-	(40,151)
Proceeds from long-term obligations	575,839	-	-	-	-	-	575,839
Payments on long-term obligations	(10,200,000)	(850,720)	(1,020,531)	(47,636)	-	-	(12,118,887)
Net cash provided by (used for) financing activities	402,398	(850,720)	(1,020,531)	(47,636)	-	-	(1,516,489)
Net increase (decrease) in cash and equivalents	(5,013,378)	711	44,533	(14,832)	(1,391,581)	-	(6,374,547)
Cash And Cash Equivalents, Beginning Of Year	12,470,792	926,556	984,300	62,009	1,906,524	-	16,350,181
Cash And Cash Equivalents, End Of Year	<u>\$ 7,457,414</u>	<u>\$ 927,267</u>	<u>\$ 1,028,833</u>	<u>\$ 47,177</u>	<u>\$ 514,943</u>	<u>\$ -</u>	<u>\$ 9,975,634</u>
Supplemental Cash Flow Information							
Noncash investing and financing activities:							
Investment in affiliate	\$ 5,074,094	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,074,094
Interest paid	\$ 307,235	\$ 365,165	\$ 443,475	\$ 20,700	\$ 267,301	\$ -	\$ 1,403,876

Medical University of South Carolina Foundation

Selected Financial Data

For the years ended June 30,

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Investments	\$ 149,444	\$ 190,380	\$ 203,941	\$ 186,749	\$ 233,626	\$ 291,966	\$ 304,472	\$ 350,486	\$ 391,508	\$ 409,237	\$ 409,522	\$ 435,169
Property (net)	58,337	57,944	84,230	84,175	82,892	81,668	80,498	77,957	76,698	85,467	95,701	84,656
Total assets	238,000	272,372	315,168	298,720	346,349	402,853	412,517	457,520	496,784	541,147	562,305	576,921
Total revenue	32,341	49,216	34,481	8,706	65,946	67,609	26,982	72,560	66,785	63,938	47,096	90,347
Percent of Revenue												
Contributions	51%	34%	72%	332%	38%	26%	52%	41%	25%	63%	77%	38%
Investment income	30	49	(9)	(361)	35	50	3	43	54	21	(2)	40
Rental and other income	19	17	37	129	27	24	45	16	21	16	25	22
	<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	\$ 16,388	\$ 20,060	\$ 20,938	\$ 29,007	\$ 30,436	\$ 29,021	\$ 21,564	\$ 30,547	\$ 37,195	\$ 29,779	\$ 31,682	\$ 66,499
Percent of Expenses												
Benefit of MUSC	63%	58%	72%	75%	77%	76%	69%	57%	59%	78%	77%	80%
Upkeep & general (investment property)	18	28	11	13	13	11	15	30	31	9	15	13
Other	19	14	17	12	10	13	16	13	10	13	8	7
	<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, 2017

Location	Land	Building and Improvements	Furniture and Fixtures	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 Street	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
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 Courtney Street	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>

Medical University of South Carolina Foundation

Schedule of Income Producing Property and Equipment by Location

As of June 30, 2016

Location	Land	Building and Improvements	Furniture and Fixtures	Non- Depreciable Assets	Subtotal	Accumulated Depreciation	Property and Equipment, net
135 Cannon Street	\$ 6,600,000	\$ 17,000,000	\$ 27,770	\$-	\$ 23,627,770	\$ (3,645,580)	\$ 19,982,190
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	(340,486)	530,353
170 Ashley Avenue	200,953	54,854	-	-	255,807	(13,933)	241,874
176 Ashley Avenue-Guest House	-	118,475	14,456	14,988	147,919	(124,608)	23,311
178 Ashley Avenue-Apartments	-	85,527	128,543	-	214,070	(32,420)	181,650
20 Ehrhardt Street	253,560	244,251	-	-	497,811	(233,256)	264,555
250 Spring Street	1,980,017	-	-	-	1,980,017	-	1,980,017
28 Ehrhardt Street	125,000	45,000	-	-	170,000	(24,231)	145,769
30 Bee Street	1,122,349	1,986,872	-	-	3,109,221	(1,440,671)	1,668,550
360 Spring Street	81,000	-	-	-	81,000	-	81,000
51 Bee Street	36,000	144,149	-	-	180,149	(71,767)	108,382
55 Bee Street	680,000	420,000	-	-	1,100,000	(83,125)	1,016,875
56 Courtenay Street	178,000	544,926	115,000	-	837,926	(380,477)	457,449
57 Bee Street	86,000	344,000	-	-	430,000	(124,222)	305,778
59 Bee Street	769,627	-	-	-	769,627	-	769,627
151 Rutledge Avenue	4,120,000	-	-	-	4,120,000	-	4,120,000
4221 Fabor Place Drive	855,000	9,039,026	-	-	9,894,026	(3,457,235)	6,436,791
4295 Arco Lane	375,680	2,351,056	-	-	2,726,736	(1,493,414)	1,233,322
21 Courtenay Drive	4,410,000	15,524,140	-	-	19,934,140	(4,200,899)	15,733,241
135 Rutledge Avenue	17,782,800	69,600	-	-	17,852,400	-	17,852,400
Wickliffe House	20,000	755,483	54,104	173,476	1,003,063	(699,526)	303,537
Lockwood Property Horizon District	10,032,000	-	-	-	10,032,000	-	10,032,000
52 Courtney Street	1,250,000	-	-	-	1,250,000	-	1,250,000
165 Cannon Street	10,250,000	-	-	-	10,250,000	-	10,250,000
	<u>\$ 61,717,994</u>	<u>\$ 49,487,338</u>	<u>\$ 339,873</u>	<u>\$ 188,464</u>	<u>\$ 111,733,669</u>	<u>\$ (16,429,990)</u>	<u>\$ 95,303,679</u>