

STATE FISCAL ACCOUNTABILITY AUTHORITY
MEETING OF April 1, 2025

REGULAR SESSION
ITEM NUMBER 15

AGENCY: Medical University Hospital Authority

SUBJECT: Not Exceeding \$330,000,000 Medical University Hospital Authority FHA Insured Mortgage Revenue Bonds (Indian Land Project), Series 2025

The Authority is asked to adopt a resolution making provision for the issuance and sale of not exceeding \$330,000,000 Medical University Hospital Authority FHA Insured Mortgage Revenue Bonds (Indian Land Project), Series 2025.

The bonds will be used for the purpose of defraying and financing the costs of the construction of a hospital and related auxiliary facilities in Lancaster County, South Carolina.

AUTHORITY ACTION REQUESTED:

Adopt a resolution making provision for the issuance and sale of not exceeding \$330,000,000 Medical University Hospital Authority FHA Insured Mortgage Revenue Bonds (Indian Land Project), Series 2025.

ATTACHMENTS:

Musser 2/24/2025 letter; SFAA Resolution; NDIF



OFFICE OF STATE TREASURER

New Debt Information Form (NDIF) - Initial Form

SFAA Approval Date: 00/00/00

Final Version Date: 00/00/00

1. AGENCY/ISSUER & FINANCING INFORMATION

Agency #: H511 Issuer: Medical University Hospital Authority Series: 2025 Indian Land
 Borrower (if not Issuer): _____
 Bond Caption: FHA Insured Mortgage Revenue Bonds
 Bond Resolution Amount: \$330,000,000 Est. Production/Par Amt: \$287,900,000

(* Used to calculate initial COI percentages; STO bond issues must use Par Amt *)

Final Production/Par Amt: \$0.00**Submitted By:**

ENTITY: Medical University Hospital Authority
 BY: Kathy Dively
 ITS: Director of Strategic Financial Planning
 Tel: 803-315-6175
 Email: dively@musc.edu

Transaction Type/Method of Sale:

YES Public Offering: Competitive: _____ Negotiated: YES
 Direct Placement: Competitive: _____ Negotiated: _____
 Governmental Loan/Governmental Purchaser
 Other: _____

MSRB (EMMA) Continuing Disclosure Requirement (Y/N): Y
 MSRB (EMMA) Continuing Disclosure Responsible Party: MUHA

2. FINANCING (NEW PORTION)

Project #: _____ Project Name: Project Indian Land
 Project Address/Location: Indian Land, South Carolina Amount: \$215,383,049
 Project Type: Hospital / MOB Construction County: Lancaster
 Projected Avg Interest Rate: 8.00% Final Maturity: 12/1/2052 est.

3. FINANCING (REFUNDED PORTION)

Series to be Refunded	Refunded Maturities	Principal Refunded	IR of Refunded Bds	Est. Yield of Refunding Bds	Est NPV Svgs. (\$)	Est NPV Svgs. (% of Ref. Bds)
		\$			\$	
		\$			\$	
		\$			\$	
Total		\$	*****	*****	\$	

4. FINANCING WORKING GROUP

Financial Advisor: Kaufman Hall and Associates, LLC Disclosure Counsel: Howell Linkous & Nettles, LLC
 Bond Counsel: Pope Flynn, LLC Issuer's Counsel: Annette Drachman (MUHA Cor. Counsel)
 Underwriter: TBD Trustee: BNY
 Paying Agent: TBD Other: See below

5. FINANCING/PROJECT DESCRIPTION

(Briefly, explain the financing/project, the anticipated costs, & the basis for these cost estimates. Use an attachment if needed)

Project Indian Land will create a new hospital in Indian Land which will be known as MUSC Health Indian Land Medical Center. MUHA plans to relocate 50 beds from the main campus near downtown Lancaster to this new facility. A central energy plant and medical office are included in the project that leads to an approximate cost of \$215 million, excluding capitalized interest, debt service reserve fund, and cost of issuance which will also be financed. The proposed Indian Land Medical Center is ~150,000 square feet and the proposed Indian Land medical office building is ~60,000 square feet. Costs of issuance of the bonds are calculated at the anticipated par amount of the bonds in accordance with the approved fee schedule for counsel, past experience, and to take into account that certain items will not be known until the pricing of the bonds and will vary with market conditions.

See additional detail in attachment

6. FINANCING/PROJECT APPROVAL DATES

Financing Approvals		Notes:
Issuer/Borrower Approval:	<u>02/14/25</u>	<u>Adopted</u>
JBRC Approval:	<u>00/00/00</u>	
SFAA Approval:	<u>04/01/25</u>	<u>Proposed</u>

Project Approvals - Phase II (State Entities Only)		Notes:
Issuer/Borrower Approval:	<u>00/00/00</u>	<u>N/A</u>
JBRC Approval:	<u>00/00/00</u>	<u>N/A</u>
SFAA Approval:	<u>00/00/00</u>	<u>N/A</u>

7. TAX AND ARBITRAGE MATTERS & SPEND DOWN SCHEDULE

a. Is any portion of the project, once completed, to be managed by a third-party pursuant to a management contract? (if yes, please attach copy) Yes No

b. Will any third-party payments (from support organizations, private entities or the federal government) related to the facility, however indirectly, be used to pay debt service on the bonds?

c. If yes to any of the above, please provide a square footage and cost estimate of the portion affected. Sq. Footage - See narrative
Cost Estimate - See narrative

Est. Expenditures - Through 6 Months
 Est. Expenditures - Through 12 Months
 Est. Expenditures - Through 18 Months
 Est. Expenditures - Through 24 Months
 Est. Expenditures - Through 36 Months
 Est. Expenditures - Through 48 Months
 - Estimated Expenditures: Thru FY:

Bond Proceeds	FYE	Spend Down Schedule Notes
\$ 106,361,682	6/30/2026	Construction Cost, Professional Service Fee, Other Cost
\$ 62,659,502	6/30/2026	Construction Cost, Professional Service Fee, Other Cost
\$ 53,582,995	6/30/2027	Construction Cost, Professional Service Fee, Other Cost
\$ 28,091,206	6/30/2027	Construction Cost, Professional Service Fee, Other Cost
\$ 8,418,378	6/30/2028	Construction Cost, Professional Service Fee, Other Cost
\$ 259,113,763		

8. ESTIMATED/ACTUAL PROJECT SOURCES AND USES

Sources	Est. Project Budget (Sources)	Est. Project Budget (Uses)	Uses
(1) Bond Proceeds: (a) Par	\$ 287,900,000	\$ 215,383,049	Project Fund
(b) Premium/Accr. Int.	\$	\$ 25,846,721	Capitalized Interest Fund
(2) Issuer/Borrower Contr.	\$ 63	\$ 28,790,000	Debt Service Reserve Fund
(3) Debt Service Fund Trans.	\$	NA	Redemption Price/Escrow Deposit
(4) Debt Service Reserve Fund Contribution	\$	\$ 6,232,274	Cost of Issuance (Incl. UW Disc.)
(5) Other (Specify)		\$ 5,052,717	HUD Mortgage Insurance Premium
Type - Rounding	\$ 3,700	\$ 2,072,910	HUD Exam / Inspection Fees
Type - Letter of Credit	\$ 30,000,000	\$ 400,000	Title
(6) SCHFDA MFHRB Sources		\$ 300,000	Builder's Risk Insurance
(a) LIHTC	\$	\$ 325,000	Feasibility Consultant
(a) State Housing TC	\$	\$ 3,501,092	HUD Required Working Capital
(c) Owner's Equity/Other	\$	\$	Other
Total Project Sources	\$ 317,903,763	\$ 317,903,763	Total Project Uses
Surplus/Deficit		\$ -	

9. ESTIMATED/ACTUAL BOND COI EXPENDITURES (Added COI entities beyond the following need an attached description **)**

COI Entity	Selected COI Vendor	Vendor #	Engagement Date (w/Engagement Ltr Attached)	Est. Fee For Services	Act. Fee For Services	(\$ Δ)
Financial Advisor	Kaufman Hall			\$ 190,000	\$	\$ 190,000
Bond Counsel	Pope Flynn			\$ 250,000	\$	\$ 250,000
Disclosure Counsel	Howell Linkous & Nettles			\$ 125,000	\$	\$ 125,000
Issuer's Counsel					\$	\$
Underwriter's Counsel	TBD			\$ 200,000	\$	\$ 200,000
FHA Lender Counsel	Bar-Levav Law Office			\$ 315,000	\$	\$ 315,000
Trustee Counsel	TBD			\$ 25,000	\$	\$ 25,000
Hospital Real Estate Counsel	Haynsworth			\$ 1,050,000	\$	\$ 1,050,000
Rating Agency - S&P	S&P			\$ 200,000	\$	\$ 200,000
Rating Agency - Moody's	Moody's			\$ 200,000	\$	\$ 200,000
Rating Agency - Fitch					\$	\$
Underwriter's Compensation	TBD			\$ 1,750,000	\$	\$ 1,750,000
Trustee	BNY Mellon			\$ 10,000	\$	\$ 10,000
Bidding Agent	TBD			\$ 10,000	\$	\$ 10,000
Accountant	TBD			\$ 150,000	\$	\$ 150,000
FHA Lender	Armadale			\$ 835,000	\$	\$ 835,000
Printing	TBD			\$ 10,000	\$	\$ 10,000
Bank Counsel (LOC)	TBD			\$ 40,000	\$	\$ 40,000
Initial Letter of Credit Bank Fee	TBD			\$ 135,000	\$	\$ 135,000
Contingency				\$ 737,274	\$	\$ 737,274
Issuer's Fee	SC JEDA / SC SHFDA				\$	\$
				\$ 6,232,274	\$	\$ 6,232,274

Est. / Actual COI Fees (% of Transaction):

Financial Advisor: % of Transaction
 Bond Counsel: % of Transaction
 Total Legal Costs: % of Transaction
 Rating Agencies: % of Transaction

0.07%	#DIV/0!
0.09%	#DIV/0!
0.68%	#DIV/0!
0.14%	#DIV/0!

UW Comp: % of Transaction
 Other COI: % of Transaction
 Total COI: % of Transaction

0.61%	#DIV/0!
0.67%	#DIV/0!
2.16%	#DIV/0!

South Carolina Office of State Treasurer New Debt Information Form Attachment
02.24.2025 – Medical University Hospital Authority – FHA Financing (Indian Land Project)
not to exceed \$330,000,000

Supplemental Response to Section 5:

Not to exceed \$330,000,000 FHA Financing

MUHA proposes to relocate 50 beds from its Lancaster facility to create a new hospital in Indian Land (northern Lancaster County). The new facility will be known as MUSC Health Indian Land Medical Center (the “New Hospital”). The remaining 175 general acute beds will stay at the MUSC Health Lancaster’s facility. The New Hospital will be located approximately 22 miles or half an hour’s driving distance from MUSC Health Lancaster. A central energy plant and medical office building are included as part of the financing (together with the New Hospital, the “Indian Land Project”), estimated to cost approximately \$290 million.

MUHA’s primary objective is to increase access to quality acute care services for residents of this part of South Carolina. As the sole current hospital in Lancaster County, MUSC Health Lancaster strives to fulfill its primary mission to provide access to high-quality acute care to all residents of the County. Currently, residents of northern Lancaster County often leave the state in significant numbers to seek care in Charlotte, North Carolina. The purpose of the South Carolina Certificate of Need Act is “to promote cost containment, prevent unnecessary duplication of health care facilities and services, guide the establishment of health facilities and services which will best serve public needs, and ensure that high quality services are provided in health facilities in this State.” Further, the distribution of existing bed capacity within the same county to create a two-hospital system, thus increasing access points for residents, is a prudent use of existing resources that will result in increased availability and accessibility of hospital services within Lancaster County.

Financing Plans – FHA Financing

MUHA has submitted a mortgage insurance application to the U.S. Department of Housing and Urban Development’s Federal Housing Administration for a fixed-rate mortgage insurance commitment. This mortgage loan insurance commitment will indirectly secure the tax-exempt bonds that will be issued by Medical University Hospital Authority (“MUHA”) to fund the construction of the Indian Land Project. MUHA’s financial advisors, Kaufman Hall, with approval of South Carolina Office of State Treasurer (the “STO”), is readying an RFP for the investment banking team who will underwrite the tax-exempt bonds. Four banks will receive the investment banking RFP. The structure of the MUHA tax-exempt bonds is designed to work seamlessly with the requirements of MUHA’s existing FHA-insured mortgage loans as well as the Indian Land FHA-insured mortgage loan that will indirectly secure the MUHA tax-exempt bonds.

The rate on the FHA-insured mortgage revenue bonds to be issued for the Indian Land Project is expected to be approximately 6.65% based on current market rates (which rate does not include 0.65% of mortgage insurance premium payable annually for the FHA mortgage insurance). Under current market condition, tax-exempt bonds are a lower cost financing alternative than the GNMA

MBS structure that MUHA has used in the past decade even though it results in higher costs of issuance because of the need for additional financial and legal advisors and bond underwriters. Overall, the costs of issuance for the financing are relatively low and in line with expectations of the STO. MUHA intends to fund the costs of issuance with bond proceeds. Additional verification of the rate offered was performed and also in line with the STO's expectations.

Key Notes

The timeline for closing commitments is scheduled as follows:

- Indian Land Financing Pricing: July 2025
- Indian Land Closing: August 2025.



Pope Flynn, LLC
1411 Gervais Street, Suite 300
Post Office Box 11509 (29211)
Columbia, SC 29201
MAIN 803.354.4900
FAX 803.354.4899
www.popellynn.com

February 24, 2025

Mr. Delbert H. Singleton, Jr.
Assistant Executive Director and Authority Secretary
South Carolina State Fiscal Accountability Authority
1200 Senate Street, Suite 600
Columbia, South Carolina 29201

Re: Not Exceeding \$330,000,000 Medical University Hospital Authority FHA Insured
Mortgage Revenue Bonds (Indian Land Project), Series 2025

Dear Delbert:

On behalf of the Medical University Hospital Authority ("MUHA"), in connection with the authorization of the above-referenced bonds (the "Bonds"), and in anticipation of the South Carolina State Fiscal Accountability Authority (the "Authority") meeting scheduled for April 1, 2025, we respectfully enclose the following for consideration by the Authority:

1. A copy of a resolution adopted by the Board of Trustees of MUHA on October 11, 2024, providing preliminary approval of the above-referenced indebtedness;
2. A copy of a resolution adopted by the Board of Trustees of MUHA on February 14, 2025, providing for the issuance of the above-referenced indebtedness;
3. An executed petition from MUHA to the Authority;
4. A DHEC Certificate of Need dated August 3, 2023, and an extension of the Certificate of Need dated July 30, 2024, in relation to the above-referenced project;
5. A proposed form of opinion of Bond Counsel;
6. An executed opinion of Pope Flynn, LLC relating to the sufficiency of the proceedings and information submitted to the Authority in connection with its consideration of the approval of the Bonds;
7. Audited financial statements of MUHA for the last three fiscal years;
8. A proposed form of resolution and public notice of the Authority (an electronic copy is being provided contemporaneously with this letter); and
9. An executed Bond Transmittal form.

The Office of State Treasurer is being provided with copies of the Bond Counsel Selection Form, the New Debt Information Form (NDIF) – Initial Form and a financing information report summarizing this part of the financing contemporaneously with this submission. Please let us know should you require anything further or if you have any questions regarding the enclosed.

Best regards,



William M. Musser

c: Kathy Dively, Director of Strategic Financial Planning, MUHA
Jackie D. Hipes, Director, Debt Management Division, Office of State Treasurer

Enclosures

BOND TRANSMITTAL FORM

TO: Delbert H. Singleton, Jr., Authority Secretary
State Fiscal Accountability Authority
600 Wade Hampton Building (29201)
P.O. Box 12444
Columbia, SC 29211

DATE: 2/24/2025

Submitted for SFAA Meeting on:
4/1/2025

FROM: Pope Flynn, LLC
1411 Gervais Street, Suite 300
P.O. Box 11509
Columbia, SC 29211

RE: N/E \$330,000,000 of Indebtedness by the Medical University Hospital Authority (Indian Land Project)

Project Name: Construction of a hospital and ancillary facilities in Lancaster County, SC
Documents enclosed (executed original and two copies of each):

(ALL documents required for state law approval; A and C only for ceiling allocation only; must check K or L)

- A. Petition
- B. Resolution or Ordinance
- C. Inducement Resolution or comparable preliminary approval
- D. Department of Health and Environmental Control Certificate *if required*
- E. State Fiscal Accountability Authority Resolution and Public Notice *(original)*
Plus 3 copies for certification and return to bond counsel
- F. Draft bond counsel opinion letter
- G. Signed SFAA Reliance letter
- H. DHEC Certificate of Need (C.O.N.)
- I. Debt Questionnaire
- J. Processing Fee

Amount: Click or tap here to enter text. **Check No:** Click or tap here to enter text.

Payor: Click or tap here to enter text.

- K. No Private Participant will be known at the time the Authority considers this agenda item.
- L. This agenda item is accompanied by the applicable Private Party Disclosure form for each private participant

Bond Counsel: William M. Musser
Typed Name of Bond Counsel

By: 
Signature

STATE OF SOUTH CAROLINA)
)
COUNTY OF CHARLESTON)
)
_____)
)
TO THE STATE FISCAL)
ACCOUNTABILITY AUTHORITY)
OF SOUTH CAROLINA)

**PETITION OF THE
MEDICAL UNIVERSITY
HOSPITAL AUTHORITY**

This Petition of the Board of Trustees (the “*Board of Trustees*”) of the Medical University Hospital Authority (the “*Authority*”) respectfully shows:

1. The Authority is an agency of the State of South Carolina (the “*State*”) and is an entity created by Act of the General Assembly of South Carolina, codified as §59-123-60, Code of Laws of South Carolina 1976, as amended (the “*Enabling Act*”). The Enabling Act at paragraph (E)(3)(a) grants the Board of Trustees the power to “make contracts and have, hold, purchase, and lease real estate and personal property for corporate purposes.” The Enabling Act at paragraph (E)(3)(b) also grants the Board of Trustees the power to “sell, convey, mortgage, lease, exchange, and otherwise dispose of any real property subject to the authority and approval of the State Fiscal Accountability Authority or the Department of Administration, as appropriate.” The Enabling Act at paragraph (E)(5) further grants the Board of Trustees the power to “construct, operate, and maintain the hospital and related premises, buildings and facilities, and infrastructure.”

2. In fulfilling these powers, the Enabling Act at paragraph (E)(3)(c) permits the Authority to “make contracts and guarantees, to incur liabilities, to issue its notes, bonds and other obligations, and secure any of its obligations by mortgage or pledge of any of its property, or income in a manner to be in the best interest of the authority.” In addition, the Enabling Act provides at paragraph (E)(3)(d) that for purposes of effectuating the provisions of paragraph (E)(3)(c), the Board of Trustees shall utilize the provisions of §§44-7-1410 to 44-7-1720, Code of Laws of South Carolina, 1976, as amended (the “*Hospital Revenue Bond Act*”).

3. In furtherance of these powers and responsibilities, paragraph (E)(3)(d) of the Enabling Act also provides that the Authority’s “obligations or indebtedness... shall be subject to the approval thereof by resolution of the State Fiscal Accountability Authority.”

4. In its meeting on February 14, 2025, the Board of Trustees determined that the construction of an approximately 50-bed acute care hospital and ancillary facilities in Lancaster County, South Carolina (collectively, the “*Hospital*”) should be financed with the proceeds of one or more borrowings (the “*Indebtedness*”).

5. The Board of Trustees estimates that the cost of construction of the Hospital, the funding of any necessary reserve or similar fund, and the payment of construction-period interest and other associated costs of issuance (collectively, the “*Project Costs*”) require the incurring or issuance of the Indebtedness.

6. The Board of Trustees determined in its meeting on February 14, 2025, that the Authority should enter into such documents and agreements to take all action as shall be required to incur or issue the Indebtedness, and has authorized the President, the Executive Director, and/or the

Chief Financial Officer, upon advice received and in consultation with the Office of the State Treasurer of South Carolina (the “*State Treasurer*”), to execute such documents and agreements and to take all action required to incur or issue the Indebtedness, including without limitation, all such documents as may be appropriate and/or required under State or federal law including specifically the Enabling Act and the Hospital Revenue Bond Act (collectively, the “*Acts*”). Pursuant to such authorization, this Petition is presented to request approval for the incurrence or issuance by the Authority pursuant to the Acts of the Indebtedness in an aggregate principal amount not to exceed \$330,000,000 at interest rate(s) not to exceed nine percent (9%) per annum and for term(s) not to exceed the statutory limit of forty (40) years set forth at §44-7-1450 of the Hospital Revenue Bond Act, which Indebtedness will be used to defray and finance the Project Costs.

7. In connection with the incurrence or issuance of the Indebtedness, the Board of Trustees expects that the Authority will execute and deliver documents and agreements, and take such actions as are necessary or desirable, in connection with such borrowing or borrowings. As permitted by the Hospital Revenue Bond Act and paragraphs (E)(3)(b), (c), and (d) of the Enabling Act, the Board of Trustees expects that the Authority may execute one or more bond or master indentures, loan agreements, bonds, notes, bond purchase agreements, covenant agreements and other instruments and agreements, including, but not limited to, one or more mortgages granting a lien or liens on the Authority’s interest in certain real property and one or more security agreements granting a lien or liens on certain of the Authority’s personal property.

8. For the reasons above set forth and hereinafter disclosed and as contemplated by §44-7-1480 and required by §44-7-1590 of the Hospital Revenue Bond Act, the Board of Trustees has determined that:

(a) the current estimated costs of the Hospital is \$215,383,049 and the aggregate of the Project Costs to be defrayed by the proceeds of the Indebtedness does not exceed \$330,000,000;

(b) the South Carolina Department of Health and Environmental Control approved a certificate of need for the construction of the Hospital on August 3, 2023 and all legal claims related to the certificate of need have been resolved;

(c) the terms and conditions of the Indebtedness, in addition to those provided in Section 6 above, shall contain those provisions customary in connection with such financings, and if incurred as bonded Indebtedness will be benefited by an FHA-insured mortgage loan. Any collateral Indebtedness incurred as a payment or reimbursement obligation to a bank or other financial institution in connection with the FHA-insured mortgage loan will be payable from the revenues of MUHA; and

(d) neither the Indebtedness nor any provision securing the same shall create a pecuniary liability or charge upon the State’s general credit or taxing powers.


9. The Indebtedness will be incurred or issued by the Authority pursuant to a resolution or resolutions, and authorizations provided therein, which will impose upon the Authority the obligation to pay, in addition to the moneys required for the repayment thereof, all

other costs and expenses relating thereto and the transactions contemplated to take place in connection therewith.

Upon the basis of the foregoing, the Board of Trustees hereby respectfully petitions the State Fiscal Accountability Authority to (i) accept the filing of the Petition presented herewith; (ii) find that the proposed financing is intended to promote the purposes of the Hospital Revenue Bond Act; (iii) on the basis of such findings, approve the incurrence or issuance of the Indebtedness by the Authority in one or more borrowings and in such final form as may be approved by the State Treasurer; and (iv) cause to be published notice of its approval in the manner set forth in the Hospital Revenue Bond Act.

Respectfully Submitted,

**MEDICAL UNIVERSITY
HOSPITAL AUTHORITY**

By: 
Patrick J. Cawley, M.D., Chief Executive
Officer, MUSC Health and Vice President
for Health Affairs, University

By: 
Doug Lischke, CPA, Chief Financial Officer

Dated: April 1, 2025

A RESOLUTION

AUTHORIZING THE MEDICAL UNIVERSITY HOSPITAL AUTHORITY TO ISSUE OR INCUR INDEBTEDNESS IN A PRINCIPAL AMOUNT NOT TO EXCEED \$330,000,000 TO PROVIDE FINANCING FOR THE CONSTRUCTION OF A HOSPITAL AND RELATED AUXILIARY FACILITIES IN LANCASTER COUNTY, SOUTH CAROLINA AND OTHER MATTERS RELATED THERETO.

(INDIAN LAND PROJECT)

WHEREAS, the Medical University Hospital Authority (the "**Authority**"), an agency of the State of South Carolina, has been authorized at §59-123-60, Code of Laws of South Carolina, 1976 as amended (the "**Enabling Act**") to utilize all provisions of the Hospital Revenue Bond Act, codified at Title 44, Chapter 7, Code of Laws of South Carolina, 1976 as amended (the "**Hospital Revenue Bond Act**") for the purpose of effectuating the powers set forth in the Enabling Act in order to raise monies for Medical University of South Carolina hospitals, clinics, and other health care and related facilities for the Authority; and

WHEREAS, the Board of Trustees of the Authority (the "**Board of Trustees**") is authorized at §59-123-60(E)(3)(c) of the Enabling Act to "make contracts and guarantees, to incur liabilities, to issue its notes, bonds, and other obligations, and secure any of its obligations by mortgage or pledge of any of its property, or income in a manner to be in the best interest of the Authority;" and

WHEREAS, the Board of Trustees is authorized at §59-123-60(E)(3)(d) of the Enabling Act for the purpose of effectuating the provisions of subitem (c) therein, to "utilize all provisions of the Hospital Revenue Bond Act;" and

WHEREAS, the Board of Trustees has determined that the construction of a hospital and related auxiliary facilities (collectively, the "**Hospital**") in Lancaster County is in the best interest of the Authority and should be financed with the proceeds of a borrowing or borrowings secured, if necessary, as provided by §59-123-60(E)(3)(c), "by [a] mortgage...in a manner to be in the best interest of the Authority;" and

WHEREAS, the Board of Trustees has also determined that the incurrence or issuance by the Authority of indebtedness (the "**Indebtedness**") to provide financing for the construction of the Hospital, the funding of any necessary reserve or similar fund, and the payment of associated costs of issuance (collectively, the "**Project Costs**") is in the best interest of the Authority; and

WHEREAS, the Board of Trustees has also determined that it is in the best interest of the Authority to cause a petition (the "**Petition**") in substantially the form of Exhibit "A" attached hereto, with such changes to the form thereof as may be approved by the Executing Officers (hereafter defined) executing the same, to be filed with the State Fiscal Accountability Authority ("**SFAA**") pursuant to §59-123-60(E)(3)(d) of the Enabling Act and §44-7-1590(A) of the

Hospital Revenue Bond Act for SFAA's approval of the issuance or incurrence of the Indebtedness; and

WHEREAS, the Board of Trustees has also determined that the principal amount of the Indebtedness shall not to exceed \$330,000,000, that the interest rate borne by the Indebtedness shall not exceed nine percent (9%) per annum, and that the term of the Indebtedness shall not exceed forty (40) years; and

NOW, THEREFORE, BE IT RESOLVED, by the Board of Trustees of The Medical University Hospital Authority as follows:

Section 1. It is hereby declared that the facts set forth in the recitals above are in all respects true and correct.

Section 2. It is hereby found, determined and declared as follows:

(a) The Indebtedness will defray and finance the purchase of the Hospital, which Hospital constitutes "hospital facilities," as defined in the Hospital Revenue Bond Act, provide funding of any necessary reserve or similar fund, and defray and finance the associated costs of issuance thereof.

(b) The Authority is a "hospital agency," as defined in the Hospital Revenue Bond Act, with established credit and is financially responsible and capable of fulfilling its obligations and discharging the responsibilities that may be imposed upon it under the documents governing the Indebtedness.

(c) Adequate provisions shall be made for the repayment of the Indebtedness, all other costs relating thereto, the transactions contemplated to take place in connection therewith, and for the operation, repair, and maintenance of the Hospital.

(d) Public facilities, including utilities and public services necessary for the Hospital, are available to the Hospital.

(e) The Indebtedness will subserve the purposes and in all respects conform to the provisions and requirements of the Enabling Act and the Hospital Revenue Bond Act.

(f) Neither the Hospital nor any documents or agreements entered into by the Authority in connection with the Indebtedness, will constitute an indebtedness of the State of South Carolina (the "*State*") within the meaning of any State constitutional provision or statutory limitation and shall never constitute nor give rise to a pecuniary liability of the State or a charge against its general credit or taxing powers.

(g) The incurrence or issuance of the Indebtedness will be required in order to defray and finance the Project Costs.

Section 3. The construction of the Hospital, the funding of any necessary reserve or similar fund, and the payment of the associated costs of issuance shall be financed with the proceeds of the Indebtedness “in a manner to be in the best interest of the Authority.”

Section 4. Pursuant to §59-123-60(c) and (d) of the Enabling Act and in compliance with §44-7-1590 of the Hospital Revenue Bond Act, the Authority shall file the Petition with SFAA requesting approval of SFAA of the proposed incurrence or issuance of the Indebtedness by the Authority.

Section 5. The Petition shall be executed by one or more of the President, the Chief Executive Officer, MUSC Health and Vice President for Health Affairs, University, and the Chief Financial Officer of the Authority (each, an “*Executing Officer*”) in the form attached hereto as Exhibit A, with such changes to the form thereof as the Executing Officer or Officers executing the Petition shall approve, and the Executing Officers, or any one of them acting alone, are hereby authorized and directed to take all necessary or appropriate steps to incur or issue the Indebtedness on behalf of the Authority, upon advice received and in consultation with the Office of the State Treasurer of South Carolina, in order to finance the payment of the Project Costs.

Section 6. The Indebtedness is hereby authorized to be issued or incurred in an aggregate principal amount not to exceed \$330,000,000, bear interest at a rate not to exceed nine percent (9%) per annum, and mature on a date later than forty (40) years after the date of its issuance or incurrence.

Section 7. The Executing Officers, or any of them acting alone, are authorized by and on behalf of the Authority to execute and deliver one or more bond or master indentures, loan agreements, bonds, notes, bond purchase agreements, covenant agreements, reimbursement agreements, and other instruments and agreements, including, but not limited to, one or more mortgages granting a lien or liens on the Authority’s interest in certain real property and one or more security agreements granting a lien or liens on certain of the Authority’s personal property, and such other agreements, instruments, certificates, and documents relating to the foregoing, and any amendments and supplements thereto, as they, he, or she shall deem necessary or advisable and approve, their, his, or her execution and delivery thereof being conclusive of the approval thereof.

Section 8. The Executing Officers are authorized to prepare, or cause to be prepared, and execute and deliver, one or more official statements or similar disclosure documents relating to the offering and sale of the Indebtedness in such forms as may be approved, with advice of counsel, by such Executing Officers, in connection with the incurrence of the Indebtedness and the Executing Officers are authorized to deem final one or more preliminary official statements or similar disclosure documents relating to the Indebtedness for the purpose of Rule 15c2-12 of the Securities Exchange Act of 1934, as amended.

Section 9. The Executing Officers, or any of them acting alone, are authorized to take any and all such further action as they, he, or she shall deem necessary or advisable to carry out the purpose and intent of the foregoing resolutions.

Section 10. This Resolution amends and restates in its entirety the Resolution of the Authority adopted April 12, 2024 relating to the subject matter hereof.

I, the undersigned, being the duly qualified Secretary of the Board of Trustees of the Medical University Hospital Authority (the "**Authority**") do hereby certify that the attached Resolution is a true, correct, and verbatim copy of "AUTHORIZING THE MEDICAL UNIVERSITY HOSPITAL AUTHORITY TO ISSUE OR INCUR INDEBTEDNESS IN A PRINCIPAL AMOUNT NOT TO EXCEED \$330,000,000 TO PROVIDE FINANCING FOR THE CONSTRUCTION OF A HOSPITAL AND RELATED AUXILIARY FACILITIES IN LANCASTER COUNTY, SOUTH CAROLINA AND OTHER MATTERS RELATED THERETO" adopted by the Board of Trustees of the Authority at a meeting duly called and held on February 14, 2025, at which a quorum was present and acting throughout.

IN WITNESS WHEREOF, I have hereunto set my hand for delivery on the 14th day of February 2025.

**MEDICAL UNIVERSITY HOSPITAL AUTHORITY
BOARD OF TRUSTEES**

By 
Charles Schulze, Chairman

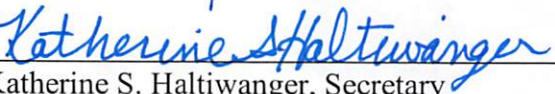
By 
Katherine S. Haltiwanger, Secretary

EXHIBIT A

STATE OF SOUTH CAROLINA)
)
 COUNTY OF CHARLESTON)
 _____)
)
 TO THE STATE FISCAL)
 ACCOUNTABILITY AUTHORITY)
 OF SOUTH CAROLINA)

**PETITION OF THE
 MEDICAL UNIVERSITY
 HOSPITAL AUTHORITY**

This Petition of the Board of Trustees (the “*Board of Trustees*”) of the Medical University Hospital Authority (the “*Authority*”) respectfully shows:

1. The Authority is an agency of the State of South Carolina (the “*State*”) and is an entity created by Act of the General Assembly of South Carolina, codified as §59-123-60, Code of Laws of South Carolina 1976, as amended (the “*Enabling Act*”). The Enabling Act at paragraph (E)(3)(a) grants the Board of Trustees the power to “make contracts and have, hold, purchase, and lease real estate and personal property for corporate purposes.” The Enabling Act at paragraph (E)(3)(b) also grants the Board of Trustees the power to “sell, convey, mortgage, lease, exchange, and otherwise dispose of any real property subject to the authority and approval of the State Fiscal Accountability Authority or the Department of Administration, as appropriate.” The Enabling Act at paragraph (E)(5) further grants the Board of Trustees the power to “construct, operate, and maintain the hospital and related premises, buildings and facilities, and infrastructure.”

2. In fulfilling these powers, the Enabling Act at paragraph (E)(3)(c) permits the Authority to “make contracts and guarantees, to incur liabilities, to issue its notes, bonds and other obligations, and secure any of its obligations by mortgage or pledge of any of its property, or income in a manner to be in the best interest of the authority.” In addition, the Enabling Act provides at paragraph (E)(3)(d) that for purposes of effectuating the provisions of paragraph (E)(3)(c), the Board of Trustees shall utilize the provisions of §§44-7-1410 to 44-7-1720, Code of Laws of South Carolina, 1976, as amended (the “*Hospital Revenue Bond Act*”).

3. In furtherance of these powers and responsibilities, paragraph (E)(3)(d) of the Enabling Act also provides that the Authority’s “obligations or indebtedness... shall be subject to the approval thereof by resolution of the State Fiscal Accountability Authority.”

4. In its meeting on February 14, 2025, the Board of Trustees determined that the construction of a hospital and ancillary facilities in Lancaster County, South Carolina (collectively, the “*Hospital*”) should be financed with the proceeds of one or more borrowings (the “*Indebtedness*”).

5. The Board of Trustees estimates that the cost of construction of the Hospital, the funding of any necessary reserve or similar fund, and the payment of associated costs of issuance (collectively, the “*Project Costs*”) require the incurring or issuance of the Indebtedness.

6. The Board of Trustees determined in its meeting on February 14, 2025, that the Authority should enter into such documents and agreements to take all action as shall be required to incur or issue the Indebtedness, and has authorized the President, the Executive Director, and/or the Chief Financial Officer, upon advice received and in consultation with the Office of the State Treasurer of South Carolina (the “*State Treasurer*”), to execute such documents and agreements and to take all action required to incur or issue the Indebtedness, including without limitation, all such documents as may be appropriate and/or required under State or federal law including specifically the Enabling Act and the Hospital Revenue Bond Act (collectively, the “*Acts*”). Pursuant to such authorization, this Petition is presented to request approval for the incurrence or issuance by the Authority pursuant to the Acts of the Indebtedness in an aggregate principal amount not to exceed \$330,000,000 at interest rate(s) not to exceed nine percent (9%) per annum and for term(s) not to exceed the statutory limit of forty (40) years set forth at §44-7-1450 of the Hospital Revenue Bond Act, which Indebtedness will be used to defray and finance the Project Costs.

7. In connection with the incurrence or issuance of the Indebtedness, the Board of Trustees expects that the Authority will execute and deliver documents and agreements, and take such actions as are necessary or desirable, in connection with such borrowing or borrowings. As permitted by the Hospital Revenue Bond Act and paragraphs (E)(3)(b), (c), and (d) of the Enabling Act, the Board of Trustees expects that the Authority may execute one or more bond or master indentures, loan agreements, bonds, notes, bond purchase agreements, covenant agreements and other instruments and agreements, including, but not limited to, one or more mortgages granting a lien or liens on the Authority’s interest in certain real property and one or more security agreements granting a lien or liens on certain of the Authority’s personal property.

8. For the reasons above set forth and hereinafter disclosed and as contemplated by §44-7-1480 and required by §44-7-1590 of the Hospital Revenue Bond Act, the Board of Trustees has determined that:

(a) the aggregate of the Project Costs to be defrayed by the proceeds of the Indebtedness shall not exceed \$330,000,000;

(b) the South Carolina Department of Health and Environmental Control approved a certificate of need for the construction of the Hospital on August 3, 2023 and all legal claims related to the certificate of need have been resolved;

(c) the terms and conditions of the Indebtedness shall contain those provisions customary in connection with such financings; and

(d) neither the Indebtedness nor any provision securing the same shall create a pecuniary liability or charge upon the State’s general credit or taxing powers.

9. The Indebtedness will be incurred or issued by the Authority pursuant to a resolution or resolutions, and authorizations provided therein, which will impose upon the Authority the obligation to pay, in addition to the moneys required for the repayment thereof, all other costs and expenses relating thereto and the transactions contemplated to take place in connection therewith.

Upon the basis of the foregoing, the Board of Trustees hereby respectfully petitions the State Fiscal Accountability Authority to (i) accept the filing of the Petition presented herewith; (ii) find that the proposed financing is intended to promote the purposes of the Hospital Revenue Bond Act; (iii) on the basis of such findings, approve the incurrence or issuance of the Indebtedness by the Authority in one or more borrowings and in such final form as may be approved by the State Treasurer; and (iv) cause to be published notice of its approval in the manner set forth in the Hospital Revenue Bond Act.

Respectfully Submitted,

**MEDICAL UNIVERSITY
HOSPITAL AUTHORITY**

By: _____
Patrick J. Cawley, M.D., Chief Executive
Officer, MUSC Health and Vice President
for Health Affairs, University

By: _____
Doug Lischke, CPA, Chief Financial Officer

Dated: _____

**A RESOLUTION TO EXPRESS THE INTENTION OF THE MEDICAL UNIVERSITY
HOSPITAL AUTHORITY TO CAUSE THE AUTHORITY TO BE REIMBURSED WITH THE
PROCEEDS OF TAX-EXEMPT OBLIGATIONS FOR CERTAIN COSTS ASSOCIATED WITH
THE INDIAN LAND HOSPITAL PROJECT AND OTHER MATTERS RELATED THERETO**

WHEREAS, the Medical University Hospital Authority (the “*Authority*”), acting by and through its Board of Trustees (the “*Board*”), hereby declares its intention to reimburse itself for a portion of the original expenditures of the costs of designing, acquiring, constructing, equipping, and improving the MUSC Health Indian Land Medical Center in northern Lancaster County, South Carolina and related health care facilities (the “*Project*”) with the proceeds of tax-exempt hospital revenue bonds or other obligations of the Authority (the “*Obligations*”), in a maximum aggregate principal amount reasonably expected not to exceed \$310,000,000. To that end, the Authority determines and declares as follows:


NOW THEREFORE, be it resolved by the Board, as follows:

1. No funds from any sources other than the Obligations may be, are, or are reasonably expected to be, reserved, allocated on a long-term basis or otherwise set aside by the Authority pursuant to the budget or financial policies of the Authority for the financing of the portion of the costs of acquisition, construction, and equipping of the Project to be funded with the Obligations.
2. The Authority reasonably expects that all or a portion of the original expenditures incurred for the Project and the issuance of the Obligations will be paid prior to the date of issuance of the Obligations.
3. The Authority intends and reasonably expects to reimburse itself for all such expenditures paid by it with respect to the Project prior to the issuance of the Obligations, from the proceeds of the Obligations, and such intention is consistent with the budgetary and financial circumstances of the Authority.
4. The Authority intends and reasonably expects to reimburse itself for all such expenditures no later than 18 months after the later of (i) the date the original expenditure is paid, or (ii) the date the Project is placed in service or abandoned for federal income tax purposes, but in no event more than 3 years after the original expenditure is paid.
5. All of the costs to be paid or reimbursed from the proceeds of the Obligations, will be for costs incurred in connection with the issuance of the Obligations or will, at the time of payment thereof, be properly chargeable to the capital account of the Project (or would be so chargeable with a proper election) under general federal income tax principles.
6. This Resolution shall constitute a declaration of official intent under United States Department of the Treasury Regulation Section 1.150-2.

DONE, RATIFIED, AND ADOPTED this 11th day of October, 2024.

**MEDICAL UNIVERSITY HOSPITAL AUTHORITY BOARD OF
TRUSTEES**

By 
Charles W. Schulze, CPA, Chairman

By 
Katherine S. Haltiwanger, Secretary

RESOLUTION

APPROVING THE INCURRENCE OR ISSUANCE BY THE MEDICAL UNIVERSITY HOSPITAL AUTHORITY OF INDEBTEDNESS IN A PRINCIPAL AMOUNT NOT TO EXCEED \$330,000,000 TO PROVIDE FINANCING FOR THE CONSTRUCTION OF A HOSPITAL AND RELATED AUXILIARY FACILITIES IN LANCASTER COUNTY, SOUTH CAROLINA, PURSUANT TO THE PROVISIONS OF TITLE 59, CHAPTER 123 AND TITLE 44, CHAPTER 7 OF THE CODE OF LAWS OF SOUTH CAROLINA, 1976, AS AMENDED, FOR THE PURPOSE OF DEFRAYING THE COSTS OF THE CONSTRUCTION OF SUCH HOSPITAL FACILITIES AND OTHER MATTERS RELATED THERETO.

(INDIAN LAND PROJECT)

WHEREAS, the Medical University Hospital Authority (the “*Authority*”), an agency of the State of South Carolina, has been authorized at §59-123-60, Code of Laws of South Carolina, 1976 as amended (the “*Enabling Act*”) to utilize all provisions of the Hospital Revenue Bond Act, codified at Title 44, Chapter 7, Code of Laws of South Carolina, 1976 as amended (the “*Hospital Revenue Bond Act*”) for the purpose of effectuating the powers set forth in the Enabling Act in order to raise monies for Medical University of South Carolina hospitals, clinics, and other health care and related facilities for the Authority; and

WHEREAS, the Board of Trustees of the Authority (the “*Board of Trustees*”) is authorized at §59-123-60(E)(3)(c) of the Enabling Act to “make contracts and guarantees, to incur liabilities, to issue its notes, bonds, and other obligations, and secure any of its obligations by mortgage or pledge of any of its property, or income in a manner to be in the best interest of the Authority;” and

WHEREAS, the Board of Trustees is authorized at §59-123-60(E)(3)(d) of the Enabling Act for the purpose of effectuating the provisions of subitem (c) therein, to “utilize all provisions of the Hospital Revenue Bond Act;” and

WHEREAS, the Board of Trustees has determined that the incurrence or issuance by the Authority of indebtedness (the “*Indebtedness*”) in a principal amount not to exceed \$330,000,000 for the construction of a hospital and related auxiliary facilities in Lancaster County, South Carolina, the funding of any necessary reserve or similar fund, and the payment of associated costs of issuance (collectively, the “*Project Costs*”) is in the best interest of the Authority; and

WHEREAS, pursuant to §59-123-60(E)(3)(d) of the Enabling Act and §44-7-1590(A) of the Hospital Revenue Bond Act, the Board of Trustees has authorized and caused a petition (the “*Petition*”) to be filed with the State Fiscal Accountability Authority; and

WHEREAS, the Authority, under and pursuant to the provisions of the Enabling Act and the Hospital Revenue Bond Act (collectively, the “*Acts*”), has petitioned the State Fiscal Accountability Authority for its approval of the incurrence or issuance by the Authority of the Indebtedness in an aggregate principal amount not to exceed \$330,000,000 at an interest rate not to exceed nine percent (9%) per annum and for a term not to exceed forty (40) years, all set forth at §44-7-1450 of the Hospital Revenue Bond Act, the proceeds of which Indebtedness will defray the Project Costs; and

NOW, THEREFORE, BE IT RESOLVED, by the **STATE FISCAL ACCOUNTABILITY AUTHORITY OF THE STATE OF SOUTH CAROLINA** as follows:

Section 1. It is hereby found, determined and declared by the State Fiscal Accountability Authority that the Petition contains all matters required by law to be set forth therein, and that in consequence thereof the jurisdiction of this State Fiscal Accountability Authority has been properly invoked under and pursuant to §44-7-1590 of the Hospital Revenue Bond Act.

Section 2. The proposal of the Authority to incur or issue the Indebtedness as described herein is intended to promote the purposes of Title 44, Chapter 7, Article 11 of the Code of Laws of South Carolina 1976, as amended, and is hereby approved.

Section 3. Approval is hereby given for the incurrence or issuance of the Indebtedness in a principal amount not to exceed \$330,000,000 for the purposes described herein and as set forth in the Petition, such Indebtedness to be in such principal amount and subject to such terms as the State Treasurer shall approve; provided, however, the interest rate on the Indebtedness shall not exceed nine percent (9%) per annum and the maturity thereof not exceed forty (40) years; and (ii) the taking by the Office of State Treasurer of such further action and the granting of approval by the State Treasurer of such further action by the Authority as shall not be inconsistent with the foregoing provisions of this Resolution as may be necessary or desirable in connection with the incurrence or issuance of the Indebtedness.

Section 4. It is specifically provided that the Indebtedness may be incurred or issued in one or several series of borrowings.

Section 5. There shall be published a notice of approval as required by Section 44-7-1590(B) in substantially the form attached hereto as **EXHIBIT “A.”**

Section 6. This Resolution shall take effect immediately.

EXHIBIT “A”

NOTICE PURSUANT TO THE PROVISIONS OF SECTION 44-7-1590 OF THE CODE OF LAWS OF SOUTH CAROLINA, 1976, AS AMENDED

NOTICE IS HEREBY GIVEN pursuant to the provisions and requirements of Title 44, Chapter 7, Article 11, Code of Laws of South Carolina 1976, as amended, that the State Fiscal Accountability Authority of South Carolina, pursuant to Petition filed by the Medical University Hospital Authority (the “*Authority*”), has given its approval for the incurrence or issuance by the Authority of indebtedness in an aggregate principal amount not to exceed \$330,000,000 for the purpose of defraying and financing the costs of the construction of a hospital and related auxiliary facilities in Lancaster County, South Carolina, the funding of any necessary reserve or similar fund, and the payment of the associated costs of issuance.

Notice is further given that any interested party may, within twenty (20) days after the date of the publication of this Notice, but not afterwards, challenge the validity of the action taken by the State Fiscal Accountability Authority or the Authority, by action *de novo* instituted in the Court of Common Pleas for Lancaster County, South Carolina.

STATE FISCAL ACCOUNTABILITY AUTHORITY

By: Delbert H. Singleton, Jr., Secretary

Dated: _____, 2025



Pope Flynn, LLC
1411 Gervais Street, Suite 300
Post Office Box 11509 (29211)
Columbia, SC 29201
MAIN 803.354.4900
FAX 803.354.4899
www.popeflynn.com

[Date of Delivery]

Medical University Hospital Authority
Charleston, South Carolina

Re: \$_____ Medical University Hospital Authority FHA Insured Mortgage Revenue Bonds (Indian Land Project), Series 2025[]

Ladies and Gentlemen:

We have acted as bond counsel to the Medical University Hospital Authority (the “Authority”) in connection with the issuance by the Authority of its \$_____ FHA Insured Mortgage Revenue Bonds (Indian Land Project), Series 2025[] (the “Bonds”). In such capacity, we have examined such law and such certified proceedings, certifications, and other documents as we have deemed necessary to give the opinions below.

The Bonds are issued by the Authority pursuant to the Indenture dated as of _____ 1, 2025 (the “Indenture”) between the Authority and _____, as trustee (the “Trustee”), a resolution adopted by the Board of Trustees (the “Board of Trustees”) of the Authority on February 14, 2025 (the “Resolution”); an approving resolution adopted by the State Fiscal Accountability Authority on April 1, 2025; and the Constitution and statutes of the State of South Carolina, including particularly Title 59, Chapter 123 of the Code of Laws of South Carolina 1976, as amended (the “Enabling Act”). Under the Indenture, the Authority has pledged certain revenues (the “Revenues”) for the payment of principal, premium (if any), and interest on the Bonds when due.

Regarding questions of fact material to the opinions below, we have relied on the representations of the Authority contained in the Indenture, and on the certified proceedings and other certifications of representatives of the Authority and certifications of others furnished to us without undertaking to verify them by independent investigation. As to certain matters of law material to the opinions below, we also have relied upon certifications of public officials.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Authority is validly existing as a body corporate and politic and an agency of the State of South Carolina, with the power to enter into and perform its obligations under the Indenture and issue the Bonds.
2. The Indenture has been duly executed and delivered by the Authority, and constitutes a valid and binding agreement of the Authority.
3. The Indenture creates a valid lien on the Revenues and other funds pledged by the Indenture for the security of the Bonds.
4. The Bonds have been duly authorized and executed by the Authority and are valid and binding limited obligations of the Authority, payable solely from the Revenues and other funds provided therefor in the Indenture.

5. Interest on the Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; however, such interest on the Bonds may be taken into account for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the Authority comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes under Section 103 of the Code. The Authority has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

6. Under existing law, both the Bonds and the interest thereon are exempt from all taxation by the State of South Carolina, its counties, municipalities, and school districts, except estate, transfer, and certain franchise taxes. Interest on the Bonds is currently subject to the tax imposed on banks by Section 12-11-20 of the Code of Laws of South Carolina 1976, as amended, which is enforced by the South Carolina Department of Revenue as a franchise tax.

The rights of the holders of the Bonds and the enforceability of the Bonds and the Indenture are limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting the rights and remedies of creditors, and by equitable principles, whether considered at law or in equity.

We express no opinion herein regarding the accuracy, adequacy, or completeness of the Official Statement dated _____, 2025 with respect to the Bonds, or regarding the perfection or priority of the lien on the Revenues or other funds created under the Indenture. Further, we express no opinion herein regarding tax consequences arising with respect to the Bonds other than expressly set forth herein.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Sincerely,

Pope Flynn, LLC



Pope Flynn, LLC
1411 Gervais Street, Suite 300
Post Office Box 11509 (29211)
Columbia, SC 29201
MAIN 803.354.4900
FAX 803.354.4899
www.popeflynn.com

April 1, 2025

South Carolina State Fiscal Accountability Authority
Columbia, South Carolina

Re: Not Exceeding \$330,000,000 Medical University Hospital Authority FHA Insured
Mortgage Revenue Bonds (Indian Land Project), Series 2025

Ladies and Gentlemen:

We are acting as bond counsel to the Medical University Hospital Authority (the "Authority") in connection with the proposed issuance by the Authority of the above-referenced bonds (the "Bonds"). At your request, we are delivering this opinion in connection with the Authority's request¹ to the South Carolina State Fiscal Accountability Authority (the "SFAA") dated February 14, 2025 (the "Petition"), to approve the issuance of the Bonds pursuant to the South Carolina Constitution and Acts of the General Assembly of the State of South Carolina, including particularly Title 59, Chapter 123 of the Code of Laws of South Carolina 1976, as amended (the "Act"), for the purpose of constructing a hospital and related auxiliary facilities in Lancaster County, South Carolina.

In that capacity, we have examined originals or copies of the Petition, the Resolution duly adopted on February 14, 2025, by the Board of Trustees of the Authority (the "Board of Trustees"), and a proposed resolution of the SFAA in the form submitted as part of the Petition (the "SFAA Resolution," together with the Petition and the Resolution, the "Transaction Documents").

In rendering the opinion expressed below, we have relied solely on our examination of the Transaction Documents. We have not made any investigation as to any factual matter or as to the accuracy or completeness of any representation, warranty, data, or any other information, whether written or oral, that may have been made by or on behalf of the Authority, the SFAA or the parties to any of the documents related to the Bonds. Further, in rendering the opinion expressed below, we do not purport to be experts in or generally familiar with or qualified to express legal opinions based on the laws of any jurisdiction other than the federal laws of the United States of America and the laws of the State of South Carolina, and the opinion is limited to the federal laws of the United States of America and the laws of the State of South Carolina. Nothing herein should be understood to render or express a credit or business judgement regarding the issuance of the Bonds.

Based upon the stated examination and assumptions, and subject to the stated qualifications and limitations, we are of the opinion, under existing law, that the Transaction Documents comply with all requirements of the Act, contain all required facts, information, and

¹ Transmitted by Pope Flynn, LLC to Delbert H. Singleton, Jr., as SFAA Secretary by transmittal letter dated February 24, 2025.

findings by the respective authorities, and are legally sufficient to allow the SFAA to approve the issuance of the Bonds through the adoption of the SFAA Resolution.

Except as set forth above, we express no opinion in connection with the issuance and sale of the Bonds. The opinion expressed above is rendered solely for your benefit in considering the approval of the issuance of the Bonds under the Act. The opinion may neither be relied on by you for any other purpose nor be furnished to, used, circulated, quoted, or relied on by any other person or entity for any other purpose, without our prior written consent in each instance. This opinion speaks only as of the date hereof and we disclaim any obligation to update the opinion expressed above for events occurring or coming to our attention after the date of this letter.

Sincerely,

A handwritten signature in blue ink that reads "Pope Flynn, LLC". The signature is written in a cursive, flowing style.

Pope Flynn, LLC

South Carolina Department of Health and Environmental Control



Certificate of Need SC-23-52

FACILITY NAME: MUSC Health Indian Land Medical Center

LOCATION: Lancaster County

LICENSEE: Medical University Hospital Authority

FOR: Construction for the establishment of a 98-bed acute care hospital in Lancaster County through the transfer of 98 licensed hospital beds from MUSC Health Lancaster Medical Center.

TOTAL PROJECT COST: \$235,020,333

This Certificate is being issued in accordance with the Code of Laws of South Carolina.

In determining the need for this project, the South Carolina Department of Health and Environmental Control has taken into consideration the "Criteria for Project Review" and the South Carolina Health Plan as established in the *State Certificate of Need and Health Facility Licensure Act*, S.C. Code Ann. Section 44-7-110 *et seq.* and Regulation 61-15, "Certificate of Need for Health Facilities and Services."

This Certificate of Need is valid until August 3, 2024, which is a period of twelve (12) months from the date of issuance, unless the applicant receives an extension from the Department in accordance with applicable regulations.

Witness to this Certificate is confirmed by my signature and the seal of the Department of Health and Environmental Control this 3rd day of August 2023.

A handwritten signature in black ink, appearing to read "Trenessa K. Jones", written over a horizontal dashed line.

Trenessa K. Jones, DSL, Bureau Director
Healthcare Planning and Construction



South Carolina Department of Public Health



Certificate of Need SC-23-52-EXT-1

FACILITY NAME: MUSC Health Indian Land Medical Center

LOCATION: Lancaster County

LICENSEE: Medical University Hospital Authority

FOR: Construction for the establishment of a 98-bed acute care hospital in Lancaster County through the transfer of 98 licensed hospital beds from MUSC Health Lancaster Medical Center.

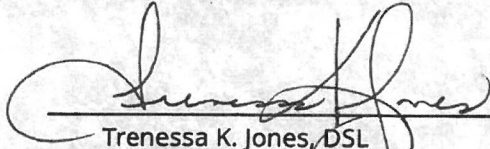
TOTAL PROJECT COST: \$235,020,333

This Certificate is being issued in accordance with the Code of Laws of South Carolina.

In determining the need for this project, the South Carolina Department of Public Health has taken into consideration the "Criteria for Project Review" and the South Carolina Health Plan as established in the *State Health Facilities Licensure Act*, S.C. Code Ann. Section 44-7-110 *et seq.* and Regulation 61-15, "Certification of Need for Health Facilities and Services."

This Certificate of Need is valid until May 3, 2025, which is a period of nine (9) months from the original date of expiration, unless the applicant receives an extension from the Department in accordance with applicable regulations.

Witness to this Certificate is confirmed by my signature and the seal of the Department of Health and Environmental Control this 30th day of July 2024.



Trenea K. Jones, DSL
Director, Bureau of Operations Support





MEDICAL UNIVERSITY HOSPITAL AUTHORITY
(A Component Unit of the Medical University of South Carolina)
Basic Financial Statements and Required Supplementary Information
June 30, 2022
(With Independent Auditors' Report Thereon)

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
(A Component Unit of the Medical University of South Carolina)

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KPMG LLP
Suite 800
500 W 5th St
Winston-Salem, NC 27101

Independent Auditors' Report

The Board of Trustees
Medical University Hospital Authority:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Medical University Hospital Authority (the Authority), a component unit of the Medical University of South Carolina, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2022, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in fiscal year 2022, the Authority adopted Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis and the schedule of proportionate share of net pension liability to PEBA and related ratios, schedule of employer contributions to PEBA – pension, schedule of proportionate share of net OPEB liability and related ratios, and schedule of employer contributions to PEBA – OPEB be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2022 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

Winston-Salem, North Carolina
October 3, 2022

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
(A Component Unit of the Medical University of South Carolina)

Management's Discussion and Analysis – Required Supplementary Information
(Unaudited)

June 30, 2022

Our discussion and analysis of Medical University Hospital Authority's (the Authority) financial performance provides an overview of the activities for the fiscal year ended June 30, 2022.

The intent of this discussion and analysis is to provide further information regarding the Authority's financial performance as a whole. Readers should also review the basic financial statements, along with the notes to the basic financial statements, to further enhance their understanding of the Authority's financial performance.

Financial Highlights – Fiscal Years 2022 and 2021

On August 1, 2021 and more fully described in Note 1 to the basic financial statements, the Authority purchased three hospitals from Lifepoint Health Systems, Inc. These hospitals are consolidated with the Authority and included in the basic financial statements.

At June 30, 2022, the Authority's liabilities and deferred inflows of \$4,153.8 million exceeded its assets and deferred outflows of \$3,557.1 million by \$596.7 million. This excess mainly arises from the net OPEB liability of \$1,327.8 million, pension liability of \$1,027.6 million and long-term debt and financing lease obligations of \$978.5 million. Net position, the residual interest in the assets and deferred outflows after liabilities and deferred inflows are deducted, increased by \$2.9 million in 2022, as compared to a decrease by \$13.4 million in 2021.

The Authority reported an operating loss in 2022 of \$114.4 million, compared to operating loss in 2021 of \$220.3 million.

Net non-operating revenue was \$120.4 million for 2022, as compared to \$206.9 million for 2021, a decrease of \$86.5 million or 41.8%. The major driver for this net decrease is an \$83.1 million decrease in State appropriations (Note C), a decrease of \$10.2 million in investment revenue, which are partially offset by an increase in other non-operating revenues of \$15.0 million.

Overview of the Financial Statements

The Authority is a major discretely presented component unit of the Medical University of South Carolina (the University) that owns and operates the clinical teaching sites of the University and serves the State of South Carolina as a principal diagnostic and treatment referral center.

The Authority's basic financial statements consist of three statements – a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; and a Statement of Cash Flows. These basic financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles and provide detailed information about the activities of the Authority and generally provide an indication of the Authority's financial health.

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The SC PEBA "retirement system" is responsible for the Net Pension liability, Net OPEB liability and the non-cash expenditures related to these liabilities as outlined in Sections 9-1-1050 through 9-1-1085. For the State Pension Plan, the Authority's responsibility is limited to the funding of the employee contributions and related percentage to the match of 21.81% of the annual covered payroll. For the OPEB plan, the Authority has funding responsibility for the 6.25% surcharge of retirees who participate in the retirement plan, as well as a 0.15% incidental death benefit. The Authority does not include the items related to the Pension and OPEB benefit plans that are the responsibility to the State in its debt covenants.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Authority's resources and its activities. The Statement of Net Position presents the assets, both restricted and unrestricted, deferred outflows and inflows of resources and all liabilities using the accrual basis of accounting. The Statement of Revenues, Expenses and Changes in Net Position reports all revenues and expenses for the time period indicated, regardless of when cash is received or paid, as well as payments to the University and University Medical Associates (UMA/MUSCP). These two statements report the Authority's net position and its changes.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operating, investing and capital and noncapital-related financing activities.

The Authority's Net Position

The Authority's net position is the difference between its assets and deferred outflows and liabilities and deferred inflows reported in the Statement of Net Position. A comparative summary of assets, deferred outflows, liabilities, deferred inflows and net position is as follows:

Summary Schedule of Net Position
(In thousands)

	2022	2021
Assets:		
Current assets	\$ 1,412,935	1,203,548
Investments	104,329	70,428
Note receivable and other non-current assets	3,410	9,197
Capital assets, net	1,178,595	965,878
Total assets	2,699,269	2,249,051
Deferred outflows	857,807	741,843
Total assets and deferred outflows	\$ 3,557,076	2,990,894

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Summary Schedule of Net Position
(In thousands)

	2022	2021
Liabilities:		
Current liabilities	\$ 594,805	428,358
Long-term debt	978,470	775,485
Other liabilities	—	78,644
Net pension liability	1,027,580	1,174,094
Net OPEB liability	1,327,787	1,060,314
Total liabilities	3,928,642	3,516,895
Deferred inflows	225,160	73,644
Total liabilities and deferred inflows	\$ 4,153,802	3,590,539
Net position:		
Net investment in capital assets	\$ 134,099	162,707
Restricted:		
Under indenture agreements	70,448	63,421
Capital projects	25,760	45,995
Major programs	41,635	65,735
Unrestricted deficit	(868,668)	(937,503)
Total net position	\$ (596,726)	(599,645)

Effective July 1, 2021, the Authority adopted the provisions of GASB Statement No. 87, Accounting and Financial Reporting for Governmental Leases.

Analysis of the Financial Position as of June 30, 2022 Compared to June 30, 2021

Total assets and deferred outflows increased from \$3,099.2 million in 2021 to \$3,557.1 million in 2022. The major drivers for this increase are \$212.7 million increase in capital assets, \$115.6 million increase in patient accounts receivable, \$48.4 million in unrestricted investments, and \$42.1 million in other current assets.

Total liabilities and deferred inflows increased \$454.9 million or 12.3% from \$3,698.9 million in 2021 to \$4,153.8 million in 2022. The major drivers for this increase are \$267.5 million in net OPEB liability, \$104.7 million in capital lease obligations, and \$80.0 million in short-term debt.

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the Authority. They are also able to determine how much is owed to vendors,

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employees and others. Finally, the Statement of Net Position provides a picture of the net position (assets and deferred outflows minus liabilities and deferred inflows) and their availability for expenditure.

Operating Results and Changes in the Authority's Net Position

Summary Schedule of Revenues, Expenses and Changes in Net Position
(In thousands)

	2022	2021
Operating revenues:		
Net patient service revenue	\$ 3,005,915	2,289,037
Other revenue	107,391	90,047
Total operating revenues	3,113,306	2,379,084
Operating expenses:		
Compensation and employee benefits	1,267,006	927,979
Pension benefits	44,786	115,879
Other post employment benefits	106,078	67,209
Services and supplies	1,669,807	1,379,099
Depreciation and amortization	140,071	109,246
Total operating expenses	3,227,748	2,599,412
Operating loss	(114,442)	(220,328)
Nonoperating revenues (expenses):		
State appropriations	30,967	114,034
Gifts and grants	11,437	18,214
Investment income	(10,153)	57
Other nonoperating revenues	132,846	117,819
Interest expense	(41,298)	(38,870)
Loss on disposal of capital assets	(244)	(810)
Other nonoperating expenses	(1,467)	(3,517)
Debt issuance cost	(1,727)	(16)
Total nonoperating revenues	120,361	206,911
Nonoperating payments to MUSC entities	(3,000)	—
Increase (decrease) in net position	\$ 2,919	(13,417)

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. Operating revenues are received for providing goods and services. Operating expenses are paid to acquire or produce the goods and services and to carry out the mission of the Authority. Non-operating revenues and expenses are the result of activities for which goods and services are not provided. The utilization of capital assets is

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reflected in the financial statements as depreciation and amortization, which is the impact of depreciating the cost of each asset over its expected useful life. With the implementation of GASB 87, lease expenses that were previously included in Service and Supplies have been booked to interest and depreciation as a result of being recognized as right-of-use assets and liabilities. Changes in net position are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Position.

Analysis of Operating Results for the Year ended June 30, 2022 Compared to the Year ended June 30, 2021

Net Patient Service Revenue

Compared to fiscal year 2021, net patient service revenue increased by approximately \$716.9 million, or 31.3%. Gross patient charges increased by \$2.422 billion, or 24.9%, from 2021 to 2022 due to increases in patient activity and comprehensive rate; as well as the acquisition of the Midlands hospitals. Net revenue related to the Disproportionate Share Hospital (DSH) program administered by the state Department of Health and Human Services increased in 2022 to \$73.8 million from \$61.2 million in 2021. There can be no assurance that the Authority will continue to qualify for future participation in the DSH program or that the DSH program will not ultimately be discontinued or materially modified.

Payor class percentages changed somewhat from 2021 to 2022, showing an increase in Blue Cross, Medicare and Medicaid; a decrease in medically indigent/self-pay/other payor classes; and private insurance/managed care remained relatively stable, as shown in the table below:

Percentage of Net Patient Service Revenue by Payor Class

	2022	2021
Blue Cross	27 %	26 %
Medicare	35	33
Medicaid	19	16
Private insurance/managed care	13	13
Medically indigent/self-pay/other	6	12
Total	100 %	100 %

Patient Business Activity

Inpatient days of care increased by 14.2%, from 367,000 in 2021 to 418,990 in 2022. Average length of stay for all patients was consistent at 6.1 days in both 2021 and 2022. The average daily census increased in 2022 to 1,163 from the 2021 census of 1,005. Admissions increased in 2022 to 70,286 from the 2021 level of 58,831. Surgical procedures increased 19.4% from 52,326 in 2021 to 62,500 in 2022. Additionally, transplant volume increased by 23 or 3.9% from 2021 to 2022. The case mix index is a measure of inpatient acuity and it was consistent at 2.01 in both 2021 and 2022.

The case mix index is a measure of inpatient acuity and it increased by 2.9% from 2.45 in 2021 to 2.52 in 2022 for the Charleston campus.

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Outpatient visits volume increased by 110,001 visits, or 7.7%, from 1,433,326 in 2021 to 1,543,327 in 2022. Emergency/trauma visits increased to 248,045, or 47.1% in 2022 from the 2021 level of 168,611.

The addition of the Midlands facilities increased inpatient days of care by 45,442, Surgical procedures by 6,888, Outpatient visits by 65,419 and Emergency/trauma visits by 76,484.

Deductions from Revenue

Contractual and other adjustments expressed as a percentage of gross revenue increased 0.1% from 72.6% in 2021 to 72.7% in 2022. Contractual and other adjustments expressed in dollars increased \$1,616.1 million or 23.9%. The increase is due to the fact that reimbursements from Medicare, Medicaid and third-party insurers are less than billed charges and increases in charges implemented by the Authority are not matched by increased reimbursement rates.

The provision for uncollectible accounts decreased \$123.2 million, or 47.8% from 2022 to 2021, to a total of \$134.6 million for the year ended June 30, 2022. The Authority is an active, caring member of the communities it serves. In carrying out its mission of meeting the health and wellness needs of its service areas, the Authority has established policies under which it provides care to needy members of its communities. These policies include discount programs for both uninsured and indigent patients. Following these policies, charity care services totaling approximately \$640.4 million and \$429.8 million (as measured by established charges) were provided without charge during fiscal years 2022 and 2021, respectively. The Authority continues its focus and efforts on enhancing policy and process to identify and qualify eligible Medicaid and charity care patients.

In total, uncompensated care write-offs at established rates as measured by the total of bad debts plus charity care totaled 6.4% and 7.1% of gross patient charges for fiscal years 2022 and 2021, respectively.

Operating Expense

Operating expenses increased by \$628.3 million, from \$2,599.4 million in 2021 to \$3,227.7 million in 2022. This 24.2% increase is primarily the result of continued increasing costs associated with compensation and employee benefits, services and supplies, as well as COVID-19 related costs inclusive of the Regional Hospital Network (RHN) facilities. These drivers impacted the increase: services and supplies costs of \$1,669.8 million and compensation, employee benefits of \$1,267.0 million, and Pension and OPEB of \$150.9 million.

Additionally, supply costs, inclusive of COVID-19 supplies, and pharmaceutical costs continue to increase at rates exceeding those of general inflation; however, rates of increase are comparable to inflation rates for the healthcare industry. Depreciation and amortization expense increased \$30.8 million or 28.2% in fiscal year 2022.

Capital Assets

As shown in note 5 to the financial statements, at the end of fiscal year 2022, the Authority had \$1,178.6 million invested in capital assets, net of accumulated depreciation, up from \$965.9 million invested in capital assets at the end of fiscal year 2021.

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Capital assets not being depreciated increased by \$95.6 million in fiscal year 2022, compared to an increase of \$56.6 million in fiscal year 2021. This increase is related to land (Midland purchase), assets not in service (timing), and construction in progress (CIP) (described below).

Additions to construction in progress of \$34.3 million in fiscal year 2022 were more than fiscal year 2021 additions of \$30.8 million. Approximately \$21.7 million relates to Williamsburg Lake City Medical Center. An additional \$1.5 million relates to Forensics Unit Chester, \$0.9 million relates to the Kershaw Medical Center, \$0.7 million related to the Lancaster Medical Center, and \$0.5 million relates to the Florence Medical Center.

There were additional increases to capital assets being depreciated in fiscal year 2022, from \$87.0 million in fiscal year 2021 to \$280.6 million in fiscal year 2022. This increase is primarily the result of Midlands Health System acquisition and reclassifying right of use assets (\$155.0 million), expenditures of approximately \$31.4 million in major movable equipment, \$12.6 million in buildings, improvements and fixed equipment and \$15.0 million related to software, as a result of adopting GASB 87.

The Authority uses both internal funds from operations and external debt capital to finance capital acquisitions. Some capital acquisitions are also funded by state appropriations and federal grants, as available. The most significant debt financing programs are discussed in detail below under Financing.

See note 5 to the financial statements for more details on capital assets.

Financing

The Authority has begun a phased-approach replacement of much of its principal patient care facilities, a project planned for completion in stages over 30 years. Phase I of the project involved building a facility comprised of a four-story diagnostic and treatment center, a seven-story hospitality (bed) tower, and a garden atrium uniting the two sections of the building. Phase I of the project was completed in fiscal year 2008. Ashley River Tower, the 641,000 square-foot facility was opened on February 4, 2008. No new clinical health services were added as a result of this phase of the project.

Phase II was a children's hospital and women's pavilion (CHWP). Initial planning began in fiscal year 2017 and continued in fiscal year 2018 with architectural design derived from numerous clinical meetings and discussion of a financing plan. A preapplication document for the \$350 million project was submitted to the U.S. Department of Housing & Urban Development (HUD) relating to the Federal Housing Administration Section 241 loan program in August 2015. At June 30, 2015, \$68.3 million was secured by way of state funding and philanthropy for Phase II. The State of South Carolina approved \$25.0 million in the FY 2016 budget and \$10.0 million in the FY 2017 budget for this project. Shawn Jenkins, a local business owner, pledged \$25.0 million, and the Tourville family pledged another \$10.0 million. The hospital was named the MUSC Shawn Jenkins Children's Hospital and Pearl Tourville Women's Pavilion in honor of their generosity. This level of money raised to support the project made HUD financing possible.

On December 22, 2004, the Authority issued \$422.1 million of the Federal Housing Administration Insured Mortgage Hospital Facilities and Refunding Revenue Bonds, Series 2004 (Series 2004), consisting of \$304.0 million Series A Tax-Exempt Bonds and \$118.1 million Series B Taxable Bonds for the purpose of providing funds to (a) pay the costs of Phase I of the project mentioned above, (b) pay a portion of the interest accruing on the bonds during construction of Phase I, (c) prepay the outstanding amount of the Charleston

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County Memorial Hospital revenue note, (d) advance refund the \$102.8 million Hospital Facilities Refunding Revenue Bonds, Series 2002A, (e) fund a debt service reserve fund with respect to the bonds, and (f) pay certain costs incurred in connection with the issuance of the bonds.

On December 29, 2004, the South Carolina Jobs Economic Development Authority issued \$61.0 million of Economic Development Revenue Bonds, Central Energy Plant Series 2004. Proceeds of the bonds were loaned to MUFC Central Energy Plant, LLC, a single-member limited liability company organized under the laws of the State of South Carolina, whose sole member is Medical University Facilities Corporation. Pursuant to a loan agreement between the issuer and the borrower, the borrower shall use the proceeds to finance the construction of an approximately 52,000 square-foot central energy plant and certain other improvements, renovations, and furnishings, fixtures, and equipment to provide steam and chilled water for the use and benefit of the new 156-bed Phase I Authority project mentioned above. Pursuant to the loan agreement, the borrower is obligated to make payments to the issuer in amounts sufficient to pay the principal and interest on the bonds.

On March 15, 2007, the construction of the central energy plant was substantially completed, and the plant was put into service. In 2014, MUFC Central Energy Plant, LLC was terminated after the refunding of the CEP Series 2004 Bonds.

On February 1, 2008, MUFC Central Energy Plant, LLC converted the then outstanding \$59.4 million bonds into indexed floating rate bonds to reduce the cost of capital and annual debt service payments detailed in note 8 to the financial statements. Concurrent with the conversion of the bonds, MUFC Central Energy Plant, LLC entered into a variable-to-fixed interest rate swap. The intention of the swap was to effectively convert the variable interest rate paid on the bonds to a synthetic fixed rate of 5.755%. This interest rate swap was terminated on December 30, 2013 and a payment of \$2.1 million was made as part of the refinancing of the central energy plant.

Management continues to look for opportunities to reduce nonoperating expenses. With interest expense being the largest nonoperating expense and interest rates at historically low levels, the Authority engaged a financial adviser in fiscal year 2012 to help determine the most effective refinancing vehicle. On December 19, 2012, the refinancing of the Authority's Series 2004 bonds with Government National Mortgage Agency (GNMA) mortgage-backed securities (MBS) was completed. Long-term debt was reduced when funds in the debt service reserve and other accounts of approximately \$47.4 million were made available to reduce principal. Interest was fixed at 2.94% and the amortization schedule was not extended. On December 30, 2013, the Authority refinanced the 2004 Central Energy Plant Economic Development Revenue Bonds (CEP Series 2004 bonds) with GNMA MBS. Interest was fixed at 3.85%, and the amortization schedule was not extended.

In April 2013, the Authority entered into a \$13.8 million equipment lease/purchase agreement with Wells Fargo Bank for energy conservation equipment for the Sabin Street central energy plant project. This agreement is subject to the master lease program agreement between Wells Fargo Bank and the state of South Carolina.

In November 2016, the Authority closed on a \$316.4 million mortgage for the construction of the (Phase II) MUSC CHWP. The mortgage is insured by HUD through FHA Section 242 Hospital Mortgage Insurance Program, the principal bears interest at 3.59%, the term is 25 years.

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On October 15, 2018, the Authority closed on a \$36.4 million mortgage note Series 2018A with United Community Bank. The proceeds of the financing are being used for the purchase of land and the building to be constructed thereon constituting a consolidated services center including a sterile processing center in the North Charleston area (CSC). The proceeds of the financing are also being used for the purchase of land in Berkeley County, upon which will be constructed an emergency department facility and an approximate 128-bed hospital (Nexton).

On February 21, 2019, the Authority closed on a \$129.0 million Hospital Acquisition Loan with TD Bank to fund the Asset Purchase Agreement with Community Health System. The entire unpaid principal balance was due and payable on the maturity date of February 24, 2020. As discussed below, this Bridge Loan was refinanced with the \$133.4 million loan from TD bank during fiscal year 2020.

During March, April and May, 2019, the Authority borrowed a total of \$120 million in revenue anticipation notes from Wells Fargo Bank. The proceeds of the loans were used to defray the payment of a portion of the operating expenses and expenditures made in connection with the ownership and operation of the acquired CHS/Community Health Systems, Inc. hospitals in Florence, Marion, Chester, and Lancaster. All notes, with the exception of RAN A for \$65 million, were settled during FY20.

On December 12, 2019, the Authority closed on a \$133.4 million loan with TD Bank to refinance the Hospital Acquisition Loan with TD Bank. The proceeds of the loan were used for the purpose of (i) refinancing the bridge loan indebtedness related to the purchase of the four hospitals; and (ii) defraying and financing the costs associated with the incurrence of the mortgage indebtedness.

On April 1, 2020, the Authority renewed \$65 million in revenue anticipation notes from Wells Fargo Bank. The proceeds of the loans were used to defray the payment of a portion of the operating expenses and expenditures made in connection with anticipation of lost revenues due to COVID-19. This note was settled in October 2020.

On July 29, 2021, the Authority closed on a \$76.4 million bridge loan with TD Bank to fund the Asset Purchase Agreement of Midlands Health System. The entire unpaid principal balance shall be due and payable on the maturity date of July 29, 2022. This Bridge Loan has been refinanced with the PNC Bank loan discussed below.

During August and October 2021, the Authority borrowed a total of \$80 million in revenue anticipation notes from TD Bank, N.A. The proceeds of the loans were used to defray the payment of a portion of the operating expenses and expenditures made in connection with the ownership and operation of the acquired Midlands Hospital System. The notes were extended with maturity dates of October 2022 and February 2023.

On April 7, 2022, the Authority closed on a \$79.7 million loan with PNC Bank to refinance the bridge loan with TD Bank. The proceeds of the loan were used for the purpose of (i) refinancing the bridge loan indebtedness related to the purchase of the Midlands hospitals; and (ii) defraying and financing the costs associated with the incurrence of the mortgage indebtedness.

Current Operating Environment

Management of the Authority monitors economic conditions closely, both with respect to potential impacts on the healthcare provider industry and from a more general business perspective. The COVID19 pandemic has

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impacted the healthcare industry since March 2020 and the number of cases in South Carolina to date represents a small portion of the total cases in the United States. In response, Management implemented new business models to provide testing and other services to patients. Management recognizes that economic conditions may continue to impact the Authority in a number of ways, including (but not limited to) uncertainties associated with the global economy, future pandemic outbreaks, changes in the unemployment rate and associated impact on uninsured patients, and stress on the federal, state and local budgets. Additionally, the general healthcare industry environment is increasingly uncertain, especially with respect to the impacts of the federal healthcare reform legislation, which was passed in the spring of 2010. Potential impacts of ongoing healthcare industry transformation include, but are not limited to:

- Continuing volatility in the state and federal government reimbursement programs; for example, the Affordable Care Act reduces payments to all hospitals by \$155 billion over 10 years; it was projected that these cuts would be offset by the reduction in the uninsured population. While South Carolina chose not to expand Medicaid the uninsured rate has dropped from 15.4% to 13.6%.
- Exchange reimbursement levels that are significantly below those of traditional commercial insurance companies, payor policies that do not recognize valid assignment of benefits from patients and send payment for healthcare services to patients. Changes in combined state/federal disproportionate share payments, increasing reliance on managed care plans by Medicare and Medicaid and attendant increases in program complexity and payment delays and impact on the healthcare "demand curve" as the previously uninsured enter the insurance system
- Effective management of multiple major regulatory mandates, including achievement of meaningful use of Healthcare Information Technology
- Significant potential business model changes throughout the healthcare industry, including recently announced mergers of the nation's largest health insurers
- Pandemic outbreaks and their impact on business models, volumes, and supply procurement, such as COVID-19.

In South Carolina, in order to control escalating Medicaid costs, the Department of Health and Human Services has kept the hospital service rates (Inpatient and Outpatient hospital base rates and Inpatient Graduate Medical Education reimbursement) at the October 1, 2015 level.

- Inpatient hospital base rates were increased 2.75% on October 1, 2013 and 2.50% on October 1, 2014 and adjusted on October 1, 2015 to maintain the 93% of cost target.
- Inpatient Graduate Medical Education (direct and indirect medical education) reimbursement rates remain at the November 1, 2015 level.

Outpatient hospital multiplier was adjusted to maintain the 93% of cost target.

These reimbursement rate adjustments have had and will continue to have a significant impact on the Authority's financial performance. To help minimize the impact of this revenue reduction, the Authority continues implementation of a hospital-wide response plan directed at high-impact areas, both clinically and financially. All areas of a patient's stay are reviewed, including (but not limited to) reducing length of stay,

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standardization of supplies, use of generic versus brand name drugs, staffing ratios, and new information technology to improve medical coding and billing.

The business of healthcare in the current economic, legislative and regulatory environment is volatile. Any of the above factors, along with others both currently in existence and which may or may not arise in the future, could have a material adverse impact on the Authority's financial position and operating results.

During the fiscal year ended June 30, 2016, the Authority created a consolidated clinical enterprise under the brand of MUSC Health. This enterprise is an effort to further integrate the clinical operations of the Authority and MUSC Physicians. Both entities retain their existing separate legal entities under this enterprise, but work more closely together to manage their combined clinical operations.

MUSC Health's Integrated Centers of Clinical Excellence are the organizational units of MUSC Health. Committed to care models that improve patient experience and achieve optimal patient outcomes, these comprehensive care teams are led by physician chiefs and charged with providing patients the most innovative, efficient and effective subspecialized care.

Contacting the Authority's Financial Management

This financial report is designed to provide interested parties with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Authority's Chief Financial Officer at Medical University Hospital Authority, P.O. Box 250332, Charleston, South Carolina 29425.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
(A Component Unit of The Medical University of South Carolina)

Statement of Net Position

June 30, 2022

Assets and Deferred Outflows

Current assets:		
Cash and cash equivalents	\$	387,598,828
Cash restricted for capital projects and major programs		83,285,723
Investments unrestricted		264,491,790
Investments restricted for capital projects and major programs		34,109,578
Patient accounts receivable, net of allowance for uncollectible accounts of approximately \$350,600,000		395,820,159
Due from related parties, net		5,790,631
Due from third-party payors		11,390,413
Other current assets		<u>230,448,046</u>
Total current assets		1,412,935,168
Investments held by trustees under indenture agreements		70,448,729
Investments in joint ventures and partnerships		33,879,909
Other non-current assets		3,409,879
Capital assets, net		<u>1,178,595,177</u>
Total assets		2,699,268,862
Deferred outflows		<u>857,807,172</u>
Total assets and deferred outflows	\$	<u><u>3,557,076,034</u></u>

Liabilities, Deferred Inflows and Net Position

Current liabilities:		
Current installments of long-term debt and financing lease obligations	\$	79,155,813
Short-term debt		80,000,000
Advance Medicare funding		76,980,409
Accounts payable		203,582,602
Accrued payroll, withholdings, and benefits		144,079,202
Due to Joint ventures and Partnerships		1,257,760
Other accrued expenses		<u>9,749,511</u>
Total current liabilities		594,805,297
Long-term debt and capital lease obligations net of current installments		978,469,573
Net pension liability		1,027,579,790
Net OPEB liability		<u>1,327,787,350</u>
Total liabilities		3,928,642,010
Deferred inflows		<u>225,159,519</u>
Total liabilities and deferred inflows		<u>4,153,801,529</u>
Net position:		
Net investment in capital assets		134,098,955
Restricted:		
Under indenture agreements		70,448,729
Capital projects		25,759,956
Major programs		41,635,342
Unrestricted deficit		<u>(868,668,477)</u>
Total net position		<u>(596,725,495)</u>
Total liabilities, deferred inflows, and net position	\$	<u><u>3,557,076,034</u></u>

See accompanying notes to basic financial statements.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
(A Component Unit of The Medical University of South Carolina)
Statement of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2022

Operating revenues:	
Net patient service revenue (net of provision for uncollectable accounts of \$134,564,664)	\$ 3,005,914,629
Other revenue	<u>107,391,465</u>
Total operating revenues	<u>3,113,306,094</u>
Operating expenses:	
Compensation and employee benefits	1,267,006,080
Pension benefits	44,786,079
Other postemployment benefits	106,078,009
Services and supplies	1,669,807,159
Depreciation and amortization	<u>140,070,648</u>
Total operating expenses	<u>3,227,747,975</u>
Operating loss	<u>(114,441,881)</u>
Nonoperating revenue (expense):	
State appropriations	30,967,386
Gifts and grants	11,436,968
Investment income	(10,153,288)
Other nonoperating revenues	132,845,516
Interest expense	(41,297,779)
Loss on disposal of capital assets	(243,724)
Other nonoperating expenses	(1,467,049)
Debt issuance cost	<u>(1,727,429)</u>
Total nonoperating revenues, net	<u>120,360,601</u>
Income before payments to MUSC entities	5,918,720
Nonoperating expense – payments to MUSC entities	<u>(3,000,000)</u>
Increase in net position	2,918,720
Net position, beginning of year	<u>(599,644,215)</u>
Net position, end of year	<u>\$ (596,725,495)</u>

See accompanying notes to basic financial statements.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
(A Component Unit of The Medical University of South Carolina)

Statement of Cash Flows

Year ended June 30, 2022

Cash flows from operating activities:	
Receipts from patients and third-party payors	\$ 2,813,095,643
Other cash receipts	101,185,573
Payments to suppliers and employees	<u>(2,869,139,143)</u>
Net cash provided by operating activities	<u>45,142,073</u>
Cash flows from noncapital financing activities:	
State appropriations	30,967,386
Proceeds from CARES funding	87,938,393
Proceeds from noncapital grants and gifts	2,630,629
Payments of revenue anticipation notes	80,000,000
Nonoperating expenditures	<u>(4,467,049)</u>
Net cash provided by noncapital financing activities	<u>197,069,359</u>
Cash flows from capital and related financing activities:	
Capital expenditures	(93,774,728)
Capital grants and gifts received	4,560,653
Proceeds from disposal of capital assets	1,500
Payments of principal on long-term debt	(123,786,499)
Proceeds from financing debt	143,145,738
Payments of bond issuance cost	(1,679,806)
Payments of mortgage insurance premium	(975,494)
Payments on lease obligations	(37,015,116)
Proceeds on equipment replacement obligations	901,382
Interest payments	<u>(38,900,111)</u>
Net cash used in capital and related financing activities	<u>(147,522,481)</u>
Cash flows from investing activities:	
Proceeds from sale and maturity of investments	242,921,585
Investment income received	3,285,929
Distributions from joint ventures and partnerships	1,497,825
Purchases of investments	(309,879,567)
Contributions to joint ventures and partnerships	<u>(26,733,232)</u>
Net cash used in investing activities	<u>(88,907,460)</u>
Net increase in cash and cash equivalents	5,781,491
Cash and cash equivalents at beginning of year	<u>479,016,532</u>
Cash and cash equivalents at end of year	<u>\$ 484,798,023</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (114,441,881)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	140,070,648
Provision for uncollectible accounts	165,833,036
Changes in operating assets and liabilities:	
Patient accounts receivable	(279,699,773)
Due from third-party payors	(6,008,150)
Due from joint ventures and partnerships	8,177,563
Other current assets	29,856,686
Accounts payable	48,672,611
Other accrued expenses and accrued payroll, withholding and benefits	12,685,584
Advanced Medicare funding (recoupment)	(105,820,114)
Pension obligations	44,786,079
OPEB obligations	106,078,009
Related parties, net	(4,942,246)
Unearned revenue	<u>(105,979)</u>
Net cash provided by operating activities	<u>\$ 45,142,073</u>
Reconciliation of cash and cash equivalents at end of year to the statement of net position:	
Cash and cash equivalents	\$ 387,598,828
Restricted for capital projects and major programs	83,285,723
Included in investments held by trustees under indenture agreements	<u>13,913,472</u>
	<u>\$ 484,798,023</u>
Noncash transactions:	
Capital assets acquired by financing lease or other financing	\$ 195,176,015
Capital assets and working capital acquired via debt	76,380,000
Change in fair value of investments	(11,457,808)
Change in capital assets payable	6,645,551
Pro rata income from joint ventures	1,637,627

See accompanying notes to basic financial statements.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
(A Component Unit of the Medical University of South Carolina)

Notes to Basic Financial Statements

June 30, 2022

(1) Summary of Significant Accounting Policies

Medical University Hospital Authority (the Authority) is a multidimensional healthcare system headquartered in Charleston, South Carolina. The Authority is a principal diagnostic and treatment referral center for the state of South Carolina that owns and operates the principal clinical teaching institutions for The Medical University of South Carolina (the University). The primary facilities used by the Authority, all located on or near the Authority's main campus in Charleston, consist of the following:

- University Hospital
- University Hospital Extension (UHE) (formerly Children's Hospital)
- Ashley River Tower (ART) Hospital
- Shawn Jenkins Children's Hospital
- Storm Eye Institute
- Institute of Psychiatry
- Digestive Disease Center
- Transplant Center
- Hollings Cancer Center
- MUSC Heart and Vascular Center
- Regional Health Network (RHN)
- Midlands Hospital System

On August 1, 2021, the Authority purchased substantially all of the capital assets and estimated net working capital of three hospital operations in South Carolina. These hospitals included Providence Hospital and Providence Northeast Hospital in Columbia and Kershaw Hospital in Camden (collectively Midlands).

Reporting Entity

The Authority is a major discretely presented component unit of the University, as defined by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*. The Authority's component unit relationship to the University arises principally because the nature and significance of the relationship is such that exclusion would cause the University's financial statements to be misleading or incomplete. In particular, the legislation establishing the Authority as a stand-alone healthcare system, effective July 1, 2000, requires that the members of the University's board of trustees also constitute the board of trustees of the Authority. The Authority is considered a discretely presented component unit because, while it does have the same governing board as the University, it does not provide a significant financial benefit to or impose a financial burden on the University. The Authority receives its own state appropriations passed through the University from the South Carolina General Assembly, independent of the appropriations granted and mandates made to the University.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
(A Component Unit of the Medical University of South Carolina)

Notes to Basic Financial Statements

June 30, 2022

The significant accounting policies used by the Authority in preparing and presenting its financial statements are as follows:

(a) Basis of Accounting

For financial reporting purposes, the Authority is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

(b) Cash Equivalents

The Authority considers investments in highly liquid individual debt instruments (with an original maturity of three months or less) and similar fund positions to be cash equivalents.

(c) Inventories

Inventories, consisting principally of medical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first-out) or replacement value and are included in other current assets in the accompanying Statement of Net Position.

(d) Investments and Investment Income

Investments are carried at fair value and consist of internally or externally restricted cash equivalents and treasury obligations with original maturities greater than three months. Fair value measurements are categorized within the fair value hierarchy established by generally accepted accounting principles (GAAP) and investment income or loss from investments (including realized and unrealized gains and losses on investments and interest) is reported as nonoperating revenue in the accompanying Statement of Revenues, Expenses and Changes in Net Position.

(e) Capital Assets

Capital assets (excluding intangible right-to-use lease assets) are recorded at cost at the date of acquisition or, if donated, at fair value at the date of receipt. Depreciation is provided over the useful life of each class of depreciable assets using the straight-line method. Equipment under capital lease obligations is amortized using the straight-line method over the estimated useful life of the equipment or lease term, and such amortization is included in depreciation and amortization in the accompanying Statement of Revenues, Expenses and Changes in Net Position.

A summary of depreciable lives is as follows:

Buildings, improvements, and fixed equipment	5–50 Years
Machinery, equipment, and vehicles	2–20 Years
Software	3–5 Years

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
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Notes to Basic Financial Statements

June 30, 2022

(f) Lease (Lessee) Arrangements

MUHA is a lessee for various noncancellable leases of land, equipment and buildings.

(i) Short-term Leases

For leases with a maximum possible term of 12 months or less at commencement, MUHA recognizes expense based on the provisions of the lease contract.

(ii) Leases other than short-term

For all other leases (i.e. those that are not short-term), MUHA recognizes a lease liability, and an intangible right-to-use lease asset, if the initial value of the intangible right-to-use asset is less than \$50,000.

(iii) Measurement of Lease Amounts

At lease commencement, MUHA initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, less lease payments made at or before the lease commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the lease asset is amortized into depreciation and amortization expense, lease expense, etc. on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. If MUHA is reasonably certain of exercising a purchase option contained in a lease, the lease asset will be amortized over the useful life of the underlying asset.

(iv) Key Estimates and Judgments

Key estimates and judgments include how MUHA determines (1) the discount rate it uses to calculate the present value of the expected lease payments, (2) lease term, and (3) lease payments.

- MUHA generally uses its estimated incremental borrowing rate as the discount rate for leases unless the rate that the lessor/vendor charges are known. In analyzing previously existing lease agreements, MUHA calculated a weighted average of incremental borrowing rates to assign to both equipment and real property leases. MUHA's incremental borrowing rate for leases is based on the rate of interest it would need to pay if it issued general obligation bonds to borrow an amount equal to the lease or payments, under similar terms at the commencement or remeasurement date.
- The lease or subscription term includes the noncancellable period of the lease, respectively, plus any additional periods covered by either MUHA or lessor option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised. Periods in which both MUHA and the lessor/vendor have a unilateral option to terminate (or if both parties have to agree to extend) are excluded from the lease or subscription term.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
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Notes to Basic Financial Statements

June 30, 2022

- Payments are evaluated by MUHA to determine if they should be included in the measurement of the lease liabilities, including those payments that require a determination of whether they are reasonably certain of being made, such as tenant incentives received after the commencement date, variable components that are fixed in nature or those that are dependent on an index or rate (i.e. Consumer Price Index).

(v) *Remeasurement of Lease Amounts*

MUHA monitors changes in circumstances that may require remeasurement of a lease or subscription IT arrangement. When certain changes occur that are expected to significantly affect the amount of the lease liability, the liability is remeasured and a corresponding adjustment is made to the lease asset.

(vi) *Presentation in Statement of Net Position*

Lease assets are reported with capital assets and lease liabilities are reported with long-term debt in the statement of net position.

(g) Statement of Revenues, Expenses and Changes in Net Position

For purposes of presentation, transactions deemed by management to be ongoing, major or central to the provision of healthcare services are reported as operating revenues and operating expenses. Principal nonoperating transactions include state appropriations, CARES Act funding, gifts and grants, investment income, interest expense, loss on disposal of capital assets and financing costs.

(h) Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors and others for services rendered, and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations, as well as the provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

(i) Charity Care

The Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

(j) Net Position

Net position of the Authority is classified into the following components:

- Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowings used to finance the purchase or construction of those assets.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
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Notes to Basic Financial Statements

June 30, 2022

- Restricted under indenture agreements represents resources deposited with trustees as required by bond indentures or other debt agreements.
- Restricted for capital projects and major programs represents resources that the Authority is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.
- Unrestricted deficit represents remaining net position that does not meet any of the above definitions.

When the Authority has both restricted and unrestricted resources available to finance a particular program, it is the Authority's policy to use restricted resources before unrestricted resources.

(k) Costs of Borrowing

Costs of issuance are expensed in the period incurred.

Interest cost is incurred before the end of the construction period is expensed as incurred in the period in which the cost is incurred.

(l) Income Taxes

The Authority is a political subdivision of the State of South Carolina and is treated as a governmental entity for tax purposes. Additionally, the Authority has received its determination letter from the Internal Revenue Service indicating that it is exempt from income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). As such, the Authority is not generally subject to federal or state income taxes. However, the Authority remains subject to income taxes on any net income that is derived from a trade or business, regularly carried on and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded. If there is net income from any unrelated trade or business, such provision, in the opinion of management, is not material to the financial statements taken as a whole.

(m) Use of Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP) requires that management make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Significant items subject to such estimates include the allowances for uncollectible accounts and contractual adjustments for patient receivables, depreciation and amortization, liability for incurred but not reported claims under the self-insured health plan and estimated third-party payor settlements. In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount in the near term.

(n) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources representing a consumption of net position that is applicable to a future reporting period(s). In addition to liabilities, the statement of net position reports a separate section for deferred inflows of

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
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Notes to Basic Financial Statements

June 30, 2022

resources representing an acquisition of net position is applicable to a future reporting period(s). The Authority's statement of net position includes deferred outflows and inflows related to the Net Pension Liability as detailed in note 13, Net OPEB liability as detailed in note 14, and the deferred loss on refunding of debt.

(o) Deferred Loss on Refunding of Debt

In transactions involving refunding of debt, the difference between the reacquisition price (total cost of new debt) and the net carrying value of the old debt is deferred and amortized to interest expense over the shorter of the remaining life of the old debt or the life of the new debt. The unamortized amount of the deferred loss on refunding of debt is reflected as a deferred outflow.

(p) Recent Accounting Pronouncements

GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, was released in May 2020 and postponed the effective dates of several upcoming pronouncements as a means of providing temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. These new effective dates are included in the pronouncements below.

- GASB Statement No. 87, *Leases*, was issued in June 2017. This statement requires recognition of certain assets and deferred outflows of resources and liabilities and deferred inflows of resources for leases previously classified as operating leases based on the payment provisions of the contract. It establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset and a lessor is required to recognize a lease receivable and a deferred inflow of resources to enhance the relevance and consistency of information about governments' leasing activities. GASB Statement No. 87 is effective for the Authority in fiscal year 2022. See Note 1(f) for lease policies and Note 17 for discussion of MUHA's leases.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, was issued in June 2018. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. GASB Statement No. 89 was effective for the Authority in fiscal year 2022. The implementation of this standard did not have a material impact on the Authority in the current year.
- GASB Statement No. 91, *Conduit Debt Obligations*, was issued in May 2019. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. This Statement will be effective for the Authority in fiscal year 2023. The Authority is in the process of evaluating the impact of GASB Statement No. 91 on its financial statements.
- GASB Statement No. 97, *Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, was issued in June 2020. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
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Notes to Basic Financial Statements

June 30, 2022

does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. This Statement was effective for the Authority in fiscal year 2022. Currently the Authority does not have any fiduciary component units. The Authority contributes funds to the South Carolina Public Employee Benefit Authority (PEBA). PEBA is a state agency responsible for the administration and management of the state's employee insurance programs, other post-employment benefits trusts and retirement systems and is part of the State of South Carolina primary government. The fiduciary governance occurs within PEBA. Additional information related to the Authority's and employees' contributions, as well as deferred inflows and outflows related to Pension and OPEB can be found in notes 13 and 14 as well as additional related schedules below.

- GASB Statement No. 99, *Omnibus 2022*, was issued in April 2022. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by making changes to Statement Nos. 53, 87, 94, 96, and 34. Statement No. 34 along with various other requirements in Statement No. 99 were effective for the Authority in fiscal year 2022. Statement Nos. 53, 87, 94, and 96 will be effective for the Authority in fiscal year 2023. Statement No. 34 does not have a material impact to the fiscal year 2022 financials. The Authority is in the process of evaluating the impact of changes to Statement Nos. 53, 87, 94 and 96 made under Statement No. 99 on its financial statements.
- GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, was issued in June 2022. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This statement will be effective for the Authority in fiscal year 2024. The Authority is in the process of evaluating the impact of this statement on its financial statements.
- GASB Statement No. 101, *Compensated Absences*, was issued in June 2022. The primary objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This statement will be effective for the Authority in fiscal year 2025. The Authority is in the process of evaluating the impact of this statement on its financial statements.

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Notes to Basic Financial Statements

June 30, 2022

(2) Cash, Cash Equivalents and Investments

The Authority's cash balance at June 30, 2022 is as follows:

Bank balance:

Insured (Federal Deposit Insurance Corporation and Securities Investor Protection Corporation)	\$ 2,239,747
Uninsured, uncollateralized, or collateralized by securities held by the pledging institution or by its trust department or agent in other than the Authority's name	<u>482,392,292</u>
Total	<u>\$ 484,632,039</u>
Carrying amount (cash and cash equivalents)	\$ 387,598,828
Restricted Assets (cash and cash equivalents)	<u>83,285,723</u>
Total	<u>\$ 470,884,551</u>

A summary of investments at June 30, 2022 is as follows:

	Fair value	Percentage	Maturities	Interest rate	Credit rating
Cash	\$ 11,862,222	3.2	N/A	N/A	N/A
Fixed-income securities:					
Fannie Mae	34,147,775	9.3	5/22/23–7/10/23	0.3%	Aaa
Federal Home Loan Bank	128,232,722	34.7	9/3/22–9/12/32	0.1%–3.4%	Aaa
Federal Farm Credit Bank	29,258,072	7.9	12/30/22–2/9/24	0.15%–0.16%	Aaa
Federal Home Loan Mortgage Corporation	39,041,970	10.6	5/5/23–11/6/23	0.0%–2.75%	Aaa
KFW	71,289,410	19.3	8/22/22–10/19/23	0.2%–1.75%	Aaa
Intl Bk Recon & Development	9,643,920	2.6	11/24/2023	0.3%	Aaa
Federal National Mortgage Association	43,522,757	11.8	9/24/26–8/5/30	0.8%–1.9%	Aaa
Dreyfus Treasury Securities	<u>2,051,249</u>	0.6	Various	0.8%	Aaa
	<u>\$ 369,050,097</u>				

The Authority categorizes its investments carried at fair value within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset:

- Level 1 inputs are quoted prices in active markets for identical assets.
- Level 2 inputs are significant other observable inputs (current MUHA investments are all valued as Level 2).
- Level 3 inputs are significant unobservable inputs.

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Notes to Basic Financial Statements

June 30, 2022

A summary of investments within the fair value hierarchy as of June 30, 2022 is as follows:

	Investments fair value level	Fair value measurements		
		Level 1	Level 2	Level 3
Fixed-income securities:				
Fannie Mae	\$ 34,147,775	—	34,147,775	—
Federal Home Loan Bank	128,232,722	—	128,232,722	—
Federal Farm Credit Bank	29,258,072	—	29,258,072	—
Federal Home Loan Mortgage Corporation	39,041,970	—	39,041,970	—
KFW	71,289,410	—	71,289,410	—
Intl Bk Recon & Development	9,643,920	—	9,643,920	—
Federal National Mortgage Association	43,522,757	—	43,522,757	—
Dreyfus Treasury Securities	2,051,249	—	2,051,249	—
	<u>\$ 357,187,875</u>	<u>—</u>	<u>357,187,875</u>	<u>—</u>

The Authority's investment strategy has been developed to, among other things, ensure that the investment portfolio remains in compliance with the investments deemed permissible under the indenture agreement described in note 8. There is no formalized deposit or investment policy that otherwise addresses credit risk, interest rate risk, foreign currency risk or how investment income may be spent.

Guidelines for fixed-income investments and cash equivalents are as follows:

1. Direct obligations of the U.S. government, securities issued by federal agencies backed by the full faith and credit of the U.S. government, and securities issued by certain nonfull faith and credit federal agencies
2. Cash, money market funds and certificates of deposit that are appropriately collateralized, insured or issued by investment grade financial institutions
3. Investment agreements, including guaranteed investment contracts, commercial papers, repurchase agreements and other securities are subject to credit rating minimums, acceptance by related insurers, and other provisions, as described in the indenture agreements.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Except for restrictions imposed by the aforementioned indenture agreement, there are no limits on the amount the Authority may invest in any one issuer. As of June 30, 2022, 34.7% of the Authority's investments are in notes issued by the Federal Home Loan Bank.

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Notes to Basic Financial Statements

June 30, 2022

Investment income comprises the following for the year ended June 30, 2022:

Dividend and interest income	\$ 3,335,212
Realized and unrealized loss on investments	<u>(13,488,500)</u>
	<u>\$ (10,153,288)</u>

(3) Other Current Assets

The composition of other current assets at June 30, 2022 is as follows:

Prepaid expenses	\$ 66,553,982
Inventories	86,728,105
Amounts due from the South Carolina Medicaid Disproportionate Share Hospital program (Note 10)	1,522,402
Amounts due from the South Carolina Medicaid HMO Graduate Medical Education program	13,246,823
FEMA Public Assistance Funds Receivable	46,380,866
Property Lease Receivables	7,641,306
Other	<u>8,374,562</u>
	<u>\$ 230,448,046</u>

(4) Other Non-Current Assets

Prepaid rents include an enhanced-use lease of real property from the Department of Veterans Affairs for \$1.3 million, which expires May 15, 2079, and is being amortized over 75 years. Also, \$1.0 million of the non-current prepaid expenses is composed of various prepaid miscellaneous maintenance and other contracts.

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(5) Capital Assets

Capital assets and related activity for the year ended June 30, 2022 consisted of the following:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Capital assets not being depreciated:				
Land	\$ 41,040,786	15,039,757	—	56,080,543
Assets not in service	17,527,562	46,269,300	(22,914,492)	40,882,370
Construction in progress	13,030,437	34,323,202	(7,419,065)	39,934,574
Total capital assets not being depreciated	<u>71,598,785</u>	<u>95,632,259</u>	<u>(30,333,557)</u>	<u>136,897,487</u>
Capital assets being depreciated:				
Buildings, improvements and fixed equipment	1,273,646,992	12,593,602	(25,166,354)	1,261,074,240
Machinery and equipment	403,045,462	31,354,042	(8,138,160)	426,261,344
Software	78,882,288	15,041,042	—	93,923,330
Vehicles	3,137,245	2,672,644	—	5,809,889
Total capital assets being depreciated	<u>1,758,711,987</u>	<u>61,661,330</u>	<u>(33,304,514)</u>	<u>1,787,068,803</u>
Less accumulated depreciation for:				
Buildings, improvements and fixed equipment	(550,347,105)	(52,958,207)	25,166,354	(578,138,958)
Machinery and equipment	(249,483,710)	(41,687,111)	7,892,935	(283,277,886)
Software	(62,557,552)	(6,598,728)	—	(69,156,280)
Vehicles	(2,044,005)	(818,477)	—	(2,862,482)
Total accumulated depreciation	<u>(864,432,372)</u>	<u>(102,062,523)</u>	<u>33,059,289</u>	<u>(933,435,606)</u>
Capital assets being depreciated, net	<u>894,279,615</u>	<u>(40,401,193)</u>	<u>(245,225)</u>	<u>853,633,197</u>
Capital assets, net excluding lease assets	<u>\$ 965,878,400</u>	<u>55,231,066</u>	<u>(30,578,782)</u>	<u>990,530,684</u>
Lease assets, net (Note 17)				<u>188,064,493</u>
Total capital assets, net				<u>\$ 1,178,595,177</u>

Construction in progress at June 30, 2022 consists of costs associated with various renovation projects and cost for new Williamsburg Lake City Medical Center. Construction in progress projects are generally scheduled for completion in fiscal year 2023. Remaining costs to complete these projects are estimated to total approximately \$20.0 million

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(6) Deferred Outflows

The composition of deferred outflows at June 30, 2022 is as follows:

Deferred loss on refunding GNMA MBS Series 2012	\$ 12,370,641
Deferred loss on refunding CEP Series 2013	758,522
Other postemployment benefits (note 14)	528,927,775
Pension plans (note 13)	<u>315,750,234</u>
Total	<u>\$ 857,807,172</u>

(7) Short-Term Debt

The Authority borrowed \$80 million in Revenue Anticipation Notes (RANs) from TD Bank, N.A. and used the proceeds of the loans to defray the payment of a portion of the operating expenses and expenditures to be made in connection with the ownership and operation of the acquired Midlands Hospital System. The unpaid principal amount including interest will be due on maturity date.

There were options to extend the initial term of the RANs as requested by MUHA and agreed upon with the lender. On August 4, 2022 RAN A was extended for an additional six-month period with an interest rate of 3.35% and a maturity date of February 3, 2023. On April 4, 2022, RAN B was extended for an additional six-month period with an interest rate of 1.74% and a maturity date of October 6, 2022. These notes are classified as direct borrowings.

2022	Interest rate	Maturity date	Beginning balance	Increases	Decreases	Ending balance
Revenue Anticipation Note Series 2021A	3.35 %	02/03/2023	\$ —	50,000,000	—	50,000,000
Revenue Anticipation Note Series 2021B	1.74 %	10/6/2022	—	30,000,000	—	30,000,000
			<u>\$ —</u>	<u>80,000,000</u>	<u>—</u>	<u>80,000,000</u>

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(8) Long-Term Debt

A summary of long-term debt at June 30, 2022 is as follows:

GNMA MBS, 2012 refinancing of Series 2004 Bonds, Series 2012, payable in varying amounts through 2033, with monthly interest payments at the rate of 2.94%	\$ 220,588,990
MUHA Central Energy Plant, 2013 refinancing of MUFC Central Energy Plant, LLC Economic Development Revenue Bonds, Series 2013, payable in varying amounts through 2032, with monthly interest payments at the rate of 3.85%	28,798,811
Note payable to Wells Fargo Bank for conservation equipment, payable in varying amounts through March 2023, with quarterly interest payments at the rate of 3.50%	1,169,300
GNMA MBS – FHA Insured Mortgage Acquisition Obligation, Series 2016, payable in varying amounts through 2044, with monthly interest payments at the rate of 3.59%	292,351,076
Mortgage Note Series 2018A – for purchase of land in Nexton and construction of a consolidated service center (CSC), payable in varying amounts through October 2023, with an effective interest rate of 4.32%	34,393,648
2019 FHA/GNMA – Refinancing of RHN Acquisition Loan, TD Bank payable in varying amounts through 2045, with monthly interest payments at the rate of 3.00%	124,401,830
2022 FHA/GNMA – Refinancing of Midlands Acquisition Loan, PNC Bank payable in varying amounts through 2047, with monthly interest payments at the rate of 3.235%	79,509,636
Note payable for patient monitoring equipment, payable in varying amounts through June 2024, with monthly interest payments at the rate of 4.50%	6,617,420
Note payable for imaging equipment, payable in varying amounts through August 2028, with annual interest payments at the rate of 2.02%	17,886,670
Note payable to University Medical Associates for commercial building payable in varying amounts through June 2025, with monthly interest payments at the rate of 3.14%	5,748,857
Note payable to Banc of America Leasing & Capital, LLC Schedule 1 for the purchase of equipment, payable in varying amounts through October 2028, with monthly interest payments at the rate of 2.58%	18,246,873
Note payable to Banc of America Leasing & Capital, LLC Schedule 2 for the purchase of equipment, payable in varying amounts through October 2028, with monthly interest payments at the rate of 2.58%	16,422,185

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Note payable to Banc of America Leasing & Capital, LLC Schedule 3 for the purchase of equipment, payable in varying amounts through October 2028, with monthly interest payments at the rate of 2.58%	\$ <u>12,000,000</u>
	858,135,296
Less current installments	<u>50,957,307</u>
	<u>\$ 807,177,989</u>

On December 29, 2004, the South Carolina Jobs Economic Development Authority issued \$61.0 million of Economic Development Revenue Bonds, Central Energy Plant (CEP) Series 2004 for the benefit of the Authority. Proceeds of the bonds were loaned to MUFC Central Energy Plant, LLC, a single-member limited liability company organized under the laws of the State of South Carolina, whose sole member is Medical University Facilities Corporation. Pursuant to a loan agreement between the issuer and the borrower, the borrower shall use the proceeds to finance the construction of an approximately 52,000 square-foot central energy plant and certain other improvements, renovations, and furnishings, fixtures, and equipment to provide steam and chilled water for the use and benefit of the new 156-bed Phase I Authority project. Pursuant to the loan agreement, the borrower is obligated to make payments to the issuer in amounts sufficient to pay the principal and interest on the bonds. On March 15, 2007, the construction of the Central Energy Plant was substantially completed, and the plant was put into service. In 2014, MUFC Central Energy Plant, LLC was terminated after the refunding of the CEP Series 2004 bonds.

On February 1, 2008, MUFC Central Energy Plant, LLC converted the then outstanding \$59.4 million bonds into indexed floating rate bonds to reduce the cost of capital and annual debt service payments.

On December 19, 2012, the Authority refinanced the 2004 Series bonds with Government National Mortgage Agency (GNMA) mortgage-backed securities (MBS) (Series 2012). The refinance was done to substantially lower the Authority's interest rate from 5.18% and 5.14% on the 2004 Series bonds in fiscal year 2013 to a 2.94% fixed rate on the Series 2012. At the time of refinancing, the long-term debt obligation was reduced by debt service reserve and other funds, which became available to make additional principal payments. The net proceeds of \$360.4 million (after payment of \$1.1 million of issuance costs plus an additional \$49.9 million of 2004 Series debt service fund monies) were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2004 Series bonds. The advance refunding of the 2004 Series bonds resulted in an economic gain of \$1.0 million along with reducing total debt service payments over the next 20 years. The bond indenture contains certain terms and restrictive covenants, typical of such agreements, including maintenance of certain debt service coverage levels and limitations of additional indebtedness. The amount of outstanding debt related to the advanced refunding related to the 2004 Series A bonds is \$488.5 million through 2034. This debt is secured by a pledge of all MUHA assets and revenues per the HUD Regulatory Agreement.

The Authority's outstanding notes from direct loans and direct borrowings related to governmental activities contain the following provisions; in cases of debt not insured by the HUD loan program, lenders would declare outstanding principal and interest payments to be due immediately, along with any available collateral securing the obligations. For HUD insured debt, GNMA would settle with investors within 60 days

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of default and then directly request HUD to be made whole through their mortgage insurance program that MUHA has procured by pledging all revenues and assets.

Debt service requirements associated with the Authority's outstanding GNMA MBS 2012, which are direct placement loans, are as follows:

	Series 2012		Total
	Principal	Interest	
Fiscal year:			
2023	\$ 17,240,793	6,254,228	23,495,021
2024	17,754,558	5,740,463	23,495,021
2025	18,283,634	5,211,387	23,495,021
2026	18,828,476	4,666,545	23,495,021
2027	19,389,553	4,105,468	23,495,021
2028–2032	105,966,875	11,508,230	117,475,105
2033–2036	23,125,101	369,920	23,495,021
Total	<u>\$ 220,588,990</u>	<u>37,856,241</u>	<u>258,445,231</u>

On December 30, 2013, the Authority refinanced the 2004 MUFC Central Energy Plant, LLC Economic Development Revenue Bonds (CEP Series 2004 bonds) with GNMA MBS (Series 2013). The refinance was done to lower the Authority's effective interest rate from 5.75% on the 2004 Series to a 3.85% fixed rate on the Series 2013. The net proceeds of \$47.4 million (after payment of \$1.3 million of issuance costs) were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the CEP Series 2004 bonds. As a result, the CEP Series 2004 bonds are considered to be defeased and the liability for those bonds was removed from the Statement of Net Position. The advance refunding of the CEP Series 2004 bonds resulted in an economic gain of \$2.4 million along with reducing total debt service payments over the next 18 years. The bond indenture contains certain terms and restrictive covenants, typical of such agreements, including maintenance of certain debt service coverage levels and limitations on additional indebtedness. This debt is secured by a pledge of all MUHA assets and revenues per the HUD Regulatory Agreement.

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Debt service requirements associated with the Authority's outstanding GNMA MBS Series 2013, which are direct placement loans, are as follows:

	Series 2013		Total
	Principal	Interest	
Fiscal year:			
2023	\$ 2,643,098	1,062,438	3,705,536
2024	2,746,674	958,864	3,705,538
2025	2,854,306	851,231	3,705,537
2026	2,966,157	739,380	3,705,537
2027	3,082,390	623,147	3,705,537
2028–2032	14,506,186	5,913	14,512,099
Total	\$ 28,798,811	4,240,973	33,039,784

In April 2013, the Authority entered into a \$13.8 million equipment lease/purchase agreement with Wells Fargo Bank for energy conservation equipment for the Sabin Street central energy plant project. The terms are 10 years with an interest rate of 3.50%. This agreement is subject to the master lease program agreement between Wells Fargo Bank and the State of South Carolina. This debt is secured by the property/equipment and subject to the rights of HUD.

Debt service requirements associated with the Authority's note payable, which are direct borrowing loans, are as follows:

	Wells Fargo		Total
	Principal	Interest	
Fiscal year:			
2023	\$ 1,169,300	20,183	1,189,483
Total	\$ 1,169,300	20,183	1,189,483

On November 17, 2016, the Authority closed on a \$316.4 million mortgage insured by the U.S. Department of Housing and Urban Development (HUD) through the Federal Housing Administration's (FHA) Section 242 Hospital Mortgage Insurance Program. The principal amount of the mortgage bears interest at 3.59% and is amortized over 25 years. The proceeds of this financing are being used for the purpose of (i) defraying and financing a portion of the costs of construction of the MUSC CHWP and other healthcare and related facilities of the Authority; and (ii) defraying and financing the costs associated with the incurrence of the mortgage indebtedness. The total project has an estimated cost of \$389.3 million, with an equity contribution by the Authority of \$72.9 million that included state funding and fundraising in hand at closing. This debt is secured by a pledge of all MUHA assets and revenues per the HUD Regulatory Agreement.

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Debt service requirements associated with the Authority's outstanding GNMA MBS Series 2016, which are direct placement loans, are as follows:

	Series 2016		Total
	Principal	Interest	
Fiscal year:			
2023	\$ 8,840,379	10,350,884	19,191,263
2024	9,163,023	10,028,240	19,191,263
2025	9,497,443	9,693,820	19,191,263
2026	9,844,067	9,347,196	19,191,263
2027	10,203,343	8,987,920	19,191,263
2028–2032	56,881,896	39,074,419	95,956,315
2033–2037	68,047,715	27,908,600	95,956,315
2038–2042	81,405,366	14,550,950	95,956,316
2043–2047	38,467,844	1,513,953	39,981,797
Total	\$ 292,351,076	131,455,982	423,807,058

On October 15, 2018, the Authority closed on a \$36.4 million mortgage note series 2018A with United Community Bank. The principal amount of the mortgage bears interest at 4.32% and is amortized over five years, with quarterly payments of \$547,448. At the conclusion of year five, the remaining balance of \$33.7 million will be due to the lender in full. The proceeds of the financing are being used for (1) the purchase of land and the building to be constructed thereon constituting a consolidated services center (CSC), including a sterile processing center in the North Charleston area and (2) land in Berkeley County (Nexton), upon which will be constructed an emergency department facility and an approximate 128-bed hospital. This debt is secured by the CSC and Nexton Land properties and is subject to the rights of HUD.

Debt service requirements associated with the Authority's Mortgage Note, which is a direct placement loan, are as follows:

	Series 2018A		Total
	Principal	Interest	
Fiscal year:			
2023	\$ 694,711	1,495,081	2,189,792
2024	33,698,937	733,959	34,432,896
Total	\$ 34,393,648	2,229,040	36,622,688

On February 21, 2019, the Authority closed on a \$129 million Hospital Acquisition Loan with TD Bank to fund the Asset Purchase Agreement with Community Health System. The principal amount of the loan bears interest at 3.21%. Interest only payments on the outstanding principal balance shall be payable monthly. The entire unpaid principal balance shall be due and payable on the maturity date of February 24,

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2020. On August 29, 2019, the Authority received a letter of commitment to insure upon completion from the U.S. Department of Housing and Urban Development in an amount not exceeding \$133.6 million. Upon the closing of this loan, the proceeds were used for the purpose of (i) refinancing the bridge loan indebtedness related to the purchase of the four regional hospitals; and (ii) defraying and financing the costs associated with the incurrence of the mortgage indebtedness. These obligations are unsecured, except for the Lien on the Acquisition Fund that is held by the South Carolina State Treasurer's Office. This loan has been refinanced in fiscal year 2021 through the TD Bank loan discussed below.

On December 12, 2019, the Authority closed on a \$133.4 million loan with TD Bank to refinance the Hospital Acquisition Loan with TD Bank. The principal amount of the loan bear interests at 3.00% and is amortized over 25 years. The proceeds of the loan were used for the purpose of (i) refinancing the bridge loan indebtedness related to the purchase of the four hospitals described above and (ii) defraying and financing the costs associated with the incurrence of the mortgage indebtedness.

Debt service requirements associated with the Authority's outstanding FHA GNMA Series 2019, which are direct placement loans, are as follows:

	Series 2019		
	Principal	Interest	Total
Fiscal year:			
2023	\$ 3,911,774	3,678,558	7,590,332
2024	4,030,754	3,559,578	7,590,332
2025	4,153,353	3,436,979	7,590,332
2026	4,279,681	3,310,651	7,590,332
2027	4,409,852	3,180,481	7,590,333
2028–2032	24,144,685	13,806,977	37,951,662
2033–2037	28,046,871	9,904,791	37,951,662
2038–2042	32,579,717	5,371,945	37,951,662
2043–2047	18,845,143	763,219	19,608,362
Total	\$ 124,401,830	47,013,179	171,415,009

On July 29, 2021, the Authority closed on a \$76.38 million Bridge Loan with TD Bank to fund the Asset Purchase Agreement of Midlands Health System. The principal amount of the loan bears interest at 0.38%. Interest only payments on the outstanding principal balance shall be payable monthly. The entire unpaid principal balance shall be due and payable on the maturity date of July 29, 2022. This Bridge Loan has been refinanced with the PNC Bank loan discussed below.

On April 7, 2022, the Authority closed on a \$79.68 million loan with PNC Bank to refinance the Bridge Loan with TD Bank. The principal amount of the loan bear interests at 3.235% and is amortized over 25 years. The proceeds of the loan were used for the purpose of (i) refinancing the bridge loan indebtedness related to the purchase of the Midlands hospitals; and (ii) defraying and financing the costs associated with the incurrence of the mortgage indebtedness. These obligations are secured by real estate situated in Kershaw County, Richland County, Fairfield County and Lancaster County, South Carolina.

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Debt service requirements associated with the Authority's outstanding FHA Series 2022, which are direct placement loans, are as follows:

	Series 2022		Total
	Principal	Interest	
Fiscal year:			
2023	\$ 2,111,078	2,541,018	4,652,096
2024	2,180,393	2,471,703	4,652,096
2025	2,251,984	2,400,112	4,652,096
2026	2,325,925	2,326,171	4,652,096
2027	2,402,295	2,249,801	4,652,096
2028–2032	13,247,716	10,012,762	23,260,478
2033–2037	15,570,180	7,690,298	23,260,478
2038–2042	18,299,796	4,960,682	23,260,478
2043–2047	21,120,269	1,752,536	22,872,805
Total	\$ 79,509,636	36,405,083	115,914,719

The Authority entered into a long-term agreement on March 25, 2016 that requires certain minimum purchases of patient monitoring products and services through fiscal year 2024. Effective July 1, 2016, the Authority amended the original agreement to reduce the required minimum purchases and corresponding unitary payments. The agreement cost is approximately \$30.8 million and calls for 96 monthly unitary payments of \$360,506. The patient monitoring products and services will be consumed over the agreement period and in conjunction with a time line that was developed at agreement inception. The time line can be modified by the parties and this commitment is at a level consistent with normal business practices.

	Patient Monitors		Total
	Principal	Interest	
Fiscal year:			
2023	\$ 3,239,808	214,804	3,454,612
2024	3,377,612	77,000	3,454,612
Total	\$ 6,617,420	291,804	6,909,224

The Authority entered into a long-term agreement on August 24, 2018 that requires certain minimum purchases of patient imaging equipment and services through fiscal year 2028. Effective January 1, 2019, the agreement cost is approximately \$81.8 million and calls for 10 annual unitary payments of \$9,116,289. The patient monitoring products and services will be consumed over the agreement period and in

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conjunction with a time line that was developed at agreement inception. The time line can be modified by the parties and this commitment is at a level consistent with normal business practices.

	Imaging Equipment		Total
	Principal	Interest	
Fiscal year:			
2023	\$ 2,845,759	332,609	3,178,368
2024	2,898,457	279,909	3,178,366
2025	2,952,223	226,144	3,178,367
2026	3,007,074	171,293	3,178,367
2027	3,063,033	115,334	3,178,367
2028–2032	3,120,124	58,243	3,178,367
Total	\$ 17,886,670	1,183,532	19,070,202

The Authority entered into an agreement with the University Medical Associates (UMA) for the purchase of Parkshore Centre located at One Poston Rd. Charleston, SC at the purchase price of \$27,650,000. UMA purchased the building with combined cash and assumption of debt, closing on December 31, 2014. The Authority and UMA have agreed to achieve 50 percent ownership by the end of fiscal year 2025.

	UMA		Total
	Principal	Interest	
Fiscal year:			
2023	\$ 1,912,095	153,152	2,065,247
2024	1,973,007	92,240	2,065,247
2025	1,863,755	29,388	1,893,143
Total	\$ 5,748,857	274,780	6,023,637

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The Authority entered into an agreement with Banc of America Capital & Leasing LLC, Schedule 1 for the purchase of equipment on October 26, 2021. The terms are 7 years with an interest rate of 2.58%.

	Schedule 1		
	Principal	Interest	Total
Fiscal year:			
2023	\$ 2,686,821	439,145	3,125,966
2024	2,756,966	369,000	3,125,966
2025	2,828,943	297,023	3,125,966
2026	2,902,799	223,167	3,125,966
2027	2,978,584	147,383	3,125,967
2028-2032	4,092,760	75,197	4,167,957
Total	\$ 18,246,873	1,550,915	19,797,788

The Authority entered into an agreement with Banc of America Capital & Leasing LLC, Schedule 2 for the purchase of equipment on October 27, 2021. The terms are 7 years with an interest rate of 2.58%.

	Schedule 2		
	Principal	Interest	Total
Fiscal year:			
2023	\$ 2,418,139	395,231	2,813,370
2024	2,481,270	332,100	2,813,370
2025	2,546,049	267,321	2,813,370
2026	2,612,519	200,851	2,813,370
2027	2,680,725	132,645	2,813,370
2028-2032	3,683,483	67,677	3,751,160
Total	\$ 16,422,185	1,395,825	17,818,010

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The Authority entered into an agreement with Banc of America Capital & Leasing LLC, Schedule 3 for the purchase of equipment on October 28, 2021. The terms are 7 years with an interest rate of 2.58%.

	Schedule 3		
	Principal	Interest	Total
Fiscal year:			
2023	\$ 1,243,552	300,272	1,543,824
2024	1,905,853	255,084	2,160,937
2025	1,955,609	205,328	2,160,937
2026	2,006,665	154,272	2,160,937
2027	2,059,054	101,883	2,160,937
2028-2032	2,829,267	51,984	2,881,251
Total	\$ 12,000,000	1,068,823	13,068,823

A schedule of changes in the Authority's long-term debt obligations for the year ended June 30, 2022 is as follows:

2022	Date of issuance	Beginning balance	Additions	Refunded and/or retired	Ending balance	Due within one year
Series 2012	12/19/2012	\$ 237,330,885	—	(16,741,895)	220,588,990	17,240,793
Wells Fargo	4/25/2013	2,732,070	—	(1,562,770)	1,169,300	1,169,300
Series 2013	12/30/2013	31,342,241	—	(2,543,430)	28,798,811	2,643,098
Series 2016	11/17/2016	300,880,171	—	(8,529,095)	292,351,076	8,840,379
Series 2018A	10/15/2018	35,058,661	—	(665,013)	34,393,648	694,711
Series 2019	12/12/2019	128,198,136	—	(3,796,306)	124,401,830	3,911,774
Various Lessors	8/1/2020	595,978	—	(595,978)	—	—
Series 2022	4/7/2022	—	79,682,500	(172,864)	79,509,636	2,111,078
Patient Monitors	7/1/2016	9,635,904	216,304	(3,234,788)	6,617,420	3,239,808
Imaging Equipment	8/24/2018	16,622,011	5,645,013	(4,380,354)	17,886,670	2,845,759
1 Poston Rd, Charleston, SC	6/1/2015	—	7,601,921	(1,853,064)	5,748,857	1,912,095
Schedule 1	10/26/2021	—	20,000,000	(1,753,127)	18,246,873	2,686,821
Schedule 2	10/27/2021	—	18,000,000	(1,577,815)	16,422,185	2,418,139
Schedule 3	10/28/2021	—	12,000,000	—	12,000,000	1,243,552
Total long-term obligations excluding lease liabilities		\$ 762,396,057	143,145,738	(47,406,499)	858,135,296	50,957,307
Lease liabilities (Note 17)					199,490,090	28,198,506
Total long-term obligations					\$ 1,057,625,386	79,155,813

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(9) Other Accrued Expenses

The composition of other accrued expenses at June 30, 2022 is as follows:

Accrued interest	\$ 2,795,314
Amounts due to contractors	2,305,779
Lease obligations	763,640
Other	<u>3,884,778</u>
	<u>\$ 9,749,511</u>

(10) Net Patient Service Revenue

The Authority has agreements with governmental and other third-party payors that provide for reimbursement to the Authority at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Authority's billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors is as follows:

- Medicare – Substantially all inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic and other factors. Additionally, the Authority is reimbursed for both its direct and indirect medical education costs, based principally on per-resident prospective payment amounts and certain adjustments to prospective rate-per-discharge operating reimbursement payments. The Authority generally is reimbursed for retroactively determined items at tentative rates, with final settlement determined after submission of annual cost reports by the Authority and audits by the Medicare fiscal intermediary. The Authority's cost reports have been audited and initially settled for all fiscal years through 2011.

Revenue from the Medicare program accounted for approximately 34.7% of the Authority's net patient service revenue for the fiscal year ended June 30, 2022.

- Medicaid – Inpatient and outpatient services rendered to most Medicaid program beneficiaries are reimbursed based upon prospective reimbursement methodologies.
- The Authority participates in the Medicaid Disproportionate Share Hospital program (the DSH Program) available to certain qualifying hospitals in South Carolina. The net reimbursement benefits associated with this program totaled approximately \$73.8 million in fiscal year 2022 and are recognized as reductions in related contractual adjustments in net patient service revenue on the Statement of Revenues, Expenses and Changes in Net Position. The Authority recognized a receivable totaling approximately \$2.4 million at June 30, 2022. There can be no assurance that the Authority will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified. Any material reduction in such funds has a corresponding material adverse effect on the Authority's operations.

Overall, revenue from the Medicaid program, including net disproportionate share funding and cost settlement liabilities described above, accounted for approximately 19.0% of the Authority's net patient service revenue for the year ended June 30, 2022.

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- The Authority has also entered into payment arrangements with various managed care organizations, commercial insurance carriers and preferred provider organizations. Payment methodologies under these agreements include prospectively determined rates per discharge, discounts from established rates and prospectively determined per diem rates.

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors and others for services rendered. Associated estimates change as a result of confirming events such as completion of audits of the Authority's cost reports by third-party payors or receipt of final settlement payments from third-party payors. Net patient service revenue was increased by approximately \$7.5 million for changes in prior year estimates of amounts receivable from or payable to third-party payors during the year ended June 30, 2022.

The composition of net patient service revenue for the year ended June 30, 2022 is as follows:

Gross patient service revenue	\$ 11,510,589,450
Less:	
Provision for contractual and other adjustments	8,370,110,157
Provision for uncollectible accounts	<u>134,564,664</u>
Net patient service revenue	<u>\$ 3,005,914,629</u>

(11) Service to the Community

The Authority is an active, caring member of the communities it serves. In carrying out its mission of meeting the health and wellness needs of its service areas, the Board of Trustees has established policies under which the Authority provides care to needy members of its communities. These policies include discount programs for both uninsured and indigent patients. Following these policies, charity care services totaling approximately \$640.4 million (as measured by established charges) were provided without charge (and thus not recognized in gross patient service revenue) during fiscal year 2022.

The Authority also participates in the Medicare and Medicaid programs. Under these programs, the Authority provides care to patients at payment rates that are determined by the federal and state governments, regardless of actual cost. The Authority wrote off discounts from established charges related to these programs totaling approximately \$4,836 million in fiscal year 2022.

In addition to community service directly associated with providing Authority based care, the Authority serves the community in other ways. For example:

- MUSC Urban Farm – In keeping with the MUSC mission to improve health and maximize quality of life through education, research and patient care, the MUSC Urban Farm was developed, a half-acre educational garden with the goal of creating opportunities for our community to learn how to eat for health. The Urban Farm is designed to be a living classroom where students, faculty, staff and the community come together to explore the connection between food and health through hands-on learning about the many varieties of vegetables, fruits and herbs grown in South Carolina. Participants experience a unique opportunity to engage in hands on learning about sustainable urban agriculture

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and are educated on the value of incorporating vegetables into their diets through cooking and nutrition lessons. In fiscal year 2022, over 1,500 individuals participated in educational experiences on the MUSC Urban Farm, and more than 20 of those participants attend the MUSC Urban Farm's educational experiences a minimum of once a week. The Urban Farm was designed to cultivate connections and promote lifestyle medicine concepts. From engaging MUSC faculty, staff, students as well as the greater Charleston community, the Urban Farm serves as a catalyst for connection amongst community members while promoting the benefits of healthy living. Since the COVID-19 pandemic, the Urban Farm was slow to schedule new events and programs. Due to this, volunteer numbers and learning sessions were minimal. The Urban Farm also received a facelift, with many of the raised beds being replaced, new soil brought in and replacement of older irrigation. This slowed down the crop production and number of volunteers to the farm. Despite the circumstances, the Urban Farm still produced more than 1,250 pounds of produce, which care team members and volunteers were able to take home. What was not provided to MUSC Care Team Members was donated to community organizations such as the Lowcountry Food Bank, the Ronald McDonald House, Shifa Clinic and Destiny Café.

- Kids Eat Free Program – In 2015, the Authority and Sodexo partnered to address food insecurity and the rising cost of healthcare to become the first hospital in the southeast to offer the USDA's summer food service program, Kids Eat Free. This program was offered with the MUSC Summer Feeding Program at all café locations on main campus for the seventh consecutive year. It was also extended to the MUSC Children's Health R. Keith Summey Medical Pavilion in fiscal year 2019 and significantly increased the number of children served daily in a high-need/low food access area. Since 2015, over 25,000 free meals were served through the Kids Eat Free program, positioning MUSC at the forefront of addressing food insecurity in the State of South Carolina and beyond. Furthermore, in response to the COVID-19 pandemic, the Office of Health Promotion pivoted the Kids Eat Free @ MUSC Program from July 1, 2021 – June 30, 2022 to both meet the needs of our pediatric patients and community members while also promoting the health and safety of all individuals working at or visiting our various campuses. As a result, we have implemented various food support programs that we have been able to extend to all members of the MUSC Community, including the provision of \$5 Kids Eat Free @ MUSC Meal Cards distributed to children on MUSC's main campus throughout the COVID-19 pandemic response and the current Kids Eat Free at MUSC program in partnership with the Lowcountry Food Bank. In fiscal year 2022, approximately 2,500 free summer meals as part of the Summer Food Service Program (Kids Eat Free @ MUSC) were distributed between Keith Summey Medical Pavilion and Shawn Jenkins Children's Hospital.
- MUSC E.A.T.S – November 2021 started a food pantry at MUSC Shawn Jenkins Emergency Department, since that time have provided 2024 pounds of food serving 744 individuals.
- Feeding Friends Program – The Authority and East Cooper Meals on Wheels (ECMOW) partnered to create the Feeding Friends program, where physicians and case managers refer patients who are not able to shop or prepare meals for themselves to ECMOW for free meal delivery. This program addresses food insecurity and contributes to better health outcomes and fewer hospital readmissions. In fiscal year 2022, the Feeding Friends program delivered 1,650 meals to 65 MUSC patients through this referral program, a 327% increase in meals delivered from the previous year that had been negatively impacted by COVID restrictions.

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- Food is Medicine Initiative – East Cooper Meals on Wheels (ECMOW) delivers nutritious meals to approximately 275 homebound recipients daily. In 2015, ECMOW initiated the life changing Food is Medicine program. ECMOW partnered with the Authority’s Kelley Martin and the MUSC Dietetic Internship Program to develop a menu of meals that are low in sodium and sugar, high in protein and fiber and ‘flavor-fully’ seasoned. This program was implemented to enhance the health and overall quality of life for its homebound recipients. This is a critical program because 24% of its recipient population is overweight or obese, 37% have diabetes and more than 1/3 have hypertension. These same meals are also utilized in the Feeding Friends program, serving MUSC patients after discharge. In fiscal year 2022, ECMOW served over 160,000 meals and 545 people.
- Adventure Out Program – The Authority and the University, in partnership with the City of Charleston, created the Adventure Out program to encourage community members to adopt a physically active lifestyle. This program is an outdoor fitness campaign that encourages residents to visit parks throughout the city, where a master MUSC Yoga Instructor teaches a free yoga class for all levels that is open to the community on a monthly basis throughout the year. In fiscal year 2022, there were 12 free classes held, with 180 total participants. All Adventure Out class attendees were also provided with free yoga mats.
- The Charleston Healthy Business Challenge was founded in 2015, and is a collaborative free program designed to help businesses and organizations improve the overall health and well-being of their employees and create a culture of wellness at work. It was developed by Dr. Susan Johnson, MUSC and Paul Wieters, City of Charleston, and is a partnership between the City of Charleston and MUSC’s Office of Health Promotion, sponsored by Blue Cross Blue Shield of SC, Arthur J Gallagher & Co. and Healthy People, Healthy Carolinas. Quarterly networking seminars focus on the dimensions of worksite wellbeing and provide participants with valuable tools and resources to help reach their worksite wellness goals. An annual awards ceremony recognizes and celebrates the successes of participating businesses. In fiscal year 2022, the Charleston Healthy Business Challenge returned to in-person events after an entire year of digital seminars due to COVID-19 restrictions. In August 2021, we welcomed back members to our new venue, the Harbour Club at WestEdge for a panel discussion on wellbeing in the post-pandemic workplace. In November, we were honored to welcome Lt. Governor Pamela Evette as our featured speaker for a conversation focused on prioritizing the health and wellbeing of women at work. We wrapped up the year with our annual holiday networking happy hour at New Realm Brewery. Attendees enjoyed the opportunity to mix and mingle with other members while visiting with exhibitors promoting holiday gifts and services and hear from wellness dietician Laura Nance on how to make healthy choices throughout the holiday season. We kicked off our 2022 Challenge at the Harbour Club at WestEdge with over 80 existing and prospective members present to hear from our featured speaker, Margaret Seely Furniss, Vice President of Wellbeing Strategy + Experience at Beemok Hospitality. In May, we held our first Member Spotlight Luncheon event at Mount Pleasant Waterworks, with over 65 in attendance. In addition to planning and hosting quarterly seminars, special networking events, and participating in business expos, our team dedicated time to strategic planning to improve, expand and grow the Healthy Business Program, including rebuilding our website, marketing and communication outreach, data analysis to drive programming and resources, and Chamber partnerships. As a result, we are now positioned to expand our program across the state of South Carolina. We have rebranded to the South Carolina Healthy Business Challenge, with regional chapters in the Lowcountry, Midlands and Upstate. The Charleston Healthy Business Challenge has been renamed Lowcountry Healthy Business Challenge and we launched our Upstate Healthy

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Business Challenge on June 29, 2022 with over 100 attendees present to learn about the program and hear from Lt. Governor Pamela Evette. Total participants in fiscal year 2022 – 439.

The Authority, in conjunction with the University, organizes employee participation in the Trident United Way. In fiscal year 2022, Authority and University employees pledged over \$27,000 to help support this organization.

While the Authority has estimated the cost of many of its community efforts to serve its broadly defined service area, management and the board of trustees believe that such costs represent only one facet of the many ways the Authority serves the citizens of the state of South Carolina.

(12) Employee Benefit Plans

The Authority participates in a number of employee benefit plans sponsored by the state of South Carolina, and substantially all of the Authority's employees are covered by such plans. The following generally describes the benefits associated with the most significant plans and the Authority's relevant participation:

- The Authority and substantially all of its employees contribute to the South Carolina Retirement System (SCRS), which sponsors a cost-sharing, multiple-employer defined-benefit pension plan. SCRS provides retirement, disability and other insurance benefits to plan members and beneficiaries. For more details on the SCRS plan, see note 13. SCRS issues a publicly available financial report that includes financial statements and required supplementary information, which can be obtained by writing SCRS's Retirement Division at Post Office Box 11960 Columbia, South Carolina 29211 or by calling (803)737-6800.
- SCRS participants are required to contribute 9.00% of their annual covered salary to the plan and the Authority contributes at an actuarially determined rate (currently 22.81% of annual covered payroll). The Authority contributed approximately \$182.5 million (16.41% statutorily required contribution, plus 6.25% retiree insurance surcharge and 0.15% incidental death benefit contribution) to SCRS during fiscal year 2022, equal to the required contributions. The Authority has no other liability under this plan other than to make its required contributions, which are fully funded through June 30, 2022. Effective July 1, 2021, the employee contribution rate continues at 9.00% and the employer contribution rate continues at 22.81%.
- The Authority's SCRS funding described above also funds the "pay-as-you-go" component of certain postretirement insurance benefits provided by the SCRS plan. The actual cost of providing such benefits to Authority retirees is not available. Nevertheless, as noted above, the Authority has no explicit liability associated with the postretirement health and life benefits component of the plan beyond its fully funded contributions obligation.
- Authority employees are eligible to participate in a state-sponsored multiemployer deferred compensation plan (SC Deferred Compensation Program), which provides for individual employee contributory trust accounts. The Authority does not contribute to this plan and has no liability associated with employee amounts deferred under the plan.
- Effective July 1, 2002, the Authority established and began sponsoring a profit sharing plan and trust titled the Special Healthcare Alternative Retirement Plan (SHARP). The SHARP is qualified under Section 401(a) of the Internal Revenue Code. Certain employees, as defined in SHARP, are eligible to

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participate at the commencement of employment. Contributions by the Authority to SHARP are discretionary and vest ratably over four years after two years of service. Contributions by the Authority in fiscal year 2022 totaled approximately \$4.9 million.

The Authority also independently sponsors a tax-advantaged, defined-contribution plan for its employees (the MUSC 403B plan). Substantially all Authority employees are eligible to participate in this plan. Employees under 50 years of age may contribute up to \$19,500 of eligible compensation; employees 50 years of age and above may contribute up to \$26,000 of eligible compensation. The Authority does not match employee contributions.

(13) Pension Plans

The South Carolina Public Employee Benefit Authority (PEBA), created July 1, 2012, is the state agency responsible for the administration and management of the various Retirement Systems and retirement programs of the state of South Carolina, including the State Optional Retirement Program and the S.C. Deferred Compensation Program, as well as the state's employee insurance programs. As such, PEBA is responsible for administering the South Carolina Retirement Systems' five defined benefit pension plans. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as custodian, co-trustee and co-fiduciary of the Systems and the assets of the retirement trust funds. The Retirement System Investment Commission (Commission as the governing body, RSIC as the agency), created by the General Assembly in 2005, has exclusive authority to invest and manage the retirement trust funds' assets. The Commission, an eight-member board, serves as co-trustee and co-fiduciary for the assets of the retirement trust funds. By law, the State Fiscal Accountability Authority (SFAA), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the actuary of the Systems.

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with generally accepted accounting principles. For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publicly available through PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the annual comprehensive financial report of the state.

(a) Plan Description

The South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan, was established July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement and other benefits for teachers and employees of the state and its political subdivisions. SCRS covers employees of state agencies, public

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school districts, higher education institutions, other participating local subdivisions of government and individuals newly elected to the South Carolina General Assembly at or after the 2012 general election.

The State Optional Retirement Program (State ORP) is a defined contribution plan that is offered as an alternative to SCRS to certain newly hired employees of state agencies, institutions of higher education, public school districts and individuals first elected to the S.C. General Assembly at or after the general election in November 2012. State ORP participants direct the investment of their funds into an account administered by one of four third party service providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the four third party service providers. For this reason, State ORP assets are not part of the retirement systems' trust funds for financial statement purposes.

The South Carolina Police Officers Retirement System (PORS), a cost-sharing multiple-employer defined benefit pension plan, was established July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement and other benefits to police officers and firefighters. PORS also covers peace officers, coroners, probate judges and magistrates.

In addition to the plans described above, PEBA also administers three single employer defined benefit pension plans, which are not covered in this report. They are the Retirement System for Members of the General Assembly of the State of South Carolina (GARS), the Retirement System for Judges and Solicitors of the State of South Carolina (JSRS), and the South Carolina National Guard Supplemental Retirement Plan (SCNG).

(b) Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

- SCRS - Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.
- State ORP - As an alternative to membership in SCRS, certain newly hired state, public school, and higher education employees and individuals first elected to the S.C. General Assembly at or after the November 2012 general election have the option to participate in the State ORP. Contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employer to the member's account with the ORP service provider for the employee contribution and a portion of the employer contribution (5 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution and an incidental death benefit contribution, if applicable, which is retained by SCRS.
- PORS - To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and

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detect crimes in the state; to prevent and control property destruction by fire; be a coroner in a full-time permanent position; or be a peace officer employed by the Department of Corrections, the Department of Juvenile Justice or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least \$2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

(c) Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation/current annual salary. A brief summary of the benefit terms for each system is presented below.

- SCRS – A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

- PORS – A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 55 or with 25 years of service regardless of age. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension at age 55 or with 27 years of service regardless of age. Both Class Two and Class Three members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

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The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

(d) Contributions

Actuarial valuations are performed annually by an external consulting actuary to ensure applicable contribution rates satisfy the funding parameters specified in Title 9 of the South Carolina Code of Laws. Under these provisions, SCRS and PORS contribution requirements must be sufficient to maintain an amortization period for the financing of the unfunded actuarial accrued liability (UAAL) over a period that does not exceed the number of years scheduled in state statute. Legislation in 2017 increased, but also established a ceiling for SCRS and PORS employee contribution rates. Effective July 1, 2017, employee rates were increased to a capped rate of 9.00 percent for SCRS and 9.75 percent for PORS. The legislation also increased employer contribution rates beginning July 1, 2017 for both SCRS and PORS by two percentage points and further scheduled employer contribution rates to increase by a minimum of one percentage point each year in accordance with state statute. However, the General Assembly postponed the one percent increase in the SCRS and PORS employer contribution rates that was scheduled to go into effect beginning July 1, 2020. If the scheduled contributions are not sufficient to meet the funding periods set in state statute, the board shall increase the employer contribution rates as necessary to meet the funding periods set for the applicable year. The maximum funding period of SCRS and PORS is scheduled to be reduced over a ten-year schedule from 30 years beginning fiscal year 2018 to 20 years by fiscal year 2028.

Additionally, the Board is prohibited from decreasing the SCRS and PORS contribution rates until the funded ratio is at least 85 percent. If the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than 85 percent, then the board, effective on the following July 1, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than 85 percent. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than 85 percent, then effective on the following July 1, and annually thereafter as necessary, the board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than 85 percent.

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Required employee contribution rates¹ for the fiscal year 2022 are as follows:

SCRS:	
Employee class two	9.00%
Employee class three	9.00%
State ORP	
Employee	9.00%
PORS:	
Employee class two	9.75%
Employee class three	9.75%

Required employer contribution rates¹ for fiscal year 2022 are as follows:

SCRS:	
Employer class two	16.41%
Employer class three	16.41%
Employer incidental death benefit	0.15%
State ORP:	
Employer Contribution ²	16.41%
Employer incidental death benefit	0.15%
PORS:	
Employer class two	18.84%
Employer class three	18.84%
Employer incidental death benefit	0.20%
Employer accidental death program	0.20%

¹ Calculated on earnable compensation as defined in Title 9 of the South Carolina Code of Laws.

² Of this employer contribution, 5% of earnable compensation must be remitted by the employer directly to the ORP service provider to be allocated to the member's account with the remainder of the employer contribution remitted to the SCRS.

(e) Allocation of Pension Amounts

The Authority's proportionate share of pension amounts was calculated on the basis of historical employer contributions. Although GASB Statement No. 68 encourages the use of the employer's projected long-term contribution effort to the retirement plan, allocating on the basis of historical employer contributions is considered acceptable. Employer contributions recognized by the systems that are not representative of future contribution effort are excluded in the determination of employers' proportionate shares. Examples of employer contributions not representative of future contribution efforts are contributions toward the purchase of employee service and employer contributions paid by employees in connection with early retirement.

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The following table provides the employer contributions used in the determination of employers' proportionate shares of collective pension amounts reported in the Schedule of Employer Allocations.

	<u>SCRS</u>	<u>PORS</u>
The Authority's proportionate share of contributions for the fiscal year ended June 30, 2021	\$ 79,185,817	553,696
The Authority's allocated share of nonemployer contributions for fiscal year ended June 30, 2021	3,888,038	28,198
The Authority's allocation percentage of proportionate shares of collective pension amounts – June 30, 2021 measurement date	4.723017%	0.212159%

(f) Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability (TPL) determined in accordance with GASB Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*, less that System's fiduciary net position. NPL totals, as of June 30, 2021, for SCRS and PORS and the Authority's proportionate share, are presented below.

<u>System</u>	<u>Total pension liability</u>	<u>Plan fiduciary net position</u>	<u>Collective net pension liability</u>	<u>The Authority's portion of collective net pension liability</u>	<u>The Authority's proportioned share of net pension liability</u>
SCRS	\$ 55,131,579,363	33,490,305,970	21,641,273,393	4.723017%	\$ 1,022,121,129
PORS	8,684,586,488	6,111,672,064	2,572,914,424	0.212159%	5,458,661

For the year ended June 30, 2022, the Authority recognized pension expense of \$145,097,221 and \$592,746 related to the SCRS and PORS pension plans, respectively.

The cash portion of these expenses was \$100,903,888 and the non-cash portion was \$44,786,079.

(g) Actuarial Assumptions and Methods

Actuarial valuations of the ongoing plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued for the period ending June 30, 2019.

The June 30, 2021, total pension liability (TPL), net pension liability (NPL), and sensitivity information shown in this report were determined by our consulting actuary, Gabriel Roeder Smith & Company (GRS) and are based on an actuarial valuation performed as of July 1, 2020. The total pension liability

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was rolled-forward from the valuation date to the plans' fiscal year end, June 30, 2021, using generally accepted actuarial principles. There was no legislation enacted during the 2021 legislative session that had a material change in the benefit provisions for any of the systems. In FY 2021 the Board adopted updated demographic assumptions. Also, the General Assembly permitted the investment return assumption at July 1, 2021 to decrease from 7.25% to 7.00%, as provided by Section 9-16-335 in South Carolina State Code.

The following table provides a summary of the actuarial assumptions and methods used to calculate the TPL as of June 30, 2021.

	<u>SCRS</u>	<u>PORS</u>
Actuarial cost method	Entry age normal	Entry age normal
Investment rate of return ¹	7%	7%
Projected salary increases	3.0% to 11.0% (varies by service) ¹	3.5% to 10.5% (varies by service) ¹
Benefit adjustments	Lesser of 1% or \$500 annually	Lesser of 1% or \$500 annually

¹ Includes inflation at 2.25%

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2020 Public Retirees of South Carolina Mortality table (2020 PRSC), was developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using 80% of Scale UMP projected from the year 2020.

Assumptions used in the determination of the June 30, 2021, TPL are as follows.

<u>Former job class</u>	<u>Males</u>	<u>Females</u>
Educators	2020 PRSC males multiplied by 95%	2020 PRSC females multiplied by 94%
General employees and members of the general assembly	2020 PRSC males multiplied by 97%	2020 PRSC females multiplied by 107%
Public safety and firefighters	2020 PRSC males multiplied by 127%	2020 PRSC females multiplied by 107%

(h) Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments is based upon 20-year capital market assumptions. The long-term expected rates of return represent assumptions developed using

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an arithmetic building block approach primarily based on consensus expectations and market-based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2021 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table below. For actuarial purposes, the 7 percent assumed annual investment rate of return used in the calculation of the TPL includes a 4.75 percent real rate of return and a 2.25 percent inflation component.

<u>Asset class</u>	<u>Target asset allocation (%)</u>	<u>Expected arithmetic real rate of return (%)</u>	<u>Long-term expected portfolio real rate of return (%)</u>
Public equity ¹	46.00 %	6.87 %	3.16 %
Bonds	26.00	0.27	0.07
Private equity ^{1,2}	9.00	9.68	0.87
Private debt ²	7.00	5.47	0.39
Real estate ²	9.00	6.01	0.54
Infrastructure ²	3.00	5.08	0.15
Total expected return ³	<u>100.00 %</u>		5.18 %
Inflation for actuarial purposes			<u>2.25</u>
			<u>7.43 %</u>

1 The target weight to Private Equity will be equal to its actual weight, reported by the custodial bank, as of prior month end. When flows have occurred, flow adjusted weights are used to more accurately reflect the impact of the asset class weight. Private Equity and Public Equity combine for 55% of the entire portfolio.

2 Staff and Consultant will notify the Commission if Private Markets assets exceed 25% of total assets.

3 Portable Alpha Strategies, which are not included in the Policy Target, will be capped at 12% of total assets; hedge funds (including all hedge funds used in portable alpha implementation) are capped at 20% of total assets.

(i) Discount Rate

The discount rate used to measure the TPL was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina Code of Laws. Based on those assumptions, the System's fiduciary net position was projected

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to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

(j) Sensitivity Analysis

The following table presents the collective NPL of the participating employers calculated using the discount rate of 7.00 percent, as well as what the employers' NPL would be if it were calculated using a discount rate that is 1.00 percent lower (6.00 percent) or 1.00 percent higher (8.00 percent) than the current rate.

**The Authority's sensitivity of the net pension liability
to changes in the discount rate**

	1.00% Decrease (6.00%)	Current discount rate (7.00%)	1.00% Increase (8.00%)
SCRS	\$ 1,338,851,417	1,022,121,129	758,852,744
PORS	7,919,819	5,458,661	3,442,596

(k) Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2021, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Net differences between expected and actual experience ^{1,2} :		
SCRS	\$ 17,410,652	1,379,490
PORS	185,699	17,000
Assumption changes ^{1,2} :		
SCRS	55,947,557	—
PORS	389,338	—
Net difference between projected and actual investment earnings ³ :		
SCRS	—	148,476,563
PORS	—	1,223,807

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	Deferred outflows of resources	Deferred inflows of resources
Changes in proportionate share and differences between employer contributions and proportionate share of total plan employer contributions:		
SCRS	\$ 139,844,951	—
PORS	225,023	41,426
The Authority's contributions subsequent to the measurement date:		
SCRS	101,236,134	—
PORS	510,880	—
Total	\$ 315,750,234	151,138,286

¹ In accordance with GASB 68, paragraph 71a, the difference between each year's expected and actual experience is required to be amortized over the average remaining service lives of all employees provided with pensions through the plan at June 30.

² In accordance with GASB 68, paragraph 71b, the difference between each year's projected and actual investment earnings is required to be amortized over a closed, five-year period.

³ In accordance with GASB 68, paragraph 71b, the difference between each year's projected and actual investment earnings is required to be amortized over a closed, five-year period.

Approximately \$102 million reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the NPL in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	SCRS	PORS
Year ended June 30:		
2023	\$ 62,416,297	5,155
2024	60,903,096	22,733
2025	(4,414,274)	(79,390)
2026	(55,558,012)	(430,671)
Net balance of deferred outflows of resources	\$ 63,347,107	(482,173)

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(I) Pension Plan Fiduciary Net Position

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the separately issued CAFR containing financial statements and required supplementary information for SCRS and PORS. The CAFR of the Pension Trust Funds is publicly available on PEBA's Retirement Benefits' website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, South Carolina 29223.

(14) Other Post-Employment Benefits

The South Carolina Public Employee Benefit Authority (PEBA) was created by the South Carolina General Assembly as part of Act No. 278 effective July 1, 2012. PEBA – Insurance Benefits is a state agency responsible for the administration and management of the state's employee insurance programs, other post-employment benefits trusts and retirement systems and is part of the State of South Carolina primary government.

(a) Plan Description

The Other Post-Employment Benefits Trust Funds (OPEB Trusts), collectively refers to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF), were established by the State of South Carolina as Act 195, which became effective in May 2008. The SCRHITF was created to fund and account for the employer costs of the State's retiree health and dental plans. The SCLTDITF was created to fund and account for the employer costs of the State's Basic Long-Term Disability Income Benefit Plan.

In accordance with Act 195, the OPEB Trusts are administered by the PEBA – Insurance Benefits and the State Treasurer is the custodian of the funds held in trust. The Board of Directors of PEBA has been designated as the Trustee.

The OPEB Trusts are cost-sharing multiple-employer defined benefit OPEB plans. Article 5 of the State Code of Laws defines the two plans and authorizes the Trustee to at any time adjust the plans, including its benefits and contributions, as necessary to insure the fiscal stability of the plans. In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents.

(b) Benefits

The SCRHITF is a healthcare plan that covers retired employees of the State of South Carolina, including all agencies, and public school districts. The SCRHITF provides health and dental insurance benefits to eligible retirees. Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15-24 years of service for 50% employer funding.

The SCLTDITF is a long-term disability plan that covers employees of the State of South Carolina, including all agencies and public school districts and all participating local governmental entities. The SCLTDITF provides disability payments to eligible employees that have been approved for disability.

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(c) Contributions and Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires the postemployment and long-term disability benefits to be funded through non-employer and employer contributions for active employees and retirees to the PEBA – Insurance Benefits. Non-employer contributions consist of an annual appropriation by the General Assembly and the statutorily required transfer from PEBA – Insurance Benefits reserves.

The SCRHITF is funded through participating employers that are mandated by State statute to contribute at a rate assessed each year by the Department of Administration Executive Budget Office on active employee covered payroll. The covered payroll surcharge for the year ended June 30, 2021 was 6.25 percent, as mandated by the state of South Carolina statute. The South Carolina Retirement System collects the monthly covered payroll surcharge for all participating employers and remits it directly to the SCRHITF. Other sources of funding for the SCRHITF also include the implicit subsidy, or age-related subsidy inherent in the healthcare premiums structure. The implicit subsidy represents a portion of the health care expenditures paid on behalf of the employer's active employees. For purposes of GASB Statement No. 75, this expenditure on behalf of the active employee is reclassified as a retiree health care expenditure so that the employer's contributions towards the plan reflect the underlying age-adjusted, retiree benefit costs. Non-employer contributions consist of an annual appropriation by the General Assembly and the statutorily required transfer from PEBA – Insurance Benefits reserves. However, due to the COVID-19 pandemic and the impact it has had on the PEBA – Insurance Benefits reserves, the General Assembly has indefinitely suspended the statutorily required transfer until further notice. The SCRHITF is also funded through investment income.

The SCLTDITF is funded through employer contributions for active employees that elect health insurance coverage. For this group of active employees, PEBA – Insurance Benefits bills and collects premiums charged to State agencies, public school districts and other participating local governments. The monthly premium per active employee was \$3.22 for the fiscal year ended June 30, 2021. The SCLTDITF premium is billed monthly by PEBA – Insurance Benefits and transferred monthly to the SCLTDITF. It is also funded through investment income.

In accordance with part (b) of paragraph 69 of GASB Statement No. 75, participating employers should recognize revenue in an amount equal to the employer's proportionate share of the change in the collective net OPEB liability arising from contributions to the OPEB plan during the measurement period from non-employer contributing entities for purposes other than the separate financing of specific liabilities to the OPEB plan. Therefore, employers should classify this revenue in the same manner as it classifies grants from other entities.

For purposes of measuring the net OPEB liability, deferred outflows and inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Trusts, and additions to and deductions from the OPEB Trusts fiduciary net position have been determined on the same basis as they were reported by the OPEB Trusts. For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Therefore, benefit and administrative expenses are recognized when due and payable. Investments are reported at fair value.

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PEBA – Insurance Benefits issues audited financial statements and required supplementary information for the OPEB Trust Funds. This information is publicly available through the PEBA – Insurance Benefits’ link on PEBA’s website at www.peba.sc.gov or a copy may be obtained by submitting a request to PEBA – Insurance Benefits, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the state of South Carolina and therefore, OPEB Trust fund financial information is also included in the annual comprehensive financial report of the state.

The following table provides the employer contributions used in the determination of employers’ proportionate shares of collective OPEB amounts reported:

	SCRHITF	SCLTDITF
The Authority’s proportionate share of contributions for the plan year ended June 30, 2021	\$ 37,162,520	307,594
Contributions from nonemployer contributing entities for plan year ended June 30, 2021	151,446	—
The Authority’s allocation percentage of proportionate shares of collective OPEB amounts as of June 30, 2021 measurement date	6.375867 %	4.060237 %

(d) Net OPEB Liability

The Net OPEB Liability (NOL) is calculated separately for each OPEB Trust Fund and represents that particular Trust’s Total OPEB Liability (TOL) determined in accordance with GASB No. 74 less that Trust’s fiduciary net position. The allocation of each employer’s proportionate share of the collective Net OPEB Liability and collective OPEB Expense was determined using the employer’s payroll-related contributions over the measurement period. This method is expected to be reflective of the employer’s long-term contribution effort as well as be transparent to individual employers and their external auditors.

The following table represents the components of the net OPEB liability as of June 30, 2021:

OPEB trust	Total OPEB liability	Plan fiduciary net position	Net OPEB liability	Plan Fiduciary Net Position as a % of total OPEB liability	The Authority’s portion of net OPEB liability	The Authority’s proportioned share of net OPEB liability
SCRHITF	\$ 22,506,597,989	1,683,416,992	20,823,180,997	7.48 %	6.375867 %	\$ 1,327,658,329
SCLTDITF	44,378,931	41,201,247	3,177,684	92.84	4.060237	129,021

For the year ended June 30, 2022, the Authority recognized OPEB expense of \$148,910,679 and \$350,150 related to the SCRHITF and SCLTDITF, respectively.

The cash portion of these expenses was \$43,182,820 and the non-cash portion was \$106,078,009.

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(e) Actuarial Assumptions and Methods

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

Projections of benefits for financial reporting purposes are based on the substantive plans (as understood by the employer and plan participants) and include the types of benefits provided at the time the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

Additional information as of the latest actuarial valuation for SCRHITF is as follows:

Valuation date:	June 30, 2020
Actuarial cost method:	Individual Entry-Age Normal
Inflation:	2.25%
Investment rate of return:	2.75%, net of OPEB plan investment expense, including inflation
Single discount rate:	1.92% as of June 30, 2021
Demographic assumptions:	Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ended June 30, 2019
Mortality:	For healthy retirees, The gender-distinct South Carolina Retirees 2020 Mortality Tables are used with fully generational mortality projections based on a fully generational basis by the 80% of Scale UMP to account for future mortality improvements and adjusted with multipliers based on plan experience
Health care trend rate:	Initial trend starting at 6.00% and gradually decreasing to an ultimate trend rate of 4.00% over a period of 15 years

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Retiree participation: 79% for retirees who are eligible for Funded Premiums
59% participation for retirees eligible for Partial Funded Premiums
20% participation for retirees who are eligible for Non-Funded Premiums

Notes: The discount rate changed from 2.45% as of June 30, 2020 to 1.92% as of June 30, 2021. In addition, the demographic salary increases assumptions were updated to reflect the 2020 SCRS experience study and the health care trend rates were reset to better reflect the plan's anticipated experience

Additional information as of the latest actuarial valuation for SCLTDITF is as follows:

Valuation date: June 30, 2020

Actuarial cost method: Individual Entry-Age Normal

Inflation: 2.25%

Investment rate of return: 3.00%, net of Plan investment expense, including inflation

Single discount rate: 2.48% as of June 30, 2021

Salary, termination, and retirement rates: Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ended June 30, 2019

Disability incidence: The disability incidence rates used in the LTD valuation are 165% of the rates developed for the pension plans

Disability recovery: For participants in payment, 1987 CGDT Group Disability. For active employees, 60% were assumed to recover after the first year and 93% were assumed to recover after the first two years.

Offsets: 45% are assumed to be eligible for Social Security benefits; Assumed percentage who will be eligible for a pension plan offset varies based on employee group

Expenses: Third party administrative expenses were included in the benefit projections

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Notes: The single discount rate changed from 2.83% as of June 30, 2020 to 2.48% as of June 30, 2021. Additionally, the salary, termination rates and retirement rates assumptions were updated to reflect the 2020 experience study for the South Carolina Retirement Systems' pension valuations, and the disability incidence, disability recovery, administration fee and offset assumptions were updated to better reflect the plans' anticipated experience

Roll Forward Disclosure

The actuarial valuations were performed as of June 30, 2020. Update procedures were used to roll forward the total OPEB liabilities to June 30, 2021.

(f) Long-Term Expected Rate of Return

The long-term expected rate of return represents assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2018 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation. This information is summarized in the following table:

South Carolina Retiree Health Insurance Trust Fund			
Asset class	Target asset allocation (%)	Expected arithmetic real rate of return (%)	Allocation-weighted long-term expected real rate of return (%)
U.S. domestic fixed income	80.00	0.60	0.48
Cash	20.00	0.35	0.07
Total	100.00		0.55
Expected inflation			2.25
Total return			2.80
Investment return assumption			2.75

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South Carolina Long-Term Disability Insurance Trust Fund

<u>Asset class</u>	<u>Target asset allocation (%)</u>	<u>Expected arithmetic real rate of return (%)</u>	<u>Allocation-weighted long-term expected real rate of return (%)</u>
U.S. domestic fixed income	80.00	0.95	0.76
Cash	20.00	0.35	0.07
Total	<u>100.00</u>		0.83
Expected inflation			<u>2.25</u>
Total return			<u>3.08</u>
Investment return assumption			3.00

(g) Single Discount Rate

The Single Discount Rate of 1.92% was used to measure the total OPEB liability for the SCRHITF. The accounting policy for this plan is to set the Single Discount Rate equal to the prevailing municipal bond rate. Due to the plan's investment and funding policies, the difference between a blended discount rate and the municipal bond rate would be less than several basis points (several hundredths of one percent).

A Single Discount Rate of 2.48% was used to measure the total OPEB liability for the SCLTDITF. This Single Discount Rate was based on an expected rate of return on plan investments of 3.00% and a municipal bond rate of 1.92%. The projection of cash flows to determine this Single Discount Rate assumed that employer contributions will remain at \$38.64 per year for each covered active employee. Based on these assumptions, the plan's Fiduciary Net Position and future contributions were sufficient to finance the benefit payments through the year 2037. As a result, the long-term expected rate of return on plan investments was applied to project benefit payments through the year 2037, and the municipal bond rate was applied to all benefit payments after that date.

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(h) Sensitivity Analysis

The following table presents the SCRHITF's net OPEB liability calculated using a Single Discount Rate of 1.92%, as well as what the plan's net OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

**The Authority's sensitivity of the Net OPEB Liability
to changes in the discount rate**

	<u>1.00% decrease (0.92%)</u>	<u>Current discount rate (1.92%)</u>	<u>1.00% increase (2.92%)</u>
SCRHITF Net OPEB Liability	\$ 1,600,156,662	1,327,658,329	1,112,826,945

Regarding the sensitivity of the SCRHITF's net OPEB liability to changes in the healthcare cost trend rates, the following table presents the plan's net OPEB liability, calculated using the assumed trend rates as well as what the plan's net OPEB liability would be if were calculated using a trend rate that is one percent lower or one percent higher:

**The Authority's sensitivity of the Net OPEB Liability
to changes in the healthcare cost trend rates**

	<u>1.00% decrease</u>	<u>Healthcare cost trend rate</u>	<u>1.00% increase</u>
SCRHITF Net OPEB Liability	\$ 1,065,139,298	1,327,658,329	1,677,456,211

The following table presents the SCLTDITF's net OPEB liability calculated using a Single Discount Rate of 2.48%, as well as what the plan's net OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

	<u>Decrease (1.48%)</u>	<u>Discount Rate (2.48%)</u>	<u>Increase (3.48%)</u>
SCLTDITF Net OPEB Liability	\$ 187,690	129,021	69,885

The SCLTDITF's net OPEB liability is not affected by the changes in the healthcare cost trend rates due to the method used to calculate benefit payments. Therefore, the sensitivity to healthcare cost trend rates have not been calculated.

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(i) Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

As discussed in paragraph 86 of GASB Statement No. 75, differences between expected and actual experience and changes in assumptions are recognized in OPEB expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided OPEB through the OPEB plan (active and inactive members) determined as of the beginning of the measurement period.

Additionally, differences between projected and actual earnings on OPEB plan investments should be recognized in OPEB expense using a systematic and rational method over a closed five year period. For this purpose, the deferred outflows and inflows of resources are recognized in the OPEB expense as a level dollar amount over the closed period identified above.

The schedules on the following pages reflects the amortization of collective deferred outflows/(inflows) of resources related to OPEB outstanding at June 30, 2021.

	Deferred outflows of resources	Deferred inflows of resources
Net differences between expected and actual experience:		
SCRHITF	\$ 26,867,634	34,029,976
SCLTDITF	—	95,148
Assumption changes:		
SCRHITF	269,919,246	31,968,262
SCLTDITF	106,527	5,170
Net difference between projected and actual earnings on OPEB plan investments:		
SCRHITF	—	359,005
SCLTDITF	—	39,563
Changes in proportionate share and differences between employer contributions and proportionate share of total plan employer contributions:		
SCRHITF	189,168,890	3,296
SCLTDITF	15,561	7,502
The Authority's contributions subsequent to the measurement date:		
SCRHITF	42,487,145	—
SCLTDITF	362,772	—
Total	\$ 528,927,775	66,507,922

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The \$42.8 million reported as deferred outflows of resources related to OPEB resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the NOL in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SCRHITF	SCLTDITF
2023	\$ 72,013,380	(12,860)
2024	71,425,522	(24,261)
2025	81,625,898	(11,812)
2026	83,972,613	12,421
2027	75,679,274	800
Thereafter	34,878,544	10,417
Net balance of deferred (inflows) outflows of resources	\$ 419,595,231	(25,295)

(15) Business and Credit Concentrations

The Authority provides healthcare services through its inpatient and outpatient care facilities principally located in and around Charleston, South Carolina. The Authority grants credit to patients, substantially all of whom are residents of its service area. The Authority generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans or policies (e.g., Medicare, Medicaid, Blue Cross and commercial insurance policies).

The mix of receivables from patients and third-party payors as of June 30, 2022 is as follows:

Blue Cross	27 %
Medicare	35
Medicaid	19
Private Insurance/Managed Care	13
Medically Indigent/Self Pay/Other	6
	100 %

(16) Risk Management

The Authority is exposed to various risks of loss and maintains State or commercial insurance coverage related to torts; theft of, damage to and destruction of assets; real property, its contents, and other equipment; motor vehicles; business interruption; employee injuries and illness; natural disasters; and professional and general liability claims and judgments. The Authority participates in the South Carolina Insurance Reserve Fund (IRF) and the SC State Accident Fund (SAF), which provides coverage for substantially all such risks. The Authority pays premiums to the IRF and SAF and effectively receives unlimited occurrence-based coverage for all consequential risks of loss (when combined with related

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recovery limit protections provided by state statutes). The Authority obtains coverage through commercial insurers for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation as well as coverage for directors' and officers' and cyber risks. There were no significant reductions from coverage in the prior year.

(17) Leases

In June 2017, the GASB issued Statement No. 87, *Leases*, which requires governments to recognize certain lease assets and liabilities for leases that previously were classified as operating leases and recognize as inflows of resources or outflows of resources based on the payment provisions of the contract. This Statement also establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for fiscal years beginning after June 15, 2021, and all reporting periods thereafter.

Intangible right-to-use lease assets

A summary of lease asset activity during the year ended June 30, 2022 is as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Lease assets:				
Land	\$ 1,962,183	—	—	1,962,183
Buildings	115,400,515	48,429,782	—	163,830,297
Equipment	37,607,818	15,551,941	—	53,159,759
Total lease assets	<u>154,970,516</u>	<u>63,981,723</u>	<u>—</u>	<u>218,952,239</u>
Less accumulated amortization:				
Land	—	—	—	—
Buildings	—	(18,744,099)	—	(18,744,099)
Equipment	—	(12,143,647)	—	(12,143,647)
Total accumulated amortization	<u>—</u>	<u>(30,887,746)</u>	<u>—</u>	<u>(30,887,746)</u>
Total lease assets, net	<u>\$ 154,970,516</u>	<u>33,093,977</u>	<u>—</u>	<u>188,064,493</u>

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Lease liabilities

A summary of changes in the related lease liabilities during the year ended June 30, 2022 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Remeasure ments</u>	<u>Deductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Lease liabilities	\$ 169,994,910	65,755,975	754,347	(37,015,142)	199,490,090	28,198,506
Total	<u>\$ 169,994,910</u>	<u>65,755,975</u>	<u>754,347</u>	<u>(37,015,142)</u>	<u>199,490,090</u>	<u>28,198,506</u>

The Authority has entered into financing type lease agreements for the purpose of funding certain equipment and property acquisitions expiring in various years through 2079. Future minimum lease payments due under financing leases, in the aggregate, are as follows:

	<u>Building</u>	<u>Equipment</u>	<u>Land</u>	<u>Total</u>
2023	\$ 22,106,360	12,491,448	87,360	34,685,168
2024	20,519,898	11,132,620	94,080	31,746,598
2025	18,386,601	7,196,006	94,080	25,676,687
2026	17,673,977	5,422,508	94,080	23,190,565
2027	16,757,949	2,996,372	94,080	19,848,401
2028–2032	58,578,644	2,082,850	519,332	61,180,826
2033–2037	26,749,432	—	581,616	27,331,048
2038–2042	18,570,899	—	651,452	19,222,351
2043–2079	12,412,806	—	828,280	13,241,086
	<u>211,756,566</u>	<u>41,321,804</u>	<u>3,044,360</u>	<u>256,122,730</u>
Less interest at rates from 0.25% to 30.98%	<u>53,059,277</u>	<u>2,539,227</u>	<u>1,034,136</u>	<u>56,632,640</u>
Present value of future minimum lease payments	158,697,289	38,782,577	2,010,224	199,490,090
Less current installments	<u>15,401,153</u>	<u>12,772,800</u>	<u>24,553</u>	<u>28,198,506</u>
Financing lease obligations, excluding current installments	<u>\$ 143,296,136</u>	<u>26,009,777</u>	<u>1,985,671</u>	<u>171,291,584</u>

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Of the above leases, two properties are sub-leased from related parties (22 Westedge St. and 52 Courtenay Dr. in Charleston, SC). Principal and interest requirements for those properties is as follows:

Building properties that are sub-leased from related parties:

2023	\$	1,193,379
2024		1,222,077
2025		1,251,492
2026		1,281,643
2027		1,308,759
2028–2032		<u>3,647,023</u>
		9,904,373
Less interest at rates from 1.2% to 3.14%		<u>470,883</u>
Present value of future minimum lease payments		9,433,490
Less current installments		<u>1,082,665</u>
Financing lease obligations, excluding current installments	\$	<u><u>8,350,825</u></u>

GASB Statement No. 87, *Leases*, also requires governments to recognize certain lease assets and liabilities for leases that previously were classified as operating leases as a lessor and recognize as inflows of resources based on the payment provisions of the contract. A schedule showing lessor leases by type and year follows:

	<u>Building</u>	<u>Land</u>	<u>Total</u>
2023	\$ 2,812,171	9,685	2,821,856
2024	2,339,030	9,685	2,348,715
2025	1,335,010	9,685	1,344,695
2026	727,959	9,685	737,644
2027	413,047	9,685	422,732
2028–2032	159,085	49,010	208,095
2033–2037	—	53,486	53,486
2038–2042	—	59,053	59,053
2043–2047	—	51,638	51,638
	<u>7,786,302</u>	<u>261,612</u>	<u>8,047,914</u>
Less interest rates at rates of 3.14%	<u>450,777</u>	<u>83,826</u>	<u>534,603</u>
Financing lease inflows	7,335,525	177,786	7,513,311
Less current installments	<u>2,615,676</u>	<u>4,103</u>	<u>2,619,779</u>
Financing lease inflows, excluding current installments	\$ <u><u>4,719,849</u></u>	<u><u>173,683</u></u>	<u><u>4,893,532</u></u>

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As part of its operations, the Authority sub-leases either all or part of some building properties shown above in its totals as lessee and lessor. A summary of those leases follows:

2023	\$	1,755,061
2024		1,622,722
2025		1,008,017
2026		413,047
2027		413,047
2028–2032		<u>159,085</u>
		5,370,979
Less interest		<u>623,660</u>
Financing lease inflows		4,747,319
Less current installments		<u>1,743,491</u>
Financing lease inflows, excluding current installments	\$	<u><u>3,003,828</u></u>

Outflows of resources for variable payments not included in the measurement of liabilities was approximately \$1.1 million in fiscal year 2022 and is included in services and supplies expense in the accompanying Statement of Revenues, Expense and Changes in Net Position.

(18) Related Party Transactions

The following describes the Authority's material agreements with related parties:

(a) The University

Under the terms of various agreements related to the Authority's establishment as a distinct healthcare system, the University provides a variety of shared services for the Authority, including facilities oversight, administrative and financial services and other types of general operating support. The Authority also leases certain facilities space from the University under the Reciprocal Space Agreement. The cost of these services and leases totaled approximately \$77.4 million for fiscal year 2022, and is included in services and supplies expense in the accompanying Statement of Revenues, Expenses and Changes in Net Position.

The Authority also reimburses the University for certain professional clinical services provided by interns and residents receiving medical education at the University. The cost of these services totaled approximately \$67.5 million for fiscal year 2022, and is included in services and supplies expense in the accompanying Statement of Revenues, Expenses and Changes in Net Position.

The Authority rents certain facilities space to and provides limited support services for the University. The income earned by the Authority for such items was approximately \$5.2 million during fiscal year 2022, which is included in other operating revenue in the accompanying Statement of Revenues, Expenses and Changes in Net Position. The Authority made certain payments to the University related

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to the Hollings Cancer Center of \$3.0 million during fiscal year 2022, which is included in nonoperating expense in the accompanying Statement of Revenues, Expenses and Changes in Net Position.

The Authority had a net payable to the University of approximately \$9.5 million at June 30, 2022. This payable is a component of due from related parties, net on the Statement of Net Position.

(a) University Medical Associates (UMA)

University Medical Associates (UMA), a blended component unit of the University, is a separately organized professional services corporation associated with the University's faculty practice plan. UMA and the Authority have entered into certain agreements related to clinical and other services provided by UMA and its practicing physicians for the benefit of the Authority. Net amounts paid by the Authority to UMA under these agreements totaled approximately \$167 million during fiscal year 2022 and are included in services and supplies expense in the accompanying Statement of Revenues, Expenses and Changes in Net Position.

UMA also provides billing and collection services to the Authority related to certain limited clinical services, for which UMA receives an administrative fee. Total billings by UMA for the Authority services were approximately \$67.1 million in fiscal year 2022. The amounts collected and remitted by UMA to the Authority with respect to these billings amounted to approximately \$7.4 million in fiscal year 2022 and is included in patient service revenue in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The administrative fees paid by the Authority to UMA amounted to approximately \$1 million for fiscal year 2022 and are included in services and supplies expense in the accompanying Statement of Revenues, Expenses and Changes in Net Position.

As part of the acquisition of the regional hospital operations in 2019, the Authority has transactions with UMA related to the physician practices of these hospitals. These transactions resulted in a net amount due from UMA of approximately \$2 million at June 30, 2022, and they include practice expense support, working capital advances, reimbursement for the inventory and prepaid items of the practices purchased, and building rent.

UMA and the Authority jointly fund the costs of an ambulatory and revenue cycle EHR system, business applications and information security and infrastructure. The funding percentages for each entity depend on the particular costs incurred. The types of costs paid in fiscal year 2022 were primarily operating costs. Net amounts paid by UMA to the Authority totaled approximately \$7.6 million during fiscal year 2022 and are included in compensation and employee benefits and services and supplies expense in the accompanying Statement of Revenues, Expenses and Changes in Net Position.

The Authority had a net receivable from UMA in the amount of approximately \$10.1 million at June 30, 2022. This receivable is a component of due from related parties, net on the Statement of Net Position.

(b) The State of South Carolina

The Authority benefits from certain administrative services provided by related state agencies and departments. The cost of these services (primarily related to insurance program administration, record keeping and centralized treasury management) is either insignificant relative to the Authority's allocable portion or is funded by the Authority with payments as described in notes 10, 12, 13, 14 and 16.

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(c) Others

MUSC Strategic Venture, Inc. (MSV) is a tax-exempt corporation classified as a support organization to MUSC. MSV was created to allow affiliation with tax-exempt parties outside the MUSC enterprise for the provision of additional services not currently offered by the Authority or UMA. MSV is a component unit of MUSC as MUSC appoints six of eight of the voting board members and can impose its will on the entity. UMA appoints two board members and the final board member is an independent director appointed by the board.

MSV provides management, administration and other support services to the Authority. The Authority pays MSV for the cost of payroll, including fringe benefits and other expenses. For the fiscal year ended June 30, 2022, the total payroll and other expense amounted to approximately \$0.1 million.

The Authority has a net payable to MSV of approximately \$4.2 million at June 30, 2022. The net payable consists of support and other services owed to MSV.

MSV Health, Inc. (MHI) was formed on August 9, 2016 and is a taxable Delaware corporation wholly owned by MSV. MHI was created to allow affiliation with taxable parties outside the MUSC enterprise for the provision of additional services not currently offered by the Authority or UMA. As of June 30, 2022, the total receivable of \$0.2 million consists of rental, interest and other expenses paid by the Authority.

MUSC Health Partners, LLC (MHP) is wholly-owned by UMA and was formed for the purpose of creating a multispecialty care network outside of the Charleston, South Carolina area as well as consummate affiliations with other health systems to provide care. Its providers will not have faculty appointments with MUSC and will not work on the campus of MUSC. As of June 30, 2022, there was no pending balance owed or due from MHP to the Authority.

Mainsail Health Partners (MCML) is an affiliate of the Authority whereby Mainsail commits to support MUSC and its charitable, eleemosynary, educational, scientific mission, purposes and programs, including without limitation supporting certain entities as directed by MUSC. The Authority has a net receivable from MCML of approximately \$0.8 million at June 30, 2022. The net payable consists of legal fees and management services.

MCML provides management, administration and other support services to the Authority. The Authority pays MCML for the cost of payroll, including fringe benefits and other expenses. For the fiscal year ended June 30, 2022, the total payroll and other expense amounted to approximately \$0.1 million.

MUSC Health Alliance, LLC (MHA) was formed on May 23, 2016 for the purpose of qualifying and operating as an accountable care organization participating in the Medicare Shared Saving Program within the meaning of Section 1899 of the Social Security Act. MHA is governed by a Board of Directors consisting of eight directors with the Authority appointing three. The Authority has a 45% membership interest and UMA has a 55% membership interest. The Authority has a net receivable from MHA of approximately \$1.2 million at June 30, 2022.

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As of June 30, 2022, the total net payable due to MSV, MHI, MCML, MHP, and MHA is reflected as a component of due to joint ventures and partnerships, net on the Statement of Net Position.

	Fiscal year ended June 30, 2022
MSV	\$ 4,256,401
MHI	(206,818)
MCML	(793,126)
MHP	—
MHA	<u>(1,209,006)</u>
Total	<u>\$ 2,047,451</u>

(19) Purchase Commitments

The Authority entered into a long-term agreement on March 25, 2016 that requires certain minimum purchases of patient monitoring products and services through fiscal year 2024. Effective July 1, 2016, the Authority amended the original agreement to reduce the required minimum purchases and corresponding unitary payments. The agreement cost is approximately \$30.8 million and calls for 96 monthly unitary payments of \$360,506. The patient monitoring products and services will be consumed over the agreement period and in conjunction with a time line that was developed at agreement inception. The time line can be modified by the parties and this commitment is at a level consistent with normal business practices.

At June 30, 2022, the minimum purchase commitments extending beyond one year are as follows:

2023	\$ 4,326,072
2024	<u>4,326,072</u>
Total	<u>\$ 8,652,144</u>

During 2022, the Authority's total purchases under the contract were approximately \$1.2 million. The Authority has an available balance of approximately \$2.5 million in goods and services at June 30, 2022.

The Authority entered into a long-term agreement on August 24, 2018 that requires certain minimum purchases of patient imaging equipment and services through fiscal year 2028. Effective January 1, 2019, the agreement cost is approximately \$81.8 million and calls for 10 annual unitary payments of \$9,116,289. The patient monitoring products and services will be consumed over the agreement period and in conjunction with a time line that was developed at agreement inception. The time line can be modified by the parties and this commitment is at a level consistent with normal business practices.

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June 30, 2022

At June 30, 2022, the minimum purchase commitments extending beyond one year are as follows:

2023	\$	9,116,289
2024		9,116,289
2025		9,116,289
2026		9,116,289
2027		9,116,289
Thereafter		<u>9,107,289</u>
Total	\$	<u>54,688,734</u>

During 2022, the Authority's total purchases under the contract were approximately \$5.3 million. The Authority has an available balance of approximately \$50.5 million in goods and services at June 30, 2022.

(20) Investment in Joint Ventures

On May 23, 2016, the Authority entered into a joint venture with UMA to form MUSC Health Alliance, LLC (MHA). MHA was formed to qualify and operate as an accountable care organization participating in the Medicare Shared Saving Program within the meaning of Section 1899 of the Social Security Act. MHA is governed by a Board of Directors consisting of eight directors with the Authority appointing three. The Authority has a 45% membership interest and UMA has a 55% membership interest. The Authority carries its investment balance on the Statement of Net Position using the equity method of accounting. At June 30, 2022, the Authority's investment balance is \$3,146,677.

On May 28th, 2021, the Authority entered into a substitution agreement to assume Mainsail Health Partners (MCML) membership interest (the "Tidelands Membership Interest") in Georgetown Hospital system, d/b/a Tidelands Health ("Tidelands"). Tidelands is governed by a board of trustees comprised by a maximum of twenty-one voting trustees and two non-voting trustees. The Authority has the right, but not the obligation, to appoint up to a total of six voting trustees. The Authority has a 30% membership interest, but does not have any claim to annual profit or loss. Tidelands has a 70% membership interest. The Authority carries its investment balance on the Statement of Net Position using the equity method of accounting. At June 30, 2022, the Authority's investment balance is \$30,733,232.

Complete financial information for MHA may be obtained from MUSC Health Alliance, LLC. 96 Jonathan Lucas St., Suite 601-J, Charleston, South Carolina 29425.

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The following schedule reflects the changes in the carrying value of these joint venture investments:

	MHA	Tidelands
Carrying value, July 1, 2021	\$ 3,006,875	4,000,000
Capital contribution	—	26,733,232
Member loans	—	—
Pro rata income (loss)	139,802	—
Withdraw income (loss)	—	—
	\$ 3,146,677	30,733,232
Carrying value, June 30, 2022		

(21) Deferred Inflows

The composition of deferred inflows at June 30, 2022 is as follows:

Other postemployment benefits	\$ 151,138,286	
Pension plans	66,507,922	
Deferred inflows – leases	7,513,311	
	\$ 225,159,519	
Total		

(22) Medicare Accelerated and Advanced Payment Program

The Authority received \$182,800,523 in requested Medicare payments as provided for in the Coronavirus Aid, Relief and Economic Security Act (CARES) in September 2020. The payback provisions were originally within twelve months of receipt but were subsequently extended to begin one year after original issuance. The first 11 months of the payback period will be at 25% of the remittance advice, and increases to 50% thereafter. The unapplied amount of accelerated Medicare payment requests due within one year are recorded in the Statement of Net Position as Advanced Medicare funding, with a current portion due of \$76,980,409.

(23) Acquisition

On August 1, 2021, pursuant to the terms of the Asset Purchase Agreement, the Medical University Hospital Authority (MUHA) acquired substantially all of the capital assets and net working capital of Lifepoint Health Systems, Inc., including Providence Holding Company, LLC and its subsidiaries and Kershaw Health Holdings, LLC and its subsidiaries, comprising three community hospitals, one freestanding emergency department, one imaging center and affiliated physician practice locations serving communities in the Midlands. MUHA will continue to operate these hospitals to provide health care services to the communities they support.

The acquisition price of these entities, including net working capital, assumption of finance leases, and excluding closing costs was \$85,758,142. The acquisition value of the net position was determined to be \$133,158,142. The acquisition values of the land, land improvements, buildings, and equipment were reduced to eliminate the \$47,400,000 excess net position received.

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(24) Subsequent Events

The Authority has evaluated subsequent events from the Statement of Net Position date through October 3, 2022, the date at which the financial statements were issued. The Authority has determined that there are no other items to disclose.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
Schedule of Proportionate Share
of Net Pension Liability to PEBA and Related Ratios
South Carolina Retirement System (SCRS) Pension Plan
June 30, 2021 Measurement Date

<u>Year ended June 30</u>	<u>Proportion (percentage) of the collective net pension liability</u>	<u>Proportionate share (amount) of the collective net pension liability</u>	<u>Covered payroll</u>	<u>Proportionate share (amount) of the collective net pension liability as a percentage of its covered payroll</u>	<u>Pension plan's fiduciary net position as a percentage of total pension liability</u>
2022	4.723017 %	\$ 1,022,121,129	469,466,180	217.72 %	60.70 %
2021	4.567759	1,167,143,229	414,132,837	281.83	50.70
2020	3.584996	818,603,139	377,479,804	216.86	54.40
2019	3.521688	789,097,981	318,346,955	247.87	54.10
2018	3.465263	780,086,431	289,354,840	269.60	53.30
2017	3.471014	741,403,467	287,923,152	257.50	52.90
2016	3.377349	640,530,521	281,452,784	227.58	57.00
2015	3.289076	566,270,880	268,970,820	210.53	59.90
2014	3.289184	589,943,980	259,311,350	227.50	56.39

The above schedules are intended to show 10 years of information. Additional years will be provided as they become available.

See accompanying notes to required supplementary information and accompanying independent auditors' report.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY

Schedule of Proportionate Share
of Net Pension Liability to PEBA and Related Ratios

Police Officers Retirement System (PORS) Pension Plan

June 30, 2021 Measurement Date

<u>Year ended June 30</u>	<u>Proportion (percentage) of the collective net pension liability</u>	<u>Proportionate share (amount) of the collective net pension liability</u>	<u>Covered payroll</u>	<u>Proportionate share (amount) of the collective net pension liability as a percentage of its covered payroll</u>	<u>Pension plan's fiduciary net position as a percentage of total pension liability</u>
2022	0.21216 % \$	5,458,661	2,662,676	205.01 %	70.40 %
2021	0.20960	6,950,757	3,123,807	222.51	58.80
2020	0.20039	5,743,241	2,939,599	195.37	62.70
2019	0.19456	5,512,877	2,942,547	187.35	61.70
2018	0.21650	5,931,204	2,631,752	225.37	60.90
2017	0.21513	5,456,693	2,653,533	205.64	60.40
2016	0.21917	4,776,715	2,730,140	174.96	64.60
2015	0.21963	4,204,542	2,692,311	156.17	67.50
2014	0.21962	4,552,745	2,589,067	175.85	62.98

The above schedules are intended to show 10 years of information. Additional years will be provided as they become available.

See accompanying notes to required supplementary information and accompanying independent auditors' report.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
Schedule of Employer Contributions to PEBA
South Carolina Retirement System (SCRS) Pension Plan
Fiscal Year ended June 30, 2022

<u>Year ended June 30</u>	<u>Employer contributions</u>	<u>Statutorily or contractually required employer contributions</u>	<u>Contribution deficiency (excess)</u>	<u>Covered payroll</u>	<u>Contributions as a percentage of covered payroll</u>
2022	\$ 101,236,134	101,236,134	—	469,466,180	21.56 %
2021	80,012,852	80,012,852	—	414,132,837	19.32
2020	78,911,097	78,911,097	—	377,479,804	20.90
2019	55,119,178	55,119,178	—	318,346,955	17.31
2018	45,598,463	45,598,463	—	289,354,840	15.76
2017	40,417,627	40,417,627	—	287,923,152	14.04
2016	37,175,029	37,175,029	—	281,452,784	13.21
2015	34,516,724	34,516,724	—	268,970,820	12.83
2014	27,487,003	27,487,003	—	259,311,350	10.60
2013	27,997,059	27,997,059	—	264,123,194	10.60

The above schedules are intended to show 10 years of information. Additional years will be provided as they become available.

See accompanying notes to required supplementary information and accompanying independent auditors' report.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
Schedule of Employer Contributions to PEBA
Police Officers Retirement System (PORS) Pension Plan
Fiscal Year ended June 30, 2022

<u>Year ended June 30</u>	<u>Employer contributions</u>	<u>Statutorily or contractually required employer contributions</u>	<u>Contribution deficiency (excess)</u>	<u>Covered payroll</u>	<u>Contributions as a percentage of covered payroll</u>
2022	\$ 510,880	510,880	—	2,662,676	19.19 %
2021	569,782	569,782	—	3,123,807	18.24
2020	536,183	536,183	—	2,939,599	18.24
2019	501,110	501,110	—	2,942,547	17.03
2018	409,141	409,141	—	2,631,752	15.55
2017	415,179	415,179	—	2,653,533	15.65
2016	376,835	376,835	—	2,730,140	13.80
2015	364,104	364,104	—	2,692,311	13.52
2014	332,436	332,436	—	2,589,067	12.84
2013	349,962	349,962	—	2,845,220	12.30

The above schedules are intended to show 10 years of information. Additional years will be provided as they become available.

See accompanying notes to required supplementary information and accompanying independent auditors' report.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY

Schedule of Proportionate Share
of Net OPEB Liability to PEBA and Related Ratios

South Carolina Retiree Health Insurance Trust Fund (SCRHITF)

June 30, 2021 Measurement Date

<u>Year ended June 30</u>	<u>Proportion (percentage) of the collective net OPEB liability</u>	<u>Proportionate share (amount) of the collective net OPEB liability</u>	<u>Covered payroll</u>	<u>Proportionate share (amount) of the collective net OPEB liability as a percentage of its covered payroll</u>	<u>OPEB plan's fiduciary net position as a percentage of total OPEB liability</u>
2022	6.375867 %	\$ 1,327,658,329	675,351,409	196.59 %	7.48 %
2021	5.873772	1,060,300,808	594,600,313	178.32	8.39
2020	4.921728	744,240,309	541,434,563	137.46	8.44
2019	4.773711	676,462,772	458,539,861	147.53	7.91
2018	4.736447	641,543,988	411,671,205	155.84	7.60
2017	4.736447	685,299,035	399,417,088	171.57	6.62

The above schedules are intended to show 10 years of information. Additional years will be provided as they become available.

See accompanying notes to required supplementary information and accompanying independent auditors' report.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY

Schedule of Proportionate Share
of Net OPEB Liability to PEBA and Related Ratios

South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF)

June 30, 2021 Measurement Date

<u>Year ended June 30</u>	<u>Proportion (percentage) of the collective net OPEB liability</u>	<u>Proportionate share (amount) of the collective net OPEB liability</u>	<u>Covered payroll</u>	<u>Proportionate share (amount) of the collective net OPEB liability as a percentage of its covered payroll</u>	<u>OPEB plan's fiduciary net position as a percentage of total OPEB liability</u>
2022	4.060240 % \$	129,021	N/A	N/A	92.84 %
2021	4.031792	12,226	N/A	N/A	99.29
2020	3.150754	62,015	N/A	N/A	95.17
2019	3.090212	94,598	N/A	N/A	92.20
2018	3.032425	54,977	N/A	N/A	95.29
2017	3.032468	21,050	N/A	N/A	98.15

The above schedules are intended to show 10 years of information. Additional years will be provided as they become available.

See accompanying notes to required supplementary information and accompanying independent auditors' report.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
Schedule of Employer Contributions to PEBA
South Carolina Retiree Health Insurance Trust Fund (SCRHITF)
Fiscal Year ended June 30, 2022

<u>Year ended June 30</u>	<u>Employer contributions</u>	<u>Statutorily or contractually required employer contributions</u>	<u>Contribution deficiency (excess)</u>	<u>Covered payroll</u>	<u>Contributions as a percentage of covered payroll</u>
2022	\$ 42,487,145	42,487,145	—	675,351,409	6.25 %
2021	36,572,075	36,572,075	—	594,600,313	6.15
2020	32,211,247	32,211,247	—	541,434,563	5.95
2019	27,666,748	27,666,748	—	458,539,861	6.03
2018	22,641,916	22,641,916	—	411,671,205	5.50
2017	21,288,931	21,288,931	—	399,417,088	5.33

The above schedules are intended to show 10 years of information. Additional years will be provided as they become available.

See accompanying notes to required supplementary information and accompanying independent auditors' report.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
Schedule of Employer Contributions to PEBA
South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF)
Fiscal Year ended June 30, 2022

<u>Year ended June 30</u>	<u>Employer contributions</u>	<u>Statutorily or contractually required employer contributions</u>	<u>Contribution deficiency (excess)</u>	<u>Covered payroll</u>	<u>Contributions as a percentage of covered payroll</u>
2022	\$ 362,772	362,772	—	N/A	N/A
2021	313,028	313,028	—	N/A	N/A
2020	325,036	325,036	—	N/A	N/A
2019	232,191	232,191	—	N/A	N/A
2018	225,020	225,020	—	N/A	N/A
2017	219,504	219,504	—	N/A	N/A

The above schedules are intended to show 10 years of information. Additional years will be provided as they become available.

See accompanying notes to required supplementary information and accompanying independent auditors' report.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
(A Component Unit of The Medical University of South Carolina)

Notes to Required Supplementary Information

June 30, 2022

(Unaudited)

SCRS

Valuation date	Actuarially calculated contribution rates are calculated as of July 1, 2020
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry Age Normal
Asset valuation method	5-year smoothed
Amortization method	Level% of Pay
Amortization period	27-year maximum, closed period
Investment return	7.25%
Inflation	2.25%
Salary increases	3.00% plu step-rate increases for members with less than 21 years of service
Mortality	The 2016 Public Retirees of South Carolina Mortality Tables for Males and Females, both projected at Scale AA from the year 2016. Male rates multiplied by 100% for non-educators and 92% for educators. Female rates multiplied by 111% for non-educators and 98% for educators
Other comments	Contribution rate for fiscal year 2021 is determined in accordance with the Retirement System Funding and Administration Act of 2017

PORS

Valuation date	Actuarially calculated contribution rates are calculated as of July 1, 2020
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry Age Normal
Asset valuation method	5-year smoothed
Amortization method	Level% of Pay
Amortization period	27-year maximum, closed period
Inflation	7.25%
Investment rate of return	2.25%
Salary increases	3.00% plu step-rate increases for members with less than 15 years of service
Mortality	The 2016 Public Retirees of South Carolina Mortality Tables for Males and Females, both projected at Scale AA from the year 2016. Male rates are multiplied by 125% and female are rates multiplied by 111%
Other comments	Contribution rate for fiscal year 2021 is determined in accordance with the Retirement System Funding and Administration Act of 2017

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
(A Component Unit of The Medical University of South Carolina)

Notes to Required Supplementary Information

June 30, 2022

(Unaudited)

SCRHITF

Actuarial cost method	Individual Entry-Age Normal
Inflation	2.25%
Investment rate of return	2.75%, net of OPEB plan investment expense, including inflation
Single discount rate	1.92% as of June 30, 2021
Demographic assumptions	Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ended June 30, 2019
Mortality	For healthy retirees, the gender-district South Carolina retirees 2020 Mortality Tables are used with fully generational mortality projections based on a fully generational basis by the 80% of Scale UMP to account for future mortality improvements and adjusted with multipliers based on plan experience
Health care trend rate	Initial trend starting at 6.00% and gradually decreasing to an ultimate trend rate of 4.00% over a period of 15 years
Participation assumptions	79% participation for retirees who are eligible for Funded Premiums 59% participation for retirees who are eligible for Partial Funded Premiums 20% participation for retirees who are eligible for Non-Funded Premiums
Notes	The discount rate changed from 2.45% as of June 30, 2020 to 1.92% as of June 30, 2021. In addition, the demographic and salary increases assumptions were updated to reflect the 2020 SCRS experience study and the health care trend rates were rest to better reflect the plan's anticipated experience.

SCLTDITF

Actuarial cost method	Individual Entry-Age Normal
Inflation	2.25%
Investment rate of return	3.00%, net of plan investment expense; including inflation
Single discount rate	2.48% as of June 30, 2021
Salary, termination, and retirement rates	Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ended June 30, 2019
Disability incidence	The disability incidence rates used in the LTD valuation are 165% of the rates developed for the pension plans.
Disability recovery	For participants in payment, 1987 CGDT Group Disability. For active employees, 60% were assumed to recover after the first year and 93% were assumed to recover after the first two years
Offsets	45% are assumed to be eligible for Social Security benefits. Assumed percentage who will be eligible for a pension plan offset varies based on employee group.
Expenses	Third party administrative expenses are included in the benefit projections.
Notes:	The single discount rate changed from 2.83% as of June 30, 2020 to 2.48% as of June 30, 2021. Additionally, the salary, termination rates and retirement rates assumptions were updated to reflect the 2020 experience study for the South Carolina Retirement Systems' pension valuations, and the disability incidence, disability recovery, administration fee and offset assumptions were updated to better reflect the plan's anticipated experience.



MEDICAL UNIVERSITY HOSPITAL AUTHORITY
(A Component Unit of the Medical University of South Carolina)
Basic Financial Statements and Required Supplementary Information
June 30, 2023
(With Independent Auditors' Report Thereon)

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
(A Component Unit of the Medical University of South Carolina)

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KPMG LLP
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Winston-Salem, NC 27101

Independent Auditors' Report

The Board of Trustees
Medical University Hospital Authority:

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities and fiduciary activities of the Medical University Hospital Authority (the Authority), a component of the Medical University of South Carolina, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements for the year then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and fiduciary activities of the Authority, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to the financial audits in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis and the schedule of proportionate share of net pension liability to PEBA and related ratios, schedule of employer contributions to PEBA – pension, schedule of proportionate share of net OPEB liability and related ratios, schedule of employer contributions to PEBA – OPEB, schedule of changes in net pension liability and related ratios, and schedule of pension contributions single employer defined benefit plan be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2023 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

Winston-Salem, North Carolina
October 5, 2023

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
(A Component Unit of the Medical University of South Carolina)
Management's Discussion and Analysis – Required Supplementary Information
(Unaudited)
June 30, 2023

Our discussion and analysis of Medical University Hospital Authority's (the Authority) financial performance provides an overview of the activities for the fiscal year ended June 30, 2023.

The intent of this discussion and analysis is to provide further information regarding the Authority's financial performance as a whole. Readers should also review the basic financial statements, along with the notes to the basic financial statements, to further enhance their understanding of the Authority's financial performance.

Financial Highlights – Fiscal Years 2023 and 2022

The Authority participates in several retirement plans in which the state of South Carolina passes through the unfunded, noncash liability and expenses that are not the obligation of the Authority which are reflected on the financial statements and included in notes 13 and 14.

Retirement Benefits

Pension

As stated in section 9-1-1690 of the South Carolina Code of Laws, the state of SC is responsible for all of the expenses and liabilities of the pension plan exclusive of the annual cash benefit expense the Authority funds reflected in the compensation and employee expenditures matched at 23.81% of the annual payroll.

Other Post-Employment Benefits (OPEB)

As stated in section 9-1-1690 of the South Carolina Code of Laws, the state of SC is responsible for all of the expenses and liabilities of the OPEB plan exclusive of the annual cash benefit expense the Authority funds reflected in the compensation and employee expenditures matched at 6.25% of the annual payroll.

**State of South Carolina Retirement Plans
(Pension and OPEB)
(In thousands)**

	2023	2022
Authority obligations:		
Operating expenses – compensation and benefits:		
Pension benefits	\$ 119,840	100,904
Other post employment benefits	44,425	43,183
Total	\$ 164,265	144,087
Operating expenses:		
Pension benefits	\$ 80,598	44,786
Other post employment benefits	67,159	106,078
Total	\$ 147,757	150,864
Liabilities:		
Net pension liability	\$ 1,257,093	1,027,580
Net OPEB liability	1,045,764	1,327,787
Total	\$ 2,302,857	2,355,367

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
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On January 17, 2023 and more fully described in Note 1 to the basic financial statements, the Authority opened Black River Medical Center. In addition, the Authority entered into a purchase agreement to acquire the operations of the Regional Medical Center of Orangeburg (RMC) on February 28, 2023. These hospitals are consolidated with the Authority and included in the basic financial statements.

At June 30, 2023, the Authority's liabilities and deferred inflows of \$4,260.4 million exceeded its assets and deferred outflows of \$3,640.2 million by \$620.2 million. This excess mainly arises from the net OPEB liability of \$1,045.8 million, pension liability of \$1,285.4 million and long-term debt and financing lease obligations of \$910.1 million. Net position, the residual interest in the assets and deferred outflows after liabilities and deferred inflows are deducted, decreased by \$23.4 million in 2023, as compared to a decrease by \$2.9 million in 2022.

The Authority reported an operating loss in 2023 of \$99.4 million, compared to operating loss in 2022 of \$114.5 million.

Net non-operating revenue was \$75.9 million for 2023, as compared to \$120.4 million for 2022, a decrease of \$44.5 million or 36.9%. The major driver for this net decrease is a decrease in COVID-19 stimulus funding of \$132.8 million, partially offset by a \$55.8 million increase in State Appropriations (note C), and an increase of \$23.8 million in investment revenue.

Overview of the Financial Statements

The Authority is a major discretely presented component unit of the Medical University of South Carolina (the University) that owns and operates the clinical teaching sites of the University and serves the State of South Carolina as a principal diagnostic and treatment referral center.

The Authority's basic financial statements consist of three statements – a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; and a Statement of Cash Flows. These basic financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles and provide detailed information about the activities of the Authority and generally provide an indication of the Authority's financial health.

The SC PEBA "retirement system" is responsible for the Net Pension liability, Net OPEB liability and the non-cash expenditures related to these liabilities as outlined in Sections 9-1-1050 through 9-1-1085. For the State pension plan, the Authority's responsibility is limited to the funding of the employee contributions and related percentage to the match of 23.81% of the annual covered payroll. For the OPEB plan, the Authority has funding responsibility for the 6.25% surcharge of retirees who participate in the retirement plan, as well as a 0.15% incidental death benefit. The Authority does not include the items related to the Pension and OPEB benefit plans that are the responsibility to the State, per Section 9-1-1690 of the South Carolina Code of Laws, in its debt covenants.

MUHA applies the provisions of GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governments and how those activities should be reported. As a result, MUHA presents two statements which are the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position, respectively. These statements present information on MUHA's pension plan at RMC. The Statement of Fiduciary Net Position presents information on assets, liabilities, and fiduciary net position in

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relation to this plan. The Statement of Changes in Fiduciary Net Position reports information on how net position changed during the fiscal year in relation to this plan.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Authority's resources and its activities. The Statement of Net Position presents the assets, both restricted and unrestricted, deferred outflows and inflows of resources and all liabilities using the accrual basis of accounting. The Statement of Revenues, Expenses and Changes in Net Position reports all revenues and expenses for the time period indicated, regardless of when cash is received or paid, as well as payments to the University and University Medical Associates (UMA/MUSCP). These two statements report the Authority's net position and its changes.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operating, investing and capital and noncapital-related financing activities.

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The Authority's Net Position

The Authority's net position is the difference between its assets and deferred outflows and liabilities and deferred inflows reported in the Statement of Net Position. A comparative summary of assets, deferred outflows, liabilities, deferred inflows and net position is as follows:

Summary Schedule of Net Position
(In thousands)

	<u>2023</u>	<u>2022</u>
Assets:		
Current assets	\$ 1,402,569	1,412,935
Investments	109,881	104,329
Note receivable and other non-current assets	6,205	3,410
Capital assets, net	<u>1,234,773</u>	<u>1,178,595</u>
Total assets	2,753,428	2,699,269
Deferred outflows	<u>886,798</u>	<u>857,807</u>
Total assets and deferred outflows	<u>\$ 3,640,226</u>	<u>3,557,076</u>
Liabilities:		
Current liabilities	\$ 548,234	594,805
Long-term debt	910,076	978,470
Other liabilities	24,718	—
Net pension liability	1,285,415	1,027,580
Net OPEB liability	<u>1,045,764</u>	<u>1,327,787</u>
Total liabilities	3,814,207	3,928,642
Deferred inflows	<u>446,937</u>	<u>225,160</u>
Total liabilities and deferred inflows	<u>\$ 4,261,144</u>	<u>4,153,802</u>

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Net position:		
Net investment in capital assets	\$ 217,713	134,099
Restricted:		
Under indenture agreements	77,066	70,448
Capital projects	57,172	25,760
Major programs	38,611	41,635
Unrestricted deficit	<u>(1,011,480)</u>	<u>(868,668)</u>
Total net position	<u>\$ (620,918)</u>	<u>(596,726)</u>

Analysis of the Financial Position as of June 30, 2023 Compared to June 30, 2022

Total assets and deferred outflows increased from \$3,557.1 million in 2022 to \$3,640.2 million in 2023. The major drivers for this increase are \$86.3 million increase in patient accounts receivable, \$56.2 million increase in capital assets and \$50.1 million in unrestricted investments.

Total liabilities and deferred inflows increased \$106.6 million or 2.6% from \$4,153.8 million in 2022 to \$4,261.1 million in 2023. The major drivers for the increase include an increase in deferred inflows of \$221.8 million, partially offset by an \$80 million decrease to short-term debt, as well as \$77.0 million decrease in Advance Medicare Funding.

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the Authority. They are also able to determine how much is owed to vendors, employees and others. Finally, the Statement of Net Position provides a picture of the net position (assets and deferred outflows minus liabilities and deferred inflows) and their availability for expenditure.

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Operating Results and Changes in the Authority's Net Position

Summary Schedule of Revenues, Expenses and Changes in Net Position
(In thousands)

	<u>2023</u>	<u>2022</u>
Operating revenues:		
Net patient service revenue	\$ 3,537,135	3,005,915
Other revenue	127,424	107,391
Total operating revenues	<u>3,664,559</u>	<u>3,113,306</u>
Operating expenses:		
Compensation and employee benefits	1,523,893	1,267,006
Pension benefits	80,598	44,786
Other post employment benefits	67,158	106,078
Services and supplies	1,934,390	1,669,807
Depreciation and amortization	157,886	140,071
Total operating expenses	<u>3,763,925</u>	<u>3,227,748</u>
Operating loss	<u>(99,366)</u>	<u>(114,442)</u>
Nonoperating revenues (expenses):		
State appropriations	86,734	30,967
Gifts and grants	24,814	11,437
Investment income	13,631	(10,153)
Other nonoperating revenues	—	132,846
Interest expense	(44,304)	(41,298)
Gain (Loss) on disposal of capital assets	245	(244)
Other nonoperating expenses	(5,926)	(1,467)
Debt issuance cost	(20)	(1,727)
Total nonoperating revenues	<u>75,174</u>	<u>120,361</u>
Nonoperating payments to MUSC entities	<u>—</u>	<u>(3,000)</u>
Increase (decrease) in net position	<u>\$ (24,192)</u>	<u>2,919</u>

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. Operating revenues are received for providing goods and services. Operating expenses are paid to acquire or produce the goods and services and to carry out the mission of the Authority. Non-operating revenues and expenses are the result of activities for which goods and services are not provided. The utilization of capital assets is reflected in the financial statements as depreciation and amortization, which is the impact of depreciating the

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
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cost of each asset over its expected useful life. Changes in net position are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Position.

Analysis of Operating Results for the Year ended June 30, 2023 Compared to the Year ended June 30, 2022

Net Patient Service Revenue

Compared to fiscal year 2022, net patient service revenue increased by approximately \$531.2 million, or 17.7%. Gross patient charges increased by \$2.411 billion, or 20.9%, from 2022 to 2023 due to increases in patient activity and comprehensive rate, as well as the opening of Black River Medical Center and the purchase agreement with the Regional Medical Center of Orangeburg. Net revenue related to the Disproportionate Share Hospital (DSH) program administered by the state Department of Health and Human Services increased in 2023 to \$85.9 million from \$73.8 million in 2022. There can be no assurance that the Authority will continue to qualify for future participation in the DSH program or that the DSH program will not ultimately be discontinued or materially modified.

Payor class percentages changed somewhat from 2022 to 2023, showing an increase in private insurance/managed care and medically indigent/self-pay/other payor classes; a decrease in Medicaid; and Blue Cross and Medicare remained relatively stable, as shown in the table below:

Percentage of Net Patient Service Revenue by Payor Class

	2023	2022
Blue Cross	27 %	27 %
Medicare	35	35
Medicaid	17	19
Private insurance/managed care	14	13
Medically indigent/self-pay/other	7	6
Total	100 %	100 %

Patient Business Activity

Inpatient days of care increased by 4.2%, from 418,990 in 2022 to 436,492 in 2023. Average length of stay for all patients decreased by 0.2 days from 6.1 in 2022 to 5.9 in 2023. The average daily census increased in 2023 to 1,333 from the 2022 census of 1,163. Admissions increased in 2023 to 70,762 from the 2022 level of 70,286. Surgical procedures decreased 0.4% from 62,500 in 2022 to 62,233 in 2023. Additionally, transplant volume increased by 11 or 1.8% from 2022 to 2023. The case mix index is a measure of inpatient acuity, and it increased by 0.12 from 2.01 in 2022 to 2.13 in 2023.

For the Charleston campus, the case mix index increased by 0.7% from 2.52 in 2022 to 2.54 in 2023.

Outpatient visits volume decreased by 48,108 visits, or 3.1%, from 1,543,327 in 2022 to 1,495,219 in 2023. Emergency/trauma visits increased by 61,531 visits, or 24.8% from 248,045 in 2022 to 309,576 in 2023.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
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Management's Discussion and Analysis – Required Supplementary Information
(Unaudited)

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While reflected in the activity above, the additions of Black River Medical Center and the Regional Medical Center of Orangeburg contributed volumes of increased inpatient days of care by 12,742, Surgical procedures by 1,874, Outpatient visits by 47,375, and Emergency/trauma visits by 28,977.

Deductions from Revenue

Contractual and other adjustments expressed as a percentage of gross revenue decreased 0.1% from 72.7% in 2022 to 72.6% in 2023. Contractual and other adjustments expressed in dollars increased \$1,745.4 million or 20.9%. The increase is due to the fact that reimbursements from Medicare, Medicaid and third-party insurers are less than billed charges and increases in charges implemented by the Authority are not matched by increased reimbursement rates.

The provision for uncollectible accounts increased \$134.1 million, or 99.6% from \$134.6 million in 2022, to a total of \$268.6 million for the year ended June 30, 2023. The Authority is an active, caring member of the communities it serves. In carrying out its mission of meeting the health and wellness needs of its service areas, the Authority has established policies under which it provides care to needy members of its communities. These policies include discount programs for both uninsured and indigent patients. Following these policies, charity care services totaling approximately \$350.1 million and \$640.4 million (as measured by established charges) were provided without charge during fiscal years 2023 and 2022, respectively. The Authority continues its focus and efforts on enhancing policy and process to identify and qualify eligible Medicaid and charity care patients.

In total, uncompensated care write-offs at established rates as measured by the total of bad debts plus charity care totaled 4.3% and 6.4% of gross patient charges for fiscal years 2023 and 2022, respectively.

Operating Expense

Operating expenses increased by \$536.2 million, from \$3,227.7 million in 2022 to \$3,763.9 million in 2023. This 16.6% increase is primarily the result of continued increasing costs associated with compensation and employee benefits, services and supplies, inclusive of the Regional Hospital Network (RHN) facilities. These drivers impacted the increase: services and supplies costs of \$1,934.4 million and compensation, employee benefits of \$1,523.9 million, and Pension and OPEB of \$147.8 million.

Additionally, supply costs and pharmaceutical costs continue to increase at rates exceeding those of general inflation; however, rates of increase are comparable to inflation rates for the healthcare industry. Depreciation and amortization expense increased \$17.8 million or 12.7% in fiscal year 2023.

Capital Assets

As shown in note 5 to the financial statements, at the end of fiscal year 2023, the Authority had \$1,234.8 million invested in capital assets, net of accumulated depreciation, up from \$1,178.6 million invested in capital assets at the end of fiscal year 2022.

Capital assets not being depreciated increased by \$49.2 million in fiscal year 2023, compared to an increase of \$95.6 million in fiscal year 2022. This increase is related to the timing of assets not in service (timing), and construction in progress (CIP) (described below).

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Additions to construction in progress of \$51.3 million in fiscal year 2023 were more than fiscal year 2022 additions of \$34.3 million. Approximately \$20.2 relates to Williamsburg Lake City Medical Center. An additional \$3.4 million related to CSC Pharmacy, \$3.4 million related to the Orangeburg IT project, \$2.7 million relates to the Lancaster Women's Behavioral Health, \$1.4 million relates to Forensics Unit Chester, and other minor projects.

There were additional increases to capital assets being depreciated in fiscal year 2023, amounting to \$228.1 million in fiscal year 2023. This increase is primarily the result of new equipment (\$6.2 million), updating a building (\$63.7 million), reclassifying right of use assets (\$66.2 million), and \$34.2 million related to subscription based information technology arrangements (SBITA).

The Authority uses both internal funds from operations and external debt capital to finance capital acquisitions. Some capital acquisitions are also funded by state appropriations and federal grants, as available. The most significant debt financing programs are discussed in detail below under Financing.

See note 5 to the financial statements for more details on capital assets, including notes 18 and 19 for leased assets and SBITA included in capital assets.

Financing

The Authority has begun a phased-approach replacement of much of its principal patient care facilities, a project planned for completion in stages over 30 years. Phase I of the project involved building a facility comprised of a four-story diagnostic and treatment center, a seven-story hospitality (bed) tower, and a garden atrium uniting the two sections of the building. Phase I of the project was completed in fiscal year 2008. Ashley River Tower, the 641,000 square-foot facility was opened on February 4, 2008. No new clinical health services were added as a result of this phase of the project.

Phase II was a children's hospital and women's pavilion (CHWP). Initial planning began in fiscal year 2017 and continued in fiscal year 2018 with architectural design derived from numerous clinical meetings and discussion of a financing plan. A preapplication document for the \$350 million project was submitted to the U.S. Department of Housing & Urban Development (HUD) relating to the Federal Housing Administration Section 241 loan program in August 2015. At June 30, 2015, \$68.3 million was secured by way of state funding and philanthropy for Phase II. The State of South Carolina approved \$25.0 million in the FY 2016 budget and \$10.0 million in the FY 2017 budget for this project. Shawn Jenkins, a local business owner, pledged \$25.0 million, and the Tourville family pledged another \$10.0 million. The hospital was named the MUSC Shawn Jenkins Children's Hospital and Pearl Tourville Women's Pavilion in honor of their generosity. This level of money raised to support the project made HUD financing possible.

On December 22, 2004, the Authority issued \$422.1 million of the Federal Housing Administration Insured Mortgage Hospital Facilities and Refunding Revenue Bonds, Series 2004 (Series 2004), consisting of \$304.0 million Series A Tax-Exempt Bonds and \$118.1 million Series B Taxable Bonds for the purpose of providing funds to (a) pay the costs of Phase I of the project mentioned above, (b) pay a portion of the interest accruing on the bonds during construction of Phase I, (c) prepay the outstanding amount of the Charleston County Memorial Hospital revenue note, (d) advance refund the \$102.8 million Hospital Facilities Refunding Revenue Bonds, Series 2002A, (e) fund a debt service reserve fund with respect to the bonds, and (f) pay certain costs incurred in connection with the issuance of the bonds.

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On December 29, 2004, the South Carolina Jobs Economic Development Authority issued \$61.0 million of Economic Development Revenue Bonds, Central Energy Plant Series 2004. Proceeds of the bonds were loaned to MUFC Central Energy Plant, LLC, a single-member limited liability company organized under the laws of the State of South Carolina, whose sole member is Medical University Facilities Corporation. Pursuant to a loan agreement between the issuer and the borrower, the borrower shall use the proceeds to finance the construction of an approximately 52,000 square-foot central energy plant and certain other improvements, renovations, and furnishings, fixtures, and equipment to provide steam and chilled water for the use and benefit of the new 156-bed Phase I Authority project mentioned above. Pursuant to the loan agreement, the borrower is obligated to make payments to the issuer in amounts sufficient to pay the principal and interest on the bonds.

On March 15, 2007, the construction of the central energy plant was substantially completed, and the plant was put into service. In 2014, MUFC Central Energy Plant, LLC was terminated after the refunding of the CEP Series 2004 Bonds.

On February 1, 2008, MUFC Central Energy Plant, LLC converted the then outstanding \$59.4 million bonds into indexed floating rate bonds to reduce the cost of capital and annual debt service payments detailed in note 8 to the financial statements. Concurrent with the conversion of the bonds, MUFC Central Energy Plant, LLC entered into a variable-to-fixed interest rate swap. The intention of the swap was to effectively convert the variable interest rate paid on the bonds to a synthetic fixed rate of 5.755%. This interest rate swap was terminated on December 30, 2013 and a payment of \$2.1 million was made as part of the refinancing of the central energy plant.

On December 19, 2012, the refinancing of the Authority's Series 2004 bonds with Government National Mortgage Agency (GNMA) mortgage-backed securities (MBS) was completed. Long-term debt was reduced when funds in the debt service reserve and other accounts of approximately \$47.4 million were made available to reduce principal. Interest was fixed at 2.94% and the amortization schedule was not extended. On December 30, 2013, the Authority refinanced the 2004 Central Energy Plant Economic Development Revenue Bonds (CEP Series 2004 bonds) with GNMA MBS. Interest was fixed at 3.85%, and the amortization schedule was not extended.

In April 2013, the Authority entered into a \$13.8 million equipment lease/purchase agreement with Wells Fargo Bank for energy conservation equipment for the Sabin Street central energy plant project. This agreement is subject to the master lease program agreement between Wells Fargo Bank and the state of South Carolina.

In November 2016, the Authority closed on a \$316.4 million mortgage for the construction of the (Phase II) MUSC CHWP. The mortgage is insured by HUD through FHA Section 242 Hospital Mortgage Insurance Program, the principal bears interest at 3.59%, the term is 25 years.

On October 15, 2018, the Authority closed on a \$36.4 million mortgage note Series 2018A with United Community Bank. The proceeds of the financing are being used for the purchase of land and the building to be constructed thereon constituting a consolidated services center including a sterile processing center in the North Charleston area (CSC). The proceeds of the financing are also being used for the purchase of land in Berkeley County, upon which will be constructed an emergency department facility and an approximate 128-bed hospital (Nexton).

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On February 21, 2019, the Authority closed on a \$129.0 million Hospital Acquisition Loan with TD Bank to fund the Asset Purchase Agreement with Community Health System. The entire unpaid principal balance was due and payable on the maturity date of February 24, 2020. As discussed below, this Bridge Loan was refinanced with the \$133.4 million loan from TD bank during fiscal year 2020.

During March, April and May, 2019, the Authority borrowed a total of \$120 million in revenue anticipation notes from Wells Fargo Bank. The proceeds of the loans were used to defray the payment of a portion of the operating expenses and expenditures made in connection with the ownership and operation of the acquired CHS/Community Health Systems, Inc. hospitals in Florence, Marion, Chester, and Lancaster. All notes, with the exception of RAN A for \$65 million, were settled during FY20.

On December 12, 2019, the Authority closed on a \$133.4 million loan with TD Bank to refinance the Hospital Acquisition Loan with TD Bank. The proceeds of the loan were used for the purpose of (i) refinancing the bridge loan indebtedness related to the purchase of the four hospitals; and (ii) defraying and financing the costs associated with the incurrence of the mortgage indebtedness.

On April 1, 2020, the Authority renewed \$65 million in revenue anticipation notes from Wells Fargo Bank. The proceeds of the loans were used to defray the payment of a portion of the operating expenses and expenditures made in connection with anticipation of lost revenues due to COVID-19. This note was settled in October 2020.

On July 29, 2021, the Authority closed on a \$76.4 million bridge loan with TD Bank to fund the Asset Purchase Agreement of Midlands Health System. The entire unpaid principal balance shall be due and payable on the maturity date of July 29, 2022. This Bridge Loan has been refinanced with the PNC Bank loan discussed below.

During August and October 2021, the Authority borrowed a total of \$80 million in revenue anticipation notes from TD Bank, N.A. The proceeds of the loans were used to defray the payment of a portion of the operating expenses and expenditures made in connection with the ownership and operation of the acquired Midlands Hospital System. The notes were extended with maturity dates of October 2022 and February 2023.

On April 7, 2022, the Authority closed on a \$79.7 million loan with PNC Bank to refinance the bridge loan with TD Bank. The proceeds of the loan were used for the purpose of (i) refinancing the bridge loan indebtedness related to the purchase of the Midlands hospitals; and (ii) defraying and financing the costs associated with the incurrence of the mortgage indebtedness.

On October 28, 2021, the Authority entered into a lease agreement with Banc of America Capital & Leasing LLC for the purchase of various equipment. The lease-term was for 7 years with an interest rate of 2.58%. The lease is classified as a sale-leaseback whereby the Authority acquired the equipment and subsequently sold the equipment to Banc of America via bill of sale and leased the equipment back. In fiscal year 2023, the Authority sold \$45.4 million in assets to Banc of America, which were subsequently leased back.

On March 1, 2023, The Authority entered into a purchase agreement with the Regional Medical Hospitals (RMC) to lease all real property and existing leasing contracts for 99 years while assuming the operations of RMC and the Edisto Regional Health Services, which includes 8 ambulatory medical practices.

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Current Operating Environment

Management of the Authority monitors economic conditions closely, both with respect to potential impacts on the healthcare provider industry and from a more general business perspective. The COVID-19 pandemic has impacted the healthcare industry since March 2020 and the number of cases in South Carolina to date represents a small portion of the total cases in the United States. In response, Management implemented new business models to provide testing and other services to patients. Management recognizes that economic conditions may continue to impact the Authority in a number of ways, including (but not limited to) uncertainties associated with the global economy, future pandemic outbreaks, changes in the unemployment rate and associated impact on uninsured patients, and stress on the federal, state and local budgets. Additionally, the general healthcare industry environment is increasingly uncertain, especially with respect to the impacts of the federal healthcare reform legislation, which was passed in the spring of 2010. Potential impacts of ongoing healthcare industry transformation include, but are not limited to:

- Continuing volatility in the state and federal government reimbursement programs; for example, the Affordable Care Act reduces payments to all hospitals by \$155 billion over 10 years; it was projected that these cuts would be offset by the reduction in the uninsured population. While South Carolina chose not to expand Medicaid the uninsured rate has dropped from 15.4% to 13.6%.
- Exchange reimbursement levels that are significantly below those of traditional commercial insurance companies, payor policies that do not recognize valid assignment of benefits from patients and send payment for healthcare services to patients. Changes in combined state/federal disproportionate share payments, increasing reliance on managed care plans by Medicare and Medicaid and attendant increases in program complexity and payment delays and impact on the healthcare "demand curve" as the previously uninsured enter the insurance system
- Effective management of multiple major regulatory mandates, including achievement of meaningful use of Healthcare Information Technology
- Significant potential business model changes throughout the healthcare industry, including recently announced mergers of the nation's largest health insurers
- Pandemic outbreaks and their impact on business models, volumes, and supply procurement, such as COVID-19.

In South Carolina, in order to control escalating Medicaid costs, the Department of Health and Human Services has kept the hospital service rates (Inpatient and Outpatient hospital base rates and Inpatient Graduate Medical Education reimbursement) at the October 1, 2015 level.

- Inpatient hospital base rates were increased 2.75% on October 1, 2013 and 2.50% on October 1, 2014 and adjusted on October 1, 2015 to maintain the 93% of cost target.
- Inpatient Graduate Medical Education (direct and indirect medical education) reimbursement rates remain at the November 1, 2015 level.

Outpatient hospital multiplier was adjusted to maintain the 93% of cost target.

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These reimbursement rate adjustments have had and will continue to have a significant impact on the Authority's financial performance. To help minimize the impact of this revenue reduction, the Authority continues implementation of a hospital-wide response plan directed at high-impact areas, both clinically and financially. All areas of a patient's stay are reviewed, including (but not limited to) reducing length of stay, standardization of supplies, use of generic versus brand name drugs, staffing ratios, and new information technology to improve medical coding and billing.

The business of healthcare in the current economic, legislative and regulatory environment is volatile. Any of the above factors, along with others both currently in existence and which may or may not arise in the future, could have a material adverse impact on the Authority's financial position and operating results.

During the fiscal year ended June 30, 2016, the Authority created a consolidated clinical enterprise under the brand of MUSC Health. This enterprise is an effort to further integrate the clinical operations of the Authority and MUSC Physicians. Both entities retain their existing separate legal entities under this enterprise, but work more closely together to manage their combined clinical operations.

MUSC Health's Integrated Centers of Clinical Excellence are the organizational units of MUSC Health. Committed to care models that improve patient experience and achieve optimal patient outcomes, these comprehensive care teams are led by physician chiefs and charged with providing patients the most innovative, efficient and effective subspecialized care.

Contacting the Authority's Financial Management

This financial report is designed to provide interested parties with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Authority's Chief Financial Officer at Medical University Hospital Authority, P.O. Box 250332, Charleston, South Carolina 29425.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
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Statement of Net Position

June 30, 2023

Assets and Deferred Outflows

Current assets:	
Cash and cash equivalents	\$ 226,906,654
Cash restricted for capital projects and major programs	66,139,549
Investments unrestricted	314,581,003
Patient accounts receivable, net of allowance for uncollectible accounts of \$379,546,232	482,149,368
Due from third-party payors	41,804,573
Other current assets	<u>270,987,299</u>
Total current assets	1,402,568,446
Investments held by trustees under indenture agreements	77,065,510
Investments in joint ventures and partnerships	32,815,593
Other non-current assets	6,205,292
Capital assets, net	<u>1,234,773,427</u>
Total assets	2,753,428,268
Deferred outflows	<u>886,798,399</u>
Total assets and deferred outflows	<u>\$ 3,640,226,667</u>

Liabilities, Deferred Inflows and Net Position

Current liabilities:	
Current installments of long-term debt and financing lease obligations	\$ 120,187,119
Accounts payable	249,131,740
Accrued payroll, withholdings, and benefits	140,098,495
Due to related parties, net	7,853,767
Due to joint ventures and partnerships	791,173
Other accrued expenses	<u>30,172,080</u>
Total current liabilities	548,234,374
Long-term debt and capital lease obligations net of current installments	910,076,040
Other accrued benefits	24,717,624
Net pension liability	1,285,415,411
Net OPEB liability	<u>1,045,764,215</u>
Total liabilities	3,814,207,664
Deferred inflows	<u>446,937,030</u>
Total liabilities and deferred inflows	<u>4,261,144,694</u>
Net position:	
Net investment in capital assets	217,712,979
Restricted:	
Under indenture agreements	77,065,510
Capital projects	57,172,437
Major programs	38,610,988
Unrestricted deficit	<u>(1,011,479,941)</u>
Total net position	<u>(620,918,027)</u>
Total liabilities, deferred inflows, and net position	<u>\$ 3,640,226,667</u>

See accompanying notes to basic financial statements.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
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Statement of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2023

Operating revenues:	
Net patient service revenue (net of provision for uncollectable accounts of \$307,530,096)	\$ 3,537,135,105
Other revenue	<u>127,423,811</u>
Total operating revenues	<u>3,664,558,916</u>
Operating expenses:	
Compensation and employee benefits	1,523,892,902
Pension benefits	80,598,187
Other postemployment benefits	67,158,548
Services and supplies	1,934,389,673
Depreciation and amortization	<u>157,885,604</u>
Total operating expenses	<u>3,763,924,914</u>
Operating loss	<u>(99,365,998)</u>
Nonoperating revenue (expense):	
State appropriations	86,734,004
Gifts and grants	24,813,396
Investment income	13,630,888
Interest expense	(44,303,889)
Gain on disposal of capital assets	244,819
Other nonoperating expenses	(5,925,752)
Debt issuance cost	<u>(20,000)</u>
Total nonoperating revenues, net	<u>75,173,466</u>
Decrease in net position	(24,192,532)
Net position, beginning of year	<u>(596,725,495)</u>
Net position, end of year	<u>\$ (620,918,027)</u>

See accompanying notes to basic financial statements.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
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Statement of Cash Flows
Year ended June 30, 2023

Cash flows from operating activities:	
Receipts from patients and third-party payors	\$ 3,369,024,104
Other cash receipts	84,291,319
Payments to suppliers and employees	<u>(3,418,387,804)</u>
Net cash provided by operating activities	<u>34,927,619</u>
Cash flows from noncapital financing activities:	
State appropriations	59,722,755
Proceeds from CARES funding	45,720,000
Proceeds from noncapital grants and gifts	5,339,344
Payments of revenue anticipation notes	(80,000,000)
Nonoperating expenditures	<u>(5,925,752)</u>
Net cash provided by noncapital financing activities	<u>24,856,347</u>
Cash flows from capital and related financing activities:	
Capital expenditures	(127,040,165)
Capital grants and gifts received	14,862,413
Proceeds from disposal of capital assets	45,416,946
Payments of principal on long-term debt	(89,954,187)
Proceeds from financing debt	4,270,797
Payments of bond issuance cost	(20,000)
Payments of mortgage insurance premium	(804,533)
Payments on lease obligations	(33,909,304)
Proceeds on equipment replacement obligations	803,464
Interest payments	<u>(42,298,889)</u>
Net cash used in capital and related financing activities	<u>(228,673,458)</u>
Cash flows from investing activities:	
Proceeds from sale and maturity of investments	179,000,000
Investment income received	15,266,525
Purchases of investments	<u>(213,410,000)</u>
Net cash used in investing activities	<u>(19,143,475)</u>
Net decrease in cash and cash equivalents	(188,032,967)
Cash and cash equivalents at beginning of year	<u>484,798,023</u>
Cash and cash equivalents at end of year	<u>\$ 296,765,056</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (99,365,998)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	157,885,604
Provision for uncollectible accounts	307,530,096
Gain on disposal of capital assets	244,819
Changes in operating assets and liabilities:	
Patient accounts receivable	(368,246,529)
Due (to) third-party payors	(30,414,159)
Due from joint ventures and partnerships	597,729
Other current assets	(83,482,711)
Accounts payable	29,966,738
Other accrued expenses and accrued payroll, withholding and benefits	3,100,779
Other liabilities, accrued benefits	24,717,621
Advanced Medicare funding (recoupment)	(76,980,409)
Pension obligations	74,999,675
OPEB obligations	67,158,548
Related parties, net	28,644,399
Unearned revenue	<u>(1,428,583)</u>
Net cash provided by operating activities	<u>\$ 34,927,619</u>
Reconciliation of cash and cash equivalents at end of year to the statement of net position:	
Cash and cash equivalents	\$ 226,906,654
Restricted for capital projects and major programs	66,139,549
Included in investments held by trustees under indenture agreements	<u>3,718,853</u>
	<u>\$ 296,765,056</u>
Noncash transactions:	
Capital assets acquired by financing lease or other financing	\$ 93,445,895
Change in fair value of investments	(1,653,146)
Change in capital assets payable	(9,647,639)
Pro rata loss from joint ventures	(1,064,316)

See accompanying notes to basic financial statements.

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Statement of Fiduciary Net Position

June 30, 2023

Assets

Investments:

Money market funds	\$ 118,344
Equity mutual funds	41,630,100
Fixed income mutual funds	<u>7,528,840</u>
Total investments	<u>\$ 49,277,284</u>

Net position:

Restricted:

Pension	<u>\$ 49,277,284</u>
Total net position	<u>\$ 49,277,284</u>

See accompanying notes to basic financial statements.

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Statement of Revenues, Expenses and Changes in Fiduciary Net Position
Year ended June 30, 2023

Additions:	
Investment income:	
Net appreciation in fair value of investments	\$ 3,844,352
Interest and dividends	185,201
Less investment expense	<u>(12,726)</u>
Net investment income	<u>4,016,827</u>
Total additions	<u>4,016,827</u>
Deductions:	
Benefits paid to participants	<u>1,860,476</u>
Total deductions	<u>1,860,476</u>
Change in net position	2,156,351
Net position, beginning of year	<u>47,120,933</u>
Net position, end of year	<u>\$ <u>49,277,284</u></u>

See accompanying notes to basic financial statements.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
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Notes to Basic Financial Statements

June 30, 2023

(1) Summary of Significant Accounting Policies

Medical University Hospital Authority (the Authority) is a multidimensional healthcare system headquartered in Charleston, South Carolina. The Authority is a principal diagnostic and treatment referral center for the state of South Carolina that owns and operates the principal clinical teaching institutions for The Medical University of South Carolina (the University). The primary facilities used by the Authority, all located on or near the Authority's main campus in Charleston, consist of the following:

- University Hospital
- University Hospital Extension (UHE) (formerly Children's Hospital)
- Ashley River Tower (ART) Hospital
- Shawn Jenkins Children's Hospital
- Storm Eye Institute
- Institute of Psychiatry
- Digestive Disease Center
- Transplant Center
- Hollings Cancer Center
- MUSC Heart and Vascular Center
- Regional Health Network (RHN)
- Midlands Hospital System
- Regional Medical System

On March 1, 2023, the Authority assumed operations of the Regional Medical System in Orangeburg and its related clinics. The real estate associated with the acquisition will be leased for ninety-nine years, while other assets and liabilities were assumed on the acquisition date by the Authority.

Reporting Entity

The Authority is a major discretely presented component unit of the University, as defined by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*. The Authority's component unit relationship to the University arises principally because the nature and significance of the relationship is such that exclusion would cause the University's financial statements to be misleading or incomplete. In particular, the legislation establishing the Authority as a stand-alone healthcare system, effective July 1, 2000, requires that the members of the University's board of trustees also constitute the board of trustees of the Authority. The Authority is considered a discretely presented component unit because, while it does have the same governing board as the University, it does not provide a significant financial benefit to or impose a financial burden on the University. The Authority receives its own state appropriations passed through the University from the South Carolina General Assembly, independent of the appropriations granted and mandates made to the University.

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The significant accounting policies used by the Authority in preparing and presenting its financial statements are as follows:

(a) Basis of Accounting

For financial reporting purposes, the Authority is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

(b) Cash Equivalents

The Authority considers investments in highly liquid individual debt instruments (with an original maturity of three months or less) and similar fund positions to be cash equivalents.

(c) Inventories

Inventories, consisting principally of medical supplies and pharmaceuticals, are stated at the lower of weighted average cost or replacement value and are included in other current assets in the accompanying Statement of Net Position.

(d) Investments and Investment Income

Investments are carried at fair value and consist of internally or externally restricted cash equivalents and treasury obligations with original maturities greater than three months. Fair value measurements are categorized within the fair value hierarchy established by generally accepted accounting principles (GAAP) and investment income or loss from investments (including realized and unrealized gains and losses on investments and interest) is reported as nonoperating revenue in the accompanying Statement of Revenues, Expenses and Changes in Net Position.

(e) Capital Assets

Capital assets (excluding intangible right-to-use lease assets and SBITA) are recorded at cost at the date of acquisition or, if donated, at fair value at the date of receipt. Depreciation is provided over the useful life of each class of depreciable assets using the straight-line method. Equipment under capital lease obligations is amortized using the straight-line method over the estimated useful life of the equipment or lease term, and such amortization is included in depreciation and amortization in the accompanying Statement of Revenues, Expenses and Changes in Net Position. For subscription-based information technology agreements, MUHA assesses useful life based on the shorter of the subscription term or useful life of the underlying asset.

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June 30, 2023

A summary of depreciable lives is as follows:

Buildings, improvements, and fixed equipment	5–50 Years
Machinery, equipment, and vehicles	2–20 Years
Software	3–5 Years
Intangible	Indefinite

(f) Lease (Lessee) Arrangements

MUHA is a lessee for various noncancellable leases of land, equipment and buildings.

(i) Short-term Leases

For leases with a maximum possible term of 12 months or less at commencement, MUHA recognizes expense based on the provisions of the lease contract.

(ii) Leases other than short-term

For all other leases (i.e. those that are not short-term), MUHA recognizes a lease liability, and an intangible right-to-use lease asset, if the initial value of the intangible right-to-use asset is more than \$50,000.

(iii) Measurement of Lease Amounts

At lease commencement, MUHA initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, less lease payments made at or before the lease commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the lease asset is amortized into depreciation and amortization expense, lease expense, etc. on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. If MUHA is reasonably certain of exercising a purchase option contained in a lease, the lease asset will be amortized over the useful life of the underlying asset.

(iv) Key Estimates and Judgments

Key estimates and judgments include how MUHA determines (1) the discount rate it uses to calculate the present value of the expected lease payments, (2) lease term, and (3) lease payments.

- MUHA generally uses its estimated incremental borrowing rate as the discount rate for leases unless the rate that the lessor/vendor charges are known. In analyzing previously existing lease agreements, MUHA calculated a weighted average of incremental borrowing rates to assign to both equipment and real property leases. MUHA's incremental borrowing rate for leases is based on the rate of interest it would need to pay if it issued general obligation bonds

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to borrow an amount equal to the lease or payments, under similar terms at the commencement or remeasurement date.

- The lease or subscription term includes the noncancellable period of the lease or subscription, respectively, plus any additional periods covered by either MUHA or lessor option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised. Periods in which both MUHA and the lessor/vendor have a unilateral option to terminate (or if both parties have to agree to extend) are excluded from the lease or subscription term.
- Payments are evaluated by MUHA to determine if they should be included in the measurement of the lease liabilities, including those payments that require a determination of whether they are reasonably certain of being made, such as tenant incentives received after the commencement date, variable components that are fixed in nature or those that are dependent on an index or rate (i.e. Consumer Price Index).

(v) Remeasurement of Lease Amounts

MUHA monitors changes in circumstances that may require remeasurement of a lease or subscription IT arrangement. When certain changes occur that are expected to significantly affect the amount of the lease liability, the liability is remeasured and a corresponding adjustment is made to the lease asset.

(vi) Presentation in Statement of Net Position

Lease assets are reported with capital assets and lease liabilities are reported with long-term debt in the statement of net position.

(g) Statement of Revenues, Expenses and Changes in Net Position

For purposes of presentation, transactions deemed by management to be ongoing, major or central to the provision of healthcare services are reported as operating revenues and operating expenses. Principal nonoperating transactions include state appropriations, CARES Act funding, gifts and grants, investment income, interest expense, gain on disposal of capital assets and financing costs.

(h) Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors and others for services rendered, and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations, as well as the provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

(i) Charity Care

The Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

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(j) Net Position

Net position of the Authority is classified into the following components:

- Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowings used to finance the purchase or construction of those assets.
- Restricted under indenture agreements represents resources deposited with trustees as required by bond indentures or other debt agreements.
- Restricted for capital projects and major programs represents resources that the Authority is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.
- Unrestricted deficit represents remaining net position that does not meet any of the above definitions.

When the Authority has both restricted and unrestricted resources available to finance a particular program, it is the Authority's policy to use restricted resources before unrestricted resources.

(k) Costs of Borrowing

Costs of issuance are expensed in the period incurred.

Interest cost incurred before the end of the construction period is expensed as incurred in the period in which the cost is incurred.

(l) Income Taxes

The Authority is a political subdivision of the State of South Carolina and is treated as a governmental entity for tax purposes. Additionally, the Authority has received its determination letter from the Internal Revenue Service indicating that it is exempt from income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). As such, the Authority is not generally subject to federal or state income taxes. However, the Authority remains subject to income taxes on any net income that is derived from a trade or business, regularly carried on and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded. If there is net income from any unrelated trade or business, such provision, in the opinion of management, is not material to the financial statements taken as a whole.

(m) Use of Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP) requires that management make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Significant items subject to such estimates include the allowances for uncollectible accounts and contractual adjustments for patient receivables, depreciation and amortization, liability for incurred but not reported claims under the self-insured health plan and estimated third-party payor settlements. In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex

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and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount in the near term. Further instances where management may use estimates include incremental borrowing rates (IBR) as it pertains to ROU leases. Using fair value estimates and existing arrangements with third party vendors, MUHA estimates IBR depending on the life of the lease.

(n) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources representing a consumption of net position that is applicable to a future reporting period(s). In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources representing an acquisition of net position is applicable to a future reporting period(s). The Authority's statement of net position includes deferred outflows and inflows related to the Net Pension Liability as detailed in note 13, Net OPEB liability as detailed in note 14, and the deferred loss on refunding of debt.

(o) Deferred Loss on Refunding of Debt

In transactions involving refunding of debt, the difference between the reacquisition price (total cost of new debt) and the net carrying value of the old debt is deferred and amortized to interest expense over the shorter of the remaining life of the old debt or the life of the new debt. The unamortized amount of the deferred loss on refunding of debt is reflected as a deferred outflow.

(p) Recent Accounting Pronouncements

- GASB Statement No. 99, *Omnibus 2022*, was issued in April 2022. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by making changes to Statement Nos. 53, 87, 94, 96, and 34. Statement Nos. 34 and 87 along with various other requirements in Statement No. 99 were effective for the Authority in fiscal year 2022. Statement Nos. 53, 87, and 94 were effective for the Authority in fiscal year 2023. Statement No. 34 does not have a material impact to the fiscal year 2022 financials. GASB 96, *Subscription-Based Information Technology Arrangement*, was early adopted in in fiscal year 2021 and requires the recognition of certain assets and liabilities and deferred inflows of resources for subscriptions related to software. Under this statement, the subscriber is required to recognize a liability and asset to enhance the relevance and consistency of information about government's software subscription activities. GASB 53, *Accounting and Finance Reporting for Derivative Instruments*, and GASB 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, did not have a material impact on the Authority in the current year.
- GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, was issued in June 2022. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This statement will be effective for the Authority in fiscal year 2024. The Authority is in the process of evaluating the impact of this statement on its financial statements.

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- GASB Statement No. 101, *Compensated Absences*, was issued in June 2022. The primary objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This statement will be effective for the Authority in fiscal year 2025. The Authority is in the process of evaluating the impact of this statement on its financial statements.

(2) Cash, Cash Equivalents and Investments

The Authority's cash balance at June 30, 2023 is as follows:

Bank balance:

Insured (Federal Deposit Insurance Corporation and Securities Investor Protection Corporation)	\$ 2,000,000
Uninsured, uncollateralized, or collateralized by securities held by the pledging institution or by its trust department or agent in other than the Authority's name	<u>323,838,795</u>
Total	<u>\$ 325,838,795</u>
Carrying amount (cash and cash equivalents)	\$ 226,906,654
Restricted Assets (cash and cash equivalents)	<u>66,139,549</u>
Total	<u>\$ 293,046,203</u>

A summary of investments at June 30, 2023 is as follows:

	<u>Fair value</u>	<u>Percentage</u>	<u>Maturities</u>	<u>Interest rate</u>	<u>Credit rating</u>
Cash	\$ 3,056,338	0.8	N/A	N/A	N/A
Fixed-income securities:					
Fannie Mae	14,979,619	3.8	7/10/2023	0.3%	Aaa
Federal Home Loan Bank	144,943,486	37.0	9/3/22 - 11/16/28	0.1%–5.0%	Aaa
Federal Farm Credit Bank	113,710,894	29.0	12/30/22 – 5/03/24	0.2%–4.9%	Aaa
Federal Home Loan Mortgage Corporation	33,567,445	8.6	9/8/23 - 11/6/23	0.3%–2.75%	Aaa
KFW	18,715,586	4.8	10/19/2023	0.3%	Aaa
Intl Bk Recon & Development	9,801,454	2.5	11/24/2023	0.3%	Aaa
Federal National Mortgage Association	52,209,176	13.3	9/24/26–8/5/30	0.8%–1.9%	Aaa
Dreyfus Treasury Securities	<u>662,515</u>	0.2	Various	0.8%	Aaa
	<u>\$ 391,646,513</u>				

The Authority categorizes its investments carried at fair value within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset:

- Level 1 inputs are quoted prices in active markets for identical assets.
- Level 2 inputs are significant other observable inputs (current MUHA investments are all valued as Level 2).

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- Level 3 inputs are significant unobservable inputs.

A summary of investments within the fair value hierarchy as of June 30, 2023 is as follows:

	Investments fair value level	Fair value measurements		
		Level 1	Level 2	Level 3
Fixed-income securities:				
Fannie Mae	\$ 14,979,619	—	14,979,619	—
Federal Home Loan Bank	144,943,486	—	144,943,486	—
Federal Farm Credit Bank	113,710,894	—	113,710,894	—
Federal Home Loan Mortgage Corporation	33,567,445	—	33,567,445	—
KFW	18,715,586	—	18,715,586	—
Intl Bk Recon & Development	9,801,454	—	9,801,454	—
Federal National Mortgage Association	52,209,176	—	52,209,176	—
Dreyfus Treasury Securities	662,515	662,515	—	—
	<u>\$ 388,590,175</u>	<u>662,515</u>	<u>387,927,660</u>	<u>—</u>

The Authority's investment strategy has been developed to, among other things, ensure that the investment portfolio remains in compliance with the investments deemed permissible under the indenture agreement described in note 8. There is no formalized deposit or investment policy that otherwise addresses credit risk, interest rate risk, foreign currency risk or how investment income may be spent.

Guidelines for fixed-income investments and cash equivalents are as follows:

1. Direct obligations of the U.S. government, securities issued by federal agencies backed by the full faith and credit of the U.S. government, and securities issued by certain non-full faith and credit federal agencies
2. Cash, money market funds and certificates of deposit that are appropriately collateralized, insured or issued by investment grade financial institutions
3. Investment agreements, including guaranteed investment contracts, commercial papers, repurchase agreements and other securities are subject to credit rating minimums, acceptance by related insurers, and other provisions, as described in the indenture agreements.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Except for restrictions imposed by the aforementioned indenture agreement, there are no limits on the amount the Authority may invest in any one issuer. As of June 30, 2023, 37.3% and 29.3% of the Authority's investments are in notes issued by the Federal Home Loan Bank and the Federal Farm Credit Bank, respectively.

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Investment income comprises the following for the year ended June 30, 2023:

Dividend and interest income	\$ 11,606,422
Realized and unrealized gain on investments	<u>2,024,466</u>
	<u>\$ 13,630,888</u>

(3) Other Current Assets

The composition of other current assets at June 30, 2023 is as follows:

Prepaid expenses	\$ 83,492,809
Inventories	104,414,086
Amounts due from third parties	82,772,157
Other	<u>308,247</u>
	<u>\$ 270,987,299</u>

(4) Other Non-Current Assets

Prepaid rents include an enhanced-use lease of real property from the Department of Veterans Affairs for \$1.3 million, which expires May 15, 2079, and is being amortized over 75 years. Also, \$6.2 million of the non-current prepaid expenses is composed of various prepaid miscellaneous maintenance and other contracts.

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(5) Capital Assets

Capital assets and related activity for the year ended June 30, 2023, consisted of the following:

	Beginning balance	Increases	Decreases	Ending balance
Capital assets not being depreciated:				
Land	\$ 56,080,543	—	(360,000)	55,720,543
Assets not in service	40,882,370	(2,106,427)	(13,500,861)	25,275,082
Construction in progress	39,934,574	51,318,284	(5,138,016)	86,114,842
Total capital assets not being depreciated	136,897,487	49,211,857	(18,998,877)	167,110,467
Capital assets being depreciated:				
Buildings, improvements and fixed equipment	1,261,074,240	6,230,196	—	1,267,304,436
Intangible	—	1,708,118	—	1,708,118
Machinery and equipment	426,261,344	63,750,561	(47,772,583)	442,239,322
Software	93,923,330	4,490,410	(455,075)	97,958,665
Vehicles	5,809,889	113,414	—	5,923,303
Total capital assets being depreciated	1,787,068,803	76,292,699	(48,227,658)	1,815,133,844
Less accumulated depreciation for:				
Buildings, improvements and fixed equipment	(578,138,958)	(63,235,329)	—	(641,374,287)
Machinery and equipment	(283,277,886)	(43,898,953)	11,126,590	(316,050,249)
Software	(69,156,280)	(8,274,083)	261,603	(77,168,760)
Vehicles	(2,862,482)	(1,046,524)	—	(3,909,006)
Total accumulated depreciation	(933,435,606)	(116,454,889)	11,388,193	(1,038,502,302)
Capital assets being depreciated, net	853,633,197	(40,162,190)	(36,839,465)	776,631,542
Capital assets, net excluding lease assets	\$ 990,530,684	9,049,667	(55,838,342)	943,742,009
Subscription based assets, net (Note 19)				28,764,594
Lease assets, net (Note 18)				262,266,824
Total capital assets, net				\$ 1,234,773,427

Construction in progress at June 30, 2023 consists of costs associated with various renovation projects and costs for the new Williamsburg Lake City Medical Center. Construction in progress projects are generally scheduled for completion in fiscal year 2024. Remaining costs to complete these projects are estimated to

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total approximately \$59.8 million. There are four projects that will extend into fiscal year 2025 (Nexton, Sea Island, Indian Land MOB, and Leatherman Center).

(6) Deferred Outflows

The composition of deferred outflows at June 30, 2023, is as follows:

Deferred loss on refunding GNMA MBS Series 2012	\$ 10,428,713
Deferred loss on refunding CEP Series 2013	620,287
Other postemployment benefits (note 14)	541,469,088
Pension plans (notes 13 and 15)	331,503,775
Deferred outflows – leases	<u>2,776,536</u>
Total	<u>\$ 886,798,399</u>

(7) Short-Term Debt

The Authority borrowed \$80 million in Revenue Anticipation Notes (RANs) from TD Bank, N.A. in fiscal year 2022 and used the proceeds of the loans to defray the payment of a portion of the operating expenses and expenditures to be made in connection with the ownership and operation of the acquired Midlands Hospital System.

There were options to extend the initial term of the RANs as requested by MUHA and agreed upon with the lender. On August 4, 2022, RAN A was extended for an additional six-month period with an interest rate of 3.35% and a maturity date of February 3, 2023. RAN A was paid in full including interest as of the maturity date February 3, 2023. On April 4, 2022, RAN B was extended for an additional six-month period with an interest rate of 1.74% and a maturity date of October 6, 2022. RAN B was extended for an additional six-month period with an interest rate of 4.42% and a maturity date of April 6, 2023. RAN B was paid in full including interest as of the maturity date of April 6, 2023.

2023	Interest rate	Maturity date	Beginning balance	Increases	Decreases	Ending balance
Revenue Anticipation Note Series 2021A	3.35 %	February 3, 2023	\$ 50,000,000	—	50,000,000	—
Revenue Anticipation Note Series 2021B	4.42	April 6, 2023	<u>30,000,000</u>	—	<u>30,000,000</u>	—
			<u>\$ 80,000,000</u>	—	<u>80,000,000</u>	—

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(8) Long-Term Debt

A summary of long-term debt at June 30, 2023 is as follows:

GNMA MBS, 2012 refinancing of Series 2004 Bonds, Series 2012, payable in varying amounts through 2033, with monthly interest payments at the rate of 2.94%	\$ 203,348,198
MUHA Central Energy Plant, 2013 refinancing of MUFC Central Energy Plant, LLC Economic Development Revenue Bonds, Series 2013, payable in varying amounts through 2032, with monthly interest payments at the rate of 3.85%	26,155,712
GNMA MBS – FHA Insured Mortgage Acquisition Obligation, Series 2016, payable in varying amounts through 2044, with monthly interest payments at the rate of 3.59%	283,510,698
Mortgage Note Series 2018A – for purchase of land in Nexton and construction of a consolidated service center (CSC), payable in varying amounts through October 2023, with an effective interest rate of 4.32%	33,694,761
2019 FHA/GNMA – Refinancing of RHN Acquisition Loan, TD Bank payable in varying amounts through 2045, with monthly interest payments at the rate of 3.00%	120,490,057
2022 FHA/GNMA – Refinancing of Midlands Acquisition Loan, PNC Bank payable in varying amounts through 2047, with monthly interest payments at the rate of 3.235%	77,398,559
Note payable for patient monitoring equipment, payable in varying amounts through June 2024, with monthly interest payments at the rate of 4.50%	3,412,162
Note payable for imaging equipment, payable in varying amounts through August 2028, with annual interest payments at the rate of 2.02%	18,584,504
Note payable to Banc of America Leasing & Capital, LLC Schedule 3 for the purchase of equipment, payable in varying amounts through October 2028, with monthly interest payments at the rate of 2.58%	4,641,827
	771,236,478
Less current installments	77,386,101
	\$ 693,850,377

On December 29, 2004, the South Carolina Jobs Economic Development Authority issued \$61.0 million of Economic Development Revenue Bonds, Central Energy Plant (CEP) Series 2004 for the benefit of the Authority. Proceeds of the bonds were loaned to MUFC Central Energy Plant, LLC, a single-member limited liability company organized under the laws of the State of South Carolina, whose sole member is Medical University Facilities Corporation. Pursuant to a loan agreement between the issuer and the borrower, the borrower shall use the proceeds to finance the construction of an approximately 52,000 square-foot central energy plant and certain other improvements, renovations, and furnishings, fixtures, and equipment to provide steam and chilled water for the use and benefit of the new 156-bed Phase I

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Authority project. Pursuant to the loan agreement, the borrower is obligated to make payments to the issuer in amounts sufficient to pay the principal and interest on the bonds. On March 15, 2007, the construction of the Central Energy Plant was substantially completed, and the plant was put into service. In 2014, MUFC Central Energy Plant, LLC was terminated after the refunding of the CEP Series 2004 bonds.

On February 1, 2008, MUFC Central Energy Plant, LLC converted the then outstanding \$59.4 million bonds into indexed floating rate bonds to reduce the cost of capital and annual debt service payments.

On December 19, 2012, the Authority refinanced the 2004 Series bonds with Government National Mortgage Agency (GNMA) mortgage-backed securities (MBS) (Series 2012). The refinance was done to substantially lower the Authority's interest rate from 5.18% and 5.14% on the 2004 Series bonds in fiscal year 2013 to a 2.94% fixed rate on the Series 2012. At the time of refinancing, the long-term debt obligation was reduced by debt service reserve and other funds, which became available to make additional principal payments. The net proceeds of \$360.4 million (after payment of \$1.1 million of issuance costs plus an additional \$49.9 million of 2004 Series debt service fund monies) were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2004 Series bonds. The advance refunding of the 2004 Series bonds resulted in an economic gain of \$1.0 million along with reducing total debt service payments over the next 20 years. The bond indenture contains certain terms and restrictive covenants, typical of such agreements, including maintenance of certain debt service coverage levels and limitations of additional indebtedness. The amount of outstanding debt related to the advanced refunding related to the 2004 Series A bonds is \$488.5 million through 2034. This debt is secured by a pledge of all MUHA assets and revenues per the HUD Regulatory Agreement.

The Authority's outstanding notes from direct loans and direct borrowings related to governmental activities contain the following provisions; in cases of debt not insured by the HUD loan program, lenders would declare outstanding principal and interest payments to be due immediately, along with any available collateral securing the obligations. For HUD insured debt, GNMA would settle with investors within 60 days of default and then directly request HUD to be made whole through their mortgage insurance program that MUHA has procured by pledging all revenues and assets.

Debt service requirements associated with the Authority's outstanding GNMA MBS 2012, which are direct placement loans, are as follows:

	Series 2012		Total
	Principal	Interest	
Fiscal year:			
2024	\$ 17,754,558	5,740,463	23,495,021
2025	18,283,634	5,211,387	23,495,021
2026	18,828,476	4,666,545	23,495,021
2027	19,389,553	4,105,468	23,495,021
2028	19,967,351	3,527,671	23,495,022
2029–2033	109,124,626	8,350,479	117,475,105
Total	\$ 203,348,198	31,602,013	234,950,211

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On December 30, 2013, the Authority refinanced the 2004 MUFC Central Energy Plant, LLC Economic Development Revenue Bonds (CEP Series 2004 bonds) with GNMA MBS (Series 2013). The refinance was done to lower the Authority's effective interest rate from 5.75% on the 2004 Series to a 3.85% fixed rate on the Series 2013. The net proceeds of \$47.4 million (after payment of \$1.3 million of issuance costs) were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the CEP Series 2004 bonds. As a result, the CEP Series 2004 bonds are considered to be defeased and the liability for those bonds was removed from the Statement of Net Position. The advance refunding of the CEP Series 2004 bonds resulted in an economic gain of \$2.4 million along with reducing total debt service payments over the next 18 years. The bond indenture contains certain terms and restrictive covenants, typical of such agreements, including maintenance of certain debt service coverage levels and limitations on additional indebtedness. This debt is secured by a pledge of all MUHA assets and revenues per the HUD Regulatory Agreement.

Debt service requirements associated with the Authority's outstanding GNMA MBS Series 2013, which are direct placement loans, are as follows:

	Series 2013		Total
	Principal	Interest	
Fiscal year:			
2024	\$ 2,746,673	958,864	3,705,537
2025	2,854,306	851,231	3,705,537
2026	2,966,157	739,380	3,705,537
2027	3,082,390	623,147	3,705,537
2028	3,203,179	502,358	3,705,537
2029–2033	11,303,007	739,987	12,042,994
Total	\$ 26,155,712	4,414,967	30,570,679

On November 17, 2016, the Authority closed on a \$316.4 million mortgage insured by the U.S. Department of Housing and Urban Development (HUD) through the Federal Housing Administration's (FHA) Section 242 Hospital Mortgage Insurance Program. The principal amount of the mortgage bears interest at 3.59% and is amortized over 25 years. The proceeds of this financing are being used for the purpose of (i) defraying and financing a portion of the costs of construction of the MUSC CHWP and other healthcare and related facilities of the Authority; and (ii) defraying and financing the costs associated with the incurrence of the mortgage indebtedness. The total project has an estimated cost of \$389.3 million, with an equity contribution by the Authority of \$72.9 million that included state funding and fundraising in hand at closing. This debt is secured by a pledge of all MUHA assets and revenues per the HUD Regulatory Agreement.

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Debt service requirements associated with the Authority's outstanding GNMA MBS Series 2016, which are direct placement loans, are as follows:

	Series 2016		Total
	Principal	Interest	
Fiscal year:			
2024	\$ 9,163,024	10,028,241	19,191,265
2025	9,497,443	9,693,820	19,191,263
2026	9,844,067	9,347,196	19,191,263
2027	10,203,343	8,987,920	19,191,263
2028	10,575,730	8,615,533	19,191,263
2029–2033	58,957,894	36,998,421	95,956,315
2034–2038	70,531,228	25,425,087	95,956,315
2039–2043	84,376,387	11,579,928	95,956,315
2044–2048	20,361,582	428,953	20,790,535
Total	<u>\$ 283,510,698</u>	<u>121,105,099</u>	<u>404,615,797</u>

On October 15, 2018, the Authority closed on a \$36.4 million mortgage note series 2018A with United Community Bank. The principal amount of the mortgage bears interest at 4.32% and is amortized over five years, with quarterly payments of \$547,448. At the conclusion of year five, the remaining balance of \$33.7 million will be due to the lender in full. The proceeds of the financing are being used for (1) the purchase of land and the building to be constructed thereon constituting a consolidated services center (CSC), including a sterile processing center in the North Charleston area and (2) land in Berkeley County (Nexton), upon which will be constructed an emergency department facility and an approximate 128-bed hospital. This debt is secured by the CSC and Nexton Land properties and is subject to the rights of HUD.

Debt service requirements associated with the Authority's Mortgage Note, which is a direct placement loan, are as follows:

	Series 2018A		Total
	Principal	Interest	
Fiscal year:			
2024	\$ 33,694,761	742,043	34,436,804
Total	<u>\$ 33,694,761</u>	<u>742,043</u>	<u>34,436,804</u>

On February 21, 2019, the Authority closed on a \$129 million Hospital Acquisition Loan with TD Bank to fund the Asset Purchase Agreement with Community Health System. The principal amount of the loan bears interest at 3.21%. Interest only payments on the outstanding principal balance shall be payable monthly. The entire unpaid principal balance shall be due and payable on the maturity date of February 24, 2020. On August 29, 2019, the Authority received a letter of commitment to insure upon completion from

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the U.S. Department of Housing and Urban Development in an amount not exceeding \$133.6 million. Upon the closing of this loan, the proceeds were used for the purpose of (i) refinancing the bridge loan indebtedness related to the purchase of the four regional hospitals; and (ii) defraying and financing the costs associated with the incurrence of the mortgage indebtedness. These obligations are unsecured, except for the Lien on the Acquisition Fund that is held by the South Carolina State Treasurer's Office. This loan was refinanced in fiscal year 2021 through the TD Bank loan discussed below.

On December 12, 2019, the Authority closed on a \$133.4 million loan with TD Bank to refinance the Hospital Acquisition Loan with TD Bank. The principal amount of the loan bear interests at 3.00% and is amortized over 25 years. The proceeds of the loan were used for the purpose of (i) refinancing the bridge loan indebtedness related to the purchase of the four hospitals described above and (ii) defraying and financing the costs associated with the incurrence of the mortgage indebtedness.

Debt service requirements associated with the Authority's outstanding FHA GNMA Series 2019, which are direct placement loans, are as follows:

	Series 2019		Total
	Principal	Interest	
Fiscal year:			
2024	\$ 4,030,754	3,559,578	7,590,332
2025	4,153,353	3,436,979	7,590,332
2026	4,279,681	3,310,651	7,590,332
2027	4,409,852	3,180,480	7,590,332
2028	4,543,982	3,046,350	7,590,332
2029–2033	24,879,069	13,072,594	37,951,663
2034–2038	28,899,944	9,051,719	37,951,663
2039–2043	33,570,660	4,381,003	37,951,663
2044–2048	11,722,762	295,264	12,018,026
Total	\$ 120,490,057	43,334,618	163,824,675

On July 29, 2021, the Authority closed on a \$76.38 million Bridge Loan with TD Bank to fund the Asset Purchase Agreement of Midlands Health System. The principal amount of the loan bears interest at 0.38%. Interest only payments on the outstanding principal balance shall be payable monthly. The entire unpaid principal balance shall be due and payable on the maturity date of July 29, 2022. This Bridge Loan has been refinanced with the PNC Bank loan discussed below.

On April 7, 2022, the Authority closed on a \$79.68 million loan with PNC Bank to refinance the Bridge Loan with TD Bank. The principal amount of the loan bear interests at 3.235% and is amortized over 25 years. The proceeds of the loan were used for the purpose of (i) refinancing the bridge loan indebtedness related to the purchase of the Midlands hospitals; and (ii) defraying and financing the costs associated with the incurrence of the mortgage indebtedness. These obligations are secured by real estate situated in Kershaw County, Richland County, Fairfield County and Lancaster County, South Carolina.

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Debt service requirements associated with the Authority's outstanding FHA Series 2022, which are direct placement loans, are as follows:

	Series 2022		Total
	Principal	Interest	
Fiscal year:			
2024	\$ 2,180,393	2,471,703	4,652,096
2025	2,251,987	2,400,109	4,652,096
2026	2,325,925	2,326,171	4,652,096
2027	2,402,295	2,249,801	4,652,096
2028	2,481,171	2,170,925	4,652,096
2029–2033	13,682,692	9,577,787	23,260,479
2034–2038	16,081,411	7,179,067	23,260,478
2039–2043	18,900,651	4,359,827	23,260,478
2044–2048	17,092,034	1,128,675	18,220,709
Total	\$ 77,398,559	33,864,065	111,262,624

The Authority entered into a long-term agreement on March 25, 2016 that requires certain minimum purchases of patient monitoring products and services through fiscal year 2024. Effective July 1, 2016, the Authority amended the original agreement to reduce the required minimum purchases and corresponding unitary payments. The agreement cost is approximately \$30.8 million and calls for 96 monthly unitary payments of \$360,506. The patient monitoring products and services will be consumed over the agreement period and in conjunction with a timeline that was developed at agreement inception. The timeline can be modified by the parties and this commitment is at a level consistent with normal business practices.

	Patient monitors		Total
	Principal	Interest	
Fiscal year:			
2024	\$ 3,412,162	77,787	3,489,949
Total	\$ 3,412,162	77,787	3,489,949

The Authority entered into a long-term agreement on August 24, 2018 that requires certain minimum purchases of patient imaging equipment and services through fiscal year 2028. Effective January 1, 2019, the agreement cost is approximately \$81.8 million and calls for 10 annual unitary payments of \$9,116,289. The Authority bases future obligations on equipment placed into service, which can vary from the unitary payment. The patient monitoring products and services will be consumed over the agreement period and in

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conjunction with a timeline that was developed at agreement inception. The timeline can be modified by the parties and this commitment is at a level consistent with normal business practices.

	Imaging equipment		Total
	Principal	Interest	
Fiscal year:			
2024	\$ 3,581,326	345,854	3,927,180
2025	3,647,758	279,422	3,927,180
2026	3,715,531	211,649	3,927,180
2027	3,784,675	142,505	3,927,180
2028	3,855,214	71,966	3,927,180
Total	\$ 18,584,504	1,051,396	19,635,900

The Authority entered into an agreement with Banc of America Capital & Leasing LLC, Schedule 3 for the purchase of equipment on October 28, 2021. The terms are 7 years with an interest rate of 2.58%.

	Schedule 3		Total
	Principal	Interest	
Fiscal year:			
2024	\$ 822,450	110,079	932,529
2025	843,922	88,607	932,529
2026	865,954	66,575	932,529
2027	888,562	43,967	932,529
2028	911,760	20,769	932,529
2029	309,179	1,664	310,843
Total	\$ 4,641,827	331,661	4,973,488

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A schedule of changes in the Authority's long-term debt obligations for the year ended June 30, 2023 is as follows:

2023	Date of issuance	Beginning balance	Additions	Refunded and/or retired	Ending balance	Due within one year
Series 2012	December 19, 2012	\$ 220,588,990	—	(17,240,792)	203,348,198	17,754,558
Wells Fargo	April 25, 2013	1,169,300	—	(1,169,300)	—	—
Series 2013	December 30, 2013	28,798,811	—	(2,643,099)	26,155,712	2,746,673
Series 2016	November 17, 2016	292,351,076	—	(8,840,378)	283,510,698	9,163,024
Series 2018A	October 15, 2018	34,393,648	—	(698,887)	33,694,761	33,694,761
Series 2019	December 12, 2019	124,401,830	—	(3,911,773)	120,490,057	4,030,754
Series 2022	April 7, 2022	79,509,636	—	(2,111,077)	77,398,559	2,180,393
Patient Monitors	July 1, 2016	6,617,420	240,246	(3,445,504)	3,412,162	3,412,162
Imaging Equipment	August 24, 2018	17,886,670	6,776,538	(6,078,704)	18,584,504	3,581,326
1 Poston Rd, Charleston, SC	June 11, 2015	5,748,857	30,549	(5,779,406)	—	—
Schedule 1	October 26, 2021	18,246,873	—	(18,246,873)	—	—
Schedule 2	October 27, 2021	16,422,185	—	(16,422,185)	—	—
Schedule 3	October 28, 2021	12,000,000	—	(7,358,173)	4,641,827	822,450
Total long-term obligations excluding lease liabilities		\$ 858,135,296	7,047,333	(93,946,151)	771,236,478	77,386,101
Lease liabilities (Note 18)					249,136,446	40,548,289
Subscription-based information technology lease (Note 19)					9,890,235	2,252,729
Total long-term obligations					\$ 1,030,263,159	120,187,119

(9) Other Accrued Expenses

The composition of other accrued expenses at June 30, 2023 is as follows:

Accrued interest	\$ 2,824,719
Amounts due to contractors	622,824
Lease obligations	910,884
Refunds due	1,636,548
Third party advance	8,000,000
Unclaimed property	1,773,495
Settlements	8,166,422
Other	6,237,188
	<u>\$ 30,172,080</u>

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(10) Net Patient Service Revenue

The Authority has agreements with governmental and other third-party payors that provide for reimbursement to the Authority at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Authority's billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors is as follows:

- Medicare – Substantially all inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic and other factors. Additionally, the Authority is reimbursed for both its direct and indirect medical education costs, based principally on per-resident prospective payment amounts and certain adjustments to prospective rate-per-discharge operating reimbursement payments. The Authority generally is reimbursed for retroactively determined items at tentative rates, with final settlement determined after submission of annual cost reports by the Authority and audits by the Medicare fiscal intermediary. The Authority's cost reports have been audited and initially settled for all fiscal years through 2011.

Revenue from the Medicare program accounted for approximately 35.3% of the Authority's net patient service revenue for the fiscal year ended June 30, 2023.

- Medicaid – Inpatient and outpatient services rendered to most Medicaid program beneficiaries are reimbursed based upon prospective reimbursement methodologies.
- The Authority participates in the Medicaid Disproportionate Share Hospital program (the DSH Program) available to certain qualifying hospitals in South Carolina. The net reimbursement benefits associated with this program totaled approximately \$85.9 million in fiscal year 2023 and are recognized as reductions in related contractual adjustments in net patient service revenue on the Statement of Revenues, Expenses and Changes in Net Position. There can be no assurance that the Authority will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified. Any material reduction in such funds has a corresponding material adverse effect on the Authority's operations.

Overall, revenue from the Medicaid program, including net disproportionate share funding and cost settlement liabilities described above, accounted for approximately 17.2% of the Authority's net patient service revenue for the year ended June 30, 2023.

- The Authority has also entered into payment arrangements with various managed care organizations, commercial insurance carriers and preferred provider organizations. Payment methodologies under these agreements include prospectively determined rates per discharge, discounts from established rates and prospectively determined per diem rates.

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors and others for services rendered. Associated estimates change as a result of confirming events such as completion of audits of the Authority's cost reports by third-party payors or receipt of final settlement payments from third-party payors. Net patient service revenue was increased by approximately \$68.8 million for changes in prior year estimates of amounts receivable from or payable to third-party payors during the year ended June 30, 2023.

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The composition of net patient service revenue for the year ended June 30, 2023 is as follows:

Gross patient service revenue, net of charity	\$ 13,921,315,346
Less:	
Provision for contractual and other adjustments	10,115,557,919
Provision for uncollectible accounts	<u>268,622,322</u>
Net patient service revenue	<u>\$ 3,537,135,105</u>

(11) Service to the Community

The Authority is an active, caring member of the communities it serves. In carrying out its mission of meeting the health and wellness needs of its service areas, the Board of Trustees has established policies under which the Authority provides care to needy members of its communities. These policies include discount programs for both uninsured and indigent patients. Following these policies, charity care services totaling approximately \$350.1 million (as measured by established charges) were provided without charge (and thus not recognized in gross patient service revenue) during fiscal year 2023.

The Authority also participates in the Medicare and Medicaid programs. Under these programs, the Authority provides care to patients at payment rates that are determined by the federal and state governments, regardless of actual cost. The Authority wrote off discounts from established charges related to these programs totaling approximately \$5,843.3 million in fiscal year 2023.

In addition to community service directly associated with providing Authority based care, the Authority serves the community in other ways. For example:

- MUSC Urban Farm – In keeping with the MUSC mission to improve health and maximize quality of life through education, research and patient care, the MUSC Urban Farm was developed, a half-acre educational garden with the goal of creating opportunities for our community to learn how to eat for health. The Urban Farm is designed to be a living classroom where students, faculty, staff and the community come together to explore the connection between food and health through hands-on learning about the many varieties of vegetables, fruits and herbs grown in South Carolina. Participants experience a unique opportunity to engage in hands on learning about sustainable urban agriculture and are educated on the value of incorporating vegetables into their diets through cooking and nutrition lessons. In fiscal year 2023, the MUSC Urban Farm continue to advance our mission to teach the connection between eating healthy and your own health by hosting educational tours and hosting many service-learning projects. Additionally, as part of the MUSC Urban Farm's 'Bee Campus Designation,' we set our focus on the importance of attracting and supporting pollinators on MUSC's campus. The MUSC Urban Farm also expanded the Horticulture Therapy Program by adding multiple sessions per week offered to at-risk populations, averaging engagement with 50 individuals/patients per week in group sessions. Furthermore, the MUSC Urban Farm harvested over 2300 pounds of produce in FY23 – for distribution to Urban Farm volunteers and local non-profits working with people with food and nutrition insecurity. We worked with many community organizations, College of Charleston, CCSD and several garden clubs. Additionally, the Urban Farm conducted the College of Medicine Flex Humanities

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program with a focus on learning about nutrition and food insecurity in our state. The Urban Farm also worked collaboratively with many student groups including the College of Medicine and the College of Health Professionals for tours and community outreach such as the Sugar Free Fall Festival promoting healthy eating to Charleston area students. Lastly, in FY23 the MUSC Urban Farm engaged in legacy planning for the future state of the Urban Farm as we prepare for the new College of Medicine building set to break ground in early 2024. While the Urban Farm's original location was never expected to be permanent, its concept is. Plans are underway to create several "micro-sites" around main campus to provide ongoing programming on a range of topics from organic gardening to healthy food and nutrition to horticultural therapy, with the hopes of identifying future location to restore the Urban Farm to its original form. In FY24, the MUSC Urban Farm will launch several "Pocket Urban Farms" at locations on the main campus and beyond.

- Kids Eat Free Program – In 2015, the Authority and Sodexo partnered to address food insecurity and the rising cost of healthcare to become the first hospital in the southeast to offer the USDA's summer food service program, Kids Eat Free @ MUSC. It was extended to the MUSC Children's Health R. Keith Summey Medical Pavilion in fiscal year 2019 and significantly increased the number of children served daily in a high need/low food access area. In response to the COVID-19 pandemic, the Office of Health Promotion pivoted the Kids Eat Free@ MUSC Program to uniquely meet the needs of our pediatric patients and community members while also promoting the health and safety of all individuals working at or visiting our various campuses by partnering with the Lowcountry Food Bank. This adaptation and continued partnership with the Lowcountry Food Bank, along with our MUSC Volunteers, has allowed the program to continue for the 9th consecutive year and in fiscal year 2023 we served 2200 meals at Keith Summey Medical Pavilion and 660 meals at Shawn Jenkins Children's Hospital. Since its inception in 2015, Kids Eat Free @ MUSC has served over 28,000 free meals to children and teens, positioning MUSC at the forefront of addressing food insecurity in the State of South Carolina and beyond.
- MUSC e.a.t.s (ensuring access to sustenance)– In November 2021 the Office of Health Promotion partnered with MUSC Women & Children's Health Leaders to implement an emergency food pantry at MUSC Shawn Jenkins Emergency Department to help mitigate the risk for poor health outcomes associated with nutrition and food insecurity. The pantry is in collaboration with the Lowcountry Food Bank's Food for Health Program and offers a bag of shelf stable food (2-3 meals for a family of 4) and additional resources to help make food access more sustainable to clinic patients and their families who screen positive for food insecurity. The program expanded to Keith Summey Medical Pavilion in July 2022 and now serves 7 MUSC pediatric clinics in the downtown and North Charleston areas under the directorship of the Office of Health Promotion. In fiscal year 2023, the MUSC e.a.t.s. program provided 4,212 pounds of food to families, serving 1,286 individuals (over 300 families).
- Feeding Friends Program – The Authority and East Cooper Meals on Wheels (ECMOW) partnered to create the Feeding Friends program, where physicians and case managers refer patients who are not able to shop or prepare meals for themselves to ECMOW for free meal delivery. This program addresses food insecurity and contributes to better health outcomes and fewer hospital readmissions. In fiscal year 2023, the Feeding Friends program delivered served 3,691 meals to 195 MUSC patients through this referral program, a 223% increase in meals delivered from the previous year and 300% increase in number of patients served.

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- Food is Medicine Initiative – East Cooper Meals on Wheels (ECMOW) delivers nutritious meals to approximately 275 homebound recipients daily. In 2015, ECMOW initiated the life changing Food is Medicine program. ECMOW partnered with the MUSC Dietetic Internship Program to develop a menu of meals that are low in sodium and sugar, high in protein and fiber and ‘flavor-fully’ seasoned. This program was implemented to enhance the health and overall quality of life for its homebound recipients. This is a critical program because 24% of its recipient population is overweight or obese, 37% have diabetes and more than 1/3 have hypertension. These same meals are also utilized in the Feeding Friends program, serving MUSC patients after discharge. These same meals are also utilized in the Feeding Friends program, serving MUSC patients after discharge. In FY2023, ECMOW served over 172,000 meals and 572 people.
- Adventure Out Program – The Authority and the University, in partnership with the City of Charleston, created the Adventure Out program to encourage community members to adopt a physically active lifestyle. The Adventure Out Program promotes “green exercise” by cultivating opportunities for attendees of all ages and fitness levels to participate in free outdoor fitness classes in Charleston County Parks. The Adventure Out yoga series is led by master MUSC Yoga Instructor, Gail Corvette, and is held monthly throughout the year. In fiscal year 2023, there were 11 regular Adventure Out classes held in Charleston County Parks and 1 special event class in conjunction with the SC 7 Expedition which was also sponsored by MUSC. In total there were 243 participants in FY23 from both the MUSC community and community at large.
- The Charleston Healthy Business Challenge was founded in 2015, and is a collaborative free program designed to help businesses and organizations improve the overall health and well-being of their employees and create a culture of wellness at work. It was developed by Dr. Susan Johnson, MUSC and Paul Wieters, City of Charleston, and was a partnership between the City of Charleston and MUSC’s Office of Health Promotion, sponsored by Blue Cross Blue Shield of South Carolina. Since its inception, the leadership team envisioned expanding the program to create greater impact. In addition to planning and hosting quarterly seminars, special networking events and participating in business expos, the team dedicated time to strategic planning to improve, expand and grow the Healthy Business Program, including rebuilding the website, marketing and communication outreach, data analysis to drive programming and resources, and Chamber partnerships, positioning the program for a statewide expansion. In early 2022 the program was rebranded to the South Carolina Business Challenge with three regions, Charleston becoming the Lowcountry Healthy Business Challenge, launching the Upstate Region in Greenville in June of 2022 and on May 17, 2023, at the Palmetto Club in Columbia, SC launching the Midlands Region, rounding out the statewide expansion. Over 100 participants representing businesses of all sectors and sizes located in or near the midlands region enjoyed a healthy lunch, while learning about this free new program and hearing from SCHBC leaders, partners, and sponsors. Attendees were welcomed by Mike Harris, BCBSSC VP of Major Group Sales, Columbia Mayor Daniel Rickenmann, South Carolina Chamber CEO Bob Morgan, and SC Biz News Executive Editor Jason Thomas. Dr. Susan Johnson, Founder and Director of SCHBC provided a history and overview of the program, inviting Rozalynn Goodwin, VP of Engagement from the South Carolina Hospital Association (SCHA) to the stage to expand on SCHA’s 12-year strategic partnership and shared vision to build a healthy workforce in South Carolina. Featured speaker, Lt. Governor Pamela Evette, discussed worksite well-being as an economic driver for the state of South Carolina and congratulated SCHBC and attendees for their commitment to prioritizing health at work. Member Spotlight Wes Carter, President, Atlantic Packaging shared how his organization prioritizes health

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through corporate wellness, healthy partnerships, advocacy and community and sustainability initiatives. Michelle McCollum, President & CEO, South Carolina National Heritage Corridor rounded out the slate of speakers by inviting the business community to engage their employees in the 2023 South Carolina 7 Expedition. In addition to fall and spring seminars in the Lowcountry and Upstate Region, a member spotlight event was held at Milliken & Company in July, hosting over 60 business leaders. Total participants statewide in FY23 – 430.

- The Authority, in conjunction with the University, organizes employee participation in the Trident United Way. In fiscal year 2023, Authority and University employees pledged over \$17,000 to help support this organization.

While the Authority has estimated the cost of many of its community efforts to serve its broadly defined service area, management and the board of trustees believe that such costs represent only one facet of the many ways the Authority serves the citizens of the state of South Carolina.

(12) Employee Benefit Plans

The Authority participates in a number of employee benefit plans sponsored by the state of South Carolina, and substantially all of the Authority's employees are covered by such plans. The following generally describes the benefits associated with the most significant plans and the Authority's relevant participation:

- The Authority and substantially all of its employees contribute to the South Carolina Retirement System (SCRS), which sponsors a cost-sharing, multiple-employer defined-benefit pension plan. SCRS provides retirement, disability and other insurance benefits to plan members and beneficiaries. For more details on the SCRS plan, see note 13. SCRS issues a publicly available financial report that includes financial statements and required supplementary information, which can be obtained by writing SCRS's Retirement Division at Post Office Box 11960 Columbia, South Carolina 29211 or by calling (803)737-6800.
- SCRS participants are required to contribute 9.00% of their annual covered salary to the plan and the Authority contributes at an actuarially determined rate (currently 23.81% of annual covered payroll). The Authority contributed approximately \$214.5 million (17.41% statutorily required contribution, plus 6.25% retiree insurance surcharge and 0.15% incidental death benefit contribution) to SCRS during fiscal year 2023, equal to the required contributions. The Authority has no other liability under this plan other than to make its required contributions, which are fully funded through June 30, 2023. Effective July 1, 2022, the employee contribution rate continues at 9.00% and the employer contribution rate continues at 23.81%.
- The Authority's SCRS funding described above also funds the "pay-as-you-go" component of certain postretirement insurance benefits provided by the SCRS plan. The actual cost of providing such benefits to Authority retirees is not available. Nevertheless, as noted above, the Authority has no explicit liability associated with the postretirement health and life benefits component of the plan beyond its fully funded contributions obligation.
- Authority employees are eligible to participate in a state-sponsored multiemployer deferred compensation plan (SC Deferred Compensation Program), which provides for individual employee contributory trust accounts. The Authority does not contribute to this plan and has no liability associated with employee amounts deferred under the plan.

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- Effective July 1, 2002, the Authority established and began sponsoring a profit-sharing plan and trust titled the Special Healthcare Alternative Retirement Plan (SHARP). The SHARP is qualified under Section 401(a) of the Internal Revenue Code. Certain employees, as defined in SHARP, are eligible to participate at the commencement of employment. Contributions by the Authority to SHARP are discretionary and vest ratably over four years after two years of service. Contributions by the Authority in fiscal year 2023 totaled approximately \$10.1 million.
- Effective March 1, 2023, the Authority acquired the Regional Medicare Center pension plan. The RMC plan is a single-employer defined benefit pension plan that provides for retirement, death and disability benefits to plan participants and beneficiaries. Participants with five or more years of services are entitled to pension benefits upon retirement. No contributions have been made to the RMC plan since the acquisition date by MUHA.

The Authority also independently sponsors a tax-advantaged, defined-contribution plan for its employees (the MUSC 403B plan). Substantially all Authority employees are eligible to participate in this plan. Employees under 50 years of age may contribute up to \$19,500 of eligible compensation; employees 50 years of age and above may contribute up to \$26,000 of eligible compensation. The Authority does not match employee contributions.

(13) Pension Plans

The South Carolina Public Employee Benefit Authority (PEBA), created July 1, 2012, is the state agency responsible for the administration and management of the various Retirement Systems and retirement programs of the state of South Carolina, including the State Optional Retirement Program and the S.C. Deferred Compensation Program, as well as the state's employee insurance programs. As such, PEBA is responsible for administering the South Carolina Retirement Systems' five defined benefit pension plans. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as custodian, co-trustee and co-fiduciary of the Systems and the assets of the retirement trust funds. The Retirement System Investment Commission (Commission as the governing body, RSIC as the agency), created by the General Assembly in 2005, has exclusive authority to invest and manage the retirement trust funds' assets. The Commission, an eight-member board, serves as co-trustee and co-fiduciary for the assets of the retirement trust funds. By law, the State Fiscal Accountability Authority (SFAA), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the actuary of the Systems.

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with generally accepted accounting principles. For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

PEBA issues an Annual Comprehensive Financial Report (AFR) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The AFR is publicly available through PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of

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the state of South Carolina and therefore, retirement trust fund financial information is also included in the annual comprehensive financial report of the state.

(a) Plan Description

The South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan, was established July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement and other benefits for teachers and employees of the state and its political subdivisions. SCRS covers employees of state agencies, public school districts and participating charter schools, public higher education institutions, other participating local subdivisions of government and first-term individuals elected to the South Carolina General Assembly.

The State Optional Retirement Program (State ORP) is a defined contribution plan that is offered as an alternative to SCRS to newly hired state, public higher education institution and public school district employees, as well as first-term individuals elected to the South Carolina General Assembly. State ORP participants direct the investment of their funds into an account administered by one of four third party service providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the four third party service providers. For this reason, State ORP assets are not part of the retirement systems' trust funds for financial statement purposes.

The South Carolina Police Officers Retirement System (PORS), a cost-sharing multiple-employer defined benefit pension plan, was established July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement and other benefits to police officers and firefighters. PORS also covers peace officers, coroners, probate judges and magistrates.

In addition to the plans described above, PEBA also administers three single employer defined benefit pension plans, which are not covered in this report. They are the Retirement System for Members of the General Assembly of the State of South Carolina (GARS), the Retirement System for Judges and Solicitors of the State of South Carolina (JSRS), and the South Carolina National Guard Supplemental Retirement Plan (SCNG).

(b) Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

- SCRS - Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.
- State ORP - As an alternative to membership in SCRS, certain newly hired state, public school, and higher education employees and individuals first elected to the S.C. General Assembly at or after the November 2012 general election have the option to participate in the State ORP.

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Contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employer to the member's account with the ORP service provider for the employee contribution and a portion of the employer contribution (5 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution and an incidental death benefit contribution, if applicable, which is retained by SCRS.

- PORS - To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; be a coroner in a full-time permanent position; or be a peace officer employed by the Department of Corrections, the Department of Juvenile Justice or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least \$2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

(c) Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation/current annual salary. A brief summary of the benefit terms for each system is presented below.

- SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

- PORS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 55 or with 25 years of service regardless of age. A Class Three member who has separated from service with at least eight or more years of

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earned service is eligible for a monthly pension at age 55 or with 27 years of service regardless of age. Both Class Two and Class Three members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

(d) Contributions

Actuarial valuations are performed annually by an external consulting actuary to ensure applicable contribution rates satisfy the funding parameters specified in Title 9 of the South Carolina Code of Laws. Under these provisions, SCRS and PORS contribution requirements must be sufficient to maintain an amortization period for the financing of the unfunded actuarial accrued liability (UAAL) over a period that does not exceed the number of years scheduled in state statute. The Retirement Funding and Administration Act of 2017 increased, but also established a ceiling for SCRS and PORS employee contribution rates. Effective July 1, 2017, employee rates were increased to a capped rate of 9.00 percent for SCRS and 9.75 percent for PORS. The legislation also increased employer contribution rates beginning July 1, 2017 for both SCRS and PORS by two percentage points and further scheduled employer contribution rates to increase by a minimum of one percentage point each year in accordance with state statute. The General Assembly postponed the one percent increase in the SCRS and PORS employer contribution rates that was scheduled to go into effect beginning July 1, 2020. In accordance with the legislative funding schedule, employer contribution rates will continue to increase by 1 percentage point each year until reaching 18.56 percent for SCRS and 21.24 percent for PORS but may be increased further, if the scheduled contributions are not sufficient to meet the funding periods set for the applicable year. The board shall increase the employer contribution rates as necessary to meet the amortization period set in statute.

Pension reform legislation modified statute such that the employer contribution rates for SCRS and PORS to be further increased, not to exceed one-half of one percent in any one year if necessary, in order to improve the funding of the plans. The statute set rates intended to reduce the unfunded liability of SCRS and PORS to the maximum amortization period of 20 years from 30 years over a ten-year schedule, as determined by the annual actuarial valuations of the plan. Finally, under the revised statute, the contribution rates for SCRS and PORS may not be decreased until the plans are at least 85 percent funded.

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Required employee contribution rates¹ for the fiscal year 2023 are as follows:

SCRS:	
Employee class two	9.00 %
Employee class three	9.00
State ORP:	
Employee	9.00 %
PORS:	
Employee class two	9.75 %
Employee class three	9.75

Required employer contribution rates¹ for fiscal year 2023 are as follows:

SCRS:	
Employer class two	17.41 %
Employer class three	17.41
Employer incidental death benefit	0.15
State ORP	
Employer contribution ₂	17.41 %
Employer incidental death benefit	0.15
PORS:	
Employer class two	19.84 %
Employer class three	19.84
Employer incidental death benefit	0.20
Employer accidental death program	0.20

¹ Calculated on earnable compensation as defined in Title 9 of the South Carolina Code of Laws.

² Of this employer contribution, 5% of earnable compensation must be remitted by the employer directly to the ORP service provider to be allocated to the member's account with the remainder of the employer contribution remitted to the SCRS.

(e) Allocation of Pension Amounts

The Authority's proportionate share of pension amounts was calculated on the basis of historical employer contributions. Although GASB Statement No. 68 encourages the use of the employer's projected long-term contribution effort to the retirement plan, allocating on the basis of historical employer contributions is considered acceptable. Employer contributions recognized by the systems that are not representative of future contribution effort are excluded in the determination of employers' proportionate shares. Examples of employer contributions not representative of future contribution

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efforts are contributions toward the purchase of employee service and employer contributions paid by employees in connection with early retirement.

The following table provides the employer contributions used in the determination of employers' proportionate shares of collective pension amounts reported in the Schedule of Employer Allocations.

	SCRS	PORS
The Authority's proportionate share of contributions for the fiscal year ended June 30, 2022	\$ 97,944,386	498,778
The Authority's allocated share of nonemployer contributions for fiscal year ended June 30, 2022	3,888,038	28,198
The Authority's allocation percentage of proportionate shares of collective pension amounts – June 30, 2022 measurement date	5.164158 %	0.173068 %

(f) Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability (TPL) determined in accordance with GASB Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*, less that System's fiduciary net position. NPL totals, as of June 30, 2022, for SCRS and PORS and the Authority's proportionate share, are presented below.

<u>System</u>	<u>Total pension liability</u>	<u>Plan fiduciary net position</u>	<u>Collective net pension liability</u>	<u>The Authority's portion of collective net pension liability</u>	<u>The Authority's proportioned share of net pension liability</u>
SCRS	\$ 56,454,779,872	32,212,626,932	24,242,152,940	5.164158 %	\$ 1,251,902,979
PORS	8,937,686,946	5,938,707,767	2,998,979,179	0.173068	5,190,261

For the year ended June 30, 2023, the Authority recognized pension expense of \$200,156,967 and \$281,558 related to the SCRS and PORS pension plans, respectively.

The cash portion of these expenses was \$119,840,338 and the non-cash portion was SORECNP is \$80,598,187.

Per SECTION 9-1-1690 of the South Carolina Code of Laws, MUHA is not responsible for the non-cash unfunded liability related to pension as described below:

SECTION 9-1-1690. Credit of State is not pledged for payments; rights in case of termination of system or discontinuance of contributions.

"All agreements or contracts with members of the System pursuant to any of the provisions of this chapter shall be deemed solely obligations of the Retirement System and the full faith and credit of this State and of its departments, institutions and political subdivisions and of any other employer is not, and shall not be, pledged or obligated beyond the amounts which may be hereafter annually

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appropriated by such employers in the annual appropriations act, county appropriation acts and other periodic appropriations for the purposes of this chapter. In case of termination of the System, or in the event of discontinuance of contributions thereunder, the rights of all members of the System to benefits accrued to the date of such termination or discontinuance of contributions, to the extent then funded, are nonforfeitable.”

(g) Actuarial Assumptions and Methods

Actuarial valuations of the ongoing plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued for the period ending June 30, 2019.

The June 30, 2022, total pension liability (TPL), net pension liability (NPL), and sensitivity information shown in this report were determined by the consulting actuary, Gabriel Roeder Smith & Company (GRS) and are based on an actuarial valuation performed as of July 1, 2021. The total pension liability was rolled-forward from the valuation date to the plans’ fiscal year end, June 30, 2022, using generally accepted actuarial principles. There was no legislation enacted during the 2022 legislative session that had a material change in the benefit provisions for any of the systems.

The following table provides a summary of the actuarial assumptions and methods used to calculate the TPL as of the June 30, 2022 measurement date.

	<u>SCRS</u>	<u>PORS</u>
Actuarial cost method	Entry age normal	Entry age normal
Investment rate of return ¹	7 %	7 %
Projected salary increases	3% to 11% (varies by service) ¹	3.5% to 10.5% (varies by service) ¹
Benefit adjustments	Lesser of 1% or \$500 annually	Lesser of 1% or \$500 annually

¹ Includes inflation at 2.25%

The post-retiree mortality assumption is dependent upon the member’s job category and gender. The base mortality assumptions, the 2020 Public Retirees of South Carolina Mortality table (2020 PRSC), was developed using the Systems’ mortality experience. These base rates are adjusted for future improvement in mortality using 80% of Scale UMP projected from the year 2020.

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Assumptions used in the determination of the June 30, 2022, TPL are as follows.

<u>Former job class</u>	<u>Males</u>	<u>Females</u>
Educators	2020 PRSC males multiplied by 95%	2020 PRSC females multiplied by 94%
General employees and members of the general assembly	2020 PRSC males multiplied by 97%	2020 PRSC females multiplied by 107%
Public safety and firefighters	2020 PRSC males multiplied by 127%	2020 PRSC females multiplied by 107%

(h) Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments is based upon 20-year capital market assumptions. The long-term expected rates of return represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market-based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2022 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table below. For actuarial purposes, the 7 percent assumed annual investment rate of return used in the calculation of the TPL includes a 4.75 percent real rate of return and a 2.25 percent inflation component.

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Asset class	Target asset allocation (%)	Expected arithmetic real rate of return (%)	Long-term expected portfolio real rate of return (%)
Public equity	46.00 %	6.79 %	3.12 %
Bonds	26.00	(0.35)	(0.09)
Private equity ¹	9.00	8.75	0.79
Private debt ¹	7.00	6.00	0.42
Real assets	12.00		
Real estate ¹	9.00	4.12	0.37
Infrastructure ¹	3.00	5.88	0.18
Total expected return ²	<u>100.00 %</u>		4.79
Inflation for actuarial purposes			<u>2.25</u>
			<u>7.04 %</u>

¹ RSIC staff and consultant will notify the Commission if the collective exposure to Private Equity, Private Debt and Private Real Assets exceeds 30 percent of total plan assets.

² Portable Alpha Strategies, which are not included in the Policy Target, will be capped at 12% of total assets; hedge funds (including all hedge funds used in portable alpha implementation) are capped at 15% of total assets.

(i) Discount Rate

The discount rate used to measure the TPL was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina Code of Laws. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

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(j) Sensitivity Analysis

The following table presents the collective NPL of the participating employers calculated using the discount rate of 7.00 percent, as well as what the employers' NPL would be if it were calculated using a discount rate that is 1.00 percent lower (6.00 percent) or 1.00 percent higher (8.00 percent) than the current rate.

**The Authority's sensitivity of the net pension liability
to changes in the discount rate**

	1.00% Decrease (6.00%)	Current discount rate (7.00%)	1.00% Increase (8.00%)
SCRS	\$ 1,605,094,083	1,251,902,979	958,270,448
PORS	7,237,506	5,190,261	3,514,398

(k) Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2022, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Net differences between expected and actual experience ^{1,2:}		
SCRS	\$ 10,876,700	5,455,751
PORS	87,082	102,603
Assumption changes ^{1,2:}		
SCRS	40,151,469	—
PORS	216,131	—
Net difference between projected and actual investment earnings ^{3:}		
SCRS	1,930,684	—
PORS	15,673	—
Changes in proportionate share and differences between employer contributions and proportionate share of total plan employer contributions:		
SCRS	147,301,319	—
PORS	114,040	835,481

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	Deferred outflows of resources	Deferred inflows of resources
The Authority's contributions subsequent to the measurement date:		
SCRS	\$ 122,628,240	—
PORS	515,949	—
Total	\$ 323,837,287	6,393,835

- ¹ In accordance with GASB 68, paragraph 71a, the difference between each year's expected and actual experience is required to be amortized over the average remaining service lives of all employees provided with pensions through the plan at June 30.
- ² In accordance with GASB 68, paragraph 71b, the difference between each year's projected and actual investment earnings is required to be amortized over a closed, five-year period.
- ³ In accordance with GASB 68, paragraph 71b, the difference between each year's projected and actual investment earnings is required to be amortized over a closed, five-year period.

Approximately \$123 million reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the NPL in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	SCRS	PORS
Year ended June 30:		
2024	\$ 118,573,383	(92,991)
2025	52,301,019	(186,635)
2026	(8,718,808)	(427,276)
2027	32,648,827	201,744
Net balance of deferred outflows of resources	\$ 194,804,421	(505,158)

(I) Pension Plan Fiduciary Net Position

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the separately issued AFR containing financial statements and required supplementary information for SCRS and PORS. The AFR of the Pension Trust Funds is publicly available on PEBA's Retirement Benefits' website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, South Carolina 29223.

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(14) Other Post-Employment Benefits

The South Carolina Public Employee Benefit Authority (PEBA) was created by the South Carolina General Assembly as part of Act No. 278 effective July 1, 2012. PEBA – Insurance Benefits is a state agency responsible for the administration and management of the state’s employee insurance programs, other post-employment benefits trusts and retirement systems and is part of the State of South Carolina primary government.

(a) Plan Description

The Other Post-Employment Benefits Trust Funds (OPEB Trusts), collectively refers to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF), were established by the State of South Carolina as Act 195, which became effective in May 2008. The SCRHITF was created to fund and account for the employer costs of the State’s retiree health and dental plans. The SCLTDITF was created to fund and account for the employer costs of the State’s Basic Long-Term Disability Income Benefit Plan.

In accordance with Act 195, the OPEB Trusts are administered by the PEBA – Insurance Benefits and the State Treasurer is the custodian of the funds held in trust. The Board of Directors of PEBA has been designated as the Trustee.

The OPEB Trusts are cost-sharing multiple-employer defined benefit OPEB plans. Article 5 of the State Code of Laws defines the two plans and authorizes the Trustee to at any time adjust the plans, including its benefits and contributions, as necessary to insure the fiscal stability of the plans. In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents.

(b) Benefits

The SCRHITF is a healthcare plan that covers retired employees of the State of South Carolina, including all agencies, and public school districts. The SCRHITF provides health and dental insurance benefits to eligible retirees. Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15-24 years of service for 50% employer funding.

The SCLTDITF is a long-term disability plan that covers employees of the State of South Carolina, including all agencies and public school districts and all participating local governmental entities. The SCLTDITF provides disability payments to eligible employees that have been approved for disability.

(c) Contributions and Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires the postemployment and long-term disability benefits to be funded through non-employer and employer contributions for active employees and retirees to the PEBA – Insurance Benefits. Non-employer contributions consist of an annual appropriation by the General Assembly and the statutorily required transfer from PEBA – Insurance Benefits reserves.

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The SCRHITF is funded through participating employers that are mandated by State statute to contribute at a rate assessed each year by the Department of Administration Executive Budget Office on active employee covered payroll. The covered payroll surcharge for the year ended June 30, 2022 was 6.25 percent, as mandated by the state of South Carolina statute. The South Carolina Retirement System collects the monthly covered payroll surcharge for all participating employers and remits it directly to the SCRHITF. Other sources of funding for the SCRHITF also include the implicit subsidy, or age-related subsidy inherent in the healthcare premiums structure. The implicit subsidy represents a portion of the health care expenditures paid on behalf of the employer's active employees. For purposes of GASB Statement No. 75, this expenditure on behalf of the active employee is reclassified as a retiree health care expenditure so that the employer's contributions towards the plan reflect the underlying age-adjusted, retiree benefit costs. Non-employer contributions consist of an annual appropriation by the General Assembly and the statutorily required transfer from PEBA – Insurance Benefits reserves. However, due to the COVID-19 pandemic and the impact it has had on the PEBA – Insurance Benefits reserves, the General Assembly has indefinitely suspended the statutorily required transfer until further notice. The SCRHITF is also funded through investment income.

The SCLTDITF is funded through employer contributions for active employees that elect health insurance coverage. For this group of active employees, PEBA – Insurance Benefits bills and collects premiums charged to State agencies, public school districts and other participating local governments. The monthly premium per active employee was \$3.22 for the fiscal year ended June 30, 2022. The SCLTDITF premium is billed monthly by PEBA – Insurance Benefits and transferred monthly to the SCLTDITF. It is also funded through investment income.

The allocation percentage of the OPEB amounts are calculated differently for each OPEB Trust. For the SCRHITF, the allocation percentage is based on the covered payroll surcharge contribution for each employer. Actual covered payroll contributions received from SCRS for the fiscal year 2022 totaled \$615,405,810. However, the covered payroll contributions total includes prior year covered payroll contribution adjustments and true-ups that net to a total of \$1,094,627.

In accordance with part (b) of paragraph 69 of GASB Statement No. 75, participating employers should recognize revenue in an amount equal to the employer's proportionate share of the change in the collective net OPEB liability arising from contributions to the OPEB plan during the measurement period from non-employer contributing entities for purposes other than the separate financing of specific liabilities to the OPEB plan. Therefore, employers should classify this revenue in the same manner as it classifies grants from other entities.

For purposes of measuring the net OPEB liability, deferred outflows and inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Trusts, and additions to and deductions from the OPEB Trusts fiduciary net position have been determined on the same basis as they were reported by the OPEB Trusts. For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Therefore, benefit and administrative expenses are recognized when due and payable. Investments are reported at fair value.

PEBA – Insurance Benefits issues audited financial statements and required supplementary information for the OPEB Trust Funds. This information is publicly available through the PEBA – Insurance Benefits' link on PEBA's website at www.peba.sc.gov or a copy may be obtained by

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submitting a request to PEBA – Insurance Benefits, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the state of South Carolina and therefore, OPEB Trust fund financial information is also included in the annual comprehensive financial report of the state.

The following table provides the employer contributions used in the determination of employers' proportionate shares of collective OPEB amounts reported:

	SCRHITF	SCLTDITF
The Authority's proportionate share of contributions for the plan year ended June 30, 2022	\$ 42,209,463	362,771
Contributions from nonemployer contributing entities for plan year ended June 30, 2022	163,207	—
The Authority's allocation percentage of proportionate shares of collective OPEB amounts as of June 30, 2022 measurement date	6.871023 %	4.791417 %

(d) Net OPEB Liability

The Net OPEB Liability (NOL) is calculated separately for each OPEB Trust Fund and represents that particular Trust's Total OPEB Liability (TOL) determined in accordance with GASB No. 74 less that Trust's fiduciary net position. The allocation of each employer's proportionate share of the collective Net OPEB Liability and collective OPEB Expense was determined using the employer's payroll-related contributions over the measurement period. This method is expected to be reflective of the employer's long-term contribution effort as well as be transparent to individual employers and their external auditors.

The following table represents the components of the net OPEB liability as of June 30, 2022:

OPEB trust	Total OPEB liability	Plan fiduciary net position	Net OPEB liability	Plan Fiduciary Net Position as a % of total OPEB liability	The Authority's portion of net OPEB liability	The Authority's proportioned share of net OPEB liability
SCRHITF	\$ 16,835,502,593	1,623,661,403	15,211,841,190	9.64 %	6.871023 %	\$ 1,045,209,107
SCLTDITF	46,410,320	34,824,847	11,585,473	75.04	4.791417	555,108

For the year ended June 30, 2023, the Authority recognized OPEB expense of \$111,117,650 and \$466,075 related to the SCRHITF and SCLTDITF, respectively.

The cash portion of these expenses was \$44,425,177 and the non-cash portion was \$67,158,548.

Per SECTION 9-1-1690 of the South Carolina Code of Laws, MUHA is not responsible for the non-cash unfunded liability related to the OPEB.

SECTION 9-1-1690. Credit of State is not pledged for payments; rights in case of termination of system or discontinuance of contributions.

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"All agreements or contracts with members of the System pursuant to any of the provisions of this chapter shall be deemed solely obligations of the Retirement System and the full faith and credit of this State and of its departments, institutions and political subdivisions and of any other employer is not, and shall not be, pledged or obligated beyond the amounts which may be hereafter annually appropriated by such employers in the annual appropriations act, county appropriation acts and other periodic appropriations for the purposes of this chapter. In case of termination of the System, or in the event of discontinuance of contributions thereunder, the rights of all members of the System to benefits accrued to the date of such termination or discontinuance of contributions, to the extent then funded, are nonforfeitable."

(e) Actuarial Assumptions and Methods

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

Projections of benefits for financial reporting purposes are based on the substantive plans (as understood by the employer and plan participants) and include the types of benefits provided at the time the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

Additional information as of the latest actuarial valuation for SCRHITF is as follows:

Valuation date:	June 30, 2021
Actuarial cost method:	Individual Entry-Age Normal
Inflation:	2.25%
Investment rate of return:	2.75%, net of OPEB plan investment expense, including inflation
Single discount rate:	3.69% as of June 30, 2022
Demographic assumptions:	Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ended June 30, 2019
Mortality:	For healthy retirees, the gender-distinct South Carolina Retirees 2020 Mortality Tables are used with multipliers based on plan experience; the rates are projected on a fully generational basis using 80% of the ultimate rates of Scale MP-2019 to account for future mortality improvements.

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Health care trend rate:	Initial trend starting at 6.00% and gradually decreasing to an ultimate trend rate of 4.00% over a period of 15 years
Aging factors:	Based on plan specific experience
Participation Rates:	79% for retirees who are eligible for Funded Premiums 59% participation for retirees eligible for Partial Funded Premiums 20% participation for retirees who are eligible for Non-Funded Premiums
Notes:	The discount rate changed from 1.92% as of June 30, 2021 to 3.69% as of June 30, 2022.

Additional information as of the latest actuarial valuation for SCLTDITF is as follows:

Valuation date:	June 30, 2021
Actuarial cost method:	Individual Entry-Age Normal
Inflation:	2.25%
Investment rate of return:	3.00%, net of Plan investment expense, including inflation
Single discount rate:	3.41% as of June 30, 2022
Salary, termination, and retirement rates:	Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ended June 30, 2019
Disability incidence:	The disability incidence rates used in the valuation are 165% of the rates developed for the South Carolina Retirement Systems pension plans
Disability recovery:	For participants in payment, 1987 CGDT Group Disability; for active employees, 60% were assumed to recover after the first year and 93% were assumed to recover after the first two years.
Offsets:	45% are assumed to be eligible for Social Security benefits; assumed percentage who will be eligible for a pension plan offset varies based on employee group
Expenses:	Third party administrative expenses were included in the benefit projections
Notes:	The single discount rate changed from 2.48% as of June 30, 2021 to 3.41% as of June 30, 2022.

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Roll Forward Disclosure

The actuarial valuations were performed as of June 30, 2021. Update procedures were used to roll forward the total OPEB liabilities to the measurement date of June 30, 2022.

(f) Long-Term Expected Rate of Return

The long-term expected rate of return represents assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2018 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation. This information is summarized in the following table:

South Carolina Retiree Health Insurance Trust Fund			
Asset class	Target asset allocation (%)	Expected arithmetic real rate of return (%)	Allocation-weighted long-term expected real rate of return (%)
U.S. domestic fixed income	80.00	0.95	0.76
Cash	20.00	0.35	0.07
Total	100.00		0.83
Expected inflation			2.25
Total return			3.08
Investment return assumption			2.75

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South Carolina Long-Term Disability Insurance Trust Fund

<u>Asset class</u>	<u>Target asset allocation (%)</u>	<u>Expected arithmetic real rate of return (%)</u>	<u>Allocation-weighted long-term expected real rate of return (%)</u>
U.S. domestic fixed income	80.00	0.95	0.76
Cash	20.00	0.35	0.07
Total	<u>100.00</u>		0.83
Expected inflation			<u>2.25</u>
Total return			<u>3.08</u>
Investment return assumption			3.00

(g) Single Discount Rate

The Single Discount Rate of 3.69% was used to measure the total OPEB liability for the SCRHITF. The accounting policy for this plan is to set the Single Discount Rate equal to the prevailing municipal bond rate. Due to the plan's investment and funding policies, the difference between a blended discount rate and the municipal bond rate would be less than several basis points (several hundredths of one percent).

A Single Discount Rate of 3.41% was used to measure the total OPEB liability for the SCLTDITF. This Single Discount Rate was based on an expected rate of return on plan investments of 3.00% and a municipal bond rate of 3.69%. The projection of cash flows to determine this Single Discount Rate assumed that employer contributions will remain at \$38.64 per year for each covered active employee. Based on these assumptions, the plan's Fiduciary Net Position and future contributions were sufficient to finance the benefit payments through the year 2034. As a result, the long-term expected rate of return on plan investments was applied to project benefit payments through the year 2034, and the municipal bond rate was applied to all benefit payments after that date.

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(h) Sensitivity Analysis

The following table presents the SCRHITF's net OPEB liability calculated using a Single Discount Rate of 3.69%, as well as what the plan's net OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

The Authority's sensitivity of the Net OPEB Liability to changes in the discount rate			
	1.00% decrease (2.69%)	Current discount rate (3.69%)	1.00% increase (4.69%)
SCRHITF Net OPEB Liability	\$ 1,235,719,829	1,045,209,107	892,107,819

Regarding the sensitivity of the SCRHITF's net OPEB liability to changes in the healthcare cost trend rates, the following table presents the plan's net OPEB liability, calculated using the assumed trend rates as well as what the plan's net OPEB liability would be if were calculated using a trend rate that is one percent lower or one percent higher:

The Authority's sensitivity of the Net OPEB Liability to changes in the healthcare cost trend rates			
	1.00% decrease	Healthcare cost trend rate	1.00% increase
SCRHITF Net OPEB Liability	\$ 859,582,323	1,045,209,107	1,261,938,485

The following table presents the SCLTDITF's net OPEB liability calculated using a Single Discount Rate of 3.41%, as well as what the plan's net OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

	Decrease (2.41%)	Discount Rate (3.41%)	Increase (4.41%)
SCLTDITF Net OPEB Liability	\$ 643,296	555,108	469,816

The SCLTDITF's net OPEB liability is not affected by the changes in the healthcare cost trend rates due to the method used to calculate benefit payments. Therefore, the sensitivity to healthcare cost trend rates have not been calculated.

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(i) Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

As discussed in paragraph 86 of GASB Statement No. 75, differences between expected and actual experience and changes in assumptions are recognized in OPEB expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided OPEB through the OPEB plan (active and inactive members) determined as of the beginning of the measurement period.

Additionally, differences between projected and actual earnings on OPEB plan investments should be recognized in OPEB expense using a systematic and rational method over a closed five year period. For this purpose, the deferred outflows and inflows of resources are recognized in the OPEB expense as a level dollar amount over the closed period identified above.

The schedules on the following pages reflects the amortization of collective deferred outflows/(inflows) of resources related to OPEB outstanding at June 30, 2022.

	Deferred outflows of resources	Deferred inflows of resources
Net differences between expected and actual experience:		
SCRHITF	\$ 22,434,144	91,903,277
SCLTDITF	147,121	98,750
Assumption changes:		
SCRHITF	235,667,711	335,977,979
SCLTDITF	111,032	78,945
Net difference between projected and actual earnings on OPEB plan investments:		
SCRHITF	8,218,387	—
SCLTDITF	183,366	—
Changes in proportionate share and differences between employer contributions and proportionate share of total plan employer contributions:		
SCRHITF	226,062,752	1,826
SCLTDITF	40,595	6,931
The Authority's contributions subsequent to the measurement date:		
SCRHITF	48,173,430	—
SCLTDITF	430,550	—
Total	\$ 541,469,088	428,067,708

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The \$48.6 million reported as deferred outflows of resources related to OPEB resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the NOL in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SCRHITF	SCLTDITF
2023	\$ 24,466,877	35,539
2024	35,459,337	50,229
2025	38,035,880	78,828
2026	29,320,969	65,111
2027	(15,330,350)	12,606
Thereafter	(47,452,801)	55,175
Net balance of deferred (inflows) outflows of resources	\$ 64,499,912	297,488

(15) Defined Benefit Pension Plan

(a) Plan Description

As part of the Regional Medical Center acquisition, the Authority assumed RMC's defined benefit pension plan (the Plan). The Plan is a single-employer defined benefit pension plan, which provides for retirement, death, and disability benefits to plan participants and beneficiaries. The Authority reserves the right to amend the Plan at any time. If the Plan is terminated, the Plan assets will be distributed among the plan participants based upon a priority allocation procedure. The Authority shall be liable for any unfunded vested benefits to the extent required by law. Separate financial statements related to the Plan were not issued for fiscal year 2023.

Effective January 1, 2010, the Plan was amended to permanently suspend benefit accruals. No additional benefits accrue under the Plan for service on and after January 1, 2010. However, employees continue to accrue years of service for the purposes of qualifying for vesting, early retirement, and normal retirement.

The plan year is from July 1 to June 30 and actuarial assumptions and other information is presented based on the plan year ended June 30, 2023.

(b) Benefits

Participants with five or more years of service, as defined by the Plan, are entitled to pension benefits upon retirement when they meet the requirements of the Plan. If employees terminate before rendering five years of continuous service, they forfeit the right to receive pension benefits upon retirement. Pension benefits are provided to participants under several types of retirement options based upon years of service and age. Retirement benefits are paid to pensioners or beneficiaries in various forms of joint and survivor annuities, including a lump-sum payment option if the value is less than \$15,000.

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In the event of a vested employee's death, his or her designated beneficiary will be entitled to receive a survivor benefit equal to 50% of the participant's accrued benefit (survivor annuity), according to Plan provisions. The survivor benefit commences on the earliest date that the deceased participant could have elected to receive retirement benefits. If a participant becomes disabled, he or she may elect disability retirement. Disabled participants are eligible for early retirement when the benefits under the Authority's long-term disability insurance expire.

The following employees were covered by the benefit terms as of January 1, 2023:

Active employees	255
Inactive participants entitled to future benefits	506
Inactive participants receiving benefits	545
Beneficiaries receiving benefits	53
Disabled participants receiving benefits	5
	<hr/>
	1,364
	<hr/> <hr/>

(c) Contributions and Funding Policies

Contributions to provide benefits under the Plan are made solely by the Authority. The entire cost of the Plan is borne by the Authority. Plan members are not required to contribute to the Plan. The Authority contributes at an actuarially determined rate under the Plan sponsor's funding policy for the Plan year. MUHA did not make a contribution to the Plan in the fiscal year ended June 30, 2023.

Although it has not expressed any intent to do so, MUHA has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth under ERISA.

(d) Net Pension Liability

The Authority's net pension liability was measured as of June 30, 2023 for the year ended June 30, 2023 and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of those dates.

For the year ended June 30, 2023, the Authority recognized a decrease in pension expense of approximately \$3,455,000 since the date of acquisition.

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The following represents the changes in the net pension liability as of June 30, 2023:

	<u>Total pension liability</u>	<u>Plan fiduciary net position</u>	<u>Net pension liability</u>
Balances at February 28, 2023 (acquisition date)	\$ 78,599,884	47,120,933	31,478,951
Changes for the year:			
Interest	1,333,634	—	1,333,634
Differences between expected and actual experience	(353,901)	2,927,908	(3,281,809)
Return on assets	—	1,088,919	(1,088,919)
Changes in assumptions	(119,686)	—	(119,686)
Benefits paid	<u>(1,860,476)</u>	<u>(1,860,476)</u>	<u>—</u>
Net changes	<u>(1,000,429)</u>	<u>2,156,351</u>	<u>(3,156,780)</u>
Balances at June 30, 2023	<u>\$ 77,599,455</u>	<u>49,277,284</u>	<u>28,322,171</u>

(e) Actuarial Assumptions

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The total pension liability in the June 30, 2023 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Discount rate	7.0 %
Expected return on plan assets	7.0
Mortality	MP-2014 mortality table projected with MP-2021 mortality improvement scale

The discount rate adopted by the Authority for valuing plan liabilities was determined by the methods prescribed under applicable guidance which requires the use of a long-term rate of return on plan assets, unless a projection of the net fiduciary position will not be sufficient to provide for projected benefit payments of the covered current and former employees.

The projected return on plan assets assumption is developed through review of current and historical capital markets data and historical performance of investment strategies. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2023 are summarized in the following table:

Asset class	Target asset allocation	Expected arithmetic real rate of return
Bonds	16 %	5.50 %
Equities	84	8.20
	<u>100 %</u>	

(f) Fair Value Measurements

A summary of the Plan's assets within the fair value hierarchy as of June 30, 2023, is as follows:

	Investments fair value level	Fair value measurements		
		Level 1	Level 2	Level 3
Investment by fair value level				
Money market accounts	\$ 118,344	118,344	—	—
Fixed income securities	7,528,840	—	7,528,840	—
Equity mutual funds	41,630,100	—	41,630,100	—
Total investment by level	<u>\$ 49,277,284</u>	<u>118,344</u>	<u>49,158,940</u>	<u>—</u>

(g) Investments

The Authority may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies. It may also invest to a limited extent in corporate bonds.

As of June 30, 2023, the Plan had the following investments with set maturities by a custodial bank that is the agent of the Authority:

	Fair value	Investment maturity			
		Less than 1 year	1-5 Years	6-10 Years	More than 10 years
Money Market Fund	\$ 118,344	118,344	—	—	—
Fixed-income securities:					
Corporate Bonds	41,630,100	14,262,200	27,367,900	—	—
Mortgage Backed Obligation	2,281,777	—	—	161,601	2,120,176
U.S. Government Mortgage Pool	5,247,063	755	441,139	2,172,002	2,633,167
Total investments	<u>\$ 49,277,284</u>	<u>14,381,299</u>	<u>27,809,039</u>	<u>2,333,603</u>	<u>4,753,343</u>

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(h) Sensitivity Analysis

**The Authority's sensitivity of the Net Pension Liability
to changes in the discount rate**

	1.00% decrease 6.0%	Current discount rate 7.0%	1.00% increase 8.0%
Net pension liability	\$ 35,888,911	28,322,171	21,905,635

(i) Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2023, the Authority reported deferred outflows of resources and deferred inflows of resources related to the RMC pension from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Net differences between expected and actual experience ¹	\$ —	130,613
Assumption changes ²	7,665,492	5,050,211
Net difference between projected and actual investment earnings ³	996	43,938
Total	\$ 7,666,488	5,224,762

The amounts reported as deferred inflows and outflows of resources related to the RMC pension will be recognized in pension expense as follows:

Year ended June 30:	
2024	\$ 229,196
2025	643,906
2026	1,533,305
2027	35,319
Net balance of deferred outflows of resources	\$ 2,441,726

(16) Business and Credit Concentrations

The Authority provides healthcare services through its inpatient and outpatient care facilities principally located in and around Charleston, South Carolina. The Authority grants credit to patients, substantially all of whom are residents of its service area. The Authority generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled

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to receive) patients' benefits payable under their health insurance programs, plans or policies (e.g., Medicare, Medicaid, Blue Cross and commercial insurance policies).

The mix of receivables from patients and third-party payors as of June 30, 2023 is as follows:

Blue Cross	27 %
Medicare	35
Medicaid	17
Private insurance/managed care	14
Medically indigent/self pay/other	7
	100 %

(17) Risk Management

The Authority is exposed to various risks of loss and maintains State or commercial insurance coverage related to torts; theft of, damage to and destruction of assets; real property, its contents, and other equipment; motor vehicles; business interruption; employee injuries and illness; natural disasters; and professional and general liability claims and judgments. The Authority participates in the South Carolina Insurance Reserve Fund (IRF) and the SC State Accident Fund (SAF), which provides coverage for substantially all such risks. The Authority pays premiums to the IRF and SAF and effectively receives unlimited occurrence based coverage for all consequential risks of loss (when combined with related recovery limit protections provided by state statutes). The Authority obtains coverage through commercial insurers for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation as well as coverage for directors' and officers' and cyber risks. There were no significant reductions from coverage in the prior year. MUHA and its affiliates are involved in various legal actions occurring in the normal course of activities. While the final outcomes cannot be determined at this time, management is of the opinion that the resolution of these legal actions will not have a material effect on MUHA's financial position.

(18) Leases

The Authority follows GASB Statement No. 87, *Leases*, which requires governments to recognize certain lease assets and liabilities for leases that previously were classified as operating leases and recognize as inflows of resources or outflows of resources based on the payment provisions of the contract. This Statement also establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

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Intangible right-to-use lease assets

A summary of lease asset activity during the year ended June 30, 2023 is as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Lease assets:				
Land	\$ 1,962,183	73,808	—	2,035,991
Buildings	163,830,297	60,461,792	(1,507,616)	222,784,473
Equipment	53,159,759	57,115,051	—	110,274,810
Total lease assets	<u>218,952,239</u>	<u>117,650,651</u>	<u>(1,507,616)</u>	<u>335,095,274</u>
Less accumulated amortization:				
Land	—	(147,625)	—	(147,625)
Buildings	(18,744,099)	(26,944,619)	1,191,746	(44,496,972)
Equipment	(12,143,647)	(16,040,206)	—	(28,183,853)
Total accumulated amortization	<u>(30,887,746)</u>	<u>(43,132,450)</u>	<u>1,191,746</u>	<u>(72,828,450)</u>
Total lease assets, net	<u>\$ 188,064,493</u>	<u>74,518,201</u>	<u>(315,870)</u>	<u>262,266,824</u>

Lease liabilities

A summary of changes in the related lease liabilities during the year ended June 30, 2023 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Remeasure- ments</u>	<u>Deductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Lease liabilities	\$ 199,490,090	78,126,886	5,428,774	(33,909,304)	249,136,446	40,548,289
Total	<u>\$ 199,490,090</u>	<u>78,126,886</u>	<u>5,428,774</u>	<u>(33,909,304)</u>	<u>249,136,446</u>	<u>40,548,289</u>

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The Authority has entered into financing type lease agreements for the purpose of funding certain equipment and property acquisitions expiring in various years through 2079. Future minimum lease payments due under financing leases, in the aggregate, are as follows:

	<u>Building</u>	<u>Equipment</u>	<u>Land</u>	<u>Total</u>
2024	\$ 24,983,269	24,571,541	94,080	49,648,890
2025	22,858,231	20,185,142	94,080	43,137,453
2026	21,804,209	16,987,138	94,080	38,885,427
2027	20,284,245	12,490,655	94,080	32,868,980
2028	26,126,887	10,268,593	97,844	36,493,324
2029–2033	40,472,435	3,989,774	531,072	44,993,281
2034–2038	23,297,793	—	594,764	23,892,557
2039–2043	19,157,445	—	666,184	19,823,629
2044–2079	21,404,968	—	690,816	22,095,784
	<u>220,389,482</u>	<u>88,492,843</u>	<u>2,957,000</u>	<u>311,839,325</u>
Less interest at rates from 0.25% to 30.98%	<u>56,360,178</u>	<u>5,371,310</u>	<u>971,391</u>	<u>62,702,879</u>
Present value of future minimum lease payments	164,029,304	83,121,533	1,985,609	249,136,446
Less current installments	<u>18,047,981</u>	<u>22,468,293</u>	<u>32,015</u>	<u>40,548,289</u>
Financing lease obligations, excluding current installments	<u>\$ 145,981,323</u>	<u>60,653,240</u>	<u>1,953,594</u>	<u>208,588,157</u>

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Of the above leases, seven properties are sub-leased from related parties. Principal and interest requirements for those properties is as follows:

Building properties that are sub-leased from related parties:	
2024	\$ 2,066,201
2025	1,513,155
2026	1,544,227
2027	1,572,286
2028	1,479,245
2029–2033	3,124,082
2034–2038	704,115
2039	<u>211,235</u>
	12,214,546
Less interest at rates from 0.25% to 3.14%	<u>701,768</u>
Present value of future minimum lease payments	11,512,778
Less current installments	<u>1,922,224</u>
Financing lease obligations, excluding current installments	<u><u>\$ 9,590,554</u></u>

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GASB Statement No. 87, *Leases*, also requires governments to recognize certain lease assets and liabilities for leases that previously were classified as operating leases as a lessor and recognize as inflows of resources based on the payment provisions of the contract. A schedule showing lessor leases by type and year follows:

	<u>Building</u>	<u>Land</u>	<u>Total</u>
2024	\$ 852,743	9,685	862,428
2025	803,666	9,685	813,351
2026	820,645	9,685	830,330
2027	552,995	9,685	562,680
2028	158,618	9,685	168,303
2029–2033	138,988	49,603	188,591
2034–2038	—	54,556	54,556
2039–2043	—	60,234	60,234
2044–2047	—	39,109	39,109
	<u>3,327,655</u>	<u>251,927</u>	<u>3,579,582</u>
Less interest rates at rates of 3.14%	<u>241,703</u>	<u>79,117</u>	<u>320,820</u>
Financing lease inflows	3,085,952	172,810	3,258,762
Less current installments	<u>762,283</u>	<u>4,180</u>	<u>766,463</u>
Financing lease inflows, excluding current installments	<u>\$ 2,323,669</u>	<u>168,630</u>	<u>2,492,299</u>

As part of its operations, the Authority sub-leases either all or part of some building properties shown above in its totals as lessee and lessor. A summary of those leases follows:

2024	\$ 805,311
2025	803,666
2026	820,645
2027	552,995
2028	158,618
2029–2030	<u>283,678</u>
	3,424,913
Less interest	<u>239,531</u>
Financing lease inflows	3,185,382
Less current installments	<u>715,407</u>
Financing lease inflows, excluding current installments	<u>\$ 2,469,975</u>

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Outflows of resources for variable payments not included in the measurement of liabilities was approximately \$15.8 million in fiscal year 2023 and is included in services and supplies expense in the accompanying Statement of Revenues, Expense and Changes in Net Position.

(19) Subscription-Based Information Technology Arrangements

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*, which requires governments to recognize certain subscription-based technology transactions as intangible assets and liabilities based on the payment provisions of the contract. This Statement bases certain provisions that were established in GASB 87, *Leases*, as far as establishing the foundational principle that these subscriptions are financings of the right to use an underlying asset. Under this Statement, the subscriber is required to recognize a liability and an intangible right-to-use lease asset, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter, however, early adoption was permitted.

The Authority recognized a subscription-based technology right of use assets with the implementation of its enterprise resource planning system in October 2022. The ERP was implemented to improve functionality within the Authority's human capital management, payroll and accounting processes. The project was started in FY21, and allowable costs of 24,291,342 had been capitalized into construction in progress until the ERP went live in October 2022. A summary of the SBITA asset activity during the year ended June 30, 2023 is as follows.

	Beginning balance	CIP transfers	Increases	Decreases	Ending balance
Lease assets:					
SBITA asset	\$ —	24,291,342	9,890,235	—	34,181,577
Total lease assets	—	24,291,342	9,890,235	—	34,181,577
Less accumulated amortization:					
SBITA asset	—	—	(5,416,983)	—	(5,416,983)
Total accumulated amortization	—	—	(5,416,983)	—	(5,416,983)
Total lease assets, net	\$ —	24,291,342	4,473,252	—	28,764,594

A summary of changes in the related SBITA liabilities during the year ended June 30, 2023 is as follows:

	Beginning balance	Additions	Remeasure- ments	Deductions	Ending balance	Amounts due within one year
SBITA liabilities	\$ —	9,890,235	—	—	9,890,235	2,252,729
Total	\$ —	9,890,235	—	—	9,890,235	2,252,729

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Principal and interest requirements to maturity for the subscription liability for each of the five subsequent fiscal years and in five-year increments thereafter, are as follows:

Fiscal year:	SBITA		Total
	Principal	Interest	
2024	\$ 2,252,729	284,811	2,537,540
2025	2,470,693	211,227	2,681,920
2026	2,545,089	136,267	2,681,356
2027	2,621,724	59,050	2,680,774
Total	\$ 9,890,235	691,355	10,581,590

(20) Related Party Transactions

The following describes the Authority's material agreements with related parties:

(a) The University

Under the terms of various agreements related to the Authority's establishment as a distinct healthcare system, the University provides a variety of shared services for the Authority, including facilities oversight, administrative and financial services and other types of general operating support. The Authority also leases certain facilities space from the University under the Reciprocal Space Agreement. This lease is year-to-year and as a result is considered a short term lease under GASB 87. The cost of these services and leases totaled approximately \$76.1 million for fiscal year 2023, and is included in services and supplies expense in the accompanying Statement of Revenues, Expenses and Changes in Net Position.

The Authority also reimburses the University for certain professional clinical services provided by interns and residents receiving medical education at the University. The cost of these services totaled approximately \$73.9 million for fiscal year 2023, and is included in services and supplies expense in the accompanying Statement of Revenues, Expenses and Changes in Net Position.

The Authority rents certain facilities space to and provides limited support services for the University. The income earned by the Authority for such items was approximately \$8.0 million during fiscal year 2023, which is included in other operating revenue in the accompanying Statement of Revenues, Expenses and Changes in Net Position. The Authority made certain payments to the University related to the Hollings Cancer Center of \$3.0 million during fiscal year 2023.

The Authority had a net payable to the University of approximately \$9.2 million at June 30, 2023. This payable is a component of due from related parties, net on the Statement of Net Position.

(a) University Medical Associates (UMA)

University Medical Associates (UMA), a blended component unit of the University, is a separately organized professional services corporation associated with the University's faculty practice plan. UMA and the Authority have entered into certain agreements related to clinical and other services provided by UMA and its practicing physicians for the benefit of the Authority. Net amounts paid by the Authority to UMA under these agreements totaled approximately \$165.4 million during fiscal year 2023 and are

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included in services and supplies expense in the accompanying Statement of Revenues, Expenses and Changes in Net Position.

UMA also provides billing and collection services to the Authority related to certain limited clinical services, for which UMA receives an administrative fee. Total billings by UMA for the Authority services were approximately \$69.1 million in fiscal year 2023. The amounts collected and remitted by UMA to the Authority with respect to these billings amounted to approximately \$7.5 million in fiscal year 2023 and is included in patient service revenue in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The administrative fees paid by the Authority to UMA amounted to approximately \$1.1 million for fiscal year 2023 and are included in services and supplies expense in the accompanying Statement of Revenues, Expenses and Changes in Net Position.

As part of the acquisition of the regional hospital operations in 2019, the Authority has transactions with UMA related to the physician practices of these hospitals. A mutual termination was signed in fiscal year 2022 that resulted in a final net payment in fiscal year 2023 from UMA of approximately \$0.9M.

UMA and the Authority jointly fund the costs of an ambulatory and revenue cycle EHR system, business applications and information security and infrastructure. The funding percentages for each entity depend on the particular costs incurred. The types of costs paid in fiscal year 2023 were primarily operating costs. Included in this figure is an \$18.8 million supplemental Medicaid payment that will be passed through from the State of South Carolina which is within the net payable to UMA mentioned below. Net amounts paid by UMA to the Authority totaled approximately \$5.1 million during fiscal year 2023 and are included in compensation and employee benefits and services and supplies expense in the accompanying Statement of Revenues, Expenses and Changes in Net Position.

The Authority had a net payable to UMA in the amount of approximately \$6.2 million at June 30, 2023. This payable is a component of due from related parties, net on the Statement of Net Position.

(b) The State of South Carolina

The Authority benefits from certain administrative services provided by related state agencies and departments. The cost of these services (primarily related to insurance program administration, record keeping and centralized treasury management) is either insignificant relative to the Authority's allocable portion or is funded by the Authority with payments as described in notes 10, 12, 13, 14 and 16.

(c) Others

MUSC Strategic Venture, Inc. (MSV) is a tax-exempt corporation classified as a support organization to MUSC. MSV was created to allow affiliation with tax-exempt parties outside the MUSC enterprise for the provision of additional services not currently offered by the Authority or UMA. MSV is a component unit of MUSC as MUSC appoints six of eight of the voting board members and can impose its will on the entity. UMA appoints two board members and the final board member is an independent director appointed by the board.

MSV provides management, administration and other support services to the Authority. The Authority pays MSV for the cost of payroll, including fringe benefits and other expenses. For the fiscal year ended June 30, 2023, the total payroll and other expense amounted to approximately \$0.1 million.

The Authority has a net payable to MSV of approximately \$2.8 million at June 30, 2023. The net payable consists of support and other services owed to MSV.

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MSV Health, Inc. (MHI) was formed on August 9, 2016 and is a taxable Delaware corporation wholly owned by MSV. MHI was created to allow affiliation with taxable parties outside the MUSC enterprise for the provision of additional services not currently offered by the Authority or UMA. As of June 30, 2023, the total receivable of \$0.2 million consists of rental, interest and other expenses paid by the Authority.

MUSC Health Partners, LLC (MHP) is wholly-owned by UMA and was formed for the purpose of creating a multispecialty care network outside of the Charleston, South Carolina area as well as consummate affiliations with other health systems to provide care. Its providers will not have faculty appointments with MUSC and will not work on the campus of MUSC. As of June 30, 2023, there was a net balance of \$0.02 million owed by MHP to the Authority.

Mainsail Health Partners (MCML) is an affiliate of the Authority whereby Mainsail commits to support MUSC and its charitable, eleemosynary, educational, scientific mission, purposes and programs, including without limitation supporting certain entities as directed by MUSC. The Authority has a net receivable from MCML of approximately \$0.6 million at June 30, 2023. The net receivable consists of legal fees and management services.

MCML provides management, administration and other support services to the Authority. The Authority pays MCML for the cost of payroll, including fringe benefits and other expenses. For the fiscal year ended June 30, 2023, the total payroll and other expense amounted to approximately \$0.1 million.

MUSC Health Alliance, LLC (MHA) was formed on May 23, 2016 for the purpose of qualifying and operating as an accountable care organization participating in the Medicare Shared Saving Program within the meaning of Section 1899 of the Social Security Act. MHA is governed by a Board of Directors consisting of eight directors with the Authority appointing three. The Authority has a 45% membership interest and UMA has a 55% membership interest. The Authority has a net receivable from MHA of approximately \$1.0 million at June 30, 2023.

As of June 30, 2023, the total net payable due to MSV, MHI, MCML, MHP, and MHA is reflected as a component of due to joint ventures and partnerships, net on the Statement of Net Position.

	Fiscal year ended June 30, 2023
MSV	\$ 2,809,520
MHI	(240,818)
MCML	(630,352)
MHP	18,280
MHA	<u>(1,006,879)</u>
Total net payable (receivable)	<u>\$ 949,751</u>

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(21) Purchase Commitments

The Authority entered into a long-term agreement on March 25, 2016 that requires certain minimum purchases of patient monitoring products and services through fiscal year 2024. Effective July 1, 2016, the Authority amended the original agreement to reduce the required minimum purchases and corresponding unitary payments. The agreement cost is approximately \$30.8 million and calls for 96 monthly unitary payments of \$360,506. The patient monitoring products and services will be consumed over the agreement period and in conjunction with a timeline that was developed at agreement inception. The timeline can be modified by the parties and this commitment is at a level consistent with normal business practices.

As of June 30, 2023, the current portion due on the purchase commitment resulted in \$4.3 million and there were no minimum purchase commitments extending beyond one year.

During 2023, the Authority's total purchases under the contract were approximately \$1.3 million. The Authority has an available balance of approximately \$1.2 million in goods and services at June 30, 2023.

The Authority entered into a long-term agreement on August 24, 2018 that requires certain minimum purchases of patient imaging equipment and services through fiscal year 2028. Effective January 1, 2019, the agreement cost is approximately \$81.8 million and calls for 10 annual unitary payments of \$9,116,289. The patient monitoring products and services will be consumed over the agreement period and in conjunction with a timeline that was developed at agreement inception. The timeline can be modified by the parties and this commitment is at a level consistent with normal business practices.

At June 30, 2023, the minimum purchase commitments extending beyond one year are as follows:

2025	\$	9,116,289
2026		9,116,289
2027		9,116,289
2028		9,116,289
Thereafter		<u>7,782,336</u>
Total	\$	<u><u>44,247,492</u></u>

During 2023, the Authority's total purchases under the contract were approximately \$6.3 million. The Authority has an available balance of approximately \$44.2 million in goods and services at June 30, 2023.

(22) Investment in Joint Ventures

On May 23, 2016, the Authority entered into a joint venture with UMA to form MUSC Health Alliance, LLC (MHA). MHA was formed to qualify and operate as an accountable care organization participating in the Medicare Shared Saving Program within the meaning of Section 1899 of the Social Security Act. MHA is governed by a Board of Directors consisting of eight directors with the Authority appointing three. The Authority has a 45% membership interest and UMA has a 55% membership interest. The Authority carries its investment balance on the Statement of Net Position using the equity method of accounting. At June 30, 2023, the Authority's investment balance is \$2,082,361.

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On May 28th, 2021, the Authority entered into a substitution agreement to assume Mainsail Health Partners (MCML) membership interest (the "Tidelands Membership Interest") in Georgetown Hospital system, d/b/a Tidelands Health ("Tidelands"). Tidelands is governed by a board of trustees comprised by a maximum of twenty-one voting trustees and two non-voting trustees. The Authority has the right, but not the obligation, to appoint up to a total of six voting trustees. The Authority has a 30% membership interest, but does not have any claim to annual profit or loss. Tidelands has a 70% membership interest. The Authority carries its investment balance on the Statement of Net Position using the equity method of accounting. At June 30, 2023, the Authority's investment balance is \$30,733,232.

Complete financial information for MHA may be obtained from MUSC Health Alliance, LLC. 96 Jonathan Lucas St., Suite 601-J, Charleston, South Carolina 29425.

The following schedule reflects the changes in the carrying value of these joint venture investments:

	MHA	Tidelands
Carrying value, July 1, 2022	\$ 3,146,677	30,733,232
Capital contribution	—	—
Member loans	—	—
Pro rata income (loss)	(1,064,316)	—
Withdraw income (loss)	—	—
Carrying value, June 30, 2023	\$ 2,082,361	30,733,232

(23) Deferred Inflows

The composition of deferred inflows at June 30, 2023 is as follows:

Other postemployment benefits	\$ 428,067,708
Pension plans	11,618,597
Deferred inflows – leases	7,250,725
Total	\$ 446,937,030

(24) Medicare Accelerated and Advanced Payment Program

The Authority received \$182,800,523 in requested Medicare payments as provided for in the Coronavirus Aid, Relief and Economic Security Act (CARES) in September 2020. The payback provisions were originally within twelve months of receipt but were subsequently extended to begin one year after original issuance. The first 11 months of the payback period will be at 25% of the remittance advice, and increases to 50% thereafter. The Authority fully paid back the entirety of the Medicare payments in the first half of fiscal year 2023.

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June 30, 2023

(25) Acquisition

On March 1, 2023, pursuant to the terms of the Lease and Community Health Development Agreement, the Medical University Hospital Authority (MUHA) acquired substantially all of the non-real estate assets and liabilities of the Regional Medical Center of Orangeburg, including the Edisto Regional Health Services, Inc., comprising eight ambulatory medical practices serving communities in Orangeburg. MUHA will continue to operate these hospitals to provide health care services to the communities they support.

The financing arrangement, including the assumption of finance leases, is based on a 99-year lease of RMC's real property as well as certain assets and liabilities. These include inventory, existing equipment and furnishings appraised by independent third party, agreed upon accounts receivable and accounts payable balances as well as the RMC pension plan, among others.

The acquisition price of the entities, including net working capital, and excluding closing costs was \$19.0 million. The acquisition value of the net position was determined to be \$24.3 million. The acquisition values of the land, land improvements, buildings and equipment were reduced to eliminate the \$5.3 million excess net position received.

(26) Subsequent Events

The Authority has evaluated subsequent events from the Statement of Net Position date through October 5, 2023, the date at which the financial statements were issued. The Authority has determined that there are no items to disclose.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY

Schedule of Proportionate Share
of Net Pension Liability to PEBA and Related Ratios

South Carolina Retirement System (SCRS) Pension Plan

June 30, 2023

<u>Year ended June 30</u>	<u>Proportion (percentage) of the collective net pension liability</u>	<u>Proportionate share (amount) of the collective net pension liability</u>	<u>Covered payroll</u>	<u>Proportionate share (amount) of the collective net pension liability as a percentage of its covered payroll</u>	<u>Pension plan's fiduciary net position as a percentage of total pension liability</u>
2023	5.164158 %	\$ 1,251,902,979	533,218,205	234.78 %	57.10 %
2022	4.720000	1,022,121,129	469,466,180	217.72	60.70
2021	4.567759	1,167,143,229	414,132,837	281.83	50.70
2020	3.584996	818,603,139	377,479,804	216.86	54.40
2019	3.521688	789,097,981	318,346,955	247.87	54.10
2018	3.465263	780,086,431	289,354,840	269.60	53.30
2017	3.471014	741,403,467	287,923,152	257.50	52.90
2016	3.377349	640,530,521	281,452,784	227.58	57.00
2015	3.289076	566,270,880	268,970,820	210.53	59.90
2014	3.289184	589,943,980	259,311,350	227.50	56.39

See accompanying notes to required supplementary information and accompanying independent auditors' report.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
Schedule of Proportionate Share
of Net Pension Liability to PEBA and Related Ratios
Police Officers Retirement System (PORS) Pension Plan
June 30, 2023

<u>Year ended June 30</u>	<u>Proportion (percentage) of the collective net pension liability</u>	<u>Proportionate share (amount) of the collective net pension liability</u>	<u>Covered payroll</u>	<u>Proportionate share (amount) of the collective net pension liability as a percentage of its covered payroll</u>	<u>Pension plan's fiduciary net position as a percentage of total pension liability</u>
2023	0.17307 % \$	5,190,261	2,549,152	203.61 %	66.44 %
2022	0.21000	5,458,661	2,662,676	205.01	70.40
2021	0.20960	6,950,757	3,123,807	222.51	58.80
2020	0.20039	5,743,241	2,939,599	195.37	62.70
2019	0.19456	5,512,877	2,942,547	187.35	61.70
2018	0.21650	5,931,204	2,631,752	225.37	60.90
2017	0.21513	5,456,693	2,653,533	205.64	60.40
2016	0.21917	4,776,715	2,730,140	174.96	64.60
2015	0.21963	4,204,542	2,692,311	156.17	67.50
2014	0.21962	4,552,745	2,589,067	175.85	62.98

See accompanying notes to required supplementary information and accompanying independent auditors' report.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
Schedule of Employer Contributions to PEBA
South Carolina Retirement System (SCRS) Pension Plan
Fiscal year ended June 30, 2023

<u>Year ended June 30</u>	<u>Employer contributions</u>	<u>Statutorily or contractually required employer contributions</u>	<u>Contribution deficiency (excess)</u>	<u>Covered payroll</u>	<u>Contributions as a percentage of covered payroll</u>
2023	\$ 122,628,240	122,628,240	—	533,218,205	23.00 %
2022	101,236,134	101,236,134	—	469,466,180	21.56
2021	80,012,852	80,012,852	—	414,132,837	19.32
2020	78,911,097	78,911,097	—	377,479,804	20.90
2019	55,119,178	55,119,178	—	318,346,955	17.31
2018	45,598,463	45,598,463	—	289,354,840	15.76
2017	40,417,627	40,417,627	—	287,923,152	14.04
2016	37,175,029	37,175,029	—	281,452,784	13.21
2015	34,516,724	34,516,724	—	268,970,820	12.83
2014	27,487,003	27,487,003	—	259,311,350	10.60

See accompanying notes to required supplementary information and accompanying independent auditors' report.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
Schedule of Employer Contributions to PEBA
Police Officers Retirement System (PORS) Pension Plan
Fiscal year ended June 30, 2023

<u>Year ended June 30</u>	<u>Employer contributions</u>	<u>Statutorily or contractually required employer contributions</u>	<u>Contribution deficiency (excess)</u>	<u>Covered payroll</u>	<u>Contributions as a percentage of covered payroll</u>
2023	\$ 515,949	515,949	—	2,549,152	20.24 %
2022	510,880	510,880	—	2,662,676	19.19
2021	569,782	569,782	—	3,123,807	18.24
2020	536,183	536,183	—	2,939,599	18.24
2019	501,110	501,110	—	2,942,547	17.03
2018	409,141	409,141	—	2,631,752	15.55
2017	415,179	415,179	—	2,653,533	15.65
2016	376,835	376,835	—	2,730,140	13.80
2015	364,104	364,104	—	2,692,311	13.52
2014	332,436	332,436	—	2,589,067	12.84

See accompanying notes to required supplementary information and accompanying independent auditors' report.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY

Schedule of Proportionate Share
of Net OPEB Liability to PEBA and Related Ratios

South Carolina Retiree Health Insurance Trust Fund (SCRHITF)

June 30, 2023

<u>Year ended June 30</u>	<u>Proportion (percentage) of the collective net OPEB liability</u>	<u>Proportionate share (amount) of the collective net OPEB liability</u>	<u>Covered payroll</u>	<u>Proportionate share (amount) of the collective net OPEB liability as a percentage of its covered payroll</u>	<u>OPEB plan's fiduciary net position as a percentage of total OPEB liability</u>
2023	6.871023 %	\$ 1,045,209,107	766,620,240	136.34 %	9.64
2022	6.380000	1,327,658,329	675,351,409	196.59	7.48
2021	5.873772	1,060,300,808	594,600,313	178.32	8.39
2020	4.921728	744,240,309	541,434,563	137.46	8.44
2019	4.773711	676,462,772	458,539,861	147.53	7.91
2018	4.736447	641,543,988	411,671,205	155.84	7.60

The above schedules are intended to show 10 years of information. Additional years will be provided as they become available.

See accompanying notes to required supplementary information and accompanying independent auditors' report.

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Schedule of Proportionate Share
of Net OPEB Liability to PEBA and Related Ratios

South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF)

June 30, 2023

<u>Year ended June 30</u>	<u>Proportion (percentage) of the collective net OPEB liability</u>	<u>Proportionate share (amount) of the collective net OPEB liability</u>	<u>Covered payroll</u>	<u>Proportionate share (amount) of the collective net OPEB liability as a percentage of its covered payroll</u>	<u>OPEB plan's fiduciary net position as a percentage of total OPEB liability</u>
2023	4.791417 % \$	555,108	N/A	N/A	75.04 %
2022	4.060000	129,021	N/A	N/A	92.84
2021	4.031792	12,226	N/A	N/A	99.29
2020	3.150754	62,015	N/A	N/A	95.17
2019	3.090212	94,598	N/A	N/A	92.20
2018	3.032425	54,977	N/A	N/A	95.29

The above schedules are intended to show 10 years of information. Additional years will be provided as they become available.

See accompanying notes to required supplementary information and accompanying independent auditors' report.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY

Schedule of Employer Contributions to PEBA

South Carolina Retiree Health Insurance Trust Fund (SCRHITF)

Fiscal year ended June 30, 2023

<u>Year ended June 30</u>	<u>Employer contributions</u>	<u>Statutorily or contractually required employer contributions</u>	<u>Contribution deficiency (excess)</u>	<u>Covered payroll</u>	<u>Contributions as a percentage of covered payroll</u>
2023	\$ 48,173,430	48,173,430	—	766,620,240	6.28 %
2022	42,487,145	42,487,145	—	675,351,409	6.25
2021	36,572,075	36,572,075	—	594,600,313	6.15
2020	32,211,247	32,211,247	—	541,434,563	5.95
2019	27,666,748	27,666,748	—	458,539,861	6.03
2018	22,641,916	22,641,916	—	411,671,205	5.50

The above schedules are intended to show 10 years of information. Additional years will be provided as they become available.

See accompanying notes to required supplementary information and accompanying independent auditors' report.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY

Schedule of Employer Contributions to PEBA

South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF)

Fiscal Year ended June 30, 2023

<u>Year ended June 30</u>	<u>Employer contributions</u>	<u>Statutorily or contractually required employer contributions</u>	<u>Contribution deficiency (excess)</u>	<u>Covered payroll</u>	<u>Contributions as a percentage of covered payroll</u>
2023	\$ 430,550	430,550	—	N/A	N/A
2022	362,772	362,772	—	N/A	N/A
2021	313,028	313,028	—	N/A	N/A
2020	325,036	325,036	—	N/A	N/A
2019	232,191	232,191	—	N/A	N/A
2018	225,020	225,020	—	N/A	N/A

The above schedules are intended to show 10 years of information. Additional years will be provided as they become available.

See accompanying notes to required supplementary information and accompanying independent auditors' report.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY

Schedule of Changes in
Net Pension Liability and Related Ratios

Single Employer Defined Benefit Plan

June 30, 2023

<u>Year ended June 30</u>	<u>Total pension liability</u>	<u>Total plan fiduciary net position</u>	<u>Net pension liability</u>	<u>Covered payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>	<u>Net pension liability as a percentage of covered payroll</u>
2023	\$ 77,599,455	49,277,284	28,322,171	20,043,217	63.50 %	141.31 %

The above schedules are intended to show 10 years of information. Additional years will be provided as they become available.

See accompanying notes to required supplementary information and accompanying independent auditors' report.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY

Schedule of Pension Contributions
Single Employer Defined Benefit Plan

June 30, 2023

<u>Year ended June 30</u>	<u>Actuarially determined contribution</u>	<u>Contributions in relation to the actuarially determined contribution</u>	<u>Covered payroll</u>	<u>Contributions as a percentage of covered employee payroll</u>
2023	\$ 7,688,984	—	20,043,217	— %

The above schedules are intended to show 10 years of information. Additional years will be provided as they become available.

See accompanying notes to required supplementary information and accompanying independent auditors' report.

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June 30, 2023

(Unaudited)

SCRS

Valuation date	Actuarially calculated contribution rates are calculated as of July 1, 2020
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry Age Normal
Asset valuation method	5-year smoothed
Amortization method	Level% of Pay
Amortization period	27-year maximum, closed period
Investment rate of return	7.25%
Inflation	2.25%
Salary increases	3.00% plu step-rate increases for members with less than 21 years of service
Mortality	The 2016 Public Retirees of South Carolina Mortality Tables for Males and Females, both projected at Scale AA from the year 2016. Male rates multiplied by 100% for non-educators and 92% for educators. Female rates multiplied by 111% for non-educators and 98% for educators
Other comments	Contribution rate for fiscal year 2022 is determined in accordance with the Retirement System Funding and Administration Act of 2017

PORS

Valuation date	Actuarially calculated contribution rates are calculated as of July 1, 2020
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry Age Normal
Asset valuation method	5-year smoothed
Amortization method	Level% of Pay
Amortization period	27-year maximum, closed period
Inflation	2.25%
Investment rate of return	7.25%
Salary increases	3.50% plus step-rate increases for members with less than 15 years of service
Mortality	The 2016 Public Retirees of South Carolina Mortality Tables for Males and Females, both projected at Scale AA from the year 2016. Male rates are multiplied by 125% and female are rates multiplied by 111%
Other comments	Contribution rate for fiscal year 2022 is determined in accordance with the Retirement System Funding and Administration Act of 2017

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Notes to Required Supplementary Information

June 30, 2023

(Unaudited)

SCRHITF

Actuarial cost method	Individual Entry-Age Normal
Inflation	2.25%
Investment rate of return	2.75%, net of OPEB plan investment expense, including inflation
Single discount rate	3.69% as of June 30, 2022
Demographic assumptions	Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ended June 30, 2019
Mortality	For healthy retirees, the gender-district South Carolina Retirees 2020 mortality tables are used with multipliers based on plan experience. The rates are projected on a fully generational basis using 80% of the ultimate rates of Scale MP-2019 to account for future mortality improvements.
Health care trend rate	Initial trend starting at 6.00% and gradually decreasing to an ultimate trend rate of 4.00% over a period of 15 years
Aging factors	Based on plan specific experience
Participation assumptions	79% participation for retirees who are eligible for Funded Premiums 59% participation for retirees who are eligible for Partial Funded Premiums 20% participation for retirees who are eligible for Non-Funded Premiums
Notes	The discount rate changed from 1.92% as of June 30, 2021 to 3.69% as of June 30, 2022.

SCLTDITF

Actuarial cost method	Individual Entry-Age Normal
Inflation	2.25%
Investment rate of return	3.00%, net of plan investment expense; including inflation
Single discount rate	3.41% as of June 30, 2022
Salary, termination, and retirement rates	Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ended June 30, 2019
Disability incidence	The disability incidence rates used in the LTD valuation are 165% of the rates developed for the pension plans.
Disability recovery	For participants in payment, 1987 CGDT Group Disability. For active employees, 60% were assumed to recover after the first year and 93% were assumed to recover after the first two years
Offsets	45% are assumed to be eligible for Social Security benefits. Assumed percentage who will be eligible for a pension plan offset varies based on employee group.
Expenses	Third party administrative expenses are included in the benefit projections.
Notes:	The single discount rate changed from 2.48% as of June 30, 2021 to 3.41% as of June 30, 2022

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
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Notes to Required Supplementary Information

June 30, 2023

(Unaudited)

RMC Pension

Valuation date	Actuarially calculated contribution rates are calculated as of July 1, 2023
Salary increases	N/A, plan frozen in 2010
Discount rate	7.00%
Expected rate of return on plan assets	7.00%
Mortality	MP-2020 Projection Scale



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(A Component Unit of the Medical University of South Carolina)
Basic Financial Statements and Required Supplementary Information
June 30, 2024
(With Independent Auditors' Report Thereon)

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
(A Component Unit of the Medical University of South Carolina)

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substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis and the schedule of proportionate share of net pension liability to PEBA and related ratios, schedule of employer contributions to PEBA – pension, schedule of proportionate share of net OPEB liability and related ratios, schedule of employer contributions to PEBA – OPEB, schedule of changes in net pension liability and related ratios, and schedule of pension contributions single employer defined benefit plan be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2024 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

Raleigh, North Carolina
September 24, 2024

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
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Management's Discussion and Analysis – Required Supplementary Information
(Unaudited)
June 30, 2024

Our discussion and analysis of Medical University Hospital Authority's (the Authority) financial performance provides an overview of the activities for the fiscal year ended June 30, 2024.

The intent of this discussion and analysis is to provide further information regarding the Authority's financial performance as a whole. Readers should also review the basic financial statements, along with the notes to the basic financial statements, to further enhance their understanding of the Authority's financial performance.

Financial Highlights – Fiscal Years 2024 and 2023

The Authority participates in several retirement plans in which the state of South Carolina passes through the unfunded, noncash liability and expenses that are not the obligation of the Authority which are reflected on the financial statements and included in notes 11 and 12.

Retirement Benefits

Pension

As stated in section 9-1-1690 of the South Carolina Code of Laws, the state of SC is responsible for all of the expenses and liabilities of the pension plan exclusive of the annual cash benefit expense the Authority funds reflected in the compensation and employee expenditures matched at 24.91% of the annual payroll.

Other Post-Employment Benefits (OPEB)

As stated in section 9-1-1690 of the South Carolina Code of Laws, the state of SC is responsible for all of the expenses and liabilities of the OPEB plan exclusive of the annual cash benefit expense the Authority funds reflected in the compensation and employee expenditures matched at 6.35% of the annual payroll.

**State of South Carolina Retirement Plans
(Pension and OPEB)
(In thousands)**

	2024	2023
Authority obligations:		
Operating expenses – compensation and benefits:		
Pension benefits	\$ 151,356	119,840
Other post employment benefits	54,250	44,425
Total	\$ 205,606	164,265
Operating expenses:		
Pension benefits	\$ 94,266	80,598
Other post employment benefits	30,356	67,159
Total	\$ 124,622	147,757
Liabilities:		
Net pension liability	\$ 1,340,264	1,257,093
Net OPEB liability	959,396	1,045,764
Total	\$ 2,299,660	2,302,857

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June 30, 2024

At June 30, 2024, the Authority's liabilities and deferred inflows of \$4,495.6 million exceeded its assets and deferred outflows of \$4,003.9 million by \$491.7 million. Liabilities and deferred inflows, net of the Pension and OPEB liability, which is the responsibility of the state of SC, is \$2,195.9 million. Assets and deferred outflows exceeded liabilities and deferred inflows by \$1,807.9 million. This excess mainly arises from the net OPEB liability of \$959.4 million, net pension liability of \$1,367.6 million and long-term debt and lease liabilities of \$883.5 million. Net position, the residual interest in the assets and deferred outflows after liabilities and deferred inflows are deducted, increased by \$129.2 million in 2024, as compared to a decrease by \$23.4 million in 2023.

The Authority reported operating income in 2024 of \$61.8 million, compared to operating loss in 2023 of \$99.4 million. Operating income, net of the non-cash portion of the Pension and OPEB expense, which is the responsibility of the state of SC, was \$186.5 million.

Net non-operating revenue was \$83.5 million for 2024, as compared to \$75.9 million for 2023, an increase of \$8.3 million or 11.0%. The major drivers for this net increase are an increase of \$28.9 million in investment revenue, partially offset by a decrease in gifts and grants of \$15.0 million and a decrease of \$7.2 million in State Appropriations.

Overview of the Financial Statements

The Authority is a major discretely presented component unit of the Medical University of South Carolina (the University) that owns and operates the clinical teaching sites of the University and serves the State of South Carolina as a principal diagnostic and treatment referral center.

The Authority's basic financial statements consist of three statements – a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; and a Statement of Cash Flows. These basic financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles and provide detailed information about the activities of the Authority and generally provide an indication of the Authority's financial health.

The SC PEBA "retirement system" is responsible for the Net Pension liability, Net OPEB liability and the non-cash expenditures related to these liabilities as outlined in Sections 9-1-1050 through 9-1-1085. For the State pension plan, the Authority's responsibility is limited to the funding of the employee contributions and related percentage to the match of 24.91% of the annual covered payroll. For the OPEB plan, the Authority has funding responsibility for the 6.35% surcharge of retirees who participate in the retirement plan, as well as a 0.15% incidental death benefit. The Authority does not include the items related to the Pension and OPEB benefit plans that are the responsibility to the State, per Section 9-1-1690 of the South Carolina Code of Laws, in its debt covenants.

MUHA applies the provisions of GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governments and how those activities should be reported. As a result, MUHA presents two statements which are the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position, respectively. These statements present information on MUHA's pension plan at RMC. The Statement of Fiduciary Net Position presents information on assets, liabilities, and fiduciary net position in relation to this plan. The Statement of Changes in Fiduciary Net Position reports information on how net position changed during the fiscal year in relation to this plan.

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The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Authority's resources and its activities. The Statement of Net Position presents the assets, both restricted and unrestricted, deferred outflows and inflows of resources and all liabilities using the accrual basis of accounting. The Statement of Revenues, Expenses and Changes in Net Position reports all revenues and expenses for the time period indicated, regardless of when cash is received or paid, as well as payments to the University and University Medical Associates (UMA/MUSCP). These two statements report the Authority's net position and its changes.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operating, investing and capital and noncapital-related financing activities.

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The Authority's Net Position

The Authority's net position is the difference between its assets and deferred outflows and liabilities and deferred inflows reported in the Statement of Net Position. A comparative summary of assets, deferred outflows, liabilities, deferred inflows and net position is as follows:

Summary Schedule of Net Position
(In thousands)

	<u>2024</u>	<u>2023</u>
Assets:		
Current assets	\$ 1,734,704	1,402,569
Investments	147,388	109,881
Note receivable and other non-current assets	8,230	6,205
Capital assets, net	<u>1,256,098</u>	<u>1,234,773</u>
Total assets	3,146,420	2,753,428
Deferred outflows	<u>857,431</u>	<u>886,798</u>
Total assets and deferred outflows	\$ <u>4,003,851</u>	<u>3,640,226</u>
Liabilities:		
Current liabilities	\$ 708,633	548,234
Long-term debt	883,533	910,076
Other liabilities	31,478	24,718
Net pension liability (\$1,340,264 obligation of the state of SC)	1,367,587	1,285,415
Net OPEB liability (obligation of the state of SC)	<u>959,396</u>	<u>1,045,764</u>
Total liabilities	3,950,627	3,814,207
Deferred inflows	<u>544,948</u>	<u>446,937</u>
Total liabilities and deferred inflows	\$ <u>4,495,575</u>	<u>4,261,144</u>

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Summary Schedule of Net Position
(In thousands)

	2024	2023
Net position:		
Net investment in capital assets	\$ 331,449	217,713
Restricted:		
Under indenture agreements	85,847	77,066
Capital projects	74,995	57,172
Major programs	53,543	38,611
Unrestricted deficit	(1,037,558)	(1,011,480)
Total net position	\$ (491,724)	(620,918)

Analysis of the Financial Position as of June 30, 2024 Compared to June 30, 2023

Total assets and deferred outflows increased \$363.6 million, or 10.0% in 2024. The major drivers for this increase are \$254.6 million increase in cash and cash equivalents, \$38.5 million in cash restricted for capital projects and major programs, and \$21.3 million increase in capital assets.

Total liabilities and deferred inflows increased \$234.4 million or 5.5% from \$4,261.1 million in 2023 to \$4,495.6 million in 2024. The major drivers for the increase include an increase in deferred inflows of \$98.0 million, \$81.2 million increase in reserves for net patient revenue and the Health Access, Workforce, and Quality (HAWQ) payments, as well as a \$42.4 million increase to accrued payroll and a \$48.2 million increase in accounts payable.

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the Authority. They are also able to determine how much is owed to vendors, employees and others. Finally, the Statement of Net Position provides a picture of the net position (assets and deferred outflows minus liabilities and deferred inflows) and their availability for expenditure.

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Operating Results and Changes in the Authority's Net Position

Summary Schedule of Revenues, Expenses and Changes in Net Position
(In thousands)

	<u>2024</u>	<u>2023</u>
Operating revenues:		
Net patient service revenue	\$ 4,461,217	3,537,135
Other revenue	<u>224,587</u>	<u>127,424</u>
Total operating revenues	<u>4,685,804</u>	<u>3,664,559</u>
Operating expenses:		
Compensation and employee benefits	1,799,475	1,523,893
Pension benefits	103,760	80,598
Other post employment benefits	30,356	67,158
Services and supplies	2,513,760	1,934,390
Depreciation and amortization	<u>176,621</u>	<u>157,886</u>
Total operating expenses	<u>4,623,972</u>	<u>3,763,925</u>
Operating income (loss)	<u>61,832</u>	<u>(99,366)</u>
Nonoperating revenues (expenses):		
State appropriations	79,531	86,734
Gifts and grants	9,818	24,814
Investment income	42,578	13,631
Interest expense	(42,218)	(44,304)
Gain on disposal of capital assets	16	245
Other nonoperating expenses	(6,182)	(5,926)
Debt issuance cost	<u>(31)</u>	<u>(20)</u>
Total nonoperating revenues, net	83,512	75,174
Nonoperating payments to MUSC entities	<u>(16,150)</u>	<u>—</u>
Increase (decrease) in net position	<u>\$ 129,194</u>	<u>(24,192)</u>

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. Operating revenues are received for providing goods and services. Operating expenses are paid to acquire or produce the goods and services and to carry out the mission of the Authority. Non-operating revenues and expenses are the result of activities for which goods and services are not provided. The utilization of capital assets is reflected in the financial statements as depreciation and amortization, which is the impact of depreciating the cost of each asset over its expected useful life. Changes in net position are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Position.

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Analysis of Operating Results for the Year ended June 30, 2024 Compared to the Year ended June 30, 2023

Net Patient Service Revenue

Compared to fiscal year 2023, net patient service revenue increased by approximately \$924.1 million, or 26.1%. Gross patient charges increased by \$2.455 billion, or 17.2%, from 2023 to 2024 due to increases in patient activity and comprehensive rates, as well as reflecting a full year of revenues of Black River Medical Center which opened in January 2023 and a full year of revenues of MUSC Health – Orangeburg which was purchased in March 2023. Net revenue related to the Health Access, Workforce, and Quality program administered by the state Department of Health and Human Services was recognized beginning in 2024 in the amount of \$411.2 million. Net revenue related to the Disproportionate Share Hospital (DSH) program administered by the state Department of Health and Human Services decreased in 2024 to \$60.2 million from \$85.9 million in 2023. There can be no assurance that the Authority will continue to qualify for future participation in the HAWQ and DSH programs or that the HAWQ and DSH programs will not ultimately be discontinued or materially modified.

Patient Business Activity

Inpatient days of care increased by 11.0%, from 436,492 in 2023 to 484,560 in 2024. Average length of stay for all patients in 2024 remained the same as 2023, at 5.9 days. The average daily census increased in 2024 to 1,416 from the 2023 census of 1,333. Admissions increased in 2024 to 80,733 from the 2023 level of 70,762. Surgical procedures increased 11.3% from 62,233 in 2023 to 69,295 in 2024. Additionally, transplant volume decreased by 44 or 7.0% from 2023 to 2024. The case mix index is a measure of inpatient acuity, and it decreased from 2.13 in 2023 to 2.08 in 2024.

For the Charleston campus, the case mix index increased from 2.54 in 2023 to 2.55 in 2024.

Outpatient visits volume increased by 341,015 visits, or 22.8%, from 1,495,219 in 2023 to 1,836,234 in 2024. Emergency/trauma visits increased by 64,995 visits, or 21.0% from 309,576 in 2023 to 374,571 in 2024.

Deductions from Revenue

Contractual and other adjustments expressed as a percentage of gross revenue decreased 1.8% from 72.6% in 2023 to 71.3% in 2024. Contractual and other adjustments expressed in dollars increased \$1,452.2 million or 14.4%. The increase is due to the fact that reimbursements from Medicare, Medicaid and third-party insurers are less than the increase in billed charges.

The provision for uncollectible accounts decreased \$73.1 million, or 27.2% from \$268.6 million in 2023, to a total of \$195.5 million for the year ended June 30, 2024. The Authority is an active, caring member of the communities it serves. In carrying out its mission of meeting the health and wellness needs of its service areas, the Authority has established policies under which it provides care to needy members of its communities. These policies include discount programs for both uninsured and indigent patients. Following these policies, charity care services totaling approximately \$501.9 million and \$350.1 million were provided without charge during fiscal years 2024 and 2023, respectively. The Authority continues its focus and efforts on enhancing policy and process to identify and qualify eligible Medicaid and charity care patients.

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In total, uncompensated care write-offs at established rates as measured by the total of bad debts plus charity care totaled 4.2% and 4.3% of gross patient charges for fiscal years 2024 and 2023, respectively.

Operating Expense

Operating expenses increased by \$860.1 million, from \$3,763.9 million in 2023 to \$4,624.0 million in 2024. This 22.9% increase is primarily the result of continued increasing costs associated with compensation and employee benefits, services and supplies, inclusive of the Regional Hospital Network (RHN) facilities. These drivers impacted the increase: services and supplies costs of \$2,513.8 million and compensation, employee benefits of \$1,799.5 million, and depreciation and amortization of \$176.6 million.

Additionally, supply costs and pharmaceutical costs continue to increase at rates exceeding those of general inflation; however, rates of increase are comparable to inflation rates for the healthcare industry. Depreciation and amortization expense increased \$18.7 million or 11.9% in fiscal year 2024.

Capital Assets

As shown in note 4 to the financial statements, at the end of fiscal year 2024, the Authority had \$1,256.1 million invested in capital assets, net of accumulated depreciation, up from \$1,234.8 million invested in capital assets at the end of fiscal year 2023.

Capital assets not being depreciated increased by \$35.9 million in fiscal year 2024, compared to an increase of \$49.2 million in fiscal year 2023. This increase is related to the timing of assets not in service, land purchases, and construction in progress (CIP) (described below).

Additions to construction in progress of \$144.0 million in fiscal year 2024 were more than fiscal year 2023 additions of \$51.3 million. Approximately \$15.1 million relates to the Leatherman Center in the Pee Dee Market. An additional \$13.1 million related to CSC Pharmacy in the Low Country Market, \$2.5 million related to the Williamsburg Equipment project, \$2.4 million relates to the system wide Community Radiology IS project, \$1.9 million relates to Orangeburg IT Equipment project, \$1.8 million related to the Indian Land Medical Complex, \$1.8 million related to the ART BMT Expansion, \$1.7 million related to the Midland DT Cath Labs project, \$1.2 to the Charleston Hemodialysis project and \$1.1 million relates to the Sea Island Medical Complex and other lesser projects.

There were additional increases to capital assets being depreciated in fiscal year 2024, amounting to \$175.0 million. This increase is primarily the result of building and improvements to building (\$59.0 million), new equipment (\$41.0 million), and lease assets (\$57.3 million).

The Authority uses both internal funds from operations and external debt capital to finance capital acquisitions. Some capital acquisitions are also funded by state appropriations and federal grants, as available.

Financing

The Authority has begun a phased-approach of replacing much of its principal patient care facilities, a project planned for completion in stages over 30 years. Phase I of the project involved building a facility comprised of a four-story diagnostic and treatment center, a seven-story hospitality (bed) tower, and a garden atrium uniting the two sections of the building. Phase I of the project was completed in fiscal year 2008. Ashley River Tower,

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the 641,000 square-foot facility was opened on February 4, 2008. No new clinical health services were added as a result of this phase of the project.

Phase II was a children's hospital and women's pavilion (CHWP). Initial planning began in fiscal year 2017. A preapplication document for the \$350 million project was submitted to the U.S. Department of Housing & Urban Development (HUD) relating to the Federal Housing Administration Section 241 loan program in August 2015. At June 30, 2015, \$68.3 million was secured by way of state funding and philanthropy for Phase II. The State of South Carolina approved \$25.0 million in the FY 2016 budget and \$10.0 million in the FY 2017 budget for this project. Shawn Jenkins, a local business owner, pledged \$25.0 million, and the Tourville family pledged another \$10.0 million. The hospital was named the MUSC Shawn Jenkins Children's Hospital and Pearl Tourville Women's Pavilion in honor of their generosity. This level of money raised to support the project made HUD financing possible.

See Footnote 6 for financing details.

Current Operating Environment

Management of the Authority monitors economic conditions closely, both with respect to potential impacts on the healthcare provider industry and from a more general business perspective. The COVID-19 pandemic has impacted the healthcare industry since March 2020 and the number of cases in South Carolina to date represents a small portion of the total cases in the United States. In response, Management implemented new business models to provide testing and other services to patients. Management recognizes that economic conditions may continue to impact the Authority in a number of ways, including (but not limited to) uncertainties associated with the global economy, future pandemic outbreaks, changes in the unemployment rate and associated impact on uninsured patients, and stress on the federal, state and local budgets. Additionally, the general healthcare industry environment is increasingly uncertain, especially with respect to the impacts of the federal healthcare reform legislation, which was passed in the spring of 2010. Potential impacts of ongoing healthcare industry transformation include, but are not limited to:

- Exchange reimbursement levels that are significantly below those of traditional commercial insurance companies, payor policies that do not recognize valid assignment of benefits from patients. Changes in combined state/federal disproportionate share payments, increasing reliance on managed care plans by Medicare and Medicaid and increases in program complexity and payment delays.
- Effective management of multiple major regulatory mandates, including achievement of meaningful use of Healthcare Information Technology.
- Significant potential business model changes throughout the healthcare industry, including recently announced mergers of the nation's largest health insurers.

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In South Carolina, in order to control escalating Medicaid costs, the Department of Health and Human Services has kept the hospital service rates (Inpatient and Outpatient hospital base rates and Inpatient Graduate Medical Education reimbursement) at the October 1, 2015 level.

- Inpatient hospital base rates were increased 2.75% on October 1, 2013 and 2.50% on October 1, 2014 and adjusted on October 1, 2015 to maintain the 93% of cost target.
- Inpatient Graduate Medical Education (direct and indirect medical education) reimbursement rates remain at the November 1, 2015 level.

Outpatient hospital multiplier was adjusted to maintain the 93% of cost target.

These reimbursement rate adjustments have had and will continue to have a significant impact on the Authority's financial performance. To help minimize the impact of this revenue reduction, the Authority continues implementation of a hospital-wide response plan directed at high-impact areas, both clinically and financially. All areas of a patient's stay are reviewed, including (but not limited to) reducing length of stay, standardization of supplies, use of generic versus brand name drugs, staffing ratios, and new information technology to improve medical coding and billing.

The business of healthcare in the current economic, legislative and regulatory environment is volatile. Any of the above factors, along with those that may arise in the future, could have a material adverse impact on the Authority's financial position and operating results.

During the fiscal year ended June 30, 2016, the Authority created a consolidated clinical enterprise under the brand of MUSC Health. This enterprise is an effort to further integrate the clinical operations of the Authority and MUSC Physicians. Both entities retain their existing separate legal entities under this enterprise, but work more closely together to manage their combined clinical operations.

MUSC Health's Integrated Centers of Clinical Excellence are the organizational units of MUSC Health. Committed to care models that improve patient experience and achieve optimal patient outcomes, these comprehensive care teams are led by physician chiefs and charged with providing patients the most innovative, efficient and effective subspecialized care.

Contacting the Authority's Financial Management

This financial report is designed to provide interested parties with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Authority's Chief Financial Officer at Medical University Hospital Authority, P.O. Box 250332, Charleston, South Carolina 29425.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
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Statement of Net Position

June 30, 2024

Assets and Deferred Outflows

Current assets:	
Cash and cash equivalents	\$ 481,511,495
Cash restricted for capital projects and major programs	104,608,859
Investments unrestricted	233,673,447
Patient accounts receivable, net of allowance for uncollectible accounts of \$412,590,458	511,019,079
Due from third-party payors	22,454,886
Other current assets	<u>381,436,542</u>
Total current assets	1,734,704,308
Investments held by trustees under indenture agreements	85,847,470
Investments in joint ventures and partnerships	61,540,079
Other non-current assets	8,230,108
Capital assets, net	<u>1,256,098,855</u>
Total assets	3,146,420,820
Deferred outflows	<u>857,430,851</u>
Total assets and deferred outflows	<u>\$ 4,003,851,671</u>

Liabilities, Deferred Inflows and Net Position

Current liabilities:	
Current installments of long-term debt and lease liabilities	\$ 82,206,624
Accounts payable	297,351,058
Accrued payroll, withholdings, and benefits	182,533,201
Due to related parties, net	26,906,895
Due to joint ventures and partnerships	4,829,797
Other accrued expenses	113,466,202
Unearned revenue	<u>1,339,479</u>
Total current liabilities	708,633,256
Long-term debt and lease liabilities, net of current installments	883,533,637
Other accrued benefits	31,478,352
Net pension liability	1,367,586,673
Net OPEB liability	<u>959,396,232</u>
Total liabilities	3,950,628,150
Deferred inflows	<u>544,947,561</u>
Total liabilities and deferred inflows	<u>4,495,575,711</u>
Net position:	
Net investment in capital assets	331,448,508
Restricted:	
Under indenture agreements	85,847,470
Capital projects	74,994,982
Major programs	53,542,908
Unrestricted deficit	<u>(1,037,557,908)</u>
Total net position	<u>(491,724,040)</u>
Total liabilities, deferred inflows, and net position	<u>\$ 4,003,851,671</u>

See accompanying notes to basic financial statements.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
(A Component Unit of The Medical University of South Carolina)
Statement of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2024

Operating revenues:	
Net patient service revenue (net of provision for uncollectible accounts of \$195,501,448)	\$ 4,461,216,797
Other revenue	<u>224,587,279</u>
Total operating revenues	<u>4,685,804,076</u>
Operating expenses:	
Compensation and employee benefits	1,799,475,466
Pension benefits	103,759,503
Other postemployment benefits	30,355,978
Services and supplies	2,513,760,016
Depreciation and amortization	<u>176,620,821</u>
Total operating expenses	<u>4,623,971,784</u>
Operating income	<u>61,832,292</u>
Nonoperating revenue (expense):	
State appropriations	79,530,762
Gifts and grants	9,818,151
Investment income	42,578,300
Interest expense	(42,217,600)
Gain on disposal of capital assets	15,520
Other nonoperating expense	(6,182,389)
Debt issuance cost	<u>(31,049)</u>
Total nonoperating revenues, net	<u>83,511,695</u>
Income before transfers to MUSC entities	<u>145,343,987</u>
Nonoperating expense - transfers to MUSC entities	<u>(16,150,000)</u>
Increase in net position	129,193,987
Net position, beginning of year	<u>(620,918,027)</u>
Net position, end of year	<u>\$ (491,724,040)</u>

See accompanying notes to basic financial statements.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
(A Component Unit of The Medical University of South Carolina)

Statement of Cash Flows
Year ended June 30, 2024

Cash flows from operating activities:	
Receipts from patients and third-party payors	\$ 4,452,523,900
Other cash receipts	165,854,344
Payments to suppliers and employees	<u>(4,190,448,620)</u>
Net cash provided by operating activities	<u>427,929,624</u>
Cash flows from noncapital financing activities:	
State appropriations	75,494,223
Payments for CARES funding	(685,794)
Proceeds from noncapital grants and gifts	5,727,988
Nonoperating expenditures	<u>(22,332,389)</u>
Net cash provided by noncapital financing activities	<u>58,204,028</u>
Cash flows from capital and related financing activities:	
Capital expenditures	(120,099,985)
Capital appropriations	16,000,000
Proceeds from disposal of capital assets	5,639,556
Payments of principal on long-term debt	(82,617,686)
Proceeds from financing debt	2,443,907
Payments of bond issuance cost	(31,049)
Payments of mortgage insurance premium	(2,155,331)
Payments on lease obligations	(48,218,013)
Payments on equipment replacement obligations	(643,516)
Interest payments	<u>(40,804,549)</u>
Net cash used in capital and related financing activities	<u>(270,486,666)</u>
Cash flows from investing activities:	
Proceeds from sale and maturity of investments	299,000,000
Investment income received	29,714,334
Purchases of investments	(218,080,107)
Contributions to joint ventures and partnerships	<u>(30,000,000)</u>
Net cash provided by investing activities	<u>80,634,227</u>
Net increase in cash and cash equivalents	296,281,213
Cash and cash equivalents at beginning of year	<u>296,765,056</u>
Cash and cash equivalents at end of year	<u>\$ 593,046,269</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 61,832,292
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	176,620,821
Provision for uncollectible accounts	195,501,448
Gain on disposal of capital assets	
Changes in operating assets and liabilities:	
Patient accounts receivable	(224,371,160)
Due (to) third-party payors	19,349,686
Due from joint ventures and partnerships	4,990,567
Other current assets	(107,008,862)
Accounts payable	29,037,608
Other accrued expenses and accrued payroll, withholding and benefits	125,384,836
Other liabilities, accrued benefits	6,760,730
Pension obligations	103,759,503
OPEB obligations	30,355,978
Related parties, net	4,376,698
Unearned revenue	<u>1,339,479</u>
Net cash provided by operating activities	<u>\$ 427,929,624</u>
Reconciliation of cash and cash equivalents at end of year to the statement of net position:	
Cash and cash equivalents	\$ 481,511,495
Restricted for capital projects and major programs	104,608,859
Included in investments held by trustees under indenture agreements	<u>6,925,915</u>
	<u>\$ 593,046,269</u>
Noncash transactions:	
Capital assets acquired by financing lease or other financing	\$ 63,868,895
Change in fair value of investments	4,625,136
Change in capital assets payable	19,601,405
Pro rata loss from joint ventures	(951,943)

See accompanying notes to basic financial statements.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
(A Component Unit of The Medical University of South Carolina)

Statement of Fiduciary Net Position

June 30, 2024

Assets

Investments:

Money market funds	\$ 14,970,976
Fixed income mutual funds	1,932,902
Equity mutual funds	<u>33,943,725</u>
Total investments	<u>\$ 50,847,603</u>

Net position:

Restricted:

Pension	<u>\$ 50,847,603</u>
Total net position	<u>\$ 50,847,603</u>

See accompanying notes to basic financial statements.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
(A Component Unit of The Medical University of South Carolina)
Statement of Revenues, Expenses and Changes in Fiduciary Net Position
Year ended June 30, 2024

Additions:	
Investment income:	
Net appreciation in fair value of investments	\$ (2,706,939)
Interest and dividends	10,140,110
Less investment expense	<u>(156,440)</u>
Net investment income	<u>7,276,731</u>
Total additions	<u>7,276,731</u>
Deductions:	
Benefits paid to participants	<u>5,706,412</u>
Total deductions	<u>5,706,412</u>
Change in net position	1,570,319
Net position, beginning of year	<u>49,277,284</u>
Net position, end of year	<u>\$ 50,847,603</u>

See accompanying notes to basic financial statements.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
(A Component Unit of the Medical University of South Carolina)

Notes to Basic Financial Statements

June 30, 2024

(1) Summary of Significant Accounting Policies

Medical University Hospital Authority (the Authority) is a multidimensional healthcare system headquartered in Charleston, South Carolina. The Authority is a principal diagnostic and treatment referral center for the state of South Carolina that owns and operates the principal clinical teaching institutions for The Medical University of South Carolina (the University). The primary facilities used by the Authority consist of the following:

- University Hospital
- University Hospital Extension (UHE) (formerly Children's Hospital)
- Ashley River Tower (ART) Hospital
- Shawn Jenkins Children's Hospital
- Storm Eye Institute
- Institute of Psychiatry
- Digestive Disease Center
- Transplant Center
- Hollings Cancer Center
- MUSC Heart and Vascular Center
- Regional Health Network (RHN)
- Midlands Hospital System
- Regional Medical System (Orangeburg)

Reporting Entity

The Authority is a major discretely presented component unit of the University, as defined by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*. The Authority's component unit relationship to the University arises principally because the nature and significance of the relationship is such that exclusion would cause the University's financial statements to be misleading or incomplete. In particular, the legislation establishing the Authority as a stand-alone healthcare system, effective July 1, 2000, requires that the members of the University's board of trustees also constitute the board of trustees of the Authority. The Authority is considered a discretely presented component unit because, while it does have the same governing board as the University, it does not provide a significant financial benefit to or impose a financial burden on the University. The Authority receives its own state appropriations passed through the University from the South Carolina General Assembly, independent of the appropriations granted and mandates made to the University.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
(A Component Unit of the Medical University of South Carolina)

Notes to Basic Financial Statements

June 30, 2024

The significant accounting policies used by the Authority in preparing and presenting its financial statements are as follows:

(a) Basis of Accounting

For financial reporting purposes, the Authority is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

(b) Cash Equivalents

The Authority considers investments in highly liquid individual debt instruments (with an original maturity of three months or less) and similar fund positions to be cash equivalents.

(c) Inventories

Inventories, consisting principally of medical supplies and pharmaceuticals, are stated at the lower of weighted average cost or replacement value and are included in other current assets in the accompanying Statement of Net Position.

(d) Investments and Investment Income

Investments are carried at fair value and consist of internally or externally restricted cash equivalents and treasury obligations with original maturities greater than three months. Fair value measurements are categorized within the fair value hierarchy established by generally accepted accounting principles (GAAP) and investment income or loss from investments (including realized and unrealized gains and losses on investments and interest) is reported as nonoperating revenue in the accompanying Statement of Revenues, Expenses and Changes in Net Position.

(e) Capital Assets

Capital assets (excluding intangible right-to-use lease assets and SBITA) are recorded at cost at the date of acquisition or, if donated, at fair value at the date of receipt. Depreciation is provided over the useful life of each class of depreciable assets using the straight-line method. Equipment under capital lease obligations is amortized using the straight-line method over the estimated useful life of the equipment or lease term, and such amortization is included in depreciation and amortization in the accompanying Statement of Revenues, Expenses and Changes in Net Position. For subscription-based information technology agreements, MUHA assesses useful life based on the shorter of the subscription term or useful life of the underlying asset.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
(A Component Unit of the Medical University of South Carolina)

Notes to Basic Financial Statements

June 30, 2024

A summary of depreciable lives is as follows:

Buildings, improvements, and fixed equipment	5–50 Years
Machinery, equipment, and vehicles	2–20 Years
Software	3–5 Years
Intangible	Indefinite

(f) Lease (Lessee) Arrangements

MUHA is a lessee for various noncancellable leases of land, equipment and buildings.

(i) Short-term Leases

For leases with a maximum possible term of 12 months or less at commencement, MUHA recognizes expense based on the provisions of the lease contract.

(ii) Leases other than short-term

For all other leases (i.e. those that are not short-term), MUHA recognizes a lease liability, and an intangible right-to-use lease asset, if the initial value of the intangible right-to-use asset is more than \$50,000.

(iii) Measurement of Lease Amounts

At lease commencement, MUHA initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, less lease payments made at or before the lease commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the lease asset is amortized into depreciation and amortization expense, lease expense, etc. on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. If MUHA is reasonably certain of exercising a purchase option contained in a lease, the lease asset will be amortized over the useful life of the underlying asset.

(iv) Key Estimates and Judgments

Key estimates and judgments include how MUHA determines (1) the discount rate it uses to calculate the present value of the expected lease payments, (2) lease term, and (3) lease payments.

- MUHA generally uses its estimated incremental borrowing rate as the discount rate for leases unless the rate that the lessor/vendor charges are known. In analyzing previously existing lease agreements, MUHA calculated a weighted average of incremental borrowing rates to assign to both equipment and real property leases. MUHA's incremental borrowing rate for leases is based on the rate of interest it would need to pay if it issued general obligation bonds

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June 30, 2024

to borrow an amount equal to the lease or payments, under similar terms at the commencement or remeasurement date.

- The lease or subscription term includes the noncancellable period of the lease or subscription, respectively, plus any additional periods covered by either MUHA or lessor option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised. Periods in which both MUHA and the lessor/vendor have a unilateral option to terminate (or if both parties have to agree to extend) are excluded from the lease or subscription term.
- Payments are evaluated by MUHA to determine if they should be included in the measurement of the lease liabilities, including those payments that require a determination of whether they are reasonably certain of being made, such as tenant incentives received after the commencement date, variable components that are fixed in nature or those that are dependent on an index or rate (i.e. Consumer Price Index).

(v) *Remeasurement of Lease Amounts*

MUHA monitors changes in circumstances that may require remeasurement of a lease or subscription IT arrangement. When certain changes occur that are expected to significantly affect the amount of the lease liability, the liability is remeasured and a corresponding adjustment is made to the lease asset.

(vi) *Presentation in Statement of Net Position*

Lease assets are reported with capital assets and lease liabilities are reported with long-term debt in the statement of net position.

(g) Statement of Revenues, Expenses and Changes in Net Position

For purposes of presentation, transactions deemed by management to be ongoing, major or central to the provision of healthcare services are reported as operating revenues and operating expenses. Principal nonoperating transactions include state appropriations, CARES Act funding, gifts and grants, investment income, interest expense, gain on disposal of capital assets and financing costs.

(h) Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors and others for services rendered, and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations, as well as the provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

(i) Charity Care

The Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. MUHA estimated

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
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Notes to Basic Financial Statements

June 30, 2024

the direct and indirect costs of providing charity care using a calculated ratio of costs to gross charges for each facility.

(j) Net Position

Net position of the Authority is classified into the following components:

- Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowings used to finance the purchase or construction of those assets.
- Restricted under indenture agreements represents resources deposited with trustees as required by bond indentures or other debt agreements.
- Restricted for capital projects and major programs represents resources that the Authority is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.
- Unrestricted deficit represents remaining net position that does not meet any of the above definitions.

When the Authority has both restricted and unrestricted resources available to finance a particular program, it is the Authority's policy to use restricted resources before unrestricted resources.

(k) Costs of Borrowing

Costs of issuance are expensed in the period incurred.

Interest cost incurred before the end of the construction period is expensed as incurred in the period in which the cost is incurred.

(l) Income Taxes

The Authority is a political subdivision of the State of South Carolina and is treated as a governmental entity for tax purposes. Additionally, the Authority has received its determination letter from the Internal Revenue Service indicating that it is exempt from income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). As such, the Authority is not generally subject to federal or state income taxes. However, the Authority remains subject to income taxes on any net income that is derived from a trade or business, regularly carried on and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded. If there is net income from any unrelated trade or business, such provision, in the opinion of management, is not material to the financial statements taken as a whole.

(m) Use of Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP) requires that management make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

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June 30, 2024

Significant items subject to such estimates include the allowances for uncollectible accounts and contractual adjustments for patient receivables, reserves for uncertainties inherent in cost-based reimbursement programs sponsored by government entities and other contractual or non-contractual uncertainties inherent in patient accounting, depreciation and amortization, liability for incurred but not reported claims under the self-insured health plan and estimated third-party payor settlements. In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount in the near term. Further instances where management may use estimates include incremental borrowing rates (IBR) as it pertains to ROU leases. Using fair value estimates and existing arrangements with third party vendors, MUHA estimates IBR depending on the life of the lease.

(n) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources representing a consumption of net position that is applicable to a future reporting period(s). In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources representing an acquisition of net position is applicable to a future reporting period(s). The Authority's statement of net position includes deferred outflows and inflows related to the Net Pension Liability as detailed in notes 11 and 13, Net OPEB liability as detailed in note 12, and the deferred loss on refunding of debt.

(o) Deferred Loss on Refunding of Debt

In transactions involving refunding of debt, the difference between the reacquisition price (total cost of new debt) and the net carrying value of the old debt is deferred and amortized to interest expense over the shorter of the remaining life of the old debt or the life of the new debt. The unamortized amount of the deferred loss on refunding of debt is reflected as a deferred outflow.

(p) Recent Accounting Pronouncements

- GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, was issued in June 2022. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This statement was effective for the Authority in fiscal year 2024 and did not have a material impact on the Authority in the current year.
- GASB Statement No. 101, *Compensated Absences*, was issued in June 2022. The primary objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This statement will be effective for the Authority in fiscal year 2025. The Authority is in the process of evaluating the impact of this statement on its financial statements.
- GASB Statement No. 102, *Certain Risk Disclosures*, was issued in December 2023. The primary objective of this statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or

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June 30, 2024

constraints. This statement will be effective for the Authority in fiscal year 2025. The Authority is in the process of evaluating the impact of this statement on its financial statements.

- GASB Statement No. 103, *Financial Reporting Model Improvements*, was issued in April 2024. The primary objective of this statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This statement will be effective for the Authority in fiscal year 2025. The Authority is in the process of evaluating the impact of this statement on its financial statements.

(2) Cash, Cash Equivalents and Investments

The Authority's cash balance at June 30, 2024 is as follows:

Bank balance:

Insured (Federal Deposit Insurance Corporation and Securities Investor Protection Corporation)	\$ 3,048,484
Uninsured, uncollateralized, or collateralized by securities held by the pledging institution or by its trust department or agent in other than the Authority's name	<u>590,109,900</u>
Total	<u>\$ 593,158,384</u>
Carrying amount (cash and cash equivalents)	\$ 481,511,495
Restricted Assets (cash and cash equivalents)	<u>104,608,859</u>
Total	<u>\$ 586,120,354</u>

A summary of investments at June 30, 2024 is as follows:

	Fair value	Percentage	Maturities	Interest rate	Credit rating
Cash	\$ 5,383,697	1.7	N/A	N/A	N/A
Fixed-income securities:					
Fannie Mae	28,522,889	8.9	10/15/24 - 04/22/25	0.63% - 1.63%	Aaa
Federal Home Loan Bank	175,599,554	55.0	09/13/24 - 09/12/31	1.9% - 5.2%	Aaa
Federal Farm Credit Bank	19,976,225	6.3	07/28/25 - 10/10/25	4.9% - 5.1%	Aaa
Federal National Mortgage Association	53,169,866	16.6	07/02/24 - 8/5/30	0.8% - 1.9%	Aaa
Dreyfus Treasury Securities	<u>36,868,686</u>	11.5	Various	0.8%	Aaa
	<u>\$ 319,520,917</u>				

The Authority categorizes its investments carried at fair value within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset:

- Level 1 inputs are quoted prices in active markets for identical assets.
- Level 2 inputs are significant other observable inputs (current MUHA investments are all valued as Level 2).

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Notes to Basic Financial Statements

June 30, 2024

- Level 3 inputs are significant unobservable inputs.

A summary of investments within the fair value hierarchy as of June 30, 2024 is as follows:

	Investments fair value level	Fair value measurements		
		Level 1	Level 2	Level 3
Fixed-income securities:				
Fannie Mae	\$ 28,522,889	—	28,522,889	—
Federal Home Loan Bank	175,599,554	—	175,599,554	—
Federal Farm Credit Bank	19,976,225	—	19,976,225	—
Federal National Mortgage Association	53,169,866	—	53,169,866	—
Dreyfus Treasury Securities	36,868,686	36,868,686	—	—
	<u>\$ 314,137,220</u>	<u>36,868,686</u>	<u>277,268,534</u>	<u>—</u>

The Authority's investment strategy has been developed to, among other things, ensure that the investment portfolio remains in compliance with the investments deemed permissible under the indenture agreement described in note 6. There is no formalized deposit or investment policy that otherwise addresses credit risk, interest rate risk, foreign currency risk or how investment income may be spent.

Guidelines for fixed-income investments and cash equivalents are as follows:

1. Direct obligations of the U.S. government, securities issued by federal agencies backed by the full faith and credit of the U.S. government, and securities issued by certain non-full faith and credit federal agencies.
2. Cash, money market funds and certificates of deposit that are appropriately collateralized, insured or issued by investment grade financial institutions.
3. Investment agreements, including guaranteed investment contracts, commercial papers, repurchase agreements and other securities are subject to credit rating minimums, acceptance by related insurers, and other provisions, as described in the indenture agreements.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Except for restrictions imposed by the aforementioned indenture agreement, there are no limits on the amount the Authority may invest in any one issuer. As of June 30, 2024, 55.0% and 16.6% of the Authority's investments are in notes issued by the Federal Home Loan Bank and the Federal National Mortgage Association, respectively.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
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Notes to Basic Financial Statements

June 30, 2024

Investment income comprises the following for the year ended June 30, 2024:

Dividend and interest income	\$ 30,026,214
Realized and unrealized gain on investments	<u>12,552,086</u>
	<u>\$ 42,578,300</u>

(3) Other Current Assets

The composition of other current assets at June 30, 2024 is as follows:

Prepaid expenses	\$ 107,828,864
Inventories	121,107,504
Amounts due from third parties	<u>152,500,174</u>
	<u>\$ 381,436,542</u>

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
(A Component Unit of the Medical University of South Carolina)

Notes to Basic Financial Statements

June 30, 2024

(4) Capital Assets

Capital assets and related activity for the year ended June 30, 2024, consisted of the following:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Capital assets not being depreciated:				
Land	\$ 55,720,543	3,608,111	(27,088)	59,301,566
Intangible	1,708,118	—	—	1,708,118
Assets not in service	25,275,082	18,437,285	(12,695,569)	31,016,798
Construction in progress	<u>86,114,842</u>	<u>143,965,399</u>	<u>(117,436,423)</u>	<u>112,643,818</u>
Total capital assets not being depreciated	<u>168,818,585</u>	<u>166,010,795</u>	<u>(130,159,080)</u>	<u>204,670,300</u>
Capital assets being depreciated:				
Buildings, improvements and fixed equipment	1,267,304,436	58,957,009	(82,756)	1,326,178,689
Machinery and equipment	442,239,322	41,022,473	(13,379,548)	469,882,247
Software	97,958,665	14,833,437	—	112,792,102
Vehicles	<u>5,923,303</u>	<u>(10,002)</u>	<u>(5,000)</u>	<u>5,908,301</u>
Total capital assets being depreciated	<u>1,813,425,726</u>	<u>114,802,917</u>	<u>(13,467,304)</u>	<u>1,914,761,339</u>
Less accumulated depreciation for:				
Buildings, improvements and fixed equipment	(641,374,287)	(60,328,620)	25,790	(701,677,117)
Machinery and equipment	(316,050,249)	(47,913,323)	4,767,901	(359,195,671)
Software	(77,168,760)	(11,243,453)	—	(88,412,213)
Vehicles	<u>(3,909,006)</u>	<u>(750,059)</u>	<u>5,000</u>	<u>(4,654,065)</u>
Total accumulated depreciation	<u>(1,038,502,302)</u>	<u>(120,235,455)</u>	<u>4,798,691</u>	<u>(1,153,939,066)</u>
Capital assets being depreciated, net	<u>774,923,424</u>	<u>(5,432,538)</u>	<u>(8,668,613)</u>	760,822,273
Capital assets, net excluding lease assets	<u>\$ 943,742,009</u>	<u>160,578,257</u>	<u>(138,827,693)</u>	965,492,573
Subscription based assets, net (Note 17)				20,755,963
Lease assets, net (Note 16)				<u>269,850,319</u>
Total capital assets, net				<u>1,256,098,855</u>

Construction in progress at the end of June 30, 2024 consists of costs associated with various renovation projects and cost for four new health centers. Construction in progress projects are generally schedule for completion in fiscal year 2025. Remaining cost to complete the projects that will close in 2025 is estimated to total approximately \$56.7 million. The four new health centers will extend through 2028.

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(5) Deferred Outflows

The composition of deferred outflows at June 30, 2024, is as follows:

Deferred loss on refunding GNMA MBS Series 2012	\$ 8,609,893
Deferred loss on refunding CEP Series 2013	492,593
Other postemployment benefits (note 12)	523,476,005
Pension plans (notes 11 and 13)	322,325,070
Deferred outflows – leases	<u>2,527,290</u>
Total	<u>\$ 857,430,851</u>

(6) Long-Term Debt

A summary of long-term debt at June 30, 2024 is as follows:

GNMA MBS, 2012 refinancing of Series 2004 Bonds, Series 2012, payable in varying amounts through 2033, with monthly interest payments at the rate of 2.94%	\$ 185,593,639
MUHA Central Energy Plant, 2013 refinancing of MUFC Central Energy Plant, LLC Economic Development Revenue Bonds, Series 2013, payable in varying amounts through 2032, with monthly interest payments at the rate of 3.85%	\$ 23,409,040
GNMA MBS – FHA Insured Mortgage Acquisition Obligation, Series 2016, payable in varying amounts through 2044, with monthly interest payments at the rate of 3.59%	\$ 274,347,673
2019 FHA/GNMA – Refinancing of RHN Acquisition Loan, TD Bank payable in varying amounts through 2045, with monthly interest payments at the rate of 3.00%	\$ 116,459,303
2022 FHA/GNMA – Refinancing of Midlands Acquisition Loan, PNC Bank payable in varying amounts through 2047, with monthly interest payments at the rate of 3.235%	\$ 75,218,166
Note payable for imaging equipment, payable in varying amounts through August 2028, with annual interest payments at the rate of 2.02%	<u>\$ 16,034,877</u>
	691,062,698
Less current installments	<u>40,939,316</u>
	<u>\$ 650,123,382</u>

On December 29, 2004, the South Carolina Jobs Economic Development Authority issued \$61.0 million of Economic Development Revenue Bonds, Central Energy Plant (CEP) Series 2004 for the benefit of the Authority. Pursuant to a loan agreement between the issuer and the borrower, the borrower shall use the proceeds to finance the construction of an approximately 52,000 square-foot central energy plant.

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On December 19, 2012, the Authority refinanced the 2004 Series bonds with Government National Mortgage Agency (GNMA) mortgage-backed securities (MBS) (Series 2012). The refinance was done to substantially lower the Authority's interest rate from 5.18% and 5.14% on the 2004 Series bonds in fiscal year 2013 to a 2.94% fixed rate on the Series 2012. At the time of refinancing, the long-term debt obligation was reduced by debt service reserve and other funds, which became available to make additional principal payments. The net proceeds of \$360.4 million (after payment of \$1.1 million of issuance costs plus an additional \$49.9 million of 2004 Series debt service fund monies) were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2004 Series bonds. The bond indenture contains certain terms and restrictive covenants, typical of such agreements, including maintenance of certain debt service coverage levels and limitations of additional indebtedness. The amount of outstanding debt related to the advanced refunding related to the 2004 Series A bonds is \$488.5 million through 2034. This debt is secured by a pledge of all MUHA assets and revenues per the HUD Regulatory Agreement.

The Authority's outstanding notes from direct loans and direct borrowings related to governmental activities contain the following provisions; in cases of debt not insured by the HUD loan program, lenders would declare outstanding principal and interest payments to be due immediately, along with any available collateral securing the obligations. For HUD insured debt, GNMA would settle with investors within 60 days of default and then directly request HUD to be made whole through their mortgage insurance program that MUHA has procured by pledging all revenues and assets.

Debt service requirements associated with the Authority's outstanding GNMA MBS 2012, which are direct placement loans, are as follows:

	Series 2012		
	Principal	Interest	Total
Fiscal year:			
2025	\$ 18,283,634	5,211,387	23,495,021
2026	18,828,476	4,666,545	23,495,021
2027	19,389,553	4,105,468	23,495,021
2028	19,967,351	3,527,670	23,495,021
2029	20,562,366	2,932,655	23,495,021
2030–2033	88,562,259	5,417,825	93,980,084
Total	\$ 185,593,639	25,861,550	211,455,189

On December 30, 2013, the Authority refinanced the 2004 MUFC Central Energy Plant, LLC Economic Development Revenue Bonds (CEP Series 2004 bonds) with GNMA MBS (Series 2013). The refinance was done to lower the Authority's effective interest rate from 5.75% on the 2004 Series to a 3.85% fixed rate on the Series 2013. The net proceeds of \$47.4 million (after payment of \$1.3 million of issuance costs) were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the CEP Series 2004 bonds. The bond indenture contains certain terms and restrictive covenants, typical of such agreements, including maintenance of certain debt service coverage levels and

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limitations on additional indebtedness. This debt is secured by a pledge of all MUHA assets and revenues per the HUD Regulatory Agreement.

Debt service requirements associated with the Authority's outstanding GNMA MBS Series 2013, which are direct placement loans, are as follows:

	Series 2013		Total
	Principal	Interest	
Fiscal year:			
2025	\$ 2,854,306	851,231	3,705,537
2026	2,966,157	739,380	3,705,537
2027	3,082,390	623,147	3,705,537
2028	3,203,179	502,358	3,705,537
2029	3,328,701	376,836	3,705,537
2030–2034	7,974,307	363,149	8,337,456
Total	\$ 23,409,040	3,456,101	26,865,141

On November 17, 2016, the Authority closed on a \$316.4 million mortgage insured by the U.S. Department of Housing and Urban Development (HUD) through the Federal Housing Administration's (FHA) Section 242 Hospital Mortgage Insurance Program. The principal amount of the mortgage bears interest at 3.59% and is amortized over 25 years. The proceeds of this financing are being used for the purpose of (i) defraying and financing a portion of the costs of construction of the MUSC CHWP and other healthcare and related facilities of the Authority; and (ii) defraying and financing the costs associated with the incurrence of the mortgage indebtedness. The total project has an estimated cost of \$389.3 million, with an equity contribution by the Authority of \$72.9 million that included state funding and fundraising in hand at closing. This debt is secured by a pledge of all MUHA assets and revenues per the HUD Regulatory Agreement.

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Debt service requirements associated with the Authority's outstanding GNMA MBS Series 2016, which are direct placement loans, are as follows:

	Series 2016		Total
	Principal	Interest	
Fiscal year:			
2025	\$ 9,497,443	9,693,820	19,191,263
2026	9,844,067	9,347,196	19,191,263
2027	10,203,343	8,987,920	19,191,263
2028	10,575,730	8,615,533	19,191,263
2029	10,961,709	8,229,554	19,191,263
2030–2034	61,109,659	34,846,657	95,956,316
2035–2039	73,105,380	22,850,935	95,956,315
2040–2044	87,455,841	8,500,474	95,956,315
2045–2049	1,594,501	4,770	1,599,271
Total	<u>\$ 274,347,673</u>	<u>111,076,859</u>	<u>385,424,532</u>

On February 21, 2019, the Authority closed on a \$129 million Hospital Acquisition Loan with TD Bank to fund the Asset Purchase Agreement with Community Health System. The principal amount of the loan bears interest at 3.21%. Interest only payments on the outstanding principal balance shall be payable monthly. The entire unpaid principal balance shall be due and payable on the maturity date of February 24, 2020. On August 29, 2019, the Authority received a letter of commitment to insure upon completion from the U.S. Department of Housing and Urban Development in an amount not exceeding \$133.6 million. Upon the closing of this loan, the proceeds were used for the purpose of (i) refinancing the bridge loan indebtedness related to the purchase of the four regional hospitals; and (ii) defraying and financing the costs associated with the incurrence of the mortgage indebtedness. These obligations are unsecured, except for the Lien on the Acquisition Fund that is held by the South Carolina State Treasurer's Office. This loan was refinanced in fiscal year 2021 through the TD Bank loan discussed below.

On December 12, 2019, the Authority closed on a \$133.4 million loan with TD Bank to refinance the Hospital Acquisition Loan with TD Bank. The principal amount of the loan bear interests at 3.00% and is amortized over 25 years. The proceeds of the loan were used for the purpose of (i) refinancing the bridge loan indebtedness related to the purchase of the four hospitals described above and (ii) defraying and financing the costs associated with the incurrence of the mortgage indebtedness.

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Debt service requirements associated with the Authority's outstanding FHA GNMA Series 2019, which are direct placement loans, are as follows:

	Series 2019		Total
	Principal	Interest	
Fiscal year:			
2025	\$ 4,153,352	3,436,980	7,590,332
2026	4,279,681	3,310,651	7,590,332
2027	4,409,852	3,180,480	7,590,332
2028	4,543,982	3,046,350	7,590,332
2029	4,682,191	2,908,141	7,590,332
2030–2034	25,635,790	12,315,873	37,951,663
2035–2039	29,778,964	8,172,699	37,951,663
2040–2044	34,591,744	3,359,919	37,951,663
2045–2049	4,383,747	43,947	4,427,694
Total	\$ 116,459,303	39,775,040	156,234,343

On July 29, 2021, the Authority closed on a \$76.38 million Bridge Loan with TD Bank to fund the Asset Purchase Agreement of Midlands Health System.

On April 7, 2022, the Authority closed on a \$79.68 million loan with PNC Bank to refinance the Bridge Loan with TD Bank. The principal amount of the loan bear interests at 3.235% and is amortized over 25 years. The proceeds of the loan were used for the purpose of (i) refinancing the bridge loan indebtedness related to the purchase of the Midlands hospitals; and (ii) defraying and financing the costs associated with the incurrence of the mortgage indebtedness. These obligations are secured by real estate situated in Kershaw County, Richland County, Fairfield County and Lancaster County, South Carolina.

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Debt service requirements associated with the Authority's outstanding FHA Series 2022, which are direct placement loans, are as follows:

	Series 2022		Total
	Principal	Interest	
Fiscal year:			
2025	\$ 2,251,984	2,400,112	4,652,096
2026	2,325,925	2,326,171	4,652,096
2027	2,402,295	2,249,801	4,652,096
2028	2,481,171	2,170,925	4,652,096
2029	2,562,639	2,089,457	4,652,096
2030–2034	14,131,950	9,128,529	23,260,479
2035–2039	16,609,429	6,651,050	23,260,479
2040–2044	19,521,236	3,739,243	23,260,479
2044–2049	12,931,537	637,074	13,568,611
Total	\$ 75,218,166	31,392,362	106,610,528

The Authority entered into a long-term agreement on August 24, 2018 that requires certain minimum purchases of patient imaging equipment and services through fiscal year 2028. Effective January 1, 2019, the agreement cost is approximately \$81.8 million and calls for 10 annual unitary payments of \$9.1 million. The Authority bases future obligations on equipment placed into service, which can vary from the unitary payment. The patient monitoring products and services will be consumed over the agreement period and in conjunction with a timeline that was developed at agreement inception. The timeline can be modified by the parties and this commitment is at a level consistent with normal business practices.

	Imaging equipment		Total
	Principal	Interest	
Fiscal year:			
2025	\$ 3,898,597	298,637	4,197,234
2026	3,971,031	226,203	4,197,234
2027	4,044,929	152,305	4,197,234
2028	4,120,320	76,914	4,197,234
Total	\$ 16,034,877	754,059	16,788,936

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A schedule of changes in the Authority's long-term debt obligations for the year ended June 30, 2024 is as follows:

2024	Date of issuance	Beginning balance	Additions	Refunded and/or retired	Ending balance	Due within one year
Series 2012	December 19, 2012	\$ 203,348,198	—	(17,754,559)	185,593,639	18,283,634
Series 2013	December 30, 2013	26,155,712	—	(2,746,672)	23,409,040	2,854,306
Series 2016	November 17, 2016	283,510,698	—	(9,163,025)	274,347,673	9,497,443
Series 2018A	October 15, 2018	33,694,761	—	(33,694,761)	—	—
Series 2019	December 12, 2019	120,490,057	—	(4,030,754)	116,459,303	4,153,352
Series 2022	April 7, 2022	77,398,559	—	(2,180,393)	75,218,166	2,251,984
Patient Monitors	July 1, 2016	3,412,162	—	(3,412,162)	—	—
Imaging Equipment	August 24, 2018	18,584,504	2,443,907	(4,993,534)	16,034,877	3,898,597
Schedule 3	October 28, 2021	4,641,827	—	(4,641,827)	—	—
Total long-term obligations excluding lease liabilities		<u>\$ 771,236,478</u>	<u>2,443,907</u>	<u>(82,617,687)</u>	691,062,698	40,939,316
Lease liabilities (Note 16)					267,415,427	38,918,039
Subscription-based information technology lease (Note 17)					<u>7,262,136</u>	<u>2,349,269</u>
Total long-term obligations					<u>\$ 965,740,261</u>	<u>82,206,624</u>

(7) Other Accrued Expenses

The composition of other accrued expenses at June 30, 2024 is as follows:

Accrued interest	\$ 2,749,018
Amounts due to contractors	2,018,212
Lease obligations	1,030,363
Refunds due	1,004,874
Disproportionate Share Hospital Reserve	22,132,042
Unclaimed property	1,464,312
Settlements	1,500,000
Patient revenue and HAWQ reserves	81,202,476
Other	<u>364,905</u>
	<u>\$ 113,466,202</u>

(8) Net Patient Service Revenue

The Authority has agreements with governmental and other third-party payors that provide for reimbursement to the Authority at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Authority's billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors is as follows:

- Medicare – Substantially all inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient

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classification systems that are based on clinical, diagnostic and other factors. Additionally, the Authority is reimbursed for both its direct and indirect medical education costs, based principally on per-resident prospective payment amounts and certain adjustments to prospective rate-per-discharge operating reimbursement payments. The Authority generally is reimbursed for retroactively determined items at tentative rates, with final settlement determined after submission of annual cost reports by the Authority and audits by the Medicare fiscal intermediary. The Authority's cost reports have been audited and initially settled as recently as 2024 but also have open years dating back to 2012.

Revenue from the Medicare program accounted for approximately 32.0% of the Authority's net patient service revenue for the fiscal year ended June 30, 2024.

- Medicaid – Inpatient and outpatient services rendered to most Medicaid program beneficiaries are reimbursed based upon prospective reimbursement methodologies.
- The Authority participates in the Medicaid Disproportionate Share Hospital program (the DSH Program). The net reimbursement benefits associated with these programs totaled approximately \$60.2 million (DSH Program) and is recognized as reductions in related contractual adjustments in net patient service revenue on the Statement of Revenues, Expenses and Changes in Net Position. There can be no assurance that the Authority will continue to qualify for future participation in these programs or that the programs will not ultimately be discontinued or materially modified. Any material reduction in such funds has a corresponding material adverse effect on the Authority's operations.
- Beginning in September 2023, the Centers for Medicare and Medicaid Services approved the Health Access, Workforce and Quality Program (HAWQ) for acute care hospitals providing in-network services to Medicaid beneficiaries in the State fiscal year 2024. The underlying principles in the HAWQ program are to develop systems to obtain real-time data to improve patient outcomes, invest in a stronger, more robust healthcare workforce in South Carolina and increase access for timely and effective care. The total gross payments received by the Authority in FY24 equaled \$481.5 million and is reported as net patient service revenue. HAWQ payments are partially funded by the South Carolina hospital tax assessments, which equaled \$174.6 million for the Authority and are recorded as operating expenditures.

Overall, revenue from the Medicaid program, including net disproportionate share funding, health access, workforce, and quality funding, and cost settlement liabilities described above, accounted for approximately 24.4% of the Authority's net patient service revenue for the year ended June 30, 2024.

- The Authority has also entered into payment arrangements with various managed care organizations, commercial insurance carriers and preferred provider organizations. Payment methodologies under these agreements include prospectively determined rates per discharge, discounts from established rates and prospectively determined per diem rates.

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors and others for services rendered. Associated estimates change as a result of confirming events such as completion of audits of the Authority's cost reports by third-party payors or receipt of final settlement payments from third-party payors.

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The composition of net patient service revenue for the year ended June 30, 2024 is as follows:

Gross patient service revenue, net of charity	\$ 16,224,519,691
Less:	
Provision for contractual and other adjustments	11,567,801,446
Provision for uncollectible accounts	<u>195,501,448</u>
Net patient service revenue	<u>\$ 4,461,216,797</u>

(9) Service to the Community

The Authority is an active, caring member of the communities it serves. In carrying out its mission of meeting the health and wellness needs of its service areas, the Board of Trustees has established policies under which the Authority provides care to needy members of its communities. These policies include discount programs for both uninsured and indigent patients. Following these policies, charity care services totaling approximately \$501.9 million were provided without charge (and thus not recognized in gross patient service revenue) during fiscal year 2024.

The Authority also participates in the Medicare and Medicaid programs. Under these programs, the Authority provides care to patients at payment rates that are determined by the federal and state governments, regardless of actual cost. The Authority wrote off discounts from established charges related to these programs totaling approximately \$7,155.3 million in fiscal year 2024.

In addition to community service directly associated with providing Authority based care, the Authority serves the community in other ways, including:

- MUSC Urban Farm – In keeping with the MUSC mission to improve health and maximize quality of life through education, research and patient care, the MUSC Urban Farm was developed - a half-acre educational garden with the goal of creating opportunities for our community to learn how to eat for health.
- MUSC e.a.t.s (ensuring access to sustenance)– In November 2021 the Office of Health Promotion partnered with MUSC Women & Children’s Health Leaders to implement an emergency food pantry at MUSC Shawn Jenkins Emergency Department to help mitigate the risk for poor health outcomes associated with nutrition and food insecurity.
- Feeding Friends Program – The Authority and East Cooper Meals on Wheels (ECMOW) partnered to create the Feeding Friends program, where physicians and case managers refer patients who are not able to shop or prepare meals for themselves to ECMOW for free meal delivery.
- Food is Medicine Initiative
- Adventure Out Program
- The Charleston Healthy Business Challenge was founded in 2015, and is a collaborative free program designed to help businesses and organizations improve the overall health and well-being of their employees and create a culture of wellness at work.

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While the Authority has estimated the cost of many of its community efforts to serve its broadly defined service area, management and the board of trustees believe that such costs represent only one facet of the many ways the Authority serves the citizens of the state of South Carolina.

(10) Employee Benefit Plans

The Authority participates in a number of employee benefit plans sponsored by the state of South Carolina, and substantially all of the Authority's employees are covered by such plans. The following generally describes the benefits associated with the most significant plans and the Authority's relevant participation:

- The Authority and substantially all of its employees contribute to the South Carolina Retirement System (SCRS), which sponsors a cost-sharing, multiple-employer defined-benefit pension plan. SCRS provides retirement, disability and other insurance benefits to plan members and beneficiaries. For more details on the SCRS plan, see note 11. SCRS issues a publicly available financial report that includes financial statements and required supplementary information, which can be obtained by writing SCRS's Retirement Division at Post Office Box 11960 Columbia, South Carolina 29211 or by calling (803)737-6800.
- SCRS participants are required to contribute 9.00% of their annual covered salary to the plan and the Authority contributes at an actuarially determined rate (currently 24.91% of annual covered payroll). The Authority contributed approximately \$254.7 million (18.41% statutorily required contribution, plus 6.35% retiree insurance surcharge and 0.15% incidental death benefit contribution) to SCRS during fiscal year 2024, equal to the required contributions. The Authority has no other liability under this plan other than to make its required contributions, which are fully funded through June 30, 2024.
- The Authority's SCRS funding described above also funds the "pay-as-you-go" component of certain postretirement insurance benefits provided by the SCRS plan. The actual cost of providing such benefits to Authority retirees is not available. Nevertheless, as noted above, the Authority has no explicit liability associated with the postretirement health and life benefits component of the plan beyond its fully funded contributions obligation.
- Authority employees are eligible to participate in a state-sponsored multiemployer deferred compensation plan (SC Deferred Compensation Program), which provides for individual employee contributory trust accounts. The Authority does not contribute to this plan and has no liability associated with employee amounts deferred under the plan.
- Effective July 1, 2002, the Authority established and began sponsoring a profit-sharing plan and trust titled the Special Healthcare Alternative Retirement Plan (SHARP). The SHARP is qualified under Section 401(a) of the Internal Revenue Code. Certain employees, as defined in SHARP, are eligible to participate at the commencement of employment. Contributions by the Authority to SHARP are discretionary and vest ratably over four years after two years of service. Contributions by the Authority in fiscal year 2024 totaled approximately \$10.3 million.
- Effective March 1, 2023, the Authority acquired the Regional Medicare Center pension plan. The RMC plan is a single-employer defined benefit pension plan that provides for retirement, death and disability benefits to plan participants and beneficiaries. Participants with five or more years of services are entitled to pension benefits upon retirement. No contributions have been made to the RMC plan since the acquisition date by MUHA.

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The Authority also independently sponsors a tax-advantaged, defined-contribution plan for its employees (the MUSC 403B plan). Substantially all Authority employees are eligible to participate in this plan. Employees under 50 years of age may contribute up to \$22,500 of eligible compensation; employees 50 years of age and above may contribute up to \$30,000 of eligible compensation. The Authority does not match employee contributions.

(11) Pension Plans

The South Carolina Public Employee Benefit Authority (PEBA), created July 1, 2012, is the state agency responsible for the administration and management of the various Retirement Systems and retirement programs of the state of South Carolina, including the State Optional Retirement Program and the S.C. Deferred Compensation Program, as well as the state's employee insurance programs. As such, PEBA is responsible for administering the South Carolina Retirement Systems' five defined benefit pension plans. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as custodian, co-trustee and co-fiduciary of the Systems and the assets of the retirement trust funds. The Retirement System Investment Commission (Commission as the governing body, RSIC as the agency), created by the General Assembly in 2005, has exclusive authority to invest and manage the retirement trust funds' assets. The Commission, an eight-member board, serves as co-trustee and co-fiduciary for the assets of the retirement trust funds. By law, the State Fiscal Accountability Authority (SFAA), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the actuary of the Systems.

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with generally accepted accounting principles. For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

PEBA issues an Annual Comprehensive Financial Report (AFR) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The AFR is publicly available through PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the annual comprehensive financial report of the state.

(a) Plan Description

The South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan, was established July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement and other benefits for teachers and employees of the state and its political subdivisions. SCRS covers employees of state agencies, public school districts and participating charter schools, public higher education institutions, other participating local subdivisions of government and first-term individuals elected to the South Carolina General Assembly at or after the general election in November 2012.

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The State Optional Retirement Program (State ORP) is a defined contribution plan that is offered as an alternative to SCRS to newly hired state, public higher education institution and public school district employees, as well as individuals first elected to the South Carolina General Assembly at or after the general election in November 2012. State ORP participants direct the investment of their funds into an account administered by one of four third party service providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the four third party service providers. For this reason, State ORP assets are not part of the retirement systems' trust funds for financial statement purposes.

The South Carolina Police Officers Retirement System (PORS), a cost-sharing multiple-employer defined benefit pension plan, was established July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement and other benefits to police officers and firefighters. PORS also covers peace officers, coroners, probate judges and magistrates.

In addition to the plans described above, PEBA also administers three single employer defined benefit pension plans, which are not covered in this report. They are the Retirement System for Members of the General Assembly of the State of South Carolina (GARS), the Retirement System for Judges and Solicitors of the State of South Carolina (JSRS), and the South Carolina National Guard Supplemental Retirement Plan (SCNG).

(b) Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

- SCRS - Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals first elected to the South Carolina General Assembly at or after the general election in November 2012. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.
- State ORP - As an alternative to membership in SCRS, certain newly hired state, public school, and higher education employees and individuals first elected to the S.C. General Assembly at or after the November 2012 general election have the option to participate in the State ORP. Contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employer to the member's account with the ORP service provider for the employee contribution and a portion of the employer contribution (5 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution and an incidental death benefit contribution, if applicable, which is retained by SCRS.
- PORS - To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; be a coroner in a full-time permanent position; or be a peace officer employed by the Department of Corrections, the Department of Juvenile Justice or the Department of Mental Health. Probate judges and coroners

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may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least \$2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. A member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. A member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

(c) Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation/current annual salary. A brief summary of the benefit terms for each system is presented below.

- **SCRS** – A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

- **PORS** – A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 55 or with 25 years of service regardless of age. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension at age 55 or with 27 years of service regardless of age. Both Class Two and Class Three members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

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(d) Contributions

Actuarial valuations are performed annually by an external consulting actuary to ensure applicable contribution rates satisfy the funding parameters specified in Title 9 of the South Carolina Code of Laws. Under these provisions, SCRS and PORS contribution requirements must be sufficient to maintain an amortization period for the financing of the unfunded actuarial accrued liability (UAAL) over a period that does not exceed the number of years scheduled in state statute. Effective July 1, 2017, employee rates were increased and capped at 9 percent for SCRS and 9.75 percent for PORS. The legislation also increased employer contribution rates beginning July 1, 2017, for both SCRS and PORS until reaching 18.56 percent for SCRS and 21.24 percent for PORS. The legislation included a further provision that if the scheduled contributions are not sufficient to meet the funding periods set in state statute, the PEBA board would increase the employer contribution rates as necessary to meet the funding periods set for the applicable year.

Pension reform legislation modified statute such that the employer contribution rates for SCRS and PORS to be further increased, not to exceed one-half of one percent in any one year if necessary, in order to improve the funding of the plans. The statute set rates intended to reduce the unfunded liability of SCRS and PORS to the maximum amortization period of 20 years from 30 years over a ten-year schedule, as determined by the annual actuarial valuations of the plan. Finally, under the revised statute, the contribution rates for SCRS and PORS may not be decreased until the plans are at least 85 percent funded.

Required employee contribution rates¹ for the fiscal year 2024 are as follows:

SCRS:	
Employee class two	9.00 %
Employee class three	9.00
State ORP:	
Employee	9.00 %
PORS:	
Employee class two	9.75 %
Employee class three	9.75

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Required employer contribution rates¹ for fiscal year 2024 are as follows:

SCRS:	
Employer class two	18.41 %
Employer class three	18.41
Employer incidental death benefit	0.15
State ORP	
Employer contribution ²	18.41 %
Employer incidental death benefit	0.15
PORS:	
Employer class two	20.84 %
Employer class three	20.84
Employer incidental death benefit	0.20
Employer accidental death program	0.20

¹ Calculated on earnable compensation as defined in Title 9 of the South Carolina Code of Laws.

² Of this employer contribution, 5% of earnable compensation must be remitted by the employer directly to the ORP service provider to be allocated to the member's account with the remainder of the employer contribution remitted to the SCRS.

(e) Allocation of Pension Amounts

The Authority's proportionate share of pension amounts was calculated on the basis of historical employer contributions. Although GASB Statement No. 68 encourages the use of the employer's projected long-term contribution effort to the retirement plan, allocating on the basis of historical employer contributions is considered acceptable. Employer contributions recognized by the systems that are not representative of future contribution effort are excluded in the determination of employers' proportionate shares. Examples of employer contributions not representative of future contribution efforts are contributions toward the purchase of employee service and employer contributions paid by employees in connection with early retirement.

The following table provides the employer contributions used in the determination of employers' proportionate shares of collective pension amounts reported in the Schedule of Employer Allocations.

	SCRS	PORS
The Authority's proportionate share of contributions for the fiscal year ended June 30, 2023	\$ 118,746,947	528,291
The Authority's allocated share of nonemployer contributions for fiscal year ended June 30, 2023	3,888,038	28,198

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(f) Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability (TPL) determined in accordance with GASB Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*, less that System's fiduciary net position. NPL totals, as of June 30, 2023, for SCRS and PORS and the Authority's proportionate share, are presented below.

<u>System</u>	<u>Total pension liability</u>	<u>Plan fiduciary net position</u>	<u>Collective net pension liability</u>	<u>The Authority's portion of collective net pension liability</u>	<u>The Authority's proportioned share of net pension liability</u>
SCRS	\$ 58,464,402,454	34,286,961,942	24,177,440,512	5.523693 %	\$ 1,335,487,534
PORS	9,450,021,576	6,405,925,370	3,044,096,206	0.156924	4,776,910

For the year ended June 30, 2024, the Authority recognized pension expense of \$245,392,616 and \$229,652 related to the SCRS and PORS pension plans, respectively.

The cash portion of these expenses was \$151,355,850 and the non-cash portion which is included within pension benefits on the statement of revenues, expenses and changes in net position (SORECNP) was \$94,266,418.

Per SECTION 9-1-1690 of the South Carolina Code of Laws, MUHA is not responsible for the non-cash unfunded liability related to pension as described below:

SECTION 9-1-1690. Credit of State is not pledged for payments; rights in case of termination of system or discontinuance of contributions.

"All agreements or contracts with members of the System pursuant to any of the provisions of this chapter shall be deemed solely obligations of the Retirement System and the full faith and credit of this State and of its departments, institutions and political subdivisions and of any other employer is not, and shall not be, pledged or obligated beyond the amounts which may be hereafter annually appropriated by such employers in the annual appropriations act, county appropriation acts and other periodic appropriations for the purposes of this chapter. In case of termination of the System, or in the event of discontinuance of contributions thereunder, the rights of all members of the System to benefits accrued to the date of such termination or discontinuance of contributions, to the extent then funded, are nonforfeitable."

(g) Actuarial Assumptions and Methods

Actuarial valuations of the ongoing plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued for the period ending June 30, 2019.

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The June 30, 2023, total pension liability (TPL), net pension liability (NPL), and sensitivity information shown in this report were determined by the consulting actuary, Gabriel Roeder Smith & Company (GRS) and are based on an actuarial valuation performed as of July 1, 2022. The total pension liability was rolled-forward from the valuation date to the plans' fiscal year end, June 30, 2023, using generally accepted actuarial principles. There was no legislation enacted during the 2023 legislative session that had a material change in the benefit provisions for any of the systems.

The following table provides a summary of the actuarial assumptions and methods used to calculate the TPL as of the June 30, 2023 measurement date.

	<u>SCRS</u>	<u>PORS</u>
Actuarial cost method	Entry age normal	Entry age normal
Investment rate of return ¹	7 %	7 %
Projected salary increases	3% to 11% (varies by service) ¹	3.5% to 10.5% (varies by service) ¹
Benefit adjustments	Lesser of 1% or \$500 annually	Lesser of 1% or \$500 annually

¹ Includes inflation at 2.25%

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2020 Public Retirees of South Carolina Mortality table (2020 PRSC), was developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using 80% of Scale UMP projected from the year 2020.

Assumptions used in the determination of the June 30, 2023, TPL are as follows.

<u>Former job class</u>	<u>Males</u>	<u>Females</u>
Educators	2020 PRSC males multiplied by 95%	2020 PRSC females multiplied by 94%
General employees and members of the general assembly	2020 PRSC males multiplied by 97%	2020 PRSC females multiplied by 107%
Public safety and firefighters	2020 PRSC males multiplied by 127%	2020 PRSC females multiplied by 107%

(h) Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments is based upon 20-year capital market assumptions. The long-term expected rates of return represent assumptions developed using

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an arithmetic building block approach primarily based on consensus expectations and market-based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2023 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table below. For actuarial purposes, the 7 percent assumed annual investment rate of return used in the calculation of the TPL includes a 4.75 percent real rate of return and a 2.25 percent inflation component.

<u>Asset class</u>	<u>Target asset allocation (%)</u>	<u>Expected arithmetic real rate of return (%)</u>	<u>Long-term expected portfolio real rate of return (%)</u>
Public equity	46.00 %	6.62 %	3.04 %
Bonds	26.00	0.31	0.08
Private equity ¹	9.00	10.91	0.98
Private debt ¹	7.00	6.16	0.43
Real assets	12.00		
Real estate ¹	9.00	6.41	0.58
Infrastructure ¹	3.00	6.62	0.20
Total expected return ²	<u>100.00 %</u>		5.31
Inflation for actuarial purposes			<u>2.25</u>
			<u>7.56 %</u>

¹ RSIC staff and consultant will notify the Commission if the collective exposure to Private Equity, Private Debt and Private Real Assets exceeds 30 percent of total plan assets.

² Portable Alpha Strategies, which are not included in the Policy Target, will be capped at 15% of total assets; hedge funds (including all hedge funds used in portable alpha implementation) are capped at 15% of total assets.

(i) Discount Rate

The discount rate used to measure the TPL was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina Code of Laws. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore,

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the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

(j) Sensitivity Analysis

The following table presents the collective NPL of the participating employers calculated using the discount rate of 7.00 percent, as well as what the employers' NPL would be if it were calculated using a discount rate that is 1.00 percent lower (6.00 percent) or 1.00 percent higher (8.00 percent) than the current rate.

**The Authority's sensitivity of the net pension liability
to changes in the discount rate**

	1.00% Decrease (6.00%)	Current discount rate (7.00%)	1.00% Increase (8.00%)
SCRS	\$ 1,725,577,243	1,335,487,534	1,011,258,440
PORS	6,738,554	4,776,910	3,170,079

(k) Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2023, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Net differences between expected and actual experience ^{1,2} :		
SCRS	\$ 23,186,379	3,703,505
PORS	224,806	58,889
Assumption changes ^{1,2} :		
SCRS	20,461,595	—
PORS	103,965	—
Net difference between projected and actual investment earnings ³ :		
SCRS	—	1,827,989
PORS	—	8,199
Changes in proportionate share and differences between employer contributions and proportionate share of total plan employer contributions:		
SCRS	117,514,865	—
PORS	30,103	883,459

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	Deferred outflows of resources	Deferred inflows of resources
The Authority's contributions subsequent to the measurement date:		
SCRS	\$ 154,387,599	—
PORS	837,202	—
Total	\$ 316,746,514	6,482,041

¹ In accordance with GASB 68, paragraph 71a, the (1) difference between each year's expected and actual experience and (2) assumption changes are required to be amortized over the average remaining service lives of all employees provided with pensions through the plan at June 30.

² Amount amortized and included in pension expense during the measurement period listed.

³ In accordance with GASB 68, paragraph 71b, the difference between each year's projected and actual investment earnings is required to be amortized over a closed, five-year period.

Approximately \$155 million reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the NPL in the year ended June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	SCRS	PORS
Year ended June 30:		
2025	\$ 82,983,397	(253,066)
2026	18,744,322	(469,427)
2027	54,686,934	135,818
2028 and thereafter	(783,308)	(4,998)
2029 and thereafter	—	—
Net balance of deferred outflows of resources	\$ 155,631,345	(591,673)

(I) Pension Plan Fiduciary Net Position

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the separately issued AFR containing financial statements and required supplementary information for SCRS and PORS. The AFR of the Pension Trust Funds is publicly available on PEBA's Retirement Benefits' website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, South Carolina 29223.

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(12) Other Post-Employment Benefits

The South Carolina Public Employee Benefit Authority (PEBA) was created by the South Carolina General Assembly as part of Act No. 278 effective July 1, 2012. PEBA – Insurance Benefits is a state agency responsible for the administration and management of the state’s employee insurance programs, other post-employment benefits trusts and retirement systems and is part of the State of South Carolina primary government.

(a) Plan Description

The Other Post-Employment Benefits Trust Funds (OPEB Trusts), collectively refers to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF), were established by the State of South Carolina as Act 195, which became effective in May 2008. The SCRHITF was created to fund and account for the employer costs of the State’s retiree health and dental plans. The SCLTDITF was created to fund and account for the employer costs of the State’s Basic Long-Term Disability Income Benefit Plan.

In accordance with Act 195, the OPEB Trusts are administered by the PEBA – Insurance Benefits and the State Treasurer is the custodian of the funds held in trust. The Board of Directors of PEBA has been designated as the Trustee.

The OPEB Trusts are cost-sharing multiple-employer defined benefit OPEB plans. Article 5 of the State Code of Laws defines the two plans and authorizes the Trustee to at any time adjust the plans, including its benefits and contributions, as necessary to insure the fiscal stability of the plans. In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents.

(b) Benefits

The SCRHITF is a healthcare plan that covers retired employees of the State of South Carolina, including all agencies, and public school districts. The SCRHITF provides health and dental insurance benefits to eligible retirees. Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15-24 years of service for 50% employer funding.

The SCLTDITF is a long-term disability plan that covers employees of the State of South Carolina, including all agencies and public school districts and all participating local governmental entities. The SCLTDITF provides disability payments to eligible employees that have been approved for disability.

(c) Contributions and Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires the postemployment and long-term disability benefits to be funded through non-employer and employer contributions for active employees and retirees to the PEBA – Insurance Benefits. Non-employer contributions consist of an annual appropriation by the General Assembly and the statutorily required transfer from PEBA – Insurance Benefits reserves.

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The SCRHITF is funded through participating employers that are mandated by State statute to contribute at a rate assessed each year by the Department of Administration Executive Budget Office on active employee covered payroll. The covered payroll surcharge for the year ended June 30, 2023 was 6.25 percent, as mandated by the state of South Carolina statute. The South Carolina Retirement System collects the monthly covered payroll surcharge for all participating employers and remits it directly to the SCRHITF. Other sources of funding for the SCRHITF also include the implicit subsidy, or age-related subsidy inherent in the healthcare premiums structure. The implicit subsidy represents a portion of the health care expenditures paid on behalf of the employer's active employees. For purposes of GASB Statement No. 75, this expenditure on behalf of the active employee is reclassified as a retiree health care expenditure so that the employer's contributions towards the plan reflect the underlying age-adjusted, retiree benefit costs. Non-employer contributions consist of an annual appropriation by the General Assembly and the statutorily required transfer from PEBA – Insurance Benefits reserves. However, due to the COVID-19 pandemic and the impact it has had on the PEBA – Insurance Benefits reserves, the General Assembly has indefinitely suspended the statutorily required transfer until further notice. The SCRHITF is also funded through investment income.

The SCLTDITF is funded through employer contributions for active employees that elect health insurance coverage. For this group of active employees, PEBA – Insurance Benefits bills and collects premiums charged to State agencies, public school districts and other participating local governments. The monthly premium per active employee was \$3.22 for the fiscal year ended June 30, 2023. The SCLTDITF premium is billed monthly by PEBA – Insurance Benefits and transferred monthly to the SCLTDITF. It is also funded through investment income.

The allocation percentage of the OPEB amounts are calculated differently for each OPEB Trust. For the SCRHITF, the allocation percentage is based on the covered payroll surcharge contribution for each employer. Actual covered payroll contributions received from SCRS for the fiscal year 2023 totaled \$655,193,006. However, the covered payroll contributions total includes prior year covered payroll contribution adjustments and true-ups that net to a total of (\$159,380).

In accordance with part (b) of paragraph 69 of GASB Statement No. 75, participating employers should recognize revenue in an amount equal to the employer's proportionate share of the change in the collective net OPEB liability arising from contributions to the OPEB plan during the measurement period from non-employer contributing entities for purposes other than the separate financing of specific liabilities to the OPEB plan. Therefore, employers should classify this revenue in the same manner as it classifies grants from other entities.

For purposes of measuring the net OPEB liability, deferred outflows and inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Trusts, and additions to and deductions from the OPEB Trusts fiduciary net position have been determined on the same basis as they were reported by the OPEB Trusts. For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Therefore, benefit and administrative expenses are recognized when due and payable. Investments are reported at fair value.

PEBA – Insurance Benefits issues audited financial statements and required supplementary information for the OPEB Trust Funds. This information is publicly available through the PEBA – Insurance Benefits' link on PEBA's website at www.peba.sc.gov or a copy may be obtained by

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submitting a request to PEBA – Insurance Benefits, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the state of South Carolina and therefore, OPEB Trust fund financial information is also included in the annual comprehensive financial report of the state.

The following table provides the employer contributions used in the determination of employers' proportionate shares of collective OPEB amounts reported:

	SCRHITF	SCLTDITF
The Authority's proportionate share of contributions for the plan year ended June 30, 2023	\$ 47,979,972	393,464
Contributions from nonemployer contributing entities for plan year ended June 30, 2023	173,928	—

(d) Net OPEB Liability

The Net OPEB Liability (NOL) is calculated separately for each OPEB Trust Fund and represents that particular Trust's Total OPEB Liability (TOL) determined in accordance with GASB No. 74 less that Trust's fiduciary net position. The allocation of each employer's proportionate share of the collective Net OPEB Liability and collective OPEB Expense was determined using the employer's payroll-related contributions over the measurement period. This method is expected to be reflective of the employer's long-term contribution effort as well as be transparent to individual employers and their external auditors.

The following table represents the components of the net OPEB liability as of June 30, 2023:

OPEB trust	Total OPEB liability	Plan fiduciary net position	Net OPEB liability	Plan Fiduciary Net Position as a % of total OPEB liability	The Authority's portion of net OPEB liability	The Authority's proportioned share of net OPEB liability
SCRHITF	\$ 14,749,639,155	1,658,152,923	13,091,486,232	11.24 %	7.322374 %	\$ 958,607,586
SCLTDITF	47,855,524	32,544,441	15,311,083	68.01	5.150827	788,646

For the year ended June 30, 2024, the Authority recognized OPEB expense of \$84,080,491 and \$525,740 related to the SCRHITF and SCLTDITF, respectively.

The cash portion of these expenses was \$54,250,251 and the non-cash portion which is included within other postemployment benefits on the statement of revenues, expenses and changes in net position was \$30,355,980.

Per SECTION 9-1-1690 of the South Carolina Code of Laws, MUHA is not responsible for the non-cash unfunded liability related to the OPEB.

SECTION 9-1-1690. Credit of State is not pledged for payments; rights in case of termination of system or discontinuance of contributions.

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“All agreements or contracts with members of the System pursuant to any of the provisions of this chapter shall be deemed solely obligations of the Retirement System and the full faith and credit of this State and of its departments, institutions and political subdivisions and of any other employer is not, and shall not be, pledged or obligated beyond the amounts which may be hereafter annually appropriated by such employers in the annual appropriations act, county appropriation acts and other periodic appropriations for the purposes of this chapter. In case of termination of the System, or in the event of discontinuance of contributions thereunder, the rights of all members of the System to benefits accrued to the date of such termination or discontinuance of contributions, to the extent then funded, are nonforfeitable.”

(e) Actuarial Assumptions and Methods

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

Projections of benefits for financial reporting purposes are based on the substantive plans (as understood by the employer and plan participants) and include the types of benefits provided at the time the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

Additional information as of the latest actuarial valuation for SCRHITF is as follows:

Valuation date:	June 30, 2022
Actuarial cost method:	Individual Entry-Age Normal
Inflation:	2.25%
Investment rate of return:	2.75%, net of OPEB plan investment expense, including inflation
Single discount rate:	3.86% as of June 30, 2023
Demographic assumptions:	Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ended June 30, 2019
Mortality:	For healthy retirees, the gender-distinct South Carolina Retirees 2020 Mortality Tables are used with multipliers based on plan experience; the rates are projected on a fully generational basis using 80% of the ultimate rates of Scale MP-2019 to account for future mortality improvements.

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Health care trend rate:	Initial trend starting at 6.00% and gradually decreasing to an ultimate trend rate of 4.00% over a period of 13 years
Aging factors:	Based on plan specific experience
Participation Rates:	79% for retirees who are eligible for Funded Premiums 59% participation for retirees eligible for Partial Funded Premiums 20% participation for retirees who are eligible for Non-Funded Premiums
Notes:	The discount rate changed from 3.69% as of June 30, 2022 to 3.86% as of June 30, 2023.

Additional information as of the latest actuarial valuation for SCLTDITF is as follows:

Valuation date:	June 30, 2022
Actuarial cost method:	Individual Entry-Age Normal
Inflation:	2.25%
Investment rate of return:	3.00%, net of Plan investment expense, including inflation
Single discount rate:	3.57% as of June 30, 2023
Salary, termination, and retirement rates:	Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ended June 30, 2019
Disability incidence:	The disability incidence rates used in the valuation are 165% of the rates developed for the South Carolina Retirement Systems pension plans
Disability recovery:	For participants in payment, 1987 CGDT Group Disability; for active employees, 60% were assumed to recover after the first year and 93% were assumed to recover after the first two years.
Offsets:	45% are assumed to be eligible for Social Security benefits; assumed percentage who will be eligible for a pension plan offset varies based on employee group
Expenses:	Third party administrative expenses were included in the benefit projections
Notes:	The single discount rate changed from 3.41% as of June 30, 2022 to 3.57% as of June 30, 2023.

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Roll Forward Disclosure

The actuarial valuations were performed as of June 30, 2022. Update procedures were used to roll forward the total OPEB liabilities to the measurement date of June 30, 2023.

(f) Long-Term Expected Rate of Return

The long-term expected rate of return represents assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2018 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation. This information is summarized in the following table:

South Carolina Retiree Health Insurance Trust Fund			
Asset class	Target asset allocation (%)	Expected arithmetic real rate of return (%)	Allocation- weighted long-term expected real rate of return (%)
U.S. domestic fixed income	80.00	0.95	0.76
Cash	20.00	0.35	0.07
Total	100.00		0.83
Expected inflation			2.25
Total return			3.08
Investment return assumption			2.75

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South Carolina Long-Term Disability Insurance Trust Fund

<u>Asset class</u>	<u>Target asset allocation (%)</u>	<u>Expected arithmetic real rate of return (%)</u>	<u>Allocation-weighted long-term expected real rate of return (%)</u>
U.S. domestic fixed income	80.00	0.95	0.76
Cash	20.00	0.35	0.07
Total	<u>100.00</u>		0.83
Expected inflation			<u>2.25</u>
Total return			<u>3.08</u>
Investment return assumption			3.00

(g) Single Discount Rate

The Single Discount Rate of 3.86% was used to measure the total OPEB liability for the SCRHITF. The accounting policy for this plan is to set the Single Discount Rate equal to the prevailing municipal bond rate. Due to the plan's investment and funding policies, the difference between a blended discount rate and the municipal bond rate would be less than several basis points (several hundredths of one percent).

A Single Discount Rate of 3.57% was used to measure the total OPEB liability for the SCLTDITF. This Single Discount Rate was based on an expected rate of return on plan investments of 3.00% and a municipal bond rate of 3.86%. The projection of cash flows to determine this Single Discount Rate assumed that employer contributions will remain at \$38.64 per year for each covered active employee. Based on these assumptions, the plan's Fiduciary Net Position and future contributions were sufficient to finance the benefit payments through the year 2033. As a result, the long-term expected rate of return on plan investments was applied to project benefit payments through the year 2033, and the municipal bond rate was applied to all benefit payments after that date.

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(h) Sensitivity Analysis

The following table presents the SCRHITF's net OPEB liability calculated using a Single Discount Rate of 3.86%, as well as what the plan's net OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

The Authority's sensitivity of the Net OPEB Liability to changes in the discount rate			
	1.00% decrease (2.86%)	Current discount rate (3.86%)	1.00% increase (4.86%)
SCRHITF Net OPEB Liability	\$ 1,131,597,420	958,607,584	819,089,878

Regarding the sensitivity of the SCRHITF's net OPEB liability to changes in the healthcare cost trend rates, the following table presents the plan's net OPEB liability, calculated using the assumed trend rates as well as what the plan's net OPEB liability would be if were calculated using a trend rate that is one percent lower or one percent higher:

The Authority's sensitivity of the Net OPEB Liability to changes in the healthcare cost trend rates			
	1.00% decrease	Healthcare cost trend rate	1.00% increase
SCRHITF Net OPEB Liability	\$ 795,970,776	958,607,584	1,167,560,701

The following table presents the SCLTDITF's net OPEB liability calculated using a Single Discount Rate of 3.57%, as well as what the plan's net OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

	Decrease (2.57%)	Discount Rate (3.57%)	Increase (4.57%)
SCLTDITF Net OPEB Liability	\$ 885,941	788,646	694,633

The SCLTDITF's net OPEB liability is not affected by the changes in the healthcare cost trend rates due to the method used to calculate benefit payments. Therefore, the sensitivity to healthcare cost trend rates have not been calculated.

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(i) Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

As discussed in paragraph 86 of GASB Statement No. 75, differences between expected and actual experience and changes in assumptions are recognized in OPEB expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided OPEB through the OPEB plan (active and inactive members) determined as of the beginning of the measurement period.

Additionally, differences between projected and actual earnings on OPEB plan investments should be recognized in OPEB expense using a systematic and rational method over a closed five year period. For this purpose, the deferred outflows and inflows of resources are recognized in the OPEB expense as a level dollar amount over the closed period identified above.

The schedules on the following pages reflects the amortization of collective deferred outflows/(inflows) of resources related to OPEB outstanding at June 30, 2023.

	Deferred outflows of resources	Deferred inflows of resources
Net differences between expected and actual experience:		
SCRHITF	\$ 16,959,468	218,444,848
SCLTDITF	208,025	91,610
Assumption changes:		
SCRHITF	192,307,838	307,988,941
SCLTDITF	103,580	88,865
Net difference between projected and actual earnings on OPEB plan investments:		
SCRHITF	9,627,206	—
SCLTDITF	217,907	—
Changes in proportionate share and differences between employer contributions and proportionate share of total plan employer contributions:		
SCRHITF	245,510,903	356
SCLTDITF	59,755	10,040
The Authority's contributions subsequent to the measurement date:		
SCRHITF	58,035,688	—
SCLTDITF	445,635	—
Total	\$ 523,476,005	526,624,660

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The \$58.5 million reported as deferred outflows of resources related to OPEB resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the NOL in the year ended June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SCRHITF	SCLTDITF
2024	\$ 18,895,019	73,369
2025	21,681,057	104,109
2026	12,581,869	89,365
2027	(33,764,482)	32,911
2028	(67,648,654)	22,376
2029 and thereafter	(13,773,539)	76,622
Net balance of deferred (inflows) outflows of resources	\$ (62,028,730)	398,752

(13) Defined Benefit Pension Plan

(a) Plan Description

As part of the Regional Medical Center acquisition, the Authority assumed RMC's defined benefit pension plan (the Plan). The Plan is a single-employer defined benefit pension plan, which provides for retirement, death, and disability benefits to plan participants and beneficiaries. The Authority reserves the right to amend the Plan at any time. If the Plan is terminated, the Plan assets will be distributed among the plan participants based upon a priority allocation procedure. The Authority shall be liable for any unfunded vested benefits to the extent required by law. Separate financial statements related to the Plan were not issued for fiscal year 2024.

Effective January 1, 2010, the Plan was amended to permanently suspend benefit accruals. No additional benefits accrue under the Plan for service on and after January 1, 2010. However, employees continue to accrue years of service for the purposes of qualifying for vesting, early retirement, and normal retirement.

The plan year is from July 1 to June 30 and actuarial assumptions and other information is presented based on the plan year ended June 30, 2024.

(b) Benefits

Participants with five or more years of service, as defined by the Plan, are entitled to pension benefits upon retirement when they meet the requirements of the Plan. If employees terminate before rendering five years of continuous service, they forfeit the right to receive pension benefits upon retirement. Pension benefits are provided to participants under several types of retirement options based upon years of service and age. Retirement benefits are paid to pensioners or beneficiaries in various forms of joint and survivor annuities, including a lump-sum payment option if the value is less than \$15,000.

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In the event of a vested employee's death, his or her designated beneficiary will be entitled to receive a survivor benefit equal to 50% of the participant's accrued benefit (survivor annuity), according to Plan provisions. The survivor benefit commences on the earliest date that the deceased participant could have elected to receive retirement benefits. If a participant becomes disabled, he or she may elect disability retirement. Disabled participants are eligible for early retirement when the benefits under the Authority's long-term disability insurance expire.

The following employees were covered by the benefit terms as of January 1, 2024:

Active employees	211
Inactive participants entitled to future benefits	498
Inactive participants receiving benefits	564
Beneficiaries receiving benefits	55
Disabled participants receiving benefits	6
	<hr/>
	1,334
	<hr/> <hr/>

(c) Contributions and Funding Policies

Contributions to provide benefits under the Plan are made solely by the Authority. The entire cost of the Plan is borne by the Authority. Plan members are not required to contribute to the Plan. The Authority contributes at an actuarially determined rate under the Plan sponsor's funding policy for the Plan year.

Although it has not expressed any intent to do so, MUHA has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth under ERISA.

(d) Net Pension Liability

The Authority's net pension liability was measured as of June 30, 2024 for the year ended June 30, 2024 and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of those dates.

For the year ended June 30, 2024, the Authority recognized pension expense of approximately \$3,787,000.

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The following represents the changes in the net pension liability as of June 30, 2024:

	<u>Total pension liability</u>	<u>Plan fiduciary net position</u>	<u>Net pension liability</u>
Balances at June 30, 2023	\$ 77,599,455	49,277,284	28,322,171
Changes for the year:			
Interest	5,176,409	—	5,176,409
Differences between expected and actual experience	1,100,376	4,082,872	(2,982,496)
Return on assets	—	3,193,859	(3,193,859)
Benefits paid	<u>(5,706,412)</u>	<u>(5,706,412)</u>	<u>—</u>
Net changes	<u>570,373</u>	<u>1,570,319</u>	<u>(999,946)</u>
Balances at June 30, 2024	<u>\$ 78,169,828</u>	<u>50,847,603</u>	<u>27,322,225</u>

(e) Actuarial Assumptions

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The total pension liability in the June 30, 2024 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Discount rate	7 %
Expected return on plan assets	7 %
Mortality	RP-2014 mortality table with MP-2021 mortality projection scale

The discount rate adopted by the Authority for valuing plan liabilities was determined by the methods prescribed under applicable guidance which requires the use of a long-term rate of return on plan assets, unless a projection of the net fiduciary position will not be sufficient to provide for projected benefit payments of the covered current and former employees.

The projected return on plan assets assumption is developed through review of current and historical capital markets data and historical performance of investment strategies. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2024 are summarized in the following table:

Asset class	Target asset allocation	Expected arithmetic real rate of return
Bonds	30 %	5.25 %
Equities	70	7.70
	100 %	

(f) Fair Value Measurements

A summary of the Plan's assets within the fair value hierarchy as of June 30, 2024, is as follows:

	Investments fair value level	Fair value measurements		
		Level 1	Level 2	Level 3
Investment by fair value level				
Money market accounts	\$ 14,970,976	14,970,976	—	—
Fixed income securities	1,932,902	—	1,932,902	—
Equity mutual funds	33,943,725	—	33,943,725	—
Total investment by level	\$ 50,847,603	14,970,976	35,876,627	—

(g) Investments

The Authority may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies. It may also invest to a limited extent in corporate bonds.

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As of June 30, 2024, the Plan had the following investments with set maturities by a custodial bank that is the agent of the Authority:

	Fair value	Investment maturity			More than 10 years
		Less than 1 year	1-5 Years	6-10 Years	
Money Market Fund	\$ 14,970,976	14,970,976	—	—	—
Fixed-income securities:					
Mortgage Backed Obligation	124,621	—	—	38,446	86,175
U.S. Government Mortgage Pool	1,808,281	2,118	256,202	943,264	606,697
Equity mutual funds	33,943,725	27,922,750	6,020,975	—	—
Total investments	\$ 50,847,603	42,895,844	6,277,177	981,710	692,872

(h) Sensitivity Analysis

The Authority's sensitivity of the Net Pension Liability to changes in the discount rate

		1.00% decrease	Current discount rate	1.00% increase
		6.0%	7.0%	8.0%
Net pension liability	\$	34,709,652	27,322,225	21,033,776

(i) Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2024, the Authority reported deferred outflows of resources and deferred inflows of resources related to the RMC pension from the following sources:

		Deferred outflows of resources	Deferred inflows of resources
Net differences between expected and actual experience	\$	279,201	—
Assumption changes		5,299,356	6,353,125
Total	\$	5,578,557	6,353,125

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The amounts reported as deferred inflows and outflows of resources related to the RMC pension will be recognized in pension expense as follows:

Year ended June 30:		
2025	\$	106,532
2026		716,731
2027		(781,255)
2028		(816,574)
2029		<u>(2)</u>
Net balance of deferred outflows of resources	\$	<u><u>(774,568)</u></u>

(14) Business and Credit Concentrations

The Authority provides healthcare services through its inpatient and outpatient care facilities principally located in and around Charleston, South Carolina. The Authority grants credit to patients, substantially all of whom are residents of its service area. The Authority generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans or policies (e.g., Medicare, Medicaid, Blue Cross and commercial insurance policies).

The mix of receivables from patients and third-party payors as of June 30, 2024 is as follows:

Blue Cross	15 %
Medicare	35
Medicaid	13
Private insurance/managed care	22
Medically indigent/self pay/other	<u>15</u>
	<u><u>100 %</u></u>

(15) Risk Management

The Authority is exposed to various risks of loss and maintains State or commercial insurance coverage related to torts; theft of, damage to and destruction of assets; real property, its contents, and other equipment; motor vehicles; business interruption; employee injuries and illness; natural disasters; and professional and general liability claims and judgments. The Authority participates in the South Carolina Insurance Reserve Fund (IRF) and the SC State Accident Fund (SAF), which provides coverage for substantially all such risks. The Authority pays premiums to the IRF and SAF and effectively receives unlimited occurrence-based coverage for all consequential risks of loss (when combined with related recovery limit protections provided by state statutes). The Authority obtains coverage through commercial insurers for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation as well as coverage for directors' and officers' and cyber risks. There were no significant reductions from coverage in the prior year.

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(16) Leases

The Authority follows GASB Statement No. 87, *Leases*, which requires governments to recognize certain lease assets and liabilities for leases that previously were classified as operating leases and recognize as inflows of resources or outflows of resources based on the payment provisions of the contract. This Statement also establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Intangible right-to-use lease assets

A summary of lease asset activity during the year ended June 30, 2024 is as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Lease assets:				
Land	\$ 2,035,991	3,344,315	—	5,380,306
Buildings	222,784,473	42,170,280	(8,986,169)	255,968,584
Equipment	110,274,810	15,088,406	(5,905,590)	119,457,626
Total lease assets	<u>335,095,274</u>	<u>60,603,001</u>	<u>(14,891,759)</u>	<u>380,806,516</u>
Less accumulated amortization:				
Land	(147,625)	(78,911)	—	(226,536)
Buildings	(44,496,972)	(26,843,029)	7,716,374	(63,623,627)
Equipment	(28,183,853)	(22,452,721)	3,530,540	(47,106,034)
Total accumulated amortization	<u>(72,828,450)</u>	<u>(49,374,661)</u>	<u>11,246,914</u>	<u>(110,956,197)</u>
Total lease assets, net	<u>\$ 262,266,824</u>	<u>11,228,340</u>	<u>(3,644,845)</u>	<u>269,850,319</u>

Lease liabilities

A summary of changes in the related lease liabilities during the year ended June 30, 2024 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Remeasure- ments</u>	<u>Deductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Lease liabilities	\$ 249,136,446	51,979,291	11,889,604	(45,589,914)	267,415,427	38,918,039
Total	<u>\$ 249,136,446</u>	<u>51,979,291</u>	<u>11,889,604</u>	<u>(45,589,914)</u>	<u>267,415,427</u>	<u>38,918,039</u>

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The Authority has entered into financing type lease agreements for the purpose of funding certain equipment and property acquisitions expiring in various years through 2079. Future minimum lease payments due under financing leases, in the aggregate, are as follows:

	<u>Building</u>	<u>Equipment</u>	<u>Land</u>	<u>Total</u>
2025	\$ 28,707,172	22,722,878	94,080	51,524,130
2026	27,715,012	19,762,937	94,080	47,572,029
2027	26,835,036	15,837,151	94,080	42,766,267
2028	32,903,669	13,659,045	97,844	46,660,558
2029	17,150,551	6,507,928	105,372	23,763,851
2030–2034	61,096,133	3,116,447	543,708	64,756,288
2035–2039	38,950,333	—	608,936	39,559,269
2040–2044	19,016,622	—	682,036	19,698,658
2045–thereafter	17,615,725	—	542,784	18,158,509
	<u>269,990,253</u>	<u>81,606,386</u>	<u>2,862,920</u>	<u>354,459,559</u>
Less interest at rates from 1.2% to 30.98%	<u>79,554,024</u>	<u>6,580,782</u>	<u>909,326</u>	<u>87,044,132</u>
Present value of future minimum lease payments	190,436,229	75,025,604	1,953,594	267,415,427
Less current installments	<u>18,555,341</u>	<u>20,329,493</u>	<u>33,205</u>	<u>38,918,039</u>
Financing lease obligations, excluding current installments	<u>\$ 171,880,888</u>	<u>54,696,111</u>	<u>1,920,389</u>	<u>228,497,388</u>

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Of the above leases, three properties are sub-leased from related parties. Principal and interest requirements for those properties is as follows:

Building properties that are sub-leased from related parties:

2025	\$	2,060,979
2026		2,092,050
2027		2,123,898
2028		2,156,543
2029		2,020,679
2030–2034		1,752,199
2035–2039		704,115
2040–2044		<u>70,412</u>
		12,980,875
Less interest at rates from 1.2% to 2.62%		<u>737,213</u>
Present value of future minimum lease payments		12,243,662
Less current installments		<u>1,874,503</u>
Financing lease obligations, excluding current installments	\$	<u><u>10,369,159</u></u>

(17) Subscription-Based Information Technology Arrangements

The Authority recognized a subscription-based technology right of use assets with the implementation of its enterprise resource planning system (ERP) in 2022. The ERP was implemented to improve functionality within the Authority's human capital management, payroll and accounting processes.

A summary of the SBITA asset activity during the year ended June 30, 2024 is as follows.

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Lease assets:				
SBITA asset	\$ 34,181,577	—	(370,066)	<u>33,811,511</u>
Total lease assets	<u>34,181,577</u>	<u>—</u>	<u>(370,066)</u>	<u>33,811,511</u>
Less accumulated amortization:				
SBITA asset	<u>(5,416,983)</u>	<u>(7,638,565)</u>	—	<u>(13,055,548)</u>
Total accumulated amortization	<u>(5,416,983)</u>	<u>(7,638,565)</u>	<u>—</u>	<u>(13,055,548)</u>
Total lease assets, net	<u>\$ 28,764,594</u>	<u>(7,638,565)</u>	<u>(370,066)</u>	<u><u>20,755,963</u></u>

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A summary of changes in the related SBITA liabilities during the year ended June 30, 2024 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Remeasure- ments</u>	<u>Deductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
SBITA liabilities	\$ 9,890,235	—	(362,811)	(2,265,288)	7,262,136	2,349,269
Total	\$ 9,890,235	—	(362,811)	(2,265,288)	7,262,136	2,349,269

Principal and interest requirements to maturity for the subscription liability for the remaining fiscal years, are as follows:

	<u>SBITA</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
Fiscal year:			
2025	\$ 2,349,269	184,115	2,533,384
2026	2,420,002	113,376	2,533,378
2027	2,492,865	40,507	2,533,372
	<u>\$ 7,262,136</u>	<u>337,998</u>	<u>7,600,134</u>

(18) Related Party Transactions

The following describes the Authority's material agreements with related parties:

(a) The University

Under the terms of various agreements related to the Authority's establishment as a distinct healthcare system, the University provides a variety of shared services for the Authority, including facilities oversight, administrative and financial services and other types of general operating support. The Authority also leases certain facilities space from the University under the Reciprocal Space Agreement. This lease is year-to-year and as a result is considered a short term lease under GASB 87. The cost of these services and leases totaled approximately \$80.6 million for fiscal year 2024, and is included in services and supplies expense in the accompanying Statement of Revenues, Expenses and Changes in Net Position.

The Authority also reimburses the University for certain professional clinical services provided by interns and residents receiving medical education at the University. The cost of these services totaled approximately \$79.8 million for fiscal year 2024, and is included in services and supplies expense in the accompanying Statement of Revenues, Expenses and Changes in Net Position.

The Authority rents certain facilities space to and provides limited support services for the University. The income earned by the Authority for such items was approximately \$10.8 million during fiscal year 2024, which is included in other operating revenue in the accompanying Statement of Revenues, Expenses and Changes in Net Position. The Authority made certain payments to the University related to the Hollings Cancer Center of \$5.2 million during fiscal year 2024.

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The Authority had a net payable to the University of approximately \$2.7 million at June 30, 2024. This payable is a component of due to related parties, net on the Statement of Net Position.

(a) University Medical Associates (UMA)

University Medical Associates (UMA), a blended component unit of the University, is a separately organized professional services corporation associated with the University's faculty practice plan. UMA and the Authority have entered into certain agreements related to clinical and other services provided by UMA and its practicing physicians for the benefit of the Authority. Net amounts paid by the Authority to UMA under these agreements totaled approximately \$192.3 million during fiscal year 2024 and are included in services and supplies expense in the accompanying Statement of Revenues, Expenses and Changes in Net Position.

UMA also provides billing and collection services to the Authority related to certain limited clinical services, for which UMA receives an administrative fee. Total billings by UMA for the Authority services were approximately \$67.7 million in fiscal year 2024. The amounts collected and remitted by UMA to the Authority with respect to these billings amounted to approximately \$7.3 million in fiscal year 2024 and is included in patient service revenue in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The administrative fees paid by the Authority to UMA amounted to approximately \$1.0 million for fiscal year 2024 and are included in services and supplies expense in the accompanying Statement of Revenues, Expenses and Changes in Net Position.

UMA and the Authority jointly fund the costs of an ambulatory and revenue cycle EHR system, business applications and information security and infrastructure. The funding percentages for each entity depend on the particular costs incurred. The types of costs paid in fiscal year 2024 were primarily operating costs. Included in this figure is an \$28.2 million supplemental Medicaid payment that will be passed through from the State of South Carolina which is within the net payable to UMA mentioned below. Gross amounts paid by UMA to the Authority totaled approximately \$3.6 million during fiscal year 2024 and are included in compensation and employee benefits and services and supplies expense in the accompanying Statement of Revenues, Expenses and Changes in Net Position.

The Authority had a net payable to UMA in the amount of approximately \$33.4 million at June 30, 2024. This payable is a component of due to related parties, net on the Statement of Net Position.

(b) The State of South Carolina

The Authority benefits from certain administrative services provided by related state agencies and departments. The cost of these services (primarily related to insurance program administration, record keeping and centralized treasury management) is either insignificant relative to the Authority's allocable portion or is funded by the Authority with payments as described in notes 8, 10, 11, 12 and 14.

(c) Others

MUSC Strategic Venture, Inc. (MSV) is a tax-exempt corporation classified as a support organization to MUSC. MSV was created to allow affiliation with tax-exempt parties outside the MUSC enterprise for the provision of additional services not currently offered by the Authority or UMA. MSV is a component unit of MUSC as MUSC appoints six of eight of the voting board members and can impose its will on the entity. UMA appoints two board members and the final board member is an independent director appointed by the board.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
(A Component Unit of the Medical University of South Carolina)

Notes to Basic Financial Statements

June 30, 2024

MSV provides management, administration and other support services to the Authority. The Authority pays MSV for the cost of payroll, including fringe benefits and other expenses. For the fiscal year ended June 30, 2024, the total payroll and other expense amounted to approximately \$0.2 million.

The Authority has a net payable to MSV of approximately \$2.6 million at June 30, 2024. The net payable consists of support and other services owed to MSV.

MSV Health, Inc. (MHI) was formed on August 9, 2016 and is a taxable Delaware corporation wholly owned by MSV. MHI was created to allow affiliation with taxable parties outside the MUSC enterprise for the provision of additional services not currently offered by the Authority or UMA. As of June 30, 2024, the total payable of \$5.8 million consists of rental, interest and other expenses paid by the Authority.

MUSC Health Partners, LLC (MHP) is wholly-owned by UMA and was formed for the purpose of creating a multispecialty care network outside of the Charleston, South Carolina area as well as consummate affiliations with other health systems to provide care. Its providers will not have faculty appointments with MUSC and will not work on the campus of MUSC. As of June 30, 2024, there was a net balance of \$0.01 million owed by MHP to the Authority.

Mainsail Health Partners (MCML) is an affiliate of the Authority whereby Mainsail commits to support MUSC and its charitable, eleemosynary, educational, scientific mission, purposes and programs, including without limitation supporting certain entities as directed by MUSC. The Authority has a net payable to MCML of approximately \$2.3 million at June 30, 2024. The net receivable consists of legal fees and management services.

MCML provides management, administration and other support services to the Authority. The Authority pays MCML for the cost of payroll, including fringe benefits and other expenses. For the fiscal year ended June 30, 2024, the total payroll and other expense amounted to approximately \$0.2 million.

MUSC Health Alliance, LLC (MHA) was formed on May 23, 2016 for the purpose of qualifying and operating as an accountable care organization participating in the Medicare Shared Saving Program within the meaning of Section 1899 of the Social Security Act. MHA is governed by a Board of Directors consisting of eight directors with the Authority appointing three. The Authority has a 45% membership interest and UMA has a 55% membership interest. The Authority has a net receivable from MHA of approximately \$0.4 million at June 30, 2024.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
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Notes to Basic Financial Statements

June 30, 2024

As of June 30, 2024, the total net payable due to MSV, MHI, MCML, MHP, and MHA is reflected as a component of due to joint ventures and partnerships, net on the Statement of Net Position.

	Fiscal year ended June 30, 2024
MSV	\$ (2,558,590)
MHI	5,759,182
MCML	2,306,185
MHP	14,624
MHA	(398,618)
Total net payable (receivable)	\$ 5,122,783

(19) Investment in Joint Ventures

On May 28th, 2021, the Authority entered into a substitution agreement to assume Mainsail Health Partners (MCML) membership interest (the "Tidelands Membership Interest") in Georgetown Hospital system, d/b/a Tidelands Health ("Tidelands"). Tidelands is governed by a board of trustees comprised by a maximum of twenty-one voting trustees and two non-voting trustees. The Authority has the right, but not the obligation, to appoint up to a total of six voting trustees. The Authority has a 30% membership interest, but does not have any claim to annual profit or loss. Tidelands has a 70% membership interest. The Authority carries its investment balance for Tidelands on the Statement of Net Position using the cost method of accounting. The Authority carries its investment balance for MHA on the Statement of Net Position using the equity method of accounting.

Complete financial information for MHA may be obtained from MUSC Health Alliance, LLC. 96 Jonathan Lucas St., Suite 601-J, Charleston, South Carolina 29425.

The following schedule reflects the changes in the carrying value of these joint venture investments:

	MHA	Tidelands
Carrying value, July 1, 2023	\$ 2,082,361	30,733,232
Capital contribution	—	30,000,000
Pro rata loss	(1,275,514)	—
Carrying value, June 30, 2024	\$ 806,847	60,733,232

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Notes to Basic Financial Statements

June 30, 2024

(20) Deferred Inflows

The composition of deferred inflows at June 30, 2024 is as follows:

Other postemployment benefits	\$ 526,624,660
Pension plans	12,835,166
Deferred inflows – leases	<u>5,487,735</u>
Total	<u>\$ 544,947,561</u>

(21) Subsequent Events

The Authority has evaluated subsequent events from the Statement of Net Position date through September 24, 2024, the date at which the financial statements were issued. The Authority has determined that there are no items to disclose.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
Schedule of Proportionate Share
of Net Pension Liability to PEBA and Related Ratios
South Carolina Retirement System (SCRS) Pension Plan
June 30, 2024

Year ended June 30	Proportion (percentage) of the collective net pension liability	Proportionate share (amount) of the collective net pension liability	Covered payroll	Proportionate share (amount) of the collective net pension liability as a percentage of its covered payroll	Pension plan's fiduciary net position as a percentage of total pension liability
2024	5.523693 %	\$ 1,335,487,534	629,950,672	212.00 %	58.60 %
2023	5.164158	1,251,902,979	533,218,205	234.78	57.10
2022	4.720000	1,022,121,129	469,466,180	217.72	60.70
2021	4.567759	1,167,143,229	414,132,837	281.83	50.70
2020	3.584996	818,603,139	377,479,804	216.86	54.40
2019	3.521688	789,097,981	318,346,955	247.87	54.10
2018	3.465263	780,086,431	289,354,840	269.60	53.30
2017	3.471014	741,403,467	287,923,152	257.50	52.90
2016	3.377349	640,530,521	281,452,784	227.58	57.00
2015	3.289076	566,270,880	268,970,820	210.53	59.90

See accompanying notes to required supplementary information and accompanying independent auditors' report.

Notes to Schedule:

Changes of assumptions. From June 30, 2023 to June 30, 2024: amortization period decreased from 27-year maximum, closed period to 26-year maximum, closed period. Investment rate of return also decreased from 7.25% to 7.00%. In addition, mortality tables were updated to reflect 2020 Public Retirees of South Carolina for Males and Females, both projected at Scale UMP from the year 2020 from year 2016. The male rates changed from being multiplied by 125% to 97% for non-educators and from 92% to 95% for educators. The females rates changed from being multiplied by 111% to 107% for non-educators and from 98% to 94% for educators.

Changes of assumptions. From June 30, 2022 to June 30, 2023: no changes

Changes of assumptions. From June 30, 2021 to June 30, 2022: the amortization period decreased from 30-year maximum, closed period to 27-year maximum, closed period.

Changes of assumptions. From June 30, 2020 to June 30, 2021: no changes

Changes of assumptions. From June 30, 2019 to June 30, 2020: the amortization period changed from 30 years variable, not to exceed 30 years to 30-year maximum, closed period. Also, the investment return change from 7.50% to 7.25%. In addition, the salary increases changed from 3.00% plus step-rate increase for members with less than 25 years of service to 3.00% plus step-rate increase for members with less than 21 years of service.

Changes of assumptions. From June 30, 2018 to June 30, 2019: the asset valuation method changed from 20% difference recognition to 5-year smoothed. Also, inflation decreased from 2.75% to 2.25%. In addition, the mortality tables changed from RP-2000, projected at Scale AA Year 2000 to 2016 Public Retirees of South Carolina for Males and Females, both projected at Scale AA for year 2016. The male rates changed from being multiplied by 110% to 92% for educators. The female rates changed from being multiplied by 90% to 111% for non-educators, and from 95% to 98% for educators.

Changes of assumptions. From June 30, 2017 to June 30, 2018: the asset valuation method change from market value of assets less unrecognized returns in each of the last five years to 20% difference recognition. The amortization period changed from 30 years, open to 30 years variable, but not to exceed 30 years.

Changes of assumptions. From June 30, 2016 to June 30, 2017: the amortization period changed from 29 years, open to 30 years, open.

Changes of assumptions. From June 30, 2015 to June 30, 2016: the amortization period changed from 25 years, open to 29 years, open.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY

Schedule of Proportionate Share
of Net Pension Liability to PEBA and Related Ratios

Police Officers Retirement System (PORS) Pension Plan

June 30, 2024

<u>Year ended June 30</u>	<u>Proportion (percentage) of the collective net pension liability</u>	<u>Proportionate share (amount) of the collective net pension liability</u>	<u>Covered payroll</u>	<u>Proportionate share (amount) of the collective net pension liability as a percentage of its covered payroll</u>	<u>Pension plan's fiduciary net position as a percentage of total pension liability</u>
2024	0.15692 % \$	4,776,910	3,941,624	121.19 %	67.80 %
2023	0.17307	5,190,261	2,549,152	203.61	66.44
2022	0.21000	5,458,661	2,662,676	205.01	70.40
2021	0.20960	6,950,757	3,123,807	222.51	58.80
2020	0.20039	5,743,241	2,939,599	195.37	62.70
2019	0.19456	5,512,877	2,942,547	187.35	61.70
2018	0.21650	5,931,204	2,631,752	225.37	60.90
2017	0.21513	5,456,693	2,653,533	205.64	60.40
2016	0.21917	4,776,715	2,730,140	174.96	64.60
2015	0.21963	4,204,542	2,692,311	156.17	67.50

See accompanying notes to required supplementary information and accompanying independent auditors' report.

Notes to Schedule:

- Changes of assumptions. From June 30, 2023 to June 30, 2024: amortization period decreased from 27-year maximum, closed period to 26-year maximum, closed period. Investment rate of return also decreased from 7.25% to 7.00%. In addition, mortality tables were updated to reflect 2020 Public Retirees of South Carolina for Males and Females, both projected at Scale UMP from the year 2020 from year 2016. The male rates changed from being multiplied by 125% to 127% and the females rates changed from being multiplied by 111% to 107%. Further, salary increase changed from 3.50% plus step-rate increases for members with less than 15 years of service to less than 21 years of service.
- Changes of assumptions. From June 30, 2022 to June 30, 2023: salary increase changed from 3.00% plus step-rate increases to 3.50% plus step-rate increases.
- Changes of assumptions. From June 30, 2021 to June 30, 2022: the amortization period decreased from 30-year maximum, closed period to 27-year maximum, closed period.
- Changes of assumptions. From June 30, 2020 to June 30, 2021: no changes
- Changes of assumptions. From June 30, 2019 to June 30, 2020: the amortization period changed from 30 years variable, not to exceed 30 years to 30-year maximum, closed period. Also, the investment return change from 7.50% to 7.25%. In addition, the salary increases changed from 3.00% plus step-rate increase for members with less than 12 years of service to 3.00% plus step-rate increase for members with less than 15 years of service.
- Changes of assumptions. From June 30, 2018 to June 30, 2019: the asset valuation method changed from 20% difference recognition to 5-year smoothed. Also, inflation decreased from 2.75% to 2.25%. In addition, the mortality tables changed from RP-2000 with Blue Collar Adjustment, projected at Scale AA Year 2000 to 2016 Public Retirees of South Carolina for Males and Females, both projected at Scale AA for year 2016. The male rates changed from being multiplied by 115% to 125%, and the female rates changed from being multiplied by 115% to 111%. Salary increases decreased from 4.00% plus step-rate increases to 3.50% plus step-rate increases.
- Changes of assumptions. From June 30, 2017 to June 30, 2018: the asset valuation method change from market value of assets less unrecognized returns in each of the last five years to 20% difference recognition. The amortization period changed from 30 years, open to 27 years variable, but not to exceed 30 years.
- Changes of assumptions. From June 30, 2016 to June 30, 2017: no changes
- Changes of assumptions. From June 30, 2015 to June 30, 2016: no changes.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY

Schedule of Employer Contributions to PEBA

South Carolina Retirement System (SCRS) Pension Plan

Fiscal year ended June 30, 2024

<u>Year ended June 30</u>	<u>Employer contributions</u>	<u>Statutorily or contractually required employer contributions</u>	<u>Contribution deficiency (excess)</u>	<u>Covered payroll</u>	<u>Contributions as a percentage of covered payroll</u>
2024	\$ 154,387,600	154,387,600	—	629,950,672	24.51 %
2023	122,628,240	122,628,240	—	533,218,205	23.00
2022	101,236,134	101,236,134	—	469,466,180	21.56
2021	80,012,852	80,012,852	—	414,132,837	19.32
2020	78,911,097	78,911,097	—	377,479,804	20.90
2019	55,119,178	55,119,178	—	318,346,955	17.31
2018	45,598,463	45,598,463	—	289,354,840	15.76
2017	40,417,627	40,417,627	—	287,923,152	14.04
2016	37,175,029	37,175,029	—	281,452,784	13.21
2015	34,516,724	34,516,724	—	268,970,820	12.83

See accompanying notes to required supplementary information and accompanying independent auditors' report.

Notes to Schedule:

Changes of assumptions. From June 30, 2023 to June 30, 2024: amortization period decreased from 27-year maximum, closed period to 26-year maximum, closed period. Investment rate of return also decreased from 7.25% to 7.00%. In addition, mortality tables were updated to reflect 2020 Public Retirees of South Carolina for Males and Females, both projected at Scale UMP from the year 2020 from year 2016. The male rates changed from being multiplied by 125% to 97% for non-educators and from 92% to 95% for educators. The females rates changed from being multiplied by 111% to 107% for non-educators and from 98% to 94% for educators.

Changes of assumptions. From June 30, 2022 to June 30, 2023: no changes

Changes of assumptions. From June 30, 2021 to June 30, 2022: the amortization period decreased from 30-year maximum, closed period to 27-year maximum, closed period.

Changes of assumptions. From June 30, 2020 to June 30, 2021: no changes

Changes of assumptions. From June 30, 2019 to June 30, 2020: the amortization period changed from 30 years variable, not to exceed 30 years to 30-year maximum, closed period. Also, the investment return change from 7.50% to 7.25%. In addition, the salary increases changed from 3.00% plus step-rate increase for members with less than 25 years of service to 3.00% plus step-rate increase for members with less than 21 years of service.

Changes of assumptions. From June 30, 2018 to June 30, 2019: the asset valuation method changed from 20% difference recognition to 5-year smoothed. Also, inflation decreased from 2.75% to 2.25%.

In addition, the mortality tables changed from RP-2000, projected at Scale AA Year 2000 to 2016 Public Retirees of South Carolina for Males and Females, both projected at Scale AA for year 2016.

The male rates changed from being multiplied by 110% to 92% for educators. The female rates changed from being multiplied by 90% to 111% for non-educators, and from 95% to 98% for educators.

Changes of assumptions. From June 30, 2017 to June 30, 2018: the asset valuation method change from market value of assets less unrecognized returns in each of the last five years to 20% difference recognition. The amortization period changed from 30 years, open to 30 years variable, but not to exceed 30 years.

Changes of assumptions. From June 30, 2016 to June 30, 2017: the amortization period changed from 29 years, open to 30 years, open.

Changes of assumptions. From June 30, 2015 to June 30, 2016: the amortization period changed from 25 years, open to 29 years, open.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
Schedule of Employer Contributions to PEBA
Police Officers Retirement System (PORS) Pension Plan
Fiscal year ended June 30, 2024

Year ended June 30	Employer contributions	Statutorily or contractually required employer contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2024	\$ 837,202	837,202	—	3,941,624	21.24 %
2023	515,949	515,949	—	2,549,152	20.24
2022	510,880	510,880	—	2,662,676	19.19
2021	569,782	569,782	—	3,123,807	18.24
2020	536,183	536,183	—	2,939,599	18.24
2019	501,110	501,110	—	2,942,547	17.03
2018	409,141	409,141	—	2,631,752	15.55
2017	415,179	415,179	—	2,653,533	15.65
2016	376,835	376,835	—	2,730,140	13.80
2015	364,104	364,104	—	2,692,311	13.52

See accompanying notes to required supplementary information and accompanying independent auditors' report.

Notes to Schedule:

- Changes of assumptions. From June 30, 2023 to June 30, 2024: amortization period decreased from 27-year maximum, closed period to 26-year maximum, closed period. Investment rate of return also decreased from 7.25% to 7.00%. In addition, mortality tables were updated to reflect 2020 Public Retirees of South Carolina for Males and Females, both projected at Scale UMP from the year 2020 from year 2016. The male rates changed from being multiplied by 125% to 127% and the females rates changed from being multiplied by 111% to 107%. Further, salary increase changed from 3.50% plus step-rate increases for members with less than 15 years of service to less than 21 years of service.
- Changes of assumptions. From June 30, 2022 to June 30, 2023: salary increase changed from 3.00% plus step-rate increases to 3.50% plus step-rate increases.
- Changes of assumptions. From June 30, 2021 to June 30, 2022: the amortization period decreased from 30-year maximum, closed period to 27-year maximum, closed period.
- Changes of assumptions. From June 30, 2020 to June 30, 2021: no changes
- Changes of assumptions. From June 30, 2019 to June 30, 2020: the amortization period changed from 30 years variable, not to exceed 30 years to 30-year maximum, closed period. Also, the investment return change from 7.50% to 7.25%. In addition, the salary increases changed from 3.00% plus step-rate increase for members with less than 12 years of service to 3.00% plus step-rate increase for members with less than 15 years of service.
- Changes of assumptions. From June 30, 2018 to June 30, 2019: the asset valuation method changed from 20% difference recognition to 5-year smoothed. Also, inflation decreased from 2.75% to 2.25%. In addition, the mortality tables changed from RP-2000 with Blue Collar Adjustment, projected at Scale AA Year 2000 to 2016 Public Retirees of South Carolina for Males and Females, both projected at Scale AA for year 2016. The male rates changed from being multiplied by 115% to 125%, and the female rates changed from being multiplied by 115% to 111%. Salary increases decreased from 4.00% plus step-rate increases to 3.50% plus step-rate increases.
- Changes of assumptions. From June 30, 2017 to June 30, 2018: the asset valuation method change from market value of assets less unrecognized returns in each of the last five years to 20% difference recognition. The amortization period changed from 30 years, open to 27 years variable, but not to exceed 30 years.
- Changes of assumptions. From June 30, 2016 to June 30, 2017: no changes
- Changes of assumptions. From June 30, 2015 to June 30, 2016: no changes.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
Schedule of Proportionate Share
of Net OPEB Liability to PEBA and Related Ratios
South Carolina Retiree Health Insurance Trust Fund (SCRHITF)
June 30, 2024

Year ended June 30	Proportion (percentage) of the collective net OPEB liability	Proportionate share (amount) of the collective net OPEB liability	Covered payroll	Proportionate share (amount) of the collective net OPEB liability as a percentage of its covered payroll	OPEB plan's fiduciary net position as a percentage of total OPEB liability
2024	7.322374 %	\$ 958,607,584	910,210,531	105.32	11.24
2023	6.871023	1,045,209,107	766,620,240	136.34	9.64
2022	6.380000	1,327,658,329	675,351,409	196.59	7.48
2021	5.873772	1,060,300,808	594,600,313	178.32	8.39
2020	4.921728	744,240,309	541,434,563	137.46	8.44
2019	4.773711	676,462,772	458,539,861	147.53	7.91

The above schedules are intended to show 10 years of information. Additional years will be provided as they become available.

See accompanying notes to required supplementary information and accompanying independent auditors' report.

Notes to Schedule:

Changes of assumptions. From June 30, 2023 to June 30, 2024: the Single discount rate increased from 3.69% to 3.86%.

Changes of assumptions. From June 30, 2022 to June 30, 2023: the Single discount rate increased from 1.92% to 3.69%.

Changes of assumptions. From June 30, 2021 to June 30, 2022: the Single discount rate decreased from 2.45% to 1.92%.

In addition, the demographic and salary increases assumptions were updated to reflect the 2020 SCRS experience study. The Health Care Trend Rate initially started at 6.40% and decreased to 6.00% and gradually decreased to an ultimate trend rate of 4.15% over a period of 14 years.

Additionally the Mortality table was updated from the 2016 Public Retirees of South Carolina to the gender-district South Carolina retirees 2020 Mortality Table.

Changes of assumptions. From June 30, 2020 to June 30, 2021: the Single Discount Rate decreased from 3.13% to 2.45%.

Updates were also made to the Health Care Trend Rate assumption, including an adjustment to reflect the repeal of the Cadillac Tax.

Changes of assumptions. From June 30, 2019 to June 30, 2020: The single discount rate decreased from 3.62% to 3.13%.

Additionally, the Investment rate of return decreased from 3.62% to 2.75%. In addition, the Health Care Trend Rate initially started at 6.75% decreased to 6.40% and gradually decreased to an ultimate trend rate of 4.15% over a period of 14 years.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY

Schedule of Proportionate Share
of Net OPEB Liability to PEBA and Related Ratios

South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF)

June 30, 2024

<u>Year ended June 30</u>	<u>Proportion (percentage) of the collective net OPEB liability</u>	<u>Proportionate share (amount) of the collective net OPEB liability</u>	<u>Covered payroll</u>	<u>Proportionate share (amount) of the collective net OPEB liability as a percentage of its covered payroll</u>	<u>OPEB plan's fiduciary net position as a percentage of total OPEB liability</u>
2024	5.150827 % \$	788,646	N/A	N/A	68.01 %
2023	4.791417	555,108	N/A	N/A	75.04
2022	4.060000	129,021	N/A	N/A	92.84
2021	4.031792	12,226	N/A	N/A	99.29
2020	3.150754	62,015	N/A	N/A	95.17
2019	3.090212	94,598	N/A	N/A	92.20

The above schedules are intended to show 10 years of information. Additional years will be provided as they become available.

See accompanying notes to required supplementary information and accompanying independent auditors' report.

Notes to Schedule:

Changes of assumptions. From June 30,2023 to June 30, 2024: The single discount rate increased from 3.41% to 3.57%.

Changes of assumptions. From June 30,2022 to June 30, 2023: The single discount rate increased from 2.48% to 3.41%.

Changes of assumptions. From June 30,2021 to June 30, 2022: The single discount rate decreased from 2.83% to 2.48%.

In addition, the salary, termination rates and retirement rates assumptions were updated to reflect the 2020 experience study for the South Carolina Retirement Systems for the 5-year period ended June 30, 2019.

The disability incidence rate used in the LTD valuation was updated to 165% of the rates developed for the pension plans,

The disability recovery rate for active employees who assumed to recover after the first two years increased from 92% to 93%

The offset percentage increased for assumed to be eligible for Social Security benefits from 40% to 45%

Changes of assumptions. From June 30,2020 to June 30, 2021: The single discount rate changed from 3.04% to 2.83%.

Changes of assumptions. From June 30,2019 to June 30, 2020: The single discount rate changed from 3.91% to 3.04%. In addition, the Investment rate of return decreased from 4.00% to 3.00%.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
Schedule of Employer Contributions to PEBA
South Carolina Retiree Health Insurance Trust Fund (SCRHITF)
Fiscal year ended June 30, 2024

Year ended June 30	Employer contributions	Statutorily or contractually required employer contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2024	\$ 58,035,688	58,035,688	—	910,210,531	6.38 %
2023	48,173,430	48,173,430	—	766,620,240	6.28
2022	42,487,145	42,487,145	—	675,351,409	6.25
2021	36,572,075	36,572,075	—	594,600,313	6.15
2020	32,211,247	32,211,247	—	541,434,563	5.95
2019	27,666,748	27,666,748	—	458,539,861	6.03

The above schedules are intended to show 10 years of information. Additional years will be provided as they become available.

See accompanying notes to required supplementary information and accompanying independent auditors' report.

Notes to Schedule:

Changes of assumptions. From June 30, 2023 to June 30, 2024: the Single discount rate increased from 3.69% to 3.86%.

Changes of assumptions. From June 30, 2022 to June 30, 2023: the Single discount rate increased from 1.92% to 3.69%.

Changes of assumptions. From June 30, 2021 to June 30, 2022: the Single discount rate decreased from 2.45% to 1.92%.

In addition, the demographic and salary increases assumptions were updated to reflect the 2020 SCRS experience study

The Health Care Trend Rate initially started at 6.40% and decreased to 6.00% and gradually decreased to an ultimate trend rate of 4.15% over a period of 14 years

Additionally the Mortality table was updated from the 2016 Public Retirees of South Carolina to the gender-district South Carolina retirees 2020 Mortality Table

Changes of assumptions. From June 30, 2020 to June 30, 2021: the Single Discount Rate decreased from 3.13% to 2.45%.

Updates were also made to the Health Care Trend Rate assumption, including an adjustment to reflect the repeal of the "Cadillac Tax".

Changes of assumptions. From June 30, 2019 to June 30, 2020: The single discount rate decreased from 3.62% to 3.13%.

Additionally, the Investment rate of return decreased from 3.62% to 2.75%. In addition, the Health Care Trend Rate initially started at 6.75% decreased to 6.40% and gradually decreased to an ultimate trend rate of 4.15% over a period of 14 years

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
Schedule of Employer Contributions to PEBA
South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF)
Fiscal Year ended June 30, 2024

<u>Year ended June 30</u>	<u>Employer contributions</u>	<u>Statutorily or contractually required employer contributions</u>	<u>Contribution deficiency (excess)</u>	<u>Covered payroll</u>	<u>Contributions as a percentage of covered payroll</u>
2024	\$ 445,635	445,635	—	N/A	N/A
2023	430,550	430,550	—	N/A	N/A
2022	362,772	362,772	—	N/A	N/A
2021	313,028	313,028	—	N/A	N/A
2020	325,036	325,036	—	N/A	N/A
2019	232,191	232,191	—	N/A	N/A

The above schedules are intended to show 10 years of information. Additional years will be provided as they become available.

See accompanying notes to required supplementary information and accompanying independent auditors' report.

Notes to Schedule:

- Changes of assumptions. From June 30, 2023 to June 30, 2024: The single discount rate increased from 3.41% to 3.57%.
- Changes of assumptions. From June 30, 2022 to June 30, 2023: The single discount rate increased from 2.48% to 3.41%.
- Changes of assumptions. From June 30, 2021 to June 30, 2022: The single discount rate decreased from 2.83% to 2.48%. In addition, the salary, termination rates and retirement rates assumptions were updated to reflect the 2020 experience study for the South Carolina Retirement Systems for the 5-year period ended June 30, 2019.
- The disability incidence rate used in the LTD valuation was updated to 165% of the rates developed for the pension plans,
- The disability recovery rate for active employees who assumed to recover after the first two years increased from 92% to 93%
- The offset percentage increased for assumed to be eligible for Social Security benefits from 40% to 45%
- Changes of assumptions. From June 30, 2020 to June 30, 2021: The single discount rate changed from 3.04% to 2.83%.
- Changes of assumptions. From June 30, 2019 to June 30, 2020: The single discount rate changed from 3.91% to 3.04%. In addition, the Investment rate of return decreased from 4.00% to 3.00%.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY

Schedule of Changes in
Net Pension Liability and Related Ratios

Single Employer Defined Benefit Plan

June 30, 2024

<u>Year ended June 30</u>	<u>Total pension liability</u>	<u>Total plan fiduciary net position</u>	<u>Net pension liability</u>	<u>Covered payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>	<u>Net pension liability as a percentage of covered payroll</u>
2024	\$ 78,169,828	50,847,603	27,322,225	17,216,572	65.05 %	158.70 %
2023	77,599,455	49,277,284	28,322,171	20,043,217	63.50 %	141.31 %

The above schedules are intended to show 10 years of information. Additional years will be provided as they become available.

See accompanying notes to required supplementary information and accompanying independent auditors' report.

Notes to Schedule:

Changes of assumptions. From June 30, 2023 to June 30, 2024: no changes.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY

Schedule of Pension Contributions
Single Employer Defined Benefit Plan

June 30, 2024

<u>Year ended June 30</u>	<u>Actuarially determined contribution</u>	<u>Contributions in relation to the actuarially determined contribution</u>	<u>Covered payroll</u>	<u>Contributions as a percentage of covered employee payroll</u>
2024	\$ 2,673,412	—	17,216,572	— %
2023	7,688,984	—	20,043,217	— %

The above schedules are intended to show 10 years of information. Additional years will be provided as they become available.

See accompanying notes to required supplementary information and accompanying independent auditors' report.

Notes to Schedule:

Changes of assumptions. From June 30, 2023 to June 30, 2024: no changes.

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
(A Component Unit of The Medical University of South Carolina)

Notes to Required Supplementary Information

June 30, 2024

(Unaudited)

SCRS

Valuation date	Actuarially calculated contribution rates are calculated as of July 1, 2021
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry Age Normal
Asset valuation method	5-year smoothed
Amortization method	Level% of Pay
Amortization period	26-year maximum, closed period
Investment rate of return	7.0%
Inflation	2.25%
Salary increases	3.00% plus step-rate increases for members with less than 21 years of service
Mortality	The 2020 Public Retirees of South Carolina Mortality Tables for Males and Females, both projected at Scale UMP from the year 2020. Male rates multiplied by 97% for non-educators and 95% for educators. Female rates multiplied by 107% for non-educators and 94% for educators
Other comments	Contribution rate for fiscal year 2023 is determined in accordance with the Retirement System Funding and Administration Act of 2017

PORS

Valuation date	Actuarially calculated contribution rates are calculated as of July 1, 2021
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry Age Normal
Asset valuation method	5-year smoothed
Amortization method	Level% of Pay
Amortization period	26-year maximum, closed period
Inflation	2.25%
Investment rate of return	7.00%
Salary increases	3.50% plus step-rate increases for members with less than 21 years of service
Mortality	The 2020 Public Retirees of South Carolina Mortality Tables for Males and Females, both projected at Scale UMP from the year 2020. Male rates are multiplied by 127% and female are rates multiplied by 107%
Other comments	Contribution rate for fiscal year 2023 is determined in accordance with the Retirement System Funding and Administration Act of 2017

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
(A Component Unit of The Medical University of South Carolina)

Notes to Required Supplementary Information

June 30, 2024

(Unaudited)

SCRHITF

Actuarial cost method	Individual Entry-Age Normal
Inflation	2.25%
Investment rate of return	2.75%, net of OPEB plan investment expense, including inflation
Single discount rate	3.86% as of June 30, 2023
Demographic assumptions	Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ended June 30, 2019
Mortality	For healthy retirees, the gender-district South Carolina Retirees 2020 mortality tables are used with multipliers based on plan experience. The rates are projected on a fully generational basis using 80% of the ultimate rates of Scale MP-2019 to account for future mortality improvements.
Health care trend rate	Initial trend starting at 6.00% and gradually decreasing to an ultimate trend rate of 4.00% over a period of 13 years
Aging factors	Based on plan specific experience
Participation assumptions	79% participation for retirees who are eligible for Funded Premiums 59% participation for retirees who are eligible for Partial Funded Premiums 20% participation for retirees who are eligible for Non-Funded Premiums
Notes	The discount rate changed from 3.69% as of June 30, 2022 to 3.86% as of June 30, 2023.

SCLTDITF

Actuarial cost method	Individual Entry-Age Normal
Inflation	2.25%
Investment rate of return	3.00%, net of plan investment expense; including inflation
Single discount rate	3.57% as of June 30, 2023
Salary, termination, and retirement rates	Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ended June 30, 2019
Disability incidence	The disability incidence rates used in the LTD valuation are 165% of the rates developed for the pension plans.
Disability recovery	For participants in payment, 1987 CGDT Group Disability. For active employees, 60% were assumed to recover after the first year and 93% were assumed to recover after the first two years
Offsets	45% are assumed to be eligible for Social Security benefits. Assumed percentage who will be eligible for a pension plan offset varies based on employee group.
Expenses	Third party administrative expenses are included in the benefit projections.
Notes	The single discount rate changed from 3.41% as of June 30, 2022 to 3.57% as of June 30, 2023

MEDICAL UNIVERSITY HOSPITAL AUTHORITY
(A Component Unit of The Medical University of South Carolina)

Notes to Required Supplementary Information

June 30, 2024

(Unaudited)

RMC Pension

Valuation date	Actuarially calculated contribution rates are calculated as of July 1, 2024
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Unit credit
Asset valuation method	Market value
Amortization period	Rolling 20-year period
Salary increases	N/A, plan frozen in 2010
Discount rate	7.00%
Expected rate of return on plan assets	7.00%
Mortality	RP-2014 Total Dataset Mortality Table with MP-2021 Projection Scale



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Columbia, SC 29201 www.popeflynn.com

February 24, 2025

VIA EMAIL

Jackie Hipes, Director
South Carolina Office of the State Treasurer
Debt Management Division
1200 Senate Street, Suite 214
Columbia, SC 29201

Re: Not Exceeding \$330,000,000 Medical University Hospital Authority FHA Insured
Mortgage Revenue Bonds (Indian Land Project), Series 2025

Dear Jackie:

On behalf of the Medical University Hospital Authority ("MUHA"), in connection with the authorization of the above-referenced bonds, enclosed is an information report summarizing this part of MUHA's proposed financing.

Please let us know should you require anything further or if you have any questions regarding the enclosed.

Best regards,

A handwritten signature in blue ink that reads "Bill".

William M. Musser

cc: Kathy Dively, Director of Strategic Financial Planning, MUHA
Keith McCook, General Counsel, State Fiscal Accountability Authority
Delbert Singleton, Director, State Fiscal Accountability Authority

Enclosure

Medical University Hospital Authority Financing Information Report
(Indian Land Project)

Prepared in Connection with the Proposed Authorization of
N/E \$330,000,000 Aggregate Principal Amount Borrowing of
Medical University Hospital Authority Under Title 59, Chapter 123 of the Code of Laws of
South Carolina 1976, as amended, and the Hospital Revenue Bond Act

April 1, 2025 State Fiscal Accountability Authority Meeting

Project Background

The Medical University Hospital Authority (“MUHA”) proposes to relocate 50 beds from its Lancaster facility to create a new hospital in Indian Land (northern Lancaster County). The new facility will be known as MUSC Health Indian Land Medical Center (the “New Hospital”). The remaining 175 general acute beds will stay at the MUSC Health Lancaster’s facility. The New Hospital will be located approximately 22 miles or half an hour’s driving distance from MUSC Health Lancaster. A central energy plant and medical office building are included as part of the financing (together with the New Hospital, the “Indian Land Project”), estimated to cost approximately \$290 million.

MUHA’s primary objective is to increase access to quality acute care services for residents of this part of South Carolina. As the sole current hospital in Lancaster County, MUSC Health Lancaster strives to fulfill its primary mission to provide access to high-quality acute care to all residents of the County. Currently, residents of northern Lancaster County often leave the state in significant numbers to seek care in Charlotte, North Carolina. The purpose of the South Carolina Certificate of Need Act is “to promote cost containment, prevent unnecessary duplication of health care facilities and services, guide the establishment of health facilities and services which will best serve public needs, and ensure that high quality services are provided in health facilities in this State.” Further, the distribution of existing bed capacity within the same county to create a two-hospital system, thus increasing access points for residents, is a prudent use of existing resources that will result in increased availability and accessibility of hospital services within Lancaster County.

Plan of Finance

MUHA has submitted a mortgage insurance application to the U.S. Department of Housing and Urban Development’s Federal Housing Administration (the “FHA”) for a fixed-rate mortgage insurance commitment. This mortgage loan insurance commitment will indirectly secure the tax-exempt bonds that will be issued by MUHA to fund the construction of the Indian Land Project. MUHA’s financial advisors, Kaufman Hall, with approval of South Carolina Office of State Treasurer (the “STO”), has issued an RFP for the investment banking team who will underwrite the tax-exempt bonds. The structure of the MUHA tax-exempt bonds is designed to work seamlessly with the requirements of MUHA’s existing FHA-insured mortgage loans as well as the Indian Land FHA-insured mortgage loan that will indirectly secure the MUHA tax-exempt bonds.

The rate on the FHA-insured mortgage revenue bonds to be issued for the Indian Land Project is expected to be approximately 6.65% based on current market rates (which rate does not

include 0.65% of mortgage insurance premium payable annually for the FHA mortgage insurance). Under current market condition, tax-exempt bonds are a lower cost financing alternative than the GNMA MBS structure that MUHA has used in the past decade even though it results in higher costs of issuance because of the need for additional financial and legal advisors and bond underwriters. MUHA intends to fund the costs of issuance with bond proceeds. Additional verification of the rate offered was performed and also in line with the STO's expectations.

Timeline

The timeline for closing commitments is scheduled as follows:

- Indian Land Financing Pricing: July 2025
- Indian Land Closing: August 2025.

Amount and Type of Bond and Request to SFAA

MUHA is seeking approval by the South Carolina State Fiscal Accountability Authority for the borrowing of not exceeding \$330,000,000 under Section 59-123-60, Code of Laws of South Carolina 1976, as amended, utilizing the Hospital Revenue Bond Act (the "Indian Land Borrowing"), the proceeds of which may be applied for the purposes of: (1) paying the costs of the Indian Land Project; and (2) paying the costs of issuance of the Indian Land Borrowing, including capitalized interest and the funding of any necessary reserve or similar fund. The Indian Land Project is defined to include the construction of a hospital and related auxiliary facilities in Lancaster County, South Carolina.

Security for the Indian Land Borrowing

The Indian Land Borrowing is payable from and is secured by a pledge of MUHA's revenues (the "Pledged Revenues"), and one or more FHA-insured mortgages. The Indian Land Borrowing will consist of tax-exempt bonds issued under and pursuant to financing documents, including an indenture of trust and a bank credit or reimbursement agreement relating to an FHA-required construction period letter of credit (collectively, the "Loan Documents"). For the Fiscal Year ended June 30, 2030, the first full year of operations of the Nexton Project and the Indian Land Project facilities, MUHA is projecting income available for debt service of \$711 million against \$189 million of debt service on all applicable debt outstanding. The estimated mortgage payments and debt service requirements on all existing and authorized debt of MUHA is set forth in [Exhibit A](#). [Exhibit B](#) reflects the estimated maximum annual debt service of \$201 million in the Fiscal Year ending June 30, 2031, and debt service coverage ranging from 3.5x to 7.1x times annual debt service over the life of MUHA's existing and proposed debt.

New Revenue Generation

The completion of the Indian Land Project will result in additional Pledged Revenues sufficient to pay debt service on the Indian Land Borrowing and meet all covenants under the Loan Documents.

Other Funds Available to Pay Loans

While MUHA intends to pay debt service on the Indian Land Borrowing from the Pledged Revenues, other MUHA funds available for the purpose of paying debt service totaled \$715 million at June 30, 2024. State appropriations are not part of Pledged Revenues.

No Credit of the State

Neither the full faith and credit of MUHA nor the State of South Carolina has been pledged to the payment of the Indian Land Borrowing.

Bond Anticipation Borrowing

Sections 44-7-1450 and 11-17-10, Code of Laws of South Carolina 1976, as amended, permit MUHA to issue bond anticipation notes in anticipation of the Indian Land Borrowing upon SFAA approval. There is no intention on the part of MUHA to issue any such bond anticipation notes.

Miscellaneous

Additional information relating to the mortgaged collateral, MUHA's financing program and the FHA guaranteed mortgage loan program is included in a separate attachment.

All construction services are being acquired pursuant to MUHA's procurement policy.

Prepared February 24, 2025, Updated March 18, 2025

Exhibit A

Exhibit A

FYE MUHA's Total Existing Debt Services

In thousands

2025	122,157
2026	125,214
2027	126,241
2028	126,572
2029	117,267
2030	111,870
2031	113,567
2032	106,294
2033	105,124
2034	81,433
2035	81,295
2036	81,152
2037	81,004
2038	80,851
2039	80,693
2040	80,529
2041	80,360
2042	80,185
2043	80,003
2044	79,816
2045	58,919
2046	52,856
2047	52,441
2048	48,164
2049	48,164
2050	48,164
2051	48,164
2052	48,164
2053	48,164

Exhibit B

Exhibit B
\$ in thousands

FYE	MUHA Existing Debt Service	IL Principal	IL Interest	IL DS	Nexton Principal	Nexton Interest	Nexton DS	Equipment Principal	Equipment Interest	Equipment DS	Total Debt Service
2025	122,157	0	17,550	17,550	0	0	0	0	0	0	122,157
2026	125,214	0	17,550	17,550	0	15,763	15,763	0	175	175	158,702
2027	126,241	0	19,145	19,145	0	23,645	23,645	0	2,821	2,821	171,852
2028	126,572	1,440	19,105	20,545	0	23,645	23,645	6,754	5,817	12,571	183,333
2029	117,267	4,175	18,866	23,041	4,975	23,429	28,404	20,922	4,384	25,306	194,018
2030	111,870	4,455	18,575	23,030	5,500	23,072	28,572	21,949	3,352	25,301	188,773
2031	113,567	4,765	18,266	23,031	5,880	22,689	28,569	32,311	3,317	35,628	200,795
2032	106,294	5,095	18,076	23,171	6,285	22,455	28,740	33,897	1,731	35,628	193,832
2033	105,124	5,445	17,731	23,176	6,720	22,030	28,750	17,567	247	17,814	174,864
2034	81,433	5,820	17,363	23,183	7,180	21,575	28,755				133,371
2035	81,295	6,215	16,969	23,184	7,675	21,090	28,765				133,243
2036	81,152	6,650	16,549	23,199	8,200	20,571	28,771				133,121
2037	81,004	7,105	16,099	23,204	8,765	20,016	28,781				132,989
2038	80,851	7,590	15,619	23,209	9,370	19,423	28,793				132,853
2039	80,693	8,120	15,105	23,225	10,015	18,790	28,805				132,723
2040	80,529	8,675	14,557	23,232	10,705	18,112	28,817				132,578
2041	80,360	9,270	13,970	23,240	11,445	17,388	28,833				132,433
2042	80,185	9,910	13,343	23,253	12,225	16,615	28,840				132,277
2043	80,003	10,595	12,673	23,268	13,070	15,788	28,858				132,129
2044	79,816	11,325	11,956	23,281	13,975	14,904	28,879				131,976
2045	58,919	12,100	11,190	23,290	14,930	13,959	28,889				111,098
2046	52,856	12,935	10,372	23,307	15,960	12,949	28,909				105,072
2047	52,441	13,830	9,497	23,327	17,060	11,870	28,930				104,698
2048	48,164	14,780	8,562	23,342	18,235	10,716	28,951				100,457
2049	48,164	15,795	7,563	23,358	19,490	9,483	28,973				100,495
2050	48,164	16,890	6,494	23,384	20,835	8,165	29,000				100,548
2051	48,164	18,050	5,352	23,402	22,270	6,756	29,026				100,592
2052	48,164	19,290	4,132	23,422	23,800	5,250	29,050				100,636
2053	48,164	47,580	2,827	50,407	61,000	3,641	64,641				163,211

Exhibit B
\$ in thousands

FYE	Income Available for Debt Service	Total Debt Service	Debt Service Coverage Ratio
2025	694,316	122,157	5.7
2026	630,362	158,702	4.0
2027	662,519	171,852	3.9
2028	652,903	183,333	3.6
2029	693,705	194,018	3.6
2030	710,518	188,773	3.8
2031	710,518	200,804	3.5
2032	710,518	193,841	3.7
2033	710,518	174,868	4.1
2034	710,518	133,371	5.3
2035	710,518	133,243	5.3
2036	710,518	133,121	5.3
2037	710,518	132,989	5.3
2038	710,518	132,853	5.3
2039	710,518	132,723	5.4
2040	710,518	132,578	5.4
2041	710,518	132,433	5.4
2042	710,518	132,277	5.4
2043	710,518	132,129	5.4
2044	710,518	131,976	5.4
2045	710,518	111,098	6.4
2046	710,518	105,072	6.8
2047	710,518	104,698	6.8
2048	710,518	100,457	7.1
2049	710,518	100,495	7.1
2050	710,518	100,548	7.1
2051	710,518	100,592	7.1
2052	710,518	100,636	7.1
2053	710,518	127,656	5.6

Maximum Annual Debt Service (\$000s)	200,804
Minimum Debt Service Coverage (x)	3.5
Maximum Debt Service Coverage (x)	7.1

For the purpose of preparing this exhibit, the following assumptions have been made:

1. MUHA's projected financial performance for the periods 2026-2030 has been prepared by management in conjunction with Wipfli for the purpose of feasibility study requirements which are part of FHA's underwriting process
2. MUHA's projected income available for debt service has been held constant at projected 2030 levels through final maturity of the bonds
3. For the periods of 2026-2030, calculations are adjusted to account for partial period accrued interest but is eliminated thereafter due to immateriality in future periods
4. Debt service schedules are calculated based on MUHA's June 30 fiscal year end; final maturity of February 1, 2053, for Nexton; December 1, 2052, for Indian Land; and December 1, 2032, for equipment loans

FHA-Guaranteed Mortgage Loan Program and MUHA's Financing Program

FHA-Insured Mortgage Loan Overview¹

Medical University Hospital Authority (“MUHA”) currently has five outstanding FHA-insured mortgage loans, three of which financed the construction, acquisition and/or renovation of hospital facilities in the Charleston, SC (collectively, the “Charleston HUD Estate”), one of which financed the 2019 acquisition of four hospitals and ancillary facilities and real estate in Chester County, Darlington County, Florence County, Lancaster County, and Marion County, South Carolina (collectively, the “Regional Hospitals HUD Estate”), and the last of which financed the 2022 acquisition of three hospitals, a free standing emergency department and ancillary facilities and real estate in Fairfield County, Kershaw County, Lancaster County, and Richland County, South Carolina (collectively, the “Midlands Hospitals HUD Estate”). MUHA has filed applications with the U.S. Department of Housing and Urban Development (“HUD”) for approval of two FHA-insured mortgage loans to finance the construction and equipping of the Nexton hospital project and the Indian Land hospital project.

In general, HUD analyzes MUHA as a single credit for purposes of new FHA-insured mortgage loans applications and operationally, but the aggregate pledged revenue and mortgaged property comprising each HUD estate separately secure only the mortgage loans related to such HUD estate. Under the FHA-Insured Hospital Mortgage Loan Program, MUHA has generally pledged all of its revenues and mortgaged all of its health care facilities and related properties to secure its five existing FHA-insured mortgage loans. Future financings of MUHA health care facilities are effectively required to be similarly financed with additional FHA-insured mortgage loans unless HUD permits an alternative form of financing. This financing vehicle has (i) enhanced MUHA's financing capacity, (ii) lowered its borrowing costs, and (iii) enabled MUHA to access traditional financial covenants, while obviating the need for any State support of MUHA indebtedness (which had been a concern in 2003 and 2004 prior to the first FHA-insured mortgage loan).

Outstanding MUHA FHA-Insured Mortgage Loans and Security Structure

The three MUHA FHA-insured mortgage loans for the Charleston HUD Estate were made by different mortgage lenders in an approximate aggregate principal amount of \$750 million. The first FHA-insured mortgage loan was incurred in 2004 and modified in 2012 to finance the renovation of the “original” hospital, and the construction of the Ashley River Tower and certain other facilities located in the Charleston, SC. The second FHA-insured mortgage loan was incurred in 2013 and financed the acquisition of MUHA's Central Energy Plant (the “CEP”) and the third FHA-insured mortgage loan was incurred in 2016 and financed the construction of MUHA's Children's Hospital and Women's Pavilion (the “CHWP”). The three mortgage loans are secured on a strict security priority basis mandated by the FHA-Insured Hospital Mortgage Loan Program as follows: The 2004/2012 mortgage loan is secured by (i) a first lien on the revenues derived from the health care facilities located in the Charleston HUD Estate and (ii) a first mortgage lien on such real estate, together with a leasehold interests in a parcel commonly known as the “Enhanced Use” parcel tract 3 (collectively, the Charleston Realty”). The 2013 mortgage loan is secured by (i) a second lien on the revenues derived from the all of the facilities in the Charleston HUD Estate (including any revenues derived from the CEP), and (ii) a second mortgage lien on the enlarged Charleston Realty. The 2016 mortgage loan is secured by (i) a third lien on the revenues derived from all of the facilities in the

¹ The memorandum does not purport to interpret or provide guidance with respect to the laws of the State of South Carolina.

Charleston HUD Estate (including any revenues derived from the CEP and all of the revenues derived from the CHWP), and (ii) a third mortgage lien on the further enlarged Charleston Realty.

If approved by HUD, the FHA-insured mortgage loan for the Nexton hospital project will not exceed \$400 million and will be secured by (i) a fourth lien on the revenues derived from all of the facilities in the Charleston HUD Estate (including any revenues derived from the CEP, all of the revenues derived from the CHWP and all of the revenues derived from the Nexton hospital project), and (ii) a fourth mortgage lien on the further enlarged Charleston Realty. The inclusion of the Nexton hospital project in the Charleston HUD Estate reflects MUHA's determination that it intends to operate its downtown Charleston facilities and the Nexton facility as a single health care operation managed by the same administration with an integrated revenue and expense structure, and overlapping doctors and other health professionals to a patient population that is expected to use the facilities of both the downtown campus and the Nexton facility interchangeably.

The 2019 MUHA FHA-insured mortgage loan was made in an approximate aggregate principal amount of \$133.4 million and the mortgage loan is separately secured from the pledged revenues and mortgage liens that secure the Charleston HUD Estate. The 2019 mortgage loan is secured by (i) a first lien on the revenues derived from the health care facilities located in the Regional Hospitals HUD Estate and (ii) a first mortgage lien on all of the improved and unimproved real estate acquired with the mortgage loan proceeds (collectively, the Regional Hospitals Realty"). If approved by HUD, the FHA-insured mortgage loan for the Indian Land hospital project will not exceed \$440 million and will be secured by (i) a second lien on the revenues derived from all of the health care facilities in the Regional Hospitals HUD Estate (including all of the revenues derived from the Indian Land hospital project), and (ii) a second mortgage lien on the further enlarged Regional Hospitals Realty.

The 2022 MUHA FHA-insured mortgage loan was made in an approximate aggregate principal amount of \$79.7 million and it is separately secured from the pledged revenues and mortgage liens that secure the Charleston HUD Estate and the Regional Hospitals HUD Estate. The 2022 mortgage loan is secured by (i) a first lien on the revenues derived from the health care facilities located in the Midlands Hospitals HUD Estate, and (ii) a first mortgage lien on all of the improved and unimproved real estate acquired with the mortgage loan proceeds.

Summary of FHA-Insured Mortgage Loan Structure

All FHA-insured mortgage loans amortize over a 25 year period which commences on a pre-determined date reflective of the anticipated construction completion date for the financed project. FHA mortgage insurance secures only the mortgage loan itself, not any related bonds or other forms of debt obligations, and the insurance covers approximately 99% of the face amount of the mortgage loan. When the proceeds of tax-exempt bonds provide the financing capital for the FHA-insured mortgage loan, the shortfall is usually addressed through the sale of premium bonds. In addition, following an event of default that would give rise to the payment of FHA mortgage insurance benefits there is a processing period which can take up to 11 months and this is addressed by the establishment of a tax-exempt bond debt service reserve fund in an amount equal to maximum annual debt service on the tax-exempt bonds.

Once the FHA mortgage insurance becomes effective on the date of the FHA-insured mortgage loan closing and the tax-exempt bond closing, the ongoing credit worthiness of the mortgage borrower (i.e., MUHA) is no longer critical and this fact is reflected in the ratings on the tax- exempt bonds being rated at level that is tied to the creditworthiness of the federal government rather than the mortgage borrower.

1000								
<i>All values in thousands</i>								Min
							MADS	3.5
							200,804	Max
								7.1
	FYE	Income for DS	Existing Debt Service	Indian Land Project	Nexton Project	Equipment	Total DS	DSC
	2025	694,316	122,157	0	0	0	122,157	5.68
	2026	630,362	125,214	17,550	15,763	175	158,702	3.97
	2027	662,519	126,241	19,145	23,645	2,821	171,852	3.86
	2028	652,903	126,572	20,545	23,645	12,571	183,333	3.56
	2029	693,705	117,267	23,041	28,404	25,306	194,018	3.58
	2030	710,518	111,870	23,030	28,572	25,301	188,773	3.76
	2031	710,518	113,567	23,031	28,569	35,636	200,804	3.54
	2032	710,518	106,294	23,171	28,740	35,636	193,841	3.67
	2033	710,518	105,124	23,176	28,750	17,818	174,868	4.06
	2034	710,518	81,433	23,183	28,755	0	133,371	5.33
	2035	710,518	81,295	23,184	28,765	0	133,243	5.33
	2036	710,518	81,152	23,199	28,771	0	133,121	5.34
	2037	710,518	81,004	23,204	28,781	0	132,989	5.34
	2038	710,518	80,851	23,209	28,793	0	132,853	5.35
	2039	710,518	80,693	23,225	28,805	0	132,723	5.35
	2040	710,518	80,529	23,232	28,817	0	132,578	5.36
	2041	710,518	80,360	23,240	28,833	0	132,433	5.37
	2042	710,518	80,185	23,253	28,840	0	132,277	5.37
	2043	710,518	80,003	23,268	28,858	0	132,129	5.38
	2044	710,518	79,816	23,281	28,879	0	131,976	5.38
	2045	710,518	58,919	23,290	28,889	0	111,098	6.40
	2046	710,518	52,856	23,307	28,909	0	105,072	6.76
	2047	710,518	52,441	23,327	28,930	0	104,698	6.79
	2048	710,518	48,164	23,342	28,951	0	100,457	7.07
	2049	710,518	48,164	23,358	28,973	0	100,495	7.07
	2050	710,518	48,164	23,384	29,000	0	100,548	7.07
	2051	710,518	48,164	23,402	29,026	0	100,592	7.06
	2052	710,518	48,164	23,422	29,050	0	100,636	7.06
	2053	710,518	48,164	50,407	29,086	0	127,656	5.57

Exhibit A

FYE MUHA's Total Existing Debt Services
In thousands

2025	122,157
2026	125,214
2027	126,241
2028	126,572
2029	117,267
2030	111,870
2031	113,567
2032	106,294
2033	105,124
2034	81,433
2035	81,295
2036	81,152
2037	81,004
2038	80,851
2039	80,693
2040	80,529
2041	80,360
2042	80,185
2043	80,003
2044	79,816
2045	58,919
2046	52,856
2047	52,441
2048	48,164
2049	48,164
2050	48,164
2051	48,164
2052	48,164
2053	48,164

Exhibit B
\$ in thousands

FYE	MUHA's Existing Debt Service	Indian Land Project Debt Service	Nexton Project Debt Service	Equipment Loan Debt Service	Total Debt Service	Maximum Annual Debt Service (\$000s)	200,804
2025	122,157	0	0	0	122,157	Minimum Debt Service Coverage (x)	3.5
2026	125,214	17,550	15,763	175	158,702	Maximum Debt Service Coverage (x)	7.1
2027	126,241	19,145	23,645	2,821	171,852		
2028	126,572	20,545	23,645	12,571	183,333		
2029	117,267	23,041	28,404	25,306	194,018		
2030	111,870	23,030	28,572	25,301	188,773		
2031	113,567	23,031	28,569	35,636	200,804		
2032	106,294	23,171	28,740	35,636	193,841		
2033	105,124	23,176	28,750	17,818	174,868		
2034	81,433	23,183	28,755	0	133,371		
2035	81,295	23,184	28,765	0	133,243		
2036	81,152	23,199	28,771	0	133,121		
2037	81,004	23,204	28,781	0	132,989		
2038	80,851	23,209	28,793	0	132,853		
2039	80,693	23,225	28,805	0	132,723		
2040	80,529	23,232	28,817	0	132,578		
2041	80,360	23,240	28,833	0	132,433		
2042	80,185	23,253	28,840	0	132,277		
2043	80,003	23,268	28,858	0	132,129		
2044	79,816	23,281	28,879	0	131,976		
2045	58,919	23,290	28,889	0	111,098		
2046	52,856	23,307	28,909	0	105,072		
2047	52,441	23,327	28,930	0	104,698		
2048	48,164	23,342	28,951	0	100,457		
2049	48,164	23,358	28,973	0	100,495		
2050	48,164	23,384	29,000	0	100,548		
2051	48,164	23,402	29,026	0	100,592		
2052	48,164	23,422	29,050	0	100,636		
2053	48,164	50,407	29,086	0	127,656		

CURRENT OUTSTANDING INDEBTEDNESS

MEDICAL UNIVERSITY HOSPITAL AUTHORITY – Consolidated

Balance Sheet: As of 2/28/2025 (Unaudited) and 06/30/2024 (Audited) - (in thousands)

Long Term Debt

As of February 28, 2025, a table of outstanding balances by major issuance is listed below:

Project (mo/yr issued)	2/28/2025 Balance	6/30/2024 Balance
Shawn Jenkins Children's Hospital (06/2019)	\$ 258,327	\$ 264,850
Ashley River Tower (12/2012)	154,819	167,310
Community Health System Acquisition (03/2019)	109,467	112,306
Lifepoint Acquisition (07/2021)	71,424	72,966
Central Energy Plant (12/2013)	18,590	20,555
	<u>\$ 612,627</u>	<u>\$ 637,987</u>

As of February 28, 2025, capital leases relate to various pieces of equipment and properties. A table of outstanding balances by equipment description is listed below:

Project (month/year issued)	2/28/2025 Balance	6/30/2024 Balance
Charleston Property Lease (various)	\$ 86,714	\$ 92,581
Charleston Equipment Lease (various)	33,221	36,306
Summey Medical Pavilion (04/2019)	38,280	39,054
RHN & Midlands Equipment Lease (various)	14,573	18,153
RHN & Midlands Property Lease (various)	36,966	33,815
Subscription-based Technology Agreement - ERP (10/22)	5,612	4,913
Medical Malls (02/2019)	7,984	8,352
Cardiovascular Equipment (03/2020)	80	236
	<u>\$ 223,430</u>	<u>\$ 233,410</u>

Provided by MUHA 3.18.25



March 7, 2025

Mr. Delbert H. Singleton, Jr., Authority Secretary
South Carolina State Fiscal Accountability Authority
Wade Hampton Building, Suite 600
Columbia, South Carolina 29201

Re: Not Exceeding \$330,000,000 Medical University Hospital Authority FHA Insured Mortgage Revenue Bonds (Indian Land Project), Series 2025

Dear Mr. Singleton:

In accordance with South Carolina Regulation 19-102.03, we have reviewed financial information for Medical University Hospital Authority (MUHA) to evaluate its financial condition. We understand that the revenue bonds proceeds will be used to finance the construction of a health care facility in Indian Land. The bonds will be repaid with the proceeds of a FHA insured mortgage through the Department of Housing and Urban Development (HUD).

Based on our review of MUHA audited financial information for fiscal years 2022 through 2024, the Certificate of Need from Department of Public Health, as well as our discussions with key entity management and consultants, MUHA appears to have sufficient financial resources to meet the debt service requirements of the indebtedness.

If you have questions or need for additional information, please contact me at 803-832-8249 or smoss@osa.sc.gov.

Sincerely

Sue F. Moss, CPA
Interim State Auditor



Pope Flynn, LLC
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Columbia, SC 29201
MAIN 803.354.4900
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www.popeflynn.com

March 14, 2025

South Carolina State Fiscal Accountability Authority
Columbia, South Carolina

Re: Petition of the Medical University Hospital Authority to the State Fiscal Accountability Authority ("SFAA") for Approval of Indebtedness in the Principal Amount of Not Exceeding \$330,000,000 (Indian Land Project)

Ladies and Gentlemen:

Our firm has been engaged by the Office of the South Carolina Attorney General as its counsel in connection with its review under S.C. Code Ann. Regs. § 19-102.03 (the "Regulation") of the above-referenced petition (the "Petition") of the Medical University Hospital Authority (the "Authority"). In this capacity, we have reviewed the following:

1. The Resolution adopted on February 14, 2025 by the Board of Trustees of the Authority authorizing the financing and the Petition;
2. The Petition;
3. A DHEC Certificate of Need dated August 3, 2023, and an extension of the Certificate of Need dated July 30, 2024, in relation to the project to be financed as provided in the Petition; and
4. The proposed form of the SFAA resolution.

Based upon such review, we find that the foregoing are legally adequate for purposes of the Regulation.

This review was conducted solely to determine if the above-reference documents are legally adequate as required by the Regulation. This letter addresses only the question of whether the documents appear to meet the conditions imposed by the laws and regulations discussed above that certain specific matters be included in the documentation. No finding is made as to any other matters, including whether the Petition should be approved as a matter of policy, or the financial advisability or wisdom of approving the Petition.

Sincerely,

A handwritten signature in blue ink that reads "Pope Flynn, LLC".

Pope Flynn, LLC