UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

FREDERICK P. WHIDDON ADMINISTRATION BUILDING
SUITE 130, BOARD ROOM

COMMITTEE MEETINGS (Consecutive)

DECEMBER 4, 2014
2:15 P.M.

** Items added or revised*

AGENDAS

DEVELOPMENT, ENDOWMENT AND INVESTMENTS COMMITTEE Jim Yance, Chair

*		Approve:	Revised Agenda
		Approve:	Minutes
*	**3**	Reports:	Gerber/Taylor ** Commonfund ** Douglas C. Lane and Associates ** Private Advisors ** Endowment Investment Performance
	4	Recommendation to Approve:	Evaluation of USA's Endowment and Non-Endowment Investment Policies
	5	Recommendation to Approve:	Jaguar Athletic Fund Directors and Officers
	6	Report:	Development and Alumni Relations
*	**6.A**	Recommendation to Approve:	Commendation of the J. L. Bedsole Foundation for Gift

AUDIT COMMITTEE John Peek, Chair

*		Approve:	Revised Agenda
		Approve:	Minutes
	7	Report:	KPMG Audit Reports, Year Ended September 30, 2014
*			KPMG Presentation to the Audit Committee
			Basic Financial Statements and Supplementary Information
			Communication to the Audit Committee (SAS #114 Letter)
			Bond Compliance Letter
			Agreed-Upon Procedures Reports - Series 1999; 2004; 2006; 2008; 2010; 2012-A and 2012-B; 2013-A, 2013-B and 2013-C; and 2014-A Bonds
			Basic Financial Statements, USA Research and Technology Corporation
*	**7.A**	Report:	Alabama Department of Examiners of Public Accounts Compliance Report, October 1, 2012, through September 30, 2013
	8	Report:	Internal Audit

BUDGET AND FINANCE COMMITTEE Tom Corcoran, Chair

*		Approve:	Revised Agenda
		Approve:	Minutes
	9	Report:	Year-End Financial Statements ** USA 2014 Financial Report
*	**9.A**	Recommendation to Approve:	Designation of Signature Authority
*	**9.B**	Recommendation to Approve:	Consent to Amendment of USA Research and Technology Corp. Loan Documents

HEALTH AFFAIRS COMMITTEE Dr. Steve Stokes, Chair

		Approve:	Minutes
	10	Recommendation to Approve:	USA Hospitals Credentials – August, September and October 2014
	11	Recommendation to Approve:	USA Hospitals Medical Staff Bylaws and Rules and Regulations, Revisions of November 4, 2014
	12	Report:	Health System and Health Sciences
	13	Report:	USA Mitchell Cancer Institute

ACADEMIC AND STUDENT AFFAIRS COMMITTEE Bettye Maye, Chair

		Approve:	Minutes
	14	Report:	Academic Affairs
	15	Recommendation to Approve:	Sabbaticals
	16	Report:	Annual Review of Research Activity
	17	Report:	Student Affairs

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

DECEMBER 5, 2014
10:30 A.M.

REVISED AGENDA

*		Approve:	Revised Agenda
	1	Approve:	Minutes
	2	Report:	President's Report

DEVELOPMENT, ENDOWMENT AND INVESTMENTS COMMITTEE Jim Yance, Chair

	4	Approve:	Evaluation of USA's Endowment and Non-Endowment Investment Policies
	5	Approve:	Jaguar Athletic Fund Directors and Officers
*	**6.A**	Approve:	Commendation of the J. L. Bedsole Foundation for Gift

AUDIT COMMITTEE John Peek, Chair

BUDGET AND FINANCE COMMITTEE Tom Corcoran, Chair

*	**9.A**	Approve:	Designation of Signature Authority
*	**9.B**	Approve:	Consent to Amendment of USA Research and Technology Corporation Loan Documents

HEALTH AFFAIRS COMMITTEE REPORT Dr. Steve Stokes, Chair

	10	Approve:	USA Hospitals Credentials – August, September and October 2014
	11	Approve:	USA Hospitals Medical Staff Bylaws and Rules and Regulations, Revisions of November 4, 2014

ACADEMIC AND STUDENT AFFAIRS COMMITTEE Bettye Maye, Chair

	15	Approve:	Sabbaticals

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

THURSDAY, DECEMBER 4, 2014:

2:15 p.m.	*Committee Meetings (Consecutive)*	*Administration Bldg., Rm. 130*

FRIDAY, DECEMBER 5, 2014:

10:30 a.m.	*Board of Trustees Meeting*	*Administration Bldg., Rm. 130*

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

STANDING COMMITTEES
2014-2016

EXECUTIVE COMMITTEE:

Dr. Steven P. Furr, **Chair *pro tempore***
Hon. Kenneth O. Simon, **Vice Chair**
Mr. James H. Shumock, **Secretary**
Mr. E. Thomas Corcoran
Ms. Arlene Mitchell
Mr. John M. Peek
Mr. James A. Yance, Past Chair

ACADEMIC AND STUDENT AFFAIRS COMMITTEE:

Ms. Bettye R. Maye, **Chair**
Ms. Chandra Brown Stewart
Dr. Scott A. Charlton
Capt. Robert D. Jenkins
Hon. Bryant Mixon
Mr. Michael P. Windom

AUDIT COMMITTEE:

Mr. John M. Peek, **Chair**
Dr. Scott A. Charlton
Capt. Robert D. Jenkins
Hon. Bryant Mixon
Hon. William S. Stimpson

BUDGET AND FINANCE COMMITTEE:

Mr. E. Thomas Corcoran, **Chair**
Ms. Arlene Mitchell
Mr. James H. Shumock
Hon. William S. Stimpson
Dr. Steven H. Stokes
Mr. James A. Yance

DEVELOPMENT, ENDOWMENT & INVESTMENTS CTE.:

Mr. James A. Yance, **Chair**
Mr. E. Thomas Corcoran
Capt. Robert D. Jenkins
Hon. Kenneth O. Simon
Dr. Steven H. Stokes
Mr. Michael P. Windom

HEALTH AFFAIRS COMMITTEE:

Dr. Steven H. Stokes, **Chair**
Ms. Chandra Brown Stewart
Dr. Scott A. Charlton
Ms. Bettye R. Maye
Ms. Arlene Mitchell
Hon. Kenneth O. Simon

LONG-RANGE PLANNING COMMITTEE:

Mr. James H. Shumock, **Chair**
Ms. Chandra Brown Stewart
Ms. Bettye R. Maye
Hon. Bryant Mixon
Mr. John M. Peek
Hon. William S. Stimpson
Mr. Michael P. Windom

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

FREDERICK P. WHIDDON ADMINISTRATION BUILDING
SUITE 130, BOARD ROOM

COMMITTEE MEETINGS (Consecutive)

DECEMBER 4, 2014
2:15 P.M.

AGENDAS

DEVELOPMENT, ENDOWMENT AND INVESTMENTS COMMITTEE Jim Yance, Chair

- * Approve: Revised Agenda
- Approve: Minutes
- * **3** Reports: Gerber/Taylor ** Commonfund ** Douglas C. Lane and Associates ** Private Advisors ** Endowment Investment Performance
- **4** Recommendation to Approve: Evaluation of USA's Endowment and Non-Endowment Investment Policies
- **5** Recommendation to Approve: Jaguar Athletic Fund Directors and Officers
- **6** Report: Development and Alumni Relations
- * **6.A** Recommendation to Approve: Commendation of the J. L. Bedsole Foundation for Gift

AUDIT COMMITTEE John Peek, Chair

- * Approve: Revised Agenda
- Approve: Minutes
- **7** Report: KPMG Audit Reports, Year Ended September 30, 2014
  - * KPMG Presentation to the Audit Committee
  - Basic Financial Statements and Supplementary Information
  - Communication to the Audit Committee (SAS #114 Letter)
  - Bond Compliance Letter
  - Agreed-Upon Procedures Reports - Series 1999; 2004; 2006; 2008; 2010; 2012-A and 2012-B; 2013-A, 2013-B and 2013-C; and 2014-A Bonds
  - Basic Financial Statements, USA Research and Technology Corporation
- * **7.A** Report: Alabama Department of Examiners of Public Accounts Compliance Report, October 1, 2012, through September 30, 2013
- **8** Report: Internal Audit

BUDGET AND FINANCE COMMITTEE Tom Corcoran, Chair

- * Approve: Revised Agenda
- Approve: Minutes
- **9** Report: Year-End Financial Statements ** USA 2014 Financial Report
- * **9.A** Recommendation to Approve: Designation of Signature Authority

HEALTH AFFAIRS COMMITTEE Dr. Steve Stokes, Chair

- Approve: Minutes
- **10** Recommendation to Approve: USA Hospitals Credentials – August, September and October 2014
- **11** Recommendation to Approve: USA Hospitals Medical Staff Bylaws and Rules and Regulations, Revisions of November 4, 2014
- **12** Report: Health System and Health Sciences
- **13** Report: USA Mitchell Cancer Institute

ACADEMIC AND STUDENT AFFAIRS COMMITTEE Bettye Maye, Chair

- Approve: Minutes
- **14** Report: Academic Affairs
- **15** Recommendation to Approve: Sabbaticals
- **16** Report: Annual Review of Research Activity
- **17** Report: Student Affairs

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

DECEMBER 5, 2014
10:30 A.M.

REVISED AGENDA

- * Approve: Revised Agenda
- **1** Approve: Minutes
- **2** Report: President's Report

DEVELOPMENT, ENDOWMENT AND INVESTMENTS COMMITTEE Jim Yance, Chair

- **4** Approve: Evaluation of USA's Endowment and Non-Endowment Investment Policies
- **5** Approve: Jaguar Athletic Fund Directors and Officers
- * **6.A** Approve: Commendation of the J. L. Bedsole Foundation for Gift

AUDIT COMMITTEE John Peek, Chair

BUDGET AND FINANCE COMMITTEE Tom Corcoran, Chair

- * **9.A** Approve: Designation of Signature Authority

HEALTH AFFAIRS COMMITTEE REPORT Dr. Steve Stokes, Chair

- **10** Approve: USA Hospitals Credentials – August, September and October 2014
- **11** Approve: USA Hospitals Medical Staff Bylaws and Rules and Regulations, Revisions of November 4, 2014

ACADEMIC AND STUDENT AFFAIRS COMMITTEE Bettye Maye, Chair

- **15** Approve: Sabbaticals

** Items added or revised.*

MEMORANDUM

UNIVERSITY OF SOUTH ALABAMA

November 25, 2014

TO: USA Board of Trustees

FROM: James H. Shumock
Secretary, Board of Trustees

Included herein are the unapproved minutes of the Board meetings held on September 11 and 12. Please review these documents for amendment or approval at the December 5 meeting of the Board of Trustees.

JHS:mgc

Enclosures

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

September 12, 2014
10:30 a.m.

A meeting of the University of South Alabama Board of Trustees was duly convened by Dr. Steve Furr, Chair *pro tempore*, on Friday, September 12, at 10:31 a.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Trustees Present:	Chandra Brown Stewart, Scott Charlton (phone), Tom Corcoran, Steve Furr, Ron Jenkins, Bettye Maye, Arlene Mitchell, Bryant Mixon, John Peek, Jimmy Shumock, Ken Simon, Sandy Stimpson, Steve Stokes, Mike Windom and Jim Yance.
Trustee Absent:	Robert Bentley.
Administration and Others:	Beth Anderson, Owen Bailey, Joe Busta, Arlen and Diane Chase (UCF), Lynne Chronister, Sharon Davis, Kimberly Eblen, Joel Erdmann, Julie Estis (Faculty Senate), Michael Finan, Ron Franks, Philip Friedlander, Happy Fulford, Suzanne Goins, Ingrid Hagen, Johnson Haynes, Jeffrey Hamilton, Joanne Hamilton, Julie Hamilton, Stan Hammack, David Johnson, Sytske Kimball, Jordan Knight, Jan-Louw Kotze, Eric Loomis, Arnold Luterman, Joanna McCoy, Todd McDonald, Jason Mendel, Ross Metheny, Juliann Miller, Abe Mitchell, Carl Moore, Coleman Moore, Ryan Onkka, Alex Page, Michael Pienaar, Ryan Pope, Bill Richards, Tim Sherman, Mike Saxon (AL Power), Steve Simmons, John Smith, John Steadman, Lars Tatom, Eleanor ter Horst, Beth Thomas (AL Power), Jean Tucker, Tony Waldrop, Reginald Walker (AASA), Danielle Watson (SGA), Kevin West (Faculty Senate), Erikka Williams, Matt Wojciechowski, Bob Wood and Kelly Woodford (Faculty Senate).
Press:	Letisha Bush (WALA), Sally Ericson (*Press-Register*/al.com), Josh Harlan (WALA), Dale Liesch (*Lagniappe*), Chad Petri (WKRG) and Jasmine Williams (WPMI).

Upon the call to order, Chairman Furr thanked Trustees and guests for joining and called for adoption of the revised agenda. On motion by Mr. Peek, seconded by Mr. Windom, the revised agenda was approved unanimously. Chairman Furr called for approval of **ITEM 1**, the minutes of the Board of Trustees meeting held on June 6, 2014, and of the Committee of the Whole meeting held on June 5, 2014. On motion by Dr. Stokes, seconded by Mr. Peek, the minutes were approved unanimously.

Chairman Furr recognized Judge Simon for his appointment by the Alabama Supreme Court to the Alabama Pattern Jury Instructions Committee – Civil, and Dr. Franks for his role as President of the Medical Association of the State of Alabama. He introduced Mr. Jeffrey Hamilton, USA Board of Trustee Scholar – the first to be named since announcement of the scholarship at the June 6 Board meeting. He discussed the scholarship criteria, as well as Mr. Hamilton's academic credentials, and presented him with a plaque commemorating the award. Also introduced were Mr. Hamilton's mother and sister, Mss. Joanne and Julie Hamilton. Mr. Hamilton thanked the Board for their support and expressed enthusiasm for his next four years as a USA student.

Chairman Furr called upon President Waldrop for delivery of **ITEM 2**, the President's Report. President Waldrop thanked the members of the President's Administrative Council for welcoming him to the University and for their roles in developing the Institution. He introduced nationally respected archaeologists and close personal friends from the University of Central Florida Dr. Diane Chase, Executive Vice Provost and Professor of Archaeology, and Dr. Arlen Chase, Associate Dean of the College of Sciences and Professor of Anthropology. Also introduced were Drs. Julie Estis, Kevin West and Kelly Woodford, Faculty Senate President, Vice President and Secretary, respectively. President Waldrop recognized Ms. Danielle Watson, SGA President, who the Alabama Higher Education Partnership recently named as *STARS Coordinator* for her leadership role in and promotion of Higher Education Day. He introduced Mr. Reginald Walker, AASA Vice President.

President Waldrop shared details on two fundraising events to be held on campus – the *Heart Walk* benefiting the American Heart Association set for Saturday, September 13, and the 4th Annual *GO Run* on Saturday, September 20, a benefit to raise money for gynecologic oncology research at the Mitchell Cancer Institute (MCI).

President Waldrop called for a report from Dr. Erdmann. Dr. Erdmann was joined by 14 of 39 student athletes who earned a 4.0 grade point average in the 2014 spring semester. The athletes were asked to introduce themselves and share their team affiliations, majors and hometowns. Flyers listing all 39 student athletes were made available to Trustees and guests. Dr. Erdmann talked about upcoming USA games and broadcasts, including the home football game against Mississippi State on September 13.

President Waldrop acknowledged Mss. Suzanne Goins, Sharon Davis, Frances Henson and Monica Curtis for the roles they serve in the President's Office. He introduced a video montage of various ALS ice-bucket-challenge participants, which featured Dr. Erdmann, President Tony Waldrop and Dr. Julee Waldrop, senior administrators and deans.

Chairman Furr presented **ITEM 3** as follows (for copies of policies and other authorized documents, refer to **APPENDIX A**). On motion by Ms. Mitchell, seconded by Mr. Shumock, the resolution was approved unanimously:

RESOLUTION
AMENDMENTS TO BYLAWS OF THE BOARD OF TRUSTEES

WHEREAS, Article VIII of the Bylaws of the University of South Alabama Board of Trustees provides that "the bylaws may be amended or repealed at any meeting of the Board by eight members of the Board voting in favor of same, but no such action shall be taken unless notice of the substance of such proposed adoption, amendment or repeal shall have been given at a previous meeting or notice in writing of the substance of the proposed change shall have been served upon each member of the Board at least thirty (30) days in advance of the final vote upon such change. However, by unanimous consent of the entire Board, the requirements for such notice may be waived," and

WHEREAS, a copy of the proposed amended bylaws was mailed to each member of the Board on August 13, 2014, and

WHEREAS, the proposed amended bylaws (a copy of which is attached hereto and incorporated by reference herein) are presented for the Board's consideration of approval, a vote of eight members being necessary to adopt such amendments, and

WHEREAS, the foregoing actions comply with the notice requirements of Article VIII, pertaining to amendment of the bylaws, and

WHEREAS, the Board, after due consideration and deliberation, has determined that the proposed amendments are in the best interest of the efficient operation of the Board in carrying out its role and responsibilities to the University,

THEREFORE, BE IT RESOLVED, the Board of Trustees approves and adopts the Bylaws of the Board of Trustees as amended.

Chairman Furr called for a report from the Health Affairs Committee. Dr. Stokes, Committee Chair, said, at its meeting on September 11, the Committee recommended authorization of **ITEM 4** as follows by the Board of Trustees. Chairman Furr called for a vote and the resolution was approved unanimously:

RESOLUTION
USA HOSPITALS MEDICAL STAFF APPOINTMENTS AND REAPPOINTMENTS
FOR MAY, JUNE AND JULY 2014

WHEREAS, the Medical Staff appointments and reappointments for May, June and July 2014 for the University of South Alabama Hospitals are recommended for Board approval by the Medical Executive Committees and the Executive Committee of the University of South Alabama Hospitals,

THEREFORE, BE IT RESOLVED, that the Board of Trustees of the University of South Alabama approves the appointments and reappointments as submitted.

Dr. Stokes called on Dr. Franks, who recognized USA's four physicians who were named among the nation's top doctors by *U.S. News and World Report*. He introduced and provided biographical highlights on the work of Dr. Michael Finan, Associate Director for Clinical Affairs and Professor of Interdisciplinary Clinical Oncology at the MCI, who also serves as Chief of Gynecologic Oncology; Dr. Johnson Haynes, Professor of Internal Medicine and Director of USA's Comprehensive Sickle Cell Center who also serves as Assistant Dean for the College of Medicine's Office of Diversity and Cultural Competence; Dr. Arnie Luterman, retired Ripps-Meisler Professor of Surgery and Medical Director of USA's Burn Center, which was recently named in his honor; and Dr. William Richards, Professor and Chair of the Department of Surgery who also serves on the MCI surgical team.

Chairman Furr called for a report from the Academic and Student Affairs Committee. Ms. Maye, Committee Chair, said, at its meeting on September 11, the Committee recommended authorization of **ITEM 8** as follows. Chairman Furr called for a vote and the resolution was approved unanimously:

RESOLUTION
PROFESSORS EMERITUS

WHEREAS, the following faculty members have retired from the University of South Alabama:

ACADEMIC AFFAIRS:
Roy J. Daigle, Ph.D., Professor of Computer Science
Norris W. Hoffman, Ph.D., Associate Professor of Chemistry
David D. Langan, Ph.D., Professor of Computer Science
Leonard A. Macaluso, Ph.D., Associate Professor of History *(Posthumous)*
Carl C. Moore, Ph.D., Professor of Management
Joseph P. Mozur, Ph.D., Professor of Foreign Languages and Literatures
Joseph A. Nigota, Ph.D., Associate Professor of History *(Posthumous)*
Robert L. Shipp, Ph.D., Professor of Marine Sciences
Frank R. Urbancic, DBA, Professor of Accounting *(Posthumous)*

COLLEGE OF MEDICINE:
Thomas M. Lincoln, Ph.D., Professor of Physiology
Jack W. Olson, Ph.D., Professor of Pharmacology
Glenn L. Wilson, Ph.D., Professor of Cell Biology and Neuroscience

PAT CAPPS COVEY COLLEGE OF ALLIED HEALTH PROFESSIONS:
Zarintaj Aliabadi, PA-C, Pharm. D., Ph.D., Professor of Physician Assistant Studies

and,

WHEREAS, in recognition of their contributions to the University through extraordinary accomplishments in teaching and in the generation of new knowledge through research and scholarship, and for serving as consistently inspiring influences to students, and

WHEREAS, in accordance with University policy, the respective faculty committees, Departmental Chair, College Dean, and the Senior Vice President for Academic Affairs or Vice President for Health Sciences, and the President have duly recommended the aforementioned faculty retirees,

THEREFORE, BE IT RESOLVED, the Board of Trustees of the University of South Alabama hereby appoints these individuals to the rank of Professor Emeritus or Associate Professor Emeritus with the rights and privileges thereunto appertaining, and

BE IT FURTHER RESOLVED that the Board of Trustees of the University of South Alabama, in recognition of their extraordinary accomplishments and dedicated service to the University of South Alabama, conveys its deep appreciation to these individuals.

Ms. Maye reported that the Committee recommended approval of **ITEM 9** as follows. Chairman Furr called for a vote and the resolution was approved unanimously. Ms. Maye invited Dr. Carl Moore, retired Dean of the Mitchell College of Business, to stand and Mr. Windom read the resolution. As President Waldrop presented a commemorative resolution to Dr. Moore, Trustees and guests honored him with a standing ovation. Dr. Moore made brief remarks about his 43-year tenure at South Alabama, and he introduced his daughter and USA alumna, Ms. Kimberly Eblen, and his son, Mr. Coleman Moore. Mr. Yance noted that Dr. Moore continues to teach classes:

RESOLUTION
COMMENDATION OF DR. CARL C. MOORE

WHEREAS, Dr. Carl C. Moore has served as Dean of the University of South Alabama Mitchell College of Business for twenty-five years, and

WHEREAS, Dr. Moore has taught at the undergraduate, graduate and doctoral levels at the University of South Alabama for 43 years, and

WHEREAS, during his tenure as Dean, he established the Melton Center for Entrepreneurship, the Center for Real Estate Studies and Economic Development, and led the successful launch of the College's Doctorate in Business Administration, and

WHEREAS, Dr. Moore established and maintained excellent donor relationships that led to the renovation of the Mitchell College of Business building, establishment of the Mitchell Scholars Program and construction of the John Saint Financial Analysis Center and the Joseph and Rebecca Mitchell Learning Resource Center, and

WHEREAS, Dr. Moore was instrumental in bringing the Alabama Banking School to USA, guiding the College through successful re-accreditation by the Association to Advance Collegiate Schools of Business, and the initial accreditation of the College's programs in accounting,

THEREFORE, BE IT RESOLVED, that the University of South Alabama Board of Trustees expresses its appreciation to Dr. Carl C. Moore for his many contributions to the University of South Alabama and offers its best wishes upon his retirement.

Ms. Maye presented **ITEM 10** as follows, noting that the Committee voted unanimously to recommend approval. Upon the call for a vote by Chairman Furr, the resolution was approved unanimously:

RESOLUTION
REVISION TO RESIDENT AND NON-RESIDENT TUITION POLICY

WHEREAS, the Alabama Legislature has enacted legislation through Act 2014-177 that amends Sections 31-6-2, 31-6-4, 31-6-5, 31-6-6, 31-6-11, and 31-6-15 of the Code of Alabama 1975 relating to post-secondary scholarship benefits for dependents of veterans through the Alabama G.I. Dependents' Scholarship Program, and

WHEREAS, one such amendment requires Alabama institutions of higher learning to assess in-state tuition and fees for recipients of this scholarship, and

WHEREAS, these changes require modifications to the Resident and Non-Resident Tuition Policy at the University of South Alabama, and

WHEREAS, the Board of Trustees of the University of South Alabama supports these modifications as part of the University's ongoing commitment to our service men and women, to our veterans, and to their families,

THEREFORE, BE IT RESOLVED, the Board of Trustees of the University of South Alabama approves and adopts the amended Resident and Non-Resident Tuition Policy as set forth in the document attached hereto.

Ms. Maye called upon Dr. Johnson to report on the activities of the Division of Academic Affairs. Dr. Johnson discussed recent faculty appointments and introduced Dr. Eric Loomis, Associate Dean of the College of Arts and Sciences; Dr. Sytske Kimball, Chair of the Department of Earth Sciences; Dr. Lars Tatom, Chair of the Department of Theatre and Dance; Dr. Eleanor ter Horst, Chair of the Department of Foreign Languages and Literature; and Dr. Bob Wood, Dean of the Mitchell College of Business (MCOB). Dr. Wood briefly shared his vision for the MCOB.

Dr. Johnson gave an overview on fall enrollment as Board members viewed corresponding data. He reported a record enrollment of 16,055 students, an increase of 744 students over last year, or 4.9 percent. This enrollment constitutes a milestone in the University's history for having exceeded 16,000 students enrolled. Other enrollment records include 2,073 first-time freshmen; 1,107 new graduate students; 4,023 total graduate students; and 3,285 African-American students. Dr. Johnson said the average freshman ACT score is 22.9, compared to 20.6 in the state and 21.0 in the nation. He broke down the ACT scores of new freshmen who earned scores of 28 and above.

Dr. Johnson identified student retention as an important institutional priority and he discussed a comprehensive plan to increase retention rates, which concentrates on first-year programs and enhancing support for students in academics and student life. He said these efforts are proving effective, as shown by data on freshman students to their sophomore year that demonstrates a six-percent improvement in retention from 65 percent in 2010 to 71 percent in 2013. Dr. Johnson said this is a trajectory the University would continue to pursue. He addressed comments on contributing factors, including college affordability and the ease of transition from high school. He said Dr. Nicole Carr, Director of the Office of Student Academic Success/Retention, tracks retention efforts and trends at other institutions. He talked about efforts to strengthen the advising of first-year students and the use of degree analytic software to help identify students who need help. Judge Simon shared positive impressions on one such retention program, the College of Education's *Educating the African-American Male*. Mr. Peek asked if non-traditional students receive consideration and support, to which Dr. Johnson responded the University offers tailored assistance programs for adult learners as well.

Ms. Maye called upon Ms. Chronister for introduction of a report on cyber security, an area Ms. Chronister said the University's School of Computing has tremendous strength. She introduced Dr. Todd McDonald, Professor, who gave an overview on the Cyber Assurance Program, considered widely as foremost in the state. As Board members viewed a visual summary, Dr. McDonald discussed the faculty and their research backgrounds in forensics, critical infrastructure protection, education and cyber assurance. He stated, for her work, Ms. Becky Base, Chief Strategist for the School of Computing, has garnered national attention in being ranked the *#2 Female Cybersecurity Impact Player* in the August edition of *SC Magazine*. He reported that the program received a $2.1 million grant from the National Science Foundation, which currently supports 11 scholarships, and said USA's proposal for an Alabama Experimental Program to Stimulate Competitive Research (EPSCoR) grant is under consideration for $20 million to be awarded. He advised that malware is the primary tool of miscreants to cause harm, and he demonstrated how information systems can be hacked to carry out international acts of terrorism. He detailed the program's four-point research strategy focused on hardware-based protections, side-channel vulnerability analysis, mitigating lifecycle/supply chain risks and zero day rootkit/malware detection. Judge Simon asked what individuals are involved in research pursuits. Dr. McDonald said faculty, graduate students and some undergraduates participate in research, as do other universities. He added that *Research Experiences for Undergraduates* (REU) grants from the National Science Foundation are expected in the future.

Ms. Maye described **ITEM 11.A** as follows, noting that the Academic and Student Affairs Committee voted unanimously to recommend approval by the Board of Trustees. Chairman Furr called for a vote, and the resolution was approved unanimously:

RESOLUTION
AUTHORIZATION TO NEGOTIATE AND SIGN CONTRACT EXTENSION FOR FOOD SERVICE

WHEREAS, the current food service contract with Aramark expires on June 30, 2020, and Aramark has expressed an interest in restructuring the contract if there is an extension of the termination date, and

WHEREAS, financial benefits will accrue to the University from a restructuring and extension of the contract, and

WHEREAS, approval by the Board of Trustees is required to extend the contract,

THEREFORE, BE IT RESOLVED, pursuant to Code of Alabama, Section 41-16-27 (g), the Board of Trustees authorizes the President to negotiate and sign a contract extension with Aramark that is within the limits and requirements allowed by law, and

BE IT FURTHER RESOLVED, any contract extension will not increase meal plan rates for the current academic year.

Ms. Maye said that, during the September 11 Committee meeting, Dr. Smith reported on the record number of students living on campus, and the engagement of an architect that would help the Administration pinpoint options for building a new residence hall to be prepared for student demand into the future. She called upon Dr. Smith for additional remarks. Dr. Smith discussed *Move In Day*, the annual event to welcome students who live on campus and their families. This year's event was held on August 16, and over 700 administrators, deans, faculty, staff and students, including coaches and student athletes, volunteered their time to help move belongings into the residence halls. Photos were shown. Dr. Smith mentioned that, at this year's event, in excess of 200 band members marched among the crowds and played their instruments. He credited Ms. Barbara Shirvanian of the Division of Student Affairs and the President's Office for a job well done in coordinating the popular ambassadorial effort.

Chairman Furr called for a report from the Budget and Finance Committee. Mr. Corcoran, Committee Chair, said, at its meeting on September 11, the Committee recommended approval of **ITEM 12.A** as follows. Chairman Furr called for a vote and the resolution was approved unanimously:

RESOLUTION
ELECTION OF DIRECTORS OF THE
USA RESEARCH AND TECHNOLOGY CORPORATION

WHEREAS, pursuant to the Amended Bylaws of the USA Research and Technology Corporation ("Corporation"), the Board of Trustees of the University of South Alabama ("University") shall elect directors of the Corporation who are not officers, employees or trustees of the University, and

WHEREAS, the Board of Directors of the Corporation is authorized to nominate new directors consistent with the aforesaid for consideration and confirmation by the Board of Trustees of the University, and

WHEREAS, Mr. Danny K. Patterson and Ms. Cheryl Coleman Williams were elected to serve as directors for four-year terms which concluded in June 2014 but continue to serve pursuant to the Corporation's Amended Bylaws, which provide that directors hold office until their successors have been duly elected and qualified; and

WHEREAS, the Board of Directors of the Corporation has nominated for consideration and confirmation by the Board of Trustees of the University Mr. Danny K. Patterson and Ms. Cheryl Coleman Williams for additional four (4) year terms beginning September 2014, and these persons have agreed to serve in this capacity if elected,

THEREFORE, BE IT RESOLVED, the Board of Trustees of the University of South Alabama does hereby elect as Directors of the USA Research and Technology Corporation Mr. Danny K. Patterson and Ms. Cheryl Coleman Williams, both for four (4) year terms beginning September 2014.

Mr. Corcoran presented **ITEM 13** as follows, noting that the Committee unanimously recommended approval by the Board of Trustees. He advised that the budget proposal is balanced and provides for a two-percent raise for University general and health care employees. He said the Health System component of the budget includes a contingency for Medicaid reform. Chairman Furr called for a vote and the resolution was approved unanimously:

RESOLUTION
UNIVERSITY TOTAL BUDGET FOR 2014-2015

BE IT RESOLVED, the University of South Alabama Board of Trustees approves the 2014-2015 University of South Alabama Total Budget, which includes both the University General Budget and the Hospitals and Clinics Budget, and

BE IT FURTHER RESOLVED, the University of South Alabama Board of Trustees approves the 2014-2015 Total Budget as a continuation budget for 2015-2016 in order to be in compliance with bond trust indenture requirements if the budget process cannot be completed prior to beginning the 2015-2016 fiscal year.

Mr. Corcoran presented **ITEM 14** as follows, which received the Committee's unanimous recommendation. Chairman Furr called for a vote and the resolution was approved unanimously:

RESOLUTION
SALARY INCREASE

WHEREAS, the University has continued to sustain positive momentum in achieving its mission through careful management and the united efforts of its employees, and

WHEREAS, the proposed 2014-2015 fiscal year budget is a balanced budget that includes a proposed two-percent continuing salary increase that is possible because of ongoing diligent management of finances, enrollment growth and a modest tuition increase, and

WHEREAS, this two-percent increase would be across the board for eligible administrators and faculty employed on or before August 15, 2014, and eligible staff employed on or before the effective date, and

WHEREAS, this salary increase would be effective approximately January 1, 2015, and subject to the standard University personnel guidelines and procedures and other adjustments as approved by the President, and

WHEREAS, this salary increase would apply to all eligible employees of the University of South Alabama --- those in the University General Division and at the Hospitals and Clinics,

THEREFORE, BE IT RESOLVED, the Board of Trustees of the University of South Alabama hereby approves a two-percent increase as described herein, for eligible current salaried or hourly regular administrators and faculty employed prior to August 15, 2014, and eligible current salaried or hourly regular staff employed on or before the effective date.

Mr. Corcoran reported that the Quarterly Financial Statements for the nine months ended June 2014, **ITEM 12**, were reviewed by the Committee on September 11. He said action on this item was not required.

Chairman Furr called for a report from the Audit Committee. Mr. Peek, Committee Chair, gave a synopsis of the presentations given on September 11 by Mr. Mark Peach, KPMG partner, on the audit process under way for fiscal year September 2014, **ITEM 15**, and by Mr. Simmons on the results of an independent audit of the USA Foundation's consolidated financial statements and the Disproportionate Share Hospital Funds combined financial statements for the fiscal year ended June 2014, **ITEM 15.A**. He said action by the Board of Trustees was not required.

Chairman Furr called for a report from the Development, Endowment and Investments Committee. Mr. Yance, Committee Chair, stated that an overview on endowment performance, **ITEM 16**, was delivered on September 11. He said the endowment yielded a return of 10.43 percent for the period October 2013 to July 2014, an outperformance of 1.97 percent over a benchmark profit of 8.46 percent. He advised that asset allocations are consistent with the parameters of the University's endowment investment policies. Since inception, the endowment has outperformed with a 5.29 percent return versus the index return of 4.51 percent. Mr. Yance said that, given market volatility, investments are rebalanced on a quarterly basis and gains are pulled to safeguard against loss.

Mr. Yance recognized Dr. and Mrs. Stokes for their longstanding generosity and service to the University, as evidenced by their most recent gift of $75,000, presented by Dr. Stokes during the September 11 Committee meeting. The gift will fund an environmental sustainability symposium that, while concentrated on the critical ecological concerns experienced locally and in the upper Gulf Coast region, is expected to draw a national audience. Dr. Jim Connors, Special Assistant to the Vice President for Research and Economic Development, will spearhead the project.

President Waldrop called upon Dr. Busta who recognized guests from the Mobile Division of the Alabama Power Company Mr. Mike Saxon, Vice President, and Ms. Beth Thomas, External Affairs Manager. Dr. Busta described the relationship between Alabama Power and USA's College of Engineering, and he detailed the company's giving history, which has included $500,000 for scholarships for engineering students ranked a sophomore or higher and $400,000 for engineering equipment in Shelby Hall. He announced that a $300,000 gift from Alabama Power would make possible a comprehensive undergraduate scholarship program that includes scholarship support for freshmen. This contribution, together with matching funds provided by the Mitchell-Moulton Scholarship Initiative, raises Alabama Power's total endowment for the College of Engineering to $1.5 million. Dr. Steadman, Dean of the College of Engineering, expressed gratitude for Alabama Power's continuing commitment to education, and he thanked USA's Board of Trustees for their leadership. He reported a record 1,500 engineering students enrolled for the fall semester, and he credited Mr. Abe Mitchell for the great difference the Mitchell-Moulton Scholarship Initiative makes in the College's ability to attract and retain high-achieving students who, as graduates, will be the leaders in economic development for the region. President Waldrop, Chairman Furr and Mr. Mitchell joined Mr. Saxon and Ms. Thomas for the check presentation and handshakes were exchanged. Mr. Saxon conveyed delight that Alabama Power's gift would be doubled, and expressed enthusiasm at the prospect of today's scholarship recipients becoming the problem solvers of the future.

Judge Simon referenced a unique research project taking place in space. Ms. Chronister shared details of a study by Drs. Richard Honkanen, Biochemistry Professor, and Andrzej Wierzbicki, Chemistry Professor and Dean of the College of Arts and Sciences, on a protein that appears to promote cancer cell growth. The protein, delivered to the International Space Station aboard a SpaceX rocket, can grow larger crystals in a microgravity setting than is possible in a typical laboratory, providing the researchers the ability to view the structure of the protein with a greater degree of clarity, which could aid in the development of a cancer-inhibiting drug.

Chairman Furr reminded the group that the inauguration of President Waldrop would take place at 2:00 p.m. at the Mitchell Center.

There being no further business, the meeting was adjourned at 11:42 a.m.

Attest to:	Respectfully submitted:
____________________________	____________________________
James H. Shumock, Secretary	Steven P. Furr, M.D., Chair *pro tempore*

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

DEVELOPMENT, ENDOWMENT AND INVESTMENTS

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

DEVELOPMENT, ENDOWMENT AND INVESTMENTS COMMITTEE

September 11, 2014
3:06 p.m.

A meeting of the University of South Alabama Board of Trustees Audit Committee was duly convened by Mr. Jim Yance, Chair, on Thursday, September 11, 2014, at 3:06 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Tom Corcoran, Ron Jenkins; Ken Simon, Steve Stokes, Mike Windom and Jim Yance.
Other Trustees:	Chandra Brown Stewart, Steve Furr, Bettye Maye, Arlene Mitchell, John Peek, Jimmy Shumock and Ken Simon.
Administration and Others:	Terry Albano, Joe Busta, Lynne Chronister, Jim Connors, Joel Erdmann, Julie Estis, Ron Franks, Happy Fulford, Stan Hammack, David Johnson, Doug Marshall (Faculty Senate), Norman Pitman, Steve Simmons, John Smith, Jean Tucker, Tony Waldrop, Danielle Watson (SGA), Kevin West (Faculty Senate) and Kelly Woodford (Faculty Senate).
Press:	Sally Ericson (*Press-Register*/al.com).

The meeting came to order and the attendance roll was called. Mr. Yance, Committee Chair, called upon Messrs. Albano and Pitman for a report on endowment and investment performance, **ITEM 16**. Mr. Albano noted that the return outperformed the relative index by 1.97 percent. The return from October 1, 2013, through July 31, 2014, was 10.43 percent versus a relative index of 8.46 percent. Mr. Pitman discussed the specifics of each manager's performance. Mr. Albano reviewed the asset allocation for the 2014 fiscal year and stated that allocations were in accord with the University's investment policy. He discussed portfolio performance since inception, noting a return of 5.29 percent versus the index of 4.51 percent, an outperformance of .78 percent. Mr. Yance provided an update on quarterly rebalancing and noted that the endowment continues to realize gains on overweighted asset classes. He called for discussion relative to international stocks and recommended lowering exposure to this asset class.

Mr. Yance called upon Dr. Busta for presentation of **ITEM 17**, a report from the Division of Development and Alumni Relations. Dr. Busta discussed the contributions of Dr. and Mrs. Steve Stokes, calling them model USA donors whose latest pledge will fund a symposium focused on the environmental resiliency of the Gulf Coast. The venture will be coordinated through USA's Office of Research and Economic Development, with Dr. Jim Connors, Special Assistant to the Vice President for Research and Economic Development, leading the project. Dr. Connors remarked on Dr. Stokes' passion for the coastal environment. He said the coastline, which lends to building economic growth, is vulnerable to disaster and ecological challenges. He thanked the Stokeses for their gift that will enable the University to engage a symposium speaker and present a program on the sustainability and resiliency of coastal resources, projected to be in the summer of 2015. Dr. Stokes joined Dr. Furr, Mr. Yance, President Waldrop, Ms. Chronister and Dr. Connors, and he presented a check for $75,000. He attributed as his inspiration the Deepwater Horizon oil spill disaster in the Gulf of Mexico April 2010, the long-term ecological effects of which are unknown to mankind. He said the University needs to be on the forefront, work with industry and develop techniques that will counteract environmental catastrophes. He added that the University is geographically poised for this opportunity.

There being no further business, the meeting was adjourned at 3:23 p.m.

Respectfully submitted:

James A. Yance, Chair

GERBER TAYLOR

University of South Alabama

December 4, 2014

Matthew K. Kinnear, CFA

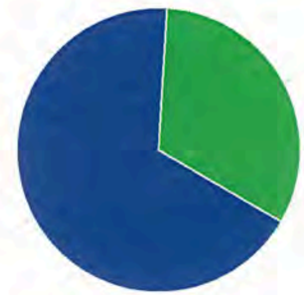
Important Disclosures

- *Confidentiality. The information contained on the following pages is confidential, proprietary information of Gerber/Taylor Management, is intended only for the person to whom it has been delivered and under no circumstance may a copy of this presentation be shown, copied, transmitted, or otherwise given to any person other than the authorized recipient or the recipient's financial, tax or other legal advisers, without Gerber/Taylor Management's prior written consent.*
- *No Obligation to Update. Unless otherwise indicated, information presented is as of the date of this document and Gerber/Taylor Management does not undertake to update it or reflect changes in assumptions underlying any data.*
- *Limitations on Use of Information. The information contained herein is for illustration and discussion purposes only and is not intended to be, nor should it be construed or used as investment, tax, ERISA or legal advice. Prospective clients should consult their own legal, tax and other professionals concerning the advisability of the investment program discussed herein. Prospective clients with fiduciary responsibility for the assets of others should conduct their own due diligence before investing in any fund Opinions offered constitute our view and are subject to change without notice. The information on the following pages pertains to the important footnotes and other disclosures listed above which must be read carefully in conjunction with the information contained herein.*
- *No Offering of Securities, Including Fund Investments. This information does not constitute an offer to sell, or a solicitation of any offer to buy any security, including an interest in any private investment fund. Any offer or solicitation of an investment in any private fund may be made only by delivery of the confidential offering memorandum of such private investment fund to qualified investors. The information contained on the following pages is not complete and does not contain certain material information about the funds. To the extent any information herein may vary from, or be inconsistent with that of the Private Placement Memoranda and governing agreements (i.e., Limited Partnership Agreements, LLC Agreements, etc.) of the underlying funds, the terms of the Private Placement Memoranda and governing agreements shall govern.*
- *Risk of Investing in the Funds. An investment in a fund is not suitable or desirable for all investors. Investors and prospective investors should understand that while portfolio results may show a generally rising trend, there is no assurance that such trends will continue. If such trends are broken, the investors may experience real capital losses in their managed accounts. No representation is made that any fund investor will or is likely to achieve results comparable to those shown or will make any profit or will be able to avoid incurring substantial losses. Before making any investment, you should thoroughly review the applicable Private Placement Memorandum (and attached exhibits) with your financial and tax advisor to determine whether an investment in the fund is suitable for you in light of your financial situation. An investment in a private investment fund involves risk, including that such fund may be illiquid, may use leverage and other speculative investment strategies, may lack transparency, will incur fees and expenses regardless of profits and is not subject to the same regulatory requirements as mutual funds, including mutual fund requirements to provide certain periodic and standardized pricing and valuation information to investors. There is no guarantee that a fund's objectives, benchmarks, or targeted returns will be achieved, nor that any investments mentioned will be profitable in the future.*
- *Performance Net of Fees and Expenses. Performance represents returns of the Fund net of actual expenses and fees paid to Gerber/Taylor by investors in the Fund. The results portrayed include the re-investment of income and they reflect the deduction of advisory fees and other expenses, which the investor would have paid during the period(s) shown. Actual investor results may vary depending upon different fee arrangements and timing of investments.* ***Past performance is not indicative of future results.***
- *Reference to Indices. The benchmarks in this book are unmanaged, assume reinvestment of income, do not reflect advisory fees, may have volatility or other material characteristics that are different from the funds and are included for illustration purposes only.*
- *Information from Outside Sources. Information contained herein that was produced by third parties is deemed reliable, but Gerber/Taylor Management has not independently verified such information and does not warrant its accuracy or completeness.*
- *The returns for GT Partners, GT Global Hedge and GT Asset Allocation are not representative of their GT Offshore or GT Erisa equivalent. The returns from GT Offshore and GT Erisa will generally be less due to additional expenses attributable to those funds.*

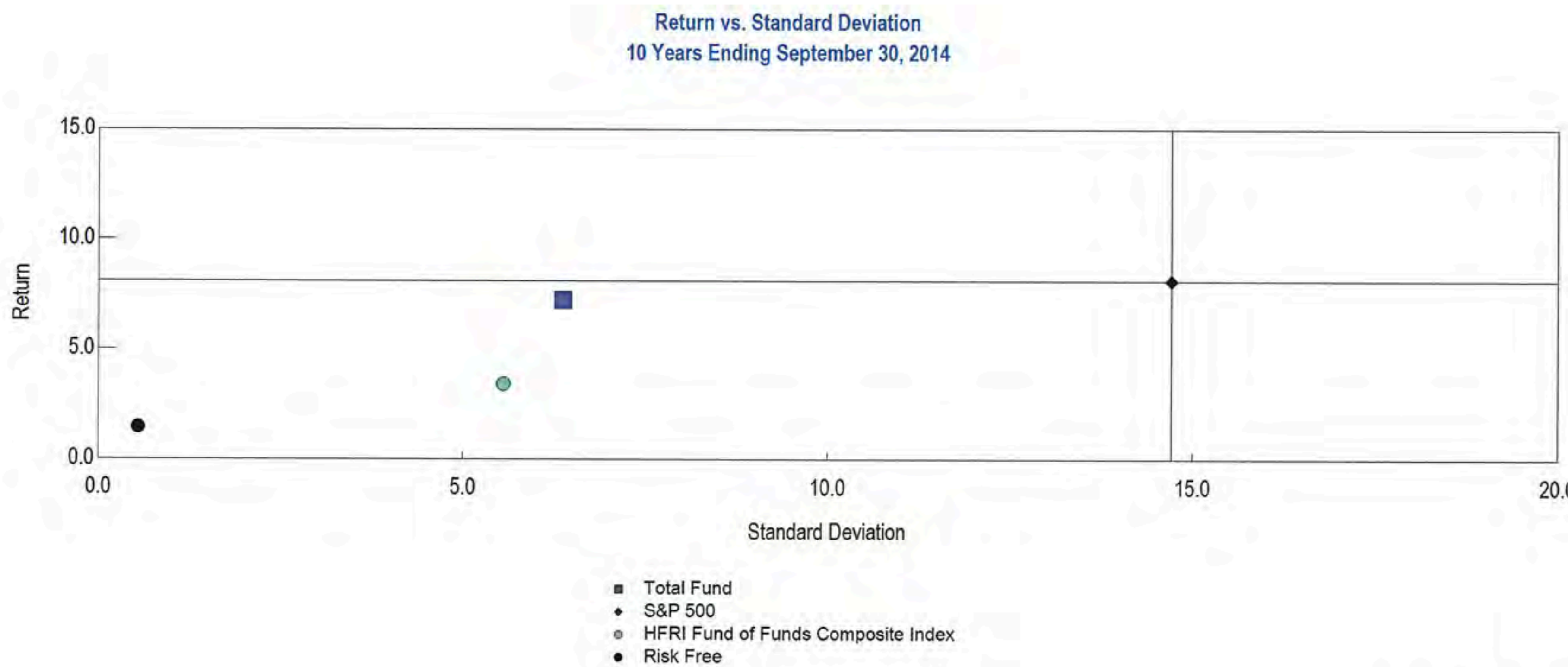
Summary of Cash Flows

Sources of Portfolio Growth	Third Quarter	Year-To-Date	One Year
Beginning Market Value	$22,993,409	$21,844,313	$20,969,058
Net Additions/Withdrawals	-$1,100,000	-$1,100,000	-$1,100,000
Investment Earnings	$19,608	$1,168,703	$2,043,959
Ending Market Value	$21,913,017	$21,913,017	$21,913,017

Current Allocation



	Market Value ($)	% of Portfolio	2014 Q3 (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	7 Yrs (%)	Return (%)	Since
Total Fund	**21,913,017**	**100.0**	**0.1**	**5.3**	**9.7**	**8.9**	**8.7**	**4.3**	**7.2**	**Sep-04**
HFRI Fund of Funds Composite Index			*0.3*	*2.4*	*6.2*	*5.2*	*3.4*	*0.6*	*3.4*	*Sep-04*
S&P 500			*1.1*	*8.3*	*19.7*	*23.0*	*15.7*	*6.0*	*8.1*	*Sep-04*
GT Offshore A (GTP)	14,798,460	67.5	1.0	6.3	10.5	9.0	9.5	4.8	7.6	Sep-04
HFRI FOF: Conservative Index			*0.3*	*2.9*	*5.7*	*5.0*	*3.4*	*0.6*	*2.8*	*Sep-04*
GT Offshore B (GTGH)	7,114,557	32.5	-1.8	3.5	8.1	8.5	--	--	6.3	Nov-09
MSCI World Gross			*-2.1*	*4.3*	*12.8*	*18.6*	*11.5*	*3.4*	*11.4*	*Nov-09*
HFRI FOF: Strategic Index			*-0.3*	*2.1*	*6.1*	*6.0*	*3.7*	*0.3*	*3.6*	*Nov-09*



	Annualized Return (%)	Total Return (%)	Annualized Standard Deviation	Annualized Alpha (%)	Beta	R-Squared	Sharpe Ratio	Up Market Capture Ratio Annualized (%)	Down Market Capture Ratio Annualized (%)
Total Fund	7.22%	100.88%	6.37%	4.92%	0.28	0.43	0.90	37.69%	22.54%
S&P 500	8.11%	118.04%	14.71%	0.00%	1.00	1.00	0.45	100.00%	100.00%
HFRI Fund of Funds Composite Index	3.43%	40.14%	5.55%	1.29%	0.26	0.49	0.35	29.24%	33.09%

Firm Overview

- Founded in 1990
- $5.2 billion in assets under management
- Employee owned
- SEC Registered Investment Adviser

Gerber Taylor Team

Portfolio Management & Research

Charles Gerber* 24	Jason Gowen* 19
Mike Douglass* 20	Tara Elliott* 6
Bill Ryan* 12	Sean Montesi 4
Kojo McLennon* 6	Leo Corrigan 2
Allen Hawley* 14	Will Estes 1
Alex Moore* 4	

Client Service

Andy Taylor* 24	Bart Reid 12
Bill Pickens* 24	Wallace Johnson 5
Matt Robbins* 20	Matt Kinnear 4
Beasley Wellford 20	Lisa Mallory 3
Warren Milnor 15	

Due Diligence

- David East* 16
- Ryan Gibbs 2
- Justin Rikard 1
- Ashlee Reid 4
- Marie McPherson 8
- Sara Kathryn Pace 5

Client Analytics

- Glynn Dean 19
- Mark Hicks 17
- Linda Lesslie 16
- Stacy Miller 12
- Sarah Thomas 10
- Steven Francomacaro 1

Accounting & Operations

- Mary Cornpropst* 14
- Simone Meeks* 12
- Scott Kay
- Erica Woodard 10
- Vivian Jones 13
- Janice Kruger 8
- Kristi Hicks 1
- Dana Czech 1

Administrative

- Gay Marbry 19
- Clarice Rowlett 19
- Cheryl Omenhiser 1
- Connie Meyer 1

* Indicates shareholder of the firm.
The number next to each name reflects years at Gerber/Taylor. Average tenure = 11 years.

Investment Committee

An experienced investment team with diverse and complementary backgrounds.

	Years with Gerber Taylor	Alternatives Experience
Charles Gerber	24	29
Mike Douglass	20	20
Allen Hawley	14	17
Alex Moore	4	14
David East	16	16

GERBER TAYLOR

GT Partners
(GT Offshore A)
Multi-Strategy Hedge

GT Partners (GT Offshore A): Overview

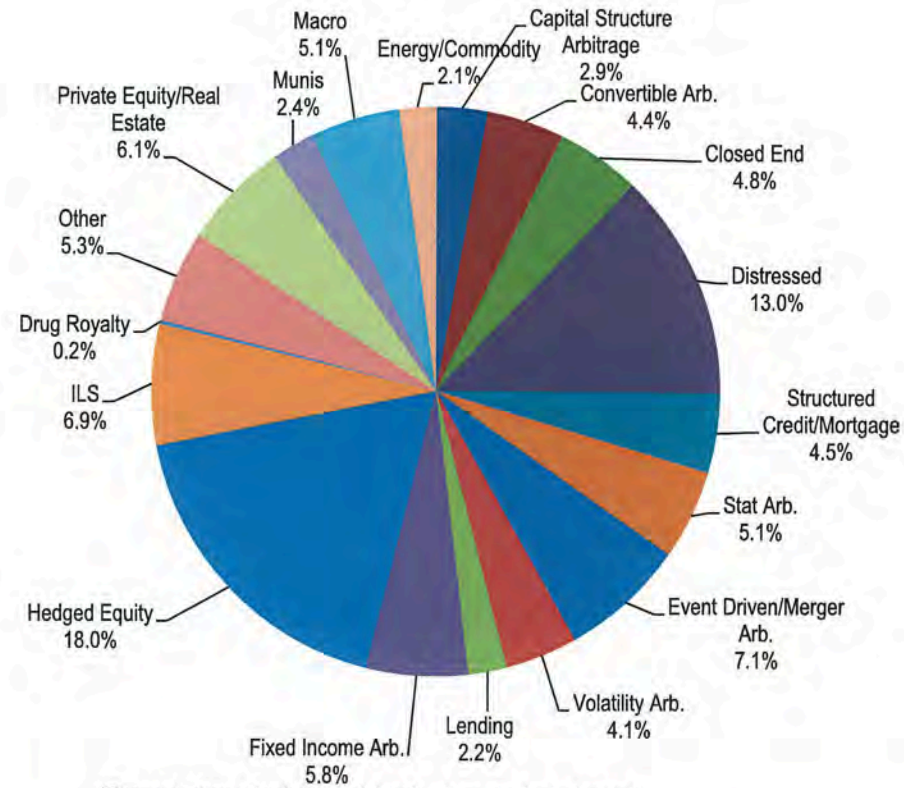
Goal: Generate an attractive absolute return with low market correlation.

Strategy and Attributes:

- Invested with an eclectic mix of managers who are oriented toward achieving consistent, absolute rates of return with minimal market exposure and low levels of leverage
- **Strategy includes:**
  - Multi-strategy Arbitrage
    - Convertible Bond
    - Fixed Income
    - Statistical
    - Closed-end Fund
    - Merger
  - Capital Structure
  - Distressed Debt
  - Long/Short Equity
  - Niche Financing
- Assets of approximately $1.6 billion
- In 225 of the 282 months since inception,

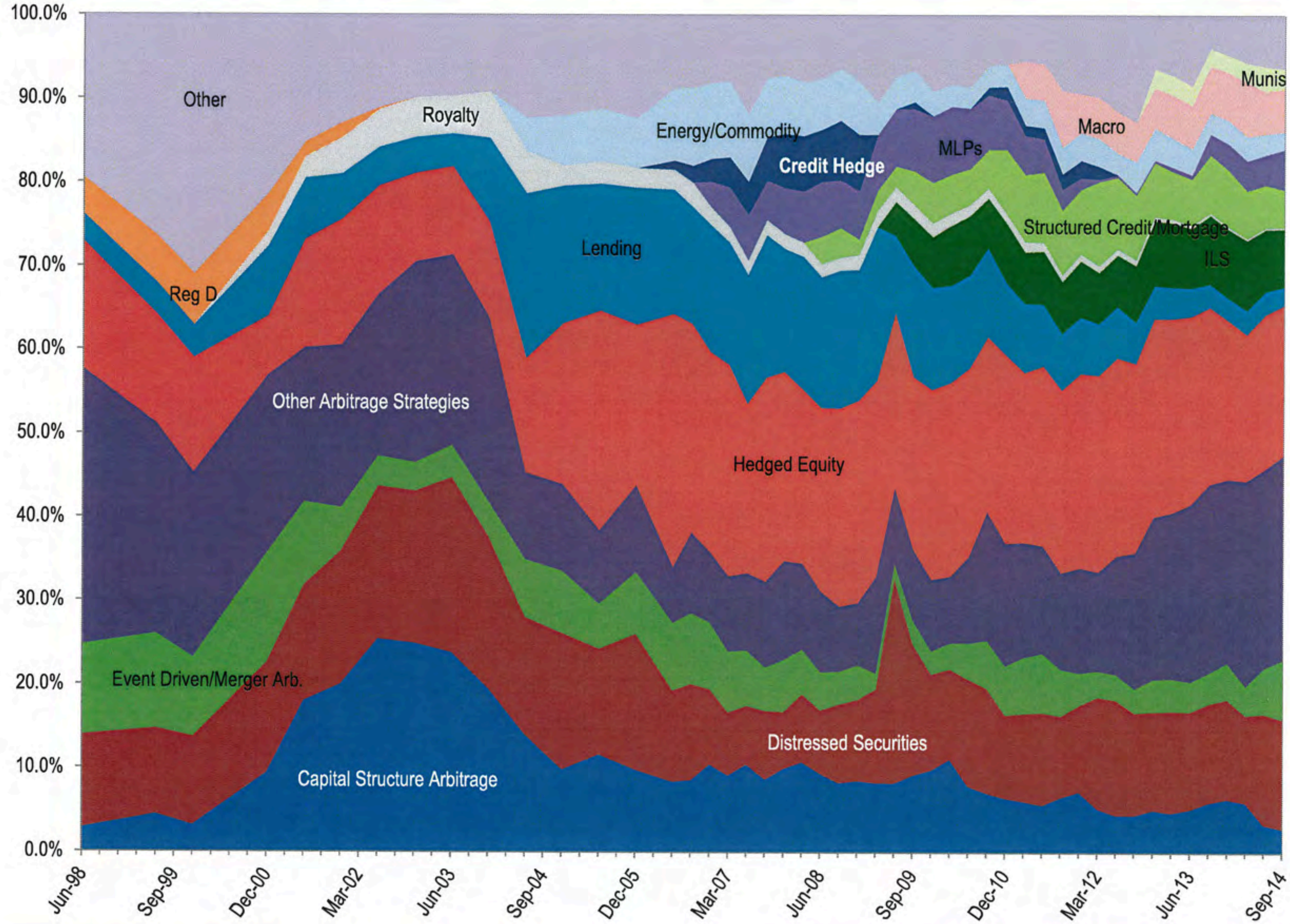
  GT Partners has had positive returns (79%).

Fund Allocation as of 9/30/14*



*Presented on a look-through basis, does not include cash.

GT Partners: Historical Strategy Allocation



GT Partners: Fund Allocation

	STRATEGY	ALLOCATION
1	Multi-Strategy	8.2%
2	Multi-Strategy	7.9%
3	Multi-Strategy	7.2%
4	Multi-Strategy	5.9%
5	Multi-Strategy	5.7%
6	Global Long/Short	5.2%
7	Multi-Strategy	5.1%
8	Event Driven	5.0%
9	Insurance Linked Securities	4.8%
10	Multi-Strategy	3.0%
11	Global Long/Short	3.0%
12	Private Equity	2.9%
13	Macro	2.7%
14	Multi-Strategy	2.7%
15	Macro	2.5%
16	Multi-Strategy	2.4%
17	Closed End Funds	2.4%
18	Real Estate	1.9%
19	Real Estate	1.9%
20	Municipal Bond Arbitrage	1.9%

FUND DIVERSIFICATION

GT Partners five largest funds represent 35% of assets, the top ten funds represent 58% of assets and the top 20 funds represent 82% of assets.

GT Partners: Annualized Performance

	YTD	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	Since 1/1991
GT Partners	**6.5%**	**10.9%**	**9.3%**	**9.8%**	**8.1%**	**9.7%**	**9.6%**	**9.6%**
HFRI FOF: Conservative Index	2.7%	5.5%	4.9%	3.4%	2.8%	4.0%	5.4%	6.0%
S&P 500 Index	8.3%	19.7%	23.0%	15.7%	8.1%	4.9%	9.6%	10.1%
Barclays US Govt/Credit Index	4.1%	4.1%	2.5%	4.3%	4.6%	5.6%	6.2%	6.5%

Composite Performance Disclosure

GT Partners, L.P. is a private investment fund that invests in other private investment funds. Performance is shown net of all fees. As of January 1, 2001, GT Special Situations, L.P., a private investment fund also managed by Gerber/Taylor Management Co., merged with GT Partners, L.P., and performance results after such date reflect this merger. For periods prior to January 1, 2001, the performance results reflect the asset weighting composite performance of both GT Partners, L.P. (60%) and GT Special Situations, L.P. (40%). For periods prior to 1993, performance results include only GT Partners, L.P. Performance results are pre-tax, net of applicable fees and expenses, and include income reinvestment. No representation is made that an investor will achieve results comparable to those shown.

GT Partners: Calendar Year Performance

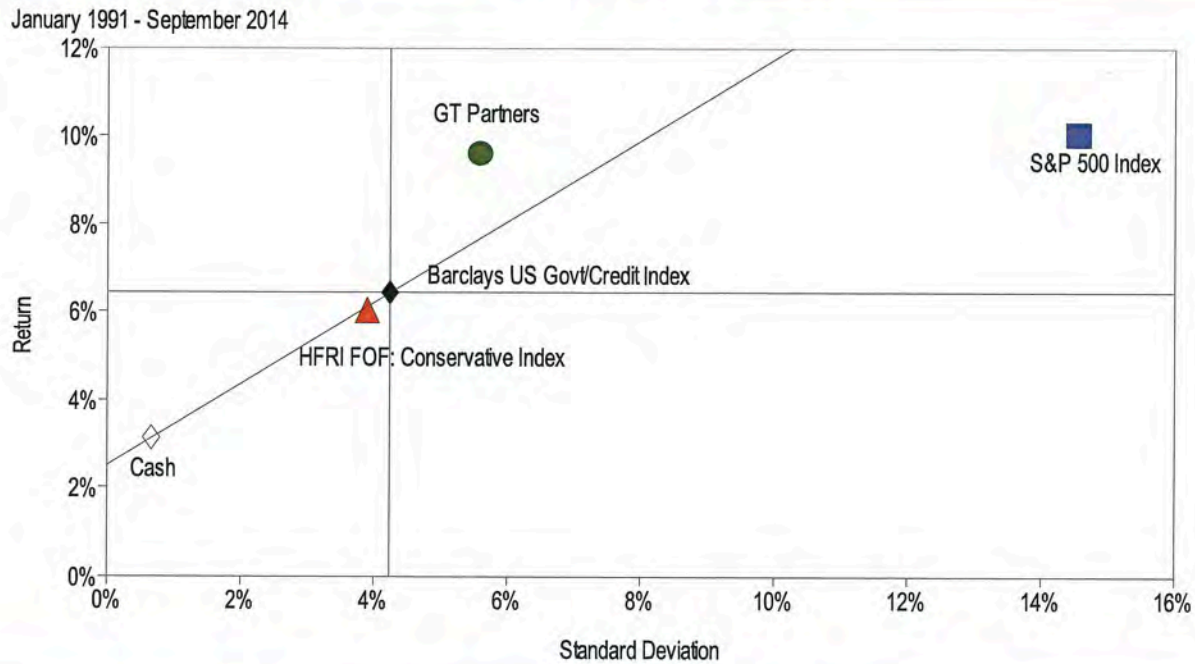
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
GT Partners	**5.6%**	**7.4%**	**27.7%**	**-9.9%**	**13.7%**	**19.4%**	**17.0%**	**-9.0%**	**25.2%**	**20.1%**	**7.8%**
HFRI FOF: Conservative Index	11.8%	7.3%	16.4%	-1.2%	13.1%	13.7%	15.0%	-1.6%	18.9%	5.8%	3.1%
S&P 500 Index	30.5%	7.6%	10.1%	1.3%	37.6%	23.0%	33.4%	28.6%	21.0%	-9.1%	-11.9%
Barclays US Govt/Credit Index	16.1%	7.6%	11.0%	-3.5%	19.2%	2.9%	9.8%	9.5%	-2.2%	11.9%	8.5%

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
GT Partners	**5.0%**	**17.6%**	**12.7%**	**9.0%**	**15.7%**	**19.9%**	**-28.0%**	**27.0%**	**14.9%**	**1.2%**	**9.8%**	**11.4%**
HFRI FOF: Conservative Index	3.6%	9.0%	5.8%	5.1%	9.2%	7.7%	-19.9%	9.7%	5.1%	-3.6%	4.2%	7.7%
S&P 500 Index	-22.1%	28.7%	10.9%	4.9%	15.8%	5.5%	-37.0%	26.5%	15.1%	2.1%	16.0%	32.4%
Barclays US Govt/Credit Index	11.0%	4.7%	4.2%	2.4%	3.8%	7.2%	5.7%	4.5%	6.6%	8.7%	4.8%	-2.4%

Composite Performance Disclosure

GT Partners, L.P. is a private investment fund that invests in other private investment funds. Performance is shown net of all fees. As of January 1, 2001, GT Special Situations, L.P., a private investment fund also managed by Gerber/Taylor Management Co., merged with GT Partners, L.P., and performance results after such date reflect this merger. For periods prior to January 1, 2001, the performance results reflect the asset weighting composite performance of both GT Partners, L.P. (60%) and GT Special Situations, L.P. (40%). For periods prior to 1993, performance results include only GT Partners, L.P. Performance results are pre-tax, net of applicable fees and expenses and include income reinvestment. No representation is made that an investor will achieve results comparable to those shown.

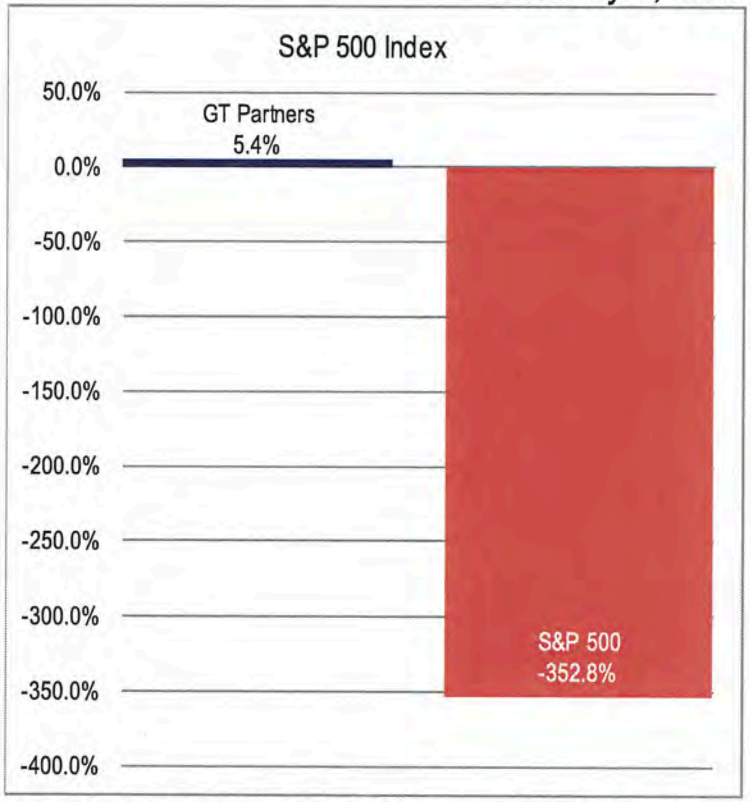
GT Partners: Risk/Return Since Inception



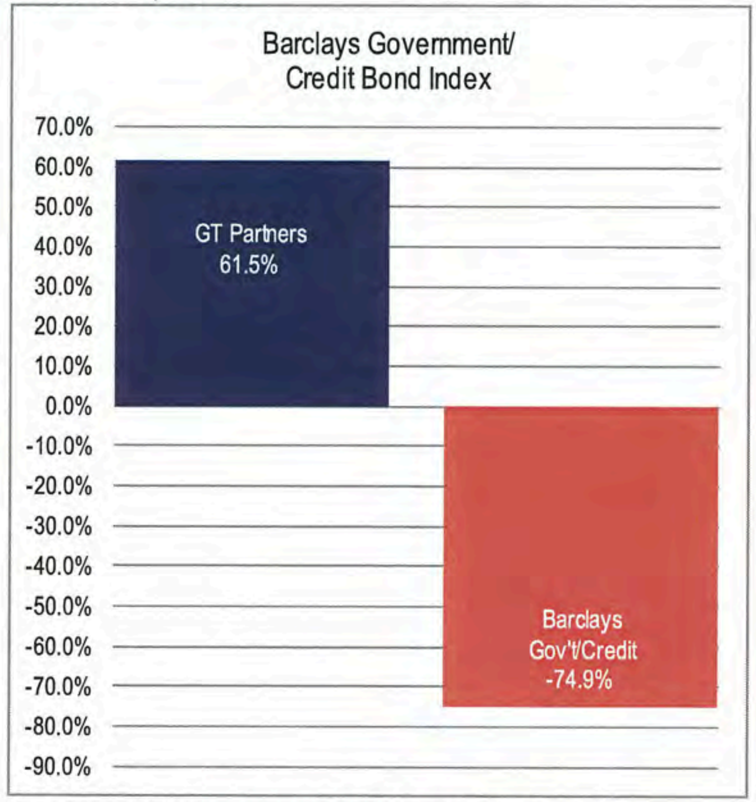
	Return	Cumulative Return	Standard Deviation	Alpha	R-Squared	Sharpe Ratio
GT Partners	**9.6%**	**789.5%**	**5.6%**	**6.5%**	**0.0%**	**1.17**
HFRI FOF: Conservative Index	6.0%	294.2%	3.9%	2.7%	0.5%	0.72
S&P 500 Index	10.1%	877.2%	14.6%	6.3%	0.3%	0.48
Barclays US Govt/Credit Index	6.5%	341.1%	4.3%	0.0%	100.0%	0.78

GT Partners: Down Market Performance

January 1, 1991 to September 30, 2014



Estimated summed performance. Includes the 98 months when the S&P 500 Index had negative returns.



Estimated summed performance. Includes the 89 months when the Barclays Government/Credit Bond Index had negative returns.

GERBER
TAYLOR

GT Global Hedge
(GT Offshore B)
Hedged Equity

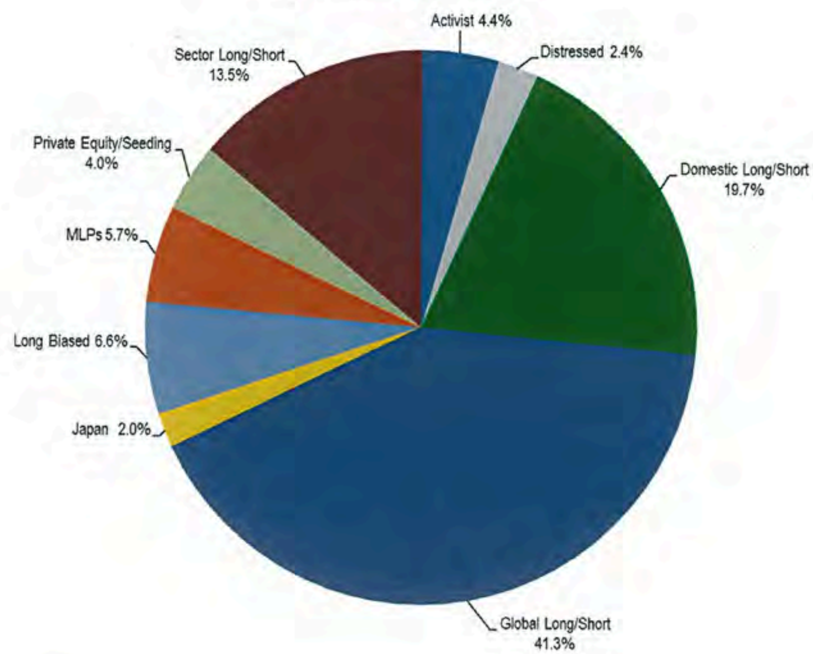
GT Global Hedge (GT Offshore B): Overview

Goal: Over the long term, generate an attractive equity-like return with lower volatility.

Strategy and Attributes:

- Invested with diverse group of global long/short stock pickers
- Invested with managers who maintain a portion of short exposure – stock shorts preferred to index shorts
- Avoidance of managers who participate in "macro" strategies or have style bias
- Net long exposure ranging from 20% to 60%
- Assets of approximately $1.5 billion
- Offshore fund available

Fund Allocation as of 9/30/14*

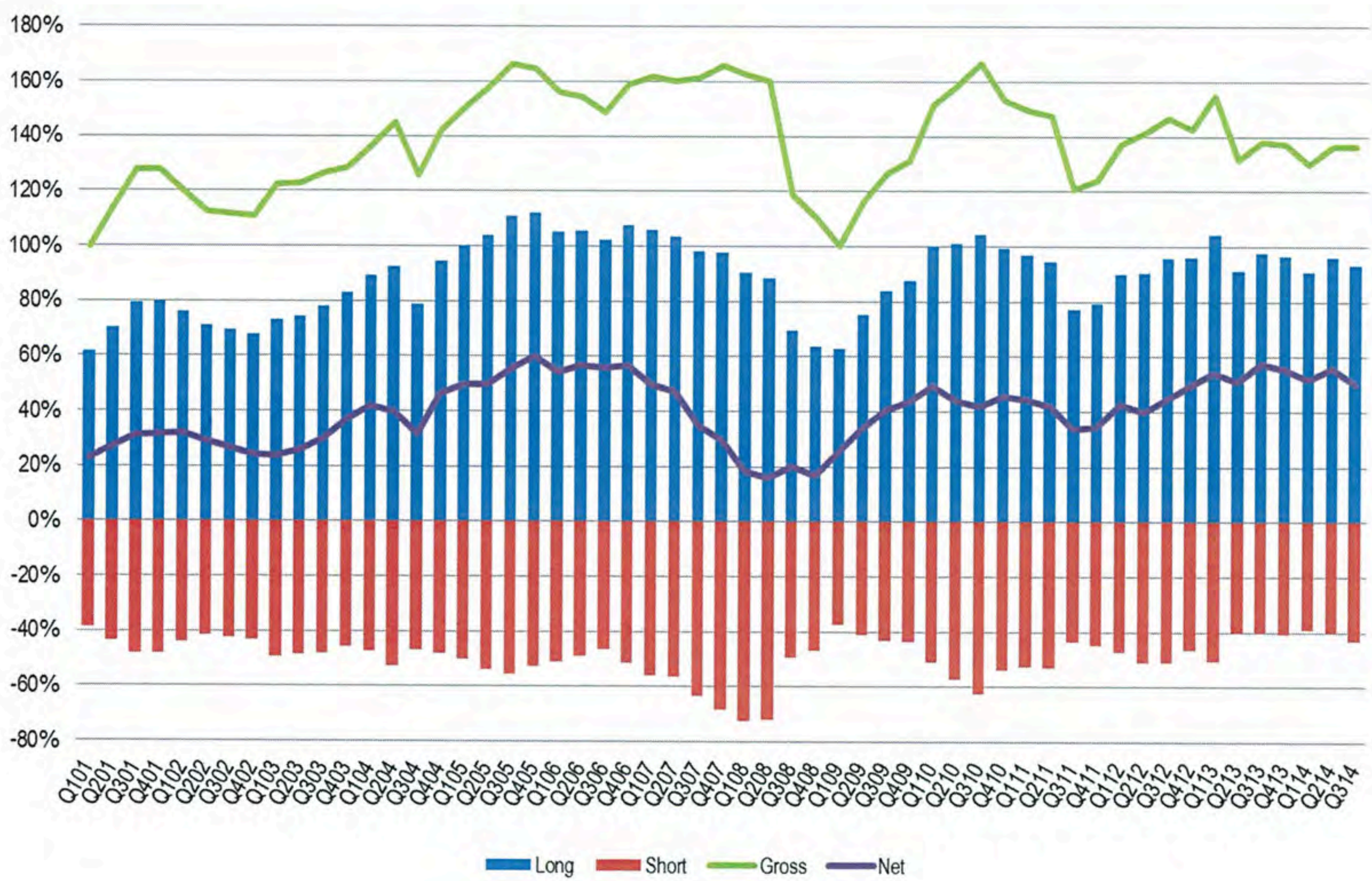


GT Global Hedge: Fund Allocation

	STRATEGY	ALLOCATION
1	Global Long/Short	7.3%
2	Sector Long/Short	5.6%
3	Global Long/Short	4.9%
4	Global Long/Short	4.7%
5	Global Long/Short	4.4%
6	Domestic Long/Short	4.4%
7	Activist	4.3%
8	Global Long/Short	4.0%
9	Long Biased	3.8%
10	MLPs	3.6%
11	Domestic Long/Short	3.6%
12	Sector Long/Short	3.2%
13	Sector Long/Short	3.1%
14	Domestic Long/Short	3.1%
15	Global Long/Short	3.1%
16	Domestic Long/Short	3.1%
17	Domestic Long/Short	2.8%
18	Global Long/Short	2.7%
19	Global Long/Short	2.5%
20	Global Long/Short	2.5%

FUND DIVERSIFICATION
GT Global Hedge's five largest funds represent 27% of assets, the top ten funds represent 47% of assets and the top 20 funds represent 77% of assets.

GT Global Hedge: Historical Exposures



GT Global Hedge: Annualized Performance

	YTD	1 Year	3 Years	5 Years	10 Years	15 Years	Since 1/1995
GT Global Hedge	**3.7%**	**8.3%**	**8.7%**	**6.5%**	**8.1%**	**9.0%**	**11.0%**
HFRI FOF: Strategic Index	2.0%	6.1%	6.0%	3.6%	3.9%	4.8%	6.5%
S&P 500 Index	8.3%	19.7%	23.0%	15.7%	8.1%	4.9%	9.7%
MSCI World Index (Gross)	4.3%	12.8%	18.6%	11.5%	7.7%	4.7%	7.6%

Composite Performance Disclosure

All performance statistics are calculated beginning January 1, 1995 rather than the actual start date of July 1994 and are shown net of all fees and expenses. January 1995 represents the point that the Fund became invested on a diversified basis with multiple managers and investors. Prior to that point, the Fund only had two managers and limited investors. If the results from inception were calculated beginning on July 1, 1994, the annualized return would be 10.2% vs. 7.5% for the MSCI World Index. Performance results are pre-tax, net of applicable fees and expenses and include income reinvestment. No representation is made that an investor will achieve results comparable to those shown.

GT Global Hedge: Calendar Year Performance

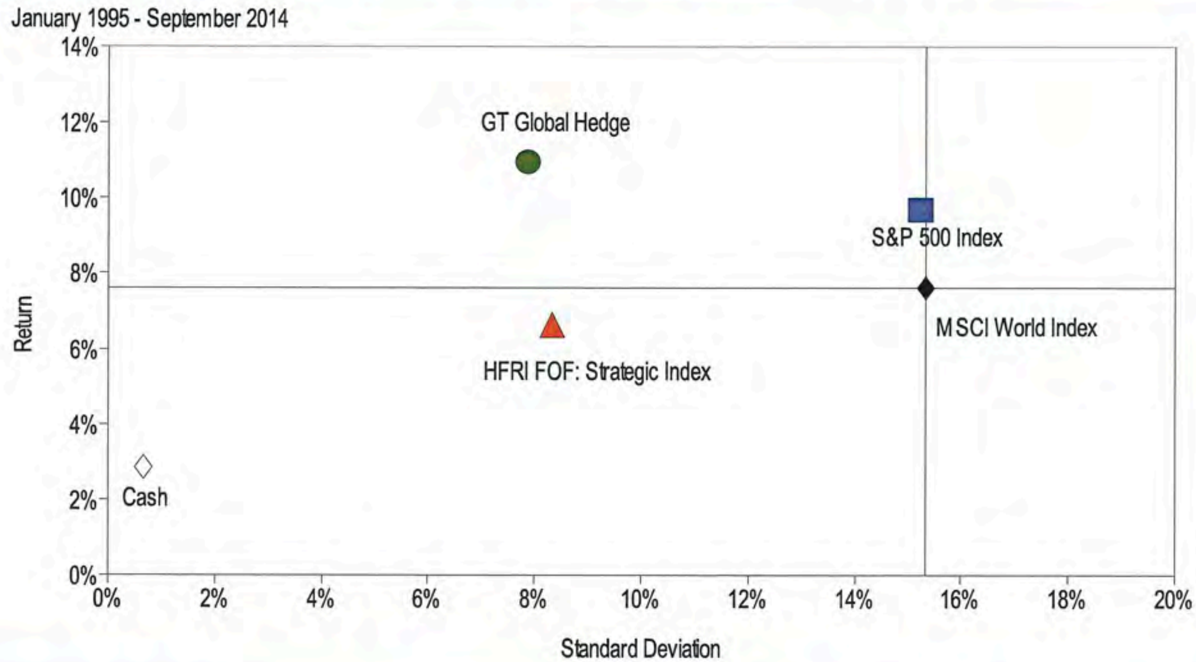
	1995	1996	1997	1998	1999	2000	2001	2002	2003
GT Global Hedge	**32.2%**	**13.7%**	**13.8%**	**3.6%**	**51.1%**	**9.4%**	**5.7%**	**0.5%**	**10.7%**
HFRI FOF: Strategic Index	16.9%	16.1%	22.8%	-9.8%	38.5%	-0.6%	1.2%	-4.0%	15.8%
S&P 500 Index	37.6%	23.0%	33.4%	28.6%	21.0%	-9.1%	-11.9%	-22.1%	28.7%
MSCI World Index (Gross)	21.3%	14.0%	16.2%	24.8%	25.3%	-12.9%	-16.5%	-19.5%	33.8%

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
GT Global Hedge	**11.5%**	**16.6%**	**13.4%**	**20.7%**	**-18.1%**	**16.1%**	**10.2%**	**-4.1%**	**6.7%**	**15.2%**
HFRI FOF: Strategic Index	8.4%	10.3%	11.8%	12.8%	-25.2%	13.3%	6.3%	-7.3%	5.8%	10.5%
S&P 500 Index	10.9%	4.9%	15.8%	5.5%	-37.0%	26.5%	15.1%	2.1%	16.0%	32.4%
MSCI World Index (Gross)	15.3%	10.0%	20.7%	9.6%	-40.3%	30.8%	12.3%	-5.0%	16.5%	27.4%

Composite Performance Disclosure

All performance statistics are calculated beginning January 1, 1995 rather than the actual start date of July 1994 and are shown net of all fees and expenses. January 1995 represents the point that the Fund became invested on a diversified basis with multiple managers and investors. Prior to that point, the Fund only had two managers and limited investors. If the results from inception were calculated beginning on July 1, 1994, the annualized return would be 10.2% vs. 7.5% for the MSCI World Index. Performance results are pre-tax, net of applicable fees and expenses and include income reinvestment. No representation is made that an investor will achieve results comparable to those shown.

GT Global Hedge: Risk/Return Since Inception



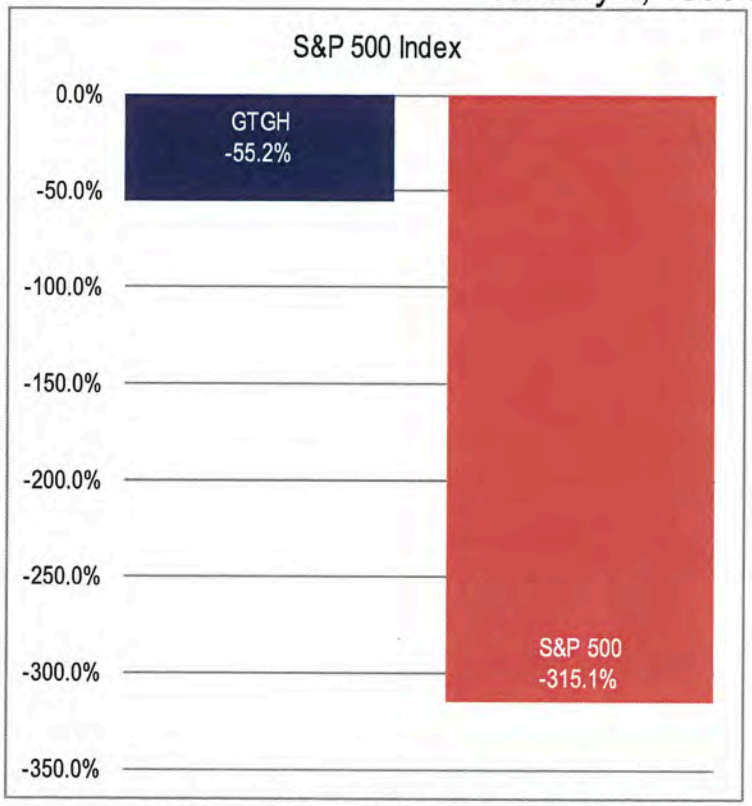
	Return	Cumulative Return	Standard Deviation	Alpha	R-Squared	Sharpe Ratio
GT Global Hedge	**11.0%**	**683.2%**	**7.9%**	**6.6%**	**39.6%**	**1.03**
HFRI FOF: Strategic Index	6.5%	249.0%	8.3%	1.9%	48.5%	0.44
S&P 500 Index	9.7%	524.0%	15.2%	2.4%	90.7%	0.45
MSCI World Index (Gross)	7.6%	325.2%	15.3%	0.0%	100.0%	0.31

GT Global Hedge: Upside/Downside Since Inception

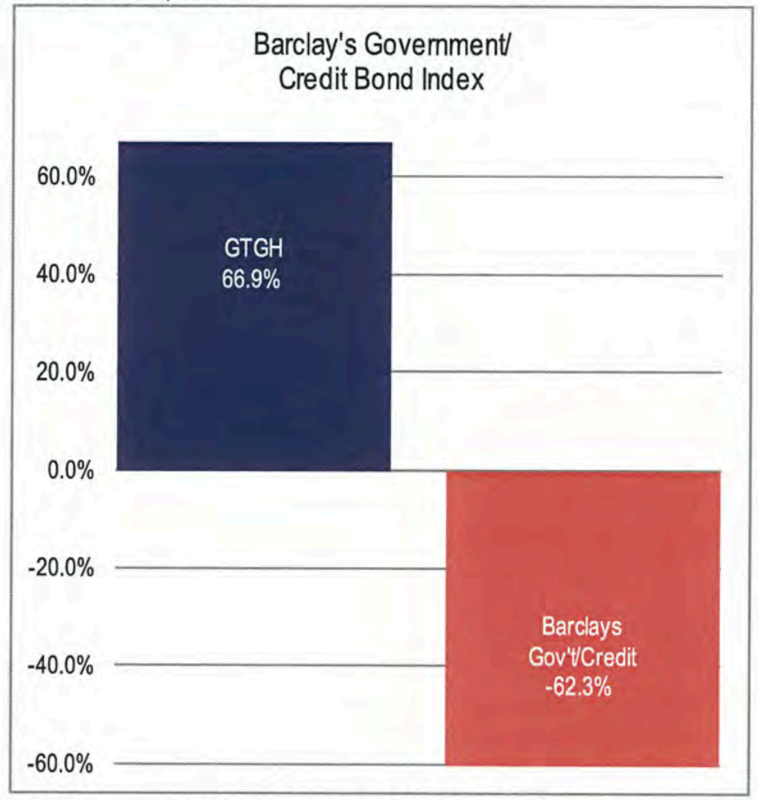
	# of Up Months	# of Down Months	Average Return Up Months	Average Return Down Months	Up Mkt Capture	Down Mkt Capture
GT Global Hedge	**168**	**69**	**1.86**	**-1.49**	**51.5%**	**18.4%**
HFRI FOF: Strategic Index	152	85	1.85	-1.78	47.3%	37.0%
S&P 500 Index	155	82	3.35	-3.92	102.5%	92.5%
MSCI World Index (Gross)	147	90	3.35	-3.70	100.0%	100.0%

GT Global Hedge: Down Market Performance

January 1, 1995 to September 30, 2014



Estimated summed performance. Includes the 82 months when the S&P 500 Index had negative returns.



Estimated summed performance. Includes the 73 months when the Barclays Government/Credit Bond Index had negative returns.

GERBER TAYLOR

Terms and Conditions

Collective Terms and Conditions

	Eligible Investors						
Fund	Individuals, Family Trusts, IRAs	Institutions	Minimum Investment	Subscriptions	Redemptions	Notice Period	Lock-up
GT Partners	$5 million in investments	$25 million in investments	$1,000,000	Monthly	Annual	90 days	None
GT Global Hedge	$5 million in investments	$25 million in investments	$1,000,000	Monthly	Annual	90 days	None

Fund	Management Fee	Profit Participation	Tax Efficiency*
GT Partners	1% of capital	1% of profits with highwater mark	17-year effective rate has been 26%
GT Global Hedge	1% of capital	1% of profits with highwater mark	17-year effective rate has been 18%

*Assumes highest U.S. federal tax rates for the relevant tax year (i.e. 35% for ordinary income/short-term gain and 15% for long term gains). Nothing is assumed for state or local taxes. Computations were based on the overall fund. Individual investors may have had different taxable results depending on cash flows. Future tax results could vary, including the impact of future tax rate increases. Tax results are updated through 2012.

Service Providers

Auditor

Decosimo
Tallan Building
Suite 1100
Chattanooga, TN 37402

Legal Counsel

Sidley Austin LLP
One South Dearborn Street
Chicago, IL 60603

Baker Donelson
165 Madison Ave.
Memphis, TN 38103

Administrator

BNY Mellon
Alternative Investment Services
400 Bellevue Parkway
Wilmington, DE 19809

Offshore Administrator

BNY Mellon Administrative Services, Ltd.
129 Front Street
Hamilton, HM12, Bermuda

commonfund

Solutions for strategic investors™

University of South Alabama

Portfolio Review

commonfund

Agenda

I. Investment Report
II. Portfolio Information
III. Appendix

Presenters

Thomas L. Van Zant
Managing Director, Client Sales and Service

About Commonfund

Commonfund was founded in 1971 as an independent nonprofit investment firm with a grant from the Ford Foundation. Directly or through its subsidiaries—Commonfund Capital and Commonfund Asset Management Company— Commonfund today manages over $24 billion for endowments, foundations and pension funds. Among the pioneers in applying the endowment model of investing to institutional investors, Commonfund provides extensive investment flexibility using independent investment sub-advisors for discretionary outsourcing engagements, single strategies and multi-asset solutions. Investment programs incorporate active and passive strategies in equities and fixed income, hedge funds, commodities and private capital. All securities are distributed through Commonfund Securities, Inc., a member of FINRA. For additional information about Commonfund, please visit www.commonfund.org.

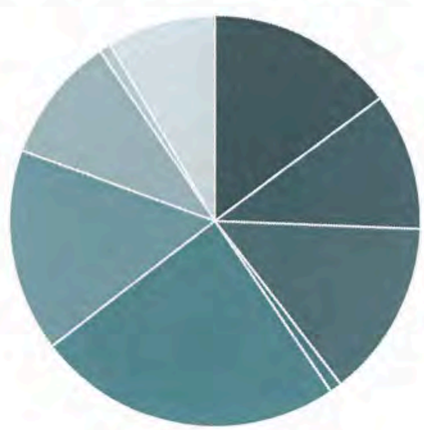
commonfund

Commonfund Profile

September 30, 2014

- — $25.0 Billion[1] in assets under management
- — Over 1,300 clients
- — Our only business is investment management
- — Comprehensive and customized investment solutions
- — Deep resources
- — Global reach

Distribution of assets by asset category[2]



- 15% U.S. Equities
- 11% Global/International Equities
- 14% Fixed Income[3]
- 1% Commodities[4]
- 24% Private Equity[4]
- 16% Venture Capital[4]
- 10% Natural Resources[4]
- 1% Real Estate[4 5]
- 9% Hedge Fund Strategies[4]

[1]Combined assets of The Common Fund for Nonprofit Organizations ("Commonfund") and other investment programs managed by Commonfund's subsidiaries Commonfund Asset Management Company, Inc. and Commonfund Capital, Inc.

[2]Percentages based on discretionary AUM as of the end of current quarter end. AUM for private capital programs is based on capital commitments. Private capital and distressed debt values are quarterly in arrears.

[3]Includes Distressed Debt assets under management.

[4]Programs available through private placement only to eligible investors.

[5]Real Estate assets under management are on a one to two quarter lag.

commonfund

Solutions for strategic investors™

Detailed Investment Report

University of South Alabama

Endowment Fund

September 30, 2013 - September 30, 2014

Total Portfolio Market Value as of 9/30/2014

Investment Category	Adjusted Market Value	Allocation %
Portfolio Total Equity	$36,301,470.87	53.85%
Portfolio Total Fixed	$31,113,873.78	46.15%
Portfolio Total	**$67,415,344.65**	**100.00%**

Marketable Investments 9/30/2013 to 9/30/2014

Marketable Fund	Beginning Market Value	Purchases	Sales	Fees	Income Paid	Income Reinvested	Market Change	Ending Market Value
Multi-Strategy Equity Fund	$29,926,576.39	$2,500,000.00	($1,600,000.00)	($75,486.23)	$0.00	$426,716.15	$5,123,664.56	$36,301,470.87
Total Equity	**$29,926,576.39**	**$2,500,000.00**	**($1,600,000.00)**	**($75,486.23)**	**$0.00**	**$426,716.15**	**$5,123,664.56**	**$36,301,470.87**
Multi-Strategy Bond Fund	$26,018,871.83	$3,550,000.00	$0.00	($43,309.28)	$0.00	$1,061,680.25	$526,630.98	$31,113,873.78
Total Fixed	**$26,018,871.83**	**$3,550,000.00**	**$0.00**	**($43,309.28)**	**$0.00**	**$1,061,680.25**	**$526,630.98**	**$31,113,873.78**
Marketable Total	**$55,945,448.22**	**$6,050,000.00**	**($1,600,000.00)**	**($118,795.51)**	**$0.00**	**$1,488,396.40**	**$5,650,295.54**	**$67,415,344.65**

Market Change equals (Ending MV - Beginning MV - Purchases + Sales + Fees + Income Paid – Income Reinvested)
Adjusted Market Value for marketable cash funds, reflect the impact of pending cash subscriptions.

Asset Allocation as of 9/30/2014

	Target Allocation %	9/30/2013 Allocation %	9/30/2014 Allocation %
Large Cap Equity	50.00	0.00	0.00
Domestic Equity		39.46	39.30
International Equity		4.74	4.97
Emerging Markets Equity		1.75	2.47
Equity	**50.00**	**45.95**	**46.74**
Core Bonds	50.00	31.80	31.90
Global Bonds		4.76	4.87
Credit		1.11	0.66
Opportunistic		5.55	5.79
Distressed Debt		3.29	2.94
Fixed	**50.00**	**46.51**	**46.15**
Hedge Fund Strategies		7.54	7.11
Diversifying Strategies	**0.00**	**7.54**	**7.11**
Total	**100.00**	**100.00**	**100.00**

Past performance is no assurance of future returns

commonfund

Performance Detail as of 9/30/2014

	Assets		Investment Performance								
Investment	Market Value ($)	Average Allocation	MTD	QTD	CYTD	FYTD	3 Years	5 Years	10 Years	Account Inception	Account Inception Date
Multi-Strategy Equity Fund	**36,301,471**	**53.8%**	**-1.96**	**0.12**	**7.26**	**17.37**	**20.45**	**13.18**	**8.43**	**5.40**	**3/31/2000**
S&P 500			-1.40	1.13	8.34	19.73	22.99	15.70	8.11	3.88	3/31/2000
Large Cap Equity		25.4%	-1.16	3.34	11.06	23.68	25.28	17.15	9.49	5.34	
S&P 500			-1.40	1.13	8.34	19.73	22.99	15.70	8.11	3.88	
All Cap Equity		18.5%	-3.20	-3.51	5.19	15.31	23.10	15.05	9.18		
Russell 3000			-2.08	0.01	6.95	17.76	23.08	15.78	8.44	4.30	
International Equity		0.9%	-3.68	-6.04	-3.91	2.54	13.90	6.87	6.24	3.38	
MSCI World ex U.S.			-4.10	-5.74	-0.66	4.86	13.15	6.52	6.53	3.13	
MSCI EAFE Net			-3.84	-5.88	-1.38	4.25	13.65	6.56	6.32	2.90	
Emerging Markets Equity		1.6%	-5.12	-2.05	3.03	7.25	7.52	3.86	9.16		
MSCI EMF Net			-7.41	-3.49	2.43	4.30	7.19	4.42	10.68	7.46	
Hedge Fund Strategies		7.0%	-0.19	0.90	3.59	8.07	8.63	4.97	5.80	5.80	
HFRI FOF Composite Index			-0.16	0.31	2.43	6.19	5.19	3.41	3.43	3.33	
MSEF Cash Equitization		0.3%	-0.89	0.72	5.09	12.02					
Total Equity	**36,301,471**	**53.8%**	**-1.96**	**0.12**	**7.26**	**17.37**	**20.45**	**13.18**	**8.43**	**5.40**	**3/31/2000**
S&P 500			-1.40	1.13	8.34	19.73	22.99	15.70	8.11	3.88	3/31/2000
Weighted Equity Composite[1]			-1.79	0.09	6.55	16.09	19.54	13.09	7.67	3.98	3/31/2000

Past performance is no assurance of future returns

Performance Detail as of 9/30/2014

	Assets		Investment Performance								
Investment	Market Value ($)	Average Allocation	MTD	QTD	CYTD	FYTD	3 Years	5 Years	10 Years	Account Inception	Account Inception Date
Multi-Strategy Bond Fund	**31,113,874**	**46.2%**	**-0.86**	**-0.03**	**4.72**	**5.45**	**4.87**	**6.26**	**5.61**	**6.45**	**3/31/2000**
Barclays Capital US Aggregate Bond Index			-0.68	0.17	4.10	3.96	2.43	4.12	4.62	5.61	3/31/2000
Core Bonds		31.9%	-0.54	0.47	5.19	5.61	4.55	6.06	5.47	6.40	
Barclays Capital US Aggregate Bond Index			-0.68	0.17	4.10	3.96	2.43	4.12	4.62	5.61	
Global Bonds		4.9%	-3.24	-2.39	6.94	6.91	7.17	8.13	7.90	8.36	
Citigroup World Govt. Bond Index			-3.30	-3.78	1.03	-0.07	-0.51	1.58	4.08	5.22	
Credit		0.7%	-1.54	-1.05	2.23	4.69	3.09	5.50	6.49	7.55	
CSFB Leveraged Loan Index			-0.52	-0.33	2.43	4.30	6.92	6.66	4.90	4.96	
Opportunistic		5.7%	-0.83	-0.70	0.75	0.91	2.38	3.18	6.41		
3 Month Tbill			0.00	0.01	0.03	0.05	0.07	0.10	1.59	1.99	
Distressed Debt		2.9%	-0.08	1.59	9.15	16.48	15.46	13.04	8.85		
HFRI Distressed/Restructuring Index			-2.09	-2.68	2.64	7.10	9.71	8.45	6.84	8.39	
Total Fixed	**31,113,874**	**46.2%**	**-0.86**	**-0.03**	**4.72**	**5.45**	**4.87**	**6.26**	**5.61**	**6.45**	**3/31/2000**
Barclays Capital US Aggregate Bond Index			-0.68	0.17	4.10	3.96	2.43	4.12	4.62	5.61	3/31/2000
Weighted Fixed Composite[2]			-0.86	-0.30	3.22	3.19	2.35	3.73	4.34	5.19	3/31/2000

Past performance is no assurance of future returns

Performance Detail as of 9/30/2014

	Assets		Investment Performance								
Investment	Market Value ($)	Average Allocation	MTD	QTD	CYTD	FYTD	3 Years	5 Years	10 Years	Account Inception	Account Inception Date
Total Marketable	**67,415,345**	**100.0%**	**-1.46**	**0.06**	**6.06**	**11.72**	**12.72**	**9.85**	**7.64**	**6.02**	**3/31/2000**
Weighted Marketable Composite[3]			-1.32	-0.09	4.93	9.55	10.77	8.54	6.24	4.85	3/31/2000
Total Portfolio	**67,415,345**	**100.0%**	**-1.46**	**0.06**	**6.06**	**11.72**	**12.72**	**9.85**	**7.64**	**6.02**	**3/31/2000**
Traditional Benchmark[4]			-1.04	0.66	6.27	11.69	12.44	10.04	6.65	5.08	3/31/2000

Benchmark Scopes and Weightings

[1] 4/1/2000 to 9/30/2014 S&P 500 75.0; MSCI ACWI ex US 15.0; HFRI FOF Composite Index 10.0

[2] 4/1/2000 to 9/30/2014 Barclays Capital US Aggregate Bond Index 70.0; Citigroup World Govt. Bond Index 10.0; 3 Month Tbill 10.0; CSFB Leveraged Loan Index 10.0

[3] 4/1/2000 to 9/30/2014 S&P 500 37.5; Barclays Capital US Aggregate Bond Index 35.0; Citigroup World Govt. Bond Index 5.0; 3 Month Tbill 5.0; MSCI ACWI ex US 7.5; HFRI FOF Composite Index 5.0; CSFB Leveraged Loan Index 5.0

[4] 4/1/2000 to 9/30/2014 S&P 500 50.0; Barclays Capital US Aggregate Bond Index 50.0

Institution Performance as of Latest Month-End

- Returns include closed account history in group totals, if applicable.
- Endowment fund returns are not available prior to October 1987.
- Performance is calculated monthly. Therefore, returns for investments in any fund for less than a full month are not included in these performance figures.

Portfolio Information

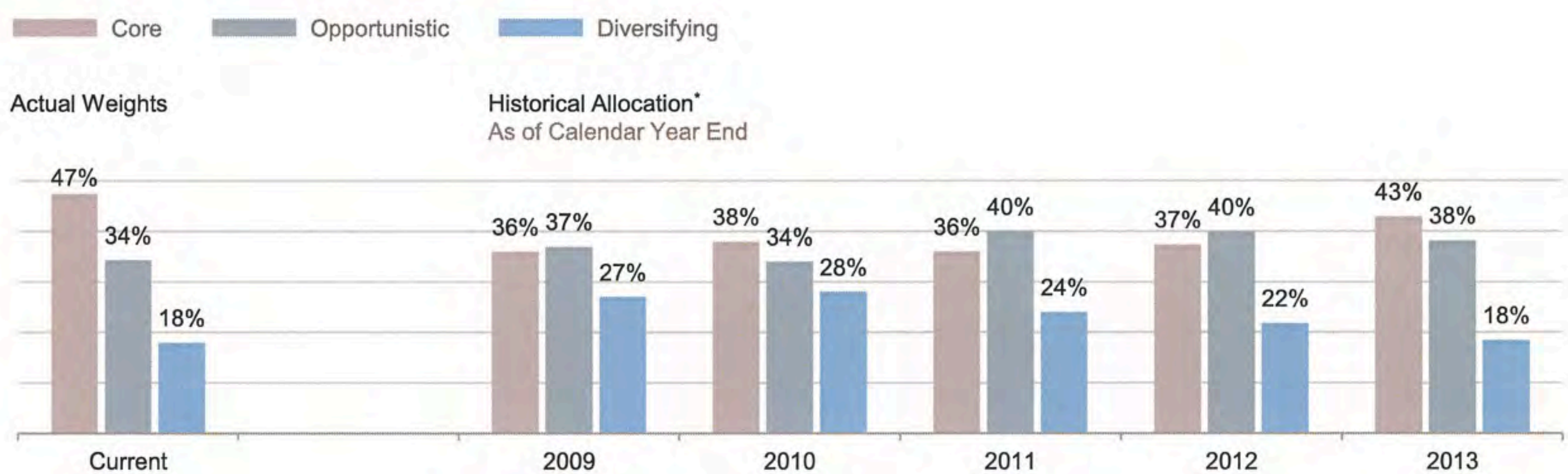
Multi-Strategy Equity Fund | Objective and Strategy

September 30, 2014

Objective

To offer an actively managed, multi-manager investment program that will provide broad exposure to global equity markets. The fund seeks to add value above the return of the U.S. equity market, as measured by the S&P 500 Index, net of fees and to provide competitive returns relative to the Russell U.S. Large Cap Market Oriented Equity Universe. The fund's risk characteristics will vary from those of the Index due to its diversified exposures to sectors outside of the index, including non-U.S. equity markets and to certain marketable alternative strategies.

Benchmark	S&P 500 Index
Inception	July 1971
Assets Managed	$1,965 Million
Investment Vehicle	Commingled Fund
Eligible Investors	Educational Institutions
Minimum Investment	$50,000



* May not add to 100 percent due to rounding.

Multi-Strategy Equity Fund | Performance

September 30, 2014

Net Performance*

5 Year Risk Characteristics	Multi-Strategy Equity Fund	S&P 500 Index
Standard Deviation	**12.77%**	13.20%
Sharpe Ratio	**1.02**	1.18
R^2	**96.65**	100.00
Beta	**0.95**	1.00
Up Capture	**90%**	100%
Down Capture	**100%**	100%

Net Performance* September 30, 2014	Quarter	CYTD	FYTD
Multi-Strategy Equity Fund	**0.10%**	**7.19%**	**0.10%**
S&P 500 Index	1.13%	8.34%	1.13%

Fiscal Year ended June 30	2014	2013	2012	2011	2010
Multi-Strategy Equity Fund	**24.06%**	**21.59%**	**-2.18%**	**27.03%**	**13.81%**
S&P 500 Index	24.61%	20.60%	5.45%	30.69%	14.43%

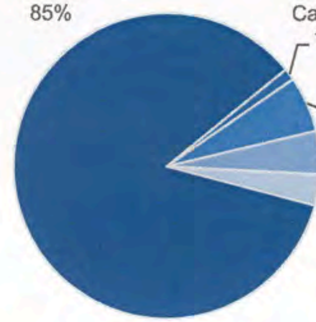
Calendar Year ended December 31	2013	2012	2011	2010	2009
Multi-Strategy Equity Fund	**30.14%**	**15.14%**	**-4.20%**	**14.47%**	**34.16%**
S&P 500 Index	32.39%	16.00%	2.11%	15.06%	26.46%

*Net returns are total returns net of all fees and expenses either charged to the fund or paid directly by Commonfund members. For more information on fees and expenses, see Information for Members. Returns for periods of one year or greater are annualized. Past performance does not assure future results.

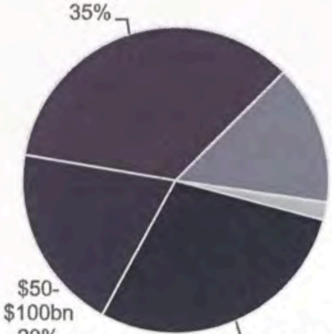
Multi-Strategy Equity Fund | Attribution
September 30, 2014

Portfolio Characteristics[1]	Multi-Strategy Equity Fund	S&P 500 Index
Weighted Avg Mkt Cap ($mm)	**$97,948**	$130,661
P/E Using FY1 Est	**15.8x**	16.2x
P/B Ratio	**2.2x**	2.6x
Dividend Yield	**1.8%**	1.9%
Est 3-5 Yr EPS Growth	**11.4%**	10.8%
Return on Equity	**15.6%**	18.0%
Estimated Exposure to Hedge Fund Strategies	**15.4%**	

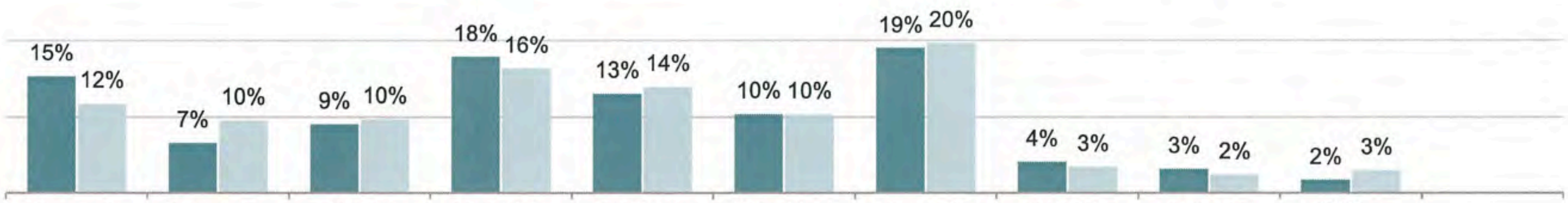
Geographic Allocations[2]



Market Cap Allocations



Sector Weighting[3]



Source: FactSet
[1]Table does not include exposure to alternative strategies.
[2]Geographic Allocations may not add to 100% due to transition cash.
[3]May not add to 100% due to rounding.

Multi-Strategy Equity Fund | Attribution Analysis

September 30, 2014

Attribution Analysis

Strategies*	QTD	CYTD	1 Year	3 Years	5 Years	10 Years
Core	3.3%	11.1%	23.7%	25.3%	17.2%	9.8%
Opportunistic	-3.5%	5.2%	15.3%	23.1%	15.2%	9.2%
Diversifying	-0.3%	2.8%	7.5%	8.5%	5.1%	7.1%
MSEF Total (Net)	**0.1%**	**7.2%**	**17.3%**	**20.4%**	**13.1%**	**8.5%**
S&P 500	1.1%	8.3%	19.7%	23.0%	15.7%	8.1%

*Strategies reflect adjusted gross returns before participant fees.

Net returns are total returns net of all fees and expenses either charged to the fund or paid directly by Commonfund members. Returns for periods of one year or greater are annualized. For more information on fees and expenses, see Information for Members. Past performance does not assure future results.

Multi-Strategy Equity Fund | Managers

September 30, 2014*

Core	Opportunistic	Diversifying	Manager
			Adage Capital Management
			Aronson, Johnson & Ortiz
			Frontier Capital Management
			GLG, Inc.
			Global Absolute Alpha: Relative Value/Event Driven Strategy Managers**
			Global Hedged Partners: US, European and Asian Hedged Equity Managers and Event Driven, Diversifying Strategy Managers**
			Harris Associates
			Hedge: Hedged Equity, Global Macro and Diversifying Strategy Managers**
			JP Morgan Asset Management
			Lazard Asset Management Company LLC
			Jackson Square Partners
			Levin Capital Strategies
			Marsico Capital Management
			Martingale Asset Management
			Odey Asset Management
			Somerset Capital Management
			Southeastern Asset Management
			Steinberg Asset Management
			Symphony Financial Partners
			Wellington Management Company

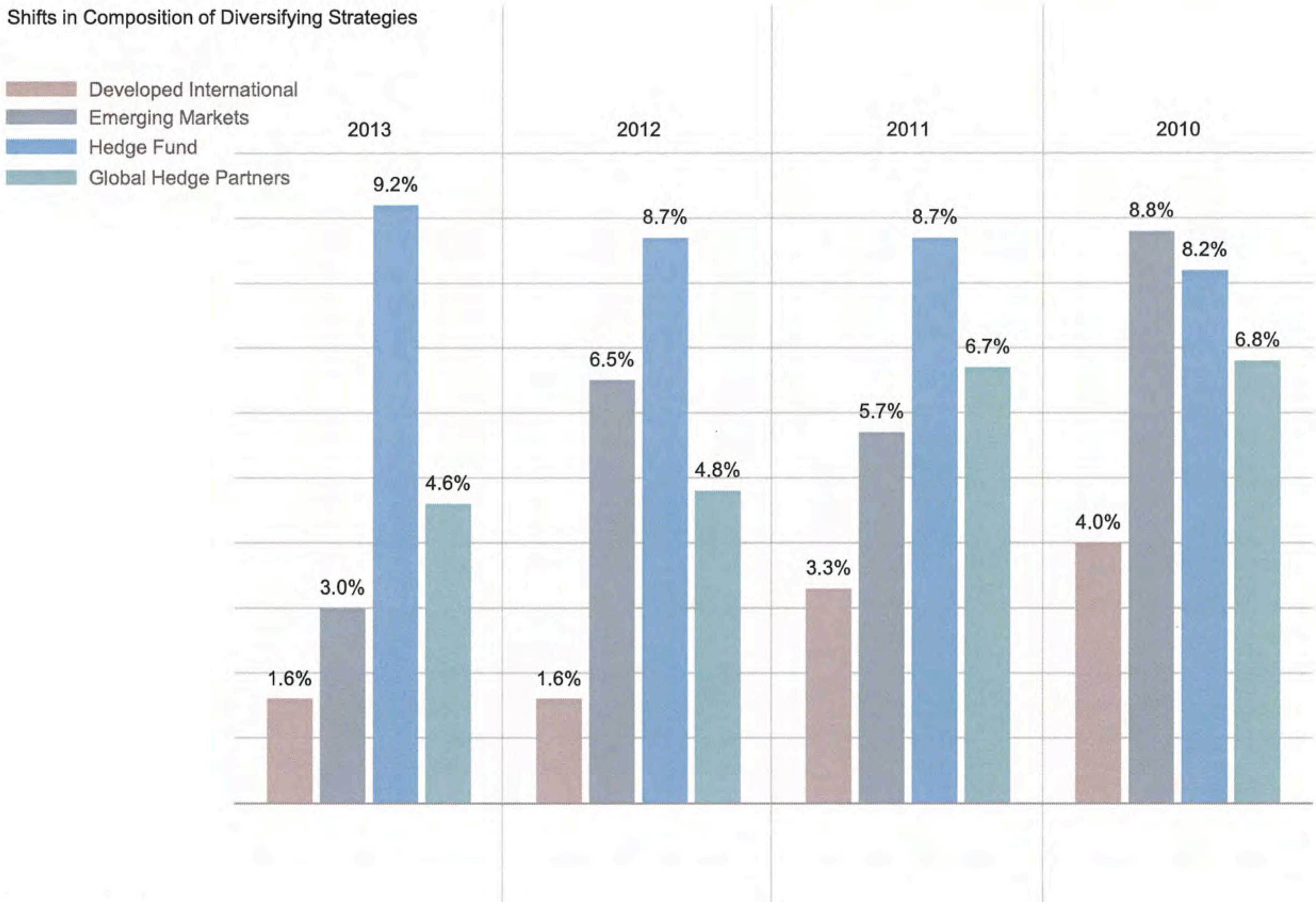
* The Fund periodically makes changes to its roster of managers. There can be no assurance that the Fund will continue to invest with any of the listed managers.

** Direct investments limited to qualified institutional investors pursuant to Confidential Offering Memorandum.

Portfolio Positioning | Multi Strategy Equity Fund

Calendar year ending December 31

Shifts in Composition of Diversifying Strategies



Source: FactSet

Strategy Definitions | Multi-Strategy Equity Programs

Core Strategies

Strategies that draw largely from the universe of large cap U.S. based stocks, comparable to that represented by the S&P 500 index. Managers seek to add alpha relative to the benchmark through stock selection and sector emphasis. Commonfund seeks to manage fund size factor by allocations to core strategies, which could include direct management of core strategies.

Opportunistic Strategies

Strategies that are unconstrained by a specific benchmark, where the fund manager seeks to add value through stock selection and concentrated portfolio holdings. Holdings can span the full market cap spectrum and can draw from U.S. and non-U.S. equity markets. Individual managers' portfolios are typically concentrated, rarely exceeding 30 stocks in any given portfolio.

Diversifying Strategies

Strategies that seek to moderate risk or to add alpha, or both, through beta management or international diversification. The former could include investments in Commonfund's marketable alternative strategies to provide downside protection and stock specific alpha.

Multi-Strategy Equity Fund | Commentary

September 30, 2014

Quarterly

- The Multi-Strategy Equity Fund returned 0.10 percent for the quarter, while the S&P 500 Index returned 1.13 percent during the same period.
- Core Strategies performed well in the quarter, advancing 3.34 percent, outperforming the index by 221 basis points. This strategy bucket includes 5 different managers; three outperformed in the quarter and two underperformed. Stock selection within health care was the primary contributor for the strategies best performing manager, as trial results from a cancer drug boosted quarterly returns. Beyond that, energy and consumer discretionary stock selection also aided results.
- Diversifying strategies again trailed the S&P 500, returning -0.27 percent as a group. All three sub components (Developed, Emerging and Hedge) trailed the S&P for the quarter, while individual performance was mixed relative to their respective benchmarks. Non-US equity markets were hurt by a rising dollar during the quarter, with the DXY Index advancing 7.7 percent. Emerging markets strategies returned -2.05 percent, outpacing the -3.49 percent return of the MSCI EM Index, but trailing the S&P. Asian stock selection was additive to results relative to the EM Index. Developed International managers declined -6.04 percent, trailing the S&P by 717 basis points, and the MSCI World ex US Index by 30 basis points. European stock selection provided most of the underperformance. Lastly, our allocation to hedge strategies marginally underperformed the S&P 500 Index, returning 0.90%.
- Opportunistic strategies suffered a difficult quarter, declining -3.51 percent, 464 basis points behind the S&P 500 Index. A myriad of issues contributed to the poor relative performance. Within consumer discretionary names, weakness was experienced in several companies geared to improving economic conditions, such as home builders and auto companies. Additionally, a Chinese gaming stock added to the sector's underperformance. Material stocks declined over 11 percent in the quarter, through a combination of cement producers and metal/commodity producers. Energy holdings declined over 16 percent as oil prices retreated substantially in the quarter. Lastly, a strategy dedicated to shareholder activism in Japan declined nearly 15 percent.
- Strategy moves were marginal during the quarter, with core strategies increasing in weight by 1.5 percent to end the quarter at 47.4 percent. Opportunistic strategies decreased by 2.2 percent as we continued to lower weightings to this group of managers. Lastly, diversifying strategies increased marginally to 17.9 percent, given the relatively stronger performance of our hedge strategies during the quarter.

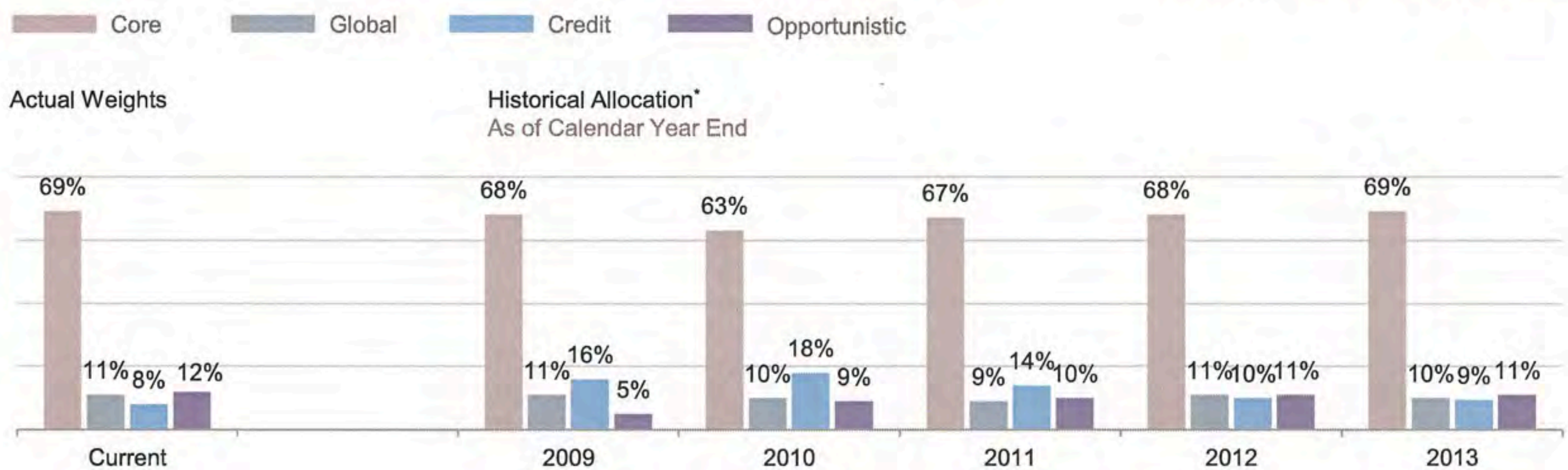
Multi-Strategy Bond Fund | Objective and Strategy

September 30, 2014

Objective

To offer an actively managed, multi-manager investment program that will provide broad exposure to global debt markets. The fund seeks to add value above the return of the broad U.S. bond market, as measured by the Barclay's Capital U.S. Aggregate Bond Index, net of fees and to provide competitive returns relative to the Russell U.S. Core Plus Fixed Income Universe. The fund's risk characteristics will vary from those of the Index due to its diversified exposures to sectors outside of the index, including below investment grade debt and international bond and currency markets.

Benchmark	Barclays Capital U.S. Aggregate Bond Index
Inception	August 1976
Assets Managed	$1,034 Million
Investment Vehicle	Commingled Fund
Eligible Investors	Educational Institutions
Minimum Investment	$50,000
Offering	Monthly, 5 business days' notice
Redemption	Monthly, 5 business days' notice

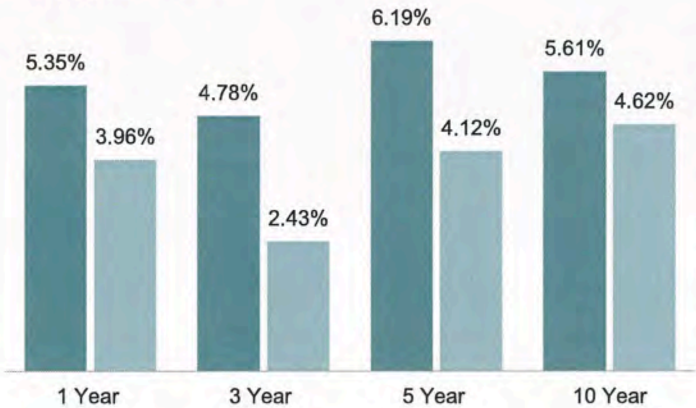


* May not add to 100% due to rounding.

Multi-Strategy Bond Fund | Performance

September 30, 2014

Net Performance*



5 Year Risk Characteristics	Multi-Strategy Bond Fund	Barclays Capital U.S. Aggregate Bond Index
Standard Deviation	**2.90%**	2.83%
Sharpe Ratio	**2.10**	1.42
R^2	**61.46**	100.00
Beta	**0.80**	1.00
Up Capture	**116%**	100%
Down Capture	**56%**	100%

Net Performance* September 30, 2014	Quarter	CYTD	FYTD
Multi-Strategy Bond Fund	**-0.05%**	**4.64%**	**-0.05%**
Barclays Capital U.S. Aggregate Bond Index	0.17%	4.10%	0.17%

Fiscal Year ended June 30	2014	2013	2012	2011	2010
Multi-Strategy Bond Fund	**6.17%**	**3.28%**	**6.82%**	**7.26%**	**15.41%**
Barclays Capital U.S. Aggregate Bond Index	4.37%	-0.69%	7.47%	3.90%	9.50%

Calendar Year ended December 31	2013	2012	2011	2010	2009
Multi-Strategy Bond Fund	**0.26%**	**8.21%**	**6.66%**	**8.99%**	**16.57%**
Barclays Capital U.S. Aggregate Bond Index	-2.02%	4.22%	7.84%	6.54%	5.93%

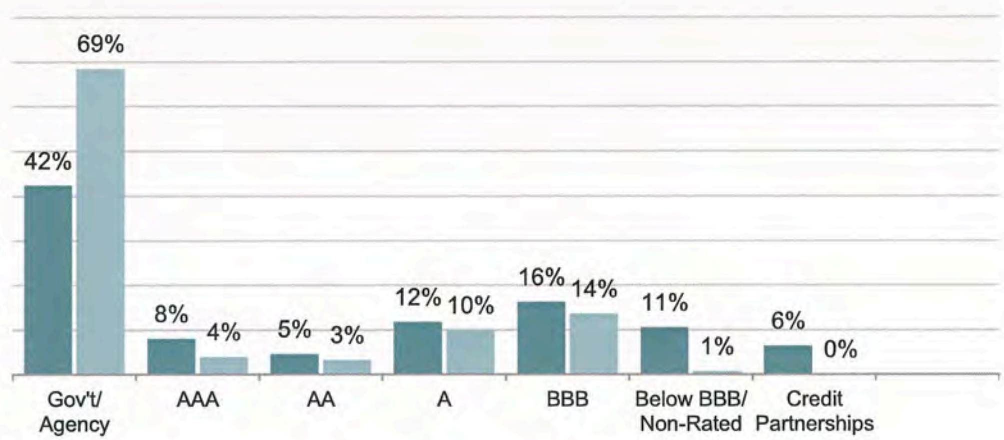
* Net returns are total returns net of all fees and expenses either charged to the fund or paid directly by Commonfund members. For more information on fees and expenses, see Information for Members. Returns for periods of one year or greater are annualized.

Multi-Strategy Bond Fund | Attribution

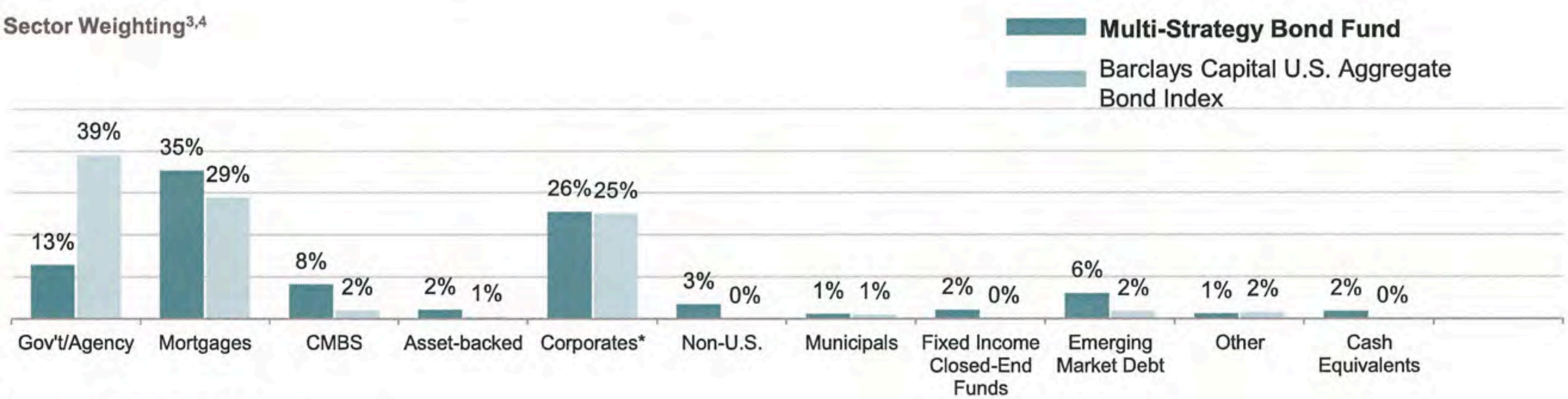
September 30, 2014

Portfolio Characteristics[1,4]	Multi-Strategy Bond Fund	Barclays Capital U.S. Aggregate Bond Index
US Duration Contribution	**3.7**	5.3
Non-US Duration Contribution	**0.6**	-
Total Effective Duration (yrs)	**4.3**	5.3
Average Quality	**A+**	AA
Yield to Maturity	**3.2%**	2.3%
Net FX Exposures	**7.9%**	0.0%

Credit Quality[2,3,4,5]



Sector Weighting[3,4]



* Includes 6% credit partnerships.
[1]Does not include private partnership information.
[2]May not add to 100 percent due to rounding.
[3]Non-rated partnership exposure includes investments in limited partnerships, and commingled investments that do not maintain a credit rating.
[4]Includes exposure to opportunistic strategies.
[5]Credit Quality – lowest available rating

Multi-Strategy Bond Fund | Attribution Analysis

September 30, 2014

Strategies*	QTD	CYTD	1 Year	3 Years	5 Years	10 Years
Global	-2.4%	6.9%	6.9%	7.2%	8.1%	7.9%
Core	0.5%	5.2%	5.6%	4.6%	6.1%	5.5%
Credit	1.1%	7.7%	13.7%	13.1%	11.9%	8.4%
Opportunistic	-0.7%	0.8%	0.9%	2.4%	4.6%	-
MSBF Total (Net)	**-0.1%**	**4.6%**	**5.4%**	**4.8%**	**6.2%**	**5.6%**
Barclays U.S. Aggregate Bond Index	0.2%	4.1%	4.0%	2.4%	4.1%	4.6%

*Strategies reflect adjusted gross returns before participant fees.

Net returns are total returns net of all fees and expenses either charged to the fund or paid directly by Commonfund members. Returns for periods of one year or greater are annualized. For more information on fees and expenses, see Information for Members. Past performance does not assure future results.

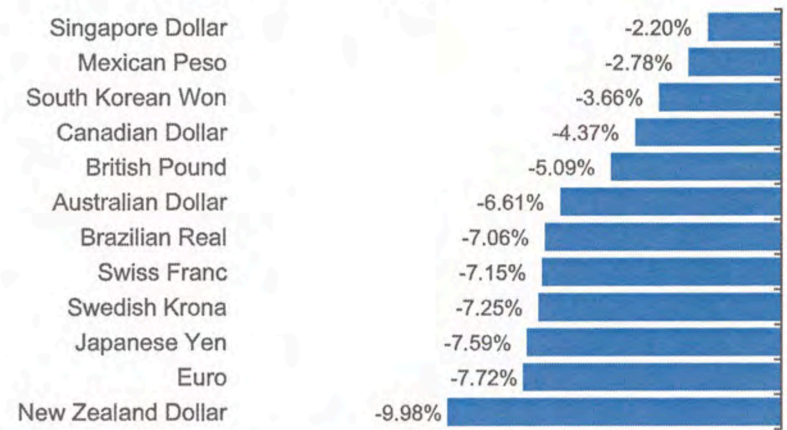
Multi-Strategy Bond Fund | Global Characteristics

September 30, 2014

Multi-Strategy Bond Fund Allocations (%)

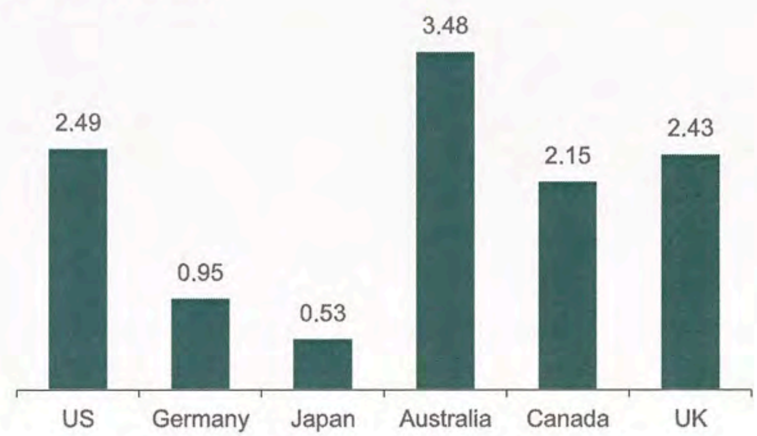
	Country Weighting	Currency Weighting
EMU Europe	1.65	0.18
Non-EMU Europe	2.05	2.14
Japan	0.27	0.57
Asia Ex Japan	1.27	1.74
Dollar Bloc (CA, AU, NZ)	1.17	0.47
Middle East & Africa	0.41	0.40
Supranational	0.14	0.00
Latin America	1.96	2.36

Foreign Exchange Returns vs. US$ | Fiscal Year-to-Date*



Change in Yield (%) | Fiscal Year-to-date

10-Year Yields (%)

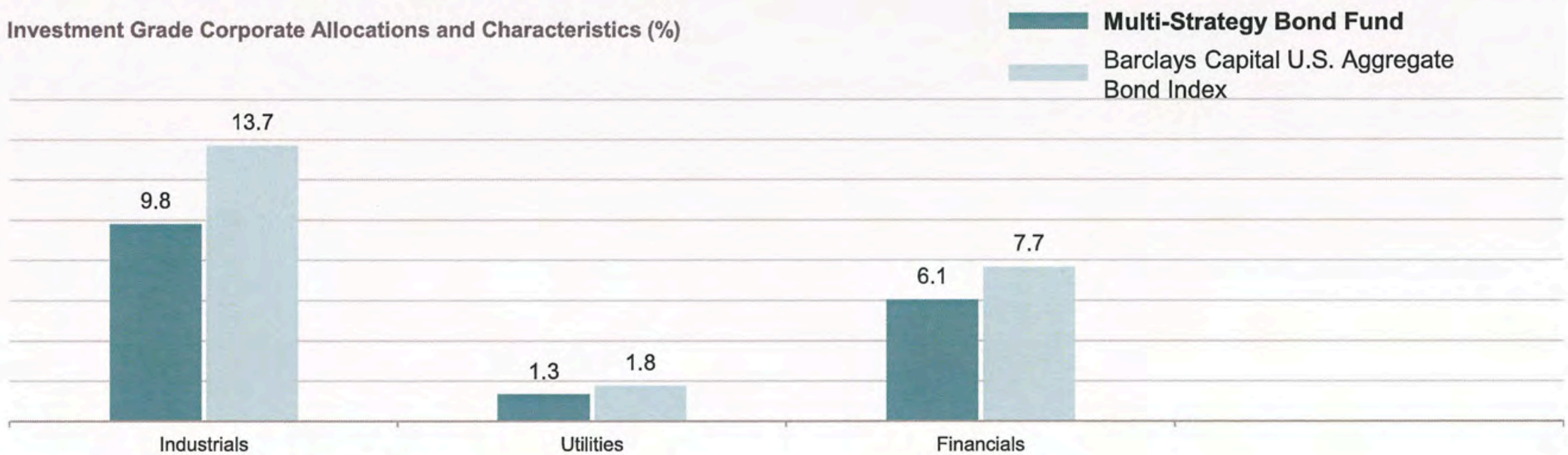


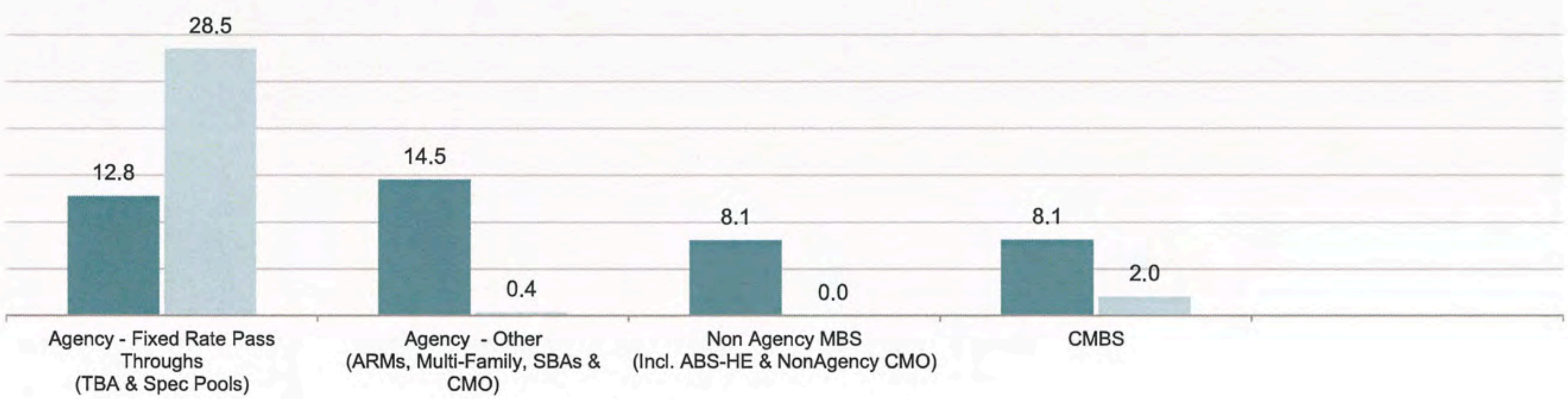
*Represents total returns

Source: Bloomberg

Multi-Strategy Bond Fund | Detailed Characteristics

September 30, 2014





Source: Barclays Capital

commonfund

Multi-Strategy Bond Fund | Credit Component Strategy

September 30, 2014*

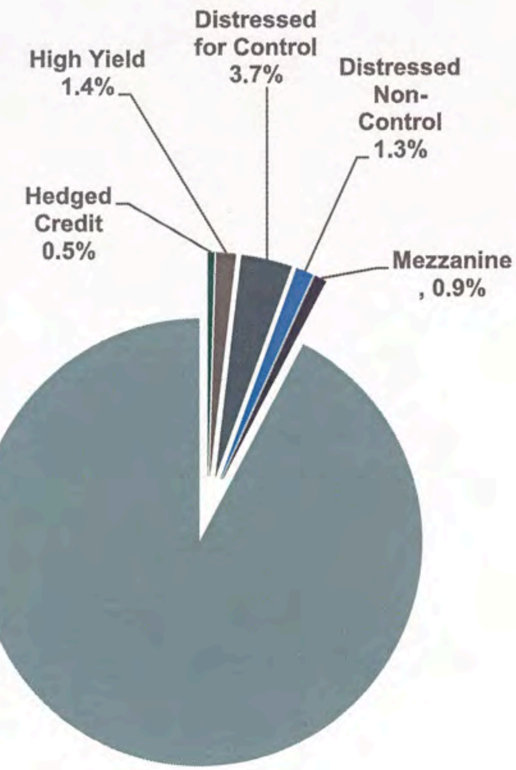
Hedged Credit
Eos
GoldenTree

High Yield
Western Asset Management Company

Distressed for Control
Centerbridge Capital
Fortress
KPS
WL Ross

Distressed Non-Control
Ashmore
CarVal Global Value
Centerbridge Credit
Oaktree
TCW Shared Opportunities Fund III

Mezzanine
AEA
TCW Special Situations (Regiment)
WCAS



*Commonfund estimate.
Managers in the listed strategies as of the date above. There can be no assurance that Commonfund Asset Management will continue to utilize or have access to any of these managers.

Multi-Strategy Bond Fund | Managers

September 30, 2014

Core	Global	Credit	Opportunistic	Manager
		■		AEA Investors
		■		Ashmore Investment Management
	■			Brandywine Asset Management
		■		CarVal Investors
		■		Centerbridge Capital Partners
	■			Colchester Global Investors Limited
			■	Convexity Capital Management
		■		EOS Partners
		■		Fortress Investment Group
		■		GoldenTree Asset Management
■				Income Research & Management (IRM)
		■		KPS Capital Partners
		■		Oaktree
■			■	Rimrock Capital Management
			■	Sit Investment Associates
		■		Trust Company of the West (TCW)
		■		Welsh Carson Anderson Stowe
■		■		Western Asset Management Company (WAMCO)
		■		WL Ross & Co

NOTE: The Fund periodically makes changes to its roster of managers. There can be no assurance that the Fund will continue to invest with any of the listed managers.

Strategy Definitions | Multi-Strategy Bond Programs

Core Strategies

Traditional investment grade oriented fixed income strategies that are focused on outperforming the Barclays Aggregate Bond Index. Value is added through sector allocation, security selection, duration management and yield curve positioning. Our managers are active and typically have a bias toward the spread sectors.

Global Strategies

Strategies are focused on opportunities in the global fixed income and foreign exchange markets. Primary emphasis is on developed markets sovereign bonds, but some developing markets and non-government credit exposure is allowed. Our managers are active and generate alpha through both bond and currency allocations.

Credit Strategies

Exposure to below investment grade strategies in both public and private markets, including investments in partnerships with limited or no liquidity. Strategies may include high yield, bank loans, distressed debt, mezzanine financing, direct lending and other credit sensitive investments.

Opportunistic Strategies

Strategies that seek to generate returns that are uncorrelated to traditional fixed income risk factors such as credit, interest rates and prepayments. This category also includes portfolio level overlay or hedging strategies.

Multi-Strategy Bond Fund | Commentary

September 30, 2014

Quarterly

- For the quarter ending September 30, 2014, the Multi-Strategy Bond Fund returned -0.05 percent net of fees, underperforming the Barclays U.S. Aggregate Bond Index return of 0.17 percent by 22 basis points.
- U.S. GDP was a focal point for the markets, as a significant rebound in growth was reported for 2014:Q2, which did much to alleviate the disappointment with 2014:Q1 GDP, and gave encouragement to many market participants that 2014:Q3 could be equally strong. The third estimate for U.S. real GDP for 2014:Q2 came in at 4.6 percent, up from a previous estimate of 4.2 percent. However, this positive news took a backseat during the quarter to geopolitical events such as ISIS, the Ukraine and unrest in places such as Brazil, Argentina and Hong Kong. Global GDP continued on a low, slow and bumpy path, as lackluster European data surprised many, driving a rally in yields as inflation seemed to be even less of a threat than low consensus estimates had expected. China continues its soft landing. Some market participants are anticipating that the BOJ will need to provide additional intervention in the near future in Japan. With a strong tailwind from growth and little headwind from inflation, market participants were provided with further encouragement that the Fed would gradually begin normalization of monetary policy in 2015. Fund-level underweight duration positioning detracted from return as the Treasury Index generated positive returns for the period.
- The global strategy underperformed the Barclays U.S. Aggregate Bond Index for the quarter, returning -2.39 percent. This was mostly a currency story, as developed market sovereign bonds posted strong returns in their local currencies. The dollar strengthened by 7.6 percent relative to major developed market currencies, as proxied by the DXY trade weighted dollar index, while also significantly outperforming emerging currencies. It is worth mentioning that the strategy outperformed its benchmark, the Citigroup WGBI Index, which returned -3.78 percent. Currency selection, such as significant euro and yen underweights helped mitigate some of the underperformance, while country selection provided mixed results.
- The fund's allocation to opportunistic strategies underperformed the Barclays U.S. Aggregate Bond Index for the quarter, returning -0.70 percent. The high income allocation was negatively impacted by spread widening, while the volatility allocation, despite benefiting from volatility in August, suffered from the continued decline in implied and realized volatility, causing the strategy to trail the index for the quarter.
- The core strategy outperformed for the quarter, returning 0.47 percent while the index returned 0.17 percent. Duration positioning, which was underweight relative to the index did not have a significant impact on return, while curve positioning favoring the back of the curve benefited return as the 5-year yield rose 13 basis points while the 30-year yield decreased by 16 basis points. The mortgage allocation benefited return as exposure to a diversified basket of MBS including CMO's, hybrid-ARMs, SBAs and legacy non-agency RMBS helped. Security selection within the CMBS allocation benefited return, as Aaa-rated super seniors outperformed the broad CMBS index. Corporate exposure did not have a significant impact on return.
- The fund's credit strategy returned 1.11 percent, outperforming the Barclays U.S. Aggregate Bond Index. The Barclays High Yield Index generated excess returns of -205 basis points compared to duration-adjusted Treasuries, while the Barclays Leveraged Loan Index returned -0.51 percent on a total return basis. The short duration high yield strategy was hurt as credit spread widened for the period. The allocation to credit partnerships benefited the fund as managers continue to monetize holdings in a prudent and opportunistic manner.

commonfund

Appendix

Important Notes

Eligible Investors Only

The Common Fund for Nonprofit Organizations ("Commonfund") was established in 1971 and manages investment funds primarily for nonprofit institutions and other qualified investors.

The following Commonfund affiliate organizations are registered with the Securities and Exchange Commission ("SEC") as investment advisers: Commonfund Asset Management Company, Inc. ("Comanco"), Commonfund Capital, Inc. ("CCI"), and Commonfund Realty, Inc. ("CRI")

Additional information regarding Commonfund and its affiliates' policies and procedures for calculating and reporting performance is available upon request.

This document is intended only for qualified, pre-existing investors in CCI, CRI, and Comanco programs, Members of The Common Fund For Nonprofit Organizations ("Commonfund"), or other eligible institutional investors approved by Commonfund Securities, Inc. (a broker-dealer affiliate of CCI, CRI and Comanco) . It is not intended to constitute an offer to sell, nor the solicitation of an offer to buy, securities. Any such offerings will be made only by means of information memoranda and related subscription documents that will be made available by Commonfund Securities, Inc. only at the time an offering is in progress and only to investors qualified and eligible to invest. When soliciting transactions, Commonfund Group employees may be acting as registered representatives of Commonfund Securities, Inc.

Past performance is not indicative of future results. All investments have the potential for profit and the possibility of loss. Similarly, our access to particular managers may vary in the future and cannot be guaranteed. Prospective investors should review with care the confidential offering memorandum or other disclosure documents for each fund; these pamphlets contain a fuller discussion of applicable risks.

Returns on funds are presented net of all fees. Performance includes reinvestment of dividends. Internal Rates of Return should be evaluated in light of information on the investment program of the partnership, the risks associated therewith, and performance of the partnership as disclosed in the Information Memorandum for the partnership, the Annual Reports of Commonfund Capital, Inc. and the partnership and the Quarterly Reports of the partnership. Commonfund Capital, Inc. presents return information for its partnerships on a dollar-weighted (e.g., internal rate of return) rather than the time-weighted (e.g., annual or other period rate of return) basis, which is used principally to report performance of publicly-traded securities. The internal rate of return since inception is the most commonly used calculation methodology used for presentation of performance in the private capital business.

Comparison of returns calculated on an IRR basis with returns on a time-weighted basis is not appropriate. For a description of the two return calculation methods see "Measuring Investment Returns, Time vs. Dollar-Weighted – What's the Difference?", a copy is available from Commonfund Capital.

Gross performance results do not reflect the deduction of investment advisory fees and other fees as disclosed in Form ADV on file with the SEC.

The information provided in this presentation is confidential, and is presented solely for the use of the recipient. Commonfund requests that the recipient not copy or make any further use of this material without its prior written consent.

Important Information About Procedures for Opening a New Account:

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each customer who opens an account. What this means for you: When you open an account, we may ask for documents or information related to: your principal place of business, local office or other physical location; taxpayer identification number; and other documents demonstrating your lawful existence such as certified articles of incorporation, a government-issued business license, a partnership agreement, or a trust instrument, and other identifying documents.

Important Notes | Continued

Market Commentary

Information, opinions, or commentary concerning the financial markets, economic conditions, or other topical subject matter are prepared, written, or created prior to printing and do not reflect current, up-to-date, market or economic conditions. Commonfund disclaims any responsibility to update such information, opinions, or commentary.

To the extent views presented forecast market activity, they may be based on many factors in addition to those explicitly stated in this material. Forecasts of experts inevitably differ. Views attributed to third parties are presented to demonstrate the existence of points of view, not as a basis for recommendations or as investment advice. Managers who may or may not subscribe to the views expressed in this material make investment decisions for funds maintained by Commonfund or its affiliates. The views presented in this material may not be relied upon as an indication of trading intent on behalf of any Commonfund fund, or of any Commonfund managers.

Market and investment views of third parties presented in this material do not necessarily reflect the views of Commonfund and Commonfund disclaims any responsibility to present its views on the subjects covered in statements by third parties.

Statements concerning Commonfund Group's views of possible future outcomes in any investment asset class or market, or of possible future economic developments, are not intended, and should not be construed, as forecasts or predictions of the future investment performance of any Commonfund Group fund. Such statements are also not intended as recommendations by any Commonfund Group entity or employee to the recipient of the presentation. It is Commonfund Group's policy that investment recommendations to investors must be based on the investment objectives and risk tolerances of each individual investor. All market outlook and similar statements are based upon information reasonably available as of the date of this presentation (unless an earlier date is stated with regard to particular information), and reasonably believed to be accurate by Commonfund Group. Commonfund Group disclaims any responsibility to provide the recipient of this presentation with updated or corrected information.

Investment Process

Any descriptions involving investment process, portfolio characteristics, investment strategies, goals or risk management are provided for illustration purposes only, are not complete, will not apply in all situations, may not be fully indicative of any present or future investments and may be changed in the discretion of the investment manager. No representation is made that the investment manager's or an investment product's investment process, investment strategies, goals or risk management techniques will or are likely to be achieved or successful.

Securities offered through Commonfund Securities, Inc., a member of FINRA.

University of South Alabama

Douglas C. Lane & Associates, Inc.

December 4, 2014

777 Third Avenue, 38th Floor
New York, NY 10017
Telephone: 212-262-7670
Fax: 212-262-2801
Website: www.dclainc.com

DCLA

USA Portfolio Summary

As of September 30, 2014

	Cash	Equities	Total
UNIVERSITY OF SOUTH ALABAMA	**$ 843,029**	**$ 7,036,944**	**$ 7,879,973**
as percentage of portfolio	***11%***	***89%***	***100%***

TOP 10 HOLDINGS

	Shares	Cost	Market Value
DELTA AIRLINES, INC	6,000	$ 65,785	$ 216,900
CERNER CORP	3,600	39,460	214,452
SOUTHWEST AIRLINES CO	6,000	52,889	202,620
ILLUMINA INC	1,200	47,546	196,704
VISA INC CL A	900	59,693	192,033
UNITED CONTINENTAL HOLDINGS INC	4,000	98,168	187,160
MASTERCARD INC CL A	2,500	47,537	184,800
ECOLAB INC	1,500	60,688	172,245
AMGEN, INC	1,200	70,159	168,552
ALCOA INC	10,000	98,553	160,900
Total		**$ 640,478**	**$ 1,896,366**

Performance

	Annualized Rate of Return 1/3/08 - 9/30/14	Total Return Since Inception 1/3/08 - 9/30/14	One Year 9/30/13 - 9/30/14
University of South Alabama	10.85%	100.28%	18.90%
S&P 500 Index	7.02%	58.01%	19.73%

Market Value vs. Invested Capital

As of 9/30/14

DCLA

How Did We Do It?

- Kept it Simple
  - Equities? ✓ ✓ ✓
  - Alternatives, Illiquid Assets, Hedge Funds, Tactical Funds, Algo Trading, ETFs, Wall Street Gimmickry? ✗ ✗ ✗
- Kept it Diversified
  - Approximately 60-70 companies:
    - Operating in multiple industries and geographies
    - Ranging in size from small-cap to mega-cap
    - Paying dividends or reinvesting for growth
    - Headquartered in the U.S. and abroad
- Kept it Focused
  - Realized profits in Consumer Staples and Media
  - Invested in Airlines (8%), Autos (7%), Payments (8%), Genomics (5%)

Going Forward

- Keep it Simple
- Optimize Current Investments
  - Airlines, Autos, Digital Payments, Genomics, Healthcare IT
- Capture New Opportunities
  - Lower energy prices, higher interest rates, stronger US consumer
  - Big data, omni-channel retail, new drug technology (PD-1, PCSK9), population health, 3D printing

Challenges to Overcome in 2015

- Stock market has more than tripled off 2009 trough to reach record levels
- Easy money era coming to an end? (in U.S. at least…)
- Geopolitical turmoil
- Underwhelming economic growth (Europe, emerging markets)
- Significant government deficits and pension liabilities

PRIVATE ADVISORS®

ALTERNATIVE ASSET MANAGEMENT

University of South Alabama Endowment

Private Advisors Stable Value Fund, Ltd.

December 4, 2014

Private Advisors, LLC

901 East Byrd Street, Suite 1400 • Richmond, Virginia 23219 • 804 433.1230 TEL • 804 289.6001 FAX

www.privateadvisors.com

Please see Appendix for important information, disclosures, performance notes and risk summary.

Portfolio Review | Client Overview *(through fiscal year)*

University of South Alabama Endowment

Account Inception Date:	April 1, 2005
Initial Investment:	$1,000,000
Total Contributions:	$5,068,000 *($1.4M, 9/07; $500K, 2/08; $125K, 4/08; $400K, 1/10; $450K, 9/11; $400K, 4/13; $508K, 5/13; $500K, 7/13; $785K, 9/13)*
Total Withdrawals:	$0
Current Market Value:	$7,294,100
As of Date:	September 30, 2014

COMPARATIVE CLIENT PERFORMANCE STATISTICS: From strategy inception June 1998 through September 2014[1][2]

University of South Alabama Endowment, Periods Ending September 30, 2014			Annualized							
	Client Fiscal Year (10/13 - 9/14)	1 Year	3 Year	5 Year	Since Client Inception (4/05 - 9/14)	Since Fund Inception (6/98 - 9/14)	Total Return Since Fund Inception	Standard Deviation Since Fund Inception	Sharpe Ratio Since Fund Inception	% Positive Months Since Fund Inception
Private Advisors Stable Value Fund, Ltd.	**4.64%**	**4.64%**	**5.70%**	**5.38%**	**4.07%**	**6.60%**	**184.11%**	**3.57%**	**1.20**	**80.1%**
HFRI Fund of Funds Conservative Index	5.64%	5.64%	4.87%	3.38%	2.44%	3.94%	88.03%	4.13%	0.43	71.4%
Barclays Aggregate Bond Index	3.95%	3.95%	2.44%	4.13%	4.82%	5.40%	136.11%	3.49%	0.90	68.4%
S&P 500 TR Index	19.73%	19.73%	22.99%	15.70%	7.79%	5.63%	144.52%	15.75%	0.29	61.7%

Shaded areas indicates a period during which the account was not invested.

Past performance is not indicative of future results.
(1) All performance figures are net of fees and expenses.
(2) Please see Disclosures 1 and 2 in the Appendix for definition of indices and an explanation of performance history for the strategy.

Private Advisors' Overview | Firm overview & differentiators

Dedicated and Proven

- Alternative investment firm headquartered in Richmond, Virginia with $5.8 billion in AUM[1]; including $2.0 billion in customized mandates
- Successful, 15-year track record of hedge fund and private equity investing
- Exclusive focus on non-traditional investment strategies

Stable

- Diverse client base with 87% of assets invested on behalf of institutions[2]

Pension/Retirement	36%	Endowment/Foundation	22%
Corporate	29%	Family Office/High Net Worth	13%

- 34 investment professionals; senior team members average approximately 15 years of alternatives experience[3]
- Affiliation with New York Life, the largest mutual life insurer in the U.S.

Aligned with Investors

- Employees maintain approximately one-third equity in the firm, shared among 20 key personnel
- Significant investment alongside clients (more than $1 billion)[4]
- Investment philosophy built upon endowment heritage and understanding of investor needs
- Disciplined culture of compliance and an SEC Registered Investment Adviser since 1998[5]

(1) Assets under management (AUM) figure is an estimate as of September 30, 2014 and includes non-discretionary separate account and sub-advised assets.
(2) Assets by client type figures are estimates as of September 30, 2014 and subject to change.
(3) Senior team members include investment professionals that are Director level or above.
(4) Includes investments in Private Advisors' funds or portfolios by Private Advisors' employees and affiliated entities.
(5) Private Advisors, LLC. Registration is not an endorsement or recommendation by the SEC.

Core Beliefs and Investment Philosophy

Consistent investment philosophy since firm's founding

Fundamentally Oriented

- We invest with a **long-term perspective**
- We seek to invest with managers whose processes are fundamentally driven and whose strategies we understand
- The return potential of an asset is dramatically influenced by the price paid

Forward-Looking

- We believe that forward-looking analysis is critical to successful investing

Risk Averse

- We focus on **capital preservation** in difficult markets, and our goal is to position portfolios for future excess returns
- We seek to avoid managers and strategies that utilize material amounts of leverage

Representative Client List*

Corporate & Healthcare	AMP Life Central Georgia Health Systems Delta Lloyd Dominion Resources, Inc. Ericsson, Inc. Essentia Health Insurance Services Excellus, Inc.	Hanesbrands Incorporated Laughlin Memorial Hospital, Inc. Lear Corporation Mary Washington Healthcare Nissan North America, Inc. North Jersey Media Group, Inc. PEPCO	Rex Hospital Sheltering Arms Hospital Skadden Arps Slate Meagher & Flom St. Mary's Medical Center Tredegar Corporation The Neurology Center University Health System
Public/Taft Hartley	Amalgamated Transit Union Local 1342 Anne Arundel County Retirement & Pension System Automotive Industries Pension Trust Fund Brotherhood of Maintenance of Way City of Boca Raton Police & Firefighters' Retirement System City of Lansing Police and Fire Retirement System	City of St. Petersburg Employees' Retirement System County Employees Retirement Fund of Missouri Employees Retirement System of Baltimore County Florida Trowel Trades Pension Trust Fund IBEW Local Union No. 357 Pension Trust Plan A Louisiana State Employees Retirement System Michiana Area Electrical Workers Pension Fund	Oklahoma Firefighters Pension & Retirement System Plumbers and Pipefitters Local 553 Richmond Retirement System Sheet Metal Workers' National Pension Fund Sheet Metal Workers' Pension Plan of So. CA, AZ and NV Stationary Engineers Local 39 Pension Trust Turlock Irrigation District Virginia College Savings Plan
Endowments/ Educational Institutions	Baltimore Symphony Endowment Trust Baylor University Butler University Clemson University Foundation DePauw University George Mason University Kansas State University	Kent State University Loyola University Chicago Medical University of South Carolina Mercyhurst University Millsaps College Mississippi State University Northern Illinois University	Northern Kentucky University Southern Methodist University Spelman College University of Indianapolis University of Louisiana at Lafayette University of Quebec University of Toronto
Foundations/ Non-profit	Alfred I. duPont Testamentary Trust Archdiocese of Kansas City Baptist Foundation of Alabama Carpenter Foundation Cistercian Monastery Our Lady of Dallas, Inc. Cleveland Foundation Commonwealth Foundation	Community Foundation of Greater Greensboro Donnelley Foundation Fremont Area Community Foundation International Mission Board, Southern Baptist Convention Kisoniyaminaw Heritage Trust Fund MacArthur Foundation	Miami Children's Hospital Foundation New Mexico Military Institute Foundation Robert Wood Johnson Foundation Triad Foundation, Inc. United Way of Greater Toledo & Affiliated Agencies DB Pension Plan Wisconsin Province of the Society of Jesus

*The names appearing in the representative client list should not be construed as an endorsement or recommendation of Private Advisors' services. The list reflects names of certain clients who have not "opted out" of the disclosure of their name on the representative client list. Clients on this list have not been selected based on portfolio performance.

Private Advisors' Hedge Fund Team

18 professionals involved in hedge fund investments, including 11 dedicated team members

Professional	Title	Yrs @ PA	Yrs Relevant Experience	Function	Prior Experience
Hedge Fund Investment Team					
Chip Moelchert, CFA	Chief Executive Officer, Member - Board of Managers	11	24	HFIC Member	Jefferson Capital Partners, Ltd., Wheat First Butcher Singer, Inc.
Lou Moelchert	Chairman, Member - Board of Managers	17	39	HFIC Member	University of Richmond Endowment (CIO), Commonfund (Chairman of Board of Trustees), Virginia Retirement System (Chairman of Investment Committee)
Charles Johnson	Partner	13	26	HFIC Member	EIM (USA), Inc., Dubin and Swieca Capital Management, Highbridge Capital Corp.
Tim Berry, CFA	Partner	13	16	Head of Hedge Funds, HFIC Member, Portfolio Management & Research	Chesapeake Capital
Charles Honey	Partner	7	21	HFIC Member, Portfolio Management & Research	Rapidan Capital, Morgens Waterfall Vintiadis & Company, Trainer Wortham & Company, Woodward & Associates
Tripp Taliaferro	Partner	9	13	HFIC Member	Quad-C Management, Inc., Wachovia Capital Partners , Wachovia Securities
Laura Baird, CFA	Managing Director	7	14	HFIC Member, Risk Management, Research & Analysis	Franklin Portfolio Associates, 646 Advisors, Prudential Securities
Macon Clarkson, CFA	Managing Director	8	14	HFIC Member, Portfolio Management & Research	Lehman Brothers
Bryan Durand, CFA	Managing Director	4	14	HFIC Member, Portfolio Management & Research	MFC Global, Thompson, Siegel & Walmsley, Ernst & Young
Jeremy Kokemor, CFA	Managing Director	<1	10	Portfolio Management & Research	T. Rowe Price Associates, Inc., Thompson, Siegel & Walmsley, Ewing Bemiss & Co.
Peter Lee, CFA	Director	<1	10	Portfolio Management & Research	Arden Asset Management, Morgan Stanley
Sean McChesney	Vice President	3	10	Portfolio Management & Research	Carolinas Investment Group, Cambridge Associates
Ben Fass	Associate	2	2	Risk Management & Analysis	Washington and Lee University, Williams Investment Society
Brendan Toone	Associate	2	8	Risk Management & Analysis	MetLife Mid-Atlantic Financial Group
Evan Blanton, CFA	Associate	<1	2	Risk Management & Analysis	Dominion Resources, Inc.
Operational Due Diligence					
Greg Ciaverelli	Partner	5	18	HFIC Member, Operational Due Diligence	International Asset Management, Citigroup Private Bank
Ryan Plante	Director	1	11	Operational Due Diligence	JPMorgan Alternative Asset Management, International Asset Management
Ben Donohue	Associate	<1	<1	Operational Due Diligence	Office of Fraud Detection and Market Intelligence, FINRA (Financial Industry Regulatory Authority)

Market Environment

Market Environment | Potential risks to investors today

Global financial markets have reached all-time highs amid accommodative monetary policy and muted volatility

Factors	Description	Potential Risks
Interest Rates	▪ 30+ year rates-based rally ▪ 6.5% - average 10-Year Treasury yield over the last 50 years[1] ▪ 2.5% - current 10-Year Treasury yield[1]	▪ Will rates begin to rise, and if so, how quickly? ▪ Are rising rates a headwind to corporate profit growth? ▪ Fixed income bubble?
Central Bank Stimulus & Global Growth	▪ Significant liquidity provided to stimulate growth ▪ Eventual removal of monetary stimulus could have a significant and uncertain market impact	▪ Asset price declines ▪ Increased volatility ▪ Inflation/deflation
Equity Bull Market	▪ Equity markets are up 202% since March 2009[2] ▪ 4th largest equity market rally since 1928[3]	▪ Losses for equity investors ▪ Equity market volatility and rotation post-stimulus ▪ Are equities overvalued?
Geopolitical Uncertainty	▪ Political turmoil (Middle East, Russia/Ukraine, etc.) ▪ Government debt levels ▪ Economic policy in key emerging markets (China, Russia, India, Brazil)	▪ Short/medium term volatility spikes ▪ Slowing growth ▪ Commodity supply risks affect inflation

(1) Source: Federal Reserve. Data as of September 30, 2014.
(2) Equity market performance represented by the S&P 500 TR Index. Data as of September 30, 2014.
(3) Source: Bespoke Investment Group.

Market Environment | 30+ year rally in fixed income

Historically low rates present headwinds for investors

10-year Treasury Yields
January 1964 – September 2014

Source: Federal Reserve, 10-Year Treasury Constant Maturity Rate, Percent, Monthly, Not Seasonally Adjusted.

Market Environment | Compressing spreads

Accommodative monetary policy, robust demand, and strong credit fundamentals have caused spreads to narrow and yields to reach all-time lows in below investment grade credit

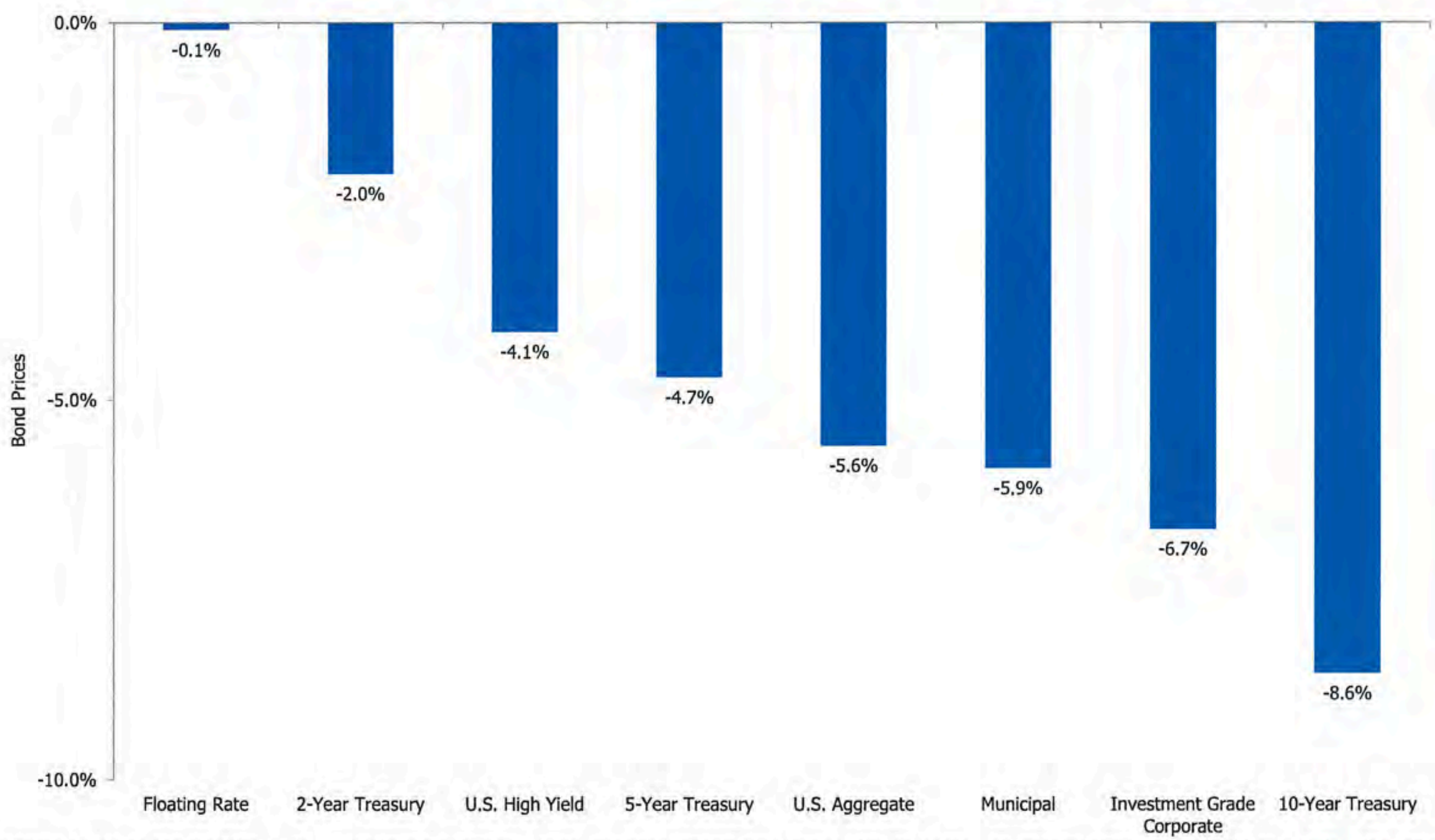
Non-Investment Grade Spreads
January 2008 – September 2014

Source: Federal Reserve; Bank of America Merrill Lynch US High Yield Master II Option-Adjusted Spread.

Market Environment | Effect of rising rates on bond prices

Even a 1% rise in interest rates could significantly impact bond prices

Price Impact of a 1% Rise in Interest Rates
As of September 30, 2014



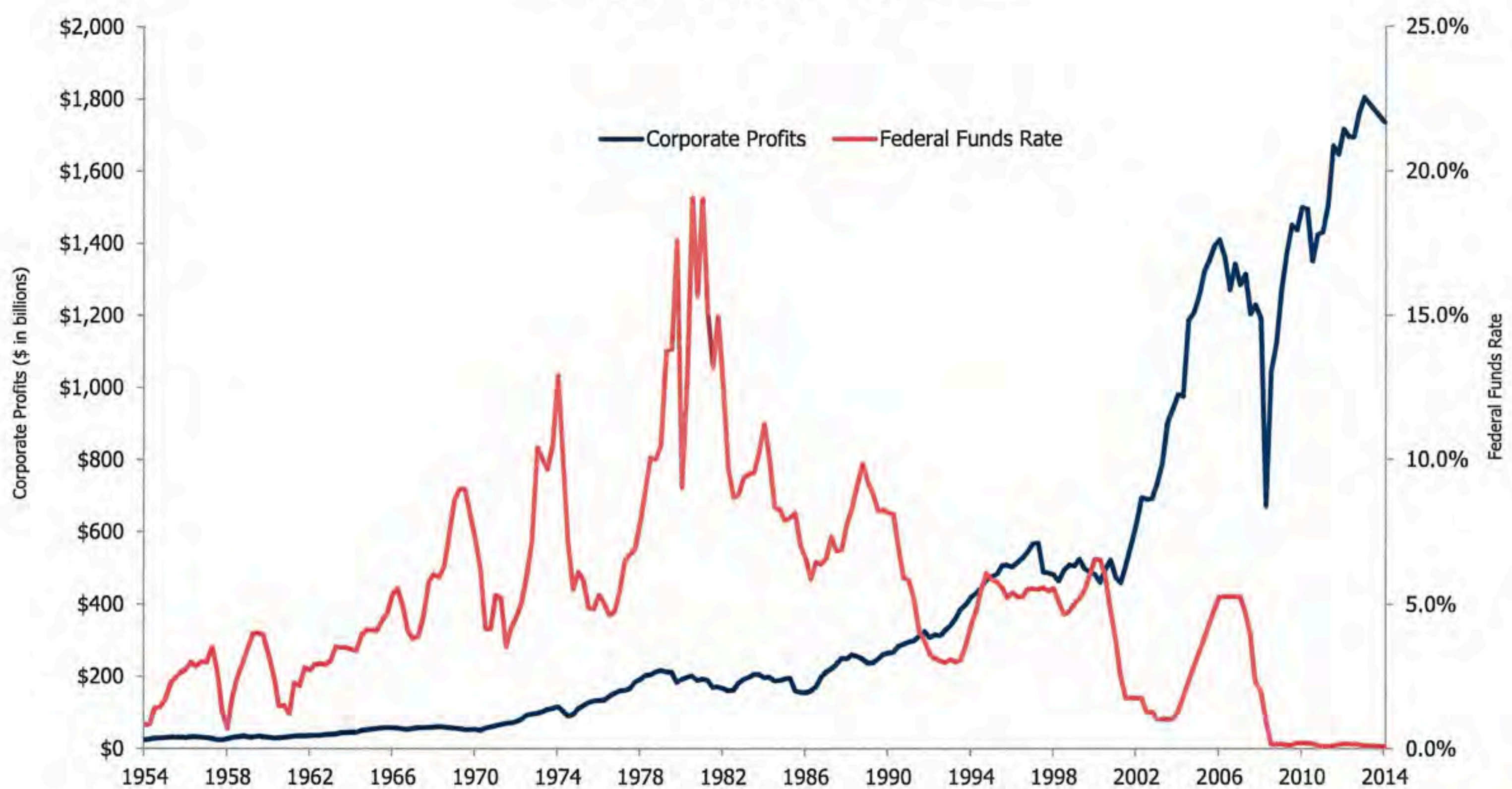
Source: JP Morgan Guide to the Markets – U.S. Calculation assumes 2-year Treasury interest rate falls 0.58% to 0.00%, as interest rates can only fall to 0.00%. The information and data is provided purely for illustrative purposes; therefore there can be no assurances that the projected impact to returns is accurate. Past performance is not indicative of future results.

Market Environment

Low rates impact record corporate profits

- Federal stimulus and low rates have bolstered corporate profitability, which is now near all-time highs
- Rising rates or low growth may negatively impact corporate earnings

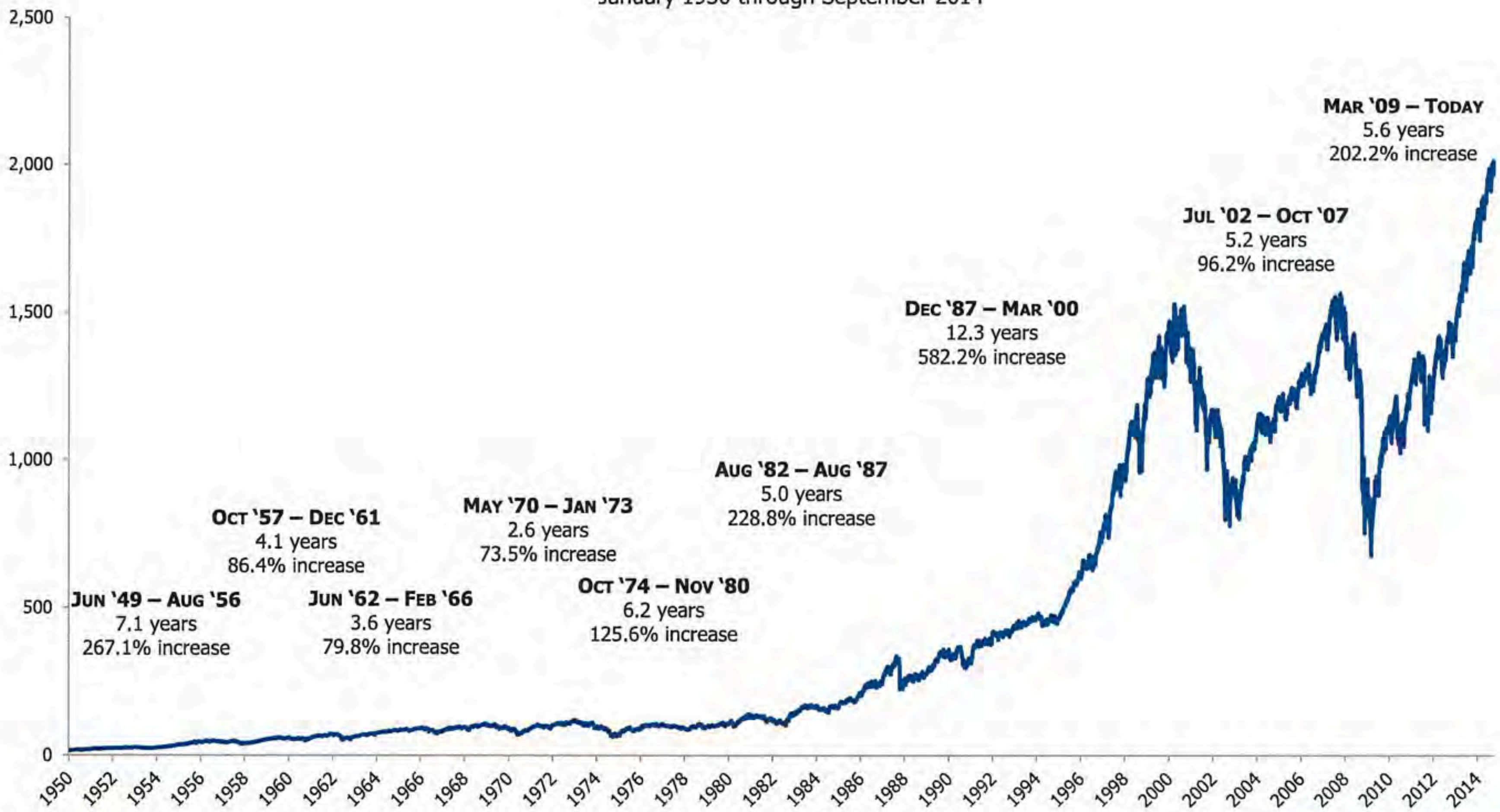
Corporate Profits and Federal Funds Rate
July 1954 through January 2014



Source: Federal Reserve Economic Data. U.S. Department of Commerce: Bureau of Economic Analysis.

4th largest equity market rally since 1928

S&P 500 Closing Value
January 1950 through September 2014

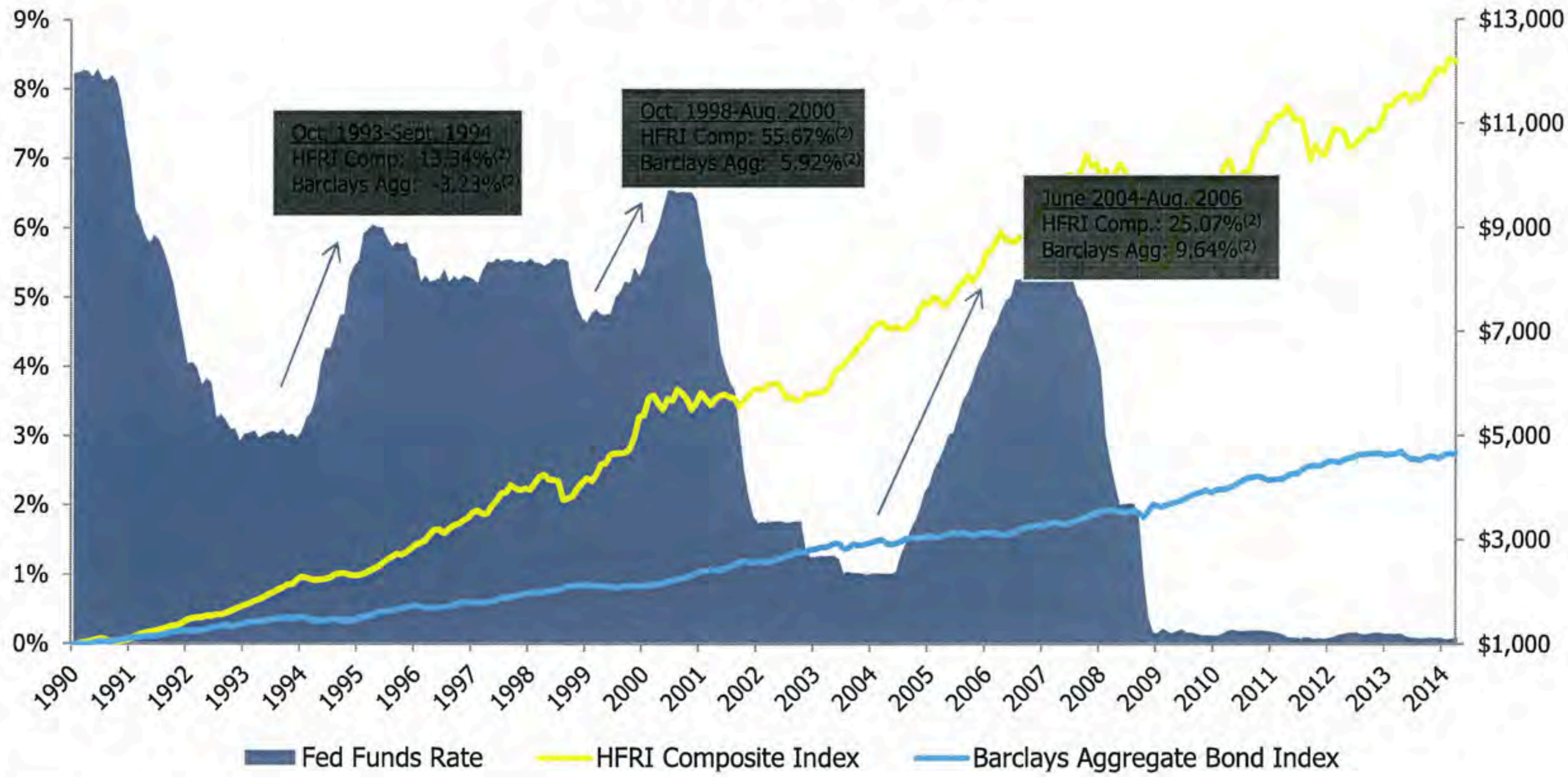


Sources: Standard & Poor's, Bespoke Investment Group. Data as of September 30, 2014.

The Case for Low Volatility Multi-Strategy

Hedge funds have significantly outperformed bonds during prior periods of rising interest rates[1]

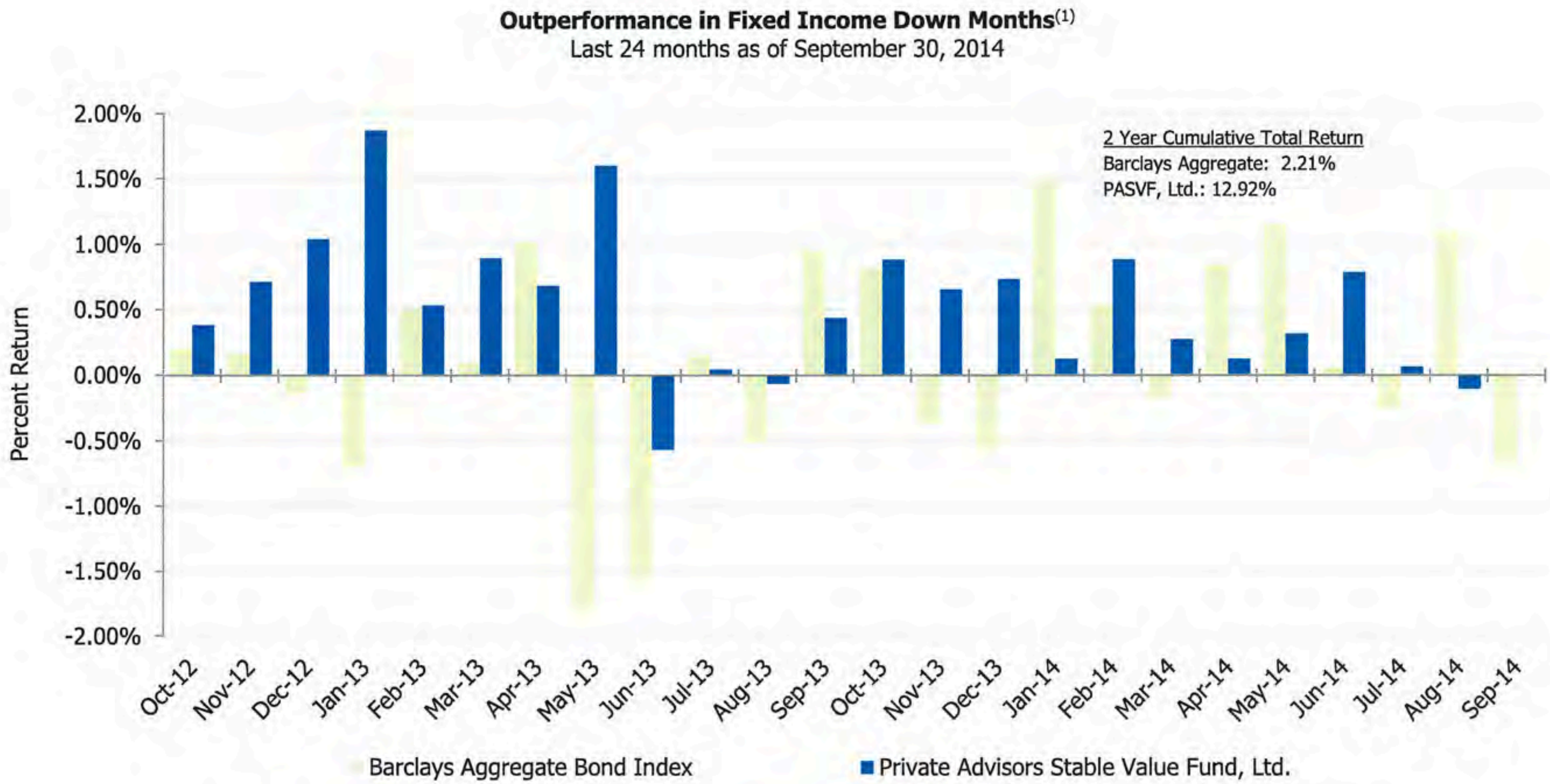
Cumulative Returns During Historical Periods of Rising Interest Rates[2]
January 1990 through September 2014



Past Performance is not an indication of future returns.
(1) Bond market performance is represented by the Barclays Aggregate Bond Index.
(2) Index data source: Pertrac Database. Fed Fund Rate source: Bloomberg. HFRI Fund Weighted Composite Index is shown to represent broad hedge fund performance dating back to January 1990. Please see Disclosure 1 in the Appendix for definition of indices.

The Case for Low Volatility Multi-Strategy

Private Advisors Stable Value Fund, Ltd. has outperformed fixed income with less downside volatility[(1)]



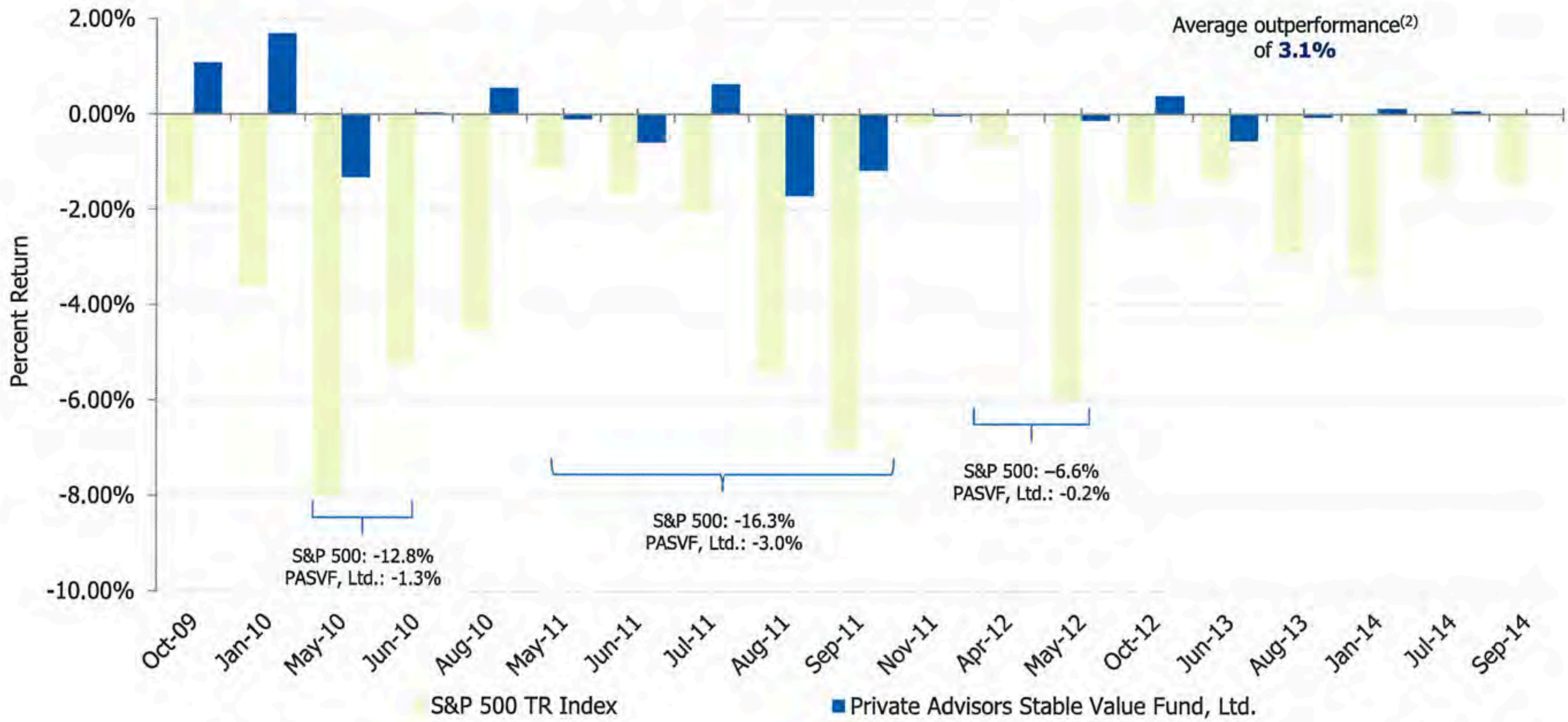
Past performance is not indicative of future results.

[(1)] Private Advisors' Low Volatility Multi-Strategy portfolios include Private Advisors Alternative Asset Fund, LLC, Private Advisors Stable Value Fund, Ltd., PA Stable Value Fund, Ltd., Private Advisors Stable Value ERISA Fund, Ltd. and separate accounts managed in this style. Private Advisors Stable Value Fund, Ltd. ("PASVF, Ltd.") performance figures are net of fees and expenses. "Fixed income" is defined as The Barclays Aggregate Index. Volatility is represented by standard deviation. Performance data and statistics as of September 30, 2014. Please see Disclosures 1 and 2 in the Appendix for important disclosures and historical strategy information.

The Case for Low Volatility Multi-Strategy

Private Advisors Stable Value Fund, Ltd. has outperformed during periods of equity volatility[1]

Outperformance in Equity Down Months[1]
March 2009 through September 2014



Past performance is not indicative of future results.

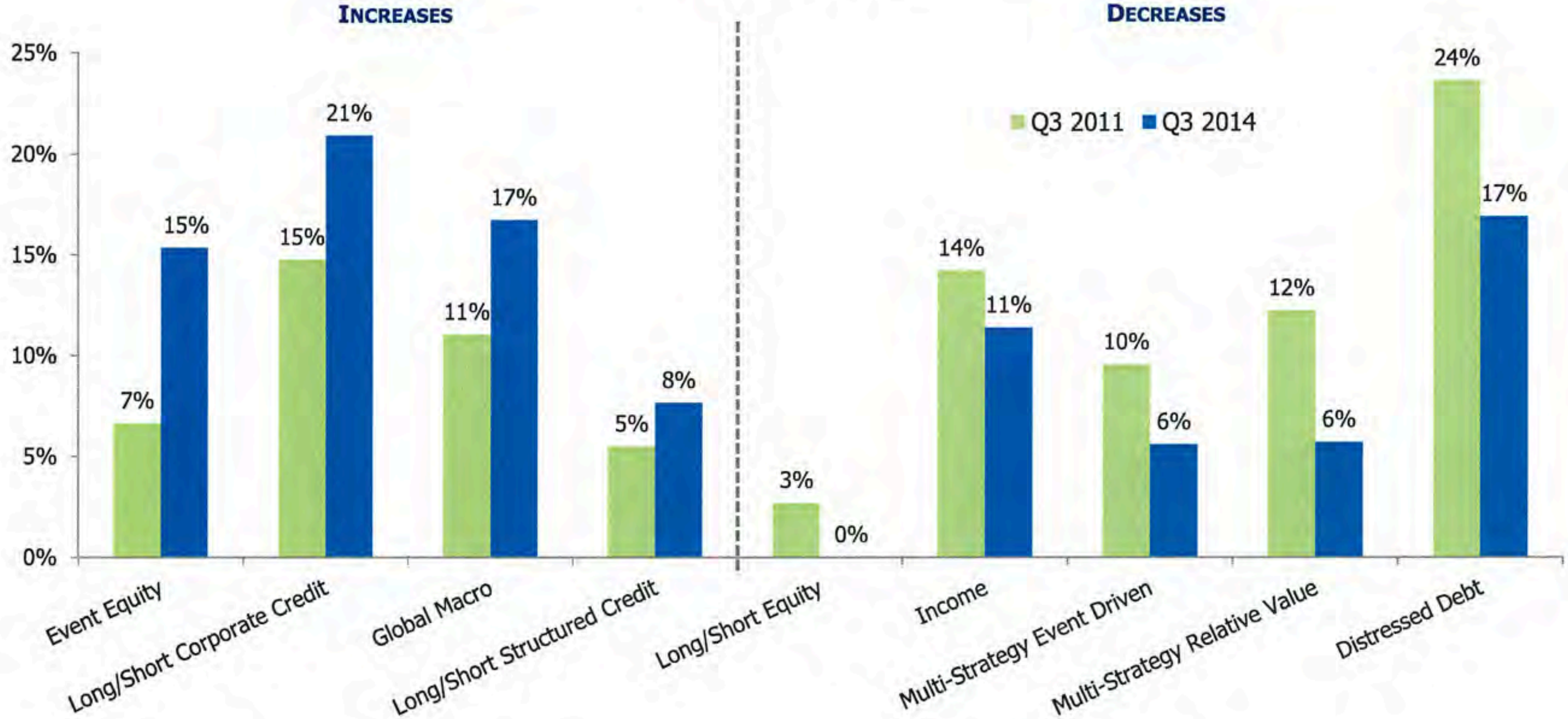
(1) Private Advisors' Low Volatility Multi-Strategy portfolios include Private Advisors Alternative Asset Fund, LLC, Private Advisors Stable Value Fund, Ltd., PA Stable Value Fund, Ltd., Private Advisors Stable Value ERISA Fund, Ltd. and separate accounts managed in this style. Private Advisors Stable Value Fund, Ltd. ("PASVF, Ltd.") performance figures are net of fees and expenses. "Equity Market" is defined as the S&P 500 TR Index. Drawdowns are defined as the percent retrenchment from an equity peak to an equity valley. Performance data and statistics are for the period from March 2009 through September 2014. Please see Disclosures 1 and 2 in the Appendix for important disclosures and historical strategy information.

(2) "Outperformance" is the differential between the monthly return for Private Advisors Stable Value Fund, Ltd. and the S&P 500 TR Index.

Portfolio Positioning

Portfolio has been positioned to capture current market opportunities while protecting against potentially higher rates

Asset Allocation Changes Over the Past Three Years[1]
Private Advisors Stable Value Fund, Ltd.
Q3 2011 versus Q3 2014



[1] Capital allocation calculation does not include other balance sheet items for PASVF, Ltd. such as cash, receivables, etc. Private Advisors believes the breakdown depicted in the chart reasonably reflects the capital allocation of PASVF based on an analysis of the underlying investment companies' exposures from both documentation provided by underlying managers, as well as conversations with managers. No representations or warranties are made as to the accuracy or completeness of this information. It should be noted that all portfolio allocations are estimates and are subject to change.

Strategy Outlook

The Low Volatility Multi-Strategy portfolios[1] combine a variety of hedge fund strategies into a diversified portfolio with multiple return drivers

	Add	Maintain	Reduce	Rationale
Event Driven				
Distressed Corporate			✓	▪ Smaller opportunity set today as a result of easy access to capital and low default rates
Event Equity	✓			▪ Increase in activism and M&A activity continues to create opportunities
Global Macro				
Global Macro	✓			▪ Low correlation to other asset classes and ability to profit in a market dislocation ▪ Divergent central bank actions should result in opportunities in currencies and rates
Income				
Income		✓		▪ Lending environment is less attractive today and exposure can be less liquid
Long/Short Credit				
Corporate Credit		✓		▪ Competitive, increasingly attractive opportunities to short
Structured Credit	✓			▪ Less efficient market with attractive event-driven situations

(1) Private Advisors' Low Volatility Multi-Strategy portfolios include Private Advisors Stable Value Fund, Ltd., PA Stable Value Fund, Ltd., Private Advisors Stable Value ERISA Fund, Ltd. and separate accounts managed in this style.

Key Takeaways[1]

Disciplined Investors Should be Rewarded

- Fixed income investors face headwinds as interest rates and yields are at historic lows
- Potential for volatility to rise
- Macro risks related to monetary policy, geopolitical uncertainty, and global growth persist

Role of Low Volatility Multi-Strategy Funds in a Portfolio

- Conservative portfolio that offers attractive absolute returns independent of traditional markets with fixed income-like volatility
- Complement to fixed income allocation, with low to negative correlation to Barclays Aggregate Bond Index
- Capital protection in market drawdowns

Remain Focused on Protecting Against Rising Rates While Still Achieving Performance Objectives

- Augmenting strategies that are diversifying in nature and target company or process-specific catalysts as opposed to market directionality
- Focusing fixed income allocations on less efficient areas of credit that have less rate exposure

(1) The opinions expressed herein are those of Private Advisors, LLC, and this information is not meant as financial advice.

Portfolio Review

Investment Characteristics[1]

- Focus on capital preservation
- Focus on fundamentally oriented strategies and minimal exposure to equity beta
- Diversified exposure to multiple hedge fund strategies
- Diversified exposure to 25-40 managers

Strategy Objective

Achieve consistent, positive returns, which are not dependent upon a rising equity market or correlated with the return of the S&P 500, while attempting to reduce risk and volatility

Target Performance Characteristics[1]

- **Return**
  Net performance of Libor + 3% to 5% over a full market cycle
  Positive returns over rolling 12-month periods
- **Risk Objective**
  Standard deviation less than 5%
- **Correlation**
  Low correlation to traditional asset classes

Inception

June 1998

(1) Private Advisors' Low Volatility Multi-Strategy Funds include Private Advisors Alternative Asset Fund, LLC, Private Advisors Stable Value Fund, Ltd., PA Stable Value Fund, Ltd., and Private Advisors Stable Value ERISA Fund, Ltd. (the "Funds"). Past performance is no guarantee of future results, and there can be no expectation that performance targets will be met. Target Performance Characteristics are designed to be indicative of results over a reasonable period of time, generally defined as three years or more, however these performance targets are not outlined in any of the Funds' offering memorandums.

Private Advisors Stable Value Master Fund, Ltd. ("PASVMF, Ltd.")
As of September 30, 2014

Portfolio Summary and Characteristics	
Current Low Volatility Multi-Strategy AUM	$1,624.9 mm[(1)]
Current PASVMF, Ltd. AUM	$642.4 mm[(1)]
Number of Underlying Funds	31[(2)]
Top Ten Manager Positions (as % of Fund Assets)	47.9%
Number of Strategies	8[(3)]
Non-US Exposure	34%[(3)]

(1) Estimates as of September 30, 2014. Strategy AUM includes non-discretionary separate accounts.
(2) Does not include stub positions of 50 basis points or less. Please see Disclosures in the Appendix for definitions.
(3) Private Advisors believes the breakdown depicted in the table reasonably reflects weightings and exposures of PASVMF, Ltd. based on an analysis of the underlying investment companies' exposures from both documentation provided by underlying managers and conversations with managers. Geographical exposure percentage is gross figure and includes short positions. No representations or warranties are made as to the accuracy or completeness of this information. All portfolio allocations are estimates and are subject to change.

Historical Performance – Private Advisors Stable Value Fund, Ltd. ("PASVF, Ltd.")

COMPARATIVE PERFORMANCE STATISTICS: From strategy inception (June 1998) through October 2014(1)(2)

	Private Advisors Stable Value Fund, Ltd.	HFRI Fund of Funds Conservative	Barclays Aggregate	S&P 500 TR
2014 YTD	**0.79%**	1.19%	5.11%	10.99%
1 Year	**2.19%**	2.87%	4.12%	17.27%
3 Year (Annualized)	**4.98%**	4.10%	2.73%	19.77%
5 Year (Annualized)	**4.85%**	3.03%	4.23%	16.69%
Since Inception (Annualized)	**6.47%**	3.83%	5.44%	5.75%
Total Return Since Inception	**179.91%**	85.29%	138.43%	150.49%
Worst One Month	**-4.74%**	-5.91%	-3.36%	-16.79%
Max Drawdown	**-15.11%**	-20.36%	-3.82%	-50.95%
Standard Deviation	**3.60%**	4.15%	3.48%	15.71%
Sharpe Ratio	**1.16**	0.40	0.91	0.30
Correlation Coefficient (r)	-	0.756	-0.061	0.485
Beta	-	0.655	-0.063	0.111
Positive Months (%)	**79.70%**	71.57%	68.53%	61.93%

NET MONTHLY RETURN: From strategy inception (June 1998) through October 2014(1)(2)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year(3)	HFRI Conservative	Barclays Agg.	S&P 500 TR
2014	0.12%	0.88%	0.30%	0.12%	0.31%	0.78%	0.06%	-0.11%	-0.17%	-1.48%			**0.79%**	1.19%	5.11%	10.99%
2013	1.87%	0.53%	0.89%	0.68%	1.60%	-0.57%	0.04%	-0.07%	0.40%	0.88%	0.65%	0.73%	**7.88%**	7.70%	-2.02%	32.39%
2012	1.12%	0.82%	0.79%	-0.02%	-0.14%	-0.20%	0.60%	0.75%	0.88%	0.38%	0.71%	1.04%	**6.93%**	4.22%	4.23%	16.00%
2011	1.57%	0.83%	0.07%	0.93%	-0.11%	-0.60%	0.63%	-1.71%	-1.18%	0.54%	-0.04%	-0.44%	**0.44%**	-3.55%	7.86%	2.11%
2010	1.69%	-0.34%	0.77%	0.99%	-1.32%	0.03%	0.50%	0.55%	1.98%	1.01%	0.78%	0.89%	**7.75%**	5.07%	6.56%	15.06%
2009	0.68%	-1.01%	-0.06%	1.43%	2.44%	1.05%	1.55%	1.87%	-0.49%	1.08%	0.23%	0.45%	**9.56%**	9.65%	5.93%	26.46%
2008	0.67%	0.66%	-0.70%	-0.13%	0.03%	-1.07%	-1.85%	0.29%	-2.44%	-3.67%	-4.74%	-1.45%	**-13.63%**	-19.86%	5.24%	-37.00%
2007	0.97%	1.49%	1.04%	0.93%	1.30%	1.05%	0.63%	-1.07%	0.56%	0.77%	0.59%	0.21%	**8.78%**	7.68%	6.96%	5.49%
2006	1.75%	0.47%	0.79%	0.78%	0.91%	-0.03%	0.00%	0.71%	0.81%	0.79%	0.82%	1.16%	**9.32%**	9.21%	4.33%	15.79%
2005	-0.62%	0.56%	0.02%	-0.46%	-0.66%	0.38%	0.60%	0.57%	0.58%	-0.16%	0.19%	0.56%	**1.56%**	5.13%	2.43%	4.91%
2004	1.44%	0.33%	0.31%	0.21%	-0.06%	0.65%	0.20%	0.25%	0.13%	0.14%	1.40%	1.54%	**6.72%**	5.83%	4.34%	10.88%
2003	1.93%	0.94%	0.60%	2.10%	1.97%	1.34%	0.19%	0.66%	1.61%	0.93%	0.73%	1.23%	**15.17%**	9.01%	4.11%	28.68%
2002	0.91%	0.17%	0.78%	0.35%	0.32%	-1.48%	-2.70%	0.04%	-0.05%	0.52%	2.23%	1.65%	**2.68%**	3.57%	10.27%	-22.10%
2001	2.12%	0.87%	0.59%	0.93%	1.18%	-0.15%	0.64%	0.95%	-0.78%	0.73%	0.64%	0.41%	**8.41%**	3.11%	8.42%	-11.88%
2000	1.85%	2.38%	1.68%	2.64%	1.34%	1.70%	1.12%	1.33%	1.06%	0.29%	0.29%	0.79%	**17.74%**	5.77%	11.63%	-9.11%
1999	1.36%	0.70%	1.43%	3.07%	2.18%	1.71%	1.39%	0.40%	1.10%	0.63%	1.69%	0.80%	**17.73%**	18.93%	-0.83%	21.04%
1998						1.48%	0.51%	-3.06%	0.30%	0.33%	2.15%	0.98%	**2.64%**	-4.37%	5.47%	13.67%

Past performance is not indicative of future results.
(1) All performance figures are net of fees and expenses.
(2) Please see Disclosures 1 and 2 in the Appendix for definition of indices and an explanation of performance history for the strategy.
(3) 1998 and 2014 figures represent partial year performance.

Portfolio Review

2014 Ranked Strategy Contribution – PASVMF, Ltd.[1]

Top 3 Strategy Contribution Rank for 2014		
	Strategy	**Contribution (bps)**
1	Long / Short Structured Credit	65 bps
2	Income	63 bps
3	Distressed Debt	53 bps

Bottom 3 Strategy Contribution Rank for 2014		
	Strategy	**Contribution (bps)**
1	Event Equity	24 bps
2	Relative Value/Arbitrage - Multi-Strategy	25 bps
3	Event Driven - Multi-Strategy	31 bps

Past performance is not indicative of future results.

(1) Private Advisors believes the strategy contribution depicted in the table reasonably reflects the weightings and performance of PASVMF, Ltd. based on an analysis of the underlying investment companies' exposures from both documentation provided by underlying managers, as well as conversations with managers. No representations or warranties are made as to the accuracy or completeness of this information. It should be noted that all performance figures are estimates and subject to change.

2014 Ranked Underlying Fund Contribution – PASVMF, Ltd.[1]

Top 5 Underlying Fund Contribution Rank for 2014

	Underlying Fund	Size	Strategy	2014 Contribution (in bps)	2014 Performance
1	Tyrus Capital Opportunities Fund, Ltd.	3.2%	Event Equity	43 bps	14.4%
2	Autonomy Global Macro Fund, Ltd.	3.7%	Global Macro	41 bps	11.5%
3	Fir Tree Capital Opportunity Fund, LP	5.3%	L/S Corporate Credit	39 bps	7.4%
4	One William Street Capital Offshore Fund, Ltd.	4.1%	L/S Structured Credit	35 bps	8.7%
5	Golub Capital International, Ltd.	4.4%	Income	35 bps	7.5%

Bottom 5 Underlying Fund Contribution Rank for 2014

	Underlying Fund	Size	Strategy	2014 Contribution (in bps)	2014 Performance
1	Saba Capital Offshore Fund, Ltd.	3.4%	L/S Corporate Credit	-35 bps	-8.8%
2	Mason Capital, Ltd.	4.6%	Event Equity	-28 bps	-5.4%
3	MKP Opportunity Offshore, Ltd.	N/A	Global Macro	-22 bps	N/A
4	Luxor Capital Partners Offshore, Ltd.	4.5%	Event Equity	-9 bps	-2.3%
5	Styx International, Ltd.	0.6%	Income	-6 bps	-7.4%

Past performance is not indicative of future results.

[1] Private Advisors believes the manager weightings, performance and contribution depicted in the table reasonably reflects the weightings and performance of PASVMF, Ltd. based on an analysis of the underlying investment companies' from both documentation provided by underlying managers, as well as conversations with managers. No representations or warranties are made as to the accuracy or completeness of this information. It should be noted that all performance figures are estimates and subject to change. Stub positions of less than 0.5% are not included in this analysis. Please refer to Disclosure 1 in the Appendix for definition of terms.

- **Distressed debt exposure has increased with the addition of a new manager that focuses on event driven positions with lower market correlations**
- **Global macro was the top contributor for the quarter and remains a core allocation as the strategy has a historic lack of correlation to other asset classes**

PASVMF, Ltd.[1]
As of September 30, 2014

	Capital Allocation			
	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Event Driven				
Distressed Debt	17%	16%	15%	17%
Event Equity	12%	14%	15%	15%
Multi-Strategy	6%	6%	6%	6%
Global Macro				
Discretionary Global Macro	17%	16%	17%	17%
Income				
Income	14%	13%	12%	11%
Long / Short Credit				
Long / Short Corporate Credit	20%	20%	21%	21%
Long / Short Structured Credit	8%	8%	8%	7%
Relative Value / Arbitrage				
Multi-Strategy	6%	6%	6%	6%
TOTAL	100%	100%	100%	100%

(1) Capital allocation calculation does not include other balance sheet items for PASVMF, Ltd. such as cash, receivables, etc. Private Advisors believes the breakdown depicted in the chart reasonably reflects the capital allocation of PASVMF, Ltd. based on an analysis of the underlying investment companies' exposures from both documentation provided by underlying managers, as well as conversations with managers. No representations or warranties are made as to the accuracy or completeness of this information. It should be noted that all portfolio allocations are estimates and are subject to change.

Portfolio Review

2014 Manager Hires and Exits

PASVMF, Ltd. made three new investments during 2014, and exited two managers.

Manager Hires

Name	Hire Date	Initial Position	Summary
LionEye	March	2.0%	LionEye Capital Management is an event driven hedge fund managed by Stephen Raneri and Arthur Rosen. Stephen was previously with Loeb Partners and Soros Fund Management, and Stephen and Arthur have been executing a strategy similar to the one at LionEye since 2004, when they worked together at Ramius. LionEye is focused on complex corporate change, and its investment process combines core risk arbitrage disciplines with fundamental stock picking skills. LionEye uses an actively traded, tactical approach to risk management and maintains low net exposures.
MacroSynergy	July	3.0%	MacroSynergy Trading Fund is a global macro fund managed by co-CIOs Nikos Makris and Gavin Moule, who worked together at BlueCrest as co-heads of emerging markets and portfolio managers from 2004 to 2009. They are both seasoned, deeply experienced global macro investors. MacroSynergy is an emerging markets focused discretionary global macro fund investing in foreign exchange, rates, credit, equity and commodities. MacroSynergy's edge comes from its implementation and trading with a disciplined process to sizing, scaling and timing positions within its stringent risk management framework.
Farmstead Capital	August	2.0%	Farmstead Capital was founded in August 2013 by Andy Reback (formerly a co-head of the distressed strategy at Credit Suisse) and Mike Scott (formerly an analyst and partner with Venor Capital Management). Farmstead is a deep value, event driven manager that takes a more concentrated approach and focuses on idiosyncratic positions that have a lower market correlation.

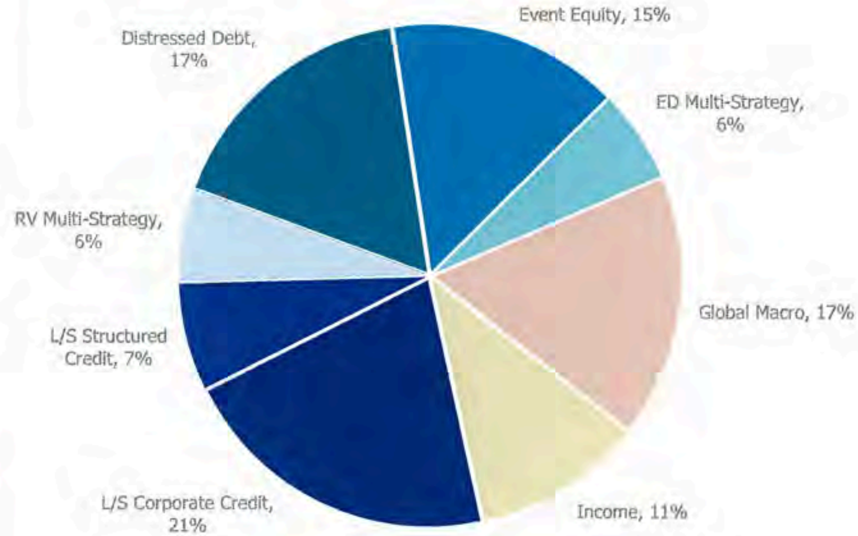
Manager Exits

Name	Exit Date	Initial Position	Summary
Servertis	June	--	Manager distributed remaining capital.
MKP Opportunity	August	--	We redeemed in order to gain differentiated exposure within the global macro strategy.

Private Advisors Stable Value Master Fund, Ltd.(1)

As of September 30, 2014

	UNDERLYING FUND	STRATEGY	% of Fund AUM(2)
	EVENT DRIVEN STRATEGIES		37.7%
1	Aurelius Capital International, Ltd.	Distressed Debt	4.1%
2	Contrarian Capital Trade Claims Offshore, Ltd.	Distressed Debt	1.8%
3	CVI Global Value Fund B, LP	Distressed Debt	1.2%
4	Farmstead Offshore Fund, Ltd.	Distressed Debt	2.2%
5	Redwood Offshore Fund, Ltd.	Distressed Debt	2.7%
6	Spectrum Investment Partners International, Ltd.	Distressed Debt	2.8%
7	Stonehill Offshore Partners, Ltd.	Distressed Debt	2.1%
8	LionEye Offshore Fund, Ltd.	Event Equity	3.0%
9	Luxor Capital Partners Offshore, Ltd.	Event Equity	4.5%
10	Mason Capital, Ltd.	Event Equity	4.6%
11	Tyrus Capital Opportunities Fund, Ltd.	Event Equity	3.2%
12	Elliott International, Ltd.	Multi-Strategy (ED)	4.9%
13	Fir Tree International Value Fund, LP	Multi-Strategy (ED)	0.6%
	GLOBAL MACRO STRATEGY		16.7%
14	Anderson Global Macro Fund, Ltd.	Global Macro	2.2%
15	Autonomy Global Macro Fund, Ltd.	Global Macro	3.7%
16	Macrosynergy Trading Fund, Ltd.	Global Macro	3.1%
17	Stone Milliner Macro Fund Inc.	Global Macro	3.0%
18	Tudor BVI Global Fund, Ltd., The	Global Macro	4.7%
	INCOME STRATEGY		11.4%
19	Drawbridge Special Opportunities Offshore Fund, Ltd.	Income	5.0%
20	Fortress Value Recovery Fund I, Ltd.	Income	0.6%
21	Garrison Credit Opportunities Fund (Cayman), LP	Income	0.8%
22	Golub Capital International, Ltd.	Income	4.4%
23	Styx International, Ltd.	Income	0.6%
	LONG/SHORT CREDIT STRATEGIES		28.5%
24	Archer Capital Offshore Fund, Ltd.	L/S Corporate Credit	4.7%
25	Blue Mountain Credit Alternatives Fund, Ltd.	L/S Corporate Credit	3.5%
26	Fir Tree Capital Opportunity Fund, LP	L/S Corporate Credit	5.3%
27	Panning Overseas Fund, Ltd.	L/S Corporate Credit	4.0%
28	Saba Capital Offshore Fund, Ltd.	L/S Corporate Credit	3.4%
29	Marathon Securitized Credit Fund, Ltd.	L/S Structured Credit	3.5%
30	One William Street Capital Offshore Fund, Ltd.	L/S Structured Credit	4.1%
	RELATIVE VALUE / ARBITRAGE STRATEGIES		5.7%
31	HBK Offshore Fund II, LP	Multi-Strategy (RV)	5.7%
		TOTAL	100.0%



(1) Private Advisors believes the breakdown depicted in the table reasonably reflects the strategy weightings of the Fund based on an analysis of the underlying investment companies' exposures from both documentation provided by underlying managers and conversations with managers. No representations or warranties are made as to the accuracy or completeness of this information. All portfolio allocations are estimates and are subject to change.

(2) "Percent of Fund AUM" is calculated by dividing estimated investment balances of underlying investment companies by the estimated Fund AUM. Cash, Receivables, Stub Positions and other balance sheet items are not included in this calculation. Please see Disclosure 1 in the Appendix for definitions of these terms.

Appendix

Investment Process Overview | Disciplined, repeatable investment process

Strategy Research	Quarterly Strategy Review sets asset allocation targets and research initiatives
Manager Sourcing	Prospective managers identified through buy-side, sell-side, and private equity relationships
Due Diligence	Collaborative team approach that includes detailed operational review and third party verifications
Portfolio Construction	Decisions incorporate quantitative and qualitative analysis at the manager, portfolio, and strategy level
Risk Management	Ongoing re-evaluation of the portfolio and the underlying managers

Due Diligence Process

Rigorous due diligence process is both qualitative and quantitative

1,000s of funds (initial universe) → Hedge Fund Strategy Research ⟷ Manager Sourcing and Identification

100-300 funds (per year) →

1. Preliminary Meeting
   Result: Determine initial fit within portfolio
2. HFIC Discussions
   Result: Decision on whether to proceed
   → *Place on watch list for monitoring or discontinue due diligence*

15-30 prospective funds (per year) →

3. Comprehensive On-Site Due Diligence
   Result: Manager Scorecard
4. Detailed Quantitative Research
   Result: Portfolio and Performance Analysis
5. Operational Due Diligence ("ODD")
   Result: Findings reviewed by Head of ODD and HFIC
6. Investment Memorandum review by HFIC
   Result: HFIC Approval and Position Sizing

Chief Investment Officer and Head of ODD have veto power

Manager Selection
Result: Portfolio of 20-40 funds

Disclosure 1: Definitions

Fund AUM – Estimated total investments of the Fund in underlying private investment companies with the exception of cash, receivables, stub positions and other balance sheet items.

Receivables – Balances where the Fund has redeemed from, and is a creditor to, an underlying private investment company and not subject to market fluctuation.

Stub Positions – Investments of less than 0.50% of Fund AUM, where the Fund has submitted a redemption request but remains subject to market fluctuation.

Barclays Capital Aggregate Bond Index (or "Barclays Aggregate" or "Barclays Agg.") - Formerly known as Lehman Brothers Aggregate Bond Index. Index is a benchmark index made up of the Barclays Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, including securities that are of investment-grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million. You cannot invest directly in the Index.

Merrill Lynch U.S. Corporate Index – A market value weighted index composed of domestic Corporate (BBB/Baa rated or better) debt issues. The Indes is a component of the Merrill Lynch Corporate/Government Master.

Merrill Lynch High Yield Index - Tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market.

Merrill Lynch High Yield CCC & Lower Index - The Merrill Lynch CCC & Lower US High Yield Index is a subset of The Merrill Lynch US High Yield Index including all securities rated CCC or lower.

HFRI Fund of Funds Conservative Index – The Index is a non-investable product of conservative fund of funds. The index is equal weighted (fund weighted) with an inception of January 1990.

S&P 500 Total Return Index (or "S&P 500 TR") - The Index is an unmanaged index of 500 common stocks that is generally considered representative of the U.S. stock market. The Index is heavily weighted towards stocks with large market capitalizations. The Index assumes reinvestment of dividends and capital gains at net asset values. The Fund currently uses this Index as the broad-based securities market index for comparison purposes in reporting performance. You cannot invest directly in the Index. (Note: In prior Private Advisors, LLC marketing materials, the S&P 500 DRI Index (or "S&P 500 DRI") has been utilized. The return data for the S&P 500 TR and the S&P 500 DRI are the same.)

Disclosure 2: Historical Strategy Performance and Data

Returns for 2014 are estimates, subject to change, and not yet audited.

Low Volatility Multi-Strategy

Private Advisors' Low Volatility Multi-Strategy portfolios include Private Advisors Alternative Asset Fund, LLC, Private Advisors Stable Value Fund, Ltd., PA Stable Value Fund, Ltd., Private Advisors Stable Value ERISA Fund, Ltd. and separate accounts managed in this style.

The results portrayed for Private Advisors Stable Value Fund, Ltd. reflect the reinvestment of dividends and other earnings. Performance numbers and allocations for the period June 1, 1998 through March 31, 2001 are the results of Private Advisors Alternative Asset Fund (QP), LP, a former onshore, 3(c)(7) companion fund to the Private Advisors Stable Value Fund, Ltd. Private Advisors Alternative Asset Fund (QP), LP began winding down in 2011 and, while there is no impact to the performance numbers and allocations presented herein, we note that the companion fund is no longer offered. Performance numbers and allocations after March 2001 are for the Private Advisors Stable Value Fund, Ltd. **The Private Advisors Stable Value Fund, Ltd. commenced operations on April 1, 2001**. Results shown are net of all expenses, incentive allocations as applicable and a 1.25% management fee charged to Private Advisors Stable Value Fund, Ltd. and previously charged to Private Advisors Alternative Asset Fund (QP), LP. Private Advisors, LLC, as investment manager, pursues the same investment objective and employs a similar mix of investment strategies in Private Advisors Stable Value Fund, Ltd. as done previously in the former companion fund, Private Advisors Alternative Asset Fund (QP), LP; except that Private Advisors Stable Value Fund, Ltd. generally invests in the offshore funds organized by each of the managers. While there was historically significant overlap in the managers used by the two funds, it should be specifically noted that they were not the same in all cases and even where the managers were the same the relative weightings differed. Effective January 1, 2007, the Private Advisors Stable Value Fund, Ltd. was restructured to utilize a master/feeder structure where the assets of the Private Advisors Stable Value Fund, Ltd. were invested in the Private Advisors Stable Value Master Fund, Ltd.

Disclosure 3: Disclosure & Risk Summary

This presentation is intended solely for **University of South Alabama Endowment**. By accepting this presentation, the recipient acknowledges that distribution to any other person is unauthorized, and any reproduction of this presentation, in whole or in part, or the divulgence of its contents, without the prior written consent of Private Advisors, LLC is strictly prohibited.

This communication is not to be construed as an offer to sell or the solicitation of an offer to buy any security. Any such offer or solicitation can only be made by means of the delivery of a Confidential Memorandum, which contains a description of the significant risks involved in such an investment. All figures are estimated and unaudited unless otherwise noted and are shown net of all expenses, management fees and estimated incentive allocations. All figures reflect the reinvestment of dividends and other earnings, where applicable. Actual returns may differ from the reported results due to differences in contribution dates, fee structures and new issue eligibility. Past performance is not necessarily indicative of future results.

Notwithstanding the foregoing, please note the following with respect to investment funds managed by Private Advisors, LLC: Investments in the Funds are meant for sophisticated investors and involve a high degree of risk. Investors can lose all or a substantial portion of their investment. Investment returns may be volatile. Investments in underlying funds may not be diversified. Funds of funds have substantial fees and expenses that may offset profits. Investments in the Funds are subject to significant restrictions on transfers. There is no secondary market for interests in the Funds and none is expected to develop. The underlying funds' use of leverage in the course of their trading could exacerbate losses. These materials are not intended to constitute legal, tax or accounting advice or investment recommendations. Prospective investors should consult their own advisors regarding such matters.

All index comparisons contained herein are provided for illustrative purposes only. Comparisons to indices have limitations because indices may exhibit volatility and other material characteristics that may differ from that of the funds managed by Private Advisors and underlying managers discussed herein. Because of these differences, investors should not rely on them as accurate measures of comparisons.

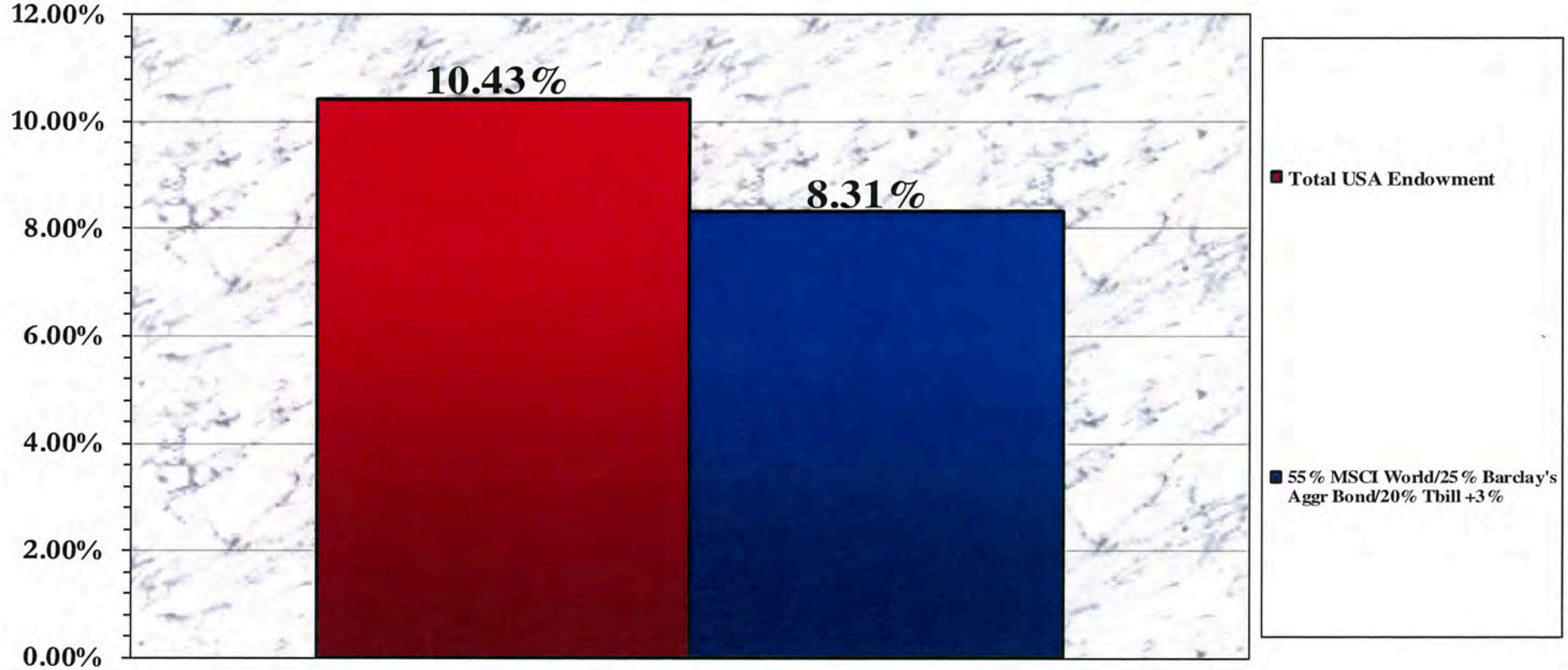
Securities managed by Private Advisors, LLC and distributed through NYLIFE Distributors LLC. 901 East Byrd Street, Suite 1400, Richmond, VA 23219. NYLIFE Distributors LLC is a Member of FINRA & SIPC.

University of South Alabama
Endowment Investment Performance
Review/Analysis

Fiscal Year End
2014

TOTAL USA ENDOWMENT
FISCAL YEAR 2014
October 1, 2013 To September 30, 2014

Balance: $ 141,993,274



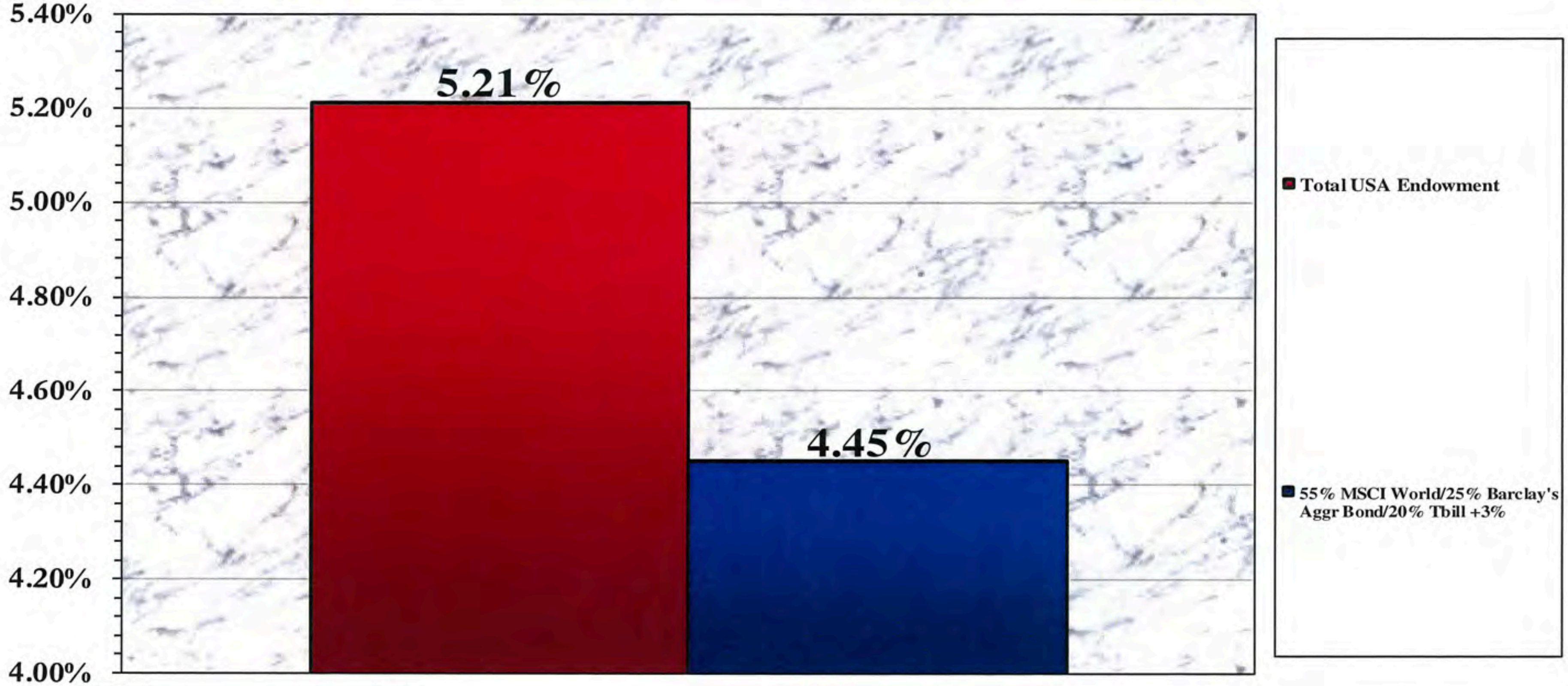
Outperformed 2.12 %

TOTAL USA ENDOWMENT BREAKDOWN
FISCAL YEAR 2014

Manager	Money Market	Large Cap Equity	Small Cap Equity	International	Fixed	Hedge	Total	%
Private Advisors	$ -	$ -	$ -	$ -	$ -	$ 7,294,100	$ 7,294,100	5%
Schwab	$ 342,730	$ 7,333,052	$ 7,992,788	$ 16,509,912	$ 5,312,368	$ -	$ 37,490,850	26%
Doug Lane	$ 843,029	$ 7,036,944	$ -	$ -	$ -	$ -	$ 7,879,973	6%
Common Fund	$ -	$ 36,301,471			$ 31,113,874		$ 67,415,345	47%
Gerber Taylor	$ -	$ -	$ -	$ -	$ -	$ 21,913,006	$ 21,913,006	15%
Total	$ 1,185,759	$ 50,671,467	$ 7,992,788	$ 16,509,912	$ 36,426,242	$ 29,207,106	$ 141,993,274	100%
%	1%	36%	6%	12%	26%	21%	100%	
Policy %		25-55%	0-8%	5-15%	15-35%	10-30%	100%	

TOTAL USA ENDOWMENT
SINCE INCEPTION
APRIL 1, 2000 To September 30, 2014
Annualized

Balance: $ 141,993,274



Outperformed 0.76 %

RESOLUTION

EVALUATION OF THE UNIVERSITY'S ENDOWMENT AND NON-ENDOWMENT INVESTMENT POLICIES

WHEREAS, the Southern Association of Colleges and Schools (SACS) requires that investment policies must be evaluated regularly, and

WHEREAS, the Board of Trustees has previously approved the University's endowment funds policies and guidelines and the University's non-endowment cash pool investment policy,

THEREFORE, BE IT RESOLVED that the Board of Trustees of the University of South Alabama hereby acknowledges the current year annual evaluation of both policies by the Endowment and Investments Committee.

UNIVERSITY OF SOUTH ALABAMA
NON-ENDOWMENT CASH POOL INVESTMENT POLICIES

Purpose

The purpose of this Investment Policy is to provide a guideline by which the pooled funds (the current, loan, agency and plant fund groups) not otherwise needed to meet the daily operational cash flows for the University can be invested to earn a maximum return, yet still maintain sufficient liquidity to meet fluctuations in the inflow of funds from revenues, tuition payments and state appropriations.

The policies and practiced hereinafter set forth separate funds into three investment categories: (1) Short-term funds (2) Intermediate-term funds (3) Long-term funds.

INVESTMENT OBJECTIVES

The investment objectives for Operational Funds Investments are: (1) to maximize current investment returns consistent with the liquidity needs of the University. In keeping with the investment objectives noted above, it is acknowledged that there are Operational Funds which require short-term, intermediate-term and long-term investment strategies.

It is expected that the maturities of the investments in the Operational Funds will be matched against the cash flow needs of each campus to maximize yields consistent with the liquidity needs of the University.

Maintenance of Adequate Liquidity

The investment portfolio must be structured in such a manner that will provide sufficient liquidity to pay obligations such as normal operating expenses and debt service payments as they become due. A liquidity base will be maintained by the use of securities with active secondary markets, certificates of deposit, or repurchase agreements. These investments could be converted to cash prior to their maturities should the need for cash arise.

Return on Investments

The University seeks to optimize return on investments within the constraints of each investment objective. The portfolio strives to provide a return consistent with each investment category. The cash pool portfolio rate of return will be compared with the returns of broad indices representing the investment and maturity structure of the Pool.

DELEGATION OF AUTHORITY

The Board of Trustees is ultimately responsible for investment policy. By Board Resolution the Board of Trustees is delegating investment authority to the President or Vice President for Financial Affairs or other such persons as may be authorized to act on their behalf.

The Investment Policy is established to provide guidance in the management of the University's Non-Endowment Cash Pool to insure compliance with the laws of the State of Alabama and investment objectives. The Vice President for Financial Affairs or his designee is accorded full discretion, within policy limits, to select individual investments and to diversify the portfolio by applying their own judgments concerning relative investment values.

IMPLEMENTATION OF THE INVESTMENT POLICY

The Vice President for Financial Affairs or his designee is authorized to execute security transactions for the University investment portfolio. Reports of investments shall be presented to the Endowment and Investment Committee of the Board of Trustees.

AUTHORIZED INVESTMENT INSTRUMENTS

Short-Term Operational Funds

Safety of Capital

Preservation of capital is regarded as the highest priority in the handling of investments for the University of South Alabama. All other investment objectives are secondary to the safety of capital.

It is assumed that all investments will be suitable to be held to maturity. However, sale prior to maturity is warranted in some cases. For example, investments may be sold if daily operational funds are needed or if the need to change the maturity structure of the portfolio arises.

All investments will be restricted to fixed income securities with the maturity range to be consistent with the liquidity needs of the pooled fund groups. It is essential that cyclical cash flow be offset by liquid investments. Permissible investment instruments may include:

1. Checking and Money Market deposit accounts in banks. These funds are subject to full collateralization for the amounts above the FDIC $250,000.00 coverage limit, or participation by the Bank in the State of Alabama's Security for Alabama Funds Enforcement Program.

2. Certificates of Deposit issued by banks and fully collateralized for the amounts above the FDIC $250,000.00 coverage limit or participation by the bank in the State of Alabama's Security for Alabama Funds Enforcement Program. Negotiable Certificates of Deposit or

Deposit Notes issued by credit worthy U.S. Banks in amounts not to exceed the FDIC $250,000.00 coverage limit.

3. Direct obligations of the United States or obligations unconditionally guaranteed as to principal and interest by the Unites States.

4. Obligations of a Federal Agency (including mortgage backed securities) or a sponsored instrumentality of the United States including but not limited to the following:

- Federal Home Loan Bank (FHLB)
- Federal Home Loan Mortgage Corporation (FHLMC)
- Federal Farm Credit Banks (FFCB)
- Government National Mortgage Association (GNMA)
- Federal National Mortgage Association (FNMA)
- Student Loan Marketing Association (SLMA)
- Financing Corp (FICO)
- Tennessee Valley Authority (TVA)
- Government Trust Certificates (GTC)

5. Commercial paper of corporate issuers with a minimum quality rating of P-1 by Moody's, A-1 by Standard and Poor's or F-1 rating by Fitch. Corporate bonds will maintain a minimum "A" rating by both Moody's and Standard and Poor's at the time of purchase. No more than ten percent (10%) of the Total Cash and Investments shall be invested in a single corporation for Commercial Paper/Short-term Corporate Bonds and thirty-five percent (35%) per Federal Agency Obligation as described above. There will be no limit on U.S. Treasury Obligations. All such securities must have an active secondary market.

The maturity range of Short-Term Operational Funds Investments shall be consistent with liquidity requirements of the funds category. However, funds established under certain debt instruments may be invested in accordance with the applicable criteria. Typical maturity will range from 1 year and less.

Intermediate-Term Investment of Operational Funds

Investments for those Operational Funds designated by the Campus President as benefiting from investment over a one- to three-year period.

AUTHORIZED INVESTMENT INSTRUMENTS

Permissible investments are consistent with all investments approved under short-term operational funds within a one and three year investment period. It is expected that the maturities of the investments within the intermediate-term funds will match against the cash flow needs of the University and to maximize yields consistent with the liquidity needs of the University.

Long-Term Investment of Operational Funds

Investments for those Operational Funds designated by the Campus President as benefiting from a longer-term investment strategy will use the same investment and management criteria as those applicable under the University's Endowment Investment Policy.

PASS THROUGH OR DESIGNATED FUNDS

This policy shall also cover pass through funds (endowment funds to be forwarded to external endowment fund managers) and any funds managed by the University and designated for specific purposes and not covered by individual investment restrictions (i.e. endowment funds that may not be co-mingled, bond proceeds during construction, USA Health Plan, etc.)

PRUDENCE AND ETHICAL STANDARDS

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing the overall portfolio. Persons performing the investment functions, acting in accordance with these written policies and procedures, and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations and appropriate recommendations to control adverse developments are reported in a timely fashion. The "prudent person" standard is understood to mean:

"Investments shall be made with judgement and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

EFFECTIVE DATE

This policy shall become effective immediately upon its adoption by the Board of Trustees. Further, this policy shall be reviewed at least annually and updated whenever changing market conditions or investment objectives warrant.

Endowment Funds
Investment Policies and Guidelines

The Endowment Committee of the Board of Trustees of the University of South Alabama shall be responsible for recommending investment policies and guidelines for approval by the Board of Trustees, implementation of such policies and guidelines and selection of qualified investment professionals including Investment Consultant(s), Investment Manager(s), and Funds Custodian(s). The Endowment Committee will oversee investment activities, monitor investment performance and ensure the prudent control of the Endowment Funds of the University. The Endowment Committee will make periodic reports to the Board of Trustees.

I. Purpose of the Endowment Funds

The University of South Alabama Endowment Funds exist to provide revenue while preserving principal to fund those projects which have been endowed for specific purposes, i.e., scholarships, professorships, program enhancements, student loans, etc.

II. Purpose of the Investment Policy

This investment policy is set forth by the board of Trustees of the University of South Alabama in order to:

1. Define and assign the responsibilities of all involved parties.

2. Establish a clear understanding of all involved parties of the investment goals and objectives of Endowment Funds assets.

3. Offer guidance and limitations to Investment Manager(s) regarding the investment of Endowment Funds assets.

4. Establish a basis of evaluating investment results.

5. Manage Endowment Funds assets according to prudent standards as established in the laws of the State of Alabama.

6. Establish the relevant investment horizon for which the Endowment Funds assets will be managed.

In general, the purpose of this policy is to outline a philosophy and attitude which will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

III. Delegation of Authority

The Board of Trustees of the University of South Alabama is responsible for directing and monitoring the investment management of the University's Endowment Funds assets. As such, the Board of Trustees is authorized to delegate certain authority to professional experts in various fields. These include, but are not limited to:

1. Investment Management Consultant(s). The consultant may assist the Board of Trustees in: establishing investment policy, objectives, and guidelines; selecting investment managers; reviewing such managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate.

2. Investment Manager(s). The investment manager has discretion to purchase or sell, in the University's name, the specific securities that will be used to meet the Endowment Funds investment objectives.

3. Funds Custodian(s). The custodian will physically (or through securities owned by the Fund) collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets, owned, purchased or sold as well as movement of assets into and out of the Endowment Funds accounts.

With the exception of specific limitations described in these statements, managers will be held responsible and accountable to achieve the objectives herein stated. While it is not believed that the limitations will hamper investment managers, each manager should request modifications which they deem appropriate. All expenses for such experts must be customary and reasonable, and will be borne by the Endowment Funds as deemed appropriate and necessary.

IV. Assignment of Responsibility

A. Responsibility of the Board of Trustees of the University of South Alabama

The Board of Trustees is responsible for the management of the assets of the Endowment Funds. The Board of Trustees shall discharge its duties in good faith like an ordinary prudent person in a like position would exercise under similar circumstances and in a manner the Trustees reasonably believe to be in the best interest of the University. The Board of Trustees will supervise the Endowment Committee and assigns the following authority and responsibilities to the Endowment Committee on behalf of the Board of Trustees.

B. Responsibility of the Endowment Committee

The specific authority and responsibilities of the Endowment Committee relating to the investment management of Endowment Funds assets include:

1. Projecting the Endowment Funds financial needs, and communicating such needs to the Investment Manger(s) on a timely basis.

2. Determining the Endowment Funds risk tolerance and investment horizon, and communicating these to the appropriate parties.

3. Establishing reasonable and consistent investment objectives, policies, time frames and guidelines which will direct the investment of the Endowment Funds assets.

4. Prudently and diligently selecting qualified investment professionals, including Investment Manager(s), Investment Consultant(s), and Custodian(s).

5. Regularly evaluating the performance of the Investment Manager(s) to assure adherence to policy guidelines and monitor investment objectives progress.

6. Developing and enacting proper control procedures: For example, replacing Investment Manager(s) due to fundamental changes in the investment management process, or failure to comply with established guidelines.

7. Making direct investments in cases in which selection of an investment manager is not appropriate.

8. Recommending an endowment spending policy to the Board of Trustees for approval.

9. Reporting periodically to the Board of Trustees Endowment Committee actions and recommendations and investment performance of the Endowment Funds.

C. Responsibility of the Investment Manager(s)

The Endowment Funds will be managed primarily by external investment advisory organizations; both commingled vehicles and separate accounts may be used. The investment manager(s) have discretion, within the guidelines set forth in this policy statement and any additional guidelines provided them, to manage the assets in each portfolio to achieve the investment objectives. Managers will normally manage only one type of investment in each fund. For example, equities and fixed income will not be combined in a balanced fund with one manager.

Each Investment Manager must acknowledge, in writing, their acceptance of responsibility as a fiduciary. Each Investment Manager will have full discretion to make all investment decisions for the assets placed under their jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement. Each Investment Manager will be provided with a copy of this statement of investment objectives and policies. In turn, as part of the investment management contract that will govern their portfolio, the Investment Manager is expected to provide a written statement of the firm's expectations, stated in terms of the objectives and comparative benchmarks that will be used to evaluate performance and the allowable securities that can be used to achieve these objectives. These statements will be consistent with the statement of investment objectives and policies and will be incorporated as appendices. Specific responsibilities of the Investment Manager(s) include:

1. Discretionary investment management including decisions to buy or sell individual securities, and to alter asset allocation with the annual guidelines established by the Endowment Committee.

2. Reporting, on a timely basis, quarterly investment performance results.

3. Providing monthly valuation of the investment portfolio based on the previous month's closing prices.

4. Communicating any major changes in economic outlook, investment strategy, or any other factors which affect implementation of investment process, or the investment objectives progress of the Endowment Funds investment management.

5. Informing the Endowment Committee regarding any qualitative change in the investment management organization. Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.

6. Providing the Endowment Committee with proof of liability and fiduciary insurance coverage.

7. Acknowledging in writing an ability and agreement to invest within the guidelines set forth in the investment policy.

8. Meeting with the Endowment Committee at least annually.

9. Voting proxies on behalf of the Endowment Funds and communicating such voting records on a timely basis. In cases in which the University desires to vote proxies related to specific topics, it will so notify Manager(s).

10. The Board of Trustees may from time to time request that the Investment Manager(s) allocate commissions to those brokerage firms providing other investment management services to the University. Good execution and commission prices are primary considerations in routing business to the said brokerage firms. If at any time any Investment Manager believes that any policy guideline inhibits investment performance, it is their responsibility to communicate this to the Endowment Committee.

V. General Investment Principles

1. Investments shall be made solely in the interest of the purposes of the University of South Alabama.

2. The Endowment Funds shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person in a like position would exercise under similar circumstances in a manner the Board of Trustees reasonably believe to be in the best interest of the University.

3. Investment of the Endowment Funds shall be so diversified as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

4. The Board of Trustees may employ one or more investment managers of varying styles and philosophies to attain the Endowment Funds objectives.

5. Cash is to be employed productively at all times, by investment in short term cash equivalents to provide safety, liquidity, and return.

VI. Investment Objectives

In order to meet its needs, the investment strategy of the University of South Alabama Endowment Funds is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income. The total Endowment Funds shall be monitored for return relative to objectives, consistency of investment philosophy, and investment risk. The Endowment Funds results shall be evaluated on a rolling five-year basis against a market benchmark weighted 55 percent in favor of the MSCI World (US Dollar) Index, 25 percent toward the Barclay's Capital US Aggregate Bond Index and 20 percent Treasury-bill rate plus 3 percent.

VII. Portfolio Composition and Risk

A. To achieve its investment objective, the Endowment Funds assets are considered as divided into three parts a fixed income component, a fixed income alternative component, and an equity component. The Endowment Funds long-term commitment to these funds shall be as follows:

	Range	Long-term neutral
Fixed Income	15-35%	25%
Equity	35-75%	55%
Fixed Income Alternative	10-30%	20%
Cash	0-5%	0%

The purpose of dividing the Endowment Funds in this manner is to ensure that the overall asset allocation among major asset classes remains under the regular scrutiny of the Endowment Committee and is not allowed to become the residual of separate manager decisions. Over the long run, the allocation among the major asset classes may be the single most important determinant of the endowment funds investment performance.

B. The purpose of the fixed income fund is to provide a hedge against deflation, to reduce the overall volatility of returns of the Endowment Funds, in order to produce current income in support of spending needs.

C. The percentage of total Endowment Funds assets allocated to the fixed-income fund at any time should be sufficient to provide that neither the current income nor the capital value or the total Endowment Funds declines by an intolerable amount during an extended period of deflation. The fixed-income fund should normally represent approximately 15-35 percent of total Endowment Funds assets at market value. Although the actual percentage will fluctuate with market conditions, levels outside this range should be closely monitored by the Endowment Committee.

D. The purpose of the equity fund is to provide appreciation of principal that more than offsets inflation and to provide a growing stream of current income. It is recognized that the pursuit of this objective could entail the assumption of greater market variability and risk than investment in fixed-income securities. Equity and equity-substitute investments are broadly defined as common stocks, high-yield bonds, reorganization securities, venture capital, leveraged buyout investments, equity real estate, reorganization securities, exchange traded index funds, etc.

E. The purpose of the fixed income alternative component is to provide the Endowment a source of returns with low correlation to equity markets and volatility of one third to one half that of the U.S. equity market, while still achieving equity-like returns of Treasury Bills plus 2-8% over time. The Fixed Income Alternative should normally represent approximately 10-30 percent of total Endowment Funds.

F. Any assets not committed to the fixed-income fund or fixed income alternative shall be allocated to the equity fund. The equity fund should normally represent approximately 35-75 percent of total Endowment Funds assets at market value. Although the actual percentage of equities will vary with market conditions, levels outside this range should be closely monitored by the Investment Committee.

G. The Endowment includes investments in several categories, and the Endowment Committee targets allocations for the following:

Asset Class	Long-Term Strategic Target (%) of Endowed Funds	Range
DOMESTIC EQUITY	**47%**	**30-60%**
Large/Mid-Cap	40%	25-55%
Small Cap	5%	3-8%
High Yield Debt	2%	0-5%
INTERNATIONAL STOCKS	**10%**	**5-15%**
Developed Markets	6%	3-10%
Emerging Markets	4%	0-6%
TOTAL EQUITY COMPONENT	**57%**	**35-75%**
ALTERNATIVE INVESTMENTS	**20%**	**10-30%**
Absolute Return	15%	12-20%
Long/Short Equity	5%	0-10%
TOTAL ALTERNATIVE COMPONENT	**20%**	**10-30%**
Fixed Income Component	**23%**	**15-35%**
U.S. Core Bonds	16%	12-20%
Global Bonds	4%	0-7%
TIPS	2%	0-5%
Emerging Markets Debt	1%	0-2%
TOTAL FIXED INCOME COMPONENT	**23%**	**15-35%**
CASH AND EQUIVALENTS	**0%**	**0-5%**

H. Within the equity fund, certain investments can be included, with Endowment Committee approval, to provide a hedge against unanticipated, rapidly accelerating inflation. These include cash, real estate and oil and gas investments. While the Endowment Committee recognizes the argument for having a separate allocation to inflation-hedging assets, at this time, these investments are evaluated primarily as equity-substitutes. The Endowment Committee will periodically review the adoption of an inflation-hedging fund allocation separate from the equity allocation.

I. Within the equity fund, in addition to cash reserves held by managers, there is normally an investment in cash or short-term instruments. Although the Endowment Committee has not adopted a cash allocation, new gifts to the endowment and endowment income in excess of budgetary distributions generate cash inflow to the Endowment Fund. The level of cash should be closely monitored by the committee.

J. The Endowment committee may change any of the above ratios; however, it is anticipated that these changes will be infrequent.

K. The Endowment Funds investments shall be diversified both by asset class (e.g., equities and fixed-income securities) and within asset classes (e.g., within equities by economic sector, geographic area, industry, quality, and size). The purpose of diversification is to provide reasonable assurance that no single security or class of securities shall have a disproportionate impact on the endowment funds aggregate results. Equity securities in any single industry will not exceed 20 percent, nor will equity securities in any single company exceed 10 percent of the market value of the endowment's allocation to equities.

VIII. Spending Policy

It shall be the policy of the University of South Alabama Board of Trustees to preserve and maintain the real purchasing power of the principal of the Endowment Funds. The current spending policy of the University will be determined annually by the President and the Endowment Committee and approved by the Board of Trustees. The spending guideline is based on an expected total return over the long-term less expected inflation.

IX. Volatility of Returns

The Board of Trustees understands that in order to achieve its objectives for Endowment Funds assets, the Funds will experience volatility of returns and fluctuations of market value. The Board will tolerate volatility as measured against the risk/return analysis of the appropriate market indices. The indices used as a measure of an investment manger's performance will be used to measure the allowable volatility (risk).

X. Liquidity

To minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the Vice President for Financial Affairs will periodically provide Investment Manager(s) with an estimate of expected net cash flow. The Vice President will notify the Investment Consultant in a timely manner, to allow sufficient time to build up necessary liquid reserves. Because of the infrequency of cash outflows and overall marketability of Endowment Funds assets, the Board of Trustees does not require the maintenance of a dedicated cash or cash equivalent reserve.

XI. Marketability of Assets

The Board of Trustees requires that all Endowment Funds allocated to cash equivalents, fixed income securities or equity securities be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the Endowment Funds, with minimal impact on market price. The Board of Trustees recognizes that opportunities may exist in illiquid assets and will allow Investment Managers overseeing Fixed Income Alternatives to invest in securities that may be less liquid and could present a risk of illiquidity.

XII. Investment Guidelines

A. Allowable Assets

1. Cash Equivalents

   - Treasury Bills
   - Money Market Funds
   - Common Fund Short Term Investment Fund
   - Commercial Paper
   - Banker's Acceptance
   - Repurchase Agreements
   - Certificates of Deposits

2. Fixed Income Securities

   - U.S. Government and Agency Securities
   - Corporate Notes and Bonds
   - Mortgage Backed Bonds
   - Preferred Stock
   - Fixed Income Securities of Foreign Governments and Corporations
   - Collateralized Mortgage Obligations

3. Fixed Income Alternatives

   - Arbitrage (merger, event, convertible, equity and fixed income arbitrage and pairs trading)
   - Event investing (restructurings, spin-offs, etc.)
   - Distressed securities
   - Long Short equities (U.S., global and sector funds)
   - Market neutral equities
   - Short-biased equities
   - Macro investing

4. Equity Securities

   - Common Stocks
   - Convertible Notes and Bonds
   - Convertible Preferred Stocks
   - American Depository Receipts (ADRs) of Non-U.S. Companies
   - Exchange traded index funds

5. Mutual Funds

- Mutual Funds which invest in securities as allowed in this statement.

Other Assets:

Derivative Securities: options and future contracts
In general, the use of derivative securities by the Investment Manager shall be discouraged, unless such an opportunity presents itself that the use of the sophisticated securities would provide substantial opportunity to increase investment returns at an appropriately equivalent level of risk to the remainder of the total portfolio. Also, derivative securities may be used by the Investment Manager in order to hedge certain risks to the portfolio. The approval and use of derivative securities will not be allowed unless the Endowment Committee is confident that the Investment Manager(s) thoroughly understands the risks being taken, has demonstrated expertise in their usage of such securities, and has guidelines in place for the use and monitoring of derivatives.

Real Estate: Investments may also include equity real estate, held in the form of professionally managed, income producing commercial and residential property. Such investments may be made only through professionally managed, income producing commercial and residential property. Such investments may not exceed 10% of the total endowment fund. Such investment may be made only through professionally managed pooled real estate investment funds, as offered by leading real estate managers with proven track records of superior performance over time.

The Endowment will avoid highly leveraged strategies and managers who provide insufficient transparency of their actions for adequate monitoring of the risks they are taking.

B. Guidelines for Fixed Income Investments and Cash Equivalents

1. Investment in fixed income securities shall be restricted to only investment grade bonds rated BAA or higher.

2. Money Market Funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poor's, and/or Moody's.

3. Investment in fixed income securities within the fixed income portfolio shall be restricted to only investment grade bonds rated BAA or higher. Any investment in below investment grade bonds shall be considered an equity or fixed income alternative investment.

C. Guidelines for Fixed Income Alternatives

1. Fixed Income alternative investments will be defined as any strategy using a partnership or offshore investment company structure that may or may not be subject to SEC registration, investing primarily in marketable securities and/or subject to a performance fee. These strategies would generally have absolute, as opposed to relative, return objectives driven more by manager skill and market inefficiency than market direction. Use of leverage, short selling and/or derivatives may or may not be employed as part of the investment approach. The endowment will employ a manager of manager's approach to investing in fixed income alternative investments.

D. Limitations on Manager Allocations

1. No more than 5% of the Endowment Fund assets shall be allocated to an individual Investment Manager.

2. No more than 25% of the Endowment Fund assets shall be allocated to a "Fund of Funds" or multi-manager fund.

XIII. Investment Manager Performance Review and Evaluation

Performance reports generated by the Investment Consultant shall be compiled at least quarterly and communicated to the Board of Trustees for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Board of Trustees intends to evaluate the portfolio(s) over at least a three-year period, but reserves the right to terminate a manager for any reason including the following:

1. Investment performance which is significantly less than anticipated, given the discipline employed and risk parameters established, or unacceptable justification of poor results.

2. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.

3. Significant qualitative changes to the investment management organization.

Investment managers shall be reviewed annually regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

XIV. Investment Policy Review

To assure continued relevance of the guidelines, objectives, financial status and capital markets expectations as established in this statement of investment policy, the Board of Trustees will review investment policy at least annually.

Investment Manager Selection

1. The Endowment Committee will decide on guidelines for the desired investment philosophy, asset mix, and performance objectives of the new manager.

2. The Endowment Committee will employ, if appropriate, Investment Consultant(s) to identify potential managers.

3. Potential managers will be reviewed by the Endowment Committee in some or all of the following areas with the importance of each category determined by the Endowment Committee:

   Organization
   - Experience of firm
   - Assets under management
   - Ownership
   - Number of professionals
   - Fees and minimum account size

   Performance
   - One, three and five-year comparisons
   - Up/down market comparisons
   - Risk/return graphs

   Securities Summary – Equities
   - Yield
   - Profit/earnings
   - Quality
   - Growth
   - Beta

   Securities Summary – Fixed Income
   - Quality
   - Maturity
   - Duration
   - Government/non-government
   - Investment decision-making process
   - Top down/bottom up
   - Quantitative/qualitative/traditional
   - Expected performance characteristics

Securities Summary – Fixed Income Alternative

- Arbitrage (merger, event, convertible, equity and fixed income arbitrage and pairs trading)
- Event investing (restructurings, spin-offs, etc.)
- Distressed securities
- Long Short equities (U.S., global and sector funds)
- Market neutral equities
- Short-biased equities
- Macro investing

Skill Set Analysis

- Market timing
- Sector diversification
- Security selection
- Security consideration

4. Final selection of a new manager resides with the Endowment Committee.

RESOLUTION

DIRECTORS AND OFFICERS OF THE JAGUAR ATHLETIC FUND, INC.

WHEREAS, pursuant to the amended bylaws of the Jaguar Athletic Fund, Inc. ("USAJAF"), the Board of Trustees of the University of South Alabama ("University") shall approve the USAJAF slate of officers and directors, and

WHEREAS, the University and the USAJAF have a history of interaction and cooperation that has served the interests of the University, and

WHEREAS, the Board of Directors of the USAJAF, through its Nominating Committee, is authorized to nominate directors and officers consistent with the aforesaid for consideration and approval by the Board of Trustees of the University, and

WHEREAS, the Nominating Committee of the USAJAF Board of Directors has nominated the following persons for consideration and approval by the Board of Trustees of the University:

Officers (annual) – James H. Shumock, Corporation President; C.L. "Skipper" Walters, Corporation Vice President; Jeffry M. Nichols, Corporation Secretary

Directors (3-year term) – Katherine Alexis Atkins, football; William J. Cox, football; Jeffry M. Nichols, tennis; R. Lee McKinney, II, cross country/track; William Scott McNair, men's golf; Anthony Paul Beard, softball

THEREFORE, BE IT RESOLVED that the Board of Trustees of the University of South Alabama does hereby approve the nominees listed as members of the Board of Directors and officers of the USAJAF.

SOUTH ALABAMA JAGUARS

Department of Athletics

REC'D
Office of the President

NOV 07 2014

University of South Alabama

November 4, 2014

TO: Dr. Tony Waldrop
University President

FROM: Dr. Joel Erdmann
Director of Athletics

SUBJECT: University of South Alabama Board of Trustees Meeting
Jaguar Athletic Fund (JAF) Resolution for Consideration

This is to request the attached Resolution be presented to the USA Board of Trustees for consideration at its next meeting on December 5, 2014.

The intent of the Resolution is for the University of South Alabama Board of Trustees to ratify the newly elected and reelected JAF Board of Directors and reappointment of the Corporation's current Officers.

Approved
TW
11-11-14

JWE/els

Attachment

University of South Alabama • 6001 USA Drive South • Suite 35 • Mobile, Alabama 36688
Office: (251) 460-7121 • Fax: (251) 460-6505

RESOLUTION

COMMENDATION OF THE J.L. BEDSOLE FOUNDATION FOR GIFT

WHEREAS, the University of South Alabama has for fifty-one years vigorously pursued its mission of teaching, research and service to the Gulf Coast region, including preparing students by building knowledge and expertise that will sustain them in leadership roles in society, and

WHEREAS, ensuring that qualified and deserving students can pursue higher education regardless of their financial means is of vital importance to the health, welfare and success of our region, state and nation, and

WHEREAS, a scholarship focused on financially challenged students who display potential for excellence in leadership and scholarship would offer generations of students opportunities for developing the skills and habits necessary to be thoughtful, ethical leaders and citizens free of the burden of financial hardship, and

WHEREAS, the J.L. Bedsole Foundation has pursued this objective with exceptional generosity during the past twenty-two years by providing financial support to more than five hundred scholarship recipients, thereby enabling talented students from the South Alabama region studying at the University of South Alabama and at universities across the state to pursue their dreams of higher education, and

WHEREAS, the J.L. Bedsole Foundation has not only invested in the formal education of these students, but also provided them with structured guidance and mentorship, as well as leadership training, and

WHEREAS, the J.L. Bedsole Foundation has generously committed to providing One Million Dollars to establish an endowed fund to invest in the continued success of students at the University of South Alabama and to expand and deepen the long-standing collaboration between these institutions, and

WHEREAS, this fund established by the J.L. Bedsole Foundation represents a profound advancement of the academic and financial aid programs of the University of South Alabama that will accrue to the benefit of countless citizens for generations to come,

THEREFORE, BE IT RESOLVED, the Board of Trustees of the University of South Alabama expresses its deep gratitude to the J.L. Bedsole Foundation for its visionary and extraordinary generosity in establishing this endowed fund and declares that this scholarship at the University of South Alabama will hereafter be known as the J.L. Bedsole Foundation Scholarship.

University of South Alabama
Office of Development and Alumni Relations
5910 USA South Drive, Mobile Townhouse
Mobile, AL 36688
(251) 460-7616 ~ Fax: (251) 460-7647

REC'D
Office of the President

University of South Alabama

MEMORANDUM

DATE: November 20, 2014

TO: President Tony Waldrop

FROM: Dr. Joseph F. Busta, Jr.
Vice President for Development and Alumni Relations

SUBJECT: Agenda Item: Resolution for the J. L. Bedsole Foundation Scholars Program

Attached please find a resolution for consideration by the Board of Trustees of the University of South Alabama. This resolution is an appreciation of the Foundation's gift commitment of $1 million to the Mitchell Moulton Scholarship campaign. With your approval, I recommend the resolution be presented to and adopted by the Board during the December 5, 2014 meeting.

JFBjr/sd

attachment

c: Vice President David Johnson
Mrs. Monica Curtis
Mr. Joshua Cogswell
Mr. Bob Lowry

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

AUDIT

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

AUDIT COMMITTEE

September 11, 2014
2:48 p.m.

A meeting of the University of South Alabama Board of Trustees Audit Committee was duly convened by Mr. John Peek, Chair, on Thursday, September 11, 2014, at 2:48 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Ron Jenkins, John Peek and Sandy Stimpson.
Members Absent:	Scott Charlton and Bryant Mixon.
Other Trustees:	Chandra Brown Stewart, Tom Corcoran, Steve Furr, Bettye Maye, Arlene Mitchell, Jimmy Shumock, Ken Simon, Steve Stokes, and Mike Windom.
Administration and Others:	Drs. Joe Busta, Lynne Chronister, Joel Erdmann, Julie Estis (Faculty Senate), Ron Franks, Happy Fulford, Stan Hammack, David Johnson, Doug Marshall (Faculty Senate), Mark Peach (KPMG), Steve Simmons, John Smith, Jean Tucker, Danielle Watson (SGA), Kevin West (Faculty Senate) and Kelly Woodford (Faculty Senate).
Press:	Sally Ericson (*Press-Register*/al.com).

The meeting came to order and the attendance roll was called. Mr. Peek, Committee Chair, moved for the approval of the revised agenda. Captain Jenkins seconded and the revised agenda was approved unanimously.

Mr. Peek called upon Mr. Mark Peach, KPMG partner, to discuss the audit process, **ITEM 15**. As Committee members viewed a printed summary, Mr. Peach discussed such elements as the engagement timeline, client service team, approach to risk and access to records. He answered questions about access of the University's information systems and internal security. He said it is important for KPMG and the University to understand the emerging trends and issues relating to information technology. He gave information on GASB 68, a significant release detailing changes in pension accounting and unfunded liability, that will take effect in 2015, and he addressed questions and comments from Trustees. Mr. Peek asked that timely notifications be provided to the Committee.

Mr. Peek called upon Mr. Simmons for delivery of **ITEM 15.A**, a report on the independent audit of the USA Foundation's (USAF) consolidated financial statements and the disproportionate share hospital (DISH) funds combined financial statements for June 2014 and 2013. Mr. Simmons advised that terms of a settlement agreement mandate the routine sharing of this information with the University. He gave a history of the controversial transfer of University assets to the USA Foundation some years prior, which necessitates routine requests by the

University for USAF funding support. He said the Administration is taking a fresh look at the distribution process.

There being no further business, the meeting was adjourned at 3:06 p.m.

Respectfully submitted:

John M. Peek, Chair

KPMG

cutting through complexity

University of South Alabama

Results of the 2014 Audit: Presentation to the Audit Committee

Mobile, Alabama

December 4, 2014

AUDIT

Prepared by

Mark P. Peach, Partner
601.714.7452/mpeach@kpmg.com

188 East Capitol Street
Suite 1100
Jackson, Mississippi 39201

Responsibilities of management and KPMG

Management's responsibilities

- Adopting sound accounting policies
- Establishing and maintaining internal control
- Fairly presenting the financial statements in conformity with generally accepted accounting principles

Management and audit committee responsibilities related to fraud risks

	Management	Audit Committee
Adopt sound accounting policies	√	
Establish appropriate controls to prevent, deter and detect fraud	√	√
Set the proper tone and create and maintain a culture of honesty and high ethical standards	√	√

KPMG's responsibilities

KPMG is responsible for:

- Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of those charged with governance are presented fairly, in all material respects, in conformity with generally accepted accounting principles.
- Conducting an audit in accordance with professional standards and complying with the Code of Professional Conduct adopted by the American Institute of Certified Public Accountants.
- Complying with the ethical standards of state CPA societies, state boards of accountancy, the SEC (or other regulators), and the PCAOB.
- Planning and performing an audit with an attitude of professional skepticism.
- Communicating all required information to management and to the Audit Committee or those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

KPMG’s responsibilities related to fraud

Our responsibility is to conduct the audit in accordance with generally accepted auditing standards and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by fraud or error.

Because of the nature of audit evidence and the characteristics of fraud, we are able to obtain reasonable, but not absolute, assurance that material misstatements are detected.

Overview of 2014 audit – Required communications

- Audit performed according to professional standards
- Objective: Reasonable (not absolute) assurance
  - Financial statements free of material misstatement
  - Not intended to be an audit of internal control
- No passed audit differences
- Relationship with management
  - Received full cooperation
  - No disagreements
  - Full access to all books and records
- Other matters
  - Transparency and quality
  - Critical accounting policies
  - Independence – In our professional judgment, KPMG is independent of the University within the meaning of the Securities and Exchange Commission and the requirements of the Independence Standards Board

Overview of 2014 audit – Other information

- Unqualified opinion on financial statements
- Reviewed internal controls and key processes as necessary to express opinion
  - No material weaknesses related to overall University financial statement audit
  - Review of key processes (including technology)
- Results of A-133 audit – no significant findings were noted during the audit.
- Significant accounting estimates
  - Allowance for doubtful accounts
  - Allowances for contractual adjustments
  - Due from and to third-party payors
  - Self-insurance reserves
  - Valuation of swaption and swap
  - Valuation of alternative investments
- University terminated one of its swaptions in fiscal 2014 and entered into a related swap

Other discussion information

Definitions of a control deficiency, significant deficiency and material Weakness in internal control

- Control deficiency – exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis
  - A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective is not always met
  - A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not process the necessary authority or qualifications to perform the control effectively
- Significant deficiency – a control deficiency, or combination of control deficiencies, that adversely affects the company's ability to initiate, authorize, record, process, or report financial data reliably in accordance with GAAP such that there is more than a remote likelihood that a misstatement of the company's annual or interim financial statements that is more than inconsequential will not be prevented or detected
- Material weakness – a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected

Open dialogue

KPMG

cutting through complexity

KPMG

UNIVERSITY OF SOUTH ALABAMA

(A Component Unit of the State of Alabama)

Basic Financial Statements and Supplementary Information on Federal Awards Programs

September 30, 2014

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
September 30, 2014 and 2013

Table of Contents

	Page
Management's Discussion and Analysis (Unaudited)	1
Independent Auditors' Report	12
Basic Financial Statements:	
Statements of Net Position – University of South Alabama, September 30, 2014 and 2013	14
Consolidated Statements of Financial Position – University of South Alabama Foundation, June 30, 2014 and 2013	15
Statements of Financial Position – University of South Alabama Health Services Foundation, September 30, 2014 and 2013	16
Statements of Net Position – USA Research and Technology Corporation, September 30, 2014 and 2013	17
Statements of Revenues, Expenses, and Changes in Net Position – University of South Alabama, years ended September 30, 2014 and 2013	18
Consolidated Statement of Activities and Changes in Net Assets – University of South Alabama Foundation, year ended June 30, 2014	19
Consolidated Statement of Activities and Changes in Net Assets – University of South Alabama Foundation, year ended June 30, 2013	20
Statements of Operations and Changes in Net Assets (Deficit) – University of South Alabama Health Services Foundation, years ended September 30, 2014 and 2013	21
Statements of Revenues, Expenses, and Changes in Net Position – USA Research and Technology Corporation, years ended September 30, 2014 and 2013	22
Statements of Cash Flows – University of South Alabama, years ended September 30, 2014 and 2013	23
Notes to Basic Financial Statements	25
Schedule of Expenditures of Federal Awards and OMB Circular A-133 Reports:	
Schedule of Expenditures of Federal Awards, year ended September 30, 2014	66
Notes to Schedule of Expenditures of Federal Awards	70
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*	73
Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*	75
Schedule of Findings and Questioned Costs – year ended September 30, 2014	78

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis (Unaudited)
September 30, 2014 and 2013

Introduction

The following discussion presents an overview of the financial position and financial activities of the University of South Alabama (the University), including the University of South Alabama Hospitals (the Hospitals), a division of the University, at September 30, 2014 and 2013 and for the years then ended. This discussion was prepared by University management and should be read in conjunction with the financial statements and notes thereto, which follow.

The basic financial statements of the University consist of the University and its component units. The financial position and results of operations of the component units are either blended with the University's financial position and results of operations or are discretely presented. The treatment of each component unit is governed by pronouncements issued by the Governmental Accounting Standards Board. As more fully described in note 1 to the basic financial statements, the University of South Alabama Professional Liability Trust Fund, University of South Alabama General Liability Trust Fund and USA HealthCare Management, LLC are reported as blended component units. The University of South Alabama Foundation, the University of South Alabama Health Services Foundation, and the USA Research and Technology Corporation are discretely presented.

Financial Highlights

At September 30, 2014, 2013, and 2012, the University had total assets of $1,055,286,000, $1,042,345,000, and $983,800,000, respectively; total liabilities and deferred inflows of $555,736,000, $549,355,000, and $530,289,000, respectively; and net position of $499,550,000, $492,990,000, and $453,511,000, respectively. University net position increased by $6,560,000 during the year ended September 30, 2014 compared to an increase of $39,479,000 for the year ended September 30, 2013 and an increase of $38,389,000 for the year ended September 30, 2012.

An overview of each statement is presented herein along with a financial analysis of the transactions impacting each statement. Where appropriate, comparative financial information is presented to assist in the understanding of this analysis.

Analysis of Financial Position and Results of Operations

Statement of Net Position

The statement of net position presents the assets, liabilities, deferred inflows and net position of the University at September 30, 2014 and 2013. Net position is displayed in three parts: net investment in capital assets, restricted and unrestricted. Restricted net position may either be expendable or nonexpendable and is that net position that is restricted by law or external donor. Unrestricted net position is generally designated for specific purposes, and is available for use by the University to meet current expenses for any purpose. The statement of net position, along with all of the University's basic financial statements, is prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred by the University, regardless of when cash is exchanged.

Assets included in the statement of net position are classified as current or noncurrent. Current assets consist primarily of cash and cash equivalents, investments, and net patient accounts receivable. Of these amounts, cash and cash equivalents, investments, and patient accounts receivable comprise approximately 29%, 50%, and 10%,

respectively, of current assets at September 30, 2014. Noncurrent assets at September 30, 2014 consist primarily of capital assets, restricted cash and cash equivalents, and restricted investments.

The Condensed Schedules of Net Position at September 30, 2014, 2013, and 2012 follow (in thousands):

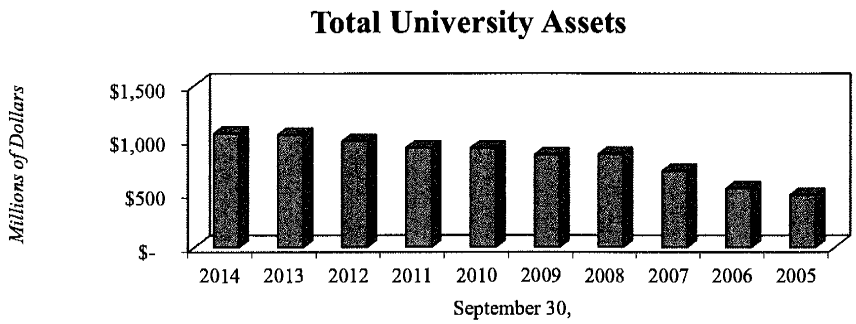
Condensed Schedules of Net Position

		2014	2013	2012
Assets:				
Current	$	303,272	333,828	292,041
Capital assets		578,303	565,830	533,199
Other noncurrent		173,711	142,687	158,560
Total assets	$	1,055,286	1,042,345	983,800
Liabilities:				
Current	$	120,646	115,149	115,088
Noncurrent		434,913	434,206	415,201
Total liabilities		555,559	549,355	530,289
Deferred inflows		177	—	—
Total liabilities and deferred inflows	$	555,736	549,355	530,289
Net position:				
Net investment in capital assets	$	237,851	227,464	227,029
Restricted, nonexpendable		40,191	36,864	33,825
Restricted, expendable		60,873	54,364	48,201
Unrestricted		160,635	174,298	144,456
Total net position	$	499,550	492,990	453,511

University cash, cash equivalents, and investments (current and noncurrent) increased between September 30, 2013 and 2014 by $8,497,000 to $403,965,000. This increase is consistent with the results of operations for the year. This follows an increase of $47,820,000 in cash, cash equivalents, and investments between 2012 and 2013, which was due primarily to the issuance of the 2013-A, 2013-B and 2013-C bonds, net of utilization of cash from prior bond issues for various construction projects.

(Continued)

Total assets of the University as of September 30 are as follows:



Net position represents the residual interest in the University's assets after liabilities are deducted. Net position is classified into one of four categories:

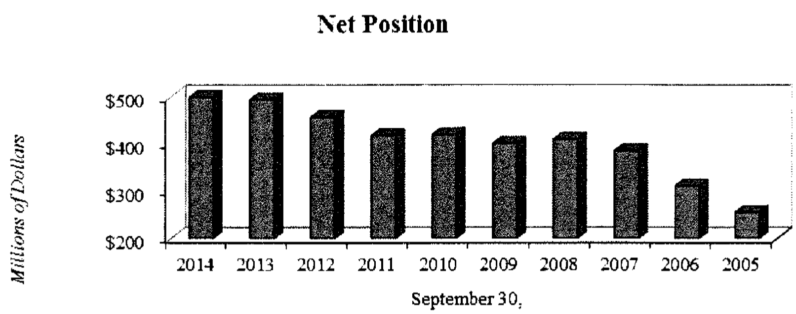
Net investment in capital assets represents the University's capital assets less accumulated depreciation and outstanding principal balances of the debt attributable to the acquisition, construction, or improvement of those assets.

Restricted nonexpendable net position consists primarily of the University's permanent endowment funds. While earnings from these funds may be expended, the corpus may not be expended for any reason and must remain intact with the University in perpetuity.

Restricted expendable net position is subject to externally imposed restrictions governing their use. The funds are restricted primarily for debt service, capital projects, student loans, and scholarship purposes.

Unrestricted net position represents those net assets not subject to externally imposed stipulations. Even though these funds are not legally restricted, the majority of the University's unrestricted net position has been internally designated for various projects, all supporting the mission of the University. Unrestricted net position includes funds for various academic and research programs, auxiliary operations (including the bookstore, student housing and dining services), student programs, capital projects and general operations.

Net position of the University as of September 30 is as follows:



All categories of restricted net position increased by approximately 11% between September 30, 2013 and 2014, primarily due to the addition of restricted gifts to the University. Unrestricted net position decreased from $174,298,000 to $160,635,000 between September 30, 2013 and 2014 due primarily to changes in the fair value of the 2004 and 2006 swaptions.

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total University net position as reported in the statement of net position are based on the activity presented in the statement of revenues, expenses, and changes in net position. The purpose of this statement is to present the change in net position resulting from revenues earned by the University, both operating and nonoperating, and the expenses incurred by the University, both operating and nonoperating, as well as any other revenues, expenses, gains, and losses earned or incurred by the University.

Generally, operating revenues have the characteristics of exchange transactions and are received or accrued for providing goods and services to the various customers and constituencies of the University. These include hospital patient care services, tuition and fees (net of scholarship discounts and allowances), most noncapital grants and contracts and revenues from auxiliary activities and sales and services of educational activities (primarily athletic activities). Operating expenses are those expenses paid or incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University.

Nonoperating revenues have the characteristics of nonexchange transactions and are revenues generally earned for which goods and services are not provided, such as investment income, capital appropriations, gifts and other contributions. State appropriations are required by the Governmental Accounting Standards Board to be classified as nonoperating revenues. Nonoperating expenses are those expenses required in the operation and administration of the University, but not directly incurred to acquire or produce the goods and services provided in return for operating revenues. Such nonoperating expenses include interest on the University's indebtedness and losses related to the disposition of capital assets.

The Condensed Schedules of Revenues, Expenses, and Changes in Net Position for the years ended September 30, 2014, 2013, and 2012 follow (in thousands):

Condensed Schedules of Revenues, Expenses, and Changes in Net Position

		2014	2013	2012
Operating revenues:				
Tuition and fees	$	104,448	95,709	88,299
Net patient service revenue		268,449	258,207	247,802
Federal, state and private grants and contracts		76,719	77,302	76,448
Other		54,010	52,388	56,579
		503,626	483,606	469,128
Operating expenses:				
Salaries and benefits		419,966	401,872	396,170
Supplies and other services		158,615	148,597	134,841
Other		55,397	51,651	51,222
		633,978	602,120	582,233
Operating loss		(130,352)	(118,514)	(113,105)
Nonoperating revenues:				
State appropriations		103,695	102,585	105,639
Investment income		8,206	28,159	14,561
Other, net		14,475	11,986	12,197
Net nonoperating revenues		126,376	142,730	132,397
Income (loss) before capital appropriations, capital contributions and additions to endowment		(3,976)	24,216	19,292
Capital appropriations, capital contributions and additions to endowment		10,536	15,263	19,097
Change in net position		6,560	39,479	38,389
Beginning net position, before cumulative effect of change in accounting principle		492,990	453,511	416,896
Cumulative effect of change in accounting principle		—	—	(1,774)
Beginning net position – as adjusted		492,990	453,511	415,122
Ending net position	$	499,550	492,990	453,511

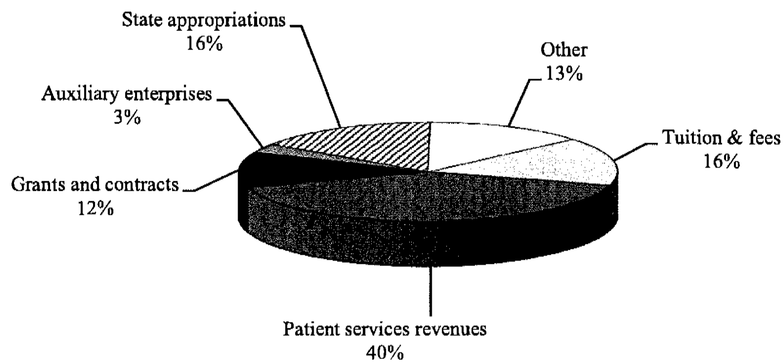
In 2014, 2013, and 2012, approximately 40%, 39%, and 39%, respectively, of total revenues of the University were net patient service revenue. Excluding net patient service revenue, net tuition and fees charged to students represent the largest component of total university revenues, approximately 16% of total revenues in fiscal 2014.

(Continued)

Also in 2014, state appropriations and grants and contracts (federal, state and private) represented approximately 16% and 12% of total revenues, respectively.

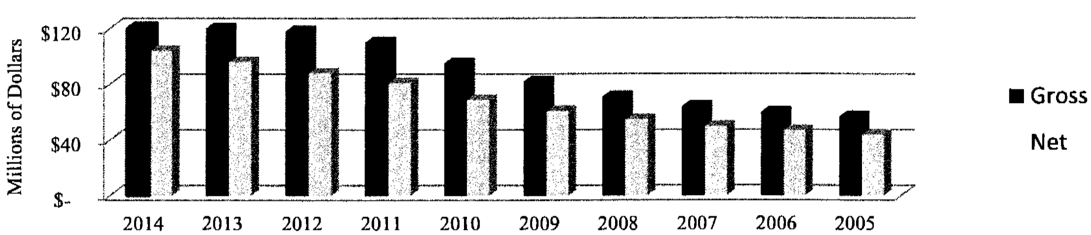
A summary of University revenues for the year ended September 30, 2014 is presented below:

Total Revenues



Tuition and fees have increased in each of the last ten years. These increases are due primarily to increases in tuition and fee rates charged to students as well as to an increase in the number of students enrolled and credit hours taken by those students. Additionally, net tuition and fees as a percent of total operating revenues continue to increase, from 9.5% of operating revenues in 2002 to 20.8% in 2014. Tuition and fees, gross and net of scholarship allowances, for the past ten fiscal years are as follows:

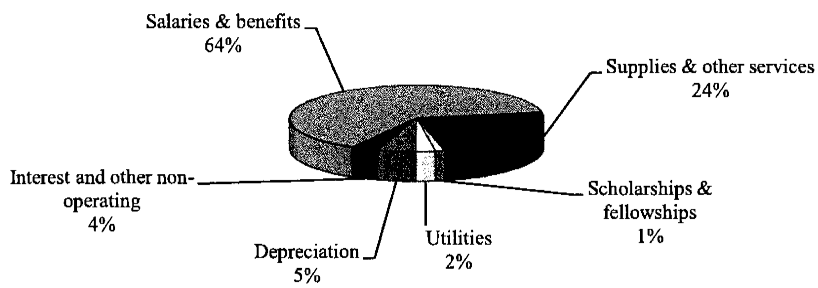
Tuition and Fee Revenue



Capital contributions and grants decreased from $10,871,000 in 2013 to $790,000 in 2014 due to a decrease in grant funds received for construction of Shelby Hall and the ABSL-3 Laboratory Building. The University recognized $3,482,000 in capital appropriations in 2014, compared to $1,236,000 in 2013. The 2014 and 2013 appropriations were utilized in the renovation of the Student Center.

University expenses are presented using their natural expense classifications. A summary of University expenses for the year ended September 30, 2014 is presented below:

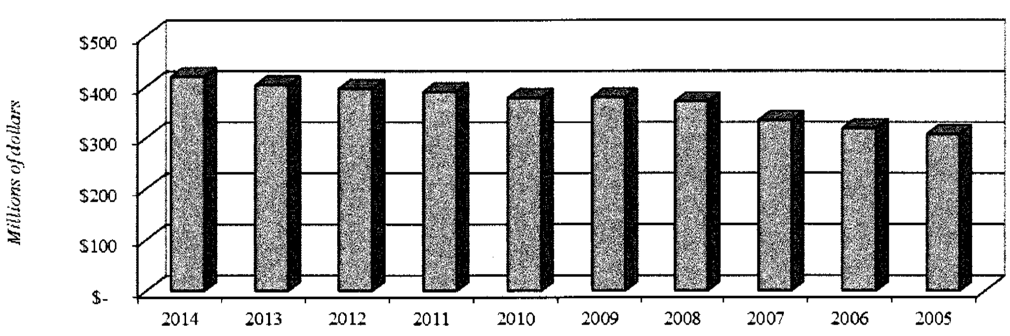
Total Expenses



While the University reports its expenses on a natural expense classification basis, functional classifications represent expenses categorized based on the function within the University. Such University functions include instruction, research, public service, academic support, student services, institutional support, scholarships, and operation and maintenance of plant. Expenses related to auxiliary enterprise activities and the hospitals are presented separately. Functional expense information is presented in note 16 to the basic financial statements.

In 2014, 2013, and 2012, approximately 66%, 67% and 68%, respectively, of the University's total operating expenses were salaries and benefits. After steady increases from 2005 to 2008, salaries and benefits have been relatively constant since 2008, as follows:

Total Salaries and Benefits Expense

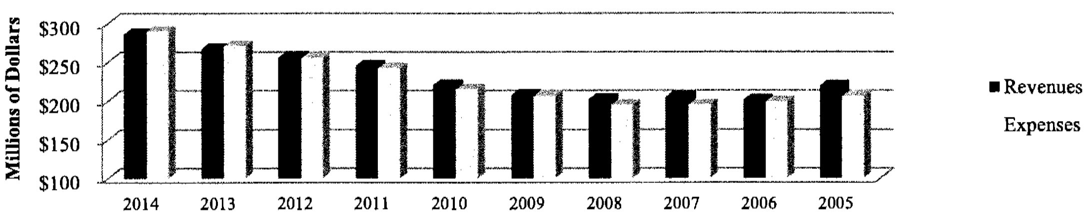


For the years ended September 30, 2014, 2013, and 2012, the University reported operating losses of approximately $130,352,000, $118,514,000, and $113,105,000, respectively. Operating losses are offset partially by state appropriations, which are reported as nonoperating revenue. After adding state appropriations and other nonoperating revenues and expenses, (primarily capital appropriations, capital contributions, and additions to

endowment) the total change in net position was approximately $6,560,000, $39,479,000, and $38,389,000, for the years ended September 30, 2014, 2013, and 2012, respectively.

The Hospitals represent a significant portion of total University revenues and expenses and have remained relatively constant over the past four years. Operating hospital revenues and expenses for the last ten fiscal years are presented below:

Hospital Operating Revenues and Expenses



Statement of Cash Flows

The statement of cash flows presents information related to cash flows of the University. This statement presents cash flows by category: operating activities, noncapital financing activities, capital and related financing activities and investing activities. The net cash provided to, or used by, the University is presented by category.

Capital Assets and Debt Administration

Total capital asset additions for the University were approximately $44,237,000 in 2014. During 2014, New Hall (residence hall) and a major renovation of the Student Center were placed into service. Significant construction projects that remain in progress at September 30, 2014 included a new professional medical office building. The expansion of Children's and Women's Hospital was substantially completed in 2014. Major projects completed and placed into service in fiscal 2012 and 2013 included the Campus Entrance Portals, Stokes Hall and a major renovation of the Bookstore. At September 30, 2014, the University had outstanding commitments of approximately $3,468,000 for various capital projects.

In a prior year, the State of Alabama made allocations from state bond issues to the University in the amount of $21,332,000. During 2014, $3,482,000 was recognized by the University and is reported as a capital appropriation. $112,000 remains unspent at September 30, 2014.

In June 2013, the University issued the University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2013-B and 2013-C, with a total face value of $50,000,000. The net proceeds of these bonds are being used to fund the construction of a new professional medical office building as well as other construction and other capital projects on the main campus of the University.

In March 2014, the University issued the University Facilities Revenue Refunding Bond, Series 2014-A, with a face value of $41,245,000. The proceeds of this bond were used to refund the University's Series 2004 bonds in connection with the termination of the swaption, as discussed below.

In order to realize debt service savings currently from future debt refunding, in January 2008, the University entered into a synthetic advance refunding of the outstanding Series 2004 and 2006 bonds. This transaction was effected through the sale of two swaptions by the University to the counterparty and resulted in an up-front payment to the University totaling $9,328,000 in exchange for selling the counterparty the option to enter into an interest rate swap with respect to the Series 2004 and 2006 bonds. A portion of this payment was considered a borrowing and was included in the long-term debt of the University. The fair value component of the refunding associated with the swaps was considered an investment derivative and, as such, the change in the fair value component was reflected as a component of investment income in 2014, 2013 and 2012.

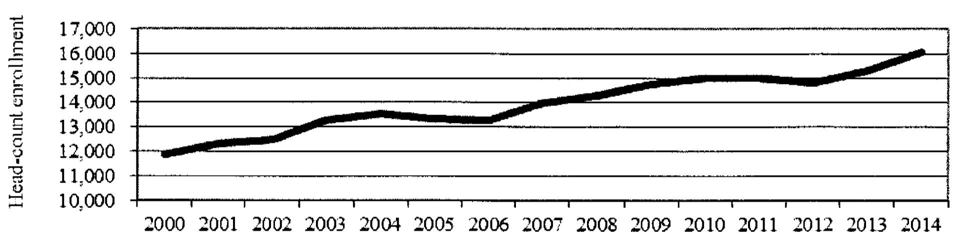
In December 2013, the counterparty exercised its option with respect to the 2004 swaption and forced the University into an underlying swap. The University refunded its Series 2004 bonds, issued the 2014-A variable rate bond and terminated the Series 2004 swaption. As a result of this termination, the borrowing arising from the Series 2004 swaption of $1,696,000 and the investment derivative of $5,213,000 were written off and an investment loss of $2,229,000 was recognized. A borrowing arising from the 2014 swap of $9,138,000 was recognized and is reported in the statement of net position at September 30, 2014.

The University's bond credit rating is A1 as rated by Moody's Investors Services and A+ as rated by Standard and Poor's Rating Services. Neither rate changed during 2014.

Economic Outlook

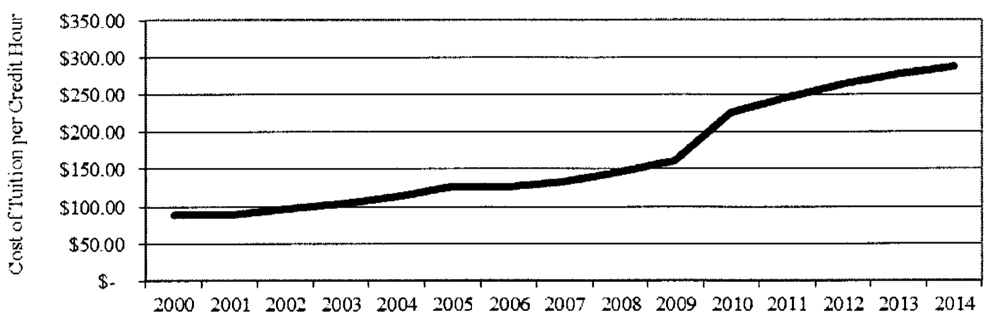
Student enrollment and tuition and fee rates have both increased over the past thirteen years. The University has experienced an increase in enrollment between 2000 and 2014, from 11,870 in 2000 to 16,055 for the 2014 fall semester. The enrollment trend for the University between 2000 and 2014 is as follows:

Enrollment Growth Summary



In that same time period, in-state tuition per credit hour has increased by approximately 222%. The large increase in 2010 is the result of the University's bundling of tuition and required fees into a single per-hour charge. Similar increases have been experienced in out-of-state tuition and College of Medicine tuition. The trend of in-statetuition per credit hour between 2000 and 2014 is as follows:

Tuition per Credit Hour



While enrollment and tuition have both increased in recent years, state appropriations prior to 2006 were relatively flat. However, in the 2008, 2007 and 2006 fiscal years, the University experienced increases of 16%, 19% and 17%, respectively, or approximately $19,349,000, $19,185,000 and $14,581,000, respectively, in its state appropriation. These increases were unusually high. For the 2009 fiscal year, the University's original state appropriation decreased 12.8% or approximately $17,882,000. Additionally, in December 2008 the Governor of Alabama announced proration of 9%, or approximately $10,967,000; and in July 2009, the Governor announced additional proration of 2%, or approximately $2,437,000. Therefore, the total decrease in the 2009 state appropriation was approximately $31,286,000 to $108,451,000, or 22.4% lower than in 2008.

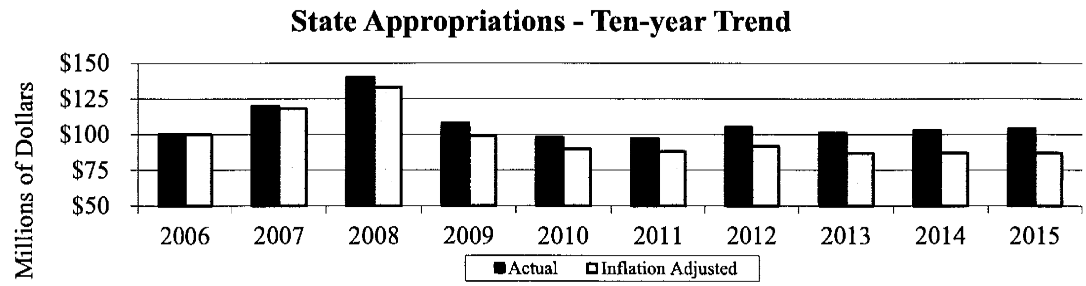
A state appropriation in the amount of approximately $105,639,000 was authorized for the year ended September 30, 2012. In February 2011, the Governor announced proration of 3%, or approximately $2,999,000, that reduced the amount received to $96,948,000.

A state appropriation in the amount of approximately $102,585,000 was authorized and received for the year ended September 30, 2013.

A state appropriation in the amount of approximately $103,695,000 was authorized and received for the year ended September 30, 2014.

A state appropriation in the amount of approximately $103,974,000 has been authorized for the year ending September 30, 2015. This represents a $279,000 increase from the fiscal 2014 appropriation received. While no announcement has been made, the University is aware that reductions in its 2015 appropriation are possible.

The ten-year trend of state appropriations for the University is as follows:



In addition to state appropriations, the University is subject to declines in general economic conditions in the United States and, specifically, the State of Alabama. Further weakening of the economy could have a potential further negative impact on the University's enrollment, extramural funding, endowment performance, and health care operations.

Other than the issues presented above, University administration is not aware of any other currently known facts, decisions, or conditions that are expected to have a significant effect on the University's financial position or results of operations during fiscal year 2015 beyond those unknown variables having a global effect on virtually all types of business operations.

Requests for Information

These basic financial statements are designed to provide a general overview of the University of South Alabama and its component units' financial activities and to demonstrate the University's accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Mr. Stephen H. Simmons; Vice-President for Financial Affairs; University of South Alabama – Room 170; Mobile, Alabama 36688. These basic financial statements can be obtained from our website at http:www.southalabama.edu/financialaffairs/businessoffice/statements.html.

KPMG

KPMG LLP
Suite 1100
One Jackson Place
188 East Capitol Street
Jackson, MS 39201-2127

Independent Auditors' Report

The Board of Trustees
University of South Alabama:

Report on the Financial Statements

We have audited the accompanying financial statements of the University of South Alabama, a component unit of the State of Alabama, (the University) and its aggregate discretely presented component units, as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the 2014 and 2013 consolidated financial statements of the University of South Alabama Foundation, which represents 85%, 99%, and 32%, respectively, of the 2014 assets, net assets, and revenues, gains and other support of the aggregate discretely presented component units and 83%, 100%, and 26%, respectively, of the 2013 assets, net assets, and revenues, gains and other support of the aggregate discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of South Alabama Foundation, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the University of South Alabama Foundation, the University of South Alabama Health Services Foundation, the USA Research and Technology Corporation, and the Professional and General Liability Trust Funds were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its aggregate discretely presented component units as of September 30, 2014 and 2013, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 1-11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

Jackson, Mississippi
November 14, 2014

UNIVERSITY OF SOUTH ALABAMA

(A Component Unit of the State of Alabama)

Statements of Net Position

September 30, 2014 and 2013

(In thousands)

	2014	2013
Current assets:		
Cash and cash equivalents	$ 88,317	137,610
Investments	152,776	130,694
Net patient accounts receivable, (net of allowance for doubtful accounts of $54,106 in 2014 and $51,159 in 2013)	30,344	29,053
Accounts receivable, affiliates	10,432	17,283
Accounts receivable, other	6,619	2,147
Notes receivable, net	4,229	6,545
Prepaid expenses, inventories, and other	10,555	10,496
Total current assets	303,272	333,828
Noncurrent assets:		
Restricted cash and cash equivalents	43,692	86,135
Restricted investments	87,646	40,553
Investments	31,534	476
Accounts receivable	3,573	4,580
Notes receivable, net	4,813	8,529
Other noncurrent assets	2,453	2,414
Capital assets, net	578,303	565,830
Total noncurrent assets	752,014	708,517
Total assets	1,055,286	1,042,345
Current liabilities:		
Accounts payable and accrued liabilities	49,138	51,056
Unrecognized revenue	54,524	48,332
Deposits	2,781	2,608
Current portion of long-term debt	14,203	13,153
Total current liabilities	120,646	115,149
Noncurrent liabilities:		
Long-term debt, less current portion	381,103	387,737
Other long-term liabilities	53,810	46,469
Total noncurrent liabilities	434,913	434,206
Total liabilities	555,559	549,355
Deferred inflows	177	—
Total liabilities and deferred inflows	555,736	549,355
Net position:		
Net investment in capital assets	237,851	227,464
Restricted, nonexpendable:		
Scholarships	18,494	16,118
Other	21,697	20,746
Restricted, expendable:		
Scholarships	14,571	13,346
Other	46,302	41,018
Unrestricted	160,635	174,298
Total net position	$ 499,550	492,990

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION
(Discretely Presented Component Unit)

Consolidated Statements of Financial Position

June 30, 2014 and 2013

(In thousands)

Assets		2014	2013
Cash and cash equivalents	$	670	900
Investments:			
Equity securities		133,236	114,193
Timber and mineral properties		156,320	154,332
Real estate		31,007	31,010
Other		6,054	6,040
Other assets		702	647
Total assets	$	327,989	307,122
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	163	126
Note payable – University of South Alabama		3,954	7,783
Other liabilities		736	677
Total liabilities		4,853	8,586
Net assets:			
Unrestricted		62,701	64,280
Temporarily restricted		90,909	64,862
Permanently restricted		169,526	169,394
Total net assets		323,136	298,536
Total liabilities and net assets	$	327,989	307,122

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA
HEALTH SERVICES FOUNDATION
(Discretely Presented Component Unit)

Statements of Financial Position

September 30, 2014 and 2013

(In thousands)

Assets		**2014**	**2013**
Current assets:			
Cash and cash equivalents	$	13	592
Patient accounts receivable (net of allowance for uncollectible accounts of approximately $3,838 and $4,651)		10,351	12,005
Other current assets		1,242	1,263
Total current assets		11,606	13,860
Interest in assets of University of South Alabama Professional Liability Trust Fund		15,710	14,726
Property and equipment, net		3,419	3,658
Total assets	$	30,735	32,244
Liabilities and Net Assets (Deficit)			
Current liabilities:			
Accounts payable	$	1,862	1,656
Due to affiliates		10,295	17,133
Total current liabilities		12,157	18,789
Estimated professional liability costs		15,710	14,726
Total liabilities		27,867	33,515
Net assets (deficit)		2,868	(1,271)
Total liabilities and net assets (deficit)	$	30,735	32,244

See accompanying notes to basic financial statements.

USA RESEARCH AND TECHNOLOGY CORPORATION

(Discretely Presented Component Unit)

Statements of Net Position

September 30, 2014 and 2013

(In thousands)

		2014	2013
Assets:			
Current assets:			
Unrestricted cash and cash equivalents	$	761	1,447
Rent receivable		263	167
Prepaid expenses and other current assets		6	10
Total current assets		1,030	1,624
Noncurrent assets:			
Intangible assets, net		77	99
Capital assets, net		23,794	24,701
Total noncurrent assets		23,871	24,800
Deferred outflows		3,053	3,225
Total assets and deferred outflows		27,954	29,649
Liabilities:			
Current liabilities:			
Deposits, other current liabilities, and accrued expenses		197	356
Payable to University of South Alabama		44	7
Unrecognized rent revenue		494	431
Current portion of notes payable		1,061	1,002
Total current liabilities		1,796	1,796
Noncurrent liabilities:			
Notes payable, excluding current portion		22,225	23,285
Interest rate swap		3,053	3,225
Total noncurrent liabilities		25,278	26,510
Total liabilities		27,074	28,306
Net position:			
Net investment in capital assets		503	284
Unrestricted		377	1,059
Total net position	$	880	1,343

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended September 30, 2014 and 2013

(In thousands)

		2014	2013
Operating revenues:			
Tuition and fees (net of scholarship allowances of $34,641 in 2014 and $32,457 in 2013)	$	104,448	95,709
Net patient service revenue		268,449	258,207
Federal grants and contracts		19,224	18,010
State grants and contracts		7,930	7,897
Private grants and contracts		49,565	51,395
Auxiliary enterprises (net of scholarship allowances of $1,039 in 2014 and $974 in 2013)		20,016	18,354
Other operating revenues		33,994	34,034
Total operating revenues		503,626	483,606
Operating expenses:			
Salaries and benefits		419,966	401,872
Supplies and other services		158,615	148,597
Scholarships and fellowships		7,839	7,099
Utilities		15,700	14,703
Depreciation and amortization		31,858	29,849
Total operating expenses		633,978	602,120
Operating loss		(130,352)	(118,514)
Nonoperating revenues (expenses):			
State appropriations		103,695	102,585
Investment income		8,206	28,159
Interest expense		(12,929)	(13,093)
Other nonoperating revenues		39,111	34,299
Other nonoperating expenses		(11,707)	(9,220)
Net nonoperating revenues		126,376	142,730
Income (loss) before capital appropriations, capital contributions and grants, and additions to endowment		(3,976)	24,216
Capital appropriations		3,482	1,236
Capital contributions and grants		790	10,871
Additions to endowment		6,264	3,156
Change in net position		6,560	39,479
Net position:			
Beginning of year		492,990	453,511
End of year	$	499,550	492,990

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION
(Discretely Presented Component Unit)

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2014

(In thousands)

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:					
Net realized and unrealized gains on investments	$	5,620	25,356	—	30,976
Rents, royalties and timber sales		3,727	193	17	3,937
Interest and dividends		194	1,879	6	2,079
Gifts		—	2	55	57
Other income		9	—	—	9
Required match of donor contributions		(54)	—	54	—
Interfund interest		(165)	165	—	—
Net assets released from program restrictions		1,548	(1,548)	—	—
Total revenues, gains, and other support		10,879	26,047	132	37,058
Expenditures:					
Program services:					
Faculty support		2,332	—	—	2,332
Scholarships		1,066	—	—	1,066
Other		1,117	—	—	1,117
Total program service expenditures		4,515	—	—	4,515
Management and general		1,771	—	—	1,771
Other investment expense		2,011	—	—	2,011
Depletion expense		3,882	—	—	3,882
Depreciation expense		108	—	—	108
Interest expense		171	—	—	171
Total expenditures		12,458	—	—	12,458
Increase (decrease) in net assets		(1,579)	26,047	132	24,600
Net assets – beginning of year		64,280	64,862	169,394	298,536
Net assets – end of year	$	62,701	90,909	169,526	323,136

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION
(Discretely Presented Component Unit)

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2013

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:				
Net realized and unrealized gains on investments	$ 9,182	11,758	—	20,940
Rents, royalties and timber sales	3,501	—	16	3,517
Interest and dividends	485	1,474	6	1,965
Gifts	—	1	15	16
Other income	70	—	—	70
Required match of donor contributions	(111)	—	111	—
Interfund interest	(118)	118	—	—
Net assets released from program restrictions	1,376	(1,376)	—	—
Total revenues, gains, and other support	14,385	11,975	148	26,508
Expenditures:				
Program services:				
Faculty support	2,379	—	—	2,379
Scholarships	982	—	—	982
Other	1,088	—	—	1,088
Total program service expenditures	4,449	—	—	4,449
Management and general	1,724	—	—	1,724
Other investment expense	1,796	—	—	1,796
Depletion expense	3,391	—	—	3,391
Depreciation expense	83	—	—	83
Interest expense	290	—	—	290
Total expenditures	11,733	—	—	11,733
Increase in net assets	2,652	11,975	148	14,775
Net assets – beginning of year	61,628	52,887	169,246	283,761
Net assets – end of year	$ 64,280	64,862	169,394	298,536

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA
HEALTH SERVICES FOUNDATION
(Discretely Presented Component Unit)

Statements of Operations and Changes in Net Assets (Deficit)

Years ended September 30, 2014 and 2013

(In thousands)

		2014	2013
Unrestricted revenues, gains and other support:			
Net patient service revenue	$	75,680	63,298
Provision for uncollectible accounts		(13,871)	(12,057)
Net patient service revenue less provision for uncollectible accounts		61,809	51,241
Other revenue		10,563	8,701
Total unrestricted revenues, gains, and other support		72,372	59,942
Expenses:			
Salaries and benefits		43,431	48,433
General and administrative		16,535	5,864
Depreciation and amortization		1,602	1,465
Total expenses		61,568	55,762
Operating income		10,804	4,180
Nonoperating gains		1,835	3,491
Revenues over expenses		12,639	7,671
Transfer of capital to University of South Alabama, College of Medicine		(8,500)	(5,100)
Change in net assets (deficit)		4,139	2,571
Net deficit at beginning of year		(1,271)	(3,842)
Net assets (deficit) at end of year	$	2,868	(1,271)

See accompanying notes to basic financial statements.

USA RESEARCH AND TECHNOLOGY CORPORATION
(Discretely Presented Component Unit)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended September 30, 2014 and 2013

(In thousands)

		2014	2013
Operating revenues	$	3,506	4,011
Total operating revenues		3,506	4,011
Operating expenses:			
Building management and operating expenses		1,240	1,427
Depreciation and amortization		1,017	981
Legal and administrative fees		231	222
Insurance		137	150
Total operating expenses		2,625	2,780
Operating income		881	1,231
Nonoperating revenues (expenses):			
Investment income		4	8
Interest expense		(1,351)	(1,409)
Donation revenue		—	2
Other		3	5
Net nonoperating expenses		(1,344)	(1,394)
Change in net position		(463)	(163)
Net position:			
Beginning of year		1,343	1,506
End of year	$	880	1,343

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)

Statements of Cash Flows

Years ended September 30, 2014 and 2013

(In thousands)

		2014	2013
Cash flows from operating activities:			
Receipts related to tuition and fees	$	107,558	99,546
Receipts from and on behalf of patients and third-party payers		267,277	255,918
Receipts from grants and contracts		84,283	86,927
Receipts related to auxiliary enterprises		20,061	18,507
Payments to suppliers and vendors		(172,409)	(149,010)
Payments to employees and related benefits		(420,000)	(396,311)
Payments for scholarships and fellowships		(7,839)	(7,099)
Other operating receipts		30,172	33,007
Net cash used in operating activities		(90,897)	(58,515)
Cash flows from noncapital financing activities:			
State appropriations		103,695	102,585
Endowment gifts		6,264	3,156
Agency funds received		1,424	1,040
Agency funds disbursed		(1,302)	(904)
Student loan program receipts		135,038	126,410
Student loan program disbursements		(135,041)	(126,936)
Other nonoperating revenues		36,883	34,729
Other nonoperating expenses		(11,476)	(9,206)
Net cash provided by noncapital financing activities		135,485	130,874
Cash flows from capital and related financing activities:			
Capital contributions and grants		917	13,464
Purchases of capital assets		(35,090)	(72,680)
Proceeds from sale of capital assets		3,698	6,030
Proceeds from issuance of capital debt		41,245	50,000
Principal payments on capital debt		(54,119)	(10,552)
Interest payments on capital debt		(15,674)	(14,324)
Net cash used in capital and related financing activities		(59,023)	(28,062)
Cash flows from investing activities:			
Interest and dividends on investments		5,959	5,030
Purchases of investments		(108,663)	(90,855)
Proceeds from sales of investments		25,403	49,672
Net cash used in investing activities		(77,301)	(36,153)
Net increase (decrease) in cash and cash equivalents		(91,736)	8,144
Cash and cash equivalents (unrestricted and restricted):			
Beginning of year		223,745	215,601
End of year	$	132,009	223,745

(Continued)

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)

Statements of Cash Flows

Years ended September 30, 2014 and 2013

(In thousands)

		2014	2013
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(130,352)	(118,514)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation and amortization expense		31,858	29,849
Changes in assets and liabilities, net:			
Student receivables		(854)	1,350
Net patient accounts receivables		(1,291)	(2,215)
Grants and contracts receivables		6,703	7,706
Other receivables		(2,914)	9,513
Prepaid expenses, inventories, and other		1,936	5,302
Accounts payable and accrued liabilities		(2,087)	9,630
Unrecognized revenue		6,104	(1,136)
Net cash used in operating activities	$	(90,897)	(58,515)
Noncash investing, noncapital financing, and capital and related financing transactions:			
Net increase in fair value of investments recognized as a component of investment income	$	10,180	24,692
Additional maturity on capital appreciation on bonds payable and other borrowings recorded as interest expense		1,854	1,981
Payments on behalf of the University by the Alabama Public School and College Authority reducing purchases of capital assets		2,489	124
Increase in receivables from Alabama Public School and College Authority reducing purchases of capital assets		993	—
Gifts of capital and other assets		231	42
Pledges of operating and capital gifts		88	1,961
Capitalization of construction period interest		3,825	2,934
Decrease in accounts payable related to capital assets		(43)	(3,856)

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The accompanying basic financial statements present the financial position and activities of the University of South Alabama (the University), which is a component unit of the State of Alabama. The financial statements of the University are intended to present the financial position, changes in financial position and, where applicable, cash flows of only that portion of the basic financial statements and the aggregate discretely presented component units of the State of Alabama that is attributable to the transactions of the University.

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, consists of the primary government and all of its component units. Component units are legally separate organizations for which the primary government is financially accountable. In addition, the primary government may determine, through exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, that organization is included as a component unit. Accordingly, the basic financial statements include the accounts of the University, as the primary government, and the accounts of the entities discussed below as component units.

During 2013, the University adopted GASB Statement No. 61, *The Financial Reports Entity: Omnibus*, which amends GASB Statements No. 14 and No. 39, and provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with the primary government. Such criteria include the appointment of a voting majority of the board of the organization, the ability to impose the will of the primary government on the organization and the financial benefits/burden between the primary government and the potential component unit. The statement also clarifies reporting and disclosure requirements for those organizations. Based on these criteria as of September 30, 2014 and 2013, the University reports the University of South Alabama Foundation (USA Foundation), the University of South Alabama Health Services Foundation (USAHSF), and the USA Research and Technology Corporation (the Corporation) as discretely presented component units.

The University is also affiliated with the South Alabama Medical Science Foundation (SAMSF). This entity is not considered a component unit of the University under the provisions of GASB Statements No. 14, 39 and 61 because the University does not consider SAMSF significant enough to warrant inclusion in the University's reporting entity (see note 14 for further discussion of this entity).

GASB Statement No. 61 requires the University, as the primary government, to include in its basic financial statements, as a blended component unit, organizations that, even though they are legally separate entities, meet certain requirements as defined by GASB Statement No. 61. Based on these criteria, the University reports the Professional Liability Trust Fund, the General Liability Trust Fund

and the USA HealthCare Management, LLC as blended component units. All significant transactions among the University and its blended component units have been eliminated.

(b) USA HealthCare Management, LLC

In June 2010, the University's Board of Trustees approved the formation of the USA HealthCare Management, LLC (the LLC). The LLC was organized for the purpose of managing and operating on behalf of, and as agent for, substantially all of the health care clinical enterprise of the University. The University is the sole member of the LLC. The LLC commenced operations in October 2010 and is reported as a blended component unit (see note 17 for further discussion of, and disclosure for, this entity).

(c) Professional Liability and General Liability Trust Funds

The medical malpractice liability of the University is maintained and managed in its separate Professional Liability Trust Fund (the PLTF) in which the University, USAHSF, LLC and SAMSF are the only participants. In accordance with the bylaws of the trust fund, the president of the University is responsible for appointing members of the trust fund policy committee. Additionally, the general liability of the University, USAHSF, LLC, SAMSF and the Corporation is maintained and managed in its General Liability Trust Fund (the GLTF) for which the University, as defined by GASB Statement No. 14, is responsible. The PLTF and GLTF are separate legal entities which are governed by the University Board of Trustees through the University president. As such, PLTF and GLTF are reported as blended component units (see note 17 for further discussion of, and disclosure for, these entities).

(d) University of South Alabama Foundation

The USA Foundation is a not-for-profit foundation that was organized for the purpose of promoting education, scientific research, and charitable purposes, and to assist in developing and advancing the University in furthering, improving, and expanding its properties, services, facilities, and activities. Because of the significance of the relationship between the University and the USA Foundation, the USA Foundation is considered a component unit of the University. The Board of Directors of the USA Foundation is not appointed or controlled by the University. The University receives distributions from the USA Foundation primarily for scholarship, faculty and other support. Total distributions received or accrued by the University for the years ended September 30, 2014 and 2013 were $4,451,000 and $4,392,000, respectively, and are primarily included in other nonoperating revenues and capital contributions and grants in the University's statements of revenues, expenses, and changes in net position. The USA Foundation presents its financial statements in accordance with standards issued by the Financial Accounting Standards Board (FASB). The USA Foundation is reported in separate financial statements because of the difference in the financial reporting format since the USA Foundation follows FASB rather than GASB pronouncements. The USA Foundation has a June 30 fiscal year end which differs from the University's September 30 fiscal year end. In accordance with GASB Statement No. 14, this discretely presented unit has been included with the most recent fiscal year. The accompanying consolidated statements of financial position and statements of activities and changes in net assets for the USA Foundation as of and for the years ended June 30, 2014 and 2013 are discretely presented.

(e) ***University of South Alabama Health Services Foundation***

The USAHSF is a not-for-profit corporation that exists to provide a group medical practice for physicians who are faculty members of the University and to further medical education and research at the University. Because of the significance of the relationship between the University and USAHSF, USAHSF is considered a component unit of the University. The USAHSF reimburses the University for salaries, certain administrative expenses, dean's clinical assessment and other support services. Total amounts received and accrued for such expenses were approximately $42,352,000 and $44,786,000 for the years ended September 30, 2014 and 2013, respectively, and are reflected as private grants and contracts in the accompanying statements of revenues, expenses, and changes in net position of the University. During 2014, the University reallocated a portion of faculty salaries funded by USAHSF and the University to better align funding and effort. This reallocation, a change in accounting estimate, resulted in a reduction of the payments from USAHSF to the University during the 2014 fiscal year. The USAHSF presents its financial statements in accordance with standards issued by the FASB. The accompanying statements of financial position and statements of operations and changes in net assets (deficit) for the USAHSF for the years ended September 30, 2014 and 2013 are discretely presented.

(f) ***USA Research and Technology Corporation***

The Corporation is a not-for-profit corporation that exists for the purpose of furthering the educational and scientific mission of the University by developing, attracting, and retaining technology and research industries in Alabama that will provide professional and career opportunities to the University's students and faculty. Because of the significance of the relationship between the University and the Corporation, the Corporation is considered a component unit of the University. The Corporation presents its financial statements in accordance with GASB. The accompanying statements of net position and statements of revenues, expenses and changes in net position for the Corporation are discretely presented.

(g) ***Measurement Focus and Basis of Accounting***

For financial reporting purposes, the University is considered a special purpose governmental agency engaged only in business type activities, as defined by GASB Statement No. 34. Accordingly, the University's basic 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.

The University prepares its basic financial statements in accordance with U.S. generally accepted accounting principles, as prescribed by GASB, including all applicable effective statements of the GASB and all statements of the FASB issued through November 30, 1989 that do not conflict with GASB pronouncements.

(h) ***Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires that management make estimates and assumptions affecting the reported amounts

(Continued)

of assets and liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs could change by a material amount in the near term.

(i) Cash and Cash Equivalents

Cash and cash equivalents are defined as petty cash, demand accounts, certificates of deposit, and any short-term investments that take on the character of cash. These investments have maturities of less than three months and include repurchase agreements and money market accounts.

(j) Investments and Investment Income

Investments are recorded at fair value. The fair value of alternative investments (low-volatility multi-strategy funds, private placement fund-of-funds, relative value arbitrage funds, and other) do not have readily ascertainable market values and the University values these investments in accordance with valuations provided by the general partners or fund managers of the underlying partnerships or companies. Because these investments are not marketable, the estimated fair value is subject to uncertainty and, therefore, may differ from the fair value that would have been used had a ready market for the investment existed. Investments received by gift are recorded at fair value at the date of receipt. Changes in the fair value of investments are reported in investment income (loss).

(k) Derivatives

The University has adopted the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 establishes a framework for accounting and financial reporting related to derivative instruments, requiring the fair value of derivatives to be recognized in the basic financial statements.

The University entered into two interest rate swaptions in January 2008, the Series 2004 swaption and the Series 2006 swaption. As a result of entering into the swaptions, the University received up-front payments. Swaptions are considered hybrid instruments which are required to be bifurcated into the fair value of the derivative and a piece that reflects a borrowing for financial statement purposes, which will accrete interest over time. As more fully described in notes 5 and 9, in December 2013, the counterparty, Wells Fargo Bank, N. A. (Wells Fargo), exercised its option related to the Series 2004 swaption, and as a result, the University entered into an interest rate swap. As a result of the exercise of the option, the Series 2004 swaption was terminated. The Series 2006 swaption remains outstanding at September 30, 2014.

The University determined that as of September 30, 2014, the remaining swaption was not a hedging derivative instrument; and that as of September 30, 2013, both then existing swaptions were not hedging derivative instruments. As a result of that determination, the swaptions are required to be reported as investment derivatives with the change in fair value flowing through the statements of revenues, expenses and changes in net position.

The fair values of the outstanding swaptions were $(14,191,000) and $(13,333,000) at September 30, 2014 and 2013, respectively. At September 30, 2014 and 2013, the fair values of the swaptions were included in other long-term liabilities in the accompanying statements of net position. The change in fair value for the years ended September 30, 2014 and 2013 was $(6,071,000) and $10,276,000, respectively, and was included in investment income in the accompanying statements of revenues, expenses, and changes in net position for the years ended September 30, 2014 and 2013. See note 5 for further discussion.

In March 2014, the University entered into an interest rate swap arrangement with a counterparty. The resulting derivative is a "receive-variable, pay-fixed" interest rate swap. The University pays the counterparty a fixed semi-annual payment based on an annual rate of 4.9753% and receives on a monthly basis a variable payment of 68% of the one-month London Interbank Offered Rate plus 0.25%. The notional amount of the swap will at all times match the outstanding principal amount of the Series 2014-A bond. The change in fair value of the swap ($177,000 at September 30, 2014) is reported as a deferred inflow on the 2014 statement of net position since the interest rate swap is a hedging derivative. See note 9 for further discussion.

(l) Accounts Receivable

Accounts receivable primarily result from net patient service revenue. Accounts receivable from affiliates primarily represent amounts due from USAHSF for salaries, and certain administrative and other support services. Accounts receivable – other includes amounts due from students, the federal government, state and local governments, or private sources in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

(m) Inventories

The University's inventories primarily consist of bookstore inventories and medical supplies and pharmaceuticals. Bookstore inventories are valued at the lower of cost (moving average basis) or market. Medical supplies and pharmaceuticals are stated at the lower of cost (first-in, first-out method) or market.

(n) Capital Assets

Capital assets are recorded at cost, if purchased or at fair value at date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset using the straight-line method. Major renewals and renovations are capitalized. Costs for repairs and maintenance are expensed when incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the gain or loss, if any, is included in nonoperating revenues (expenses) in the statements of revenues, expenses, and changes in net position.

All capital assets other than land are depreciated using the following asset lives:

Buildings, infrastructure and certain building components	40 to 100 years
Fixed equipment	10 to 20 years
Land improvements	8 to 20 years
Library materials	10 years
Other equipment	4 to 15 years

Certain buildings are componentized for depreciation purposes.

Interest costs for certain assets constructed are capitalized as a component of the cost of acquiring those assets.

The University evaluates impairment in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. For the years ended September 30, 2014 and 2013, no impairments were recorded.

(o) Unrecognized Revenue

Student tuition, fees, and dormitory rentals are initially recorded as unrecognized revenue and then recognized over the applicable portion of each school term.

(p) Classification of Net Position

The University's net position is classified as follows:

Net investment in capital assets reflects the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such debt is excluded from the calculation of *net investment in capital assets*.

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

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

Unrestricted net position represents resources derived from student tuition and fees, state appropriations, net patient service revenue, sales and services of educational activities and auxiliary enterprises. Auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff. While unrestricted net position may be designated for specific purposes by action of management or the Board of Trustees, they are available for use at the discretion of the

governing board to meet current expenses for any purpose. Substantially all unrestricted net position is designated for academic and research programs and initiatives, and capital programs.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University addresses each situation on a case-by-case basis prior to determining the resources to be used to satisfy the obligation.

(q) Scholarship Allowances and Student Financial Aid

Student tuition and fees, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants and other federal, state, or nongovernmental programs are recorded as either operating or nonoperating revenues in the University's basic financial statements based on their classification as either an exchange or nonexchange transaction. To the extent that revenues from such programs are used to satisfy tuition and fees and certain other student charges, the University has recorded a scholarship discount and allowance.

(r) Donor Restricted Endowments

The University is subject to the "Uniform Prudent Management of Institutional Funds Act (UPMIFA)" of the Code of Alabama. This law allows the University, unless otherwise restricted by the donor, to spend net appreciation, realized and unrealized, on the endowment. The law also allows the University to appropriate for expenditure or accumulate to an endowment fund such amounts as the University determines to be prudent for the purposes for which the endowment fund was established. The University's endowment spending policy provides that 5% of the three-year invested net asset moving average value (inclusive of net realized and unrealized gains and losses), as measured at September 30, is available annually for spending. The University's policy is to retain the endowment net interest and dividend income and net realized and unrealized appreciation with the endowment after distributions allowed by the spending policy have been made. These amounts, unless otherwise directed by the donor, are included in restricted, expendable net position.

(s) Classification of Revenues

The University has classified its revenues as either operating or nonoperating revenues.

Operating revenues include activities that have the characteristics of exchange transactions such as student tuition and fees, net of scholarship discounts and allowances; sales and services of auxiliary enterprises, net of scholarship allowances; most federal, state, and local grants and contracts; and, net patient service revenue.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources such as state appropriations and investment income.

(t) Gifts and Pledges

Pledges of financial support from organizations and individuals representing an unconditional promise to give are recognized in the basic financial statements once all eligibility requirements, including time requirements, have been met. In the absence of such a promise, revenue is recognized when the gift is received. Endowment pledges generally do not meet eligibility requirements, as defined by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and are not recorded as assets until the related gift has been received. Unconditional promises that are expected to be collected in future years are recorded at the present value of the estimated future cash flows.

(u) Grants and Contracts

The University has been awarded grants and contracts for which funds have not been received or expenditures made for the purpose specified in the award. These awards have not been reflected in the basic financial statements, but represent commitments of sponsors to provide funds for specific research or training projects. For grants that have allowable cost provisions, the revenue will be recognized as the related expenditures are made. For grants with work completion requirements, the revenue is recognized as the work is completed. For grants without either of the above requirements, the revenue is recognized as it is received.

(v) Net Patient Service Revenue and Electronic Health Records Incentive Program

Net patient service revenue is reported at estimated net realizable amounts due from patients, third-party payers and others for healthcare services rendered, including estimated retroactive revenue adjustments due to future audits, reviews and investigations. 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.

The Centers for Medicare and Medicaid Services (CMS) has implemented provisions of the American Recovery and Reinvestment Act of 2009 that provide incentive payments for the meaningful use of certified electronic health record (EHR) technology. CMS has defined meaningful use as meeting certain objectives and clinical quality measures based on current and updated technology capabilities over predetermined reporting periods as established by CMS. The Medicare EHR incentive program provides annual incentive payments to eligible professionals, and hospitals, that are meaningful users of certified EHR technology. The Medicaid EHR incentive program provides annual incentive payments to eligible professionals and hospitals for efforts to adopt, implement, and meaningfully use certified EHR technology. The Hospitals utilize a grant accounting model to recognize EHR incentive revenues. The Hospitals record EHR incentive revenue ratably throughout the incentive reporting period when it is reasonably assured that it will meet the meaningful use objectives for the required reporting period and that the grants will be received. The EHR reporting period for hospitals is based on the federal fiscal year, which runs from October 1 through September 30.

USA Medical Center and USA Children's and Women's Hospital did not meet any meaningful use objectives for Medicare during 2014, and therefore have not recognized any revenue for this fiscal year. Both Hospitals expect to meet meaningful use objectives for Medicare during the year ending September 30, 2015. The Hospitals recognized Medicare EHR incentive revenues of $725,000 for the year ended September 30, 2013. The Hospitals next receipt of Medicaid EHR revenues is expected to occur during the federal fiscal year ended September 30, 2015. EHR incentive revenues are included in other operating revenues in the accompanying statements of revenues, expenses and changes in net position.

(w) Recently Adopted Accounting Pronouncements

In 2013, the University adopted the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. GASB Statement No. 61 amends GASB Statements No. 14 and 39 and modifies certain requirements for inclusion of component units in the financial reporting entity. GASB Statement No. 61 requires that for organizations that previously were included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Statement No. 61 also establishes criteria to require inclusion based on other additional factors, such as organization board appointment, financial benefit or burden and operational management of the organization. The adoption of this statement had no financial reporting entity impact on the University's component units; however, it did require additional disclosures for blended component units.

In 2013, the University also adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, during the year ended September 30, 2013. Retroactive application of the standards was required for all prior periods presented.

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. GASB Statement No. 65 establishes accounting and reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The University had historically deferred certain debt financing costs related to its bond issues and was amortizing those costs over the term of the related bond issue. GASB Statement 65 requires that debt issuance costs, except any portion related to prepaid insurance costs, be recognized as an expense in the period incurred. The adoption of the provisions of GASB Statement No. 65 decreased beginning net position at October 1, 2011 by $1,774,000.

(x) Compensated Absences

The University accrues annual leave for employees as incurred at rates based upon length of service and job classification.

(y) Reclassifications

Certain amounts in the 2013 basic financial statements have been reclassified in order to conform to 2014 classification.

(2) Income Taxes

The University is classified as both a governmental entity under the laws of the State of Alabama and as a tax-exempt entity under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). Consistent with these designations, no provision for income taxes has been made in the accompanying basic financial statements.

In addition, the University's discretely presented component units are tax-exempt entities under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3). Consistent with that designation, no provision for income taxes has been made in the accompanying discretely presented financial statements.

(3) Cash

Pursuant to the Security for Alabama Funds Enhancement Act, funds on deposit may be placed in an institution designated as a qualified public depository (QPD) by the State of Alabama. QPD institutions pledge securities to a statewide collateral pool administered by the State Treasurer's office. Such financial institutions contribute to this collateral pool in amounts proportionate to the total amount of public fund deposits at their respective institutions. The securities are held at the Federal Reserve Bank and are designated for the State of Alabama. Additional collateral was not required for University funds on deposit with QPD institutions. At September 30, 2014, the net public deposits subject to collateral requirements for all institutions participating in the pool totaled approximately $9,342,196,000. The University had cash and cash equivalents totaling $132,009,000 and $223,745,000 at September 30, 2014 and 2013, respectively.

At September 30, 2014, restricted cash and cash equivalents consist of $3,760,000 related to cash included in the PLTF and GLTF to pay insurance liability claims, and $39,932,000 of unspent proceeds from the issuance of University bonds for capital purchases as outlined in the bond indenture. At September 30, 2013, restricted cash and cash equivalents consist of $28,547,000 related to swaption collateral obligations, $2,621,000 related to cash included in the PLTF and GLTF to pay insurance liability claims and $54,967,000 of unspent proceeds from the issuance of University bonds for capital purchases as outlined in the bond indenture.

(4) Investments

(a) University of South Alabama

The investments of the University are invested pursuant to the University of South Alabama "Nonendowment Cash Pool Investment Policies," the "Endowment Fund Investment Policy," and the "Derivatives Policy" (collectively referred to as the University Investment Policies) as adopted by the Board of Trustees. The purpose of the nonendowment cash pool investment policy is to provide guidelines by which pooled funds not otherwise needed to meet daily operational cash flows can be invested to earn a maximum return, yet still maintain sufficient liquidity to meet fluctuations

in the inflows and outflows of University operational funds. Further, endowment fund investment policies exist to provide earnings to fund specific projects of the endowment fund, while preserving principal. The University Investment Policies require that management apply the "prudent person" standard in the context of managing its investment portfolio.

The investments of the blended component units of the University are invested pursuant to the separate investment policy shared by the PLTF and GLTF (the Trust Fund Investment Policy.) The objectives of the Trust Fund Investment Policy are to provide a source of funds to pay general and professional liability claims and to achieve long-term capital growth to help defray future funding requirements. Additionally, investments of the University's component units both blended and discretely presented are subject to UPMIFA as well as any requirements placed on them by contract or donor agreements.

Certain investments, primarily related to the University's endowment assets, are pooled. The University uses this pool to manage its investments and distribute investment income to individual endowment funds.

Investments of the University, by type, at fair value, are as follows at September 30, 2014 and 2013 (in thousands):

		2014	2013
U.S. Treasury notes	$	8,885	8,496
U.S. federal agency notes		101,201	19,676
Pooled equity mutual funds		82,233	71,406
Pooled debt mutual funds		36,426	30,594
Managed income alternative investments (low-volatility multi-strategy funds, private placement fund-of-funds, relative value arbitrage funds, and other)		29,224	27,791
State agency obligations		—	394
Other		13,987	13,366
	$	271,956	171,723

At September 30, 2014 and 2013, $16,395,000 and $10,272,000, respectively, of appreciation in fair value of investments of donor-restricted endowments was recognized and are included in restricted expendable net position in the accompanying statements of net position.

Credit Risk and Concentration of Credit Risk

The University Investment Policies limit investment in corporate bonds to securities with a minimum "A" rating, at the time of purchase, by both Moody's and Standard and Poor's. Investments in corporate paper are limited to issuers with a minimum quality rating of P-1 by Moody's, A-1 by Standard and Poor's or F-1 by Fitch.

Additionally, the University Investment Policies require that not more than 10% of the cash, cash equivalents and investments of the University be invested in the obligations of a single private corporation and not more than 35% of the cash, cash equivalents and investments of the University be invested in the obligations of a single government agency.

The University's exposure to credit risk and concentration of credit risk at September 30, 2014 is as follows:

	Credit rating	of total investments
Federal Home Loan Mortgage Corporation	AAA	7.8%
Federal Home Loan Bank Corporation	AAA	13.4
Federal National Mortgage Association	AAA	5.5
Common Fund Bond Fund	A+	11.5
PIMCO Pooled Bond Fund	A/BA/AA	2.0
Federal Farm Credit Banks Funding Corporation	AAA	9.6
Federal Agricultural Mortgage Corporation	AAA	1.0
Common Fund Equity Fund	N/A*	13.3

The University's exposure to credit risk and concentration of credit risk at September 30, 2013 is as follows:

	Credit rating	of total investments
Federal Home Loan Mortgage Corporation	Aaa	4.9%
Federal Home Loan Bank Corporation	Aaa	2.3
Federal National Mortgage Association	Aaa	1.3
Common Fund Bond Fund	AA	15.2
Various State Agency Obligations	Aaa/A2	0.2
PIMCO Pooled Bond Fund	AA+/NR	2.7
Federal Farm Credit Banks Funding Corporation	Aaa	2.9
Federal Agricultural Mortgage Corporation	Aaa	0.1
Common Fund Equity Fund	N/A*	17.4

*Credit rating in not applicable

Interest Rate Risk

At September 30, 2014, the maturity dates of the University's debt investments were as follows (in thousands):

		Years to maturity			
	Fair value	Less than 1	1 – 5	6 – 10	More than 10
U.S. Treasury notes	$ 8,885	70	8,815	—	—
U.S. federal agency notes	101,201	8,286	92,915	—	—
Pooled debt mutual funds	36,426	—	32,484	3,942	—
	$ 146,512	8,356	134,214	3,942	—

At September 30, 2013, the maturity dates of the University's debt investments were as follows (in thousands):

		Years to maturity			
	Fair value	Less than 1	1 – 5	6 – 10	More than 10
U.S. Treasury notes	$ 8,496	808	7,688	—	—
U.S. federal agency notes	19,676	664	18,930	—	82
Pooled debt mutual funds	30,594	1,183	—	29,411	—
State agency obligations	394	—	—	—	394
	$ 59,160	2,655	26,618	29,411	476

Pooled debt mutual funds are classified based on the weighted average maturity of the individual investment instruments within each fund.

The University's Investment Policies do not specifically address the length to maturity on investments which the University must follow; however, they do require that the maturity range of investments be consistent with the liquidity requirements of the University.

Mortgage-Backed Securities

The University, from time to time, invests in mortgage backed securities issued by the Government National Mortgage Association (GNMA) and the Federal National Mortgage Association (FNMA), agencies of the United States government. The University invests in these securities to increase the yield and return on its investment portfolio given the available alternative investment opportunities.

The fair value of mortgage-backed securities is generally based on the cash flows from principal and interest receipts on the underlying mortgage pools. These securities include collateralized mortgage obligations (CMOs). In CMOs, the cash flow from principal and interest payments from one or more mortgage pass-through securities or a pool of mortgages may be reallocated to multiple security classes with different priority claims and payment streams (commonly referred to as tranches). A holder of the CMO security thus chooses the class of security that best meets its risk and return objectives. CMOs are subject to significant market risk due to fluctuations in interest rates,

prepayment rates and various liquidity factors related to their specific markets. There were no CMOs in the University's investment portfolio at September 30, 2014 or 2013.

At September 30, 2014, restricted investments consist of $45,946,000 related to investments included in the PLTF and GLTF to pay insurance liability claims and $41,700,000 in required collateral related to the 2006 swaption and the 2014 interest rate swap. At September 30, 2013, restricted investments consist of $40,553,000 related to investments included in the PLTF and GLTF to pay insurance liability claims.

(b) University of South Alabama Foundation

Investments in securities consist primarily of equity securities totaling $133,236,000 and $114,193,000, at June 30, 2014 and 2013, respectively.

Investment income was comprised of the following for the years ended June 30, 2014 and 2013 (in thousands):

		2014	2013
Unrealized gains	$	28,429	18,296
Realized gains		2,547	2,644
Timber sales		3,132	2,764
Interest and dividends		2,079	1,965
Rents		634	605
Royalties		171	148
	$	36,992	26,422

Investment related expenses in the amount of $295,000 and $259,000, respectively, are included in the USA Foundation's management and general expenses in the accompanying 2014 and 2013 consolidated statements of activities and changes in net assets.

Real estate at June 30, 2014 and 2013 consisted of the following property held (in thousands):

		2014	2013
Land and land improvements – held for investment	$	29,926	29,910
Building and building improvements – held for investment, net of depreciation		1,081	1,100
	$	31,007	31,010

Timber and mineral properties are stated at fair value. Depletion of mineral properties is recognized over the remaining producing lives of the properties based on total estimated production and current period production. Depletion of timber properties is recognized on a specific identification basis as timber rights are sold or on a unit basis for sales made on that basis. Reforestation costs consisting of site preparation and planting of seedlings are capitalized.

(Continued)

Investments at June 30, 2014 and 2013, include an equity interest in a timberland management company. The company's primary assets consist of timberland. The Foundation's proportionate share of the fair value of the company is based upon the valuation of the trustee responsible for the management of the company and the timber valuation.

The Foundation has adopted Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, (formally FASB Statement No. 157, *Fair Value Measurements*). ASC 820 provides a single definition of fair value and a hierarchical framework for measuring it, as well as establishing additional disclosure requirements about the use of fair value to measure assets and liabilities. Fair value measurements are classified as either observable or unobservable in nature. Observable fair values are derived from quoted market prices for investments traded on an active exchange or in dealer markets where there is sufficient activity and liquidity to allow price discovery by substantially all market participants (Level 1). The Foundation's observable values consist of investments in exchange-traded equity securities with a readily determinable market price. Other observable values are fair value measurements derived either directly or indirectly from quoted market prices (Level 2). Investments that are not traded on an active exchange and do not have a quoted market price are classified as unobservable (Level 3). The Foundation's unobservable values consist of investments in timber and real estate with fair values based on independent third-party appraisals performed by qualified appraisers specializing in timber and real estate investments.

The Foundation's investment assets at June 30, 2014 and 2013, respectively, are summarized based on the criteria of ASC 820 as follows (in thousands):

	Fair value measurements at June 30, 2014			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity securities	$ 71,080	62,156	—	133,236
Timber and mineral properties	—	—	156,320	156,320
Real estate	—	—	31,007	31,007
Other investments	—	—	6,054	6,054
	$ 71,080	62,156	193,381	326,617

	Fair value measurements at June 30, 2013			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity securities	$ 57,870	56,323	—	114,193
Timber and mineral properties	—	—	154,332	154,332
Real estate	—	—	31,010	31,010
Other investments	—	—	6,040	6,040
	$ 57,870	56,323	191,382	305,575

(Continued)

For the year ended June 30, 2014, activity in investment assets valued at fair value based on unobservable values is as follows (in thousands):

Description		Timber and mineral properties	Real estate	Other investments	Total
Beginning balance	$	154,332	31,010	6,040	191,382
Total gains (losses) (realized/unrealized)		5,503	28	14	5,545
Acquisitions		—	2	—	2
Reforestation		367	—	—	367
Depreciation/depletion		(3,882)	(33)	—	(3,915)
Ending balance	$	156,320	31,007	6,054	193,381

For the year ended June 30, 2013, activity in investment assets valued at fair value based on unobservable values is as follows (in thousands):

Description		Timber and mineral properties	Real estate	Other investments	Total
Beginning balance	$	153,574	31,040	5,522	190,136
Total gains (losses) (realized/unrealized)		3,876	—	518	4,394
Acquisitions		—	3	—	3
Reforestation		273	—	—	273
Depreciation/depletion		(3,391)	(33)	—	(3,424)
Ending balance	$	154,332	31,010	6,040	191,382

As of June 30, 2014, the Foundation has no outstanding commitments to purchase securities or other investments. Additionally, substantially all of the Foundation's equity securities at June 30, 2014 and 2013 are considered readily liquid. Timber and mineral properties, real estate, and other investments are generally considered illiquid.

(5) Derivative Transactions – Swaption

In January 2008, the University entered into a synthetic advance refunding of the outstanding Series 2004 and 2006 bonds with a counterparty. This transaction was effected through the sale of two swaptions by the University to the counterparty. The transactions resulted in an up-front payment to the University totaling $9,328,000, which was recorded as a liability, in exchange for selling the counterparty the option to enter into an interest rate swap with respect to the Series 2004 and 2006 bonds in 2014 and 2016, respectively.

Objective of the Derivative Transaction

The objective of this transaction was to realize debt service savings currently from future debt refunding and create an economic benefit to the University.

Terms

A summary of the transactions is as follows:

Issue	Date of issue	Option expiration date	Effective date of swap	Termination date	Payment amount
Series 2004 bonds	2-Jan-08	16-Dec-13	15-Mar-14	15-Mar-24	$ 1,988,000
Series 2006 bonds	2-Jan-08	1-Sep-16	1-Dec-16	1-Dec-36	7,340,000

As further discussed in note 9, in December 2013, the counterparty exercised its option with respect to the 2004 swaption. The University refunded its Series 2004 bonds, issued the Series 2014-A variable rate bond and terminated the Series 2004 swaption. As a result of this termination, the borrowing arising from the Series 2004 swaption of $1,696,000 and the investment derivative (liability) of $5,213,000 were written off and an investment loss of $2,229,000 was recognized and reported in the statements of revenues, expenses and changes in net position for the year ended September 30, 2014. A borrowing arising from the 2014 swap of $9,138,000 was recognized and is reported, net of current year amortization, as long-term debt in the statement of net position at September 30, 2014.

As outlined in the 2008 agreement, if the counterparty exercises its option in 2016 related to the 2006 swaption, the University would, at the counterparty's option, be compelled to enter into an underlying swap. If the option is exercised, the University would begin to make payments on the notional amount, currently $100,000,000 for the 2006 bonds of the underlying swap contract. Simultaneously, the University would call outstanding 2006 bonds and issue variable rate demand notes (VRDNs) in their place. Under the swap contract, the University would pay a fixed rate of 5.0% on the 2006 bonds to the counterparty and would receive payments based on 68% of the one-month LIBOR index plus 0.25%. Alternatively, although it is not anticipated that this option would be to the University's advantage, the University could, at its option, cash settle the swap and retain its right to refund the 2006 bonds.

If the interest rate environment is such that the counterparty chooses to not exercise its option related to the 2006 swaption, the swaption would be canceled and the University would have no further obligation under this agreement.

Financial Statement Presentation

A swaption is considered a hybrid instrument and as such the payment by the counterparty to the University must be bifurcated into two components, a borrowing component and an embedded derivative component, and each component treated separately. The embedded derivative value of the swaption represents the fair value resulting from the fact that the fixed rate stated in the swaption is greater than the at-the-market rate. The initial value of the borrowing is the difference between the upfront payment and the

fair value of the embedded derivative and represents the time value to the counterparty for holding the option, or the probability-weighted, discounted values of a range of future possible outcomes. The values of the derivatives and borrowings at the date of execution of this transaction were as follows:

		2004 Bonds	2006 Bonds
Embedded derivatives	$	918,000	3,343,000
Borrowings		1,070,000	3,997,000
	$	1,988,000	7,340,000

The values of any remaining borrowings are included in long-term debt on the University's 2014 and 2013 statements of net position. Interest is being accreted on, and added to, the borrowings through the expiration date of the option. For the years ended September 30, 2014 and 2013, $379,000 and $400,000, respectively, was accreted and is included in interest expense in the statements of revenues, expenses, and changes in net position.

The fair values of the embedded investment derivatives are reported as investment assets, if the swaption derivatives are assets, or other noncurrent liabilities, depending on the fair values of the swaption derivatives. The change in the fair market values of the swaption derivatives is reported as a component of investment income (loss) in the statements of revenues, expenses and changes in net position. At September 30, 2014 and 2013, the negative fair values of the swaption derivatives are approximately $(14,191,000) and $(13,333,000) and are included in other long-term liabilities in the accompanying statements of net position. For the years ended September 30, 2014 and 2013, the changes in the fair value of the derivatives were $(6,071,000) and $10,276,000, respectively.

Fair Value

At September 30, 2014 and 2013, the total of the embedded derivatives associated with the outstanding swaptions had negative fair values of $(14,191,000) and $(13,333,000), respectively. The fair values of these swaption derivatives were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the instruments, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement.

Risks Associated with this Transaction

Certain risks are inherent to derivative transactions.

Interest rate risk. Interest rate risk, as a result of rising short-term interest rates causing higher interest rate payments, is effectively hedged by the University's fixed rate bonds. If the counterparty exercises its options, the underlying swaps are expected to effectively hedge the potentially higher payments on VRDNs as well. The University is also subject to interest rate risk, as a result of changes in long-term interest rates, which may cause the value of fixed rate bonds or interest rate derivatives to change. If long-term interest

rates fall subsequent to the execution of this transaction, the value of the swaption will change, with negative consequences for the University.

Market access risk. This transaction assumes that VRDNs will be issued as a replacement of the 2006 bonds. If the University is unable to issue variable rate bonds after the counterparty exercises its right under the remaining swaption, the University would still be required to begin making periodic payments on the swap, even though there are no related bonds. Alternatively, the University could choose to liquidate the swap, which may create a substantial cash outlay.

Basis risk. If the counterparty exercises its option, there is a risk that the floating payments received under the swap will not fully offset the variable rate payments due on the assumed VRDNs.

Credit risk. Although the underlying swap exposes the University to credit risk should the swap be executed, the swaption itself does not expose the University to credit risk. If the option is exercised, the University would begin to make payments on the appropriate notional amount of the underlying swap contract. In that situation, if the fair value of the swap is positive, the University would be exposed to credit risk on the swap in the amount of its fair value. As of September 30, 2014 and 2013, the swap counterparty was rated Aa3 by Moody's Investors Services and AA – by Standard and Poor's Rating Services.

Termination risk. The University may be required to terminate the swaption or swap under certain circumstances, such as credit downgrades or other events specified in the contracts. In the event that a position needs to be terminated, the University may owe a substantial amount of money to terminate the contracts. At September 30, 2014 and 2013, no events of termination have occurred.

(6) Capital Assets

(a) University of South Alabama

A summary of the University's capital asset activity for the year ended September 30, 2014 follows (in thousands):

	Beginning balance	Additions	Transfers	Reductions	Ending balance
Capital assets not being depreciated:					
Land and other	$ 22,516	—	—	—	22,516
Construction-in-progress	137,678	32,167	(61,534)	—	108,311
	160,194	32,167	(61,534)	—	130,827
Capital assets being depreciated:					
Land improvements	30,934	4	457	—	31,395
Buildings, fixed equipment, and infrastructure	555,661	2,819	43,563	(618)	601,425
Other equipment	130,979	6,223	17,514	(4,034)	150,682
Library materials	57,608	3,024	—	—	60,632
	775,182	12,070	61,534	(4,652)	844,134

(Continued)

	Beginning balance	Additions	Transfers	Reductions	Ending balance
Less accumulated depreciation for:					
Land improvements	$ (17,216)	(1,203)	—	—	(18,419)
Buildings, fixed equipment, and infrastructure	(205,155)	(15,913)	—	8	(221,060)
Other equipment	(103,546)	(7,395)	—	70	(110,871)
Library materials	(43,629)	(2,679)	—	—	(46,308)
	(369,546)	(27,190)	—	78	(396,658)
Capital assets being depreciated, net	405,636	(15,120)	61,534	(4,574)	447,476
Capital assets, net	$ 565,830	17,047	—	(4,574)	578,303

At September 30, 2014, the University had commitments of approximately $3,468,000 related to various construction projects.

A summary of the University's capital asset activity for the year ended September 30, 2013 follows (in thousands):

	Beginning balance	Additions	Transfers	Reductions	Ending balance
Capital assets not being depreciated:					
Land and other	$ 25,528	445	—	(3,457)	22,516
Construction-in-progress	119,763	59,104	(41,189)	—	137,678
	145,291	59,549	(41,189)	(3,457)	160,194
Capital assets being depreciated:					
Land improvements	31,256	244	—	(566)	30,934
Buildings, fixed equipment, and infrastructure	539,118	3,442	40,922	(27,821)	555,661
Other equipment	133,090	8,291	267	(10,669)	130,979
Library materials	54,656	2,952	—	—	57,608
	758,120	14,929	41,189	(39,056)	775,182

		Beginning balance	Additions	Transfers	Reductions	Ending balance
Less accumulated depreciation for:						
Land improvements	$	(16,588)	(1,194)	—	566	(17,216)
Buildings, fixed equipment, and infrastructure		(208,499)	(15,954)	—	19,298	(205,155)
Other equipment		(104,084)	(10,012)	—	10,550	(103,546)
Library materials		(41,041)	(2,588)	—		(43,629)
		(370,212)	(29,748)	—	30,414	(369,546)
Capital assets being depreciated, net		387,908	(14,819)	41,189	(8,642)	405,636
Capital assets, net	$	533,199	44,730	—	(12,099)	565,830

At September 30, 2013, the University had commitments of approximately $13,918,000 related to various construction projects.

(b) USA Research and Technology Corporation

Changes in capital assets for the years ended September 30, 2014 and 2013 are as follows (in thousands):

		2014				
		Beginning balance	Additions	Transfers	Reductions	Ending balance
Land improvements	$	2,199	—	—	—	2,199
Buildings		27,898	19	—	—	27,917
Tenant improvements		868	45	—	—	913
Construction in progress		—	—	—	—	—
Other equipment		256	—	—	—	256
		31,221	64	—	—	31,285
Less accumulated depreciation for:						
Land improvements		(842)	(94)	—	—	(936)
Buildings		(5,146)	(721)	—	—	(5,867)
Tenant improvements		(417)	(130)	—	—	(547)
Other equipment		(115)	(26)	—	—	(141)
		(6,520)	(971)	—	—	(7,491)
Capital assets, net	$	24,701	(907)	—	—	23,794

(Continued)

	2013				
	Beginning balance	Additions	Transfers	Reductions	Ending balance
Land improvements	$ 2,201	—	(2)	—	2,199
Buildings	27,669	235	(6)	—	27,898
Tenant improvements	742	164	8	(46)	868
Construction in progress	—	—	—	—	—
Other equipment	256	—	—	—	256
	30,868	399	—	(46)	31,221
Less accumulated depreciation for:					
Land improvements	(748)	(94)	—	—	(842)
Buildings	(4,261)	(702)	(183)	—	(5,146)
Tenant improvements	(528)	(118)	183	46	(417)
Other equipment	(89)	(26)	—	—	(115)
	(5,626)	(940)	—	46	(6,520)
Capital assets, net	$ 25,242	(541)	—	—	24,701

(7) Noncurrent Liabilities

A summary of the University's noncurrent liability activity for the years ended September 30, 2014 and 2013 follows (in thousands):

	2014					
	Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Long-term debt:						
Bonds payable and other	$ 400,890	52,044	(57,628)	395,306	14,203	381,103
Total long-term debt	400,890	52,044	(57,628)	395,306	14,203	381,103
Other long-term liabilities	59,102	42,411	(35,589)	65,924	12,114	53,810
Total noncurrent liabilities	$ 459,992	94,455	(93,217)	461,230	26,317	434,913

	2013					
	Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Long-term debt:						
Bonds payable and other	$ 359,699	51,981	(10,790)	400,890	13,153	387,737
Total long-term debt	359,699	51,981	(10,790)	400,890	13,153	387,737
Other long-term liabilities	80,065	32,392	(53,355)	59,102	12,633	46,469
Total noncurrent liabilities	$ 439,764	84,373	(64,145)	459,992	25,786	434,206

Other long-term liabilities primarily consist of self-insurance liabilities, liabilities related to compensated absences, and the fair value of derivatives. Amounts due within one year are included in accounts payable, accrued liabilities and unrecognized revenue.

(8) Bonds Payable

Bonds payable consisted of the following at September 30, 2014 and 2013 (in thousands):

		2014	2013
University Tuition Revenue Bonds, Series 1999 Capital Appreciation, 4.70% to 5.25%, payable November 2011 through November 2018	$	28,312	31,530
University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, 2.00% to 5.00%, repaid in April 2014		—	41,690
University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, 5.00%, payable through December 2036		100,000	100,000
University Facilities Revenue and Capital Improvement Bonds, Series 2008, 3.00% to 5.00%, payable through August 2038		104,200	106,565
University Facilities Revenue and Capital Improvement Bond, Series 2010, 3.81%, payable through August 2030		25,508	26,636
University Facilities Revenue Capital Improvement Bond, Series 2012-A, 2.92% payable through August 2032		23,075	24,050
University Facilities Revenue Capital Improvement Bond, Series 2012-B, 2.14% payable through August 2018		5,265	6,515
University Facilities Revenue Capital Improvement Bond, Series 2013-A, 2.83% payable through August 2033		30,788	32,000
University Facilities Revenue Capital Improvement Bond, Series 2013-B, 2.83% payable through August 2033		7,697	8,000
University Facilities Revenue Capital Improvement Bond, Series 2013-C, 2.78% payable through August 2025		9,454	10,000
University Facilities Revenue Refunding Bond, Series 2014-A, variable rate payable at 68% of LIBOR plus .73%, payable through March 2024		41,245	—
Borrowing arising from swaption, Series 2004 Bonds		—	1,653
Borrowing arising from swaption, Series 2006 Bonds		6,240	5,904
Borrowing arising from interest rate swap		8,682	—
		390,466	394,543
Plus unamortized premium		5,134	6,609
Less unaccreted discount		(29)	(36)
Less unamortized debt extinguishment costs		(265)	(226)
	$	395,306	400,890

Substantially all student tuition and fee revenues secure University bonds. Additionally, security for Series 2008 bonds includes Children's and Women's Hospital revenues in an amount not exceeding

$10,000,000. Series 1999 Current Interest Bonds began maturing November 2002, and Capital Appreciation Bonds began maturing in November 2011. Series 1999 Bonds are not redeemable prior to maturity. Series 2004 Bonds began maturing in March 2005 and were redeemed in April 2014. Series 2006 Bonds begin maturing in December 2024 and are redeemable beginning in December 2016. Series 2008 Bonds began maturing in August 2009 and are redeemable beginning in August 2018. The Series 2010 Bond began maturing in August 2011 and is redeemable beginning in February 2020. The 2012-A and 2012-B Bonds began maturing in August 2013. The 2012-A Bond is redeemable beginning in August 2021. The 2012-B Bond is redeemable beginning in January 2015. The 2013-A, 2013-B and 2013-C Bonds began maturing in August 2014 and are redeemable beginning in June 2023. The Series 2014-A bond begins maturing in March 2015 and is redeemable at any time.

In January 2008, the University entered into a synthetic advance refunding of the outstanding Series 2004 and 2006 bonds. This transaction was effected through the sale of two swaptions by the University to a counterparty. The proceeds from each sale, totaling $9,328,000, consist of two components, a borrowing and an embedded derivative. The borrowing is included in long-term debt. As a result of this transaction, the counterparty has the option to compel the University to redeem its Series 2004 (occurred in March 2014) and 2006 bonds at their respective redemption dates. See note 5 for a complete description of this transaction.

During the years ended September 30, 2014 and 2013, the maturity value of the Capital Appreciation Bonds increased $1,432,000 and $1,581,000, respectively, over the original principal amount of $19,810,000, reflecting accretion of interest.

Approximately $1,570,000 of proceeds from the issuance of the Series 2012-A and 2012-B bonds remained unspent at September 30, 2014 and is included in restricted cash and cash equivalents in the 2014 statement of net position. These funds are restricted for capital purposes as outlined in the indenture.

Approximately $38,362,000 of proceeds from the issuance of the Series 2013-A, 2013-B and 2013-C Bonds remained unspent at September 30, 2014 and is included in restricted cash and cash equivalents in the 2014 statement of net position. These funds are restricted for capital purposes as outlined in the indenture.

The University is subject to arbitrage restrictions on its bonded indebtedness prescribed by the U. S. Internal Revenue Service. As such, amounts are accrued as needed in the University's basic financial statements for any expected arbitrage liabilities. At September 30, 2014 and 2013, no amounts were due or recorded in the financial statements.

The University is subject to restrictive covenants related to its bonds payable. At September 30, 2014, management believes the University was in compliance with such financial covenants.

Debt Service on Long-Term Obligations

Total debt service by fiscal year is as follows as of September 30, 2014 (in thousands):

		Debt service on bonds			
		Principal	Interest	Additional maturity	Total
2015	$	14,099	14,364	(1,627)	26,836
2016		14,643	13,825	(1,286)	27,182
2017		18,178	13,375	(782)	30,771
2018		18,525	12,959	(427)	31,057
2019		17,456	12,650	(49)	30,057
2020–2024		88,565	54,283	—	142,848
2025–2029		84,853	40,914	—	125,767
2030–2034		82,734	23,051	—	105,785
2035–2038		55,584	5,514	—	61,098
Subtotal		394,637	190,935	(4,171)	581,401
Plus (less):					
Additional maturity		(4,171)			
Unamortized bond premium		5,134			
Unaccreted bond discount		(29)			
Unamortized debt extinguishment costs		(265)			
Total	$	395,306			

The principal amount of debt service due on bonds at September 30, 2014 includes $3,629,000 representing additional maturity value on Series 1999 Capital Appreciation Bonds. These bonds mature through 2019. Also included in the principal amount of debt service due on bonds at September 30, 2014, is $542,000 representing additional maturity value of the borrowing resulting from the Series 2006 swaption. As described in note 5, additional maturity will continue to accrue until the swaption option period in 2016. Although this additional maturity is presented as principal on the debt service schedule above, it is also recognized as interest expense on an annual basis in the University's basic financial statements as it accretes.

(a) USA Research and Technology Corporation

Notes Payable

Notes payable consisted of the following at September 30, 2014 and 2013 (in thousands):

		2014	2013
Wells Fargo, N.A. promissory note, one-month LIBOR plus 0.85% (1.007% at September 30, 2014) payable through 2028	$	14,471	15,128
PNC Bank promissory note, 4.88%, payable through 2021		8,814	9,159
	$	23,285	24,287

The note payable to Wells Fargo Bank, N.A. was incurred by the Corporation to acquire Buildings II and III in the USA Technology & Research Park and to provide funds for renovations and tenant finishing costs. The loan is a fully amortizing promissory note with a 20-year term. As more fully described below, the Corporation entered into a "receive-variable, pay-fixed" type of interest rate swap on the promissory note, which will yield a synthetic fixed interest rate of 6.1%. The promissory note payable is secured by an interest in the ground lease with respect to the parcels of land on which Buildings II and III stand, an interest in Buildings II and III, an interest in tenant leases for Buildings II and III, and an interest in income received from rental of Buildings II and III.

The promissory note payable to PNC Bank has a 10-year term and amortization is based on a 20-year term. PNC Bank acquired the promissory note as part of its acquisition of RBC Bank (USA) on March 20, 2012. The Corporation agreed to not transfer or encumber the buildings or its leasehold interest in the real estate on which the buildings stand. The promissory note payable is secured by an interest in tenant leases for Building I and the dialysis services building, and an interest in income received from rental of Building I and the dialysis services building.

In connection with each note, the University entered into an agreement with the lender providing that for any year in which the Corporation's debt service coverage ratio is less than 1 to 1, the University will pay the Corporation rent equal to the amount necessary to bring the ratio to 1 to 1. The debt service coverage ratio is calculated by dividing the sum of unrestricted cash and cash equivalents at the beginning of the year (reduced by current year capital assets additions) and current year change in net position (determined without depreciation, amortization, and interest expense) by current year debt service. For fiscal 2014 the Corporation's debt service coverage ratio was 1.34 to 1. Management believes the Corporation was in compliance with its debt covenants, including the debt service coverage ratio covenant, at September 30, 2014. Further, management believes that, based on existing leases and service contracts and agreements, the debt service coverage ratio for fiscal 2015 will be less than the fiscal 2014 debt service coverage ratio of 1.34 to 1, but will still exceed 1 to 1.

Debt Service on Long-Term Obligations

At September 30, 2014, total debt service by fiscal year is as follows (in thousands):

		Debt service on note and loan		
		Principal	Interest	Total
2015	$	1,061	1,295	2,356
2016		1,118	1,238	2,356
2017		1,186	1,169	2,355
2018		1,251	1,105	2,356
2019		1,332	1,023	2,355
2020–2024		12,192	2,904	15,096
2025–2028		5,145	617	5,762
Total	$	23,285	9,351	32,636

Derivative Transaction

The Corporation is a party to a derivative with Wells Fargo Bank, N.A., the counterparty (successor to Wachovia Bank, N.A. the original counterparty). The derivative is a "receive-variable, pay-fixed" interest rate swap entered into in connection with the promissory note to Wells Fargo Bank, N.A.

Objective of the derivative transaction. The Corporation utilizes the interest rate swap to convert its variable rate on the promissory note to a synthetic fixed rate.

The swap will terminate on May 1, 2028, when the loan matures. The notional amount of the swap will at all times match the outstanding principal amount of the loan. Under the swap, the Corporation pays the counterparty a fixed payment of 6.10% and receives a variable payment of the one-month LIBOR rate plus 0.85%. Conversely, the loan bears interest at the one-month LIBOR rate plus 0.85%. The Corporation paid approximately $762,000 and $789,000 under the interest rate swap agreement for the years ended September 30, 2014 and 2013, respectively, which is reflected as an increase in interest expense.

Fair value. The interest rate swap had a negative fair value of approximately $(3,053,000) and $(3,225,000) at September 30, 2014 and 2013, respectively. The changes in fair value are reported as deferred outflows on the accompanying statements of net position since the interest rate swap is a hedging derivative instrument.

The fair value of the interest rate swap was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero coupon bonds due on the date of each future net settlement.

Interest rate risk. On the Corporation's "receive-variable, pay-fixed" interest rate swap, as LIBOR decreases, the net payment on the swap increases.

Credit risk. As of September 30, 2014 and 2013, the Corporation was not exposed to credit risk on the interest rate swap because it had a negative fair value. However, if interest rates change and the fair value of the derivative becomes positive, the Corporation would have a gross exposure to credit risk in the amount of the derivative's fair value. The counterparty was rated Aa3 by Moody's Investors Services and AA –by Standard & Poor's Ratings Services as of September 30, 2014 and 2013.

Termination risk. The interest rate swap contracts use the International Swaps and Derivatives Association, Inc. Master Agreement, which includes standard default and termination events, such as failure to make payments, breach of agreement, and bankruptcy. At September 30, 2014 and 2013, no events of default or termination had occurred. If the interest rate swap is terminated, interest rate risk associated with the variable rate debt would no longer be hedged. Also, if at the time of termination the interest rate swap had a negative fair value, the Corporation would be liable to the counterparty for a payment equal to the interest rate swap's fair value. To allow the Corporation the maximum flexibility to manage the utilization of Buildings II and III while at the same time providing protection for the counterparty, the Corporation granted the counterparty a $2,000,000 mortgage secured by an interest in the ground lease with respect to the parcel of land on which Building II stands, an interest in Building II, a security interest in Building II tenant leases, and a security interest in income received from rental of Building II.

Derivative payments and hedged debt. As interest rates fluctuate, variable rate debt interest and net derivative payments will fluctuate. Using interest rates as of September 30, 2014, debt service requirements by fiscal year of the variable rate debt and net derivative payments, assuming current interest rates remain the same in the future, are as follows (in thousands):

	Variable rate loan		Interest rate	
	Principal	Interest	swap, net	Total
2015	$ 698	144	729	1,571
2016	738	138	696	1,572
2017	787	129	655	1,571
2018	832	122	618	1,572
2019	893	112	566	1,571
2020–2024	5,378	409	2,070	7,857
2025–2028	5,145	102	515	5,762
Total	$ 14,471	1,156	5,849	21,476

(9) Derivative Transaction – Interest Rate Swap

The University is a party to a derivative with Wells Fargo Bank, the counterparty. As more fully described in note 5, in December 2013, Wells Fargo exercised its option with respect to the synthetic advance refunding of the Series 2004 bonds to enter into an interest rate swap agreement with the University with an effective date of March 15, 2014. The resulting derivative is a "receive-variable, pay-fixed" interest rate swap. As part of the overall plan of the synthetic refunding of the 2004 bonds, the University redeemed those bonds in April 2014 with proceeds from the 2014-A bond.

Objective of the transaction. As noted the interest rate swap was the result of the original January 2008 synthetic advance refunding of the Series 2004 bonds. The objective of that transaction was to realize debt service savings currently from future debt refunding and create an economic benefit to the University.

The swap will terminate in March 2024, when the 2014-A bond matures. The notional amount of the swap will at all times match the outstanding principal amount of the bond. Under the swap, the University pays the counterparty a fixed semi-annual payment based on an annual rate of 4.9753% and receives on a monthly basis a variable payment of 68% of the one-month London Interbank Offered Rate (LIBOR) plus 0.25%. Conversely, the Series 2014-A bond bears interest on a monthly basis at 68% of the one-month LIBOR rate plus 0.73%.

Fair value. The interest rate swap had a negative fair value of approximately $(9,138,000) at its inception. This amount, net of any amortization, is reported as a borrowing arising from the 2014 interest rate swap as long-term-debt in the 2014 statement of net position.

The change in fair value during the current year is reported as a deferred inflow and derivative asset on the statement of net position since the interest rate swap is a hedging derivative instrument. At September 30, 2014, $177,000 is reported as a derivative asset and deferred inflow.

The fair value of the interest rate swap was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement.

Interest rate risk. As the LIBOR rate decreases, the net payment on the swap increases. This, however, is mitigated by the fact that a decline in the LIBOR rate will also result in a decrease of the University's interest payment on the Series 2014-A bond. The University's exposure is limited to 0.48% of the notional amount, the difference in the payment from the counterparty and the interest payment on the 2014-A bond.

Credit risk. As of September 30, 2014, the University was not exposed to credit risk on the interest rate swap because it had a negative fair value. However, if interest rates change and the fair value of the derivative become positive, the University would have a gross exposure to credit risk in the amount of the derivative's fair value. The counterparty was rated Aa3 by Moody's Investor Services and AA – by Standard & Poor's Ratings Services as of September 30, 2014.

Termination risk. The University may be required to terminate the swap based on certain standard default and termination events, such as failure to make payments, breach of agreement, and bankruptcy. As of the current date, no events of termination have occurred.

Derivative payments and hedged debt. As interest rates fluctuate, variable rate debt interest and net derivative payments will fluctuate. Using interest rates as of the current date and assuming those current interest rates remain the same in the future; debt service requirements, including swap payments, by fiscal year are as follows (in thousands):

	Variable rate loan		Interest rate	
	Principal	**Interest**	**swap, net**	**Total**
2015	$ 470	400	1,838	2,708
2016	490	643	1,568	2,701
2017	615	917	1,265	2,797
2018	640	1,088	1,060	2,788
2019	665	1,185	915	2,765
2020-2024	38,365	9,730	2,069	50,164
	$ 41,245	13,963	8,715	63,923

(10) Net Patient Service Revenue

The Hospitals have agreements with governmental and other third-party payers that provide for reimbursement at amounts different from their established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospitals' billings at established rates for services and amounts reimbursed by third-party payers.

A summary of the basis of reimbursement with major-third party payers follows:

Medicare – Substantially all acute care 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 Hospitals are reimbursed for both direct and indirect medical education costs (as defined), principally based on per-resident prospective payment amounts and certain adjustments to prospective rate-per-discharge operating reimbursement payments. The Hospitals generally are reimbursed for certain retroactively settled items at tentative rates, with final settlement determined after submission of annual cost reports by the Hospitals and audits by the Medicare fiscal intermediary. The cost report for the USA Medical Center has been audited and settled through 2009. The cost report for USA Children's and Women's Hospital has been audited and settled through 2010. Revenue from the Medicare program accounted for approximately 15% and 14% of the Hospitals' net patient service revenue for the years ended September 30, 2014 and 2013, respectively.

Blue Cross – Inpatient services rendered to Blue Cross subscribers are paid at a prospectively determined per diem rate. Outpatient services are reimbursed under a cost reimbursement methodology. For outpatient services, the Hospitals are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospitals and audits thereof by Blue Cross. The Hospitals' Blue Cross cost reports have been audited through 2011 and settled for all fiscal years through 2010. Revenue from the Blue Cross program accounted for approximately 21% and 20% of the Hospitals' net patient service revenue for the years ended September 30, 2014 and 2013, respectively.

(Continued)

Medicaid – Inpatient services rendered to Medicaid program beneficiaries are reimbursed at all-inclusive prospectively determined per diem rates. Outpatient services are reimbursed based on an established fee schedule.

The Hospitals qualify as Medicaid essential providers and, therefore, also receive supplemental payments based on formulas established by the Alabama Medicaid Agency. There can be no assurance that the Hospitals will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified.

Revenue from the Medicaid program accounted for approximately 24% and 22% of the Hospitals' net patient service revenue for the years ended September 30, 2014 and 2013, respectively.

Other – The Hospitals have also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The bases for payments to the Hospitals under these agreements include discounts from established charges and prospectively determined daily and case rates.

The composition of net patient service revenue for the years ended September 30, 2014 and 2013 follows (in thousands):

		2014	2013
Gross patient service revenue	$	610,092	575,718
Less provision for contractual and other adjustments		(271,468)	(250,047)
Less provision for bad debts		(70,175)	(67,464)
	$	268,449	258,207

Changes in estimates related to prior cost reporting periods resulted in an increase of approximately $802,000 and $1,279,000 in net patient service revenue for the years ended September 30, 2014 and 2013, respectively.

(11) Hospital Lease

In 2006, the University and Infirmary Health System, Inc. (the Infirmary) entered into a Lease Agreement (the Lease) in which the University agreed to lease certain land, buildings and equipment used in connection with the operating of its USA Knollwood Hospital campus to the Infirmary. The original lease was effective through March 2056. The lease provided for its termination, at the option of the Infirmary, in the event that a change in any law, statue, rule, or a regulation of any governmental or other regulatory body was deemed by the Infirmary as significant, as defined by the lease. The hospital was operated as Mobile Infirmary West.

The total amount of the lease payments due the University was based on the fair value of the appraised assets, $32,418,000. The allocation of the appraised fair value was $29,370,000 for land and buildings and $3,048,000 for medical equipment, office furnishings and other equipment. In addition to an up-front payment, the lease agreement required monthly lease payments by the Infirmary to the University. In order

to properly report this transaction, the University bifurcated the lease into an equipment component and a real property component. The equipment component of the lease was considered a capital lease and as such, a lease receivable was reported in the accompanying basic financial statements of the University. The component of the lease attributable to land and buildings was considered an operating lease. As such, lease revenue was recorded and is being earned over the life of the lease. Lease revenue in the amounts of approximately $0 and $164,000 was reported as other operating revenue in the accompanying basic financial statements for the years ended September 30, 2014 and 2013, respectively. Payments received in excess of the amount recognized as lease revenue were unrecognized and amortized over the term of the lease.

In October 2012, officials of the Infirmary publically announced the closing of the Mobile Infirmary West effective October 31, 2012.

As a result of the closing of the hospital, in May 2013, the University Board of Trustees determined that it was in the best interest of the University to sell Knollwood Hospitals, all related furniture and equipment, adjacent medical office buildings and land. As such, the Board approved a resolution authorizing University management to seek proposals for the sale of Knollwood Hospitals and proceed with negotiations with potential buyers. Subsequent to a public advertisement and negotiation period, the University and the Infirmary entered into a Purchase and Sale Agreement (the Agreement), dated June 5, 2013. The Agreement called for the sale of all land, buildings, furniture and equipment at Knollwood Hospitals to the Infirmary for a purchase price of $5,000,000 and effectively canceled the original 2006 lease agreement. Following a period of due diligence the transaction was closed on July 19, 2013. At closing, the Infirmary made a payment of $2,500,000 to the University and issued a promissory note, dated July 19, 2013, for the remaining $2,500,000 which was received by the University in July 2014.

At the time of the closing, the University wrote off capital assets with a cost of approximately $31,597,000 and accumulated depreciation of approximately $19,601,000. Unrecognized revenue related to the original lease of approximately $5,692,000 was also written off. As of September 30, 2013, a note receivable in the amount of $2,500,000, due July 19, 2014, was recognized and is reported as a current note receivable in the University's 2013 statement of net position. As a result of the transaction, the University recognized a loss on the sale of $1,304,000 which is reported as an other nonoperating expense in the 2013 statement of revenues, expenses and changes in net position.

(12) Employee Benefits

(a) Retirement and Pension Plans

Employees of the University are covered by two pension plans: a cost sharing multiple-employer defined benefit pension plan administered by the Teachers' Retirement System of the State of Alabama (TRS), and a defined contribution pension plan.

Permanent employees of the University participate in TRS, a public retirement system created by an act of the State Legislature, with benefit provisions established by the Code of Alabama. Responsibility for general administration and operation of the TRS is vested in the Board of Control (currently 14 members). Benefits fully vest after 10 years of full time, permanent employment. Vested employees may retire with full benefits at age 60 or after 25 years of service. Participating

retirees may elect the maximum benefit, or may choose among four other monthly benefit options. Under the maximum benefit, participants are allowed 2.0125% of their average final salary (average of three highest years of annual compensation during the last ten years of service) for each year of service. The TRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Retirement Systems of Alabama, P.O. Box 302150, Montgomery, Alabama 36130-2150, or by calling (334) 832 4140.

Prior to October 1, 2011, essentially all employees covered by this retirement plan were required to contribute 5% of their eligible earnings to TRS. Effective October 1, 2011 and 2012, the required employee contribution was increased to 7.25% and 7.5%, respectively, of their eligible earnings. An actuary employed by the TRS Board of Control establishes the employer-matching amount annually. During 2014, 2013 and 2012, the University made total contributions of $24,573,000, $21,879,000, and $23,381,000 (100% of the required contributions), respectively, to TRS on behalf of participants. For employees that were hired before January 1, 2013, the University contribution rate was 11.7%, 10.1%, and 10.0% in 2014, 2013 and 2012, respectively, of each participant's gross earnings. For employees hired after January 1, 2013, the University contribution rate was 11.1% and 9.4% in 2014 and 2013, respectively, of each participant's gross earnings. The University's payroll for all employees was approximately $246,896,000 and $254,249,000 in 2014 and 2013, respectively. The LLC's payroll for all employees was approximately $78,975,000 and $61,645,000 in 2014 and 2013, respectively. Total payroll for University employees participating in the Teachers' Retirement System of Alabama was approximately $210,359,000 and $217,164,000 in 2014 and 2013, respectively.

The defined contribution pension plan covers certain academic and administrative employees, and participation by eligible employees is optional. Under this plan, administered by Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF), contributions by eligible employees are matched equally by the University up to a maximum of 3% of current annual pay. The University and the employees each contributed $840,000 and $928,000 in 2014 and 2013, respectively, representing 344 and 436, respectively, employees participating in this Plan.

All employees of the LLC working at least half time are eligible to participate in a defined contribution pension plan. Under this plan, contributions by eligible employees are matched equally by the LLC up to a maximum of 5% of current annual pay. The LLC and the employees contributed $2,454,000 and $1,885,000, respectively, in 2014 and 2013 representing 867 and 679, employees participating in this plan. University employees as of September 30, 2011 who later transfer to the LLC are immediately vested in the plan. All other employees do not vest until they have held employment with the LLC for thirty-six months; at which time they become 100% vested in the plan.

(b) Compensated Absences

Regular University employees accumulate vacation and sick leave and hospital and clinical employees accumulate paid time off. These are subject to maximum limitations, at varying rates depending upon their employee classification and length of service. Upon separation of employment, employees who were hired before January 1, 2012 are paid all unused accrued vacation at their

regular rate of pay up to a maximum of two times their annual accumulation rate. Employees hired after January 1, 2012 are not eligible for payment of unused accrued vacation or PTO hours upon separation of employment. The accompanying statements of net position include accruals for vacation pay and paid time off of approximately \$15,535,000 and \$15,763,000 at September 30, 2014 and 2013, respectively. The current portion of the accrual is included in accounts payable and accrued liabilities and the noncurrent portion is included in other long term liabilities in the accompanying basic financial statements. No accrual is recognized for sick leave benefits since no terminal cash benefit is available to employees for accumulated sick leave.

(c) Other Postretirement Employee Benefits

As the provider of postretirement benefits to state retirees, the state is responsible for implementing GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* In September 2003, the State of Alabama Legislature passed legislation that requires all colleges and universities to fund the healthcare premiums of its participating retirees. In prior years, such costs have been paid by the State. Beginning in October 2003, the University was assessed a monthly premium by the Public Education Employees' Health Insurance Plan (PEEHIP) based on the number of retirees in the system and an actuarially determined premium. During the years ended September 30, 2014 and 2013, the University's expense related to PEEHIP was \$7,963,000 and \$7,130,000, respectively.

(13) Risk Management

The University, USAHSF, LLC and SAMSF participate in the professional liability trust fund and the University, USAHSF, LLC, SAMSF and the Corporation participate in the general liability trust fund. Both funds are administered by an independent trustee. These trust funds are revocable and use contributions by the University and USAHSF, together with earnings thereon, to pay liabilities arising from the performance of its employees, trustees and other individuals acting on behalf of the University. If the trust funds are ever terminated, appropriate provision for payment of related claims will be made and any remaining balance will be distributed to the participating entities in proportion to contributions made.

As discussed in note 1, the PLTF and GLTF are blended component units of the University, as defined by GASB Statement No. 14, and as such are included in the basic financial statements of the University for the years ended September 30, 2014 and 2013. Claims and expenses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Those losses include an estimate of claims that have been incurred but not reported and the future costs of handling claims. These liabilities are generally based on actuarial valuations and are reported at their present value.

The University and LLC participate in a self-insured health plan, administered by an unaffiliated entity. Administrative fees paid by the University for such services were approximately \$1,770,000 and \$1,697,000 in 2014 and 2013, respectively. Contributions by the University and its employees, together with earnings thereon, are used to pay liabilities arising from healthcare claims. It is the opinion of University administration that plan assets are sufficient to meet future plan obligations.

(Continued)

The changes in the total self insurance liabilities for the years ended September 30, 2014 and 2013 for the PLTF, GLTF and health plan are summarized as follows (in thousands):

		2014	2013
Balance, beginning of year	$	21,297	22,747
Liabilities incurred and other additions		58,311	60,804
Claims, administrative fees paid and other reductions		(49,816)	(62,254)
Balance, end of year	$	29,792	21,297

Self-insurance liabilities due within one year are included in accounts payable and accrued liabilities. The noncurrent portion is included in other long-term liabilities in the accompanying basic financial statements.

(14) Other Related Party

SAMSF is a not-for-profit corporation that exists for the purpose of promoting education and research at the University. At September 30, 2014 and 2013, SAMSF had total assets of $12,882,000 and $12,235,000, net assets of $9,899,000 and $9,501,000, and total revenues of $3,635,000 and $3,474,000, respectively. SAMSF reimburses the University for certain administrative expenses and other related support services. Total amounts received for such expenses were approximately $707,000 and $711,000 in 2014 and 2013, respectively, and are reflected as private grants and contracts in the accompanying statements of revenues, expenses, and changes in net position.

(15) Commitments and Contingencies

(a) Grants and Contracts

At September 30, 2014 and 2013, the University had been awarded approximately $23,990,000 and $24,175,000, respectively, in grants and contracts for which resources had not been received and for which reimbursable expenditures had not been made for the purposes specified. These awards, which represent commitments of sponsors to provide funds for research or training projects, have not been reflected in the accompanying basic financial statements as the eligibility requirements of the award have not been met. Advances include amounts received from grant and contract sponsors which have not been earned under the terms of the agreements and, therefore, have not yet been included in revenues in the accompanying basic financial statements. Federal awards are subject to audit by Federal agencies. The University's management believes any adjustment from such audits will not be material.

(b) Letter of Credit

In connection with the Hospitals' participation in the State of Alabama Medicaid Program, the University has established a $77,000 irrevocable standby letter of credit with Wells Fargo, N.A. The Alabama Medicaid Agency is the beneficiary of this letter of credit. No funds were advanced under this letter during the years ended September 30, 2014 and 2013.

(Continued)

(c) Litigation

Various claims have been filed against the University alleging discriminatory employment practices and other matters. University administration and legal counsel are of the opinion the resolution of these matters will not have a material effect on the financial position or the statements of revenues, expenses, and changes in net position of the University.

(d) Rent Supplement Agreements

The University has entered into two irrevocable rent supplement agreements with the Corporation and a financial institution. The agreements require that, in the event the Corporation fails to maintain a debt service coverage ratio of one to one with respect to all of its outstanding indebtedness, the University will pay to the Corporation any and all rent amounts necessary to cause the Corporation's net operating income to be equal to the Corporation's annual debt service obligations (see note 8). As of September 30, 2014 and 2013, no amounts were payable pursuant to these agreements.

(e) State Bond Issues

The State of Alabama has made allocations to the University from bond issues in prior years. Pursuant to these allocations, at September 30, 2014, approximately $112,000 is unspent and remains available to the University for certain future construction costs. The allocations have not been reflected in the accompanying basic financial statements.

(f) Sale of Brookley Campus

On September 29, 2010, the University and the USA Foundation executed purchase and sale agreement calling for the University to sell approximately 327 acres on Mobile Bay, known as the Brookley campus, to the Foundation. The terms of the agreement required the Foundation to pay the University $20,000,000; $4,000,000 at closing and $4,000,000 annually thereafter through the 2015 fiscal year. The sale closed on November 10, 2010 and the initial payment was received by the University at that point. The transaction is recorded as an installment sale. As such, during the years ended September 30, 2014 and 2013, the University reported a gain on the sale of $2,201,000 and $2,116,000, respectively, which is reported as other nonoperating revenues in the statements of revenues, expenses and changes in net position. At September 30, 2014, the University is reporting a note receivable from the Foundation in the amount of $3,846,000 (reported as a current asset in notes receivable) and unrecognized revenue in the amount of $2,289,000 (reported as current unrecognized revenue). At September 30, 2013, the University is reporting a note receivable from the Foundation in the amount of $7,544,000 ($3,698,000 is reported as a current asset in notes receivable and $3,846,000 is reported as a noncurrent asset in noncurrent notes receivable) and unrecognized revenue in the amount of $4,489,000 ($2,201,000 is reported as current unrecognized revenue and $2,288,000 as other noncurrent liabilities). The unrecognized revenue will be amortized as an installment gain as payments are received through 2015.

(g) USA Research and Technology Corporations Leases

The Corporation leases space in Building I to three tenants under operating leases. One lease has a 5-year initial term expiring in October 2018 with two 5-year renewal options. Another lease has a

10-year initial term expiring in March 2021, an option to cancel at the end of 6 years, and two 5-year renewal options. The third lease has a 67-month initial term expiring in December 2018 with no renewal options.

Space in Buildings II and III is leased under operating leases to the University and various other tenants. These leases have terms varying from month-to-month to ten years.

The Corporation leases from the University the third floor of a campus building. Located on that floor is the Coastal Innovation Hub (the Hub), a technology incubator, which currently houses three tenants with month-to-month leases.

Under leases for Buildings I, II, and III, the Corporation must pay all operating expenses of the buildings, including utilities, janitorial, maintenance, property taxes, and insurance. Tenants will reimburse the Corporation for such expenses only as the total expenses for a year increase over the total expenses for the base year of the lease (the Corporation's fiscal year beginning after the date the lease is signed). Under Hub leases, the Corporation must pay all operating expenses of the space, without reimbursement from tenants.

Space under lease to the University was 46,700 and 48,900 square feet at September 30, 2014 and 2013, respectively.

The Corporation owns a building located on the premises of the USA Medical Center which is leased to a single tenant. The Corporation paid for construction of the building shell and land improvements while the tenant paid for the cost of finishing the building's interior. The lease has a ten year initial term with three five-year renewal options. Under the lease, the tenant must also pay for utilities, taxes, insurance, and interior repairs and maintenance. The Corporation is responsible for repairs and maintenance to the exterior and HVAC system.

The Corporation, as lessor, had three ground leases in place at September 30, 2014 and 2013. One lease is for a 40-year initial term with 20-year, and 15-year renewal options. The second lease is for a 30-year initial term with four 5-year renewal options. The third lease has a 38.5-year initial term with 20-year and 15-year renewal options.

Minimum future rentals by fiscal year are as follows (in thousands):

2015	$	2,454
2016		1,894
2017		1,831
2018		1,721
2019		1,116
2020–2046		7,623
Total	$	16,639

(16) Functional Information

Operating expenses by functional classification for the years ended September 30, 2014 and 2013 are listed below (in thousands). In preparing the basic financial statements, all significant transactions and balances among accounts have been eliminated.

		2014	2013
Instruction	$	128,785	118,254
Research		22,454	21,095
Public service		39,601	46,723
Academic support		16,791	15,999
Student services		31,421	28,673
Institutional support		25,903	28,528
Operation and maintenance of plant		27,978	26,459
Scholarships		7,299	6,532
Hospital		286,387	265,775
Auxiliary enterprises		15,501	14,233
Depreciation and amortization		31,858	29,849
	$	633,978	602,120

(17) Blended Component Units

As more fully described in notes 1(b) and 1(c), the LLC, PLTF and GLTF are considered component units pursuant to the provisions of GASB Statement No. 61. In accordance with that statement, the LLC, PLTF and GLTF are reported as blended component units. Required combining financial information of the aggregate blended component units is presented below (in thousands):

		2014	2013
Current assets	$	9,257	21,018
Noncurrent assets		49,706	29,755
Total assets		58,963	50,773
Current liabilities		33,460	34,187
Noncurrent liabilities		24,981	16,301
Total liabilities		58,441	50,488
Net position	$	522	285
Operating revenues	$	103,895	83,710
Operating expenses		(105,665)	(86,948)
Operating loss		(1,770)	(3,238)
Nonoperating revenues		2,006	3,325
Change in net position	$	236	87

(18) Significant New (Future) Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions.* GASB Statement No. 68 changes accounting and financial reporting for entities participating in certain pension plans and will be effective for the year ending September 30, 2015. Statement No. 68 will require the University to record its share, as determined by an independent actuary, of the net unfunded pension liability, and its share of the changes in that net pension liability, for all cost-sharing defined benefit plans in which it participates.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations.* GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposal of government operations and will be effective for the year ending September 30, 2015. In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date.* GASB Statement No. 71 was issued as an amendment of GASB Statement No. 68 with an objective of addressing an issue regarding application of the transition provisions of Statement No. 68 relating to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. Statement 71 will be effective for the year ending September 30, 2015.

(Continued)

While the impact of the implementation of GASB Statement No. 68 has not yet been determined, it is expected that such implementation will have a material effect on the net position of the University. The effect of the implementation of GASB Statements Nos. 69 and 71 on the University has not been determined.

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)

Schedule of Expenditures of Federal Awards

Year ended September 30, 2014

Federal sponsor / Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through expenditures	Total expenditures
Student Financial Aid Cluster*:						
U.S. Department of Education:						
Federal Supplemental Educational Opportunity Grant Program	84.007			$ 294,223	—	294,223
Federal Work Study Program	84.033			506,671	—	506,671
Federal Pell Grant Program	84.063			19,870,057	—	19,870,057
Federal Direct Student Loan Program	84.268			113,234,065	—	113,234,065
Teacher Education Assistance for College and Higher Education	84.379			32,980	—	32,980
Nurse Faculty Loan Program	93.264			158,581	—	158,581
Total Student Financial Aid Cluster				134,096,577	—	134,096,577
Research and Development Cluster:						
U.S. Department of Agriculture:						
Plant and Animal Disease Pest Control and Animal Care	10.025			29,160	—	29,160
Wetlands Reserve Program	10.072			(10,959)	—	(10,959)
Forestry Research	10.652			72,872	—	72,872
Total U.S. Department of Agriculture				91,073	—	91,073
U.S. Department of Commerce:						
Sea Grant Support	11.417	USM-GR04867-01	MS-AL Sea Grant	—	21,861	21,861
Sea Grant Support	11.417	USM-GR03924-R/HCE-01	University of Southern Mississippi	—	26,162	26,162
Sea Grant Support	11.417	USM-GR03924-R/HCE-03-PD	University of Southern Mississippi	—	9,965	9,965
Total CFDA				—	57,988	57,988
Fisheries Development and Utilization	11.427			2,404	—	2,404
Marine Fisheries Initiative	11.433			157,382	—	157,382
Unallied Management Projects	11.454			131,708	—	131,708
Congressionally Identified Award and Projects	11.469	10-62-08-A3	Exxon Valdez Oil Spill Trustee	—	3,943	3,943
Center for Sponsored Coastal Ocean Research – Coastal Ocean	11.478	ORSP-10097-20096-1	Florida Gulf Coast University	—	78,074	78,074
Center for Sponsored Coastal Ocean Research – Coastal Ocean	11.478			26,085	—	26,085
Total CFDA				26,085	78,074	104,159
Total U.S. Department of Commerce				317,579	140,005	457,584
U.S. Department of Defense:						
Procurement Technical Assistance For Business Firms	12.002	140,151	Small Business Innovation Research	—	27,238	27,238
Basic and Applied Scientific Research	12.300	TAI-13-1113	Thermoanalyties, Inc.	—	14,452	14,452
Basic Scientific Research – Combating Weapons of Mass Destruction	12.351			205,477	—	205,477
Military Medical Research and Development	12.420			2,172	—	2,172
Basic Scientific Research	12.431			30,684	—	30,684
Air Force Defense Research Sciences Program	12.800			97,166	—	97,166
Information Security Grant Program	12.902			3,150	—	3,150
Total U.S. Department of Defense				338,649	41,690	380,339
U.S. Department of Interior:						
Mineral Management Services Environmental Studies Program	15.423	50065.13	University of New Orleans	—	115,344	115,344
Sport Fish Restoration Program	15.605	130033/140103/130032	Alabama Department of Conservation and Natural Resources	—	198,704	198,704
Historic Preservations Funds	15.904	130349	J O Collins Contractor, Inc.	—	152	152
National Park Service Conservation, Protection, Outreach and Education	15.954			4,473	—	4,473
National Park Service Conservation, Protection, Outreach and Education	15.954	P11AC90959	National Park Service	—	8,346	8,346
Total CFDA				4,473	8,346	12,819
Total U.S. Department of Interior				4,473	322,546	327,019
U.S. Department of Transportation:						
Highway Planning and Construction	20.205	930-811R/841R/839R/856R	Alabama Department of Transportation	—	362,194	362,194
Highway Planning and Construction	20.205	TASK ORDER 5000	Kilgore Consulting & Management	—	37,448	37,448
Highway Planning and Construction	20.205	130073	University of Alabama	—	46,280	46,280
Total U.S. Department of Transportation				—	445,922	445,922

(Continued)

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)

Schedule of Expenditures of Federal Awards

Year ended September 30, 2014

Federal sponsor / Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through expenditures	Total expenditures
National Aeronautics and Space Administration:						
Aerospace Education Services Program	43.001	SUB2010-2006	University of Alabama in Huntsville	$ —	169,834	169,834
Technology Transfer	43.002	SUB2010-176-A2-02	University of Alabama in Huntsville	—	6,171	6,171
Education	43.008	XHAB 2014-02	National Space Grant Foundation	—	15,186	15,186
Education	43.008	2013-067	University of Alabama in Huntsville	—	15,054	15,054
Education	43.008	USM GRO4613-001	University of Southern Mississippi	—	(4,926)	(4,926)
Total CFDA				—	25,314	25,314
Total National Aeronautics and Space Administration				—	201,319	201,319
National Science Foundation:						
Engineering Grants	47.041			155,923	—	155,923
Engineering Grants	47.041	120084	National Science Foundation	—	1,604	1,604
Total CFDA				155,923	1,604	157,527
Mathematical and Physical Sciences	47.049			85,863	—	85,863
Geosciences	47.050			123,191	—	123,191
Geosciences	47.050	TASK ORDER D-9	Dauphin Island Sea Lab	—	(1,377)	(1,377)
Total CFDA				123,191	(1,377)	121,814
Computer and Information Science and Engineering	47.070			369,191	—	369,191
Biological Sciences	47.074			218,506	—	218,506
Biological Sciences	47.074	NYBG-120619710-USAM	New York Botanical Gardens	—	15,941	15,941
Total CFDA				218,506	15,941	234,447
Social Behavioral and Economic Sciences	47.075			13,265	—	13,265
Education and Human Resources	47.076			709,645	—	709,645
Polar Programs	47.078			86,493	—	86,493
Office of Experimental Programs	47.081	34-21530-200-76190	Tuskegee University	—	69,871	69,871
Office of Experimental Programs	47.081	SUB2011-026	University of Alabama in Huntsville	—	(1,664)	(1,664)
Total CFDA				—	68,207	68,207
Total National Science Foundation				1,762,077	84,375	1,846,452
U.S. Environmental Protection Agency:						
Dendritic Polymers as Biocompatible	66.509	1614-218-2008962	Clemson University	—	69,064	69,064
U.S. Department of Energy:						
Basic Energy Sciences University and Science Education	81.049			5,352	—	5,352
Basic Energy Sciences University and Science Education	81.049	DE-SC0002470	University of Alabama	—	442	442
Basic Energy Sciences University and Science Education	81.049	UA13-073	University of Alabama	—	10,188	10,188
Basic Energy Sciences University and Science Education	81.049	10-ENG-246590-USA	Auburn University	—	17,283	17,283
Total U.S. Department of Energy				5,352	27,913	33,265
U.S. Department of Education:						
Research in Special Education	84.324			(921)	—	(921)
Project C. A. R. E	84.377	110347	Information Transport Solutions, Inc.	—	52,981	52,981
Total U.S. Department of Education				(921)	52,981	52,060
U.S. Department of Health and Human Services:						
Environmental Health	93.113	100,340	Exscien	—	12,084	12,084
Environmental Health	93.113	HSR-SSS-S-14-003667	Social and scientific Systems Inc.	—	235,685	235,685
Environmental Health	93.113			(16,325)	—	(16,325)
Total CFDA				(16,325)	247,769	231,444
Minority Health and Health Disparities Research	93.307			1,288,453	—	1,288,453
Minority Health and Health Disparities Research	93.307	USM-GR04826-01	University of Southern Mississippi	—	35,778	35,778
Total CFDA				1,288,453	35,778	1,324,231
Trans – NIH Research Support	93.310			113,556	—	113,556
National Center for Research Resources	93.389			241,011	—	241,011

(Continued)

Federal sponsor / Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through expenditures	Total expenditures
Cancer Cause and Prevention Research	93.393			$ 1,364,991	—	1,364,991
Cancer Cause and Prevention Research	93.393	000369558-001	University of Alabama at Birmingham	—	2,405	2,405
Cancer Cause and Prevention Research	93.393	S12001	Southern Research Institute	—	15,126	15,126
Total CFDA				1,364,991	17,531	1,382,522
Cancer Detection and Diagnosis Research	93.394			413,589	—	413,589
Cancer Treatment Research	93.395			206,215	—	206,215
Cancer Treatment Research	93.395	98543-1234	National Childhood Cancer Foundation	—	(80,587)	(80,587)
Cancer Treatment Research	93.395	AL0088	Brigham and Women's Hospital	—	(53)	(53)
Cancer Treatment Research	93.395	27469-02	University of Alabama	—	3,680	3,680
Total CFDA				206,215	(76,960)	129,255
Cancer Biology Research	93.396			348,356	—	348,356
Cancer Centers Support	93.397	000402714-001	University of Alabama at Birmingham	—	15,195	15,195
NIH Recovery Act Research Support	93.701	9500010213	Children's Hospital of Philadelphia	—	102,003	102,003
ARRA-National Center for Research Resources, Recovery Act Construction Support	93.702			320,170	—	320,170
Cardiovascular Diseases Research	93.837			698,455	—	698,455
Cardiovascular Diseases Research	93.837	PS#107223	Brigham and Women's Hospital	—	8,167	8,167
Total CFDA				698,455	8,167	706,622
Lung Diseases Research	93.838			3,709,768	—	3,709,768
Lung Diseases Research	93.838	080-18007-S11201	Thomas Jefferson University	—	28,676	28,676
Total CFDA				3,709,768	28,676	3,738,444
Blood Diseases and Resources Research	93.839	130317	Cincinnati Children's Hospital Medical Center	—	28,336	28,336
Blood Diseases and Resources Research	93.839	T098327	Emory University	—	56,352	56,352
Total CFDA				—	84,688	84,688
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	VUMC37157	Vanderbilt University	—	1,907	1,907
Clinical Research Related to Neurological Disorders	93.853	AO9014 – M10A10568	Yale University	—	(4,443)	(4,443)
Allergy Immunology and Transplantation Research	93.855			807,638	—	807,638
Allergy Immunology and Transplantation Research	93.855	2012-2764	The Regents of the University of California	—	119,673	119,673
Total CFDA				807,638	119,673	927,311
Pharmacology Physiology and Biological Chemistry	93.859			396,133	—	396,133
Pharmacology Physiology and Biological Chemistry	93.859	HSR-SSS-S-13-003170	Social and Scientific Systems, Inc.	—	75,215	75,215
Total CFDA				396,133	75,215	471,348
Vision Research	93.867			22,840	—	22,840
Total U.S. Department of Health and Human Services				9,914,850	655,199	10,570,049
Total Research and Development Cluster				12,433,132	2,041,014	14,474,146
Other federal assistance:						
U.S. Department of Commerce:						
Congressionally Identified Projects	11.617			202,199	—	202,199
U.S. Department of Transportation:						
Highway Research and Development Program	20.200	TASK ORDER 12005	Kilgore Consulting & Management	—	3,822	3,822
National Aeronautics and Space Administration:						
Aerospace Education Services Program	43.001	Various	University of Alabama in Huntsville	—	21,317	21,317
Technology Transfer	43.002	Various	University of Alabama in Huntsville	—	27,221	27,221
Total National Aeronautics and Space Administration				—	48,538	48,538
National Endowment for the Humanities:						
Promotion of the Humanities Federal-State Partnership	45.129	0913-2141 EX	Alabama Humanities Foundation	—	4,000	4,000
National Science Foundation:						
Education and Human Resources	47.076	000398033-006	University of Alabama at Birmingham	—	41,153	41,153
Education and Human Resources	47.076	12-120333	Mobile Area Education Foundation Inc.	—	52,217	52,217
Total CFDA				—	93,370	93,370

(Continued)

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)

Schedule of Expenditures of Federal Awards

Year ended September 30, 2014

Federal sponsor / Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through expenditures	Total expenditures
ARRA-Pathway to Science	47.082	AA-5-31980	National Science Foundation	$ —	(88)	(88)
ARRA-Pathway to Science	47.082			190,595	—	190,595
Total CFDA				190,595	(88)	190,507
Total National Science Foundation				190,595	93,282	283,877
U.S. Environmental Protection Agency						
Science to Achieve Results	66.514			9,844	—	9,844
U.S. Department of Education:						
TRIO Cluster:						
TRIO Talent Search	84.044			281,711	—	281,711
TRIO Upward Bound	84.047			252,681	—	252,681
Total TRIO Cluster				534,392	—	534,392
Special Education – State Personnel Development	84.323	C3U0473	Alabama State Department of Education	—	55,319	55,319
Mathematics and Science Partnerships	84.366	Various	Alabama Department of Education	—	467,767	467,767
Improving Teacher Quality State Grants	84.367	Various	Alabama Commission of Higher Education	—	196,145	196,145
Improving Teacher Quality State Grants	84.367	13-130286	Alabama State Department of Education	—	6,390	6,390
Total CFDA				—	202,535	202,535
Total U.S. Department of Education				534,392	725,621	1,260,013
U.S. Department of Health and Human Services:						
Alzheimer's Disease Demonstration Grants to States	93.051	13-130338	South Alabama Regional Planning Commission	—	10,679	10,679
Personal Responsibility Education Program	93.092	C30117231(GC 13-372)	State of Alabama Department of Public Health	—	1,339	1,339
HIV Demonstration Program for Children, Adolescence, and Women	93.153			355,588	—	355,588
Advanced Education Nursing Grant Programs	93.247			1,436,911		1,436,911
Centers for Disease Control	93.283	C30117286(GC 13-480)	State of Alabama Department of Public Health	—	221,881	221,881
Basic Nurse Education and Practice Grants*	93.359			691,792	—	691,792
Strong Start for Mothers and Newborns	93.611			297,623	—	297,623
Foster Care Title IV-E	93.658	UA14-030	Health and Human Services Office of the Secretary	—	101,414	101,414
ARRA-Health Information Technology Regional Extension Centers Program	93.718			1,191,069	—	1,191,069
Lung Diseases Research	93.838			20,106	—	20,106
Medical Library Assistance	93.879	8278	University of Maryland	—	45,502	45,502
Grants for Residency Training for General Pediatrics	93.884			568,109	—	568,109
Health Care and Other Facilities	93.887			(3,372)	—	(3,372)
National Bioterrorism Hospital Preparedness Program*	93.889	Various	Alabama Department of Public Health	—	1,239,617	1,239,617
HIV Care Formula Grants	93.917	RW-USAF-1314	United Way of Central Alabama	—	25,134	25,134
Cooperative Agreements to Support State-Based Infant	93.946	140012	Mobile County Health Department	—	132,296	132,296
Maternal and Child Health Services Block Grant	93.994	Various	State of Alabama Department of Public Health	—	12,556	12,556
Total U.S. Department of Health and Human Services				4,557,826	1,790,418	6,348,244
Corporation for National and Community Service:						
AmeriCorps	94.006			29,252	—	29,252
Office of National Drug Control Policy						
High Intensity Drug Trafficking Areas Program	95.001	3HUS	State of Alabama Dept of Public Health	—	9,030	9,030
Total other federal assistance				5,524,108	2,674,711	8,198,819
Total federal expenditures				$ 152,053,817	4,715,725	156,769,542

* Denotes a major program.

See accompanying notes to the schedule of expenditures of federal awards.

See accompanying independent auditors' report.

(1) Basis of Presentation

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

(2) Campus-Based Loan Programs

Outstanding campus-based federal loans made by the University are included in notes receivable in the University's 2014 statement of net position and consist of the following loan programs:

	CFDA #		Outstanding amount at September 30, 2014	Amount advanced in 2014
Federal Perkins Loan Program	84.038	$	3,491,337	276,000
Nurse Faculty Loan Program	93.264		481,481	112,069
Nurse Faculty Loan Program ARRA	93.408		39,633	—
		$	4,012,451	388,069

(3) Contingencies

The University's federal programs are subject to financial and compliance audits by grantor agencies which may result in disallowed expenditures and affect the University's continued participation in specific programs.

(4) Federal Direct Student Loans (CFDA #84.268)

The University's Federal Direct Student Loan Program (Direct Loan) included in the Schedule represents loans advanced to students of the University during fiscal year 2014, which were not made by the University. Accordingly, Direct Loan amounts are not reflected in the University's basic financial statements. It is not practicable to determine the balance of loans outstanding to students and former students of the University under these programs as of September 30, 2014.

UNIVERSITY OF SOUTH ALABAMA

(A Component Unit of the State of Alabama)

Notes to Schedule of Expenditures of Federal Awards

September 30, 2014

During fiscal year ended September 30, 2014, the University advanced to students the following amounts of new loans under Direct Loan Programs:

		Amount advanced
Stafford loans	$	23,469,979
Unsubsidized Stafford loans		72,701,361
Parent Loans for Undergraduate Students		17,062,725
Total	$	113,234,065

(5) Subrecipients

Of the federal expenditures presented in the Schedule, the University provided federal awards to subrecipients under the following programs during the year ended September 30, 2014:

	Federal CFDA #		Amounts expended
Marine Fisheries Initiative	11.433	$	65,839
Unallied Management Projects	11.454		5,080
Basic Scientific Research- Combating Weapons of Mass Destruction	12.351		5,900
Geosciences	47.050		2,436
Education and Human Resources	47.076		13,222
Environmental Health	93.113		2,287
HIV Demonstration Program for Children Adolescents and Women	93.153		10,141
Trans- NIH Research Support	93.310		27,059
National Center for Research Resources	93.389		78,609
Cancer Cause and Prevention Research	93.393		207,429
ARRA-Health Information Technology Regional Extension Centers Program	93.718		284,705
Lung Diseases Research	93.838		398,895
Allergy Immunology and Transplantation Research	93.855		61,278
Grants for Residency Training for General Pediatrics	93.884		8,661
Center for Sponsored Coastal Ocean Research - Coastal Ocean	11.478		1,589
Mineral Management Services Environmental Studies Program	15.423		6,021
Sport Fish Restoration Program	15.605		3,810
Aerospace Education Services Program	43.001		112,183
Mathematics and Science Partnerships	84.366		35,051
Improving Teacher Quality State Grants	84.367		92,740
		$	1,422,935

(6) Matching

Under the Federal Supplemental Education Opportunity Grant Program, the University matched $133,994 in funds awarded to students for the year ended September 30, 2014 in addition to the Federal share of expenditures included in the Schedule.

KPMG LLP
Suite 1100
One Jackson Place
188 East Capitol Street
Jackson, MS 39201-2127

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

The Board of Trustees
University of South Alabama:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the basic financial statements of the University of South Alabama, a component unit of the State of Alabama, (the University) and its aggregate discretely presented component units as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 14, 2014. Our report includes a reference to other auditors who audited the financial statements of the University of South Alabama Foundation, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing on internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the University of South Alabama Foundation, the University of South Alabama Health Services Foundation, the USA Research and Technology Corporation, and the Professional and General Liability Trust Funds were not audited in accordance with *Government Auditing Standards.*

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given those limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

KPMG LLP

Jackson, Mississippi
November 14, 2014

KPMG

KPMG LLP
Suite 1100
One Jackson Place
188 East Capitol Street
Jackson, MS 39201-2127

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

The Board of Trustees
University of South Alabama:

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

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

KPMG

Report on Internal Control Over Compliance

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

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

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

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

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

We have audited the basic financial statements of the University and its aggregate discretely presented component units as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated November 14, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Jackson, Mississippi
November 14, 2014

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Schedule of Findings and Questioned Costs
Year ended September 30, 2014

I – Summary of Auditor's Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	_____ yes __x__ no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____ yes __x__ none reported
Noncompliance material to financial statements noted?	_____ yes __x__ no

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	_____ yes __x__ no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____ yes __x__ none reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	_____ yes __x__ no

Identification of major programs:

CFDA Numbers	Name of Federal Program/Cluster
84.007, 84.033, 84.038, 84.063, 84.268, 84.379, 93.264, 93.408	Student Financial Aid Cluster
93.359	Basic Nurse Education and Practice Grants
93.889	National Bioterrorism Hospital Preparedness Program

Dollar threshold used to distinguish between type A and type B programs:	$ 680,189
Auditee qualified as low-risk auditee?	_____ yes __x__ no

Section II – Findings Related to Financial Statements Reported in Accordance with *Government Auditing Standards*

There were no findings related to the financial statements reported in accordance with *Government Auditing Standards* for the year ended September 30, 2014.

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Schedule of Findings and Questioned Costs
Year ended September 30, 2014

Section III – Federal Award Findings and Questioned Costs relating to Federal Awards

There were no findings related to federal awards for the year ended September 30, 2014.

KPMG LLP
Suite 1100
One Jackson Place
188 East Capitol Street
Jackson, MS 39201-2127

November 14, 2014

Audit Committee
of the Board of Trustees
University of South Alabama

Ladies and Gentlemen:

We have audited the basic financial statements of the University of South Alabama, a component unit of the State of Alabama, (the University) and its aggregate discretely presented component units as of September 30, 2014 and issued our report thereon dated November 14, 2014. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audit.

Our Responsibility Under Professional Standards

We are responsible for forming and expressing an opinion about whether the basic financial statements that have been prepared by management with the oversight of the Audit Committee of the Board of Trustees, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We have a responsibility to perform our audit of the financial statements in accordance with professional standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected. Our audit does not relieve management or the Audit Committee of the Board of Trustees of their responsibilities.

In addition, in planning and performing our audit of the basic financial statements, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of the Audit Committee of the Board of Trustees in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the University's basic financial statements and our auditors' report thereon does not extend beyond the financial information identified in our auditors' report, and we have no obligation to perform any procedures to corroborate other information contained in these documents, for example, Management's Discussion and Analysis of Financial Condition and Results of Operations. We have, however, read the other information included in the University's basic financial statements, and no matters came to our attention that cause us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the basic financial statements.

Accounting Policies and Alternative Treatments

Significant Accounting Policies

The significant accounting policies used by the University are described in Note 1 to the basic financial statements. No new significant changes in accounting policies were adopted during the year ended September 30, 2014.

Unusual Transactions

In December 2013, the counterparty exercised its option with respect to the 2004 swaption and forced the University into an underlying swap. The University refunded its Series 2004 bonds, issued the 2014-A variable rate bonds and terminated the Series 2004 swaption. As a result of this termination, the borrowing arising from the Series 2004 swaption of $1,696,000 and the investment derivative of $5,213,000 were written off and an investment loss of $2,229,000 was recognized. A borrowing arising from the 2014 swap of $9,138,000 was recognized and is reported in the statement of net position at September 30, 2014.

Qualitative Aspects of Accounting Practices

We have discussed with those charged with governance our judgments about the quality, not just the acceptability, of the University's accounting principles as applied in its financial reporting. Since the primary responsibility for establishing a university's accounting policies rests with management, management is generally an active participant in these discussions. The discussions generally included such matters as the consistency of the University's accounting policies and their application, and the understandability and completeness of the University's basic financial statements, which include related disclosures.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

Management's estimates of the allowances for uncollectible accounts and contractual adjustments are based on, among other things, analyses of historical trends, the aging and mix of accounts receivable at year-end and expected third-party payor payment rates. Estimated professional and general liability costs and self-insurance reserves for employee health insurance are based on, among other things, reviews of occurrences accumulated by incident reporting systems, discussions with risk management professionals, actuarial valuations and consideration of recent developments. Additionally, the fair value of the University's derivatives is based on calculating future net settlement payments utilizing forward rates implied by the yield curve based on future spot interest rates. The payments are discounted using spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of future settlement.

We evaluated the key factors and assumptions used in developing these accounting estimates to determine that they are reasonable in relation to the financial statements of the University taken as a whole.

Uncorrected Misstatements

There were no uncorrected misstatements related to the University's basic financial statements.

Disagreements with Management

There were no disagreements with management on financial accounting and reporting matters that, if not satisfactorily resolved, would have caused a modification of our auditors' report on the University's basic financial statements.

Consultation with Other Accountants

To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the year ended September 30, 2014.

Material Written Communications

Attached to this letter please find copies of the following material written communications between management and us:

1. Engagement letters and
2. Management representation letters

* * * * * * *

KPMG

This report to the audit committee is intended solely for the information and use of the committee and management and is not intended to be and should not be used by anyone other than these specified parties. This report is not intended for general use, circulation, or publication and should not be published, circulated, reproduced, or used for any purpose without our prior written permission in each specific instance.

Very truly yours,

KPMG LLP

KPMG

KPMG LLP
Suite 1100
One Jackson Place
188 East Capitol Street
Jackson, MS 39201-2127

Telephone +1 601 354 3701
Fax +1 601 354 3745
Internet www.us.kpmg.com

11/12/14

November 5, 2014

PRIVATE

University of South Alabama
Attn: Mr. Stephen H. Simmons
Vice President for Financial Affairs
307 University Boulevard North, AD 170
Mobile, Alabama 36688-0002

Dear Mr. Simmons:

This letter (the Engagement Letter) sets forth our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will apply the following agreed-upon procedures related to assist The Board of Trustees and Management of the University of South Alabama (the University) in evaluating the Statement of Changes in Cash and Investments Held by Trustee Pursuant to the Bond Resolutions and the Statement of Investments Held by Trustee Pursuant to the Bond Resolutions relating to the University Tuition Revenue Bonds, Series 1999, University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, University Facilities Revenue Capital Improvement Bonds, Series 2008, University Facilities Revenue Capital Improvement Bond, Series 2010, University Facilities Revenue Capital Improvement Bonds, Series 2012-A and 2012-B, University Facilities Revenue Capital Improvement Bonds, Series 2013-A, Series 2013-B, and Series 2013-C and University Facilities Revenue Refunding Bond, Series 2014-A as of September 30, 2014 and for the year then ended.

We will compare the amounts shown on the Statement of Changes in Cash and Investments Held by Trustee Pursuant to the Bond Resolutions in Exhibit A to the annual trustee statements of cash and investment transactions provided to us by the bond trustee and ensure that they agree.

We will compare the amounts shown on the Statement of Investments Held by Trustee Pursuant to the Bond Resolutions in Exhibit B to the annual trustee statements of cash and investment transactions provided to us by the bond trustee and ensure that they agree.

We will obtain a schedule of general student fees (tuition) collected during the year ended September 30, 2014, and compare that amount to the general student fees recorded in the University's general ledger and ensure that they agree.

KPMG

At the conclusion of the engagement, management agrees to supply us with a representation letter that, among other things, will confirm management's responsibility for the sufficiency of the agreed-upon procedures for its purposes and the fair presentation of the specified elements, accounts, or items of the financial statements in conformity with accounting principles generally accepted in the United States of America.

Our engagement to apply agreed-upon procedures will be performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures either for the purpose for which our report is being prepared or for any other purpose.

Because the agreed-upon procedures referred to above do not constitute an audit, we will not express an opinion on any of the elements, accounts, or items of management's Statement of Changes in Cash and Investments Held by Trustee. Our report will include a statement to that effect. In addition, we have no obligation to perform any procedures beyond those referred to above.

Our report will include a list of the procedures performed (or reference thereto) and the related findings. Our report will also contain a paragraph indicating that had we performed additional procedures, other matters might have come to our attention that would have been reported to you. We have no responsibility to update our report for events and circumstances occurring after the date of such report.

Our report is intended solely for the use of University management, and is not intended for use by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. If you request that additional specified users of the report be added, we will require that they acknowledge, in writing, their agreement with the procedures and their responsibility for the sufficiency of the procedures for their purposes.

During the course of our procedures, we may consider it necessary to perform additional procedures in order to accomplish the stated purposes of the procedures described. Any such additional procedures will be outlined in our draft report, which will be reviewed by the University management prior to final issuance, in order to ensure that the procedure were sufficient to accomplish the purposes of the University. If we are unable to complete the agreed-upon procedures referred to above, we will discuss the matter with University management during the engagement. In such circumstances, we may conclude that we will not issue a report as a result of this engagement.

By approving this engagement, you agree to release KPMG and its personnel from any claims, liabilities, costs, and expenses relating to our service under this letter, except to the extent determined to have resulted from the intentional or deliberate misconduct of KPMG personnel. In the event KPMG is required pursuant to subpoena or other legal process to produce its documents relating to engagements for the University in judicial or administrative proceedings to which KPMG is not a party, the University shall reimburse KPMG for its professional time and expense, including reasonable attorney's fees, incurred in responding to such requests.

We shall be pleased to discuss this letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Please sign and return it to us.

Very truly yours,

KPMG LLP

Partner

MPP:jm

Enclosures

ACCEPTED:

University of South Alabama

Stephen H Simmons

Mr. Stephen H. Simmons
Vice President for Financial Affairs

Date

3/28/14
ACF

KPMG

KPMG LLP
Suite 1100
One Jackson Place
188 East Capitol Street
Jackson, MS 39201-2127

March 25, 2014

Mr. Stephen H. Simmons
Vice President for Financial Affairs
University of South Alabama
307 University Boulevard North, AD 170
Mobile, Alabama 36688-0002

Dear Steve:

This letter amends our engagement letter dated January 25, 2012, confirming our understanding to provide professional audit services to the University of South Alabama (the University) by substituting the attached Appendix I for the Appendix I originally attached to our engagement letter.

The attached Appendix I lists the services to be rendered and related fees to provide each specified service for the identified time period. Except as specified in this letter and in the Appendix I attached to this letter, all provisions of the aforementioned engagement letter remain in effect until either the University's management or we terminate this agreement or mutually agree to the modification of its terms.

While our reports may be sent to the University electronically for your convenience, only the hard copy reports are to be relied upon as our work product.

The University agrees to provide prompt notification if the University or any of its subsidiaries currently are or become subject to the laws of a foreign jurisdiction that require regulation of any securities issued by the University or such subsidiary.

KPMG uses the services of KPMG controlled entities, KPMG member firms and/or third party service providers to provide professional services and administrative, analytical and clerical support. These parties may have access to certain of your information with the understanding that the confidential information will be maintained under information controls providing equivalent protection as our own. You also understand and agree that KPMG aggregates your information with information from other sources for the purpose of improving audit quality and service, and for use in presentations to clients and non-clients in a form where it is sufficiently de-identified so as not to be attributable to the University or where the University could be identified as a source of the information.

As required by Government Auditing Standards, we have attached a copy of KPMG's most recent peer report.

We shall be pleased to discuss this letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Please sign in the space provided and return the copy to us.

Very truly yours,

KPMG LLP

Mark P. Peach
Partner

MPP:bt

Enclosures

ACCEPTED

University of South Alabama

Stephen H. Simmons

Mr. Stephen H. Simmons
Vice President for Financial Affairs

3/28/14
Date

Appendix I

Fees for Services

Based upon our discussions with and representations of management, our fees for services we will perform are estimated as follows:

	2014
Audit of financial statements of University of South Alabama as of and for the year ended September 30, 2014 and other reports detailed below (includes additional $75,000 for KPMG to perform substantially all audit procedures related to OMB Circular A-133 audit of two major programs)	$540,000

Other Reports:

The reports that we will issue as part of this engagement are as follows:

Report

Reports issued in connection with OMB Circular A-133
Debt covenant compliance report
Debt agreed upon procedures report
University of South Alabama Health Services Foundation
South Alabama Medical Science Foundation
USA Research and Technology Corporation
USA Professional Liability Trust Fund
USA General Liability Trust Fund
NCAA agreed upon procedures report

The above estimate is based on the level of experience of the individuals who will perform the services. In addition, expenses are billed for reimbursement as incurred. The fees assume that you will provide routine client assistance activities such as preparation of financial statements, certain account analyses, document retrieval and confirmation preparation. The fees also assume a commitment of approximately 400 hours of internal audit assistance related to the audit. The fees also assume no significant changes in operations, no significant increase in the purchase of additional alternative investments, and that we will only have to audit two major programs associated with OMB Circular A-133. Progress billings will be sent every two weeks and are due within thirty days upon receipt.

Where KPMG is reimbursed for expenses, it is KPMG's policy to bill clients the amount incurred at the time the good or service is purchased. If KPMG subsequently receives a volume rebate or other incentive payment from a vendor relating to such expenses, KPMG does not credit such payment to the client. Instead, KPMG applies such payments to reduce its overhead costs, which costs are taken into account in determining KPMG's standard billing rates and certain transaction charges which may be charged to clients.

pwc

System Review Report

To the Partners of KPMG LLP
and the National Peer Review Committee of the AICPA Peer Review Board

We have reviewed the system of quality control for the accounting and auditing practice of KPMG LLP (the Firm), applicable to non-SEC issuers, in effect for the year ended March 31, 2011. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the Firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*, audits of employee benefit plans, an audit performed under FDICIA, and an audit of a carrying broker-dealer.

In our opinion, the system of quality control for the accounting and auditing practice of KPMG LLP, applicable to non-SEC issuers, in effect for the year ended March 31, 2011, has been suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. KPMG LLP has received a peer review rating of *pass*.

PricewaterhouseCoopers LLP

December 2, 2011

PricewaterhouseCoopers LLP, 400 Campus Drive, P. O. Box 988, Florham Park, NJ 07932
T: (973) 236 4000, F: (973) 236 5000, www.pwc.com/us

AICPA Peer Review Program

American Institute of CPAs
220 Leigh Farm Road
Durham, NC 27707-8110

December 8, 2011

John B. Veihmeyer, CPA
KPMG LLP
345 Park Ave Bsmt LB6
New York, NY 10154

Dear Mr. Veihmeyer:

It is my pleasure to notify you that on December 8, 2011 the National Peer Review Committee accepted the report on the most recent system peer review of your firm. The due date for your next review is September 30, 2014. This is the date by which all review documents should be completed and submitted to the administering entity.

As you know, the report had a peer review rating of pass. The Committee asked me to convey its congratulations to the firm.

Sincerely,

James W. Brackens, Jr.
Vice President—Ethics and Quality Practice
+1.919.402.4502
nprc@aicpa.org

cc: Betty Jo Charles, CPA

Firm Number: 10054128 Review Number: 320334

Administered by the
National Peer Review Committee

AICPA Peer Review Program

American Institute of CPAs
220 Leigh Farm Road
Durham, NC 27707-8110

December 8, 2011

John B. Veihmeyer, CPA
KPMG LLP
345 Park Ave Bsmt LB6
New York, NY 10154

Dear Mr. Veihmeyer:

It is my pleasure to notify you that on December 8, 2011 the National Peer Review Committee accepted the report on the most recent system peer review of your firm. The due date for your next review is September 30, 2014. This is the date by which all review documents should be completed and submitted to the administering entity.

As you know, the report had a peer review rating of pass. The Committee asked me to convey its congratulations to the firm.

Sincerely,

James W. Brackens, Jr.
Vice President—Ethics and Quality Practice
+1.919.402.4502
nprc@aicpa.org

cc: Betty Jo Charles, CPA

Firm Number: 10054128 Review Number: 320334

Administered by the
National Peer Review Committee

UNIVERSITY OF SOUTH ALABAMA

VICE PRESIDENT
FOR FINANCIAL AFFAIRS

TELEPHONE: (251) 460-6132
AD 170 • MOBILE, ALABAMA 36688-0002

November 14, 2014

KPMG LLP
One Jackson Place, Suite 1100
188 East Capitol Street
Jackson, MS 39201

Ladies and Gentlemen:

We are providing this letter in connection with your audits of the basic financial statements of the University of South Alabama, a component unit of the State of Alabama, (the University), and its aggregate discretely presented component units as of and for the years ended September 30, 2014 and 2013, for the purpose of expressing opinions as to whether the basic financial statements and its aggregate discretely presented component units present fairly, in all material respects, the respective financial positions, changes in financial positions, and, where applicable, cash flows thereof in conformity with U.S. generally accepted accounting principles. We are also providing this letter to confirm our understanding that the purpose of your testing of transactions and records relating to the University's federal programs (A-133 audit) was to obtain reasonable assurance that the University had complied, in all material respects, with the requirements of law, regulations, contracts, and grants that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purposes of appropriately informing ourselves, as of November 14, 2014, the following representations made to you during your audits:

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated March 25, 2014, for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles.

2. We have made available to you:

a. All records, documentation, and information that is relevant to the preparation and fair presentation of the financial statements.

b. Additional information that you have requested from us for the purpose of the audits.

c. Unrestricted access and the full cooperation of personnel within the entity from whom you determined it necessary to obtain audit evidence.

d. All minutes of the meetings of Board of Trustees, and other appropriate committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. Except as disclosed to you in writing, there have been no communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.

4. There are no:

a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

b. Unasserted claims or assessments that our lawyers have advised us are probable of assertion and must be disclosed in accordance with paragraphs 96 – 113 of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Statement No. 62, paragraphs 96 – 113.

d. Material transactions, for example, grants and other contractual arrangements, that have not been properly recorded in the accounting records underlying the financial statements.

e. Events that have occurred subsequent to the date of the statement of net position and through the date of this letter that would require adjustment to or disclosure in the financial statements.

5. All known actual or possible litigation and claims have been accounted for and disclosed in accordance with GASB Statement No. 62, paragraphs 96 – 113.

6. The effects of the uncorrected financial statement misstatements, if any, summarized in the accompanying schedules are immaterial, both individually and in the aggregate, to the financial statements.

7. We acknowledge our responsibility for the design, implementation and maintenance of programs and controls to prevent and detect fraud; for adopting sound accounting policies; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements whether due to error or fraud. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.

   Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in financial statements to deceive financial statement users. Misstatements arising from misappropriation of assets involve theft of an entity's assets where the effect of the theft causes the financial statements not to be presented in conformity with U.S. generally accepted accounting principles.

8. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the entity's ability to initiate, authorize, record, process, or report financial data. We have separately disclosed to you all such deficiencies that we believe to be significant deficiencies or material weaknesses in internal control over financial reporting, as those terms are defined in AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*.

9. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

10. We have no knowledge of any fraud or suspected fraud affecting the entity involving:

    a. Management

    b. Employees who have significant roles in internal control over financial reporting, or

    c. Others where the fraud could have a material effect on the financial statements.

11. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements received in communications from employees, former employees, analysts, regulators, or others.

12. We have no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

13. We have no knowledge of any officer or trustee of the University, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate, or mislead you during your audits.

14. The following have been properly recorded or disclosed in the financial statements:

    a. Related party relationships and transactions of which we are aware in accordance with the requirements of U.S. generally accepted accounting principles, including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties. The term "related party" refers to government's related Universities, joint ventures, and jointly governed Universities, as defined in GASB Statement No. 14, The Financial Reporting Entity, as amended; elected and appointed officials of the government; its management; members of the immediate families of elected or appointed officials of the government and its management; and other parties with which the government may deal if one party can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

    b. Guarantees, whether written or oral, under which the University is contingently liable.

    c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, lines of credit or similar arrangements.

    d. Agreements to repurchase assets previously sold, including sales with recourse.

    e. Changes in accounting principle affecting consistency.

    f. The existence of and transactions with joint ventures and other related organizations.

15. The University has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral, except as disclosed in the footnotes to the financial statements.

16. The University has complied with all aspects of laws, regulations, contractual agreements, donor restrictions, and grants that may affect the financial statements, including noncompliance.

17. The University is responsible for compliance with the laws, regulations, donor restrictions, and provisions of contracts and grant agreements applicable to the University. Management has identified and disclosed to you all laws, regulations, donor restrictions, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.

18. There have been no:

    a. Instances of fraud that could have a material effect on the adjustments.

    b. Allegations, either written or oral, of misstatements or other misapplication of accounting principles in the University's adjustments that have not been disclosed to you in writing.

    c. Allegations, either written or oral, of deficiencies in internal control that could have a material effect on the University's adjustments that have not been disclosed to you in writing.

    d. False statements affecting the University's adjustments made to you, our internal auditors, or other auditors who have audited entities under our control upon whose work you may be relying in connection with your audits.

19. There are no material transactions that have not been properly recorded in the accounting records underlying the adjustments.

20. The University's reporting entity includes all entities that are component units of the University. Such component units have been properly presented as either blended or discrete. Investments in joint ventures in which the University holds an equity interest have been properly recorded on the statement of net position. The basic financial statements disclose all other joint ventures and other related organizations.

21. The basic financial statements properly classify all funds and activities, including governmental funds, which are presented in accordance with the fund type definitions in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

22. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, for presentation as major are identified and presented as such, and all other funds that are presented as major are considered to be particularly important to financial statement users by management.

23. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

24. Billings to third-party payors comply in all material respects with applicable coding guidelines (e.g., ICD-9-CM and CPT-4) and laws and regulations (including those dealing with Medicare and Medicaid antifraud and abuse) and only reflect charges for goods and

services that were medically necessary, ordered in writing by a treating physician, properly approved by regulatory bodies (for example, the Food and Drug Administration), if required, and properly rendered.

25. Amounts advanced to related entities represent valid receivables and are expected to be recovered at some future date in accordance with the terms of related agreements.

26. Receivables reported in the financial statements represent valid claims against debtors arising on or before the date of the statement of net position and have been appropriately reduced to their estimated net realizable value.

27. Deposits and investment securities are properly classified and reported.

28. The University is responsible for determining the fair value of certain investments as required by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* as amended. The amounts reported represent the University's best estimate of fair value of investments required to be reported under the Statement. The University also has disclosed the methods and significant assumptions used to estimate the fair value of its investments, and the nature of investments reported at amortized cost.

29. The University has identified and properly reported all of its derivative instruments and any related deferred outflows of resources or deferred inflows of resources related to hedging derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* The University complied with the requirements of GASB Statement No. 53 related to the determination of hedging derivative instruments and the application of hedge accounting. Further, the University has disclosed all material information about its derivative and hedging arrangement in accordance with GASB Statement No. 53.

30. The estimate of fair value of derivative instruments is in compliance with GASB Statement No. 53. For derivative instruments with fair values that are based on other than quoted market prices, the University has disclosed the methods and significant assumptions used to estimate those fair values.

31. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements:

    a. The extent, nature, and terms of financial instruments with off-balance-sheet risk;

    b. The amount of credit risk of financial instruments with off-balance-sheet credit risk, and information about the collateral supporting such financial instruments; and

    c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.

32. We believe that all material expenditures or expenses that have been deferred to future periods will be recoverable.

33. Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated. There are no liens or encumbrances on such assets, nor has any asset been pledged as collateral, except as disclosed in the footnotes to the basic financial statements.

34. The University has properly applied the requirements of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, including those related to the recognition of outlays associated with the development of internally generated computer software.

35. The University has no:

    a. Commitments for the purchase or sale of services or assets at prices involving material probable loss.

    b. Material amounts of obsolete, damaged, or unusable items included in the inventories at greater than salvage values.

    c. Loss to be sustained as a result of other-than-temporary declines in the fair value of investments.

36. The University has complied with all tax and debt limits and with all debt related covenants.

37. We have received opinions of counsel upon each issuance of tax-exempt bonds that the interest on such bonds is exempt from federal income taxes under section 103 of the Internal Revenue Code of 1986, as amended. There have been no changes in the use of property financed with the proceeds of tax-exempt bonds, or any other occurrences, subsequent to the issuance of such opinions, that would jeopardize the tax-exempt status of the bonds. Provision has been made, where material, for the amount of any required arbitrage rebate.

38. We believe that the actuarial assumptions and methods used to measure financial statement liabilities and costs associated with pension and other post-employment benefits and to determine information related to the University's funding progress related to such benefits for financial reporting purposes are appropriate in the University's circumstances and that the related actuarial valuation was prepared in conformity with U.S. generally accepted accounting principles.

39. The University has identified and properly accounted for and presented all deferred outflows of resources and deferred inflows of resources.

40. Components of net position (net investment in capital assets; restricted; and unrestricted) and fund balance components (nonspendable; restricted; committed; assigned; and unassigned) are properly classified and, if applicable, approved.

41. Revenues are appropriately classified in the statements of revenues, expenses, and changes in net position.

42. The University has identified and properly accounted for all nonexchange transactions.

43. Expenses have been appropriately classified in or allocated to functions and programs in the statements of revenues, expenses, and changes in net position, and allocations have been made on a reasonable basis.

44. Special and extraordinary items are appropriately classified and reported.

45. The financial statements disclose all of the matters of which we are aware that are relevant to the entity's ability to continue as a going concern, including significant conditions and events, and our plans.

46. We agree with the findings of specialists in evaluating the reserves related to the Professional Liability and General Liability Trust Funds and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

47. Provision, when material, has been made for:

   a. Losses to be sustained from inability to fulfill any sales commitments.

   b. Estimated loss to be sustained as a result of retroactive adjustments by third-party payors under reimbursement agreements that are subject to examination, including denied claims, changes to Diagnosis-related group (DRG) assignments, or other classification criteria affecting reimbursement.

   c. Losses to be sustained as a result of adjustments resulting from review of Medicare or other payor claim data by the Professional Review Organization (PRO) or other payors' reviewers with which the University has agreements.

   d. Losses to be sustained as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices.

   e. Losses to be sustained as a result of other-than-temporary declines in the fair value of investments.

   f. Liabilities for physician and medical services provided to members covered under capitation arrangements. The recorded liability includes both claims received and unpaid as well as an estimate of the clams incurred but not reported and loss to be sustained for commitments to provide medical services to enrollees under capitation agreements.

48. We acknowledge our responsibility for the presentation of the supplementary information in accordance with the applicable criteria and/or prescribed guidelines and:

    a. Believe the supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria and/or prescribed guidelines.

    b. The methods of measurement or presentation of the supplementary information have not changed from those used in the prior period.

    c. The significant assumptions or interpretations underlying the measurement or presentation of the supplementary information are reasonable and appropriate in the circumstances.

49. The University has complied with all applicable laws and regulations in adopting, approving, and amending budgets.

50. In accordance with *Government Auditing Standards*, we have identified to you all previous audits, attestation engagements, and other studies that relate to the objectives of this audit, including whether related recommendations have been implemented.

51. Management is responsible for the accuracy and propriety of all cost reports filed and all required Medicare, Medicaid, and similar cost reports have been properly filed. All costs reflected on such reports are appropriate and allowable under applicable reimbursement rules and regulations and are patient related and properly allocated to applicable payors. The reimbursement methodologies and principles employed in accordance with applicable rules and regulations. All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report. Recorded third party settlements include differences between filed (and to be filed) cost reports and calculated settlements, which are necessary based on historical experience or new or ambiguous regulations that may be subject to differing interpretations. While management believes the entity is entitled to all amounts claimed on the cost reports, management also believes the amounts of these differences are appropriate.

52. For investments in alternative investments (including hedge funds, real estate ventures, private equity funds, etc.), management has performed an evaluation to determine whether the investment should be consolidated or accounted for under the equity, fair value, or cost method. Such evaluation included the consideration of various factors, including the legal form of the investment (limited partnership, limited liability corporation, limited liability partnership, trust arrangements, etc.), the level of ownership in the investment, and the frequency with which the unit value is published and purchase and sale transactions are permitted.

Additionally, we confirm, to the best of our knowledge and belief, the following representations made to you during your a-133 audit:

53. We are responsible for establishing and maintaining effective internal control over compliance for federal programs that provides reasonable assurance that federal awards are administered in compliance with laws, regulations, and the provisions of contracts or grant agreements.

54. We are responsible for understanding and complying with the requirements of laws and regulations and the provisions of contracts and grant agreements related to each of its federal programs.

55. We are responsible for taking corrective action on audit findings of the compliance audit.

56. We are responsible for the design and implementation of programs and controls to prevent and detect fraud in the administration of federal programs. We have no knowledge of any fraud or suspected fraud affecting the entity's federal programs involving:

    a. Management, including management involved in the administration of federal programs.

    b. Employees who have significant roles in internal control over the administration of federal programs.

    c. Others where the fraud could have a material effect on compliance with laws and regulations, and provisions of contract and grant agreements related to its federal programs.

57. We are responsible for the presentation of the schedule of expenditures of federal awards (SEFA) in accordance with OMB Circular A-133 and:

    a. The methods of measurement or presentation of the supplementary information have not changed from those used in the prior period.

    b. The significant assumptions or interpretations underlying the measurement or presentation of the supplementary information are reasonable and appropriate in the circumstances.

58. The University is responsible for complying, and has complied, with the requirements of OMB Circular A-133.

59. The University has prepared the SEFA in accordance with the requirements of OMB Circular A-133 and :

    a. Has included all expenditures made during the year ended September 30, 2014 for all awards provided by federal agencies in the form of grants, American Recovery and Reinvestment Act (ARRA) awards, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.

b. Appropriately identified and separated all ARRA awards, if any, within the SEFA.

60. The University has complied with requirements of laws and regulations, and the provisions of contracts and grant agreements related to each of its federal programs.

61. The University has disclosed to you any interpretations of any compliance requirements that have varying interpretations.

62. The University established and maintained effective internal control over compliance for federal programs that provides reasonable assurance that federal awards are administered in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on a federal program.

63. We have communicated to you all significant deficiencies and material weaknesses in the design or operation of internal control over compliance that we have identified, which could adversely affect the University's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, and the provisions of contracts and grant agreements. Under standards established by the American Institute of Certified Public Accountants, a deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct on a timely basis, noncompliance with a type of compliance requirement of a federal program. A "material weakness" is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected on a timely basis. A "significant deficiency" is a deficiency, or a combination of deficiencies, in internal control over compliance with a compliance requirement that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

64. We are responsible for the design and implementation of programs and controls to prevent and detect fraud in the administration of federal programs. We have no knowledge of any fraud or suspected fraud affecting the entity's federal programs involving:

    1. Management, including management involved in the administration of federal programs

    2. Employees who have significant roles in internal control over the administration of federal programs

    3. Others where the fraud could have a material effect on compliance with laws and regulations, and provisions of contract and grant agreements related to its federal programs.

65. We have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.

66. We have made available all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities related to major federal programs.

67. We have identified and disclosed to you all questioned costs and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews.

68. The University is in compliance with documentation requirements contained in the requirements promulgated by the sponsoring Federal agencies (e.g., the Department of Health and Human Services' 45 CFR part 74, appendix E) for all costs charged to federal awards, including both direct costs and indirect costs charged through indirect cost proposals. Costs charged to Federal awards, are considered allowable under these same requirements.

69. Federal financial reports and claims for advances and reimbursements are supported by the accounting records from which the financial statements have been prepared.

70. The copies of federal financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.

71. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133. If applicable, we have issued management decisions on a timely basis after receipt of subrecipient audit reports that identified non-compliance with laws, regulations, or the provisions of contracts or grant agreements and has ensured that subrecipients have taken appropriate and timely corrective action on such findings.

72. If applicable, we have considered the results of subrecipient audits and have made any necessary adjustments to the University accounting records.

73. We are responsible for, and have accurately prepared, the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133.

74. If applicable, the University has provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

75. The University has accurately completed Part I of the data collection form.

76. The University has advised you of all contracts or other agreements with service organizations.

77. If applicable, the University has disclosed to you all communications from its service organizations relating to noncompliance at the service organizations.

78. The University has disclosed any known noncompliance occurring subsequent to the September 30, 2014.

79. The University has disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies (including material weaknesses), have occurred subsequent to September 30, 2014.

80. There are no material unrecorded environmental remediation liabilities that must be recorded and/or disclosed in the University's financial statements.

81. We believe that the amount recorded as due from the Health Services Foundation is fully collectible.

82. The allocation of expenses incurred by the University and allocated to the Health Services Foundation are considered a reasonable estimate of these expenses.

83. If the USA Research and Technology Corporation debt coverage ratio is less than 1 to 1, the University will pay the Corporation's rent equal to the amount necessary to bring the ratio to 1 to 1.

Further, we confirm that we are responsible for the fair presentation in the financial statements and the related notes to the financial statements, in conformity with U.S. generally accepted accounting principles. We are also responsible for establishing and maintaining effective internal control over financial reporting.

Very truly yours,

University of South Alabama

Dr. Tony G. Waldrop
University President

Stephen H. Simmons
Vice President for Financial Affairs

Robert K. Davis
University Treasurer, Associate Vice President for Financial Affairs & Director of Tax Accounting

William B. Bush
Assistant Vice President for Hospital Affairs/CFO

G. Scott Weldon
Assistant Vice President for Financial Affairs

Donna Robinson
Assistant Vice President for Financial Affairs

Polly Stokley
Controller

KPMG LLP
Suite 1100
One Jackson Place
188 East Capitol Street
Jackson, MS 39201-2127

Independent Auditors' Report

The Board of Trustees
University of South Alabama:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the University of South Alabama, a component unit of the State of Alabama (the University), and the related notes to the financial statements, and its aggregate discretely presented component units as of and for the year ended September 30, 2014, and have issued our report thereon dated November 14, 2014. We did not audit the 2014 consolidated financial statements of the University of South Alabama Foundation, which represents 85%, 99%, and 32%, respectively, of the 2014 assets, net assets, and revenues, gains, and other support of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of South Alabama Foundation, is based on the report of the other auditors.

In connection with our audit, nothing came to our attention that caused us to believe that the University failed to comply with the terms, covenants, provisions, or conditions of Article X of the Trust Indenture, dated February 15, 1996, with The Bank of New York Trust Company, N.A. (the Bank), authorizing the issuance of $40,130,000 of University Tuition Revenue Bonds, Series 1999, on March 15, 2004, authorizing the issuance of $51,800,000 of University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, on September 25, 2008, authorizing the issuance of $112,885,000 University Facilities Revenue Capital Improvement Bonds, Series 2008, on June 16, 2010, authorizing the issuance of $29,750,000 University Facilities Revenue Capital Improvement Bond, Series 2010, on January 4, 2012, authorizing the issuance of $32,740,000 University Facilities Revenue Capital Improvement Bonds, Series 2012-A and 2012-B, on June 28, 2013 authorizing the issuance of $50,000,000 University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2013-B and 2013-C, and on March 14, 2014 authorizing the issuance of $41,245,000 University Facilities Revenue Refunding Bond, Series 2014-A, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the board of trustees and management of the University of South Alabama and management of The Bank of New York Trust Company, N.A. and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Jackson, Mississippi
November 14, 2014

KPMG

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)

Independent Accountants' Report on Applying Agreed-Upon Procedures in Connection with University Tuition Revenue Bonds, Series 1999, University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, University Facilities Revenue Capital Improvement Bonds, Series 2008, University Facilities Revenue Capital Improvement Bond, Series 2010, University Facilities Revenue Capital Improvement Bonds, Series 2012-A and 2012-B, University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2013-B, and 2013-C, and University Facilities Revenue Refunding Bond Series 2014-A

September 30, 2014

KPMG

KPMG LLP
Suite 1100
One Jackson Place
188 East Capitol Street
Jackson, MS 39201-2127

Independent Accountants' Report on Applying Agreed-Upon Procedures

The Board of Trustees and Management
University of South Alabama:

We have performed the procedures enumerated below, which were agreed to by members of management of the University of South Alabama, a component unit of the State of Alabama (the University), solely to assist you in evaluating the accompanying Statement of Changes in Cash and Investments Held by Trustee Pursuant to the Bond Resolutions and the accompanying Statement of Cash and Investments Held by Trustee Pursuant to the Bond Resolutions relating to the University Tuition Revenue Bonds, Series 1999, University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, University Facilities Revenue Capital Improvement Bonds, Series 2008, University Facilities Revenue Capital Improvement Bond, Series 2010, University Facilities Revenue Capital Improvement Bonds, Series 2012-A and 2012-B, University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2013-B, and 2013-C, and University Facilities Revenue Refunding Bond Series 2014-A as of September 30, 2014, and for the year then ended. The University's management is responsible for the Statement of Changes in Cash and Investments Held by Trustee Pursuant to the Bond Resolutions and the Statement of Cash and Investments Held by Trustee Pursuant to the Bond Resolutions. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

a. We compared the amounts shown on the Statement of Changes in Cash and Investments Held by Trustee Pursuant to the Bond Resolutions in Exhibit A to the annual trustee statements of cash and investment transactions provided to us by the bond trustee and found them to be in agreement.

b. We compared the amounts shown on the Statement of Cash and Investments Held by Trustee Pursuant to the Bond Resolutions in Exhibit B to the annual trustee statements of cash and investment transactions provided to us by the bond trustee and found them to be in agreement.

c. We obtained from University management a schedule of general student fees (tuition) earned during the year ended September 30, 2014 (not included herein), which approximated \$122 million and compared that amount to the general student fees recorded in the University's general ledger for the year ended September 30, 2014 and found them to be in agreement.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the accompanying Statement of Changes in Cash and Investments Held by Trustee Pursuant to the Bond Resolutions and the accompanying Statement of Cash and Investments Held by Trustee Pursuant to the Bond Resolutions. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the board of trustees and management of the University of South Alabama, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 14, 2014

Exhibit A

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)

Statement of Changes in Cash and Investments
Held by Trustee Pursuant to the Bond Resolutions

University Tuition Revenue Bonds, Series 1999,
University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004,
University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006,
University Facilities Revenue Capital Improvement Bonds, Series 2008,
University Facilities Revenue Capital Improvement Bond, Series 2010,
University Facilities Revenue Capital Improvement Bonds Series 2012-A and 2012-B,
University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2013-B, and 2013-C,
and University Facilities Revenue Refunding Bond Series 2014-A

Year ended September 30, 2014

(In thousands)

Cash and investment transactions:		
Cash receipts:		
Deposits from University of South Alabama for interest and retirement of bonds	$	68,838
Proceeds from sale of investments		45,397
		114,235
Cash disbursements:		
Principal payments		55,326
Interest payments		13,502
Administrative fees		10
Purchases of investments		45,397
		114,235
Net change in cash and investments during the year		—
Total cash and investments held by trustee:		
Beginning of year		3
End of year	$	3

See accompanying independent accountants' report on applying agreed-upon procedures.

Exhibit B

UNIVERSITY OF SOUTH ALABAMA

(A Component Unit of the State of Alabama)

Statement of Cash and Investments
Held by Trustee Pursuant to the Bond Resolutions

University Tuition Revenue Bonds, Series 1999,
University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004,
University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006,
University Facilities Revenue Capital Improvement Bonds, Series 2008,
University Facilities Revenue Capital Improvement Bond, Series 2010,
University Facilities Revenue Capital Improvement Bonds, Series 2012-A and 2012-B,
University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2013-B, and 2013-C,
and University Facilities Revenue Refunding Bond Series 2014-A

September 30, 2014

(In thousands)

Cash and investments, at cost:		
Total cash and investments	$	3

See accompanying independent accountants' report on applying agreed-upon procedures.

KPMG

USA RESEARCH AND TECHNOLOGY CORPORATION

(A Component Unit of the University of South Alabama)

Basic Financial Statements

September 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

USA RESEARCH AND TECHNOLOGY CORPORATION
(A Component Unit of the University of South Alabama)

Table of Contents

	Page
Management's Discussion and Analysis (Unaudited)	1
Independent Auditors' Report	6
Basic Financial Statements:	
Statements of Net Position	8
Statements of Revenues, Expenses, and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Basic Financial Statements	11

Introduction

The following discussion presents an overview of the financial position and financial activities of USA Research and Technology Corporation (the Corporation) at September 30, 2014 and 2013, and for the years then ended. This discussion was prepared by management and should be read in conjunction with the basic financial statements and notes thereto, which follow.

Financial Highlights

The Corporation owns three buildings in the USA Technology & Research Park (the Park) on the campus of the University of South Alabama (the University), one building located on the premises of the USA Medical Center, and leases one floor of a University-owned on-campus building. Housing both University and third-party tenants, the area available for lease totals almost 228,200 square feet of gross leasable space. At September 30, 2014, total square feet under lease was approximately 208,400. The land on which each building is located is leased from the University. The Corporation owns another building located on the University campus, which is supplied at no cost to the University for use as a faculty club.

The acquisitions of the buildings held for rent were originally financed entirely by commercial mortgage notes and a promissory note with banks, secured by the ground leases, the buildings, and rent income produced by the buildings. As part of the financing arrangement for the two buildings purchased in 2007, the Corporation entered into a derivative transaction, which yielded a synthetic fixed interest rate on the permanent financing. As a result of refinancing transactions, the debt is currently in the form of two promissory notes.

At September 30, 2014, 2013, and 2012, the Corporation had total assets and deferred outflows of $27,954,017, $29,648,368, and $32,234,269, respectively; total liabilities of $27,073,811, $28,305,741, and $30,728,765, respectively; and net positions of $880,206, $1,342,627, and $1,505,504, respectively.

An overview of each financial statement is presented herein along with a financial analysis of the transactions impacting the financial statements. Where appropriate, comparative financial information is presented to assist in the understanding of this analysis.

Condensed Financial Information

Condensed financial information for the Corporation as of and for the years ended September 30, 2014, 2013, and 2012 follows (in thousands):

Condensed Schedules of Net Position

		2014	2013	2012
Assets and deferred outflows:				
Current	$	1,030	1,624	2,012
Capital assets – noncurrent		23,794	24,701	25,242
Other noncurrent assets		77	99	92
Deferred outflows		3,053	3,225	4,889
		27,954	29,649	32,235
Liabilities:				
Current		1,796	1,796	1,554
Noncurrent		25,278	26,510	29,175
		27,074	28,306	30,729
Net position:				
Net investment in capital assets		503	284	258
Unrestricted		377	1,059	1,248
	$	880	1,343	1,506

(Continued)

Condensed Schedules of Revenues, Expenses, and Changes in Net Position

	2014	2013	2012
Operating revenues	$ 3,506	4,011	4,003
Operating expenses:			
Depreciation and amortization	1,017	981	1,133
Other	1,609	1,799	1,709
Net operating expenses	2,626	2,780	2,842
Operating income	880	1,231	1,161
Nonoperating (expenses) revenues:			
Interest expense	(1,351)	(1,409)	(1,458)
Other	8	15	(144)
Net nonoperating expenses	(1,343)	(1,394)	(1,602)
Capital grant	—	—	183
Change in net position	(463)	(163)	(258)
Beginning net position, before cumulative effect of change in accounting principle	1,343	1,506	1,821
Cumulative effect of change in accounting principle	—	—	(57)
Beginning net position, as adjusted	1,343	1,506	1,764
Ending net position	$ 880	1,343	1,506

Analysis of Financial Position and Results of Operations

Statement of Net Position

The statement of net position presents the assets and deferred outflows, liabilities, and net position of the Corporation at September 30, 2014, 2013, and 2012. The net position is displayed in two parts; net investment in capital assets and unrestricted. Unrestricted net position is available for use by the Corporation to meet current expenses for any purpose. The statement of net position, along with all of the Corporation's basic financial statements, are prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred, regardless of when cash is exchanged.

Current assets consist of cash and cash equivalents, rent receivable, prepaid expenses, and other current assets at September 30, 2014, 2013, and 2012. Noncurrent assets at September 30, 2014, 2013, and 2012 consist primarily of capital assets. Cash and cash equivalents decreased from $1,447,260 at September 30, 2013 to $760,464 at September 30, 2014. This decrease was primarily due to one tenant's lease that was renegotiated and became effective on November 1, 2013. The renegotiation resulted in vacant space of 7,458 square feet which became common area (this space was previously leased at the rate of $19.00 per square feet), a reduction in operating expense reimbursements of approximately $342,000, and a transfer of 24,695 square feet to a new tenant with an unfavorable rental rate differential of approximately $34,000.

Deferred outflows and the noncurrent liability related to the interest rate swap decreased as a result of the change in the fair value of the swap between September 30, 2014 and 2013.

Current liabilities primarily consist of unrecognized rent revenue, accrued expenses, and the current portion of long-term debt at September 30, 2014, 2013, and 2012. Noncurrent liabilities consist of notes payable and an interest rate swap liability.

Net position represents the residual interest in the Corporation's assets after liabilities are deducted. Net position is classified into one of two categories as shown on page 8.

Net investment in capital assets, represent the Corporation's capital assets less accumulated depreciation and outstanding principal balance of the debt attributable to the acquisition, construction, or improvement of those assets. To the extent debt has been incurred but the proceeds have not yet been expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Unrestricted net position, represents those assets not subject to externally imposed stipulations and are available for use at the discretion of the board of directors for any purpose.

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total Corporation net position as reported in the statement of net position are based on the activity presented in the statement of revenues, expenses, and changes in net position. The purpose of the statement is to present the change in net position resulting from revenues earned by the Corporation and the expenses incurred by the Corporation.

For the years ended September 30, 2014, 2013, and 2012, the Corporation reported a change in net position of $(462,421), $(162,877), and $(258,264), respectively. Operating revenues decreased $504,954 between fiscal 2013 and 2014 for the reasons previously stated in the Statement of Net Position discussion above. Occupancy levels also decreased by approximately 2.2% between fiscal 2013 and 2014.

Statement of Cash Flows

The statement of cash flows presents information related to cash flows of the Corporation. The statement presents cash flows by category: operating activities, noncapital financing activities, capital and related financing activities, and investing activities.

Capital Assets and Debt Administration

Total capital asset additions during the years ended September 30, 2014 and 2013 were approximately $64,100 and $399,500, respectively. Financing was primarily provided for additions during fiscal years 2014 and 2013 through use of the Corporation's cash and cash equivalents. See notes 3 and 6 to the basic financial statements for further information related to capital assets and debt.

Economic Outlook

Based on leases in effect at September 30, 2014, it is expected that fiscal year 2015 results will approximate fiscal year 2014 results. Corporation management has discussed this issue in some detail and has identified areas of potential savings in expenses, some of which will likely occur in fiscal year 2015 and will likely favorably impact fiscal year 2015 results. Such discussions will continue in fiscal year 2015 to further revise the plan in response to this situation. Corporation management is not aware of any other currently known facts, decisions, or conditions that are expected to have a significant effect on the Corporation's financial position or results of operations during fiscal year 2015 beyond those unknown variables having a global effect on virtually all types of business operations.

Requests for Information

These basic financial statements are designed to provide a general overview of the Corporation and to demonstrate the Corporation's accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Mr. Stephen H. Simmons; Vice-President for Financial Affairs; University of South Alabama – Room 170; Mobile, Alabama 36688.

KPMG LLP
Suite 1100
One Jackson Place
188 East Capitol Street
Jackson, MS 39201-2127

Independent Auditors' Report

The Board of Directors
USA Research and Technology Corporation:

We have audited the accompanying basic financial statements of USA Research and Technology Corporation (the Corporation), a component unit of the University of South Alabama, as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of September 30, 2014 and 2013, and its changes in financial position, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 1-5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Jackson, Mississippi
November 14, 2014

USA RESEARCH AND TECHNOLOGY CORPORATION

(A Component Unit of the University of South Alabama)

Statements of Net Position

September 30, 2014 and 2013

		2014	2013
Assets:			
Current assets:			
Unrestricted cash and cash equivalents	$	760,464	1,447,260
Rent receivable		263,276	167,154
Prepaid expenses and other current assets		6,063	9,294
Total current assets		1,029,803	1,623,708
Noncurrent assets:			
Intangible assets, net		77,010	98,918
Capital assets, net		23,793,928	24,701,116
Total noncurrent assets		23,870,938	24,800,034
Deferred outflows		3,053,276	3,224,626
Total assets and deferred outflows		27,954,017	29,648,368
Liabilities:			
Current liabilities:			
Deposits, other current liabilities, and accrued expenses		197,123	356,429
Payable to University of South Alabama		44,379	7,030
Unrecognized rent revenue		494,073	430,953
Current portion of notes payable		1,060,388	1,001,743
Total current liabilities		1,795,963	1,796,155
Noncurrent liabilities:			
Notes payable, excluding current portion		22,224,572	23,284,960
Interest rate swap		3,053,276	3,224,626
Total noncurrent liabilities		25,277,848	26,509,586
Total liabilities		27,073,811	28,305,741
Net position:			
Net investment in capital assets		503,100	283,511
Unrestricted		377,106	1,059,116
Total net position	$	880,206	1,342,627

See accompanying notes to basic financial statements.

USA RESEARCH AND TECHNOLOGY CORPORATION
(A Component Unit of the University of South Alabama)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended September 30, 2014 and 2013

		2014	2013
Operating revenues	$	3,506,072	4,011,026
Total operating revenues		3,506,072	4,011,026
Operating expenses:			
Building management and operating expenses		1,239,589	1,427,297
Depreciation and amortization		1,017,172	981,001
Legal and administrative fees		231,190	221,710
Insurance		137,074	149,866
Total operating expenses		2,625,025	2,779,874
Operating income		881,047	1,231,152
Nonoperating revenues (expenses):			
Investment income		4,406	8,030
Interest expense		(1,351,453)	(1,409,274)
Donations revenue		—	2,000
Other		3,579	5,215
Net nonoperating expenses		(1,343,468)	(1,394,029)
Change in net position		(462,421)	(162,877)
Net position:			
Beginning of year		1,342,627	1,505,504
End of year	$	880,206	1,342,627

See accompanying notes to basic financial statements.

USA RESEARCH AND TECHNOLOGY CORPORATION
(A Component Unit of the University of South Alabama)

Statements of Cash Flows

Years ended September 30, 2014 and 2013

		2014	2013
Cash flows from operating activities:			
Collections from lessees for rent and operating expense reimbursement	$	3,473,070	4,150,199
Payments for expenses of leasing activity		(1,402,078)	(1,537,617)
Payments to service providers and vendors for general corporate operating expenses		(193,842)	(233,710)
Security deposits refunded		(4,554)	(6,625)
Net cash provided by operating activities		1,872,596	2,372,247
Cash flows from noncapital financing activities:			
Donations received		—	2,000
Other		3,579	5,215
Net cash provided by noncapital financing activities		3,579	7,215
Cash flows from capital and related financing activities:			
Interest paid on notes payable		(1,353,660)	(1,408,965)
Principal repaid on notes payable		(1,001,743)	(946,438)
Purchases of capital assets		(189,084)	(271,774)
Net cash used in capital and related financing activities		(2,544,487)	(2,627,177)
Cash flows from investing activities:			
Payment of leasing commissions		(24,026)	(48,062)
Investment income		5,542	3,065
Net cash used in investing activities		(18,484)	(44,997)
Net change in cash and cash equivalents		(686,796)	(292,712)
Cash and cash equivalents:			
Beginning of year		1,447,260	1,739,972
End of year	$	760,464	1,447,260
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	881,047	1,231,152
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization expense		1,017,172	981,001
Increase (decrease) in payable to the University of South Alabama		37,349	(4,970)
(Increase) decrease in rent receivables and prepaid expenses		(94,027)	100,717
Increase in unrecognized rent revenue		63,120	31,013
Increase (decrease) in other current liabilities, except current liabilities for items that are not components of operating income		(32,065)	33,334
Net cash provided by operating activities	$	1,872,596	2,372,247
Noncash investing and capital and related financing transactions:			
Increase (decrease) in capital assets due from the change in accounts payable related to building renovations	$	(125,034)	127,714
Increase (decrease) in interest receivable recognized as a component of investment income		(1,136)	4,965
Decrease in fair value of interest rate swap liability		(171,350)	(1,663,986)

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The accompanying basic financial statements present the financial position and activities of the USA Research and Technology Corporation (the Corporation), which is a component unit of the University of South Alabama (the University), and NovALtech, LLC (NovALtech), an Alabama single-member limited liability company whose single member is the Corporation.

NovALtech was organized in September 2010 with the purpose of providing a vehicle for the commercialization of intellectual property owned by the University but deemed too speculative for the University to provide funds for further development. NovALtech licenses from the University the patent rights to such property and seeks to sublicense the rights to third parties who will then fund development with the goal of reaching commercial potential.

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus:*, consists of the primary government and all of its component units. Component units are legally separate organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the financial statements to be misleading or incomplete. Accordingly, the basic financial statements include the accounts of the Corporation, as the primary government, and the accounts of NovALtech as a component unit.

The Corporation has adopted GASB Statements No. 39 and No. 61, which provide criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with the primary government. The statement also clarifies reporting requirements for those organizations. As of September 30, 2014 and 2013, the Corporation reports NovALtech as a blended component unit. All significant transactions among the Corporation and its blended component unit have been eliminated.

The basic financial statements include the statements of net position, the statements of revenues, expenses, and changes in net position, and the statements of cash flows.

(b) Measurement Focus and Basis of Accounting

For financial reporting purposes, and by virtue of its affiliation with the University, the Corporation is considered a special-purpose governmental agency engaged only in business-type activities, as defined by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Accordingly, the Corporation's basic 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.

The Corporation prepares its financial statements in accordance with U.S. generally accepted accounting principles, as prescribed by GASB, as well as all applicable pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 that do not conflict with GASB pronouncements.

(c) Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

Cash and cash equivalents are defined as demand accounts and any short-term investments that take on the character of cash, such as a money market account, with original maturities of 90 days or less.

(e) Capital Assets

All capital expenditures of $1,000 or more and having a useful life of two or more years are capitalized at cost at the date of acquisition. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, 40 years for buildings and infrastructure, 20 years for land improvements, 10 years for furniture and fixtures, and 5 years for other equipment. Tenant improvements are amortized over the shorter of the asset's useful life or the term of the related lease. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

(f) Intangible Assets

Leasing commissions are capitalized and amortized over the term of the related lease. Amortization for these assets is calculated using the straight-line method.

(g) Derivatives

The Corporation has adopted the provisions of GASB Statement No. 53 (GASB 53), *Accounting and Financial Reporting for Derivative Instruments*. GASB 53 establishes a framework for accounting and financial reporting related to derivative instruments, requiring the fair value of derivatives to be recognized in the financial statements.

The Corporation's only derivative instrument is an interest rate swap entered into to hedge the interest payments on its variable rate Wells Fargo Bank, N.A. note payable. The Corporation determined the hedging relationship between the note payable and the interest rate swap to be effective at September 30, 2014 and 2013.

(h) Classification of Net Position

The Corporation's net position is classified as follows:

Net investment in capital assets, reflects the Corporation's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations and accrued construction costs related to those capital assets. To the extent debt has been incurred but the proceeds have not yet been expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Unrestricted net position, represents resources derived from building lease activity, intellectual property licensing activity, and investments. Neither management nor the board of directors has designated any part of unrestricted net position for specific purposes.

(i) Classification of Revenues

The Corporation has classified its rental and license revenues as operating revenues, as those activities have the characteristics of exchange transactions. Rental revenues are recognized in accordance with GASB Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*. Since license revenues are derived from exclusive licenses granting rights for the useful life of the property, revenue is recognized at the date of the sale of the underlying intellectual property.

(j) Recently Adopted Accounting Pronouncements

In fiscal 2014, the Corporation adopted the provisions of GASB Statement No. 66, *Technical Corrections – 2012.* GASB Statement No. 66 resolves conflicting guidance that resulted from the issuance of GASB Statements No. 54 and 62. The adoption of this statement had no impact on the Corporation.

(2) Income Taxes

The Corporation is classified as a tax-exempt entity under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). NovALtech, from the date beginning with its organization through June 30, 2011, was treated as a disregarded entity for income tax purposes and its net income was treated as net income of the Corporation. Beginning July 1, 2011, NovALtech elected to be treated as an association taxable as a corporation. NovALtech had no net income for the fiscal years ended September 30, 2014 and 2013. Accordingly, no provision for income taxes has been made in the accompanying basic financial statements.

(3) Capital Assets

Changes in capital assets for the years ended September 30, 2014 and 2013 are as follows:

	October 1, 2013	Additions	Transfers	Reductions	September 30, 2014
Land improvements	$ 2,199,402	—	—	—	2,199,402
Buildings	27,897,506	18,595	—	—	27,916,101
Tenant improvements	868,332	45,455	—	—	913,787
Other equipment	256,509	—	—	—	256,509
	31,221,749	64,050	—	—	31,285,799
Less accumulated depreciation for:					
Land improvements	(841,536)	(94,014)	—	—	(935,550)
Buildings	(5,146,035)	(720,790)	—	—	(5,866,825)
Tenant improvements	(417,466)	(130,477)	—	—	(547,943)
Other equipment	(115,596)	(25,957)	—	—	(141,553)
	(6,520,633)	(971,238)	—	—	(7,491,871)
Capital assets, net	$ 24,701,116	(907,188)	—	—	23,793,928

	October 1, 2012	Additions	Transfers	Reductions	September 30, 2013
Land improvements	$ 2,200,802	—	(1,400)	—	2,199,402
Buildings	27,668,474	235,413	(6,381)	—	27,897,506
Tenant improvements	742,030	164,075	7,781	(45,554)	868,332
Other equipment	256,509	—	—	—	256,509
	30,867,815	399,488	—	(45,554)	31,221,749
Less accumulated depreciation for:					
Land improvements	(747,523)	(94,013)	—	—	(841,536)
Buildings	(4,261,180)	(701,928)	(182,927)	—	(5,146,035)
Tenant improvements	(527,901)	(118,046)	182,927	45,554	(417,466)
Other equipment	(89,639)	(25,957)	—	—	(115,596)
	(5,626,243)	(939,944)	—	45,554	(6,520,633)
Capital assets, net	$ 25,241,572	(540,456)	—	—	24,701,116

(4) Property Taxes

The Corporation has received notice from the Mobile County Revenue Commissioner that the property of the Corporation is exempt from property taxes. Accordingly, property taxes have not been recorded in the accompanying basic financial statements.

(5) Noncurrent Liabilities

Changes in noncurrent liabilities for the years ended September 30, 2014 and 2013 are as follows:

	October 1, 2013	Additions	Reductions	September 30, 2014	Less amounts due within one year	Noncurrent liabilities
Notes payable	$ 24,286,703	—	(1,001,743)	23,284,960	1,060,388	22,224,572
Interest rate swap	3,224,626	—	(171,350)	3,053,276	—	3,053,276
Total	$ 27,511,329	—	(1,173,093)	26,338,236	1,060,388	25,277,848

	October 1, 2012	Additions	Reductions	September 30, 2013	Less amounts due within one year	Noncurrent liabilities
Notes payable	$ 25,233,141	—	(946,438)	24,286,703	1,001,743	23,284,960
Interest rate swap	4,888,612	—	(1,663,986)	3,224,626	—	3,224,626
Total	$ 30,121,753	—	(2,610,424)	27,511,329	1,001,743	26,509,586

(6) Notes Payable

(a) Notes Payable

Notes payable consisted of the following at September 30, 2014 and 2013:

	2014	2013
Wells Fargo Bank, N.A. promissory note, one-month LIBOR plus 0.85% (1.007% at September 30, 2014) payable through 2028	$ 14,470,878	15,127,914
PNC Bank promissory note, 4.88%, payable through 2021	8,814,082	9,158,789
	$ 23,284,960	24,286,703

The note payable to Wells Fargo Bank, N.A. was incurred by the Corporation to acquire Buildings II and III in the USA Technology & Research Park and to provide funds for renovations and tenant finishing costs. The loan is a fully amortizing promissory note with a 20-year term. As more fully described in note 6(c), the Corporation entered into a "receive-variable, pay-fixed" type of interest rate swap on the promissory note, which will yield a synthetic fixed interest rate of 6.1%. The promissory note payable is secured by an interest in the ground lease with respect to the parcels of land on which Buildings II and III stand, an interest in Buildings II and III, an interest in tenant leases for Buildings II and III, and an interest in income received from rental of Buildings II and III.

The promissory note payable to PNC Bank has a 10-year term and amortization is based on a 20-year term. PNC Bank acquired the promissory note as part of its acquisition of RBC Bank (USA) on March 20, 2012. The Corporation agreed to not transfer or encumber the buildings or its leasehold interest in the real estate on which the buildings stand. The promissory note payable is secured by an interest in tenant leases for Building I and the dialysis services building, and an interest in income received from rental of Building I and the dialysis services building.

In connection with each note, the University entered into an agreement with the lender providing that for any year in which the Corporation's debt service coverage ratio is less than 1 to 1, the University will pay the Corporation rent equal to the amount necessary to bring the ratio to 1 to 1. The debt service coverage ratio is calculated by dividing the sum of unrestricted cash and cash equivalents at the beginning of the year (reduced by current year capital assets additions) and current year change in net position (determined without depreciation, amortization, and interest expenses) by current year debt service. For fiscal 2014, the Corporation's debt service coverage ratio was 1.34 to 1. Management believes the Corporation was in compliance with its debt covenants, including the debt service coverage ratio covenant, at September 30, 2014. Further, management believes that, based on existing leases and service contracts and agreements, the debt service coverage ratio for fiscal 2015 will be less than the fiscal 2014 debt service coverage ratio of 1.34 to 1, but will still exceed 1 to 1.

(b) Debt Service on Long-Term Obligations

At September 30, 2014, total debt service by fiscal year is as follows:

	Debt service on note and loan		
	Principal	Interest	Total
2015	$ 1,060,388	1,295,015	2,355,403
2016	1,117,989	1,237,414	2,355,403
2017	1,186,201	1,169,202	2,355,403
2018	1,250,455	1,104,948	2,355,403
2019	1,332,639	1,022,764	2,355,403
2020 – 2024	12,192,374	2,903,937	15,096,311
2025 – 2028	5,144,914	616,847	5,761,761
Total	$ 23,284,960	9,350,127	32,635,087

(c) Derivative Transaction

The Corporation is a party to a derivative with Wells Fargo Bank, N.A., the counterparty (successor to Wachovia Bank, N.A. the original counterparty). The derivative is a "receive-variable, pay-fixed" interest rate swap entered into in connection with the promissory note to Wells Fargo Bank, N.A.

Objective of the derivative transaction. The Corporation utilizes the interest rate swap to convert its variable rate on the promissory note to a synthetic fixed rate.

The swap will terminate on May 1, 2028, when the loan matures. The notional amount of the swap will at all times match the outstanding principal amount of the loan. Under the swap, the Corporation pays the counterparty a fixed payment of 6.10% and receives a variable payment of the one-month LIBOR rate plus 0.85%. Conversely, the loan bears interest at the one-month LIBOR rate plus 0.85%. The Corporation paid $762,395 and $788,738 under the interest rate swap agreement for the years ended September 30, 2014 and 2013, respectively, which is reflected as an increase in interest expense.

Fair value. The interest rate swap had a negative fair value of $(3,053,276) and $(3,224,626) at September 30, 2014 and 2013, respectively. The changes in fair value are reported as a deferred outflows on the statements of net position since the interest rate swap is a hedging derivative instrument.

The fair value of the interest rate swap was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement.

Interest rate risk. On the Corporation's "receive-variable, pay-fixed" interest rate swap, as LIBOR decreases, the net payment on the swap increases.

Credit risk. As of September 30, 2014 and 2013, the Corporation was not exposed to credit risk on the interest rate swap because it had a negative fair value. However, if interest rates change and the fair value of the derivative becomes positive, the Corporation would have a gross exposure to credit risk in the amount of the derivative's fair value. The counterparty was rated Aa3 and Aa3 by Moody's Investors Services and AA – and AA – by Standard & Poor's Ratings Services as of September 30, 2014 and 2013, respectively.

Termination risk. The interest rate swap contracts use the International Swaps and Derivatives Association, Inc. Master Agreement, which includes standard default and termination events, such as failure to make payments, breach of agreement, and bankruptcy. At September 30, 2014 and 2013, no events of default or termination had occurred. If the interest rate swap is terminated, interest rate risk associated with the variable rate debt would no longer be hedged. Also, if at the time of termination the interest rate swap had a negative fair value, the Corporation would be liable to the counterparty for a payment equal to the interest rate swap's fair value. To allow the Corporation the maximum flexibility to manage the utilization of Buildings II and III while at the same time providing protection for the counterparty, the Corporation granted the counterparty a $2,000,000 mortgage secured by an interest in the ground lease with respect to the parcel of land on which Building II stands, an interest in Building II, a security interest in Building II tenant leases, and a security interest in income received from rental of Building II.

Derivative payments and hedged debt. As interest rates fluctuate, variable rate debt interest and net derivative payments will fluctuate. Using interest rates as of September 30, 2014, debt service requirements by fiscal year of the variable rate debt and net derivative payments, assuming current interest rates remain the same in the future, are as follows:

	Variable rate loan		Interest rate	
	Principal	Interest	swap, net	Total
2015	$ 698,478	144,102	728,809	1,571,389
2016	738,017	137,575	695,797	1,571,389
2017	787,266	129,444	654,679	1,571,389
2018	831,611	122,124	617,654	1,571,389
2019	892,892	112,008	566,489	1,571,389
2020 – 2024	5,377,700	409,278	2,069,964	7,856,942
2025 – 2028	5,144,914	101,830	515,017	5,761,761
Total	$ 14,470,878	1,156,361	5,848,409	21,475,648

(7) Leases

The Corporation leases space in Building I to three tenants under operating leases. One lease has a 5-year initial term expiring in October 2018 with two 5-year renewal options. Another lease has a 10-year initial term expiring in May 2021, an option to cancel at the end of 6 years, and two 5-year renewal options. The third lease has a 67-month initial term expiring in December 2018 with no renewal options.

Space in Buildings II and III is leased under operating leases to the University and various other tenants. The leases have terms varying from month-to-month to ten years.

The Corporation leases from the University the third floor of a campus building. Located on that floor is the Coastal Innovation Hub (the "Hub"), a technology incubator, which currently houses three tenants with month-to-month leases.

Under leases for Buildings I, II, and III, the Corporation must pay all operating expenses of the buildings, including utilities, janitorial, maintenance, property taxes, and insurance. Tenants will reimburse the Corporation for such expenses only as the total expenses for a year increase over the total expenses for the base year of the lease (the Corporation's fiscal year beginning after the date the lease is signed). Under Hub leases, the Corporation must pay all operating expenses of the space, without reimbursement from tenants.

Space under lease to the University was 46,700 and 48,900 square feet at September 30, 2014 and 2013, respectively.

The Corporation owns a building located on the premises of the USA Medical Center, which is leased to a single tenant. The Corporation paid for construction of the building shell and land improvements while the tenant paid for the cost of finishing the building's interior. The lease has a 10-year initial term expiring in March 2020 with three 5-year renewal options. Under the lease, the tenant must also pay for utilities, taxes,

(Continued)

insurance, and interior repairs and maintenance. The Corporation is responsible for repairs and maintenance to the exterior and HVAC system.

The Corporation, as lessor, had three ground leases in place at September 30, 2014 and 2013. One lease is for a 40-year initial term expiring in October 2046 with 20-year, and 15-year renewal options. The second lease is for a 30-year initial term expiring in October 2046 with four 5-year renewal options. The third lease has a 38.5-year initial term expiring in September 2036 with 20-year and 15-year renewal options.

Minimum future rentals by fiscal years are as follows:

2015	$	2,453,924
2016		1,893,712
2017		1,831,629
2018		1,720,640
2019		1,116,013
2020 – 2046		7,623,246
Total	$	16,639,164

(8) Related Parties

University of South Alabama

The Corporation was formed exclusively for the purpose of supporting the educational and scientific research missions of the University. To ensure this relationship continues, the Corporation's bylaws provide its directors will be either University trustees or employees, or approved by the University Board of Trustees.

During fiscals 2014 and 2013, the Corporation engaged in several transactions with the University. The University was charged $731,429 and $760,726 during the years ended September 30, 2014 and 2013, respectively, for rental space as described in note 7. The University provides certain administrative and other support services to the Corporation, for which the University charged $163,282 and $155,282 for such services during fiscal years 2014 and 2013, respectively.

The Corporation is a party to one license agreement and NovALtech is a party to three license agreements with the University for the licensing of patent rights pertaining to certain intellectual property and technology owned by the University which had been developed by faculty of the University. The license granted by each agreement is exclusive, worldwide, sublicensable, and royalty-bearing. Each agreement provides for payment to the University of royalties on product sales and a percentage of net income from sublicensing (such net income excluding fees, milestone payments and incurred patenting costs). In addition, one of the agreements provides for payment to the University of milestone payments. No conditions occurred during fiscal year 2014 causing either the Corporation or NovALtech to either make payments to or incur a liability to the University under the agreements. Also, the Corporation and NovALtech sublicensed certain patent rights obtained under two of the licenses to third parties under exclusive, worldwide, sublicensable, royalty-bearing license agreements. Under those agreements, the third parties agreed to pay the Corporation and NovALtech a $1,000 payment due at execution, milestone payments in the case of one license, royalties on product sales, annual maintenance payments in the case of one license, and a percentage of sublicensing revenues (excluding royalties). During fiscal 2014, no conditions occurred causing the third party to either pay to or incur a liability to the Corporation or NovALtech under the agreements.

The Corporation entered into ground leases with the University for approximately 39 acres of land for $1.00 per year in connection with the acquisition or construction of buildings held for lease.

Report on the

University of South Alabama

Mobile, Alabama

October 1, 2012 through September 30, 2013

Filed: November 28, 2014

Department of Examiners of Public Accounts

50 North Ripley Street, Room 3201
P.O. Box 302251
Montgomery, Alabama 36130-2251
Website: www.examiners.alabama.gov

Ronald L. Jones, Chief Examiner

15-003

State of Alabama
Department of
Examiners of Public Accounts
P.O. Box 302251, Montgomery, AL 36130-2251
50 North Ripley Street, Room 3201
Montgomery, Alabama 36104-3833
Telephone (334) 242-9200
FAX (334) 242-1775

Ronald L. Jones
Chief Examiner

Honorable Ronald L. Jones
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Sir:

Under the authority of the ***Code of Alabama 1975***, Section 41-5-21, we submit this report on the results of the examination of the University of South Alabama, Mobile, Alabama, for the period October 1, 2012 through September 30, 2013.

Sworn to and subscribed before me this
the 10th day of October, 2014
Barbara A. Brantley
Notary Public

BARBARA A. BRANTLEY
Notary Public
State of Alabama
MY COMMISSION EXPIRES: JAN 22, 2017

Respectfully submitted,

JoNesia S. Turner
Examiner of Public Accounts

Sworn to and subscribed before me this
the 10th day of OCTOBER, 2014.
Monique D. Wallace
Notary Public
My Commission Expires March 29, 2016

Shelia L. Levins
Examiner of Public Accounts

rb

15-003

Table of Contents

		Page
Summary		A
Contains items pertaining to state and local legal compliance, University operations and other matters.		
Comments		B
Contains information pertaining to the history of the University.		
Additional Information		1
Exhibit #1	**Board Members and Officials** – a listing of the University board members and officials.	2

Department of
Examiners of Public Accounts

SUMMARY

University of South Alabama
October 1, 2012 through September 30, 2013

The University of South Alabama (the "University") is a public institution of higher learning and awards baccalaureate, masters, doctor of philosophy and doctor of medicine degrees. The University offers studies in ten colleges: Allied Health Professions, Arts and Sciences, Business, Education, Engineering, Medicine, Nursing, Computer and Information Sciences, Continuing Education and Special Programs, and Graduate School. A joint pharmacy program between the University and Auburn University has also been established. The University owns and operates the University of South Alabama Medical Center, University of South Alabama Children's and Women's Hospital, and University of South Alabama Mitchell Cancer Institute. Additional information on the history of the University is included in the Comments section of this report.

The firm of KPMG, LLP conducted the financial audit of the University for the fiscal year ended September 30, 2013.

This report presents the results of an examination of the University and a review of compliance by the University with applicable laws and regulations of the State of Alabama in accordance with the requirements of the Department of Examiners of Public Accounts under the authority of the ***Code of Alabama 1975***, Section 41-5-14.

Tests performed during the examination did not disclose any significant instances of noncompliance with applicable state laws and regulations.

The following officials/employees were invited to an exit conference: Scott Weldon, Assistant Vice-President for Financial Affairs; Polly Stokley, Controller; and Kelly Peters, Assistant Vice-President for Budgeting. The following individuals attended the exit conference: Scott Weldon, Assistant Vice-President for Financial Affairs; Polly Stokley, Controller; and Kelly Peters, Assistant Vice-President for Budgeting. Representing the Department of Examiners of Public Accounts were Mary Ann Dubose, Audit Manager; and JoNesia Turner and Shelia Levins, Examiners.

Department of
Examiners of Public Accounts

COMMENTS

University of South Alabama
October 1, 2012 through September 30, 2013

The University of South Alabama (the "University") was created in May 1963 by act of the Alabama Legislature. The Board of Trustees held their first meeting in October 1963. In April 1964 the University moved from 154 St. Louis Street to its present location at 307 University Boulevard. The first classes began June 1964. In 1968, the University was admitted membership in the Southern Association of Colleges and Schools. The University established a medical school in 1969, which was supported by the Alabama Legislature. Mobile General Hospital was transferred to the University in 1970 and was later renamed University of South Alabama Medical Center. The University's first doctoral program was established in 1978. The University of South Alabama Children's and Women's Hospital was established in 1983. The University established a branch in Baldwin County in 1984. Relocation of the Providence Hospital in 1987 led to the acquisition of the former Providence Hospital, now known as the University of South Alabama Springhill Avenue Campus. The University acquired Doctors Hospital and Knollwood Park Hospital in 1990. The former Doctors Hospital currently houses the University of South Alabama Children's and Women's Hospital. In 2002, the University of South Alabama Cancer Research Institute, now known as the USA Mitchell Cancer Institute was established. In 2005, the University and Infirmary Health System announced a strategic health care alliance to enhance health care in the region and provide innovative cancer treatment and research through the University of South Alabama Cancer Research Institute. As part of this alliance, the University agreed to acquire 6.7 acres from Infirmary Health System as a site for a new Cancer Research facility. In 2006, the University of South Alabama Cancer Research Institute became the University of South Alabama Mitchell Cancer Institute and in late fiscal year 2008, the Institute moved into a new facility on the property formerly owned by the Infirmary Health System and contiguous with the Mobile Infirmary and University of South Alabama Children's and Women's Hospital. In 2006, the Infirmary Health System began leasing the former Knollwood Park Hospital from the University and purchased the property in 2013.

Additional Information

Board Members and Officials
October 1, 2012 through September 30, 2013

Board Members		Term Expires
Hon. Robert Bentley, Governor	President, Ex-Officio	
Hon. Tommy R. Bice, Ed.D., State Superintendent of Education	Member, Ex-Officio	
Hon. Steven P. Furr, M.D.	Chair Pro Tempore	2017
Hon. Kenneth O. Simon	Vice-Chair	2013
Hon. James H. Shumock	Secretary	2021
Hon. J. Cecil Gardner	Member	2013
Hon. Samuel L. Jones	Member	2013
Hon. Christie D. Miree	Member	2013
Hon. Bryant Mixon	Member	2013
Hon. Bettye R. Maye	Member	2017
Hon. John M. Peek	Member	2017
Hon. Steven H. Stokes, M.D.	Member	2017
Hon. James A. Yance	Member	2021
Hon. Scott A. Charlton, M.D.	Member	2021

Board Members and Officials
October 1, 2012 through September 30, 2013

Board Members		Term Expires
Hon. E. Thomas Corcoran	Member	2021
Hon. Arlene Mitchell	Member	2021

Officials

Dr. Tony G. Waldrop	President
Mr. Stephen H. Simmons	Vice-President for Financial Affairs
Mr. William Bush	Assistant Vice-President for Hospital Financial Affairs

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

BUDGET AND FINANCE

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

BUDGET AND FINANCE COMMITTEE

September 11, 2014
2:36 p.m.

A meeting of the University of South Alabama Board of Trustees Budget and Finance Committee was duly convened by Mr. Tom Corcoran, Chair, on Thursday, September 11, 2014, at 2:36 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Tom Corcoran, Arlene Mitchell, Jimmy Shumock, Sandy Stimpson, Steve Stokes and Jim Yance.
Other Trustees:	Chandra Brown Stewart, Steve Furr, Ron Jenkins, Bettye Maye, John Peek, Ken Simon and Mike Windom.
Administration and Others:	Joe Busta, Lynne Chronister, Joel Erdmann, Julie Estis (Faculty Senate), Ron Franks, Happy Fulford, Stan Hammack, David Johnson, Doug Marshall (Faculty Senate), Steve Simmons, John Smith, Tony Waldrop, Jean Tucker, Danielle Watson (SGA), Kevin West (Faculty Senate) and Kelly Woodford (Faculty Senate).
Press:	Sally Ericson (*Press-Register*/al.com).

The meeting came to order and the attendance roll was called. Mr. Corcoran, Committee Chair, called for consideration of the revised agenda. On motion by Mr. Yance, seconded by Mr. Shumock, the revised agenda was approved unanimously.

Mr. Corcoran called upon Ms. Chronister for presentation of **ITEM 12.A**, a resolution to elect Mr. Danny K. Patterson and Ms. Cheryl Coleman Williams as directors of the USA Research and Technology Corporation (RTC) for four-year terms effective September 2014 (for copies of resolutions, policies and other authorized documents, refer to the minutes of the September 12 Board of Trustees meeting). Ms. Chronister shared biographical details, noting that these individuals currently fill seats on the RTC Board. On motion by Mr. Corcoran, seconded by Mr. Shumock, the Committee voted unanimously to recommend approval by the Board of Trustees.

Mr. Corcoran called upon Mr. Simmons for presentation of **ITEM 13**, a resolution to adopt the University Total Budget for 2014-2015, which includes the University General Budget and the USA Health System Budget. Further stipulated is that the 2014-2015 budget would serve as a continuation budget for 2015-2016 to comply with bond trust indenture requirements should the budget process not be completed prior to the 2015-2016 fiscal year. Mr. Simmons enumerated budget highlights as shown in the printed materials. He advised that the methods for budget development would be updated beginning with fiscal year 2015-2016. He said the five percent enrollment increase generated additional revenue of $3.5 million, and he stated additional faculty had been added to USA's workforce. He discussed a modest increase in the monthly premiums employees pay for health insurance to be effective in January 2015 -- $3 for single coverage and $10 for family coverage. He emphasized the strength of the USA Health Plan. He reminded the Committee of enhancements to USA's scholarship program, and noted the budget proposal contains a recommended two-percent, across-the-board raise for eligible employees, which includes the USA Health System. He said the University general budget has a $2 million contingency for President Waldrop to institute new programs, and the hospital budget includes a contingency for Medicaid uncertainties. He noted that the budget recommendation is sound and balanced. On motion by Mr. Corcoran, seconded by Dr. Stokes, the Committee voted unanimously to recommend approval by the Board of Trustees.

Mr. Simmons addressed **ITEM 14**, a resolution to approve a two-percent increase for eligible current salaried or hourly regular administrators and faculty employed prior to August 15, 2014, and eligible current salaried or hourly regular staff employed on or before the effective date of January 1, 2015. He pointed out that other small groups not eligible for this raise, such as medical residents, are paid using a different compensation model. On motion by Mr. Corcoran, seconded by Ms. Mitchell, the Committee voted unanimously to recommend approval by the Board of Trustees.

Mr. Simmons presented **ITEM 12**, the quarterly financial statements for the nine months ended June 2014. He described the University's financial position as positive, noting assets in excess of $1 billion. He remarked on losses reported by Children's & Women's Hospital due to Medicaid methodologies. He added that work continues in Montgomery on Medicaid restructuring.

There being no further business, the meeting was adjourned at 2:48 p.m.

Respectfully submitted:

____

E. Thomas Corcoran, Chair

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)

Basic Financial Statements

September 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)

Basic Financial Statements

September 30, 2014 and 2013

Table of Contents

	Page
Management's Discussion and Analysis (Unaudited)	1
Independent Auditors' Report	12
Basic Financial Statements:	
Statements of Net Position – University of South Alabama, September 30, 2014 and 2013	14
Consolidated Statements of Financial Position – University of South Alabama Foundation, June 30, 2014 and 2013	15
Statements of Financial Position – University of South Alabama Health Services Foundation, September 30, 2014 and 2013	16
Statements of Net Position – USA Research and Technology Corporation, September 30, 2014 and 2013	17
Statements of Revenues, Expenses, and Changes in Net Position – University of South Alabama, years ended September 30, 2014 and 2013	18
Consolidated Statement of Activities and Changes in Net Assets – University of South Alabama Foundation, year ended June 30, 2014	19
Consolidated Statement of Activities and Changes in Net Assets – University of South Alabama Foundation, year ended June 30, 2013	20
Statements of Operations and Changes in Net Assets (Deficit) – University of South Alabama Health Services Foundation, years ended September 30, 2014 and 2013	21
Statements of Revenues, Expenses, and Changes in Net Position – USA Research and Technology Corporation, years ended September 30, 2014 and 2013	22
Statements of Cash Flows – University of South Alabama, years ended September 30, 2014 and 2013	23
Notes to Basic Financial Statements	25

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis (Unaudited)
September 30, 2014 and 2013

Introduction

The following discussion presents an overview of the financial position and financial activities of the University of South Alabama (the University), including the University of South Alabama Hospitals (the Hospitals), a division of the University, at September 30, 2014 and 2013 and for the years then ended. This discussion was prepared by University management and should be read in conjunction with the financial statements and notes thereto, which follow.

The basic financial statements of the University consist of the University and its component units. The financial position and results of operations of the component units are either blended with the University's financial position and results of operations or are discretely presented. The treatment of each component unit is governed by pronouncements issued by the Governmental Accounting Standards Board. As more fully described in note 1 to the basic financial statements, the University of South Alabama Professional Liability Trust Fund, University of South Alabama General Liability Trust Fund and USA HealthCare Management, LLC are reported as blended component units. The University of South Alabama Foundation, the University of South Alabama Health Services Foundation, and the USA Research and Technology Corporation are discretely presented.

Financial Highlights

At September 30, 2014, 2013, and 2012, the University had total assets of $1,055,286,000, $1,042,345,000, and $983,800,000, respectively; total liabilities and deferred inflows of $555,736,000, $549,355,000, and $530,289,000, respectively; and net position of $499,550,000, $492,990,000, and $453,511,000, respectively. University net position increased by $6,560,000 during the year ended September 30, 2014 compared to an increase of $39,479,000 for the year ended September 30, 2013 and an increase of $38,389,000 for the year ended September 30, 2012.

An overview of each statement is presented herein along with a financial analysis of the transactions impacting each statement. Where appropriate, comparative financial information is presented to assist in the understanding of this analysis.

Analysis of Financial Position and Results of Operations

Statement of Net Position

The statement of net position presents the assets, liabilities, deferred inflows and net position of the University at September 30, 2014 and 2013. Net position is displayed in three parts: net investment in capital assets, restricted and unrestricted. Restricted net position may either be expendable or nonexpendable and is that net position that is restricted by law or external donor. Unrestricted net position is generally designated for specific purposes, and is available for use by the University to meet current expenses for any purpose. The statement of net position, along with all of the University's basic financial statements, is prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred by the University, regardless of when cash is exchanged.

Assets included in the statement of net position are classified as current or noncurrent. Current assets consist primarily of cash and cash equivalents, investments, and net patient accounts receivable. Of these amounts, cash and cash equivalents, investments, and patient accounts receivable comprise approximately 29%, 50%, and 10%,

respectively, of current assets at September 30, 2014. Noncurrent assets at September 30, 2014 consist primarily of capital assets, restricted cash and cash equivalents, and restricted investments.

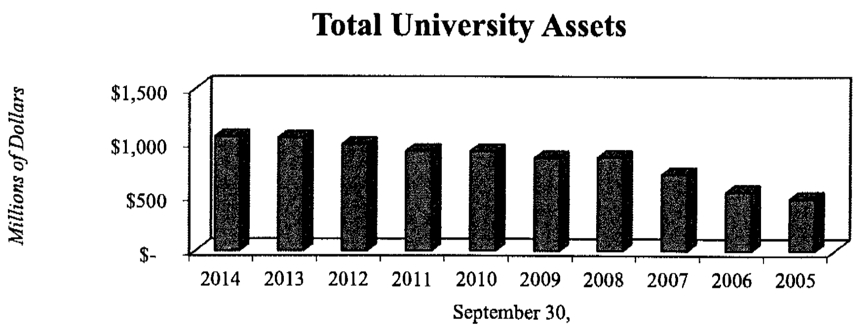
The Condensed Schedules of Net Position at September 30, 2014, 2013, and 2012 follow (in thousands):

Condensed Schedules of Net Position

		2014	2013	2012
Assets:				
Current	$	303,272	333,828	292,041
Capital assets		578,303	565,830	533,199
Other noncurrent		173,711	142,687	158,560
Total assets	$	1,055,286	1,042,345	983,800
Liabilities:				
Current	$	120,646	115,149	115,088
Noncurrent		434,913	434,206	415,201
Total liabilities		555,559	549,355	530,289
Deferred inflows		177	—	—
Total liabilities and deferred inflows	$	555,736	549,355	530,289
Net position:				
Net investment in capital assets	$	237,851	227,464	227,029
Restricted, nonexpendable		40,191	36,864	33,825
Restricted, expendable		60,873	54,364	48,201
Unrestricted		160,635	174,298	144,456
Total net position	$	499,550	492,990	453,511

University cash, cash equivalents, and investments (current and noncurrent) increased between September 30, 2013 and 2014 by $8,497,000 to $403,965,000. This increase is consistent with the results of operations for the year. This follows an increase of $47,820,000 in cash, cash equivalents, and investments between 2012 and 2013, which was due primarily to the issuance of the 2013-A, 2013-B and 2013-C bonds, net of utilization of cash from prior bond issues for various construction projects.

Total assets of the University as of September 30 are as follows:



Net position represents the residual interest in the University's assets after liabilities are deducted. Net position is classified into one of four categories:

Net investment in capital assets represents the University's capital assets less accumulated depreciation and outstanding principal balances of the debt attributable to the acquisition, construction, or improvement of those assets.

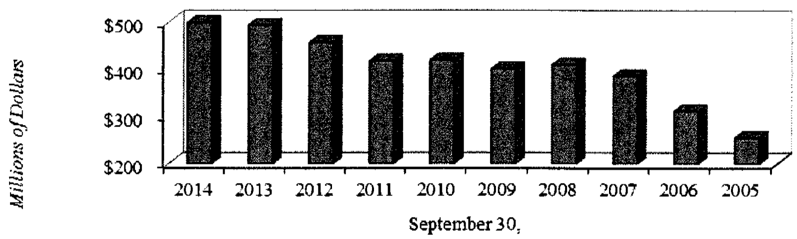
Restricted nonexpendable net position consists primarily of the University's permanent endowment funds. While earnings from these funds may be expended, the corpus may not be expended for any reason and must remain intact with the University in perpetuity.

Restricted expendable net position is subject to externally imposed restrictions governing their use. The funds are restricted primarily for debt service, capital projects, student loans, and scholarship purposes.

Unrestricted net position represents those net assets not subject to externally imposed stipulations. Even though these funds are not legally restricted, the majority of the University's unrestricted net position has been internally designated for various projects, all supporting the mission of the University. Unrestricted net position includes funds for various academic and research programs, auxiliary operations (including the bookstore, student housing and dining services), student programs, capital projects and general operations.

Net position of the University as of September 30 is as follows:

Net Position



All categories of restricted net position increased by approximately 11% between September 30, 2013 and 2014, primarily due to the addition of restricted gifts to the University. Unrestricted net position decreased from $174,298,000 to $160,635,000 between September 30, 2013 and 2014 due primarily to changes in the fair value of the 2004 and 2006 swaptions.

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total University net position as reported in the statement of net position are based on the activity presented in the statement of revenues, expenses, and changes in net position. The purpose of this statement is to present the change in net position resulting from revenues earned by the University, both operating and nonoperating, and the expenses incurred by the University, both operating and nonoperating, as well as any other revenues, expenses, gains, and losses earned or incurred by the University.

Generally, operating revenues have the characteristics of exchange transactions and are received or accrued for providing goods and services to the various customers and constituencies of the University. These include hospital patient care services, tuition and fees (net of scholarship discounts and allowances), most noncapital grants and contracts and revenues from auxiliary activities and sales and services of educational activities (primarily athletic activities). Operating expenses are those expenses paid or incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University.

Nonoperating revenues have the characteristics of nonexchange transactions and are revenues generally earned for which goods and services are not provided, such as investment income, capital appropriations, gifts and other contributions. State appropriations are required by the Governmental Accounting Standards Board to be classified as nonoperating revenues. Nonoperating expenses are those expenses required in the operation and administration of the University, but not directly incurred to acquire or produce the goods and services provided in return for operating revenues. Such nonoperating expenses include interest on the University's indebtedness and losses related to the disposition of capital assets.

The Condensed Schedules of Revenues, Expenses, and Changes in Net Position for the years ended September 30, 2014, 2013, and 2012 follow (in thousands):

Condensed Schedules of Revenues, Expenses, and Changes in Net Position

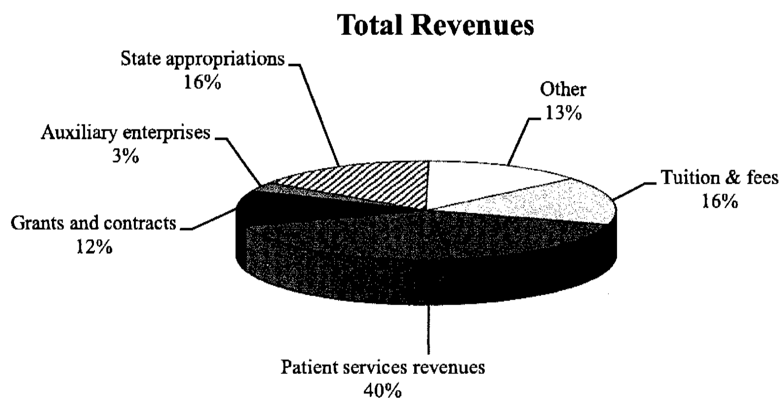
		2014	2013	2012
Operating revenues:				
Tuition and fees	$	104,448	95,709	88,299
Net patient service revenue		268,449	258,207	247,802
Federal, state and private grants and contracts		76,719	77,302	76,448
Other		54,010	52,388	56,579
		503,626	483,606	469,128
Operating expenses:				
Salaries and benefits		419,966	401,872	396,170
Supplies and other services		158,615	148,597	134,841
Other		55,397	51,651	51,222
		633,978	602,120	582,233
Operating loss		(130,352)	(118,514)	(113,105)
Nonoperating revenues:				
State appropriations		103,695	102,585	105,639
Investment income		8,206	28,159	14,561
Other, net		14,475	11,986	12,197
Net nonoperating revenues		126,376	142,730	132,397
Income (loss) before capital appropriations, capital contributions and additions to endowment		(3,976)	24,216	19,292
Capital appropriations, capital contributions and additions to endowment		10,536	15,263	19,097
Change in net position		6,560	39,479	38,389
Beginning net position, before cumulative effect of change in accounting principle		492,990	453,511	416,896
Cumulative effect of change in accounting principle		—	—	(1,774)
Beginning net position – as adjusted		492,990	453,511	415,122
Ending net position	$	499,550	492,990	453,511

In 2014, 2013, and 2012, approximately 40%, 39%, and 39%, respectively, of total revenues of the University were net patient service revenue. Excluding net patient service revenue, net tuition and fees charged to students represent the largest component of total university revenues, approximately 16% of total revenues in fiscal 2014.

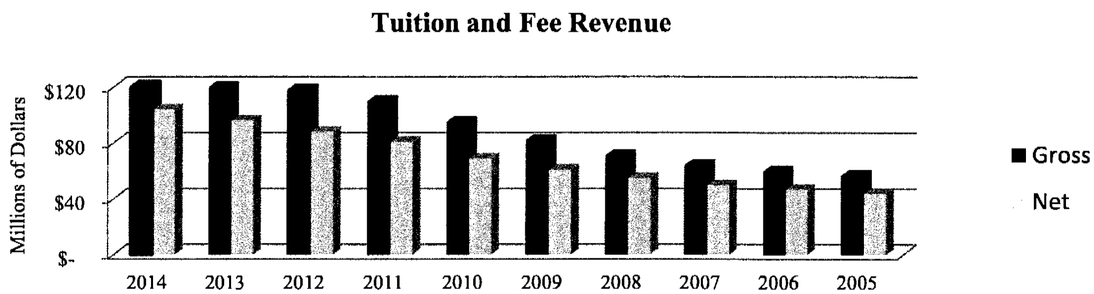
(Continued)

Also in 2014, state appropriations and grants and contracts (federal, state and private) represented approximately 16% and 12% of total revenues, respectively.

A summary of University revenues for the year ended September 30, 2014 is presented below:



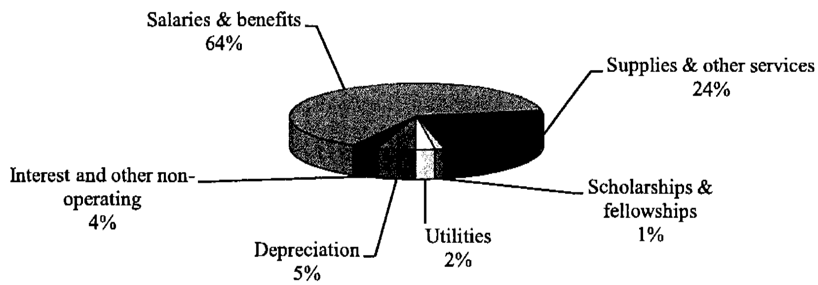
Tuition and fees have increased in each of the last ten years. These increases are due primarily to increases in tuition and fee rates charged to students as well as to an increase in the number of students enrolled and credit hours taken by those students. Additionally, net tuition and fees as a percent of total operating revenues continue to increase, from 9.5% of operating revenues in 2002 to 20.8% in 2014. Tuition and fees, gross and net of scholarship allowances, for the past ten fiscal years are as follows:



Capital contributions and grants decreased from $10,871,000 in 2013 to $790,000 in 2014 due to a decrease in grant funds received for construction of Shelby Hall and the ABSL-3 Laboratory Building. The University recognized $3,482,000 in capital appropriations in 2014, compared to $1,236,000 in 2013. The 2014 and 2013 appropriations were utilized in the renovation of the Student Center.

University expenses are presented using their natural expense classifications. A summary of University expenses for the year ended September 30, 2014 is presented below:

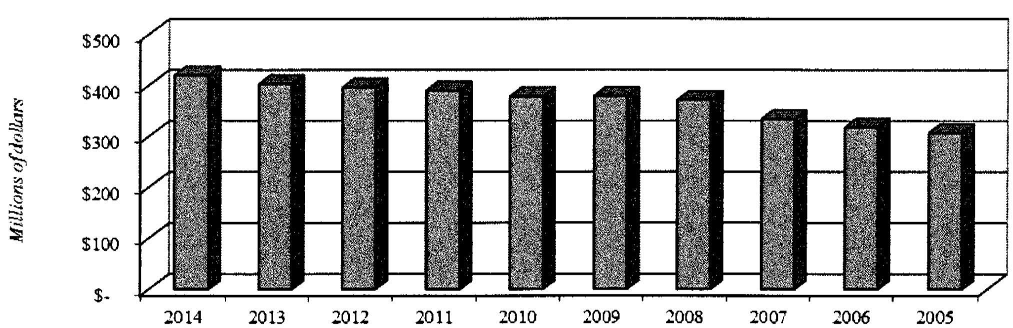
Total Expenses



While the University reports its expenses on a natural expense classification basis, functional classifications represent expenses categorized based on the function within the University. Such University functions include instruction, research, public service, academic support, student services, institutional support, scholarships, and operation and maintenance of plant. Expenses related to auxiliary enterprise activities and the hospitals are presented separately. Functional expense information is presented in note 16 to the basic financial statements.

In 2014, 2013, and 2012, approximately 66%, 67% and 68%, respectively, of the University's total operating expenses were salaries and benefits. After steady increases from 2005 to 2008, salaries and benefits have been relatively constant since 2008, as follows:

Total Salaries and Benefits Expense

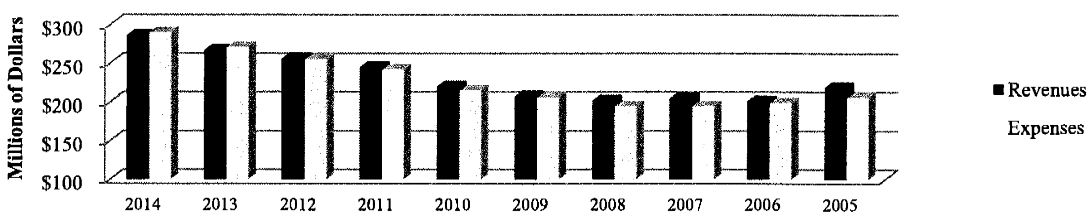


For the years ended September 30, 2014, 2013, and 2012, the University reported operating losses of approximately $130,352,000, $118,514,000, and $113,105,000, respectively. Operating losses are offset partially by state appropriations, which are reported as nonoperating revenue. After adding state appropriations and other nonoperating revenues and expenses, (primarily capital appropriations, capital contributions, and additions to

endowment) the total change in net position was approximately $6,560,000, $39,479,000, and $38,389,000, for the years ended September 30, 2014, 2013, and 2012, respectively.

The Hospitals represent a significant portion of total University revenues and expenses and have remained relatively constant over the past four years. Operating hospital revenues and expenses for the last ten fiscal years are presented below:

Hospital Operating Revenues and Expenses



Statement of Cash Flows

The statement of cash flows presents information related to cash flows of the University. This statement presents cash flows by category: operating activities, noncapital financing activities, capital and related financing activities and investing activities. The net cash provided to, or used by, the University is presented by category.

Capital Assets and Debt Administration

Total capital asset additions for the University were approximately $44,237,000 in 2014. During 2014, New Hall (residence hall) and a major renovation of the Student Center were placed into service. Significant construction projects that remain in progress at September 30, 2014 included a new professional medical office building. The expansion of Children's and Women's Hospital was substantially completed in 2014. Major projects completed and placed into service in fiscal 2012 and 2013 included the Campus Entrance Portals, Stokes Hall and a major renovation of the Bookstore. At September 30, 2014, the University had outstanding commitments of approximately $3,468,000 for various capital projects.

In a prior year, the State of Alabama made allocations from state bond issues to the University in the amount of $21,332,000. During 2014, $3,482,000 was recognized by the University and is reported as a capital appropriation. $112,000 remains unspent at September 30, 2014.

In June 2013, the University issued the University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2013-B and 2013-C, with a total face value of $50,000,000. The net proceeds of these bonds are being used to fund the construction of a new professional medical office building as well as other construction and other capital projects on the main campus of the University.

In March 2014, the University issued the University Facilities Revenue Refunding Bond, Series 2014-A, with a face value of $41,245,000. The proceeds of this bond were used to refund the University's Series 2004 bonds in connection with the termination of the swaption, as discussed below.

In order to realize debt service savings currently from future debt refunding, in January 2008, the University entered into a synthetic advance refunding of the outstanding Series 2004 and 2006 bonds. This transaction was effected through the sale of two swaptions by the University to the counterparty and resulted in an up-front payment to the University totaling $9,328,000 in exchange for selling the counterparty the option to enter into an interest rate swap with respect to the Series 2004 and 2006 bonds. A portion of this payment was considered a borrowing and was included in the long-term debt of the University. The fair value component of the refunding associated with the swaps was considered an investment derivative and, as such, the change in the fair value component was reflected as a component of investment income in 2014, 2013 and 2012.

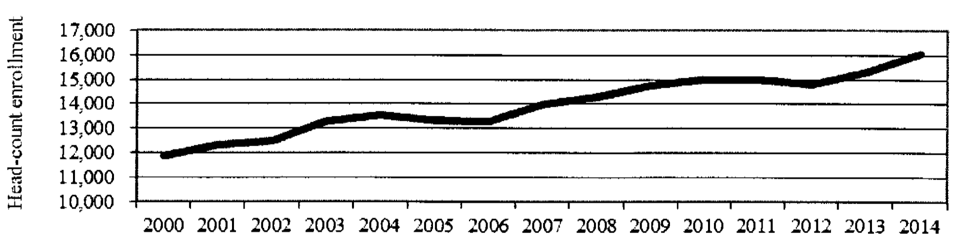
In December 2013, the counterparty exercised its option with respect to the 2004 swaption and forced the University into an underlying swap. The University refunded its Series 2004 bonds, issued the 2014-A variable rate bond and terminated the Series 2004 swaption. As a result of this termination, the borrowing arising from the Series 2004 swaption of $1,696,000 and the investment derivative of $5,213,000 were written off and an investment loss of $2,229,000 was recognized. A borrowing arising from the 2014 swap of $9,138,000 was recognized and is reported in the statement of net position at September 30, 2014.

The University's bond credit rating is A1 as rated by Moody's Investors Services and A+ as rated by Standard and Poor's Rating Services. Neither rate changed during 2014.

Economic Outlook

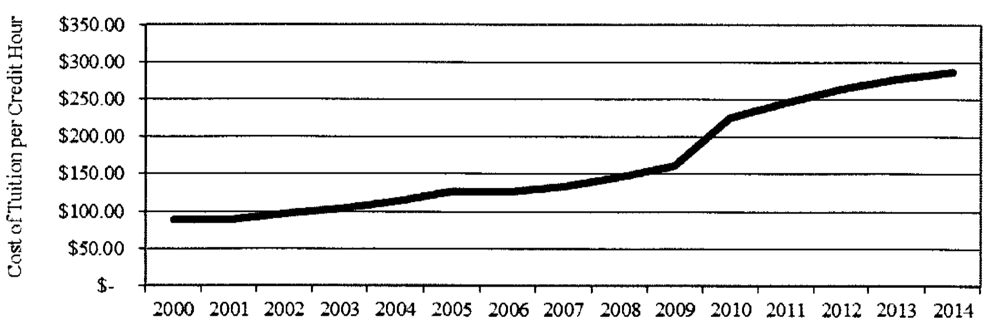
Student enrollment and tuition and fee rates have both increased over the past thirteen years. The University has experienced an increase in enrollment between 2000 and 2014, from 11,870 in 2000 to 16,055 for the 2014 fall semester. The enrollment trend for the University between 2000 and 2014 is as follows:

Enrollment Growth Summary



In that same time period, in-state tuition per credit hour has increased by approximately 222%. The large increase in 2010 is the result of the University's bundling of tuition and required fees into a single per-hour charge. Similar increases have been experienced in out-of-state tuition and College of Medicine tuition. The trend of in-statetuition per credit hour between 2000 and 2014 is as follows:

Tuition per Credit Hour



While enrollment and tuition have both increased in recent years, state appropriations prior to 2006 were relatively flat. However, in the 2008, 2007 and 2006 fiscal years, the University experienced increases of 16%, 19% and 17%, respectively, or approximately $19,349,000, $19,185,000 and $14,581,000, respectively, in its state appropriation. These increases were unusually high. For the 2009 fiscal year, the University's original state appropriation decreased 12.8% or approximately $17,882,000. Additionally, in December 2008 the Governor of Alabama announced proration of 9%, or approximately $10,967,000; and in July 2009, the Governor announced additional proration of 2%, or approximately $2,437,000. Therefore, the total decrease in the 2009 state appropriation was approximately $31,286,000 to $108,451,000, or 22.4% lower than in 2008.

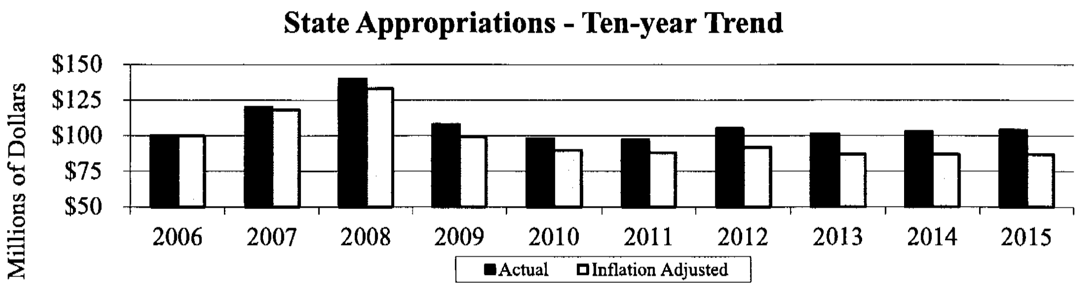
A state appropriation in the amount of approximately $105,639,000 was authorized for the year ended September 30, 2012. In February 2011, the Governor announced proration of 3%, or approximately $2,999,000, that reduced the amount received to $96,948,000.

A state appropriation in the amount of approximately $102,585,000 was authorized and received for the year ended September 30, 2013.

A state appropriation in the amount of approximately $103,695,000 was authorized and received for the year ended September 30, 2014.

A state appropriation in the amount of approximately $103,974,000 has been authorized for the year ending September 30, 2015. This represents a $279,000 increase from the fiscal 2014 appropriation received. While no announcement has been made, the University is aware that reductions in its 2015 appropriation are possible.

The ten-year trend of state appropriations for the University is as follows:



In addition to state appropriations, the University is subject to declines in general economic conditions in the United States and, specifically, the State of Alabama. Further weakening of the economy could have a potential further negative impact on the University's enrollment, extramural funding, endowment performance, and health care operations.

Other than the issues presented above, University administration is not aware of any other currently known facts, decisions, or conditions that are expected to have a significant effect on the University's financial position or results of operations during fiscal year 2015 beyond those unknown variables having a global effect on virtually all types of business operations.

Requests for Information

These basic financial statements are designed to provide a general overview of the University of South Alabama and its component units' financial activities and to demonstrate the University's accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Mr. Stephen H. Simmons; Vice-President for Financial Affairs; University of South Alabama – Room 170; Mobile, Alabama 36688. These basic financial statements can be obtained from our website at http:www.southalabama.edu/financialaffairs/businessoffice/statements.html.

KPMG LLP
Suite 1100
One Jackson Place
188 East Capitol Street
Jackson, MS 39201-2127

Independent Auditors' Report

The Board of Trustees
University of South Alabama:

Report on the Financial Statements

We have audited the accompanying financial statements of the University of South Alabama, a component unit of the State of Alabama, (the University) and its aggregate discretely presented component units, as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the 2014 and 2013 consolidated financial statements of the University of South Alabama Foundation, which represents 85%, 99%, and 32%, respectively, of the 2014 assets, net assets, and revenues, gains and other support of the aggregate discretely presented component units and 83%, 100%, and 26%, respectively, of the 2013 assets, net assets, and revenues, gains and other support of the aggregate discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of South Alabama Foundation, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the University of South Alabama Foundation, the University of South Alabama Health Services Foundation, the USA Research and Technology Corporation, and the Professional and General Liability Trust Funds were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its aggregate discretely presented component units as of September 30, 2014 and 2013, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 1-11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

Jackson, Mississippi
November 14, 2014

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)

Statements of Net Position

September 30, 2014 and 2013

(In thousands)

		2014	2013
Current assets:			
Cash and cash equivalents	$	88,317	137,610
Investments		152,776	130,694
Net patient accounts receivable, (net of allowance for doubtful accounts of $54,106 in 2014 and $51,159 in 2013)		30,344	29,053
Accounts receivable, affiliates		10,432	17,283
Accounts receivable, other		6,619	2,147
Notes receivable, net		4,229	6,545
Prepaid expenses, inventories, and other		10,555	10,496
Total current assets		303,272	333,828
Noncurrent assets:			
Restricted cash and cash equivalents		43,692	86,135
Restricted investments		87,646	40,553
Investments		31,534	476
Accounts receivable		3,573	4,580
Notes receivable, net		4,813	8,529
Other noncurrent assets		2,453	2,414
Capital assets, net		578,303	565,830
Total noncurrent assets		752,014	708,517
Total assets		1,055,286	1,042,345
Current liabilities:			
Accounts payable and accrued liabilities		49,138	51,056
Unrecognized revenue		54,524	48,332
Deposits		2,781	2,608
Current portion of long-term debt		14,203	13,153
Total current liabilities		120,646	115,149
Noncurrent liabilities:			
Long-term debt, less current portion		381,103	387,737
Other long-term liabilities		53,810	46,469
Total noncurrent liabilities		434,913	434,206
Total liabilities		555,559	549,355
Deferred inflows		177	—
Total liabilities and deferred inflows		555,736	549,355
Net position:			
Net investment in capital assets		237,851	227,464
Restricted, nonexpendable:			
Scholarships		18,494	16,118
Other		21,697	20,746
Restricted, expendable:			
Scholarships		14,571	13,346
Other		46,302	41,018
Unrestricted		160,635	174,298
Total net position	$	499,550	492,990

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION
(Discretely Presented Component Unit)

Consolidated Statements of Financial Position

June 30, 2014 and 2013

(In thousands)

Assets		**2014**	**2013**
Cash and cash equivalents	$	670	900
Investments:			
Equity securities		133,236	114,193
Timber and mineral properties		156,320	154,332
Real estate		31,007	31,010
Other		6,054	6,040
Other assets		702	647
Total assets	$	327,989	307,122
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	163	126
Note payable – University of South Alabama		3,954	7,783
Other liabilities		736	677
Total liabilities		4,853	8,586
Net assets:			
Unrestricted		62,701	64,280
Temporarily restricted		90,909	64,862
Permanently restricted		169,526	169,394
Total net assets		323,136	298,536
Total liabilities and net assets	$	327,989	307,122

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA
HEALTH SERVICES FOUNDATION
(Discretely Presented Component Unit)

Statements of Financial Position

September 30, 2014 and 2013

(In thousands)

Assets		**2014**	**2013**
Current assets:			
Cash and cash equivalents	$	13	592
Patient accounts receivable (net of allowance for uncollectible accounts of approximately $3,838 and $4,651)		10,351	12,005
Other current assets		1,242	1,263
Total current assets		11,606	13,860
Interest in assets of University of South Alabama Professional Liability Trust Fund		15,710	14,726
Property and equipment, net		3,419	3,658
Total assets	$	30,735	32,244
Liabilities and Net Assets (Deficit)			
Current liabilities:			
Accounts payable	$	1,862	1,656
Due to affiliates		10,295	17,133
Total current liabilities		12,157	18,789
Estimated professional liability costs		15,710	14,726
Total liabilities		27,867	33,515
Net assets (deficit)		2,868	(1,271)
Total liabilities and net assets (deficit)	$	30,735	32,244

See accompanying notes to basic financial statements.

USA RESEARCH AND TECHNOLOGY CORPORATION
(Discretely Presented Component Unit)

Statements of Net Position

September 30, 2014 and 2013

(In thousands)

		2014	2013
Assets:			
Current assets:			
Unrestricted cash and cash equivalents	$	761	1,447
Rent receivable		263	167
Prepaid expenses and other current assets		6	10
Total current assets		1,030	1,624
Noncurrent assets:			
Intangible assets, net		77	99
Capital assets, net		23,794	24,701
Total noncurrent assets		23,871	24,800
Deferred outflows		3,053	3,225
Total assets and deferred outflows		27,954	29,649
Liabilities:			
Current liabilities:			
Deposits, other current liabilities, and accrued expenses		197	356
Payable to University of South Alabama		44	7
Unrecognized rent revenue		494	431
Current portion of notes payable		1,061	1,002
Total current liabilities		1,796	1,796
Noncurrent liabilities:			
Notes payable, excluding current portion		22,225	23,285
Interest rate swap		3,053	3,225
Total noncurrent liabilities		25,278	26,510
Total liabilities		27,074	28,306
Net position:			
Net investment in capital assets		503	284
Unrestricted		377	1,059
Total net position	$	880	1,343

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended September 30, 2014 and 2013

(In thousands)

		2014	2013
Operating revenues:			
Tuition and fees (net of scholarship allowances of $34,641 in 2014 and $32,457 in 2013)	$	104,448	95,709
Net patient service revenue		268,449	258,207
Federal grants and contracts		19,224	18,010
State grants and contracts		7,930	7,897
Private grants and contracts		49,565	51,395
Auxiliary enterprises (net of scholarship allowances of $1,039 in 2014 and $974 in 2013)		20,016	18,354
Other operating revenues		33,994	34,034
Total operating revenues		503,626	483,606
Operating expenses:			
Salaries and benefits		419,966	401,872
Supplies and other services		158,615	148,597
Scholarships and fellowships		7,839	7,099
Utilities		15,700	14,703
Depreciation and amortization		31,858	29,849
Total operating expenses		633,978	602,120
Operating loss		(130,352)	(118,514)
Nonoperating revenues (expenses):			
State appropriations		103,695	102,585
Investment income		8,206	28,159
Interest expense		(12,929)	(13,093)
Other nonoperating revenues		39,111	34,299
Other nonoperating expenses		(11,707)	(9,220)
Net nonoperating revenues		126,376	142,730
Income (loss) before capital appropriations, capital contributions and grants, and additions to endowment		(3,976)	24,216
Capital appropriations		3,482	1,236
Capital contributions and grants		790	10,871
Additions to endowment		6,264	3,156
Change in net position		6,560	39,479
Net position:			
Beginning of year		492,990	453,511
End of year	$	499,550	492,990

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION
(Discretely Presented Component Unit)

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2014

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:				
Net realized and unrealized gains on investments	$ 5,620	25,356	—	30,976
Rents, royalties and timber sales	3,727	193	17	3,937
Interest and dividends	194	1,879	6	2,079
Gifts	—	2	55	57
Other income	9	—	—	9
Required match of donor contributions	(54)	—	54	—
Interfund interest	(165)	165	—	—
Net assets released from program restrictions	1,548	(1,548)	—	—
Total revenues, gains, and other support	10,879	26,047	132	37,058
Expenditures:				
Program services:				
Faculty support	2,332	—	—	2,332
Scholarships	1,066	—	—	1,066
Other	1,117	—	—	1,117
Total program service expenditures	4,515	—	—	4,515
Management and general	1,771	—	—	1,771
Other investment expense	2,011	—	—	2,011
Depletion expense	3,882	—	—	3,882
Depreciation expense	108	—	—	108
Interest expense	171	—	—	171
Total expenditures	12,458	—	—	12,458
Increase (decrease) in net assets	(1,579)	26,047	132	24,600
Net assets – beginning of year	64,280	64,862	169,394	298,536
Net assets – end of year	$ 62,701	90,909	169,526	323,136

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION
(Discretely Presented Component Unit)

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2013

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:				
Net realized and unrealized gains on investments	$ 9,182	11,758	—	20,940
Rents, royalties and timber sales	3,501	—	16	3,517
Interest and dividends	485	1,474	6	1,965
Gifts	—	1	15	16
Other income	70	—	—	70
Required match of donor contributions	(111)	—	111	—
Interfund interest	(118)	118	—	—
Net assets released from program restrictions	1,376	(1,376)	—	—
Total revenues, gains, and other support	14,385	11,975	148	26,508
Expenditures:				
Program services:				
Faculty support	2,379	—	—	2,379
Scholarships	982	—	—	982
Other	1,088	—	—	1,088
Total program service expenditures	4,449	—	—	4,449
Management and general	1,724	—	—	1,724
Other investment expense	1,796	—	—	1,796
Depletion expense	3,391	—	—	3,391
Depreciation expense	83	—	—	83
Interest expense	290	—	—	290
Total expenditures	11,733	—	—	11,733
Increase in net assets	2,652	11,975	148	14,775
Net assets – beginning of year	61,628	52,887	169,246	283,761
Net assets – end of year	$ 64,280	64,862	169,394	298,536

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA
HEALTH SERVICES FOUNDATION
(Discretely Presented Component Unit)

Statements of Operations and Changes in Net Assets (Deficit)

Years ended September 30, 2014 and 2013

(In thousands)

		2014	2013
Unrestricted revenues, gains and other support:			
Net patient service revenue	$	75,680	63,298
Provision for uncollectible accounts		(13,871)	(12,057)
Net patient service revenue less provision for uncollectible accounts		61,809	51,241
Other revenue		10,563	8,701
Total unrestricted revenues, gains, and other support		72,372	59,942
Expenses:			
Salaries and benefits		43,431	48,433
General and administrative		16,535	5,864
Depreciation and amortization		1,602	1,465
Total expenses		61,568	55,762
Operating income		10,804	4,180
Nonoperating gains		1,835	3,491
Revenues over expenses		12,639	7,671
Transfer of capital to University of South Alabama, College of Medicine		(8,500)	(5,100)
Change in net assets (deficit)		4,139	2,571
Net deficit at beginning of year		(1,271)	(3,842)
Net assets (deficit) at end of year	$	2,868	(1,271)

See accompanying notes to basic financial statements.

USA RESEARCH AND TECHNOLOGY CORPORATION
(Discretely Presented Component Unit)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended September 30, 2014 and 2013

(In thousands)

		2014	2013
Operating revenues	$	3,506	4,011
Total operating revenues		3,506	4,011
Operating expenses:			
Building management and operating expenses		1,240	1,427
Depreciation and amortization		1,017	981
Legal and administrative fees		231	222
Insurance		137	150
Total operating expenses		2,625	2,780
Operating income		881	1,231
Nonoperating revenues (expenses):			
Investment income		4	8
Interest expense		(1,351)	(1,409)
Donation revenue		—	2
Other		3	5
Net nonoperating expenses		(1,344)	(1,394)
Change in net position		(463)	(163)
Net position:			
Beginning of year		1,343	1,506
End of year	$	880	1,343

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)

Statements of Cash Flows

Years ended September 30, 2014 and 2013

(In thousands)

		2014	2013
Cash flows from operating activities:			
Receipts related to tuition and fees	$	107,558	99,546
Receipts from and on behalf of patients and third-party payers		267,277	255,918
Receipts from grants and contracts		84,283	86,927
Receipts related to auxiliary enterprises		20,061	18,507
Payments to suppliers and vendors		(172,409)	(149,010)
Payments to employees and related benefits		(420,000)	(396,311)
Payments for scholarships and fellowships		(7,839)	(7,099)
Other operating receipts		30,172	33,007
Net cash used in operating activities		(90,897)	(58,515)
Cash flows from noncapital financing activities:			
State appropriations		103,695	102,585
Endowment gifts		6,264	3,156
Agency funds received		1,424	1,040
Agency funds disbursed		(1,302)	(904)
Student loan program receipts		135,038	126,410
Student loan program disbursements		(135,041)	(126,936)
Other nonoperating revenues		36,883	34,729
Other nonoperating expenses		(11,476)	(9,206)
Net cash provided by noncapital financing activities		135,485	130,874
Cash flows from capital and related financing activities:			
Capital contributions and grants		917	13,464
Purchases of capital assets		(35,090)	(72,680)
Proceeds from sale of capital assets		3,698	6,030
Proceeds from issuance of capital debt		41,245	50,000
Principal payments on capital debt		(54,119)	(10,552)
Interest payments on capital debt		(15,674)	(14,324)
Net cash used in capital and related financing activities		(59,023)	(28,062)
Cash flows from investing activities:			
Interest and dividends on investments		5,959	5,030
Purchases of investments		(108,663)	(90,855)
Proceeds from sales of investments		25,403	49,672
Net cash used in investing activities		(77,301)	(36,153)
Net increase (decrease) in cash and cash equivalents		(91,736)	8,144
Cash and cash equivalents (unrestricted and restricted):			
Beginning of year		223,745	215,601
End of year	$	132,009	223,745

(Continued)

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)

Statements of Cash Flows

Years ended September 30, 2014 and 2013

(In thousands)

		2014	2013
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(130,352)	(118,514)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation and amortization expense		31,858	29,849
Changes in assets and liabilities, net:			
Student receivables		(854)	1,350
Net patient accounts receivables		(1,291)	(2,215)
Grants and contracts receivables		6,703	7,706
Other receivables		(2,914)	9,513
Prepaid expenses, inventories, and other		1,936	5,302
Accounts payable and accrued liabilities		(2,087)	9,630
Unrecognized revenue		6,104	(1,136)
Net cash used in operating activities	$	(90,897)	(58,515)
Noncash investing, noncapital financing, and capital and related financing transactions:			
Net increase in fair value of investments recognized as a component of investment income	$	10,180	24,692
Additional maturity on capital appreciation on bonds payable and other borrowings recorded as interest expense		1,854	1,981
Payments on behalf of the University by the Alabama Public School and College Authority reducing purchases of capital assets		2,489	124
Increase in receivables from Alabama Public School and College Authority reducing purchases of capital assets		993	—
Gifts of capital and other assets		231	42
Pledges of operating and capital gifts		88	1,961
Capitalization of construction period interest		3,825	2,934
Decrease in accounts payable related to capital assets		(43)	(3,856)

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The accompanying basic financial statements present the financial position and activities of the University of South Alabama (the University), which is a component unit of the State of Alabama. The financial statements of the University are intended to present the financial position, changes in financial position and, where applicable, cash flows of only that portion of the basic financial statements and the aggregate discretely presented component units of the State of Alabama that is attributable to the transactions of the University.

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, consists of the primary government and all of its component units. Component units are legally separate organizations for which the primary government is financially accountable. In addition, the primary government may determine, through exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, that organization is included as a component unit. Accordingly, the basic financial statements include the accounts of the University, as the primary government, and the accounts of the entities discussed below as component units.

During 2013, the University adopted GASB Statement No. 61, *The Financial Reports Entity: Omnibus*, which amends GASB Statements No. 14 and No. 39, and provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with the primary government. Such criteria include the appointment of a voting majority of the board of the organization, the ability to impose the will of the primary government on the organization and the financial benefits/burden between the primary government and the potential component unit. The statement also clarifies reporting and disclosure requirements for those organizations. Based on these criteria as of September 30, 2014 and 2013, the University reports the University of South Alabama Foundation (USA Foundation), the University of South Alabama Health Services Foundation (USAHSF), and the USA Research and Technology Corporation (the Corporation) as discretely presented component units.

The University is also affiliated with the South Alabama Medical Science Foundation (SAMSF). This entity is not considered a component unit of the University under the provisions of GASB Statements No. 14, 39 and 61 because the University does not consider SAMSF significant enough to warrant inclusion in the University's reporting entity (see note 14 for further discussion of this entity).

GASB Statement No. 61 requires the University, as the primary government, to include in its basic financial statements, as a blended component unit, organizations that, even though they are legally separate entities, meet certain requirements as defined by GASB Statement No. 61. Based on these criteria, the University reports the Professional Liability Trust Fund, the General Liability Trust Fund

and the USA HealthCare Management, LLC as blended component units. All significant transactions among the University and its blended component units have been eliminated.

(b) ***USA HealthCare Management, LLC***

In June 2010, the University's Board of Trustees approved the formation of the USA HealthCare Management, LLC (the LLC). The LLC was organized for the purpose of managing and operating on behalf of, and as agent for, substantially all of the health care clinical enterprise of the University. The University is the sole member of the LLC. The LLC commenced operations in October 2010 and is reported as a blended component unit (see note 17 for further discussion of, and disclosure for, this entity).

(c) ***Professional Liability and General Liability Trust Funds***

The medical malpractice liability of the University is maintained and managed in its separate Professional Liability Trust Fund (the PLTF) in which the University, USAHSF, LLC and SAMSF are the only participants. In accordance with the bylaws of the trust fund, the president of the University is responsible for appointing members of the trust fund policy committee. Additionally, the general liability of the University, USAHSF, LLC, SAMSF and the Corporation is maintained and managed in its General Liability Trust Fund (the GLTF) for which the University, as defined by GASB Statement No. 14, is responsible. The PLTF and GLTF are separate legal entities which are governed by the University Board of Trustees through the University president. As such, PLTF and GLTF are reported as blended component units (see note 17 for further discussion of, and disclosure for, these entities).

(d) ***University of South Alabama Foundation***

The USA Foundation is a not-for-profit foundation that was organized for the purpose of promoting education, scientific research, and charitable purposes, and to assist in developing and advancing the University in furthering, improving, and expanding its properties, services, facilities, and activities. Because of the significance of the relationship between the University and the USA Foundation, the USA Foundation is considered a component unit of the University. The Board of Directors of the USA Foundation is not appointed or controlled by the University. The University receives distributions from the USA Foundation primarily for scholarship, faculty and other support. Total distributions received or accrued by the University for the years ended September 30, 2014 and 2013 were $4,451,000 and $4,392,000, respectively, and are primarily included in other nonoperating revenues and capital contributions and grants in the University's statements of revenues, expenses, and changes in net position. The USA Foundation presents its financial statements in accordance with standards issued by the Financial Accounting Standards Board (FASB). The USA Foundation is reported in separate financial statements because of the difference in the financial reporting format since the USA Foundation follows FASB rather than GASB pronouncements. The USA Foundation has a June 30 fiscal year end which differs from the University's September 30 fiscal year end. In accordance with GASB Statement No. 14, this discretely presented unit has been included with the most recent fiscal year. The accompanying consolidated statements of financial position and statements of activities and changes in net assets for the USA Foundation as of and for the years ended June 30, 2014 and 2013 are discretely presented.

(e) University of South Alabama Health Services Foundation

The USAHSF is a not-for-profit corporation that exists to provide a group medical practice for physicians who are faculty members of the University and to further medical education and research at the University. Because of the significance of the relationship between the University and USAHSF, USAHSF is considered a component unit of the University. The USAHSF reimburses the University for salaries, certain administrative expenses, dean's clinical assessment and other support services. Total amounts received and accrued for such expenses were approximately $42,352,000 and $44,786,000 for the years ended September 30, 2014 and 2013, respectively, and are reflected as private grants and contracts in the accompanying statements of revenues, expenses, and changes in net position of the University. During 2014, the University reallocated a portion of faculty salaries funded by USAHSF and the University to better align funding and effort. This reallocation, a change in accounting estimate, resulted in a reduction of the payments from USAHSF to the University during the 2014 fiscal year. The USAHSF presents its financial statements in accordance with standards issued by the FASB. The accompanying statements of financial position and statements of operations and changes in net assets (deficit) for the USAHSF for the years ended September 30, 2014 and 2013 are discretely presented.

(f) USA Research and Technology Corporation

The Corporation is a not-for-profit corporation that exists for the purpose of furthering the educational and scientific mission of the University by developing, attracting, and retaining technology and research industries in Alabama that will provide professional and career opportunities to the University's students and faculty. Because of the significance of the relationship between the University and the Corporation, the Corporation is considered a component unit of the University. The Corporation presents its financial statements in accordance with GASB. The accompanying statements of net position and statements of revenues, expenses and changes in net position for the Corporation are discretely presented.

(g) Measurement Focus and Basis of Accounting

For financial reporting purposes, the University is considered a special purpose governmental agency engaged only in business type activities, as defined by GASB Statement No. 34. Accordingly, the University's basic 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.

The University prepares its basic financial statements in accordance with U.S. generally accepted accounting principles, as prescribed by GASB, including all applicable effective statements of the GASB and all statements of the FASB issued through November 30, 1989 that do not conflict with GASB pronouncements.

(h) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires that management make estimates and assumptions affecting the reported amounts

(Continued)

of assets and liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs could change by a material amount in the near term.

(i) Cash and Cash Equivalents

Cash and cash equivalents are defined as petty cash, demand accounts, certificates of deposit, and any short-term investments that take on the character of cash. These investments have maturities of less than three months and include repurchase agreements and money market accounts.

(j) Investments and Investment Income

Investments are recorded at fair value. The fair value of alternative investments (low-volatility multi-strategy funds, private placement fund-of-funds, relative value arbitrage funds, and other) do not have readily ascertainable market values and the University values these investments in accordance with valuations provided by the general partners or fund managers of the underlying partnerships or companies. Because these investments are not marketable, the estimated fair value is subject to uncertainty and, therefore, may differ from the fair value that would have been used had a ready market for the investment existed. Investments received by gift are recorded at fair value at the date of receipt. Changes in the fair value of investments are reported in investment income (loss).

(k) Derivatives

The University has adopted the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 establishes a framework for accounting and financial reporting related to derivative instruments, requiring the fair value of derivatives to be recognized in the basic financial statements.

The University entered into two interest rate swaptions in January 2008, the Series 2004 swaption and the Series 2006 swaption. As a result of entering into the swaptions, the University received up-front payments. Swaptions are considered hybrid instruments which are required to be bifurcated into the fair value of the derivative and a piece that reflects a borrowing for financial statement purposes, which will accrete interest over time. As more fully described in notes 5 and 9, in December 2013, the counterparty, Wells Fargo Bank, N. A. (Wells Fargo), exercised its option related to the Series 2004 swaption, and as a result, the University entered into an interest rate swap. As a result of the exercise of the option, the Series 2004 swaption was terminated. The Series 2006 swaption remains outstanding at September 30, 2014.

The University determined that as of September 30, 2014, the remaining swaption was not a hedging derivative instrument; and that as of September 30, 2013, both then existing swaptions were not hedging derivative instruments. As a result of that determination, the swaptions are required to be reported as investment derivatives with the change in fair value flowing through the statements of revenues, expenses and changes in net position.

The fair values of the outstanding swaptions were $(14,191,000) and $(13,333,000) at September 30, 2014 and 2013, respectively. At September 30, 2014 and 2013, the fair values of the swaptions were included in other long-term liabilities in the accompanying statements of net position. The change in fair value for the years ended September 30, 2014 and 2013 was $(6,071,000) and $10,276,000, respectively, and was included in investment income in the accompanying statements of revenues, expenses, and changes in net position for the years ended September 30, 2014 and 2013. See note 5 for further discussion.

In March 2014, the University entered into an interest rate swap arrangement with a counterparty. The resulting derivative is a "receive-variable, pay-fixed" interest rate swap. The University pays the counterparty a fixed semi-annual payment based on an annual rate of 4.9753% and receives on a monthly basis a variable payment of 68% of the one-month London Interbank Offered Rate plus 0.25%. The notional amount of the swap will at all times match the outstanding principal amount of the Series 2014-A bond. The change in fair value of the swap ($177,000 at September 30, 2014) is reported as a deferred inflow on the 2014 statement of net position since the interest rate swap is a hedging derivative. See note 9 for further discussion.

(l) Accounts Receivable

Accounts receivable primarily result from net patient service revenue. Accounts receivable from affiliates primarily represent amounts due from USAHSF for salaries, and certain administrative and other support services. Accounts receivable – other includes amounts due from students, the federal government, state and local governments, or private sources in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

(m) Inventories

The University's inventories primarily consist of bookstore inventories and medical supplies and pharmaceuticals. Bookstore inventories are valued at the lower of cost (moving average basis) or market. Medical supplies and pharmaceuticals are stated at the lower of cost (first-in, first-out method) or market.

(n) Capital Assets

Capital assets are recorded at cost, if purchased or at fair value at date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset using the straight-line method. Major renewals and renovations are capitalized. Costs for repairs and maintenance are expensed when incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the gain or loss, if any, is included in nonoperating revenues (expenses) in the statements of revenues, expenses, and changes in net position.

All capital assets other than land are depreciated using the following asset lives:

Buildings, infrastructure and certain building components	40 to 100 years
Fixed equipment	10 to 20 years
Land improvements	8 to 20 years
Library materials	10 years
Other equipment	4 to 15 years

Certain buildings are componentized for depreciation purposes.

Interest costs for certain assets constructed are capitalized as a component of the cost of acquiring those assets.

The University evaluates impairment in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. For the years ended September 30, 2014 and 2013, no impairments were recorded.

(o) Unrecognized Revenue

Student tuition, fees, and dormitory rentals are initially recorded as unrecognized revenue and then recognized over the applicable portion of each school term.

(p) Classification of Net Position

The University's net position is classified as follows:

Net investment in capital assets reflects the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such debt is excluded from the calculation of *net investment in capital assets*.

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

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

Unrestricted net position represents resources derived from student tuition and fees, state appropriations, net patient service revenue, sales and services of educational activities and auxiliary enterprises. Auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff. While unrestricted net position may be designated for specific purposes by action of management or the Board of Trustees, they are available for use at the discretion of the

(Continued)

governing board to meet current expenses for any purpose. Substantially all unrestricted net position is designated for academic and research programs and initiatives, and capital programs.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University addresses each situation on a case-by-case basis prior to determining the resources to be used to satisfy the obligation.

(q) Scholarship Allowances and Student Financial Aid

Student tuition and fees, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants and other federal, state, or nongovernmental programs are recorded as either operating or nonoperating revenues in the University's basic financial statements based on their classification as either an exchange or nonexchange transaction. To the extent that revenues from such programs are used to satisfy tuition and fees and certain other student charges, the University has recorded a scholarship discount and allowance.

(r) Donor Restricted Endowments

The University is subject to the "Uniform Prudent Management of Institutional Funds Act (UPMIFA)" of the Code of Alabama. This law allows the University, unless otherwise restricted by the donor, to spend net appreciation, realized and unrealized, on the endowment. The law also allows the University to appropriate for expenditure or accumulate to an endowment fund such amounts as the University determines to be prudent for the purposes for which the endowment fund was established. The University's endowment spending policy provides that 5% of the three-year invested net asset moving average value (inclusive of net realized and unrealized gains and losses), as measured at September 30, is available annually for spending. The University's policy is to retain the endowment net interest and dividend income and net realized and unrealized appreciation with the endowment after distributions allowed by the spending policy have been made. These amounts, unless otherwise directed by the donor, are included in restricted, expendable net position.

(s) Classification of Revenues

The University has classified its revenues as either operating or nonoperating revenues.

Operating revenues include activities that have the characteristics of exchange transactions such as student tuition and fees, net of scholarship discounts and allowances; sales and services of auxiliary enterprises, net of scholarship allowances; most federal, state, and local grants and contracts; and, net patient service revenue.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources such as state appropriations and investment income.

(Continued)

(t) Gifts and Pledges

Pledges of financial support from organizations and individuals representing an unconditional promise to give are recognized in the basic financial statements once all eligibility requirements, including time requirements, have been met. In the absence of such a promise, revenue is recognized when the gift is received. Endowment pledges generally do not meet eligibility requirements, as defined by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and are not recorded as assets until the related gift has been received. Unconditional promises that are expected to be collected in future years are recorded at the present value of the estimated future cash flows.

(u) Grants and Contracts

The University has been awarded grants and contracts for which funds have not been received or expenditures made for the purpose specified in the award. These awards have not been reflected in the basic financial statements, but represent commitments of sponsors to provide funds for specific research or training projects. For grants that have allowable cost provisions, the revenue will be recognized as the related expenditures are made. For grants with work completion requirements, the revenue is recognized as the work is completed. For grants without either of the above requirements, the revenue is recognized as it is received.

(v) Net Patient Service Revenue and Electronic Health Records Incentive Program

Net patient service revenue is reported at estimated net realizable amounts due from patients, third-party payers and others for healthcare services rendered, including estimated retroactive revenue adjustments due to future audits, reviews and investigations. 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.

The Centers for Medicare and Medicaid Services (CMS) has implemented provisions of the American Recovery and Reinvestment Act of 2009 that provide incentive payments for the meaningful use of certified electronic health record (EHR) technology. CMS has defined meaningful use as meeting certain objectives and clinical quality measures based on current and updated technology capabilities over predetermined reporting periods as established by CMS. The Medicare EHR incentive program provides annual incentive payments to eligible professionals, and hospitals, that are meaningful users of certified EHR technology. The Medicaid EHR incentive program provides annual incentive payments to eligible professionals and hospitals for efforts to adopt, implement, and meaningfully use certified EHR technology. The Hospitals utilize a grant accounting model to recognize EHR incentive revenues. The Hospitals record EHR incentive revenue ratably throughout the incentive reporting period when it is reasonably assured that it will meet the meaningful use objectives for the required reporting period and that the grants will be received. The EHR reporting period for hospitals is based on the federal fiscal year, which runs from October 1 through September 30.

(Continued)

USA Medical Center and USA Children's and Women's Hospital did not meet any meaningful use objectives for Medicare during 2014, and therefore have not recognized any revenue for this fiscal year. Both Hospitals expect to meet meaningful use objectives for Medicare during the year ending September 30, 2015. The Hospitals recognized Medicare EHR incentive revenues of $725,000 for the year ended September 30, 2013. The Hospitals next receipt of Medicaid EHR revenues is expected to occur during the federal fiscal year ended September 30, 2015. EHR incentive revenues are included in other operating revenues in the accompanying statements of revenues, expenses and changes in net position.

(w) Recently Adopted Accounting Pronouncements

In 2013, the University adopted the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. GASB Statement No. 61 amends GASB Statements No. 14 and 39 and modifies certain requirements for inclusion of component units in the financial reporting entity. GASB Statement No. 61 requires that for organizations that previously were included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Statement No. 61 also establishes criteria to require inclusion based on other additional factors, such as organization board appointment, financial benefit or burden and operational management of the organization. The adoption of this statement had no financial reporting entity impact on the University's component units; however, it did require additional disclosures for blended component units.

In 2013, the University also adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, during the year ended September 30, 2013. Retroactive application of the standards was required for all prior periods presented.

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. GASB Statement No. 65 establishes accounting and reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The University had historically deferred certain debt financing costs related to its bond issues and was amortizing those costs over the term of the related bond issue. GASB Statement 65 requires that debt issuance costs, except any portion related to prepaid insurance costs, be recognized as an expense in the period incurred. The adoption of the provisions of GASB Statement No. 65 decreased beginning net position at October 1, 2011 by $1,774,000.

(x) Compensated Absences

The University accrues annual leave for employees as incurred at rates based upon length of service and job classification.

(y) Reclassifications

Certain amounts in the 2013 basic financial statements have been reclassified in order to conform to 2014 classification.

(2) Income Taxes

The University is classified as both a governmental entity under the laws of the State of Alabama and as a tax-exempt entity under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). Consistent with these designations, no provision for income taxes has been made in the accompanying basic financial statements.

In addition, the University's discretely presented component units are tax-exempt entities under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3). Consistent with that designation, no provision for income taxes has been made in the accompanying discretely presented financial statements.

(3) Cash

Pursuant to the Security for Alabama Funds Enhancement Act, funds on deposit may be placed in an institution designated as a qualified public depository (QPD) by the State of Alabama. QPD institutions pledge securities to a statewide collateral pool administered by the State Treasurer's office. Such financial institutions contribute to this collateral pool in amounts proportionate to the total amount of public fund deposits at their respective institutions. The securities are held at the Federal Reserve Bank and are designated for the State of Alabama. Additional collateral was not required for University funds on deposit with QPD institutions. At September 30, 2014, the net public deposits subject to collateral requirements for all institutions participating in the pool totaled approximately $9,342,196,000. The University had cash and cash equivalents totaling $132,009,000 and $223,745,000 at September 30, 2014 and 2013, respectively.

At September 30, 2014, restricted cash and cash equivalents consist of $3,760,000 related to cash included in the PLTF and GLTF to pay insurance liability claims, and $39,932,000 of unspent proceeds from the issuance of University bonds for capital purchases as outlined in the bond indenture. At September 30, 2013, restricted cash and cash equivalents consist of $28,547,000 related to swaption collateral obligations, $2,621,000 related to cash included in the PLTF and GLTF to pay insurance liability claims and $54,967,000 of unspent proceeds from the issuance of University bonds for capital purchases as outlined in the bond indenture.

(4) Investments

(a) University of South Alabama

The investments of the University are invested pursuant to the University of South Alabama "Nonendowment Cash Pool Investment Policies," the "Endowment Fund Investment Policy," and the "Derivatives Policy" (collectively referred to as the University Investment Policies) as adopted by the Board of Trustees. The purpose of the nonendowment cash pool investment policy is to provide guidelines by which pooled funds not otherwise needed to meet daily operational cash flows can be invested to earn a maximum return, yet still maintain sufficient liquidity to meet fluctuations

(Continued)

in the inflows and outflows of University operational funds. Further, endowment fund investment policies exist to provide earnings to fund specific projects of the endowment fund, while preserving principal. The University Investment Policies require that management apply the "prudent person" standard in the context of managing its investment portfolio.

The investments of the blended component units of the University are invested pursuant to the separate investment policy shared by the PLTF and GLTF (the Trust Fund Investment Policy.) The objectives of the Trust Fund Investment Policy are to provide a source of funds to pay general and professional liability claims and to achieve long-term capital growth to help defray future funding requirements. Additionally, investments of the University's component units both blended and discretely presented are subject to UPMIFA as well as any requirements placed on them by contract or donor agreements.

Certain investments, primarily related to the University's endowment assets, are pooled. The University uses this pool to manage its investments and distribute investment income to individual endowment funds.

Investments of the University, by type, at fair value, are as follows at September 30, 2014 and 2013 (in thousands):

		2014	2013
U.S. Treasury notes	$	8,885	8,496
U.S. federal agency notes		101,201	19,676
Pooled equity mutual funds		82,233	71,406
Pooled debt mutual funds		36,426	30,594
Managed income alternative investments (low-volatility multi-strategy funds, private placement fund-of-funds, relative value arbitrage funds, and other)		29,224	27,791
State agency obligations		—	394
Other		13,987	13,366
	$	271,956	171,723

At September 30, 2014 and 2013, $16,395,000 and $10,272,000, respectively, of appreciation in fair value of investments of donor-restricted endowments was recognized and are included in restricted expendable net position in the accompanying statements of net position.

Credit Risk and Concentration of Credit Risk

The University Investment Policies limit investment in corporate bonds to securities with a minimum "A" rating, at the time of purchase, by both Moody's and Standard and Poor's. Investments in corporate paper are limited to issuers with a minimum quality rating of P-1 by Moody's, A-1 by Standard and Poor's or F-1 by Fitch.

(Continued)

Additionally, the University Investment Policies require that not more than 10% of the cash, cash equivalents and investments of the University be invested in the obligations of a single private corporation and not more than 35% of the cash, cash equivalents and investments of the University be invested in the obligations of a single government agency.

The University's exposure to credit risk and concentration of credit risk at September 30, 2014 is as follows:

	Credit rating	of total investments
Federal Home Loan Mortgage Corporation	AAA	7.8%
Federal Home Loan Bank Corporation	AAA	13.4
Federal National Mortgage Association	AAA	5.5
Common Fund Bond Fund	A+	11.5
PIMCO Pooled Bond Fund	A/BA/AA	2.0
Federal Farm Credit Banks Funding Corporation	AAA	9.6
Federal Agricultural Mortgage Corporation	AAA	1.0
Common Fund Equity Fund	N/A*	13.3

The University's exposure to credit risk and concentration of credit risk at September 30, 2013 is as follows:

	Credit rating	of total investments
Federal Home Loan Mortgage Corporation	Aaa	4.9%
Federal Home Loan Bank Corporation	Aaa	2.3
Federal National Mortgage Association	Aaa	1.3
Common Fund Bond Fund	AA	15.2
Various State Agency Obligations	Aaa/A2	0.2
PIMCO Pooled Bond Fund	AA+/NR	2.7
Federal Farm Credit Banks Funding Corporation	Aaa	2.9
Federal Agricultural Mortgage Corporation	Aaa	0.1
Common Fund Equity Fund	N/A*	17.4

*Credit rating in not applicable

Interest Rate Risk

At September 30, 2014, the maturity dates of the University's debt investments were as follows (in thousands):

			Years to maturity			
		Fair value	Less than 1	1 – 5	6 – 10	More than 10
U.S. Treasury notes	$	8,885	70	8,815	—	—
U.S. federal agency notes		101,201	8,286	92,915	—	—
Pooled debt mutual funds		36,426	—	32,484	3,942	—
	$	146,512	8,356	134,214	3,942	—

At September 30, 2013, the maturity dates of the University's debt investments were as follows (in thousands):

			Years to maturity			
		Fair value	Less than 1	1 – 5	6 – 10	More than 10
U.S. Treasury notes	$	8,496	808	7,688	—	—
U.S. federal agency notes		19,676	664	18,930	—	82
Pooled debt mutual funds		30,594	1,183	—	29,411	—
State agency obligations		394	—	—	—	394
	$	59,160	2,655	26,618	29,411	476

Pooled debt mutual funds are classified based on the weighted average maturity of the individual investment instruments within each fund.

The University's Investment Policies do not specifically address the length to maturity on investments which the University must follow; however, they do require that the maturity range of investments be consistent with the liquidity requirements of the University.

Mortgage-Backed Securities

The University, from time to time, invests in mortgage backed securities issued by the Government National Mortgage Association (GNMA) and the Federal National Mortgage Association (FNMA), agencies of the United States government. The University invests in these securities to increase the yield and return on its investment portfolio given the available alternative investment opportunities.

The fair value of mortgage-backed securities is generally based on the cash flows from principal and interest receipts on the underlying mortgage pools. These securities include collateralized mortgage obligations (CMOs). In CMOs, the cash flow from principal and interest payments from one or more mortgage pass-through securities or a pool of mortgages may be reallocated to multiple security classes with different priority claims and payment streams (commonly referred to as tranches). A holder of the CMO security thus chooses the class of security that best meets its risk and return objectives. CMOs are subject to significant market risk due to fluctuations in interest rates,

prepayment rates and various liquidity factors related to their specific markets. There were no CMOs in the University's investment portfolio at September 30, 2014 or 2013.

At September 30, 2014, restricted investments consist of $45,946,000 related to investments included in the PLTF and GLTF to pay insurance liability claims and $41,700,000 in required collateral related to the 2006 swaption and the 2014 interest rate swap. At September 30, 2013, restricted investments consist of $40,553,000 related to investments included in the PLTF and GLTF to pay insurance liability claims.

(b) University of South Alabama Foundation

Investments in securities consist primarily of equity securities totaling $133,236,000 and $114,193,000, at June 30, 2014 and 2013, respectively.

Investment income was comprised of the following for the years ended June 30, 2014 and 2013 (in thousands):

		2014	2013
Unrealized gains	$	28,429	18,296
Realized gains		2,547	2,644
Timber sales		3,132	2,764
Interest and dividends		2,079	1,965
Rents		634	605
Royalties		171	148
	$	36,992	26,422

Investment related expenses in the amount of $295,000 and $259,000, respectively, are included in the USA Foundation's management and general expenses in the accompanying 2014 and 2013 consolidated statements of activities and changes in net assets.

Real estate at June 30, 2014 and 2013 consisted of the following property held (in thousands):

		2014	2013
Land and land improvements – held for investment	$	29,926	29,910
Building and building improvements – held for investment, net of depreciation		1,081	1,100
	$	31,007	31,010

Timber and mineral properties are stated at fair value. Depletion of mineral properties is recognized over the remaining producing lives of the properties based on total estimated production and current period production. Depletion of timber properties is recognized on a specific identification basis as timber rights are sold or on a unit basis for sales made on that basis. Reforestation costs consisting of site preparation and planting of seedlings are capitalized.

Investments at June 30, 2014 and 2013, include an equity interest in a timberland management company. The company's primary assets consist of timberland. The Foundation's proportionate share of the fair value of the company is based upon the valuation of the trustee responsible for the management of the company and the timber valuation.

The Foundation has adopted Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures,* (formally FASB Statement No. 157, *Fair Value Measurements*). ASC 820 provides a single definition of fair value and a hierarchical framework for measuring it, as well as establishing additional disclosure requirements about the use of fair value to measure assets and liabilities. Fair value measurements are classified as either observable or unobservable in nature. Observable fair values are derived from quoted market prices for investments traded on an active exchange or in dealer markets where there is sufficient activity and liquidity to allow price discovery by substantially all market participants (Level 1). The Foundation's observable values consist of investments in exchange-traded equity securities with a readily determinable market price. Other observable values are fair value measurements derived either directly or indirectly from quoted market prices (Level 2). Investments that are not traded on an active exchange and do not have a quoted market price are classified as unobservable (Level 3). The Foundation's unobservable values consist of investments in timber and real estate with fair values based on independent third-party appraisals performed by qualified appraisers specializing in timber and real estate investments.

The Foundation's investment assets at June 30, 2014 and 2013, respectively, are summarized based on the criteria of ASC 820 as follows (in thousands):

	Fair value measurements at June 30, 2014			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity securities	$ 71,080	62,156	—	133,236
Timber and mineral properties	—	—	156,320	156,320
Real estate	—	—	31,007	31,007
Other investments	—	—	6,054	6,054
	$ 71,080	62,156	193,381	326,617

	Fair value measurements at June 30, 2013			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity securities	$ 57,870	56,323	—	114,193
Timber and mineral properties	—	—	154,332	154,332
Real estate	—	—	31,010	31,010
Other investments	—	—	6,040	6,040
	$ 57,870	56,323	191,382	305,575

(Continued)

For the year ended June 30, 2014, activity in investment assets valued at fair value based on unobservable values is as follows (in thousands):

Description		Timber and mineral properties	Real estate	Other investments	Total
Beginning balance	$	154,332	31,010	6,040	191,382
Total gains (losses) (realized/unrealized)		5,503	28	14	5,545
Acquisitions		—	2	—	2
Reforestation		367	—	—	367
Depreciation/depletion		(3,882)	(33)	—	(3,915)
Ending balance	$	156,320	31,007	6,054	193,381

For the year ended June 30, 2013, activity in investment assets valued at fair value based on unobservable values is as follows (in thousands):

Description		Timber and mineral properties	Real estate	Other investments	Total
Beginning balance	$	153,574	31,040	5,522	190,136
Total gains (losses) (realized/unrealized)		3,876	—	518	4,394
Acquisitions		—	3	—	3
Reforestation		273	—	—	273
Depreciation/depletion		(3,391)	(33)	—	(3,424)
Ending balance	$	154,332	31,010	6,040	191,382

As of June 30, 2014, the Foundation has no outstanding commitments to purchase securities or other investments. Additionally, substantially all of the Foundation's equity securities at June 30, 2014 and 2013 are considered readily liquid. Timber and mineral properties, real estate, and other investments are generally considered illiquid.

(5) Derivative Transactions – Swaption

In January 2008, the University entered into a synthetic advance refunding of the outstanding Series 2004 and 2006 bonds with a counterparty. This transaction was effected through the sale of two swaptions by the University to the counterparty. The transactions resulted in an up-front payment to the University totaling $9,328,000, which was recorded as a liability, in exchange for selling the counterparty the option to enter into an interest rate swap with respect to the Series 2004 and 2006 bonds in 2014 and 2016, respectively.

Objective of the Derivative Transaction

The objective of this transaction was to realize debt service savings currently from future debt refunding and create an economic benefit to the University.

Terms

A summary of the transactions is as follows:

Issue	Date of issue	Option expiration date	Effective date of swap	Termination date	Payment amount
Series 2004 bonds	2-Jan-08	16-Dec-13	15-Mar-14	15-Mar-24	$ 1,988,000
Series 2006 bonds	2-Jan-08	1-Sep-16	1-Dec-16	1-Dec-36	7,340,000

As further discussed in note 9, in December 2013, the counterparty exercised its option with respect to the 2004 swaption. The University refunded its Series 2004 bonds, issued the Series 2014-A variable rate bond and terminated the Series 2004 swaption. As a result of this termination, the borrowing arising from the Series 2004 swaption of $1,696,000 and the investment derivative (liability) of $5,213,000 were written off and an investment loss of $2,229,000 was recognized and reported in the statements of revenues, expenses and changes in net position for the year ended September 30, 2014. A borrowing arising from the 2014 swap of $9,138,000 was recognized and is reported, net of current year amortization, as long-term debt in the statement of net position at September 30, 2014.

As outlined in the 2008 agreement, if the counterparty exercises its option in 2016 related to the 2006 swaption, the University would, at the counterparty's option, be compelled to enter into an underlying swap. If the option is exercised, the University would begin to make payments on the notional amount, currently $100,000,000 for the 2006 bonds of the underlying swap contract. Simultaneously, the University would call outstanding 2006 bonds and issue variable rate demand notes (VRDNs) in their place. Under the swap contract, the University would pay a fixed rate of 5.0% on the 2006 bonds to the counterparty and would receive payments based on 68% of the one-month LIBOR index plus 0.25%. Alternatively, although it is not anticipated that this option would be to the University's advantage, the University could, at its option, cash settle the swap and retain its right to refund the 2006 bonds.

If the interest rate environment is such that the counterparty chooses to not exercise its option related to the 2006 swaption, the swaption would be canceled and the University would have no further obligation under this agreement.

Financial Statement Presentation

A swaption is considered a hybrid instrument and as such the payment by the counterparty to the University must be bifurcated into two components, a borrowing component and an embedded derivative component, and each component treated separately. The embedded derivative value of the swaption represents the fair value resulting from the fact that the fixed rate stated in the swaption is greater than the at-the-market rate. The initial value of the borrowing is the difference between the upfront payment and the

fair value of the embedded derivative and represents the time value to the counterparty for holding the option, or the probability-weighted, discounted values of a range of future possible outcomes. The values of the derivatives and borrowings at the date of execution of this transaction were as follows:

		2004 Bonds	2006 Bonds
Embedded derivatives	$	918,000	3,343,000
Borrowings		1,070,000	3,997,000
	$	1,988,000	7,340,000

The values of any remaining borrowings are included in long-term debt on the University's 2014 and 2013 statements of net position. Interest is being accreted on, and added to, the borrowings through the expiration date of the option. For the years ended September 30, 2014 and 2013, $379,000 and $400,000, respectively, was accreted and is included in interest expense in the statements of revenues, expenses, and changes in net position.

The fair values of the embedded investment derivatives are reported as investment assets, if the swaption derivatives are assets, or other noncurrent liabilities, depending on the fair values of the swaption derivatives. The change in the fair market values of the swaption derivatives is reported as a component of investment income (loss) in the statements of revenues, expenses and changes in net position. At September 30, 2014 and 2013, the negative fair values of the swaption derivatives are approximately $(14,191,000) and $(13,333,000) and are included in other long-term liabilities in the accompanying statements of net position. For the years ended September 30, 2014 and 2013, the changes in the fair value of the derivatives were $(6,071,000) and $10,276,000, respectively.

Fair Value

At September 30, 2014 and 2013, the total of the embedded derivatives associated with the outstanding swaptions had negative fair values of $(14,191,000) and $(13,333,000), respectively. The fair values of these swaption derivatives were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the instruments, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement.

Risks Associated with this Transaction

Certain risks are inherent to derivative transactions.

Interest rate risk. Interest rate risk, as a result of rising short-term interest rates causing higher interest rate payments, is effectively hedged by the University's fixed rate bonds. If the counterparty exercises its options, the underlying swaps are expected to effectively hedge the potentially higher payments on VRDNs as well. The University is also subject to interest rate risk, as a result of changes in long-term interest rates, which may cause the value of fixed rate bonds or interest rate derivatives to change. If long-term interest

rates fall subsequent to the execution of this transaction, the value of the swaption will change, with negative consequences for the University.

Market access risk. This transaction assumes that VRDNs will be issued as a replacement of the 2006 bonds. If the University is unable to issue variable rate bonds after the counterparty exercises its right under the remaining swaption, the University would still be required to begin making periodic payments on the swap, even though there are no related bonds. Alternatively, the University could choose to liquidate the swap, which may create a substantial cash outlay.

Basis risk. If the counterparty exercises its option, there is a risk that the floating payments received under the swap will not fully offset the variable rate payments due on the assumed VRDNs.

Credit risk. Although the underlying swap exposes the University to credit risk should the swap be executed, the swaption itself does not expose the University to credit risk. If the option is exercised, the University would begin to make payments on the appropriate notional amount of the underlying swap contract. In that situation, if the fair value of the swap is positive, the University would be exposed to credit risk on the swap in the amount of its fair value. As of September 30, 2014 and 2013, the swap counterparty was rated Aa3 by Moody's Investors Services and AA – by Standard and Poor's Rating Services.

Termination risk. The University may be required to terminate the swaption or swap under certain circumstances, such as credit downgrades or other events specified in the contracts. In the event that a position needs to be terminated, the University may owe a substantial amount of money to terminate the contracts. At September 30, 2014 and 2013, no events of termination have occurred.

(6) Capital Assets

(a) University of South Alabama

A summary of the University's capital asset activity for the year ended September 30, 2014 follows (in thousands):

	Beginning balance	Additions	Transfers	Reductions	Ending balance
Capital assets not being depreciated:					
Land and other	$ 22,516	—	—	—	22,516
Construction-in-progress	137,678	32,167	(61,534)	—	108,311
	160,194	32,167	(61,534)	—	130,827
Capital assets being depreciated:					
Land improvements	30,934	4	457	—	31,395
Buildings, fixed equipment, and infrastructure	555,661	2,819	43,563	(618)	601,425
Other equipment	130,979	6,223	17,514	(4,034)	150,682
Library materials	57,608	3,024	—	—	60,632
	775,182	12,070	61,534	(4,652)	844,134

(Continued)

		Beginning balance	Additions	Transfers	Reductions	Ending balance
Less accumulated depreciation for:						
Land improvements	$	(17,216)	(1,203)	—	—	(18,419)
Buildings, fixed equipment, and infrastructure		(205,155)	(15,913)	—	8	(221,060)
Other equipment		(103,546)	(7,395)	—	70	(110,871)
Library materials		(43,629)	(2,679)	—	—	(46,308)
		(369,546)	(27,190)	—	78	(396,658)
Capital assets being depreciated, net		405,636	(15,120)	61,534	(4,574)	447,476
Capital assets, net	$	565,830	17,047	—	(4,574)	578,303

At September 30, 2014, the University had commitments of approximately $3,468,000 related to various construction projects.

A summary of the University's capital asset activity for the year ended September 30, 2013 follows (in thousands):

		Beginning balance	Additions	Transfers	Reductions	Ending balance
Capital assets not being depreciated:						
Land and other	$	25,528	445	—	(3,457)	22,516
Construction-in-progress		119,763	59,104	(41,189)	—	137,678
		145,291	59,549	(41,189)	(3,457)	160,194
Capital assets being depreciated:						
Land improvements		31,256	244	—	(566)	30,934
Buildings, fixed equipment, and infrastructure		539,118	3,442	40,922	(27,821)	555,661
Other equipment		133,090	8,291	267	(10,669)	130,979
Library materials		54,656	2,952	—	—	57,608
		758,120	14,929	41,189	(39,056)	775,182

(Continued)

	Beginning balance	Additions	Transfers	Reductions	Ending balance
Less accumulated depreciation for:					
Land improvements	$ (16,588)	(1,194)	—	566	(17,216)
Buildings, fixed equipment, and infrastructure	(208,499)	(15,954)	—	19,298	(205,155)
Other equipment	(104,084)	(10,012)	—	10,550	(103,546)
Library materials	(41,041)	(2,588)	—		(43,629)
	(370,212)	(29,748)	—	30,414	(369,546)
Capital assets being depreciated, net	387,908	(14,819)	41,189	(8,642)	405,636
Capital assets, net	$ 533,199	44,730	—	(12,099)	565,830

At September 30, 2013, the University had commitments of approximately $13,918,000 related to various construction projects.

(b) *USA Research and Technology Corporation*

Changes in capital assets for the years ended September 30, 2014 and 2013 are as follows (in thousands):

	2014				
	Beginning balance	Additions	Transfers	Reductions	Ending balance
Land improvements	$ 2,199	—	—	—	2,199
Buildings	27,898	19	—	—	27,917
Tenant improvements	868	45	—	—	913
Construction in progress	—	—	—	—	—
Other equipment	256	—	—	—	256
	31,221	64	—	—	31,285
Less accumulated depreciation for:					
Land improvements	(842)	(94)	—	—	(936)
Buildings	(5,146)	(721)	—	—	(5,867)
Tenant improvements	(417)	(130)	—	—	(547)
Other equipment	(115)	(26)	—	—	(141)
	(6,520)	(971)	—	—	(7,491)
Capital assets, net	$ 24,701	(907)	—	—	23,794

	2013				
	Beginning balance	Additions	Transfers	Reductions	Ending balance
Land improvements	$ 2,201	—	(2)	—	2,199
Buildings	27,669	235	(6)	—	27,898
Tenant improvements	742	164	8	(46)	868
Construction in progress	—	—	—	—	—
Other equipment	256	—	—	—	256
	30,868	399	—	(46)	31,221
Less accumulated depreciation for:					
Land improvements	(748)	(94)	—	—	(842)
Buildings	(4,261)	(702)	(183)	—	(5,146)
Tenant improvements	(528)	(118)	183	46	(417)
Other equipment	(89)	(26)	—	—	(115)
	(5,626)	(940)	—	46	(6,520)
Capital assets, net	$ 25,242	(541)	—	—	24,701

(7) Noncurrent Liabilities

A summary of the University's noncurrent liability activity for the years ended September 30, 2014 and 2013 follows (in thousands):

	2014					
	Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Long-term debt:						
Bonds payable and other	$ 400,890	52,044	(57,628)	395,306	14,203	381,103
Total long-term debt	400,890	52,044	(57,628)	395,306	14,203	381,103
Other long-term liabilities	59,102	42,411	(35,589)	65,924	12,114	53,810
Total noncurrent liabilities	$ 459,992	94,455	(93,217)	461,230	26,317	434,913

(Continued)

	2013					
	Beginning balance	**Additions**	**Reductions**	**Ending balance**	**Less amounts due within one year**	**Noncurrent liabilities**
Long-term debt:						
Bonds payable and other	$ 359,699	51,981	(10,790)	400,890	13,153	387,737
Total long-term debt	359,699	51,981	(10,790)	400,890	13,153	387,737
Other long-term liabilities	80,065	32,392	(53,355)	59,102	12,633	46,469
Total noncurrent liabilities	$ 439,764	84,373	(64,145)	459,992	25,786	434,206

Other long-term liabilities primarily consist of self-insurance liabilities, liabilities related to compensated absences, and the fair value of derivatives. Amounts due within one year are included in accounts payable, accrued liabilities and unrecognized revenue.

(8) Bonds Payable

Bonds payable consisted of the following at September 30, 2014 and 2013 (in thousands):

		2014	2013
University Tuition Revenue Bonds, Series 1999 Capital Appreciation, 4.70% to 5.25%, payable November 2011 through November 2018	$	28,312	31,530
University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, 2.00% to 5.00%, repaid in April 2014		—	41,690
University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, 5.00%, payable through December 2036		100,000	100,000
University Facilities Revenue and Capital Improvement Bonds, Series 2008, 3.00% to 5.00%, payable through August 2038		104,200	106,565
University Facilities Revenue and Capital Improvement Bond, Series 2010, 3.81%, payable through August 2030		25,508	26,636
University Facilities Revenue Capital Improvement Bond, Series 2012-A, 2.92% payable through August 2032		23,075	24,050
University Facilities Revenue Capital Improvement Bond, Series 2012-B, 2.14% payable through August 2018		5,265	6,515
University Facilities Revenue Capital Improvement Bond, Series 2013-A, 2.83% payable through August 2033		30,788	32,000
University Facilities Revenue Capital Improvement Bond, Series 2013-B, 2.83% payable through August 2033		7,697	8,000
University Facilities Revenue Capital Improvement Bond, Series 2013-C, 2.78% payable through August 2025		9,454	10,000
University Facilities Revenue Refunding Bond, Series 2014-A, variable rate payable at 68% of LIBOR plus .73%, payable through March 2024		41,245	—
Borrowing arising from swaption, Series 2004 Bonds		—	1,653
Borrowing arising from swaption, Series 2006 Bonds		6,240	5,904
Borrowing arising from interest rate swap		8,682	—
		390,466	394,543
Plus unamortized premium		5,134	6,609
Less unaccreted discount		(29)	(36)
Less unamortized debt extinguishment costs		(265)	(226)
	$	395,306	400,890

Substantially all student tuition and fee revenues secure University bonds. Additionally, security for Series 2008 bonds includes Children's and Women's Hospital revenues in an amount not exceeding

$10,000,000. Series 1999 Current Interest Bonds began maturing November 2002, and Capital Appreciation Bonds began maturing in November 2011. Series 1999 Bonds are not redeemable prior to maturity. Series 2004 Bonds began maturing in March 2005 and were redeemed in April 2014. Series 2006 Bonds begin maturing in December 2024 and are redeemable beginning in December 2016. Series 2008 Bonds began maturing in August 2009 and are redeemable beginning in August 2018. The Series 2010 Bond began maturing in August 2011 and is redeemable beginning in February 2020. The 2012-A and 2012-B Bonds began maturing in August 2013. The 2012-A Bond is redeemable beginning in August 2021. The 2012-B Bond is redeemable beginning in January 2015. The 2013-A, 2013-B and 2013-C Bonds began maturing in August 2014 and are redeemable beginning in June 2023. The Series 2014-A bond begins maturing in March 2015 and is redeemable at any time.

In January 2008, the University entered into a synthetic advance refunding of the outstanding Series 2004 and 2006 bonds. This transaction was effected through the sale of two swaptions by the University to a counterparty. The proceeds from each sale, totaling $9,328,000, consist of two components, a borrowing and an embedded derivative. The borrowing is included in long-term debt. As a result of this transaction, the counterparty has the option to compel the University to redeem its Series 2004 (occurred in March 2014) and 2006 bonds at their respective redemption dates. See note 5 for a complete description of this transaction.

During the years ended September 30, 2014 and 2013, the maturity value of the Capital Appreciation Bonds increased $1,432,000 and $1,581,000, respectively, over the original principal amount of $19,810,000, reflecting accretion of interest.

Approximately $1,570,000 of proceeds from the issuance of the Series 2012-A and 2012-B bonds remained unspent at September 30, 2014 and is included in restricted cash and cash equivalents in the 2014 statement of net position. These funds are restricted for capital purposes as outlined in the indenture.

Approximately $38,362,000 of proceeds from the issuance of the Series 2013-A, 2013-B and 2013-C Bonds remained unspent at September 30, 2014 and is included in restricted cash and cash equivalents in the 2014 statement of net position. These funds are restricted for capital purposes as outlined in the indenture.

The University is subject to arbitrage restrictions on its bonded indebtedness prescribed by the U. S. Internal Revenue Service. As such, amounts are accrued as needed in the University's basic financial statements for any expected arbitrage liabilities. At September 30, 2014 and 2013, no amounts were due or recorded in the financial statements.

The University is subject to restrictive covenants related to its bonds payable. At September 30, 2014, management believes the University was in compliance with such financial covenants.

Debt Service on Long-Term Obligations

Total debt service by fiscal year is as follows as of September 30, 2014 (in thousands):

	Debt service on bonds			
	Principal	Interest	Additional maturity	Total
2015	$ 14,099	14,364	(1,627)	26,836
2016	14,643	13,825	(1,286)	27,182
2017	18,178	13,375	(782)	30,771
2018	18,525	12,959	(427)	31,057
2019	17,456	12,650	(49)	30,057
2020–2024	88,565	54,283	—	142,848
2025–2029	84,853	40,914	—	125,767
2030–2034	82,734	23,051	—	105,785
2035–2038	55,584	5,514	—	61,098
Subtotal	394,637	190,935	(4,171)	581,401
Plus (less):				
Additional maturity	(4,171)			
Unamortized bond premium	5,134			
Unaccreted bond discount	(29)			
Unamortized debt extinguishment costs	(265)			
Total	$ 395,306			

The principal amount of debt service due on bonds at September 30, 2014 includes $3,629,000 representing additional maturity value on Series 1999 Capital Appreciation Bonds. These bonds mature through 2019. Also included in the principal amount of debt service due on bonds at September 30, 2014, is $542,000 representing additional maturity value of the borrowing resulting from the Series 2006 swaption. As described in note 5, additional maturity will continue to accrue until the swaption option period in 2016. Although this additional maturity is presented as principal on the debt service schedule above, it is also recognized as interest expense on an annual basis in the University's basic financial statements as it accretes.

(a) *USA Research and Technology Corporation*

Notes Payable

Notes payable consisted of the following at September 30, 2014 and 2013 (in thousands):

		2014	2013
Wells Fargo, N.A. promissory note, one-month LIBOR plus 0.85% (1.007% at September 30, 2014) payable through 2028	$	14,471	15,128
PNC Bank promissory note, 4.88%, payable through 2021		8,814	9,159
	$	23,285	24,287

The note payable to Wells Fargo Bank, N.A. was incurred by the Corporation to acquire Buildings II and III in the USA Technology & Research Park and to provide funds for renovations and tenant finishing costs. The loan is a fully amortizing promissory note with a 20-year term. As more fully described below, the Corporation entered into a "receive-variable, pay-fixed" type of interest rate swap on the promissory note, which will yield a synthetic fixed interest rate of 6.1%. The promissory note payable is secured by an interest in the ground lease with respect to the parcels of land on which Buildings II and III stand, an interest in Buildings II and III, an interest in tenant leases for Buildings II and III, and an interest in income received from rental of Buildings II and III.

The promissory note payable to PNC Bank has a 10-year term and amortization is based on a 20-year term. PNC Bank acquired the promissory note as part of its acquisition of RBC Bank (USA) on March 20, 2012. The Corporation agreed to not transfer or encumber the buildings or its leasehold interest in the real estate on which the buildings stand. The promissory note payable is secured by an interest in tenant leases for Building I and the dialysis services building, and an interest in income received from rental of Building I and the dialysis services building.

In connection with each note, the University entered into an agreement with the lender providing that for any year in which the Corporation's debt service coverage ratio is less than 1 to 1, the University will pay the Corporation rent equal to the amount necessary to bring the ratio to 1 to 1. The debt service coverage ratio is calculated by dividing the sum of unrestricted cash and cash equivalents at the beginning of the year (reduced by current year capital assets additions) and current year change in net position (determined without depreciation, amortization, and interest expense) by current year debt service. For fiscal 2014 the Corporation's debt service coverage ratio was 1.34 to 1. Management believes the Corporation was in compliance with its debt covenants, including the debt service coverage ratio covenant, at September 30, 2014. Further, management believes that, based on existing leases and service contracts and agreements, the debt service coverage ratio for fiscal 2015 will be less than the fiscal 2014 debt service coverage ratio of 1.34 to 1, but will still exceed 1 to 1.

Debt Service on Long-Term Obligations

At September 30, 2014, total debt service by fiscal year is as follows (in thousands):

		Debt service on note and loan		
		Principal	Interest	Total
2015	$	1,061	1,295	2,356
2016		1,118	1,238	2,356
2017		1,186	1,169	2,355
2018		1,251	1,105	2,356
2019		1,332	1,023	2,355
2020–2024		12,192	2,904	15,096
2025–2028		5,145	617	5,762
Total	$	23,285	9,351	32,636

Derivative Transaction

The Corporation is a party to a derivative with Wells Fargo Bank, N.A., the counterparty (successor to Wachovia Bank, N.A. the original counterparty). The derivative is a "receive-variable, pay-fixed" interest rate swap entered into in connection with the promissory note to Wells Fargo Bank, N.A.

Objective of the derivative transaction. The Corporation utilizes the interest rate swap to convert its variable rate on the promissory note to a synthetic fixed rate.

The swap will terminate on May 1, 2028, when the loan matures. The notional amount of the swap will at all times match the outstanding principal amount of the loan. Under the swap, the Corporation pays the counterparty a fixed payment of 6.10% and receives a variable payment of the one-month LIBOR rate plus 0.85%. Conversely, the loan bears interest at the one-month LIBOR rate plus 0.85%. The Corporation paid approximately $762,000 and $789,000 under the interest rate swap agreement for the years ended September 30, 2014 and 2013, respectively, which is reflected as an increase in interest expense.

Fair value. The interest rate swap had a negative fair value of approximately $(3,053,000) and $(3,225,000) at September 30, 2014 and 2013, respectively. The changes in fair value are reported as deferred outflows on the accompanying statements of net position since the interest rate swap is a hedging derivative instrument.

The fair value of the interest rate swap was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero coupon bonds due on the date of each future net settlement.

Interest rate risk. On the Corporation's "receive-variable, pay-fixed" interest rate swap, as LIBOR decreases, the net payment on the swap increases.

(Continued)

Credit risk. As of September 30, 2014 and 2013, the Corporation was not exposed to credit risk on the interest rate swap because it had a negative fair value. However, if interest rates change and the fair value of the derivative becomes positive, the Corporation would have a gross exposure to credit risk in the amount of the derivative's fair value. The counterparty was rated Aa3 by Moody's Investors Services and AA –by Standard & Poor's Ratings Services as of September 30, 2014 and 2013.

Termination risk. The interest rate swap contracts use the International Swaps and Derivatives Association, Inc. Master Agreement, which includes standard default and termination events, such as failure to make payments, breach of agreement, and bankruptcy. At September 30, 2014 and 2013, no events of default or termination had occurred. If the interest rate swap is terminated, interest rate risk associated with the variable rate debt would no longer be hedged. Also, if at the time of termination the interest rate swap had a negative fair value, the Corporation would be liable to the counterparty for a payment equal to the interest rate swap's fair value. To allow the Corporation the maximum flexibility to manage the utilization of Buildings II and III while at the same time providing protection for the counterparty, the Corporation granted the counterparty a $2,000,000 mortgage secured by an interest in the ground lease with respect to the parcel of land on which Building II stands, an interest in Building II, a security interest in Building II tenant leases, and a security interest in income received from rental of Building II.

Derivative payments and hedged debt. As interest rates fluctuate, variable rate debt interest and net derivative payments will fluctuate. Using interest rates as of September 30, 2014, debt service requirements by fiscal year of the variable rate debt and net derivative payments, assuming current interest rates remain the same in the future, are as follows (in thousands):

	Variable rate loan		Interest rate	
	Principal	Interest	swap, net	Total
2015	$ 698	144	729	1,571
2016	738	138	696	1,572
2017	787	129	655	1,571
2018	832	122	618	1,572
2019	893	112	566	1,571
2020–2024	5,378	409	2,070	7,857
2025–2028	5,145	102	515	5,762
Total	$ 14,471	1,156	5,849	21,476

(9) Derivative Transaction – Interest Rate Swap

The University is a party to a derivative with Wells Fargo Bank, the counterparty. As more fully described in note 5, in December 2013, Wells Fargo exercised its option with respect to the synthetic advance refunding of the Series 2004 bonds to enter into an interest rate swap agreement with the University with an effective date of March 15, 2014. The resulting derivative is a "receive-variable, pay-fixed" interest rate swap. As part of the overall plan of the synthetic refunding of the 2004 bonds, the University redeemed those bonds in April 2014 with proceeds from the 2014-A bond.

Objective of the transaction. As noted the interest rate swap was the result of the original January 2008 synthetic advance refunding of the Series 2004 bonds. The objective of that transaction was to realize debt service savings currently from future debt refunding and create an economic benefit to the University.

The swap will terminate in March 2024, when the 2014-A bond matures. The notional amount of the swap will at all times match the outstanding principal amount of the bond. Under the swap, the University pays the counterparty a fixed semi-annual payment based on an annual rate of 4.9753% and receives on a monthly basis a variable payment of 68% of the one-month London Interbank Offered Rate (LIBOR) plus 0.25%. Conversely, the Series 2014-A bond bears interest on a monthly basis at 68% of the one-month LIBOR rate plus 0.73%.

Fair value. The interest rate swap had a negative fair value of approximately $(9,138,000) at its inception. This amount, net of any amortization, is reported as a borrowing arising from the 2014 interest rate swap as long-term-debt in the 2014 statement of net position.

The change in fair value during the current year is reported as a deferred inflow and derivative asset on the statement of net position since the interest rate swap is a hedging derivative instrument. At September 30, 2014, $177,000 is reported as a derivative asset and deferred inflow.

The fair value of the interest rate swap was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement.

Interest rate risk. As the LIBOR rate decreases, the net payment on the swap increases. This, however, is mitigated by the fact that a decline in the LIBOR rate will also result in a decrease of the University's interest payment on the Series 2014-A bond. The University's exposure is limited to 0.48% of the notional amount, the difference in the payment from the counterparty and the interest payment on the 2014-A bond.

Credit risk. As of September 30, 2014, the University was not exposed to credit risk on the interest rate swap because it had a negative fair value. However, if interest rates change and the fair value of the derivative become positive, the University would have a gross exposure to credit risk in the amount of the derivative's fair value. The counterparty was rated Aa3 by Moody's Investor Services and AA – by Standard & Poor's Ratings Services as of September 30, 2014.

Termination risk. The University may be required to terminate the swap based on certain standard default and termination events, such as failure to make payments, breach of agreement, and bankruptcy. As of the current date, no events of termination have occurred.

Derivative payments and hedged debt. As interest rates fluctuate, variable rate debt interest and net derivative payments will fluctuate. Using interest rates as of the current date and assuming those current interest rates remain the same in the future; debt service requirements, including swap payments, by fiscal year are as follows (in thousands):

	Variable rate loan		Interest rate	
	Principal	**Interest**	**swap, net**	**Total**
2015	$ 470	400	1,838	2,708
2016	490	643	1,568	2,701
2017	615	917	1,265	2,797
2018	640	1,088	1,060	2,788
2019	665	1,185	915	2,765
2020-2024	38,365	9,730	2,069	50,164
	$ 41,245	13,963	8,715	63,923

(10) Net Patient Service Revenue

The Hospitals have agreements with governmental and other third-party payers that provide for reimbursement at amounts different from their established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospitals' billings at established rates for services and amounts reimbursed by third-party payers.

A summary of the basis of reimbursement with major-third party payers follows:

Medicare – Substantially all acute care 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 Hospitals are reimbursed for both direct and indirect medical education costs (as defined), principally based on per-resident prospective payment amounts and certain adjustments to prospective rate-per-discharge operating reimbursement payments. The Hospitals generally are reimbursed for certain retroactively settled items at tentative rates, with final settlement determined after submission of annual cost reports by the Hospitals and audits by the Medicare fiscal intermediary. The cost report for the USA Medical Center has been audited and settled through 2009. The cost report for USA Children's and Women's Hospital has been audited and settled through 2010. Revenue from the Medicare program accounted for approximately 15% and 14% of the Hospitals' net patient service revenue for the years ended September 30, 2014 and 2013, respectively.

Blue Cross – Inpatient services rendered to Blue Cross subscribers are paid at a prospectively determined per diem rate. Outpatient services are reimbursed under a cost reimbursement methodology. For outpatient services, the Hospitals are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospitals and audits thereof by Blue Cross. The Hospitals' Blue Cross cost reports have been audited through 2011 and settled for all fiscal years through 2010. Revenue from the Blue Cross program accounted for approximately 21% and 20% of the Hospitals' net patient service revenue for the years ended September 30, 2014 and 2013, respectively.

(Continued)

Medicaid – Inpatient services rendered to Medicaid program beneficiaries are reimbursed at all-inclusive prospectively determined per diem rates. Outpatient services are reimbursed based on an established fee schedule.

The Hospitals qualify as Medicaid essential providers and, therefore, also receive supplemental payments based on formulas established by the Alabama Medicaid Agency. There can be no assurance that the Hospitals will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified.

Revenue from the Medicaid program accounted for approximately 24% and 22% of the Hospitals' net patient service revenue for the years ended September 30, 2014 and 2013, respectively.

Other – The Hospitals have also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The bases for payments to the Hospitals under these agreements include discounts from established charges and prospectively determined daily and case rates.

The composition of net patient service revenue for the years ended September 30, 2014 and 2013 follows (in thousands):

		2014	2013
Gross patient service revenue	$	610,092	575,718
Less provision for contractual and other adjustments		(271,468)	(250,047)
Less provision for bad debts		(70,175)	(67,464)
	$	268,449	258,207

Changes in estimates related to prior cost reporting periods resulted in an increase of approximately $802,000 and $1,279,000 in net patient service revenue for the years ended September 30, 2014 and 2013, respectively.

(11) Hospital Lease

In 2006, the University and Infirmary Health System, Inc. (the Infirmary) entered into a Lease Agreement (the Lease) in which the University agreed to lease certain land, buildings and equipment used in connection with the operating of its USA Knollwood Hospital campus to the Infirmary. The original lease was effective through March 2056. The lease provided for its termination, at the option of the Infirmary, in the event that a change in any law, statue, rule, or a regulation of any governmental or other regulatory body was deemed by the Infirmary as significant, as defined by the lease. The hospital was operated as Mobile Infirmary West.

The total amount of the lease payments due the University was based on the fair value of the appraised assets, $32,418,000. The allocation of the appraised fair value was $29,370,000 for land and buildings and $3,048,000 for medical equipment, office furnishings and other equipment. In addition to an up-front payment, the lease agreement required monthly lease payments by the Infirmary to the University. In order

to properly report this transaction, the University bifurcated the lease into an equipment component and a real property component. The equipment component of the lease was considered a capital lease and as such, a lease receivable was reported in the accompanying basic financial statements of the University. The component of the lease attributable to land and buildings was considered an operating lease. As such, lease revenue was recorded and is being earned over the life of the lease. Lease revenue in the amounts of approximately $0 and $164,000 was reported as other operating revenue in the accompanying basic financial statements for the years ended September 30, 2014 and 2013, respectively. Payments received in excess of the amount recognized as lease revenue were unrecognized and amortized over the term of the lease.

In October 2012, officials of the Infirmary publically announced the closing of the Mobile Infirmary West effective October 31, 2012.

As a result of the closing of the hospital, in May 2013, the University Board of Trustees determined that it was in the best interest of the University to sell Knollwood Hospitals, all related furniture and equipment, adjacent medical office buildings and land. As such, the Board approved a resolution authorizing University management to seek proposals for the sale of Knollwood Hospitals and proceed with negotiations with potential buyers. Subsequent to a public advertisement and negotiation period, the University and the Infirmary entered into a Purchase and Sale Agreement (the Agreement), dated June 5, 2013. The Agreement called for the sale of all land, buildings, furniture and equipment at Knollwood Hospitals to the Infirmary for a purchase price of $5,000,000 and effectively canceled the original 2006 lease agreement. Following a period of due diligence the transaction was closed on July 19, 2013. At closing, the Infirmary made a payment of $2,500,000 to the University and issued a promissory note, dated July 19, 2013, for the remaining $2,500,000 which was received by the University in July 2014.

At the time of the closing, the University wrote off capital assets with a cost of approximately $31,597,000 and accumulated depreciation of approximately $19,601,000. Unrecognized revenue related to the original lease of approximately $5,692,000 was also written off. As of September 30, 2013, a note receivable in the amount of $2,500,000, due July 19, 2014, was recognized and is reported as a current note receivable in the University's 2013 statement of net position. As a result of the transaction, the University recognized a loss on the sale of $1,304,000 which is reported as an other nonoperating expense in the 2013 statement of revenues, expenses and changes in net position.

(12) Employee Benefits

(a) Retirement and Pension Plans

Employees of the University are covered by two pension plans: a cost sharing multiple-employer defined benefit pension plan administered by the Teachers' Retirement System of the State of Alabama (TRS), and a defined contribution pension plan.

Permanent employees of the University participate in TRS, a public retirement system created by an act of the State Legislature, with benefit provisions established by the Code of Alabama. Responsibility for general administration and operation of the TRS is vested in the Board of Control (currently 14 members). Benefits fully vest after 10 years of full time, permanent employment. Vested employees may retire with full benefits at age 60 or after 25 years of service. Participating

retirees may elect the maximum benefit, or may choose among four other monthly benefit options. Under the maximum benefit, participants are allowed 2.0125% of their average final salary (average of three highest years of annual compensation during the last ten years of service) for each year of service. The TRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Retirement Systems of Alabama, P.O. Box 302150, Montgomery, Alabama 36130-2150, or by calling (334) 832 4140.

Prior to October 1, 2011, essentially all employees covered by this retirement plan were required to contribute 5% of their eligible earnings to TRS. Effective October 1, 2011 and 2012, the required employee contribution was increased to 7.25% and 7.5%, respectively, of their eligible earnings. An actuary employed by the TRS Board of Control establishes the employer-matching amount annually. During 2014, 2013 and 2012, the University made total contributions of $24,573,000, $21,879,000, and $23,381,000 (100% of the required contributions), respectively, to TRS on behalf of participants. For employees that were hired before January 1, 2013, the University contribution rate was 11.7%, 10.1%, and 10.0% in 2014, 2013 and 2012, respectively, of each participant's gross earnings. For employees hired after January 1, 2013, the University contribution rate was 11.1% and 9.4% in 2014 and 2013, respectively, of each participant's gross earnings. The University's payroll for all employees was approximately $246,896,000 and $254,249,000 in 2014 and 2013, respectively. The LLC's payroll for all employees was approximately $78,975,000 and $61,645,000 in 2014 and 2013, respectively. Total payroll for University employees participating in the Teachers' Retirement System of Alabama was approximately $210,359,000 and $217,164,000 in 2014 and 2013, respectively.

The defined contribution pension plan covers certain academic and administrative employees, and participation by eligible employees is optional. Under this plan, administered by Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF), contributions by eligible employees are matched equally by the University up to a maximum of 3% of current annual pay. The University and the employees each contributed $840,000 and $928,000 in 2014 and 2013, respectively, representing 344 and 436, respectively, employees participating in this Plan.

All employees of the LLC working at least half time are eligible to participate in a defined contribution pension plan. Under this plan, contributions by eligible employees are matched equally by the LLC up to a maximum of 5% of current annual pay. The LLC and the employees contributed $2,454,000 and $1,885,000, respectively, in 2014 and 2013 representing 867 and 679, employees participating in this plan. University employees as of September 30, 2011 who later transfer to the LLC are immediately vested in the plan. All other employees do not vest until they have held employment with the LLC for thirty-six months; at which time they become 100% vested in the plan.

(b) Compensated Absences

Regular University employees accumulate vacation and sick leave and hospital and clinical employees accumulate paid time off. These are subject to maximum limitations, at varying rates depending upon their employee classification and length of service. Upon separation of employment, employees who were hired before January 1, 2012 are paid all unused accrued vacation at their

regular rate of pay up to a maximum of two times their annual accumulation rate. Employees hired after January 1, 2012 are not eligible for payment of unused accrued vacation or PTO hours upon separation of employment. The accompanying statements of net position include accruals for vacation pay and paid time off of approximately $15,535,000 and $15,763,000 at September 30, 2014 and 2013, respectively. The current portion of the accrual is included in accounts payable and accrued liabilities and the noncurrent portion is included in other long term liabilities in the accompanying basic financial statements. No accrual is recognized for sick leave benefits since no terminal cash benefit is available to employees for accumulated sick leave.

(c) Other Postretirement Employee Benefits

As the provider of postretirement benefits to state retirees, the state is responsible for implementing GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. In September 2003, the State of Alabama Legislature passed legislation that requires all colleges and universities to fund the healthcare premiums of its participating retirees. In prior years, such costs have been paid by the State. Beginning in October 2003, the University was assessed a monthly premium by the Public Education Employees' Health Insurance Plan (PEEHIP) based on the number of retirees in the system and an actuarially determined premium. During the years ended September 30, 2014 and 2013, the University's expense related to PEEHIP was $7,963,000 and $7,130,000, respectively.

(13) Risk Management

The University, USAHSF, LLC and SAMSF participate in the professional liability trust fund and the University, USAHSF, LLC, SAMSF and the Corporation participate in the general liability trust fund. Both funds are administered by an independent trustee. These trust funds are revocable and use contributions by the University and USAHSF, together with earnings thereon, to pay liabilities arising from the performance of its employees, trustees and other individuals acting on behalf of the University. If the trust funds are ever terminated, appropriate provision for payment of related claims will be made and any remaining balance will be distributed to the participating entities in proportion to contributions made.

As discussed in note 1, the PLTF and GLTF are blended component units of the University, as defined by GASB Statement No. 14, and as such are included in the basic financial statements of the University for the years ended September 30, 2014 and 2013. Claims and expenses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Those losses include an estimate of claims that have been incurred but not reported and the future costs of handling claims. These liabilities are generally based on actuarial valuations and are reported at their present value.

The University and LLC participate in a self-insured health plan, administered by an unaffiliated entity. Administrative fees paid by the University for such services were approximately $1,770,000 and $1,697,000 in 2014 and 2013, respectively. Contributions by the University and its employees, together with earnings thereon, are used to pay liabilities arising from healthcare claims. It is the opinion of University administration that plan assets are sufficient to meet future plan obligations.

The changes in the total self insurance liabilities for the years ended September 30, 2014 and 2013 for the PLTF, GLTF and health plan are summarized as follows (in thousands):

		2014	2013
Balance, beginning of year	$	21,297	22,747
Liabilities incurred and other additions		58,311	60,804
Claims, administrative fees paid and other reductions		(49,816)	(62,254)
Balance, end of year	$	29,792	21,297

Self-insurance liabilities due within one year are included in accounts payable and accrued liabilities. The noncurrent portion is included in other long-term liabilities in the accompanying basic financial statements.

(14) Other Related Party

SAMSF is a not-for-profit corporation that exists for the purpose of promoting education and research at the University. At September 30, 2014 and 2013, SAMSF had total assets of $12,882,000 and $12,235,000, net assets of $9,899,000 and $9,501,000, and total revenues of $3,635,000 and $3,474,000, respectively. SAMSF reimburses the University for certain administrative expenses and other related support services. Total amounts received for such expenses were approximately $707,000 and $711,000 in 2014 and 2013, respectively, and are reflected as private grants and contracts in the accompanying statements of revenues, expenses, and changes in net position.

(15) Commitments and Contingencies

(a) Grants and Contracts

At September 30, 2014 and 2013, the University had been awarded approximately $23,990,000 and $24,175,000, respectively, in grants and contracts for which resources had not been received and for which reimbursable expenditures had not been made for the purposes specified. These awards, which represent commitments of sponsors to provide funds for research or training projects, have not been reflected in the accompanying basic financial statements as the eligibility requirements of the award have not been met. Advances include amounts received from grant and contract sponsors which have not been earned under the terms of the agreements and, therefore, have not yet been included in revenues in the accompanying basic financial statements. Federal awards are subject to audit by Federal agencies. The University's management believes any adjustment from such audits will not be material.

(b) Letter of Credit

In connection with the Hospitals' participation in the State of Alabama Medicaid Program, the University has established a $77,000 irrevocable standby letter of credit with Wells Fargo, N.A. The Alabama Medicaid Agency is the beneficiary of this letter of credit. No funds were advanced under this letter during the years ended September 30, 2014 and 2013.

(Continued)

(c) *Litigation*

Various claims have been filed against the University alleging discriminatory employment practices and other matters. University administration and legal counsel are of the opinion the resolution of these matters will not have a material effect on the financial position or the statements of revenues, expenses, and changes in net position of the University.

(d) *Rent Supplement Agreements*

The University has entered into two irrevocable rent supplement agreements with the Corporation and a financial institution. The agreements require that, in the event the Corporation fails to maintain a debt service coverage ratio of one to one with respect to all of its outstanding indebtedness, the University will pay to the Corporation any and all rent amounts necessary to cause the Corporation's net operating income to be equal to the Corporation's annual debt service obligations (see note 8). As of September 30, 2014 and 2013, no amounts were payable pursuant to these agreements.

(e) *State Bond Issues*

The State of Alabama has made allocations to the University from bond issues in prior years. Pursuant to these allocations, at September 30, 2014, approximately $112,000 is unspent and remains available to the University for certain future construction costs. The allocations have not been reflected in the accompanying basic financial statements.

(f) *Sale of Brookley Campus*

On September 29, 2010, the University and the USA Foundation executed purchase and sale agreement calling for the University to sell approximately 327 acres on Mobile Bay, known as the Brookley campus, to the Foundation. The terms of the agreement required the Foundation to pay the University $20,000,000; $4,000,000 at closing and $4,000,000 annually thereafter through the 2015 fiscal year. The sale closed on November 10, 2010 and the initial payment was received by the University at that point. The transaction is recorded as an installment sale. As such, during the years ended September 30, 2014 and 2013, the University reported a gain on the sale of $2,201,000 and $2,116,000, respectively, which is reported as other nonoperating revenues in the statements of revenues, expenses and changes in net position. At September 30, 2014, the University is reporting a note receivable from the Foundation in the amount of $3,846,000 (reported as a current asset in notes receivable) and unrecognized revenue in the amount of $2,289,000 (reported as current unrecognized revenue). At September 30, 2013, the University is reporting a note receivable from the Foundation in the amount of $7,544,000 ($3,698,000 is reported as a current asset in notes receivable and $3,846,000 is reported as a noncurrent asset in noncurrent notes receivable) and unrecognized revenue in the amount of $4,489,000 ($2,201,000 is reported as current unrecognized revenue and $2,288,000 as other noncurrent liabilities). The unrecognized revenue will be amortized as an installment gain as payments are received through 2015.

(g) *USA Research and Technology Corporations Leases*

The Corporation leases space in Building I to three tenants under operating leases. One lease has a 5-year initial term expiring in October 2018 with two 5-year renewal options. Another lease has a

10-year initial term expiring in March 2021, an option to cancel at the end of 6 years, and two 5-year renewal options. The third lease has a 67-month initial term expiring in December 2018 with no renewal options.

Space in Buildings II and III is leased under operating leases to the University and various other tenants. These leases have terms varying from month-to-month to ten years.

The Corporation leases from the University the third floor of a campus building. Located on that floor is the Coastal Innovation Hub (the Hub), a technology incubator, which currently houses three tenants with month-to-month leases.

Under leases for Buildings I, II, and III, the Corporation must pay all operating expenses of the buildings, including utilities, janitorial, maintenance, property taxes, and insurance. Tenants will reimburse the Corporation for such expenses only as the total expenses for a year increase over the total expenses for the base year of the lease (the Corporation's fiscal year beginning after the date the lease is signed). Under Hub leases, the Corporation must pay all operating expenses of the space, without reimbursement from tenants.

Space under lease to the University was 46,700 and 48,900 square feet at September 30, 2014 and 2013, respectively.

The Corporation owns a building located on the premises of the USA Medical Center which is leased to a single tenant. The Corporation paid for construction of the building shell and land improvements while the tenant paid for the cost of finishing the building's interior. The lease has a ten year initial term with three five-year renewal options. Under the lease, the tenant must also pay for utilities, taxes, insurance, and interior repairs and maintenance. The Corporation is responsible for repairs and maintenance to the exterior and HVAC system.

The Corporation, as lessor, had three ground leases in place at September 30, 2014 and 2013. One lease is for a 40-year initial term with 20-year, and 15-year renewal options. The second lease is for a 30-year initial term with four 5-year renewal options. The third lease has a 38.5-year initial term with 20-year and 15-year renewal options.

Minimum future rentals by fiscal year are as follows (in thousands):

2015	$	2,454
2016		1,894
2017		1,831
2018		1,721
2019		1,116
2020–2046		7,623
Total	$	16,639

(16) Functional Information

Operating expenses by functional classification for the years ended September 30, 2014 and 2013 are listed below (in thousands). In preparing the basic financial statements, all significant transactions and balances among accounts have been eliminated.

	2014	2013
Instruction	$ 128,785	118,254
Research	22,454	21,095
Public service	39,601	46,723
Academic support	16,791	15,999
Student services	31,421	28,673
Institutional support	25,903	28,528
Operation and maintenance of plant	27,978	26,459
Scholarships	7,299	6,532
Hospital	286,387	265,775
Auxiliary enterprises	15,501	14,233
Depreciation and amortization	31,858	29,849
	$ 633,978	602,120

(Continued)

(17) Blended Component Units

As more fully described in notes 1(b) and 1(c), the LLC, PLTF and GLTF are considered component units pursuant to the provisions of GASB Statement No. 61. In accordance with that statement, the LLC, PLTF and GLTF are reported as blended component units. Required combining financial information of the aggregate blended component units is presented below (in thousands):

		2014	2013
Current assets	$	9,257	21,018
Noncurrent assets		49,706	29,755
Total assets		58,963	50,773
Current liabilities		33,460	34,187
Noncurrent liabilities		24,981	16,301
Total liabilities		58,441	50,488
Net position	$	522	285
Operating revenues	$	103,895	83,710
Operating expenses		(105,665)	(86,948)
Operating loss		(1,770)	(3,238)
Nonoperating revenues		2,006	3,325
Change in net position	$	236	87

(18) Significant New (Future) Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 changes accounting and financial reporting for entities participating in certain pension plans and will be effective for the year ending September 30, 2015. Statement No. 68 will require the University to record its share, as determined by an independent actuary, of the net unfunded pension liability, and its share of the changes in that net pension liability, for all cost-sharing defined benefit plans in which it participates.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposal of government operations and will be effective for the year ending September 30, 2015. In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement No. 71 was issued as an amendment of GASB Statement No. 68 with an objective of addressing an issue regarding application of the transition provisions of Statement No. 68 relating to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. Statement 71 will be effective for the year ending September 30, 2015.

While the impact of the implementation of GASB Statement No. 68 has not yet been determined, it is expected that such implementation will have a material effect on the net position of the University. The effect of the implementation of GASB Statements Nos. 69 and 71 on the University has not been determined.

UNIVERSITY OF SOUTH ALABAMA
2014 Financial Report

University of South Alabama Children's & Women's Hospital doubled its size in 2014 with the completion of a nearly 200,000-square-foot expansion. The hospital is among a handful of freestanding hospitals in the United States dedicated specifically to the health care needs of children and women.

University of South Alabama Board of Trustees

2014 Financial Report

The University of South Alabama is a leading comprehensive public university internationally recognized for educational, research, and health care excellence as well as for its positive intellectual, cultural, and economic impact on those it serves. In order to continue to advance our vision for the university, five priorities have been designated: i. provide access to all qualified students and to promote success for all our students; ii. enhance graduate education as well as research and scholarly activity; iii. enhance students' understanding of other cultures and foster increased exposure to individuals from other countries; iv. provide excellence in health care and; v. enhance community engagement for faculty, staff and students.

As the University moves into its second fifty years, it is only through a sound financial position that these priorities can be accomplished. Despite the challenges of the past several years and as evidenced by the accompanying financial report, the financial position of the University of South Alabama remains strong. This financial strength allows us to continue to serve the citizens of the state of Alabama and beyond by providing top quality academic, research, health care and public service programs.

In the fall of 2014, the University enjoyed an enrollment growth of almost 5% to a record number of 16,055 students. This increased enrollment is a testament to the strength of our academic programs, the hard work of our faculty and staff, and the spirit of our students and alumni. Along with our record enrollment growth comes a record number of students choosing to live in on-campus housing. Over 2,200 students are living in University-owned-and-operated housing and an additional 1,000 students live in the Grove, a private apartment complex located on the USA campus.

Over the past two years, the University has completed and placed into service a 195,000-square-foot addition to the USA Children's and Women's Hospital, a new 350-bed residence hall and an extensive renovation of the University's Student Center. The Mitchell-Moulton Scholarship Initiative was launched which will provide an enhanced permanently-endowed academic scholarship program for students in all fields of study. The USA Health System continued its service to the gulf coast region with over 250,000 patient contacts in the past year.

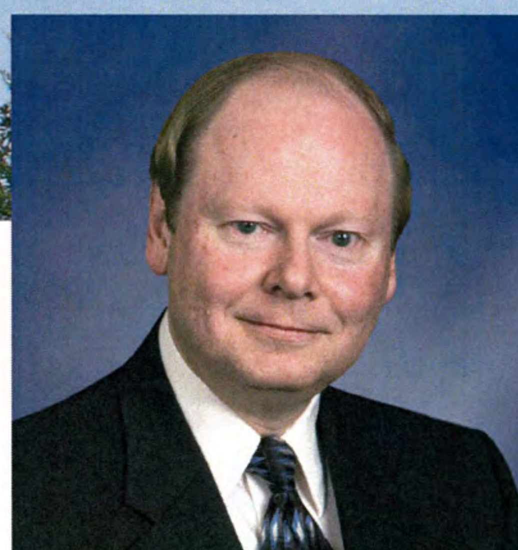
With this good news, however, come challenges and opportunities. I expect continued growth as we strive to reach new audiences and ensure the University remains accessible to what has historically been our core constituency. This growth must not only be in numbers, but also in quality and excellence. This will require hiring more faculty and staff to support the increased number of students. I affirm to you that quality will continue to be the goal in everything we do at USA.

Tony G. Waldrop, Ph.D.

Message from the PRESIDENT

Tony G. Waldrop, Ph.D.
President
University of South Alabama

Message from the CHAIR PRO TEMPORE of the Board of Trustees



Steven P. Furr, MD
Chair Pro Tempore, Board of Trustees
University of South Alabama

Your Board of Trustees is dedicated to the success of the University of South Alabama and ensuring that our core values are met and maintained. We are dedicated to the successful achievement of the mission of the University, **AND** we are dedicated to the success of our students, faculty and staff.

The Board of Trustees takes its responsibility for the stewardship of our financial resources and academic programs very seriously. We are constantly striving for improvements in all aspects of the University and seek to ensure that USA is an intellectual and economic leader in the State of Alabama and the entire region for years to come. I am privileged to work alongside my colleagues on the Board as well as with President Waldrop and our University's dedicated and outstanding leadership team as we continue to move USA forward.

Steven P. Furr, MD

Introduction from the VICE-PRESIDENT FOR FINANCIAL AFFAIRS

An annual reunion for graduates of the Hollis J. Wiseman Neonatal Intensive Care Unit brings children, such as the ones pictured here, together with the medical professionals who cared for them as premature or critically ill newborns.

I am pleased to present the University of South Alabama's Annual Financial Report for the year ended September 30, 2014. It is our goal to provide useful information concerning the University's financial position and activities for the year. The Management Discussion and Analysis, the financial statements, and the notes to the financial statements document the University's financial results for this fiscal year. These financial statements present the accrual basis of accounting and, accordingly, include some amounts based upon judgment. The accompanying financial statements were prepared by USA's management in conformity with accounting principles generally accepted in the United States of America.

The management of the University of South Alabama is responsible for the integrity and objectivity of the financial statements. Management believes that the University's system of internal accounting controls provides reasonable assurance that assets are protected and that transactions and events are properly recorded. The Board of Trustees of the University of South Alabama, through the Audit Committee, monitors the financial and accounting operations of the University.

Stephen H. Simmons
Vice-President for Financial Affairs
University of South Alabama

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)

Basic Financial Statements

September 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)

Basic Financial Statements

September 30, 2014 and 2013

Table of Contents

	Page
Management's Discussion and Analysis (Unaudited)	1
Independent Auditors' Report	12
Basic Financial Statements:	
Statements of Net Position – University of South Alabama, September 30, 2014 and 2013	14
Consolidated Statements of Financial Position – University of South Alabama Foundation, June 30, 2014 and 2013	15
Statements of Financial Position – University of South Alabama Health Services Foundation, September 30, 2014 and 2013	16
Statements of Net Position – USA Research and Technology Corporation, September 30, 2014 and 2013	17
Statements of Revenues, Expenses, and Changes in Net Position – University of South Alabama, years ended September 30, 2014 and 2013	18
Consolidated Statement of Activities and Changes in Net Assets – University of South Alabama Foundation, year ended June 30, 2014	19
Consolidated Statement of Activities and Changes in Net Assets – University of South Alabama Foundation, year ended June 30, 2013	20
Statements of Operations and Changes in Net Assets (Deficit) – University of South Alabama Health Services Foundation, years ended September 30, 2014 and 2013	21
Statements of Revenues, Expenses, and Changes in Net Position – USA Research and Technology Corporation, years ended September 30, 2014 and 2013	22
Statements of Cash Flows – University of South Alabama, years ended September 30, 2014 and 2013	23
Notes to Basic Financial Statements	25

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis (Unaudited)
September 30, 2014 and 2013

Introduction

The following discussion presents an overview of the financial position and financial activities of the University of South Alabama (the University), including the University of South Alabama Hospitals (the Hospitals), a division of the University, at September 30, 2014 and 2013 and for the years then ended. This discussion was prepared by University management and should be read in conjunction with the financial statements and notes thereto, which follow.

The basic financial statements of the University consist of the University and its component units. The financial position and results of operations of the component units are either blended with the University's financial position and results of operations or are discretely presented. The treatment of each component unit is governed by pronouncements issued by the Governmental Accounting Standards Board. As more fully described in note 1 to the basic financial statements, the University of South Alabama Professional Liability Trust Fund, University of South Alabama General Liability Trust Fund and USA HealthCare Management, LLC are reported as blended component units. The University of South Alabama Foundation, the University of South Alabama Health Services Foundation, and the USA Research and Technology Corporation are discretely presented.

Financial Highlights

At September 30, 2014, 2013, and 2012, the University had total assets of $1,055,286,000, $1,042,345,000, and $983,800,000, respectively; total liabilities and deferred inflows of $555,736,000, $549,355,000, and $530,289,000, respectively; and net position of $499,550,000, $492,990,000, and $453,511,000, respectively. University net position increased by $6,560,000 during the year ended September 30, 2014 compared to an increase of $39,479,000 for the year ended September 30, 2013 and an increase of $38,389,000 for the year ended September 30, 2012.

An overview of each statement is presented herein along with a financial analysis of the transactions impacting each statement. Where appropriate, comparative financial information is presented to assist in the understanding of this analysis.

Analysis of Financial Position and Results of Operations

Statement of Net Position

The statement of net position presents the assets, liabilities, deferred inflows and net position of the University at September 30, 2014 and 2013. Net position is displayed in three parts: net investment in capital assets, restricted and unrestricted. Restricted net position may either be expendable or nonexpendable and is that net position that is restricted by law or external donor. Unrestricted net position is generally designated for specific purposes, and is available for use by the University to meet current expenses for any purpose. The statement of net position, along with all of the University's basic financial statements, is prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred by the University, regardless of when cash is exchanged.

Assets included in the statement of net position are classified as current or noncurrent. Current assets consist primarily of cash and cash equivalents, investments, and net patient accounts receivable. Of these amounts, cash and cash equivalents, investments, and patient accounts receivable comprise approximately 29%, 50%, and 10%,

respectively, of current assets at September 30, 2014. Noncurrent assets at September 30, 2014 consist primarily of capital assets, restricted cash and cash equivalents, and restricted investments.

The Condensed Schedules of Net Position at September 30, 2014, 2013, and 2012 follow (in thousands):

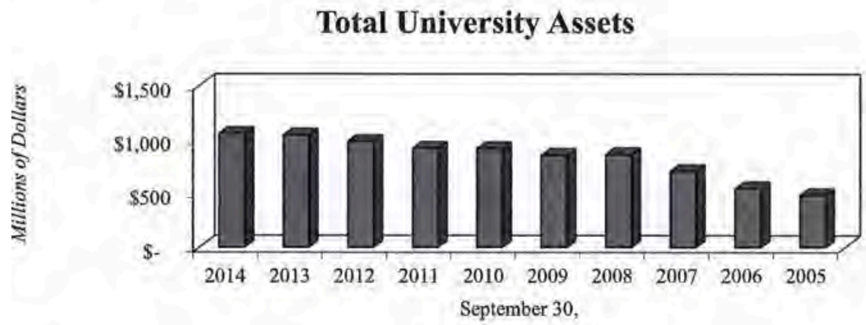
Condensed Schedules of Net Position

		2014	2013	2012
Assets:				
Current	$	303,272	333,828	292,041
Capital assets		578,303	565,830	533,199
Other noncurrent		173,711	142,687	158,560
Total assets	$	1,055,286	1,042,345	983,800
Liabilities:				
Current	$	120,646	115,149	115,088
Noncurrent		434,913	434,206	415,201
Total liabilities		555,559	549,355	530,289
Deferred inflows		177	—	—
Total liabilities and deferred inflows	$	555,736	549,355	530,289
Net position:				
Net investment in capital assets	$	237,851	227,464	227,029
Restricted, nonexpendable		40,191	36,864	33,825
Restricted, expendable		60,873	54,364	48,201
Unrestricted		160,635	174,298	144,456
Total net position	$	499,550	492,990	453,511

University cash, cash equivalents, and investments (current and noncurrent) increased between September 30, 2013 and 2014 by $8,497,000 to $403,965,000. This increase is consistent with the results of operations for the year. This follows an increase of $47,820,000 in cash, cash equivalents, and investments between 2012 and 2013, which was due primarily to the issuance of the 2013-A, 2013-B and 2013-C bonds, net of utilization of cash from prior bond issues for various construction projects.

(Continued)

Total assets of the University as of September 30 are as follows:



Net position represents the residual interest in the University's assets after liabilities are deducted. Net position is classified into one of four categories:

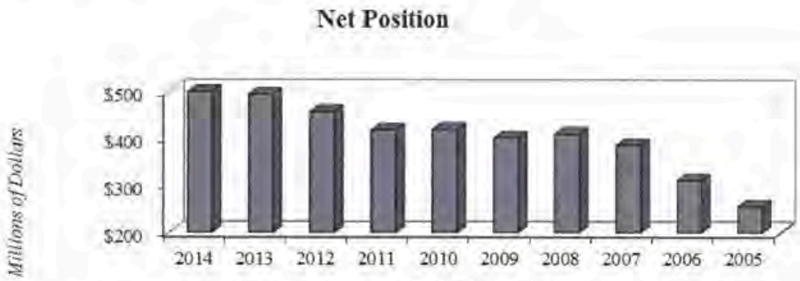
Net investment in capital assets represents the University's capital assets less accumulated depreciation and outstanding principal balances of the debt attributable to the acquisition, construction, or improvement of those assets.

Restricted nonexpendable net position consists primarily of the University's permanent endowment funds. While earnings from these funds may be expended, the corpus may not be expended for any reason and must remain intact with the University in perpetuity.

Restricted expendable net position is subject to externally imposed restrictions governing their use. The funds are restricted primarily for debt service, capital projects, student loans, and scholarship purposes.

Unrestricted net position represents those net assets not subject to externally imposed stipulations. Even though these funds are not legally restricted, the majority of the University's unrestricted net position has been internally designated for various projects, all supporting the mission of the University. Unrestricted net position includes funds for various academic and research programs, auxiliary operations (including the bookstore, student housing and dining services), student programs, capital projects and general operations.

Net position of the University as of September 30 is as follows:



All categories of restricted net position increased by approximately 11% between September 30, 2013 and 2014, primarily due to the addition of restricted gifts to the University. Unrestricted net position decreased from $174,298,000 to $160,635,000 between September 30, 2013 and 2014 due primarily to changes in the fair value of the 2004 and 2006 swaptions.

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total University net position as reported in the statement of net position are based on the activity presented in the statement of revenues, expenses, and changes in net position. The purpose of this statement is to present the change in net position resulting from revenues earned by the University, both operating and nonoperating, and the expenses incurred by the University, both operating and nonoperating, as well as any other revenues, expenses, gains, and losses earned or incurred by the University.

Generally, operating revenues have the characteristics of exchange transactions and are received or accrued for providing goods and services to the various customers and constituencies of the University. These include hospital patient care services, tuition and fees (net of scholarship discounts and allowances), most noncapital grants and contracts and revenues from auxiliary activities and sales and services of educational activities (primarily athletic activities). Operating expenses are those expenses paid or incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University.

Nonoperating revenues have the characteristics of nonexchange transactions and are revenues generally earned for which goods and services are not provided, such as investment income, capital appropriations, gifts and other contributions. State appropriations are required by the Governmental Accounting Standards Board to be classified as nonoperating revenues. Nonoperating expenses are those expenses required in the operation and administration of the University, but not directly incurred to acquire or produce the goods and services provided in return for operating revenues. Such nonoperating expenses include interest on the University's indebtedness and losses related to the disposition of capital assets.

The Condensed Schedules of Revenues, Expenses, and Changes in Net Position for the years ended September 30, 2014, 2013, and 2012 follow (in thousands):

Condensed Schedules of Revenues, Expenses, and Changes in Net Position

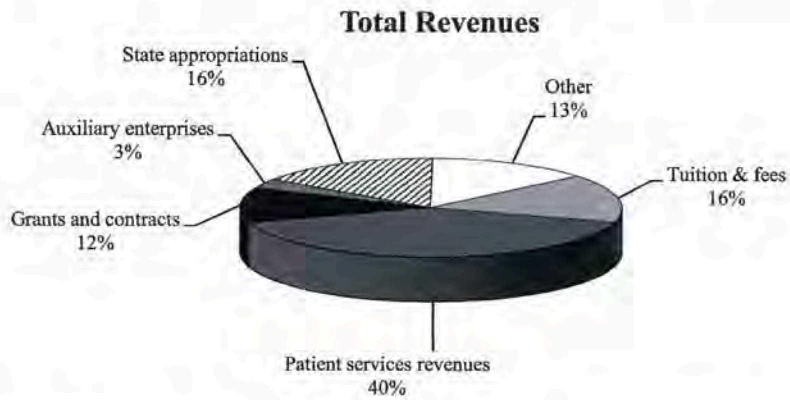
	2014	2013	2012
Operating revenues:			
Tuition and fees	$ 104,448	95,709	88,299
Net patient service revenue	268,449	258,207	247,802
Federal, state and private grants and contracts	76,719	77,302	76,448
Other	54,010	52,388	56,579
	503,626	483,606	469,128
Operating expenses:			
Salaries and benefits	419,966	401,872	396,170
Supplies and other services	158,615	148,597	134,841
Other	55,397	51,651	51,222
	633,978	602,120	582,233
Operating loss	(130,352)	(118,514)	(113,105)
Nonoperating revenues:			
State appropriations	103,695	102,585	105,639
Investment income	8,206	28,159	14,561
Other, net	14,475	11,986	12,197
Net nonoperating revenues	126,376	142,730	132,397
Income (loss) before capital appropriations, capital contributions and additions to endowment	(3,976)	24,216	19,292
Capital appropriations, capital contributions and additions to endowment	10,536	15,263	19,097
Change in net position	6,560	39,479	38,389
Beginning net position, before cumulative effect of change in accounting principle	492,990	453,511	416,896
Cumulative effect of change in accounting principle	—	—	(1,774)
Beginning net position – as adjusted	492,990	453,511	415,122
Ending net position	$ 499,550	492,990	453,511

In 2014, 2013, and 2012, approximately 40%, 39%, and 39%, respectively, of total revenues of the University were net patient service revenue. Excluding net patient service revenue, net tuition and fees charged to students represent the largest component of total university revenues, approximately 16% of total revenues in fiscal 2014.

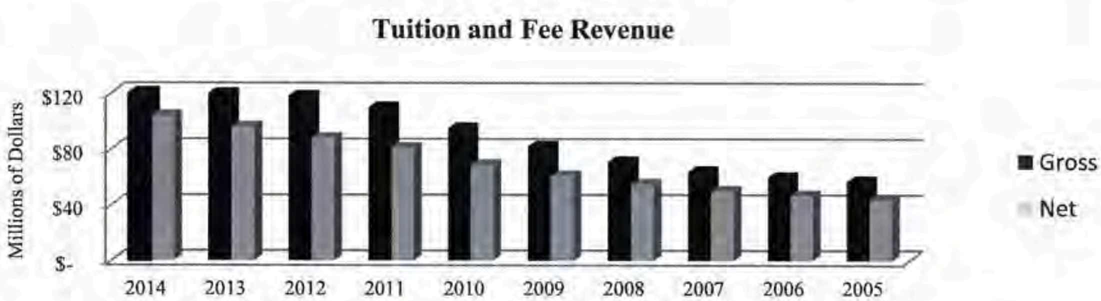
(Continued)

Also in 2014, state appropriations and grants and contracts (federal, state and private) represented approximately 16% and 12% of total revenues, respectively.

A summary of University revenues for the year ended September 30, 2014 is presented below:



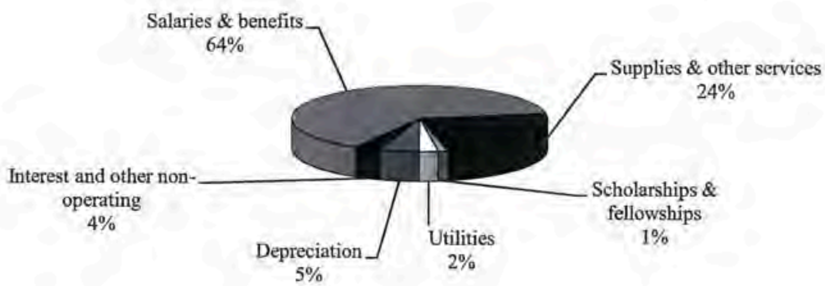
Tuition and fees have increased in each of the last ten years. These increases are due primarily to increases in tuition and fee rates charged to students as well as to an increase in the number of students enrolled and credit hours taken by those students. Additionally, net tuition and fees as a percent of total operating revenues continue to increase, from 9.5% of operating revenues in 2002 to 20.8% in 2014. Tuition and fees, gross and net of scholarship allowances, for the past ten fiscal years are as follows:



Capital contributions and grants decreased from $10,871,000 in 2013 to $790,000 in 2014 due to a decrease in grant funds received for construction of Shelby Hall and the ABSL-3 Laboratory Building. The University recognized $3,482,000 in capital appropriations in 2014, compared to $1,236,000 in 2013. The 2014 and 2013 appropriations were utilized in the renovation of the Student Center.

University expenses are presented using their natural expense classifications. A summary of University expenses for the year ended September 30, 2014 is presented below:

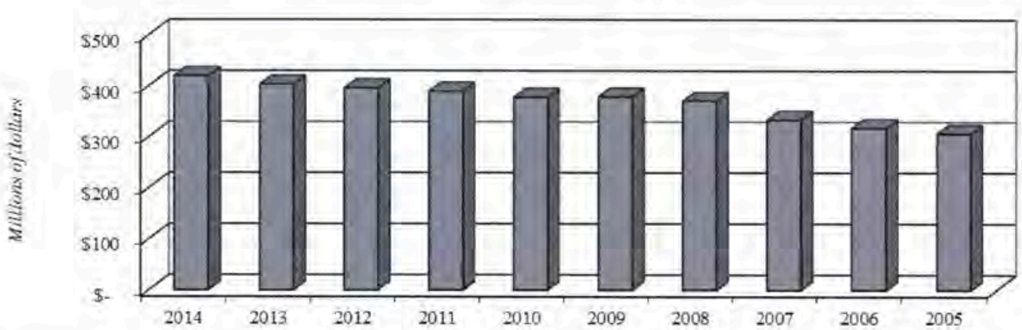
Total Expenses



While the University reports its expenses on a natural expense classification basis, functional classifications represent expenses categorized based on the function within the University. Such University functions include instruction, research, public service, academic support, student services, institutional support, scholarships, and operation and maintenance of plant. Expenses related to auxiliary enterprise activities and the hospitals are presented separately. Functional expense information is presented in note 16 to the basic financial statements.

In 2014, 2013, and 2012, approximately 66%, 67% and 68%, respectively, of the University's total operating expenses were salaries and benefits. After steady increases from 2005 to 2008, salaries and benefits have been relatively constant since 2008, as follows:

Total Salaries and Benefits Expense

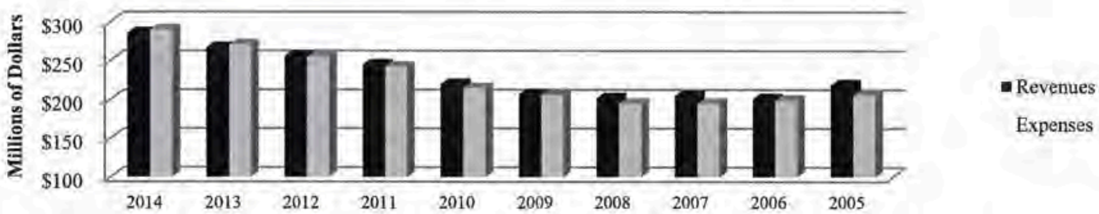


For the years ended September 30, 2014, 2013, and 2012, the University reported operating losses of approximately $130,352,000, $118,514,000, and $113,105,000, respectively. Operating losses are offset partially by state appropriations, which are reported as nonoperating revenue. After adding state appropriations and other nonoperating revenues and expenses, (primarily capital appropriations, capital contributions, and additions to

endowment) the total change in net position was approximately $6,560,000, $39,479,000, and $38,389,000, for the years ended September 30, 2014, 2013, and 2012, respectively.

The Hospitals represent a significant portion of total University revenues and expenses and have remained relatively constant over the past four years. Operating hospital revenues and expenses for the last ten fiscal years are presented below:

Hospital Operating Revenues and Expenses



Statement of Cash Flows

The statement of cash flows presents information related to cash flows of the University. This statement presents cash flows by category: operating activities, noncapital financing activities, capital and related financing activities and investing activities. The net cash provided to, or used by, the University is presented by category.

Capital Assets and Debt Administration

Total capital asset additions for the University were approximately $44,237,000 in 2014. During 2014, New Hall (residence hall) and a major renovation of the Student Center were placed into service. Significant construction projects that remain in progress at September 30, 2014 included a new professional medical office building. The expansion of Children's and Women's Hospital was substantially completed in 2014. Major projects completed and placed into service in fiscal 2012 and 2013 included the Campus Entrance Portals, Stokes Hall and a major renovation of the Bookstore. At September 30, 2014, the University had outstanding commitments of approximately $3,468,000 for various capital projects.

In a prior year, the State of Alabama made allocations from state bond issues to the University in the amount of $21,332,000. During 2014, $3,482,000 was recognized by the University and is reported as a capital appropriation. $112,000 remains unspent at September 30, 2014.

In June 2013, the University issued the University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2013-B and 2013-C, with a total face value of $50,000,000. The net proceeds of these bonds are being used to fund the construction of a new professional medical office building as well as other construction and other capital projects on the main campus of the University.

In March 2014, the University issued the University Facilities Revenue Refunding Bond, Series 2014-A, with a face value of $41,245,000. The proceeds of this bond were used to refund the University's Series 2004 bonds in connection with the termination of the swaption, as discussed below.

In order to realize debt service savings currently from future debt refunding, in January 2008, the University entered into a synthetic advance refunding of the outstanding Series 2004 and 2006 bonds. This transaction was effected through the sale of two swaptions by the University to the counterparty and resulted in an up-front payment to the University totaling $9,328,000 in exchange for selling the counterparty the option to enter into an interest rate swap with respect to the Series 2004 and 2006 bonds. A portion of this payment was considered a borrowing and was included in the long-term debt of the University. The fair value component of the refunding associated with the swaps was considered an investment derivative and, as such, the change in the fair value component was reflected as a component of investment income in 2014, 2013 and 2012.

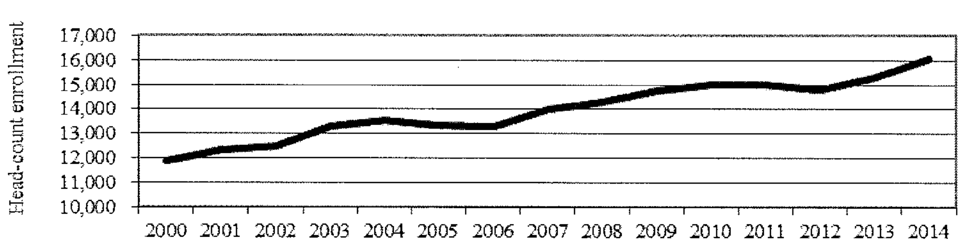
In December 2013, the counterparty exercised its option with respect to the 2004 swaption and forced the University into an underlying swap. The University refunded its Series 2004 bonds, issued the 2014-A variable rate bond and terminated the Series 2004 swaption. As a result of this termination, the borrowing arising from the Series 2004 swaption of $1,696,000 and the investment derivative of $5,213,000 were written off and an investment loss of $2,229,000 was recognized. A borrowing arising from the 2014 swap of $9,138,000 was recognized and is reported in the statement of net position at September 30, 2014.

The University's bond credit rating is A1 as rated by Moody's Investors Services and A+ as rated by Standard and Poor's Rating Services. Neither rate changed during 2014.

Economic Outlook

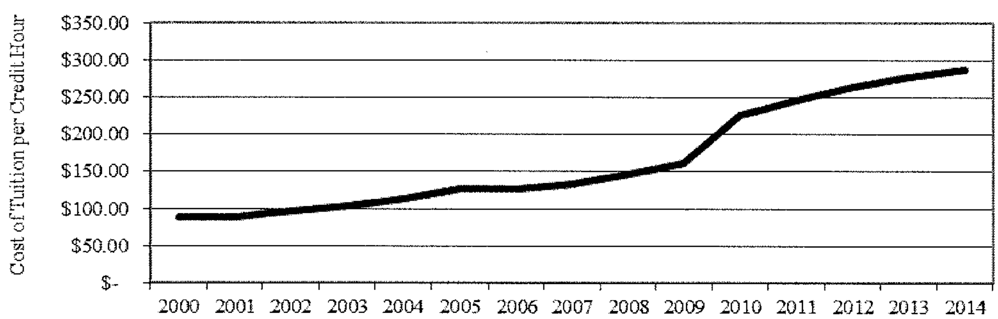
Student enrollment and tuition and fee rates have both increased over the past thirteen years. The University has experienced an increase in enrollment between 2000 and 2014, from 11,870 in 2000 to 16,055 for the 2014 fall semester. The enrollment trend for the University between 2000 and 2014 is as follows:

Enrollment Growth Summary



In that same time period, in-state tuition per credit hour has increased by approximately 222%. The large increase in 2010 is the result of the University's bundling of tuition and required fees into a single per-hour charge. Similar increases have been experienced in out-of-state tuition and College of Medicine tuition. The trend of in-statetuition per credit hour between 2000 and 2014 is as follows:

Tuition per Credit Hour



While enrollment and tuition have both increased in recent years, state appropriations prior to 2006 were relatively flat. However, in the 2008, 2007 and 2006 fiscal years, the University experienced increases of 16%, 19% and 17%, respectively, or approximately $19,349,000, $19,185,000 and $14,581,000, respectively, in its state appropriation. These increases were unusually high. For the 2009 fiscal year, the University's original state appropriation decreased 12.8% or approximately $17,882,000. Additionally, in December 2008 the Governor of Alabama announced proration of 9%, or approximately $10,967,000; and in July 2009, the Governor announced additional proration of 2%, or approximately $2,437,000. Therefore, the total decrease in the 2009 state appropriation was approximately $31,286,000 to $108,451,000, or 22.4% lower than in 2008.

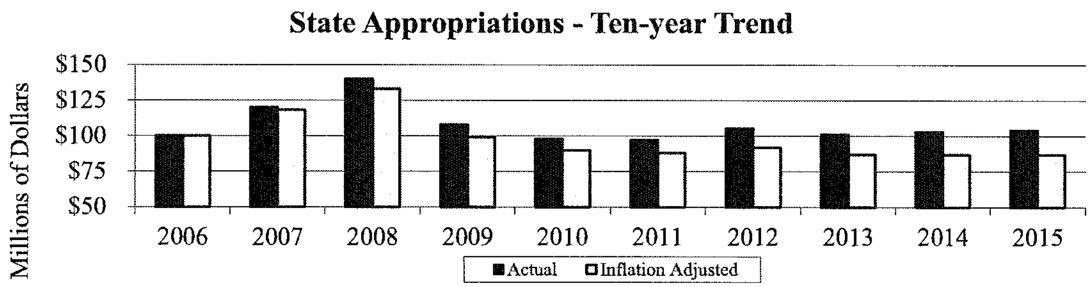
A state appropriation in the amount of approximately $105,639,000 was authorized for the year ended September 30, 2012. In February 2011, the Governor announced proration of 3%, or approximately $2,999,000, that reduced the amount received to $96,948,000.

A state appropriation in the amount of approximately $102,585,000 was authorized and received for the year ended September 30, 2013.

A state appropriation in the amount of approximately $103,695,000 was authorized and received for the year ended September 30, 2014.

A state appropriation in the amount of approximately $103,974,000 has been authorized for the year ending September 30, 2015. This represents a $279,000 increase from the fiscal 2014 appropriation received. While no announcement has been made, the University is aware that reductions in its 2015 appropriation are possible.

The ten-year trend of state appropriations for the University is as follows:



In addition to state appropriations, the University is subject to declines in general economic conditions in the United States and, specifically, the State of Alabama. Further weakening of the economy could have a potential further negative impact on the University's enrollment, extramural funding, endowment performance, and health care operations.

Other than the issues presented above, University administration is not aware of any other currently known facts, decisions, or conditions that are expected to have a significant effect on the University's financial position or results of operations during fiscal year 2015 beyond those unknown variables having a global effect on virtually all types of business operations.

Requests for Information

These basic financial statements are designed to provide a general overview of the University of South Alabama and its component units' financial activities and to demonstrate the University's accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Mr. Stephen H. Simmons; Vice-President for Financial Affairs; University of South Alabama – Room 170; Mobile, Alabama 36688. These basic financial statements can be obtained from our website at http:www.southalabama.edu/financialaffairs/businessoffice/statements.html.

KPMG LLP
Suite 1100
One Jackson Place
188 East Capitol Street
Jackson, MS 39201-2127

Independent Auditors' Report

The Board of Trustees
University of South Alabama:

Report on the Financial Statements

We have audited the accompanying financial statements of the University of South Alabama, a component unit of the State of Alabama, (the University) and its aggregate discretely presented component units, as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the 2014 and 2013 consolidated financial statements of the University of South Alabama Foundation, which represents 85%, 99%, and 32%, respectively, of the 2014 assets, net assets, and revenues, gains and other support of the aggregate discretely presented component units and 83%, 100%, and 26%, respectively, of the 2013 assets, net assets, and revenues, gains and other support of the aggregate discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of South Alabama Foundation, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the University of South Alabama Foundation, the University of South Alabama Health Services Foundation, the USA Research and Technology Corporation, and the Professional and General Liability Trust Funds were not audited in accordance with *Government Auditing Standards*.

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

KPMG

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

Opinions

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its aggregate discretely presented component units as of September 30, 2014 and 2013, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 1-11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

Jackson, Mississippi
November 14, 2014

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)

Statements of Net Position

September 30, 2014 and 2013

(In thousands)

		2014	2013
Current assets:			
Cash and cash equivalents	$	88,317	137,610
Investments		152,776	130,694
Net patient accounts receivable, (net of allowance for doubtful accounts of $54,106 in 2014 and $51,159 in 2013)		30,344	29,053
Accounts receivable, affiliates		10,432	17,283
Accounts receivable, other		6,619	2,147
Notes receivable, net		4,229	6,545
Prepaid expenses, inventories, and other		10,555	10,496
Total current assets		303,272	333,828
Noncurrent assets:			
Restricted cash and cash equivalents		43,692	86,135
Restricted investments		87,646	40,553
Investments		31,534	476
Accounts receivable		3,573	4,580
Notes receivable, net		4,813	8,529
Other noncurrent assets		2,453	2,414
Capital assets, net		578,303	565,830
Total noncurrent assets		752,014	708,517
Total assets		1,055,286	1,042,345
Current liabilities:			
Accounts payable and accrued liabilities		49,138	51,056
Unrecognized revenue		54,524	48,332
Deposits		2,781	2,608
Current portion of long-term debt		14,203	13,153
Total current liabilities		120,646	115,149
Noncurrent liabilities:			
Long-term debt, less current portion		381,103	387,737
Other long-term liabilities		53,810	46,469
Total noncurrent liabilities		434,913	434,206
Total liabilities		555,559	549,355
Deferred inflows		177	—
Total liabilities and deferred inflows		555,736	549,355
Net position:			
Net investment in capital assets		237,851	227,464
Restricted, nonexpendable:			
Scholarships		18,494	16,118
Other		21,697	20,746
Restricted, expendable:			
Scholarships		14,571	13,346
Other		46,302	41,018
Unrestricted		160,635	174,298
Total net position	$	499,550	492,990

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION
(Discretely Presented Component Unit)

Consolidated Statements of Financial Position

June 30, 2014 and 2013

(In thousands)

Assets		**2014**	**2013**
Cash and cash equivalents	$	670	900
Investments:			
Equity securities		133,236	114,193
Timber and mineral properties		156,320	154,332
Real estate		31,007	31,010
Other		6,054	6,040
Other assets		702	647
Total assets	$	327,989	307,122
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	163	126
Note payable – University of South Alabama		3,954	7,783
Other liabilities		736	677
Total liabilities		4,853	8,586
Net assets:			
Unrestricted		62,701	64,280
Temporarily restricted		90,909	64,862
Permanently restricted		169,526	169,394
Total net assets		323,136	298,536
Total liabilities and net assets	$	327,989	307,122

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA
HEALTH SERVICES FOUNDATION
(Discretely Presented Component Unit)

Statements of Financial Position

September 30, 2014 and 2013

(In thousands)

Assets		2014	2013
Current assets:			
Cash and cash equivalents	$	13	592
Patient accounts receivable (net of allowance for uncollectible accounts of approximately $3,838 and $4,651)		10,351	12,005
Other current assets		1,242	1,263
Total current assets		11,606	13,860
Interest in assets of University of South Alabama Professional Liability Trust Fund		15,710	14,726
Property and equipment, net		3,419	3,658
Total assets	$	30,735	32,244
Liabilities and Net Assets (Deficit)			
Current liabilities:			
Accounts payable	$	1,862	1,656
Due to affiliates		10,295	17,133
Total current liabilities		12,157	18,789
Estimated professional liability costs		15,710	14,726
Total liabilities		27,867	33,515
Net assets (deficit)		2,868	(1,271)
Total liabilities and net assets (deficit)	$	30,735	32,244

See accompanying notes to basic financial statements.

USA RESEARCH AND TECHNOLOGY CORPORATION
(Discretely Presented Component Unit)

Statements of Net Position

September 30, 2014 and 2013

(In thousands)

		2014	2013
Assets:			
Current assets:			
Unrestricted cash and cash equivalents	$	761	1,447
Rent receivable		263	167
Prepaid expenses and other current assets		6	10
Total current assets		1,030	1,624
Noncurrent assets:			
Intangible assets, net		77	99
Capital assets, net		23,794	24,701
Total noncurrent assets		23,871	24,800
Deferred outflows		3,053	3,225
Total assets and deferred outflows		27,954	29,649
Liabilities:			
Current liabilities:			
Deposits, other current liabilities, and accrued expenses		197	356
Payable to University of South Alabama		44	7
Unrecognized rent revenue		494	431
Current portion of notes payable		1,061	1,002
Total current liabilities		1,796	1,796
Noncurrent liabilities:			
Notes payable, excluding current portion		22,225	23,285
Interest rate swap		3,053	3,225
Total noncurrent liabilities		25,278	26,510
Total liabilities		27,074	28,306
Net position:			
Net investment in capital assets		503	284
Unrestricted		377	1,059
Total net position	$	880	1,343

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended September 30, 2014 and 2013

(In thousands)

		2014	2013
Operating revenues:			
Tuition and fees (net of scholarship allowances of $34,641 in 2014 and $32,457 in 2013)	$	104,448	95,709
Net patient service revenue		268,449	258,207
Federal grants and contracts		19,224	18,010
State grants and contracts		7,930	7,897
Private grants and contracts		49,565	51,395
Auxiliary enterprises (net of scholarship allowances of $1,039 in 2014 and $974 in 2013)		20,016	18,354
Other operating revenues		33,994	34,034
Total operating revenues		503,626	483,606
Operating expenses:			
Salaries and benefits		419,966	401,872
Supplies and other services		158,615	148,597
Scholarships and fellowships		7,839	7,099
Utilities		15,700	14,703
Depreciation and amortization		31,858	29,849
Total operating expenses		633,978	602,120
Operating loss		(130,352)	(118,514)
Nonoperating revenues (expenses):			
State appropriations		103,695	102,585
Investment income		8,206	28,159
Interest expense		(12,929)	(13,093)
Other nonoperating revenues		39,111	34,299
Other nonoperating expenses		(11,707)	(9,220)
Net nonoperating revenues		126,376	142,730
Income (loss) before capital appropriations, capital contributions and grants, and additions to endowment		(3,976)	24,216
Capital appropriations		3,482	1,236
Capital contributions and grants		790	10,871
Additions to endowment		6,264	3,156
Change in net position		6,560	39,479
Net position:			
Beginning of year		492,990	453,511
End of year	$	499,550	492,990

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION
(Discretely Presented Component Unit)

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2014

(In thousands)

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:					
Net realized and unrealized gains on investments	$	5,620	25,356	—	30,976
Rents, royalties and timber sales		3,727	193	17	3,937
Interest and dividends		194	1,879	6	2,079
Gifts		—	2	55	57
Other income		9	—	—	9
Required match of donor contributions		(54)	—	54	—
Interfund interest		(165)	165	—	—
Net assets released from program restrictions		1,548	(1,548)	—	—
Total revenues, gains, and other support		10,879	26,047	132	37,058
Expenditures:					
Program services:					
Faculty support		2,332	—	—	2,332
Scholarships		1,066	—	—	1,066
Other		1,117	—	—	1,117
Total program service expenditures		4,515	—	—	4,515
Management and general		1,771	—	—	1,771
Other investment expense		2,011	—	—	2,011
Depletion expense		3,882	—	—	3,882
Depreciation expense		108	—	—	108
Interest expense		171	—	—	171
Total expenditures		12,458	—	—	12,458
Increase (decrease) in net assets		(1,579)	26,047	132	24,600
Net assets – beginning of year		64,280	64,862	169,394	298,536
Net assets – end of year	$	62,701	90,909	169,526	323,136

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION
(Discretely Presented Component Unit)

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2013

(In thousands)

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:					
Net realized and unrealized gains on investments	$	9,182	11,758	—	20,940
Rents, royalties and timber sales		3,501	—	16	3,517
Interest and dividends		485	1,474	6	1,965
Gifts		—	1	15	16
Other income		70	—	—	70
Required match of donor contributions		(111)	—	111	—
Interfund interest		(118)	118	—	—
Net assets released from program restrictions		1,376	(1,376)	—	—
Total revenues, gains, and other support		14,385	11,975	148	26,508
Expenditures:					
Program services:					
Faculty support		2,379	—	—	2,379
Scholarships		982	—	—	982
Other		1,088	—	—	1,088
Total program service expenditures		4,449	—	—	4,449
Management and general		1,724	—	—	1,724
Other investment expense		1,796	—	—	1,796
Depletion expense		3,391	—	—	3,391
Depreciation expense		83	—	—	83
Interest expense		290	—	—	290
Total expenditures		11,733	—	—	11,733
Increase in net assets		2,652	11,975	148	14,775
Net assets – beginning of year		61,628	52,887	169,246	283,761
Net assets – end of year	$	64,280	64,862	169,394	298,536

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA
HEALTH SERVICES FOUNDATION
(Discretely Presented Component Unit)

Statements of Operations and Changes in Net Assets (Deficit)

Years ended September 30, 2014 and 2013

(In thousands)

		2014	2013
Unrestricted revenues, gains and other support:			
Net patient service revenue	$	75,680	63,298
Provision for uncollectible accounts		(13,871)	(12,057)
Net patient service revenue less provision for uncollectible accounts		61,809	51,241
Other revenue		10,563	8,701
Total unrestricted revenues, gains, and other support		72,372	59,942
Expenses:			
Salaries and benefits		43,431	48,433
General and administrative		16,535	5,864
Depreciation and amortization		1,602	1,465
Total expenses		61,568	55,762
Operating income		10,804	4,180
Nonoperating gains		1,835	3,491
Revenues over expenses		12,639	7,671
Transfer of capital to University of South Alabama, College of Medicine		(8,500)	(5,100)
Change in net assets (deficit)		4,139	2,571
Net deficit at beginning of year		(1,271)	(3,842)
Net assets (deficit) at end of year	$	2,868	(1,271)

See accompanying notes to basic financial statements.

USA RESEARCH AND TECHNOLOGY CORPORATION
(Discretely Presented Component Unit)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended September 30, 2014 and 2013

(In thousands)

		2014	2013
Operating revenues	$	3,506	4,011
Total operating revenues		3,506	4,011
Operating expenses:			
Building management and operating expenses		1,240	1,427
Depreciation and amortization		1,017	981
Legal and administrative fees		231	222
Insurance		137	150
Total operating expenses		2,625	2,780
Operating income		881	1,231
Nonoperating revenues (expenses):			
Investment income		4	8
Interest expense		(1,351)	(1,409)
Donation revenue		—	2
Other		3	5
Net nonoperating expenses		(1,344)	(1,394)
Change in net position		(463)	(163)
Net position:			
Beginning of year		1,343	1,506
End of year	$	880	1,343

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)

Statements of Cash Flows

Years ended September 30, 2014 and 2013

(In thousands)

		2014	2013
Cash flows from operating activities:			
Receipts related to tuition and fees	$	107,558	99,546
Receipts from and on behalf of patients and third-party payers		267,277	255,918
Receipts from grants and contracts		84,283	86,927
Receipts related to auxiliary enterprises		20,061	18,507
Payments to suppliers and vendors		(172,409)	(149,010)
Payments to employees and related benefits		(420,000)	(396,311)
Payments for scholarships and fellowships		(7,839)	(7,099)
Other operating receipts		30,172	33,007
Net cash used in operating activities		(90,897)	(58,515)
Cash flows from noncapital financing activities:			
State appropriations		103,695	102,585
Endowment gifts		6,264	3,156
Agency funds received		1,424	1,040
Agency funds disbursed		(1,302)	(904)
Student loan program receipts		135,038	126,410
Student loan program disbursements		(135,041)	(126,936)
Other nonoperating revenues		36,883	34,729
Other nonoperating expenses		(11,476)	(9,206)
Net cash provided by noncapital financing activities		135,485	130,874
Cash flows from capital and related financing activities:			
Capital contributions and grants		917	13,464
Purchases of capital assets		(35,090)	(72,680)
Proceeds from sale of capital assets		3,698	6,030
Proceeds from issuance of capital debt		41,245	50,000
Principal payments on capital debt		(54,119)	(10,552)
Interest payments on capital debt		(15,674)	(14,324)
Net cash used in capital and related financing activities		(59,023)	(28,062)
Cash flows from investing activities:			
Interest and dividends on investments		5,959	5,030
Purchases of investments		(108,663)	(90,855)
Proceeds from sales of investments		25,403	49,672
Net cash used in investing activities		(77,301)	(36,153)
Net increase (decrease) in cash and cash equivalents		(91,736)	8,144
Cash and cash equivalents (unrestricted and restricted):			
Beginning of year		223,745	215,601
End of year	$	132,009	223,745

(Continued)

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)

Statements of Cash Flows

Years ended September 30, 2014 and 2013

(In thousands)

		2014	2013
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(130,352)	(118,514)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation and amortization expense		31,858	29,849
Changes in assets and liabilities, net:			
Student receivables		(854)	1,350
Net patient accounts receivables		(1,291)	(2,215)
Grants and contracts receivables		6,703	7,706
Other receivables		(2,914)	9,513
Prepaid expenses, inventories, and other		1,936	5,302
Accounts payable and accrued liabilities		(2,087)	9,630
Unrecognized revenue		6,104	(1,136)
Net cash used in operating activities	$	(90,897)	(58,515)
Noncash investing, noncapital financing, and capital and related financing transactions:			
Net increase in fair value of investments recognized as a component of investment income	$	10,180	24,692
Additional maturity on capital appreciation on bonds payable and other borrowings recorded as interest expense		1,854	1,981
Payments on behalf of the University by the Alabama Public School and College Authority reducing purchases of capital assets		2,489	124
Increase in receivables from Alabama Public School and College Authority reducing purchases of capital assets		993	—
Gifts of capital and other assets		231	42
Pledges of operating and capital gifts		88	1,961
Capitalization of construction period interest		3,825	2,934
Decrease in accounts payable related to capital assets		(43)	(3,856)

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The accompanying basic financial statements present the financial position and activities of the University of South Alabama (the University), which is a component unit of the State of Alabama. The financial statements of the University are intended to present the financial position, changes in financial position and, where applicable, cash flows of only that portion of the basic financial statements and the aggregate discretely presented component units of the State of Alabama that is attributable to the transactions of the University.

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, consists of the primary government and all of its component units. Component units are legally separate organizations for which the primary government is financially accountable. In addition, the primary government may determine, through exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, that organization is included as a component unit. Accordingly, the basic financial statements include the accounts of the University, as the primary government, and the accounts of the entities discussed below as component units.

During 2013, the University adopted GASB Statement No. 61, *The Financial Reports Entity: Omnibus*, which amends GASB Statements No. 14 and No. 39, and provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with the primary government. Such criteria include the appointment of a voting majority of the board of the organization, the ability to impose the will of the primary government on the organization and the financial benefits/burden between the primary government and the potential component unit. The statement also clarifies reporting and disclosure requirements for those organizations. Based on these criteria as of September 30, 2014 and 2013, the University reports the University of South Alabama Foundation (USA Foundation), the University of South Alabama Health Services Foundation (USAHSF), and the USA Research and Technology Corporation (the Corporation) as discretely presented component units.

The University is also affiliated with the South Alabama Medical Science Foundation (SAMSF). This entity is not considered a component unit of the University under the provisions of GASB Statements No. 14, 39 and 61 because the University does not consider SAMSF significant enough to warrant inclusion in the University's reporting entity (see note 14 for further discussion of this entity).

GASB Statement No. 61 requires the University, as the primary government, to include in its basic financial statements, as a blended component unit, organizations that, even though they are legally separate entities, meet certain requirements as defined by GASB Statement No. 61. Based on these criteria, the University reports the Professional Liability Trust Fund, the General Liability Trust Fund

and the USA HealthCare Management, LLC as blended component units. All significant transactions among the University and its blended component units have been eliminated.

(b) ***USA HealthCare Management, LLC***

In June 2010, the University's Board of Trustees approved the formation of the USA HealthCare Management, LLC (the LLC). The LLC was organized for the purpose of managing and operating on behalf of, and as agent for, substantially all of the health care clinical enterprise of the University. The University is the sole member of the LLC. The LLC commenced operations in October 2010 and is reported as a blended component unit (see note 17 for further discussion of, and disclosure for, this entity).

(c) ***Professional Liability and General Liability Trust Funds***

The medical malpractice liability of the University is maintained and managed in its separate Professional Liability Trust Fund (the PLTF) in which the University, USAHSF, LLC and SAMSF are the only participants. In accordance with the bylaws of the trust fund, the president of the University is responsible for appointing members of the trust fund policy committee. Additionally, the general liability of the University, USAHSF, LLC, SAMSF and the Corporation is maintained and managed in its General Liability Trust Fund (the GLTF) for which the University, as defined by GASB Statement No. 14, is responsible. The PLTF and GLTF are separate legal entities which are governed by the University Board of Trustees through the University president. As such, PLTF and GLTF are reported as blended component units (see note 17 for further discussion of, and disclosure for, these entities).

(d) ***University of South Alabama Foundation***

The USA Foundation is a not-for-profit foundation that was organized for the purpose of promoting education, scientific research, and charitable purposes, and to assist in developing and advancing the University in furthering, improving, and expanding its properties, services, facilities, and activities. Because of the significance of the relationship between the University and the USA Foundation, the USA Foundation is considered a component unit of the University. The Board of Directors of the USA Foundation is not appointed or controlled by the University. The University receives distributions from the USA Foundation primarily for scholarship, faculty and other support. Total distributions received or accrued by the University for the years ended September 30, 2014 and 2013 were $4,451,000 and $4,392,000, respectively, and are primarily included in other nonoperating revenues and capital contributions and grants in the University's statements of revenues, expenses, and changes in net position. The USA Foundation presents its financial statements in accordance with standards issued by the Financial Accounting Standards Board (FASB). The USA Foundation is reported in separate financial statements because of the difference in the financial reporting format since the USA Foundation follows FASB rather than GASB pronouncements. The USA Foundation has a June 30 fiscal year end which differs from the University's September 30 fiscal year end. In accordance with GASB Statement No. 14, this discretely presented unit has been included with the most recent fiscal year. The accompanying consolidated statements of financial position and statements of activities and changes in net assets for the USA Foundation as of and for the years ended June 30, 2014 and 2013 are discretely presented.

(e) University of South Alabama Health Services Foundation

The USAHSF is a not-for-profit corporation that exists to provide a group medical practice for physicians who are faculty members of the University and to further medical education and research at the University. Because of the significance of the relationship between the University and USAHSF, USAHSF is considered a component unit of the University. The USAHSF reimburses the University for salaries, certain administrative expenses, dean's clinical assessment and other support services. Total amounts received and accrued for such expenses were approximately $42,352,000 and $44,786,000 for the years ended September 30, 2014 and 2013, respectively, and are reflected as private grants and contracts in the accompanying statements of revenues, expenses, and changes in net position of the University. During 2014, the University reallocated a portion of faculty salaries funded by USAHSF and the University to better align funding and effort. This reallocation, a change in accounting estimate, resulted in a reduction of the payments from USAHSF to the University during the 2014 fiscal year. The USAHSF presents its financial statements in accordance with standards issued by the FASB. The accompanying statements of financial position and statements of operations and changes in net assets (deficit) for the USAHSF for the years ended September 30, 2014 and 2013 are discretely presented.

(f) USA Research and Technology Corporation

The Corporation is a not-for-profit corporation that exists for the purpose of furthering the educational and scientific mission of the University by developing, attracting, and retaining technology and research industries in Alabama that will provide professional and career opportunities to the University's students and faculty. Because of the significance of the relationship between the University and the Corporation, the Corporation is considered a component unit of the University. The Corporation presents its financial statements in accordance with GASB. The accompanying statements of net position and statements of revenues, expenses and changes in net position for the Corporation are discretely presented.

(g) Measurement Focus and Basis of Accounting

For financial reporting purposes, the University is considered a special purpose governmental agency engaged only in business type activities, as defined by GASB Statement No. 34. Accordingly, the University's basic 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.

The University prepares its basic financial statements in accordance with U.S. generally accepted accounting principles, as prescribed by GASB, including all applicable effective statements of the GASB and all statements of the FASB issued through November 30, 1989 that do not conflict with GASB pronouncements.

(h) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires that management make estimates and assumptions affecting the reported amounts

of assets and liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs could change by a material amount in the near term.

(i) *Cash and Cash Equivalents*

Cash and cash equivalents are defined as petty cash, demand accounts, certificates of deposit, and any short-term investments that take on the character of cash. These investments have maturities of less than three months and include repurchase agreements and money market accounts.

(j) *Investments and Investment Income*

Investments are recorded at fair value. The fair value of alternative investments (low-volatility multi-strategy funds, private placement fund-of-funds, relative value arbitrage funds, and other) do not have readily ascertainable market values and the University values these investments in accordance with valuations provided by the general partners or fund managers of the underlying partnerships or companies. Because these investments are not marketable, the estimated fair value is subject to uncertainty and, therefore, may differ from the fair value that would have been used had a ready market for the investment existed. Investments received by gift are recorded at fair value at the date of receipt. Changes in the fair value of investments are reported in investment income (loss).

(k) *Derivatives*

The University has adopted the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 establishes a framework for accounting and financial reporting related to derivative instruments, requiring the fair value of derivatives to be recognized in the basic financial statements.

The University entered into two interest rate swaptions in January 2008, the Series 2004 swaption and the Series 2006 swaption. As a result of entering into the swaptions, the University received up-front payments. Swaptions are considered hybrid instruments which are required to be bifurcated into the fair value of the derivative and a piece that reflects a borrowing for financial statement purposes, which will accrete interest over time. As more fully described in notes 5 and 9, in December 2013, the counterparty, Wells Fargo Bank, N. A. (Wells Fargo), exercised its option related to the Series 2004 swaption, and as a result, the University entered into an interest rate swap. As a result of the exercise of the option, the Series 2004 swaption was terminated. The Series 2006 swaption remains outstanding at September 30, 2014.

The University determined that as of September 30, 2014, the remaining swaption was not a hedging derivative instrument; and that as of September 30, 2013, both then existing swaptions were not hedging derivative instruments. As a result of that determination, the swaptions are required to be reported as investment derivatives with the change in fair value flowing through the statements of revenues, expenses and changes in net position.

(Continued)

The fair values of the outstanding swaptions were $(14,191,000) and $(13,333,000) at September 30, 2014 and 2013, respectively. At September 30, 2014 and 2013, the fair values of the swaptions were included in other long-term liabilities in the accompanying statements of net position. The change in fair value for the years ended September 30, 2014 and 2013 was $(6,071,000) and $10,276,000, respectively, and was included in investment income in the accompanying statements of revenues, expenses, and changes in net position for the years ended September 30, 2014 and 2013. See note 5 for further discussion.

In March 2014, the University entered into an interest rate swap arrangement with a counterparty. The resulting derivative is a "receive-variable, pay-fixed" interest rate swap. The University pays the counterparty a fixed semi-annual payment based on an annual rate of 4.9753% and receives on a monthly basis a variable payment of 68% of the one-month London Interbank Offered Rate plus 0.25%. The notional amount of the swap will at all times match the outstanding principal amount of the Series 2014-A bond. The change in fair value of the swap ($177,000 at September 30, 2014) is reported as a deferred inflow on the 2014 statement of net position since the interest rate swap is a hedging derivative. See note 9 for further discussion.

(l) Accounts Receivable

Accounts receivable primarily result from net patient service revenue. Accounts receivable from affiliates primarily represent amounts due from USAHSF for salaries, and certain administrative and other support services. Accounts receivable – other includes amounts due from students, the federal government, state and local governments, or private sources in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

(m) Inventories

The University's inventories primarily consist of bookstore inventories and medical supplies and pharmaceuticals. Bookstore inventories are valued at the lower of cost (moving average basis) or market. Medical supplies and pharmaceuticals are stated at the lower of cost (first-in, first-out method) or market.

(n) Capital Assets

Capital assets are recorded at cost, if purchased or at fair value at date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset using the straight-line method. Major renewals and renovations are capitalized. Costs for repairs and maintenance are expensed when incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the gain or loss, if any, is included in nonoperating revenues (expenses) in the statements of revenues, expenses, and changes in net position.

All capital assets other than land are depreciated using the following asset lives:

Buildings, infrastructure and certain building components	40 to 100 years
Fixed equipment	10 to 20 years
Land improvements	8 to 20 years
Library materials	10 years
Other equipment	4 to 15 years

Certain buildings are componentized for depreciation purposes.

Interest costs for certain assets constructed are capitalized as a component of the cost of acquiring those assets.

The University evaluates impairment in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. For the years ended September 30, 2014 and 2013, no impairments were recorded.

(o) Unrecognized Revenue

Student tuition, fees, and dormitory rentals are initially recorded as unrecognized revenue and then recognized over the applicable portion of each school term.

(p) Classification of Net Position

The University's net position is classified as follows:

Net investment in capital assets reflects the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such debt is excluded from the calculation of *net investment in capital assets*.

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

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

Unrestricted net position represents resources derived from student tuition and fees, state appropriations, net patient service revenue, sales and services of educational activities and auxiliary enterprises. Auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff. While unrestricted net position may be designated for specific purposes by action of management or the Board of Trustees, they are available for use at the discretion of the

(Continued)

governing board to meet current expenses for any purpose. Substantially all unrestricted net position is designated for academic and research programs and initiatives, and capital programs.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University addresses each situation on a case-by-case basis prior to determining the resources to be used to satisfy the obligation.

(q) Scholarship Allowances and Student Financial Aid

Student tuition and fees, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants and other federal, state, or nongovernmental programs are recorded as either operating or nonoperating revenues in the University's basic financial statements based on their classification as either an exchange or nonexchange transaction. To the extent that revenues from such programs are used to satisfy tuition and fees and certain other student charges, the University has recorded a scholarship discount and allowance.

(r) Donor Restricted Endowments

The University is subject to the "Uniform Prudent Management of Institutional Funds Act (UPMIFA)" of the Code of Alabama. This law allows the University, unless otherwise restricted by the donor, to spend net appreciation, realized and unrealized, on the endowment. The law also allows the University to appropriate for expenditure or accumulate to an endowment fund such amounts as the University determines to be prudent for the purposes for which the endowment fund was established. The University's endowment spending policy provides that 5% of the three-year invested net asset moving average value (inclusive of net realized and unrealized gains and losses), as measured at September 30, is available annually for spending. The University's policy is to retain the endowment net interest and dividend income and net realized and unrealized appreciation with the endowment after distributions allowed by the spending policy have been made. These amounts, unless otherwise directed by the donor, are included in restricted, expendable net position.

(s) Classification of Revenues

The University has classified its revenues as either operating or nonoperating revenues.

Operating revenues include activities that have the characteristics of exchange transactions such as student tuition and fees, net of scholarship discounts and allowances; sales and services of auxiliary enterprises, net of scholarship allowances; most federal, state, and local grants and contracts; and, net patient service revenue.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources such as state appropriations and investment income.

(Continued)

(t) Gifts and Pledges

Pledges of financial support from organizations and individuals representing an unconditional promise to give are recognized in the basic financial statements once all eligibility requirements, including time requirements, have been met. In the absence of such a promise, revenue is recognized when the gift is received. Endowment pledges generally do not meet eligibility requirements, as defined by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and are not recorded as assets until the related gift has been received. Unconditional promises that are expected to be collected in future years are recorded at the present value of the estimated future cash flows.

(u) Grants and Contracts

The University has been awarded grants and contracts for which funds have not been received or expenditures made for the purpose specified in the award. These awards have not been reflected in the basic financial statements, but represent commitments of sponsors to provide funds for specific research or training projects. For grants that have allowable cost provisions, the revenue will be recognized as the related expenditures are made. For grants with work completion requirements, the revenue is recognized as the work is completed. For grants without either of the above requirements, the revenue is recognized as it is received.

(v) Net Patient Service Revenue and Electronic Health Records Incentive Program

Net patient service revenue is reported at estimated net realizable amounts due from patients, third-party payers and others for healthcare services rendered, including estimated retroactive revenue adjustments due to future audits, reviews and investigations. 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.

The Centers for Medicare and Medicaid Services (CMS) has implemented provisions of the American Recovery and Reinvestment Act of 2009 that provide incentive payments for the meaningful use of certified electronic health record (EHR) technology. CMS has defined meaningful use as meeting certain objectives and clinical quality measures based on current and updated technology capabilities over predetermined reporting periods as established by CMS. The Medicare EHR incentive program provides annual incentive payments to eligible professionals, and hospitals, that are meaningful users of certified EHR technology. The Medicaid EHR incentive program provides annual incentive payments to eligible professionals and hospitals for efforts to adopt, implement, and meaningfully use certified EHR technology. The Hospitals utilize a grant accounting model to recognize EHR incentive revenues. The Hospitals record EHR incentive revenue ratably throughout the incentive reporting period when it is reasonably assured that it will meet the meaningful use objectives for the required reporting period and that the grants will be received. The EHR reporting period for hospitals is based on the federal fiscal year, which runs from October 1 through September 30.

USA Medical Center and USA Children's and Women's Hospital did not meet any meaningful use objectives for Medicare during 2014, and therefore have not recognized any revenue for this fiscal year. Both Hospitals expect to meet meaningful use objectives for Medicare during the year ending September 30, 2015. The Hospitals recognized Medicare EHR incentive revenues of $725,000 for the year ended September 30, 2013. The Hospitals next receipt of Medicaid EHR revenues is expected to occur during the federal fiscal year ended September 30, 2015. EHR incentive revenues are included in other operating revenues in the accompanying statements of revenues, expenses and changes in net position.

(w) ***Recently Adopted Accounting Pronouncements***

In 2013, the University adopted the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. GASB Statement No. 61 amends GASB Statements No. 14 and 39 and modifies certain requirements for inclusion of component units in the financial reporting entity. GASB Statement No. 61 requires that for organizations that previously were included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Statement No. 61 also establishes criteria to require inclusion based on other additional factors, such as organization board appointment, financial benefit or burden and operational management of the organization. The adoption of this statement had no financial reporting entity impact on the University's component units; however, it did require additional disclosures for blended component units.

In 2013, the University also adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, during the year ended September 30, 2013. Retroactive application of the standards was required for all prior periods presented.

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. GASB Statement No. 65 establishes accounting and reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The University had historically deferred certain debt financing costs related to its bond issues and was amortizing those costs over the term of the related bond issue. GASB Statement 65 requires that debt issuance costs, except any portion related to prepaid insurance costs, be recognized as an expense in the period incurred. The adoption of the provisions of GASB Statement No. 65 decreased beginning net position at October 1, 2011 by $1,774,000.

(x) ***Compensated Absences***

The University accrues annual leave for employees as incurred at rates based upon length of service and job classification.

(y) Reclassifications

Certain amounts in the 2013 basic financial statements have been reclassified in order to conform to 2014 classification.

(2) Income Taxes

The University is classified as both a governmental entity under the laws of the State of Alabama and as a tax-exempt entity under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). Consistent with these designations, no provision for income taxes has been made in the accompanying basic financial statements.

In addition, the University's discretely presented component units are tax-exempt entities under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3). Consistent with that designation, no provision for income taxes has been made in the accompanying discretely presented financial statements.

(3) Cash

Pursuant to the Security for Alabama Funds Enhancement Act, funds on deposit may be placed in an institution designated as a qualified public depository (QPD) by the State of Alabama. QPD institutions pledge securities to a statewide collateral pool administered by the State Treasurer's office. Such financial institutions contribute to this collateral pool in amounts proportionate to the total amount of public fund deposits at their respective institutions. The securities are held at the Federal Reserve Bank and are designated for the State of Alabama. Additional collateral was not required for University funds on deposit with QPD institutions. At September 30, 2014, the net public deposits subject to collateral requirements for all institutions participating in the pool totaled approximately $9,342,196,000. The University had cash and cash equivalents totaling $132,009,000 and $223,745,000 at September 30, 2014 and 2013, respectively.

At September 30, 2014, restricted cash and cash equivalents consist of $3,760,000 related to cash included in the PLTF and GLTF to pay insurance liability claims, and $39,932,000 of unspent proceeds from the issuance of University bonds for capital purchases as outlined in the bond indenture. At September 30, 2013, restricted cash and cash equivalents consist of $28,547,000 related to swaption collateral obligations, $2,621,000 related to cash included in the PLTF and GLTF to pay insurance liability claims and $54,967,000 of unspent proceeds from the issuance of University bonds for capital purchases as outlined in the bond indenture.

(4) Investments

(a) University of South Alabama

The investments of the University are invested pursuant to the University of South Alabama "Nonendowment Cash Pool Investment Policies," the "Endowment Fund Investment Policy," and the "Derivatives Policy" (collectively referred to as the University Investment Policies) as adopted by the Board of Trustees. The purpose of the nonendowment cash pool investment policy is to provide guidelines by which pooled funds not otherwise needed to meet daily operational cash flows can be invested to earn a maximum return, yet still maintain sufficient liquidity to meet fluctuations

in the inflows and outflows of University operational funds. Further, endowment fund investment policies exist to provide earnings to fund specific projects of the endowment fund, while preserving principal. The University Investment Policies require that management apply the "prudent person" standard in the context of managing its investment portfolio.

The investments of the blended component units of the University are invested pursuant to the separate investment policy shared by the PLTF and GLTF (the Trust Fund Investment Policy.) The objectives of the Trust Fund Investment Policy are to provide a source of funds to pay general and professional liability claims and to achieve long-term capital growth to help defray future funding requirements. Additionally, investments of the University's component units both blended and discretely presented are subject to UPMIFA as well as any requirements placed on them by contract or donor agreements.

Certain investments, primarily related to the University's endowment assets, are pooled. The University uses this pool to manage its investments and distribute investment income to individual endowment funds.

Investments of the University, by type, at fair value, are as follows at September 30, 2014 and 2013 (in thousands):

		2014	2013
U.S. Treasury notes	$	8,885	8,496
U.S. federal agency notes		101,201	19,676
Pooled equity mutual funds		82,233	71,406
Pooled debt mutual funds		36,426	30,594
Managed income alternative investments (low-volatility multi-strategy funds, private placement fund-of-funds, relative value arbitrage funds, and other)		29,224	27,791
State agency obligations		—	394
Other		13,987	13,366
	$	271,956	171,723

At September 30, 2014 and 2013, $16,395,000 and $10,272,000, respectively, of appreciation in fair value of investments of donor-restricted endowments was recognized and are included in restricted expendable net position in the accompanying statements of net position.

Credit Risk and Concentration of Credit Risk

The University Investment Policies limit investment in corporate bonds to securities with a minimum "A" rating, at the time of purchase, by both Moody's and Standard and Poor's. Investments in corporate paper are limited to issuers with a minimum quality rating of P-1 by Moody's, A-1 by Standard and Poor's or F-1 by Fitch.

Additionally, the University Investment Policies require that not more than 10% of the cash, cash equivalents and investments of the University be invested in the obligations of a single private corporation and not more than 35% of the cash, cash equivalents and investments of the University be invested in the obligations of a single government agency.

The University's exposure to credit risk and concentration of credit risk at September 30, 2014 is as follows:

	Credit rating	of total investments
Federal Home Loan Mortgage Corporation	AAA	7.8%
Federal Home Loan Bank Corporation	AAA	13.4
Federal National Mortgage Association	AAA	5.5
Common Fund Bond Fund	A+	11.5
PIMCO Pooled Bond Fund	A/BA/AA	2.0
Federal Farm Credit Banks Funding Corporation	AAA	9.6
Federal Agricultural Mortgage Corporation	AAA	1.0
Common Fund Equity Fund	N/A*	13.3

The University's exposure to credit risk and concentration of credit risk at September 30, 2013 is as follows:

	Credit rating	of total investments
Federal Home Loan Mortgage Corporation	Aaa	4.9%
Federal Home Loan Bank Corporation	Aaa	2.3
Federal National Mortgage Association	Aaa	1.3
Common Fund Bond Fund	AA	15.2
Various State Agency Obligations	Aaa/A2	0.2
PIMCO Pooled Bond Fund	AA+/NR	2.7
Federal Farm Credit Banks Funding Corporation	Aaa	2.9
Federal Agricultural Mortgage Corporation	Aaa	0.1
Common Fund Equity Fund	N/A*	17.4

*Credit rating in not applicable

Interest Rate Risk

At September 30, 2014, the maturity dates of the University's debt investments were as follows (in thousands):

		Years to maturity			
	Fair value	Less than 1	1 – 5	6 – 10	More than 10
U.S. Treasury notes	$ 8,885	70	8,815	—	—
U.S. federal agency notes	101,201	8,286	92,915	—	—
Pooled debt mutual funds	36,426	—	32,484	3,942	—
	$ 146,512	8,356	134,214	3,942	—

At September 30, 2013, the maturity dates of the University's debt investments were as follows (in thousands):

		Years to maturity			
	Fair value	Less than 1	1 – 5	6 – 10	More than 10
U.S. Treasury notes	$ 8,496	808	7,688	—	—
U.S. federal agency notes	19,676	664	18,930	—	82
Pooled debt mutual funds	30,594	1,183	—	29,411	—
State agency obligations	394	—	—	—	394
	$ 59,160	2,655	26,618	29,411	476

Pooled debt mutual funds are classified based on the weighted average maturity of the individual investment instruments within each fund.

The University's Investment Policies do not specifically address the length to maturity on investments which the University must follow; however, they do require that the maturity range of investments be consistent with the liquidity requirements of the University.

Mortgage-Backed Securities

The University, from time to time, invests in mortgage backed securities issued by the Government National Mortgage Association (GNMA) and the Federal National Mortgage Association (FNMA), agencies of the United States government. The University invests in these securities to increase the yield and return on its investment portfolio given the available alternative investment opportunities.

The fair value of mortgage-backed securities is generally based on the cash flows from principal and interest receipts on the underlying mortgage pools. These securities include collateralized mortgage obligations (CMOs). In CMOs, the cash flow from principal and interest payments from one or more mortgage pass-through securities or a pool of mortgages may be reallocated to multiple security classes with different priority claims and payment streams (commonly referred to as tranches). A holder of the CMO security thus chooses the class of security that best meets its risk and return objectives. CMOs are subject to significant market risk due to fluctuations in interest rates,

prepayment rates and various liquidity factors related to their specific markets. There were no CMOs in the University's investment portfolio at September 30, 2014 or 2013.

At September 30, 2014, restricted investments consist of $45,946,000 related to investments included in the PLTF and GLTF to pay insurance liability claims and $41,700,000 in required collateral related to the 2006 swaption and the 2014 interest rate swap. At September 30, 2013, restricted investments consist of $40,553,000 related to investments included in the PLTF and GLTF to pay insurance liability claims.

(b) ***University of South Alabama Foundation***

Investments in securities consist primarily of equity securities totaling $133,236,000 and $114,193,000, at June 30, 2014 and 2013, respectively.

Investment income was comprised of the following for the years ended June 30, 2014 and 2013 (in thousands):

		2014	2013
Unrealized gains	$	28,429	18,296
Realized gains		2,547	2,644
Timber sales		3,132	2,764
Interest and dividends		2,079	1,965
Rents		634	605
Royalties		171	148
	$	36,992	26,422

Investment related expenses in the amount of $295,000 and $259,000, respectively, are included in the USA Foundation's management and general expenses in the accompanying 2014 and 2013 consolidated statements of activities and changes in net assets.

Real estate at June 30, 2014 and 2013 consisted of the following property held (in thousands):

		2014	2013
Land and land improvements – held for investment	$	29,926	29,910
Building and building improvements – held for investment, net of depreciation		1,081	1,100
	$	31,007	31,010

Timber and mineral properties are stated at fair value. Depletion of mineral properties is recognized over the remaining producing lives of the properties based on total estimated production and current period production. Depletion of timber properties is recognized on a specific identification basis as timber rights are sold or on a unit basis for sales made on that basis. Reforestation costs consisting of site preparation and planting of seedlings are capitalized.

(Continued)

Investments at June 30, 2014 and 2013, include an equity interest in a timberland management company. The company's primary assets consist of timberland. The Foundation's proportionate share of the fair value of the company is based upon the valuation of the trustee responsible for the management of the company and the timber valuation.

The Foundation has adopted Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, (formally FASB Statement No. 157, *Fair Value Measurements*). ASC 820 provides a single definition of fair value and a hierarchical framework for measuring it, as well as establishing additional disclosure requirements about the use of fair value to measure assets and liabilities. Fair value measurements are classified as either observable or unobservable in nature. Observable fair values are derived from quoted market prices for investments traded on an active exchange or in dealer markets where there is sufficient activity and liquidity to allow price discovery by substantially all market participants (Level 1). The Foundation's observable values consist of investments in exchange-traded equity securities with a readily determinable market price. Other observable values are fair value measurements derived either directly or indirectly from quoted market prices (Level 2). Investments that are not traded on an active exchange and do not have a quoted market price are classified as unobservable (Level 3). The Foundation's unobservable values consist of investments in timber and real estate with fair values based on independent third-party appraisals performed by qualified appraisers specializing in timber and real estate investments.

The Foundation's investment assets at June 30, 2014 and 2013, respectively, are summarized based on the criteria of ASC 820 as follows (in thousands):

	Fair value measurements at June 30, 2014			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity securities	$ 71,080	62,156	—	133,236
Timber and mineral properties	—	—	156,320	156,320
Real estate	—	—	31,007	31,007
Other investments	—	—	6,054	6,054
	$ 71,080	62,156	193,381	326,617

	Fair value measurements at June 30, 2013			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity securities	$ 57,870	56,323	—	114,193
Timber and mineral properties	—	—	154,332	154,332
Real estate	—	—	31,010	31,010
Other investments	—	—	6,040	6,040
	$ 57,870	56,323	191,382	305,575

(Continued)

For the year ended June 30, 2014, activity in investment assets valued at fair value based on unobservable values is as follows (in thousands):

Description		Timber and mineral properties	Real estate	Other investments	Total
Beginning balance	$	154,332	31,010	6,040	191,382
Total gains (losses) (realized/unrealized)		5,503	28	14	5,545
Acquisitions		—	2	—	2
Reforestation		367	—	—	367
Depreciation/depletion		(3,882)	(33)	—	(3,915)
Ending balance	$	156,320	31,007	6,054	193,381

For the year ended June 30, 2013, activity in investment assets valued at fair value based on unobservable values is as follows (in thousands):

Description		Timber and mineral properties	Real estate	Other investments	Total
Beginning balance	$	153,574	31,040	5,522	190,136
Total gains (losses) (realized/unrealized)		3,876	—	518	4,394
Acquisitions		—	3	—	3
Reforestation		273	—	—	273
Depreciation/depletion		(3,391)	(33)	—	(3,424)
Ending balance	$	154,332	31,010	6,040	191,382

As of June 30, 2014, the Foundation has no outstanding commitments to purchase securities or other investments. Additionally, substantially all of the Foundation's equity securities at June 30, 2014 and 2013 are considered readily liquid. Timber and mineral properties, real estate, and other investments are generally considered illiquid.

(5) Derivative Transactions – Swaption

In January 2008, the University entered into a synthetic advance refunding of the outstanding Series 2004 and 2006 bonds with a counterparty. This transaction was effected through the sale of two swaptions by the University to the counterparty. The transactions resulted in an up-front payment to the University totaling $9,328,000, which was recorded as a liability, in exchange for selling the counterparty the option to enter into an interest rate swap with respect to the Series 2004 and 2006 bonds in 2014 and 2016, respectively.

Objective of the Derivative Transaction

The objective of this transaction was to realize debt service savings currently from future debt refunding and create an economic benefit to the University.

Terms

A summary of the transactions is as follows:

Issue	Date of issue	Option expiration date	Effective date of swap	Termination date		Payment amount
Series 2004 bonds	2-Jan-08	16-Dec-13	15-Mar-14	15-Mar-24	$	1,988,000
Series 2006 bonds	2-Jan-08	1-Sep-16	1-Dec-16	1-Dec-36		7,340,000

As further discussed in note 9, in December 2013, the counterparty exercised its option with respect to the 2004 swaption. The University refunded its Series 2004 bonds, issued the Series 2014-A variable rate bond and terminated the Series 2004 swaption. As a result of this termination, the borrowing arising from the Series 2004 swaption of $1,696,000 and the investment derivative (liability) of $5,213,000 were written off and an investment loss of $2,229,000 was recognized and reported in the statements of revenues, expenses and changes in net position for the year ended September 30, 2014. A borrowing arising from the 2014 swap of $9,138,000 was recognized and is reported, net of current year amortization, as long-term debt in the statement of net position at September 30, 2014.

As outlined in the 2008 agreement, if the counterparty exercises its option in 2016 related to the 2006 swaption, the University would, at the counterparty's option, be compelled to enter into an underlying swap. If the option is exercised, the University would begin to make payments on the notional amount, currently $100,000,000 for the 2006 bonds of the underlying swap contract. Simultaneously, the University would call outstanding 2006 bonds and issue variable rate demand notes (VRDNs) in their place. Under the swap contract, the University would pay a fixed rate of 5.0% on the 2006 bonds to the counterparty and would receive payments based on 68% of the one-month LIBOR index plus 0.25%. Alternatively, although it is not anticipated that this option would be to the University's advantage, the University could, at its option, cash settle the swap and retain its right to refund the 2006 bonds.

If the interest rate environment is such that the counterparty chooses to not exercise its option related to the 2006 swaption, the swaption would be canceled and the University would have no further obligation under this agreement.

Financial Statement Presentation

A swaption is considered a hybrid instrument and as such the payment by the counterparty to the University must be bifurcated into two components, a borrowing component and an embedded derivative component, and each component treated separately. The embedded derivative value of the swaption represents the fair value resulting from the fact that the fixed rate stated in the swaption is greater than the at-the-market rate. The initial value of the borrowing is the difference between the upfront payment and the

fair value of the embedded derivative and represents the time value to the counterparty for holding the option, or the probability-weighted, discounted values of a range of future possible outcomes. The values of the derivatives and borrowings at the date of execution of this transaction were as follows:

		2004 Bonds	2006 Bonds
Embedded derivatives	$	918,000	3,343,000
Borrowings		1,070,000	3,997,000
	$	1,988,000	7,340,000

The values of any remaining borrowings are included in long-term debt on the University's 2014 and 2013 statements of net position. Interest is being accreted on, and added to, the borrowings through the expiration date of the option. For the years ended September 30, 2014 and 2013, $379,000 and $400,000, respectively, was accreted and is included in interest expense in the statements of revenues, expenses, and changes in net position.

The fair values of the embedded investment derivatives are reported as investment assets, if the swaption derivatives are assets, or other noncurrent liabilities, depending on the fair values of the swaption derivatives. The change in the fair market values of the swaption derivatives is reported as a component of investment income (loss) in the statements of revenues, expenses and changes in net position. At September 30, 2014 and 2013, the negative fair values of the swaption derivatives are approximately $(14,191,000) and $(13,333,000) and are included in other long-term liabilities in the accompanying statements of net position. For the years ended September 30, 2014 and 2013, the changes in the fair value of the derivatives were $(6,071,000) and $10,276,000, respectively.

Fair Value

At September 30, 2014 and 2013, the total of the embedded derivatives associated with the outstanding swaptions had negative fair values of $(14,191,000) and $(13,333,000), respectively. The fair values of these swaption derivatives were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the instruments, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement.

Risks Associated with this Transaction

Certain risks are inherent to derivative transactions.

Interest rate risk. Interest rate risk, as a result of rising short-term interest rates causing higher interest rate payments, is effectively hedged by the University's fixed rate bonds. If the counterparty exercises its options, the underlying swaps are expected to effectively hedge the potentially higher payments on VRDNs as well. The University is also subject to interest rate risk, as a result of changes in long-term interest rates, which may cause the value of fixed rate bonds or interest rate derivatives to change. If long-term interest

rates fall subsequent to the execution of this transaction, the value of the swaption will change, with negative consequences for the University.

Market access risk. This transaction assumes that VRDNs will be issued as a replacement of the 2006 bonds. If the University is unable to issue variable rate bonds after the counterparty exercises its right under the remaining swaption, the University would still be required to begin making periodic payments on the swap, even though there are no related bonds. Alternatively, the University could choose to liquidate the swap, which may create a substantial cash outlay.

Basis risk. If the counterparty exercises its option, there is a risk that the floating payments received under the swap will not fully offset the variable rate payments due on the assumed VRDNs.

Credit risk. Although the underlying swap exposes the University to credit risk should the swap be executed, the swaption itself does not expose the University to credit risk. If the option is exercised, the University would begin to make payments on the appropriate notional amount of the underlying swap contract. In that situation, if the fair value of the swap is positive, the University would be exposed to credit risk on the swap in the amount of its fair value. As of September 30, 2014 and 2013, the swap counterparty was rated Aa3 by Moody's Investors Services and AA – by Standard and Poor's Rating Services.

Termination risk. The University may be required to terminate the swaption or swap under certain circumstances, such as credit downgrades or other events specified in the contracts. In the event that a position needs to be terminated, the University may owe a substantial amount of money to terminate the contracts. At September 30, 2014 and 2013, no events of termination have occurred.

(6) Capital Assets

(a) University of South Alabama

A summary of the University's capital asset activity for the year ended September 30, 2014 follows (in thousands):

	Beginning balance	Additions	Transfers	Reductions	Ending balance
Capital assets not being depreciated:					
Land and other	$ 22,516	—	—	—	22,516
Construction-in-progress	137,678	32,167	(61,534)	—	108,311
	160,194	32,167	(61,534)	—	130,827
Capital assets being depreciated:					
Land improvements	30,934	4	457	—	31,395
Buildings, fixed equipment, and infrastructure	555,661	2,819	43,563	(618)	601,425
Other equipment	130,979	6,223	17,514	(4,034)	150,682
Library materials	57,608	3,024	—	—	60,632
	775,182	12,070	61,534	(4,652)	844,134

		Beginning balance	Additions	Transfers	Reductions	Ending balance
Less accumulated depreciation for:						
Land improvements	$	(17,216)	(1,203)	—	—	(18,419)
Buildings, fixed equipment, and infrastructure		(205,155)	(15,913)	—	8	(221,060)
Other equipment		(103,546)	(7,395)	—	70	(110,871)
Library materials		(43,629)	(2,679)	—	—	(46,308)
		(369,546)	(27,190)	—	78	(396,658)
Capital assets being depreciated, net		405,636	(15,120)	61,534	(4,574)	447,476
Capital assets, net	$	565,830	17,047	—	(4,574)	578,303

At September 30, 2014, the University had commitments of approximately $3,468,000 related to various construction projects.

A summary of the University's capital asset activity for the year ended September 30, 2013 follows (in thousands):

		Beginning balance	Additions	Transfers	Reductions	Ending balance
Capital assets not being depreciated:						
Land and other	$	25,528	445	—	(3,457)	22,516
Construction-in-progress		119,763	59,104	(41,189)	—	137,678
		145,291	59,549	(41,189)	(3,457)	160,194
Capital assets being depreciated:						
Land improvements		31,256	244	—	(566)	30,934
Buildings, fixed equipment, and infrastructure		539,118	3,442	40,922	(27,821)	555,661
Other equipment		133,090	8,291	267	(10,669)	130,979
Library materials		54,656	2,952	—	—	57,608
		758,120	14,929	41,189	(39,056)	775,182

(Continued)

		Beginning balance	Additions	Transfers	Reductions	Ending balance
Less accumulated depreciation for:						
Land improvements	$	(16,588)	(1,194)	—	566	(17,216)
Buildings, fixed equipment, and infrastructure		(208,499)	(15,954)	—	19,298	(205,155)
Other equipment		(104,084)	(10,012)	—	10,550	(103,546)
Library materials		(41,041)	(2,588)	—		(43,629)
		(370,212)	(29,748)	—	30,414	(369,546)
Capital assets being depreciated, net		387,908	(14,819)	41,189	(8,642)	405,636
Capital assets, net	$	533,199	44,730	—	(12,099)	565,830

At September 30, 2013, the University had commitments of approximately $13,918,000 related to various construction projects.

(b) *USA Research and Technology Corporation*

Changes in capital assets for the years ended September 30, 2014 and 2013 are as follows (in thousands):

		2014				
		Beginning balance	Additions	Transfers	Reductions	Ending balance
Land improvements	$	2,199	—	—	—	2,199
Buildings		27,898	19	—	—	27,917
Tenant improvements		868	45	—	—	913
Construction in progress		—	—	—	—	—
Other equipment		256	—	—	—	256
		31,221	64	—	—	31,285
Less accumulated depreciation for:						
Land improvements		(842)	(94)	—	—	(936)
Buildings		(5,146)	(721)	—	—	(5,867)
Tenant improvements		(417)	(130)	—	—	(547)
Other equipment		(115)	(26)	—	—	(141)
		(6,520)	(971)	—	—	(7,491)
Capital assets, net	$	24,701	(907)	—	—	23,794

	2013				
	Beginning balance	Additions	Transfers	Reductions	Ending balance
Land improvements	$ 2,201	—	(2)	—	2,199
Buildings	27,669	235	(6)	—	27,898
Tenant improvements	742	164	8	(46)	868
Construction in progress	—	—	—	—	—
Other equipment	256	—	—	—	256
	30,868	399	—	(46)	31,221
Less accumulated depreciation for:					
Land improvements	(748)	(94)	—	—	(842)
Buildings	(4,261)	(702)	(183)	—	(5,146)
Tenant improvements	(528)	(118)	183	46	(417)
Other equipment	(89)	(26)	—	—	(115)
	(5,626)	(940)	—	46	(6,520)
Capital assets, net	$ 25,242	(541)	—	—	24,701

(7) Noncurrent Liabilities

A summary of the University's noncurrent liability activity for the years ended September 30, 2014 and 2013 follows (in thousands):

	2014					
	Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Long-term debt:						
Bonds payable and other	$ 400,890	52,044	(57,628)	395,306	14,203	381,103
Total long-term debt	400,890	52,044	(57,628)	395,306	14,203	381,103
Other long-term liabilities	59,102	42,411	(35,589)	65,924	12,114	53,810
Total noncurrent liabilities	$ 459,992	94,455	(93,217)	461,230	26,317	434,913

(Continued)

		2013				
	Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Long-term debt:						
Bonds payable and other	$ 359,699	51,981	(10,790)	400,890	13,153	387,737
Total long-term debt	359,699	51,981	(10,790)	400,890	13,153	387,737
Other long-term liabilities	80,065	32,392	(53,355)	59,102	12,633	46,469
Total noncurrent liabilities	$ 439,764	84,373	(64,145)	459,992	25,786	434,206

Other long-term liabilities primarily consist of self-insurance liabilities, liabilities related to compensated absences, and the fair value of derivatives. Amounts due within one year are included in accounts payable, accrued liabilities and unrecognized revenue.

(8) Bonds Payable

Bonds payable consisted of the following at September 30, 2014 and 2013 (in thousands):

		2014	2013
University Tuition Revenue Bonds, Series 1999 Capital Appreciation, 4.70% to 5.25%, payable November 2011 through November 2018	$	28,312	31,530
University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, 2.00% to 5.00%, repaid in April 2014		—	41,690
University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, 5.00%, payable through December 2036		100,000	100,000
University Facilities Revenue and Capital Improvement Bonds, Series 2008, 3.00% to 5.00%, payable through August 2038		104,200	106,565
University Facilities Revenue and Capital Improvement Bond, Series 2010, 3.81%, payable through August 2030		25,508	26,636
University Facilities Revenue Capital Improvement Bond, Series 2012-A, 2.92% payable through August 2032		23,075	24,050
University Facilities Revenue Capital Improvement Bond, Series 2012-B, 2.14% payable through August 2018		5,265	6,515
University Facilities Revenue Capital Improvement Bond, Series 2013-A, 2.83% payable through August 2033		30,788	32,000
University Facilities Revenue Capital Improvement Bond, Series 2013-B, 2.83% payable through August 2033		7,697	8,000
University Facilities Revenue Capital Improvement Bond, Series 2013-C, 2.78% payable through August 2025		9,454	10,000
University Facilities Revenue Refunding Bond, Series 2014-A, variable rate payable at 68% of LIBOR plus .73%, payable through March 2024		41,245	—
Borrowing arising from swaption, Series 2004 Bonds		—	1,653
Borrowing arising from swaption, Series 2006 Bonds		6,240	5,904
Borrowing arising from interest rate swap		8,682	—
		390,466	394,543
Plus unamortized premium		5,134	6,609
Less unaccreted discount		(29)	(36)
Less unamortized debt extinguishment costs		(265)	(226)
	$	395,306	400,890

Substantially all student tuition and fee revenues secure University bonds. Additionally, security for Series 2008 bonds includes Children's and Women's Hospital revenues in an amount not exceeding

$10,000,000. Series 1999 Current Interest Bonds began maturing November 2002, and Capital Appreciation Bonds began maturing in November 2011. Series 1999 Bonds are not redeemable prior to maturity. Series 2004 Bonds began maturing in March 2005 and were redeemed in April 2014. Series 2006 Bonds begin maturing in December 2024 and are redeemable beginning in December 2016. Series 2008 Bonds began maturing in August 2009 and are redeemable beginning in August 2018. The Series 2010 Bond began maturing in August 2011 and is redeemable beginning in February 2020. The 2012-A and 2012-B Bonds began maturing in August 2013. The 2012-A Bond is redeemable beginning in August 2021. The 2012-B Bond is redeemable beginning in January 2015. The 2013-A, 2013-B and 2013-C Bonds began maturing in August 2014 and are redeemable beginning in June 2023. The Series 2014-A bond begins maturing in March 2015 and is redeemable at any time.

In January 2008, the University entered into a synthetic advance refunding of the outstanding Series 2004 and 2006 bonds. This transaction was effected through the sale of two swaptions by the University to a counterparty. The proceeds from each sale, totaling $9,328,000, consist of two components, a borrowing and an embedded derivative. The borrowing is included in long-term debt. As a result of this transaction, the counterparty has the option to compel the University to redeem its Series 2004 (occurred in March 2014) and 2006 bonds at their respective redemption dates. See note 5 for a complete description of this transaction.

During the years ended September 30, 2014 and 2013, the maturity value of the Capital Appreciation Bonds increased $1,432,000 and $1,581,000, respectively, over the original principal amount of $19,810,000, reflecting accretion of interest.

Approximately $1,570,000 of proceeds from the issuance of the Series 2012-A and 2012-B bonds remained unspent at September 30, 2014 and is included in restricted cash and cash equivalents in the 2014 statement of net position. These funds are restricted for capital purposes as outlined in the indenture.

Approximately $38,362,000 of proceeds from the issuance of the Series 2013-A, 2013-B and 2013-C Bonds remained unspent at September 30, 2014 and is included in restricted cash and cash equivalents in the 2014 statement of net position. These funds are restricted for capital purposes as outlined in the indenture.

The University is subject to arbitrage restrictions on its bonded indebtedness prescribed by the U. S. Internal Revenue Service. As such, amounts are accrued as needed in the University's basic financial statements for any expected arbitrage liabilities. At September 30, 2014 and 2013, no amounts were due or recorded in the financial statements.

The University is subject to restrictive covenants related to its bonds payable. At September 30, 2014, management believes the University was in compliance with such financial covenants.

Debt Service on Long-Term Obligations

Total debt service by fiscal year is as follows as of September 30, 2014 (in thousands):

		Debt service on bonds			
		Principal	Interest	Additional maturity	Total
2015	$	14,099	14,364	(1,627)	26,836
2016		14,643	13,825	(1,286)	27,182
2017		18,178	13,375	(782)	30,771
2018		18,525	12,959	(427)	31,057
2019		17,456	12,650	(49)	30,057
2020–2024		88,565	54,283	—	142,848
2025–2029		84,853	40,914	—	125,767
2030–2034		82,734	23,051	—	105,785
2035–2038		55,584	5,514	—	61,098
Subtotal		394,637	190,935	(4,171)	581,401
Plus (less):					
Additional maturity		(4,171)			
Unamortized bond premium		5,134			
Unaccreted bond discount		(29)			
Unamortized debt extinguishment costs		(265)			
Total	$	395,306			

The principal amount of debt service due on bonds at September 30, 2014 includes $3,629,000 representing additional maturity value on Series 1999 Capital Appreciation Bonds. These bonds mature through 2019. Also included in the principal amount of debt service due on bonds at September 30, 2014, is $542,000 representing additional maturity value of the borrowing resulting from the Series 2006 swaption. As described in note 5, additional maturity will continue to accrue until the swaption option period in 2016. Although this additional maturity is presented as principal on the debt service schedule above, it is also recognized as interest expense on an annual basis in the University's basic financial statements as it accretes.

(a) USA Research and Technology Corporation

Notes Payable

Notes payable consisted of the following at September 30, 2014 and 2013 (in thousands):

		2014	2013
Wells Fargo, N.A. promissory note, one-month LIBOR plus 0.85% (1.007% at September 30, 2014) payable through 2028	$	14,471	15,128
PNC Bank promissory note, 4.88%, payable through 2021		8,814	9,159
	$	23,285	24,287

The note payable to Wells Fargo Bank, N.A. was incurred by the Corporation to acquire Buildings II and III in the USA Technology & Research Park and to provide funds for renovations and tenant finishing costs. The loan is a fully amortizing promissory note with a 20-year term. As more fully described below, the Corporation entered into a "receive-variable, pay-fixed" type of interest rate swap on the promissory note, which will yield a synthetic fixed interest rate of 6.1%. The promissory note payable is secured by an interest in the ground lease with respect to the parcels of land on which Buildings II and III stand, an interest in Buildings II and III, an interest in tenant leases for Buildings II and III, and an interest in income received from rental of Buildings II and III.

The promissory note payable to PNC Bank has a 10-year term and amortization is based on a 20-year term. PNC Bank acquired the promissory note as part of its acquisition of RBC Bank (USA) on March 20, 2012. The Corporation agreed to not transfer or encumber the buildings or its leasehold interest in the real estate on which the buildings stand. The promissory note payable is secured by an interest in tenant leases for Building I and the dialysis services building, and an interest in income received from rental of Building I and the dialysis services building.

In connection with each note, the University entered into an agreement with the lender providing that for any year in which the Corporation's debt service coverage ratio is less than 1 to 1, the University will pay the Corporation rent equal to the amount necessary to bring the ratio to 1 to 1. The debt service coverage ratio is calculated by dividing the sum of unrestricted cash and cash equivalents at the beginning of the year (reduced by current year capital assets additions) and current year change in net position (determined without depreciation, amortization, and interest expense) by current year debt service. For fiscal 2014 the Corporation's debt service coverage ratio was 1.34 to 1. Management believes the Corporation was in compliance with its debt covenants, including the debt service coverage ratio covenant, at September 30, 2014. Further, management believes that, based on existing leases and service contracts and agreements, the debt service coverage ratio for fiscal 2015 will be less than the fiscal 2014 debt service coverage ratio of 1.34 to 1, but will still exceed 1 to 1.

Debt Service on Long-Term Obligations

At September 30, 2014, total debt service by fiscal year is as follows (in thousands):

		Debt service on note and loan		
		Principal	Interest	Total
2015	$	1,061	1,295	2,356
2016		1,118	1,238	2,356
2017		1,186	1,169	2,355
2018		1,251	1,105	2,356
2019		1,332	1,023	2,355
2020–2024		12,192	2,904	15,096
2025–2028		5,145	617	5,762
Total	$	23,285	9,351	32,636

Derivative Transaction

The Corporation is a party to a derivative with Wells Fargo Bank, N.A., the counterparty (successor to Wachovia Bank, N.A. the original counterparty). The derivative is a "receive-variable, pay-fixed" interest rate swap entered into in connection with the promissory note to Wells Fargo Bank, N.A.

Objective of the derivative transaction. The Corporation utilizes the interest rate swap to convert its variable rate on the promissory note to a synthetic fixed rate.

The swap will terminate on May 1, 2028, when the loan matures. The notional amount of the swap will at all times match the outstanding principal amount of the loan. Under the swap, the Corporation pays the counterparty a fixed payment of 6.10% and receives a variable payment of the one-month LIBOR rate plus 0.85%. Conversely, the loan bears interest at the one-month LIBOR rate plus 0.85%. The Corporation paid approximately $762,000 and $789,000 under the interest rate swap agreement for the years ended September 30, 2014 and 2013, respectively, which is reflected as an increase in interest expense.

Fair value. The interest rate swap had a negative fair value of approximately $(3,053,000) and $(3,225,000) at September 30, 2014 and 2013, respectively. The changes in fair value are reported as deferred outflows on the accompanying statements of net position since the interest rate swap is a hedging derivative instrument.

The fair value of the interest rate swap was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero coupon bonds due on the date of each future net settlement.

Interest rate risk. On the Corporation's "receive-variable, pay-fixed" interest rate swap, as LIBOR decreases, the net payment on the swap increases.

(Continued)

Credit risk. As of September 30, 2014 and 2013, the Corporation was not exposed to credit risk on the interest rate swap because it had a negative fair value. However, if interest rates change and the fair value of the derivative becomes positive, the Corporation would have a gross exposure to credit risk in the amount of the derivative's fair value. The counterparty was rated Aa3 by Moody's Investors Services and AA –by Standard & Poor's Ratings Services as of September 30, 2014 and 2013.

Termination risk. The interest rate swap contracts use the International Swaps and Derivatives Association, Inc. Master Agreement, which includes standard default and termination events, such as failure to make payments, breach of agreement, and bankruptcy. At September 30, 2014 and 2013, no events of default or termination had occurred. If the interest rate swap is terminated, interest rate risk associated with the variable rate debt would no longer be hedged. Also, if at the time of termination the interest rate swap had a negative fair value, the Corporation would be liable to the counterparty for a payment equal to the interest rate swap's fair value. To allow the Corporation the maximum flexibility to manage the utilization of Buildings II and III while at the same time providing protection for the counterparty, the Corporation granted the counterparty a $2,000,000 mortgage secured by an interest in the ground lease with respect to the parcel of land on which Building II stands, an interest in Building II, a security interest in Building II tenant leases, and a security interest in income received from rental of Building II.

Derivative payments and hedged debt. As interest rates fluctuate, variable rate debt interest and net derivative payments will fluctuate. Using interest rates as of September 30, 2014, debt service requirements by fiscal year of the variable rate debt and net derivative payments, assuming current interest rates remain the same in the future, are as follows (in thousands):

		Variable rate loan		Interest rate	
		Principal	Interest	swap, net	Total
2015	$	698	144	729	1,571
2016		738	138	696	1,572
2017		787	129	655	1,571
2018		832	122	618	1,572
2019		893	112	566	1,571
2020–2024		5,378	409	2,070	7,857
2025–2028		5,145	102	515	5,762
Total	$	14,471	1,156	5,849	21,476

(9) Derivative Transaction – Interest Rate Swap

The University is a party to a derivative with Wells Fargo Bank, the counterparty. As more fully described in note 5, in December 2013, Wells Fargo exercised its option with respect to the synthetic advance refunding of the Series 2004 bonds to enter into an interest rate swap agreement with the University with an effective date of March 15, 2014. The resulting derivative is a "receive-variable, pay-fixed" interest rate swap. As part of the overall plan of the synthetic refunding of the 2004 bonds, the University redeemed those bonds in April 2014 with proceeds from the 2014-A bond.

Objective of the transaction. As noted the interest rate swap was the result of the original January 2008 synthetic advance refunding of the Series 2004 bonds. The objective of that transaction was to realize debt service savings currently from future debt refunding and create an economic benefit to the University.

The swap will terminate in March 2024, when the 2014-A bond matures. The notional amount of the swap will at all times match the outstanding principal amount of the bond. Under the swap, the University pays the counterparty a fixed semi-annual payment based on an annual rate of 4.9753% and receives on a monthly basis a variable payment of 68% of the one-month London Interbank Offered Rate (LIBOR) plus 0.25%. Conversely, the Series 2014-A bond bears interest on a monthly basis at 68% of the one-month LIBOR rate plus 0.73%.

Fair value. The interest rate swap had a negative fair value of approximately $(9,138,000) at its inception. This amount, net of any amortization, is reported as a borrowing arising from the 2014 interest rate swap as long-term-debt in the 2014 statement of net position.

The change in fair value during the current year is reported as a deferred inflow and derivative asset on the statement of net position since the interest rate swap is a hedging derivative instrument. At September 30, 2014, $177,000 is reported as a derivative asset and deferred inflow.

The fair value of the interest rate swap was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement.

Interest rate risk. As the LIBOR rate decreases, the net payment on the swap increases. This, however, is mitigated by the fact that a decline in the LIBOR rate will also result in a decrease of the University's interest payment on the Series 2014-A bond. The University's exposure is limited to 0.48% of the notional amount, the difference in the payment from the counterparty and the interest payment on the 2014-A bond.

Credit risk. As of September 30, 2014, the University was not exposed to credit risk on the interest rate swap because it had a negative fair value. However, if interest rates change and the fair value of the derivative become positive, the University would have a gross exposure to credit risk in the amount of the derivative's fair value. The counterparty was rated Aa3 by Moody's Investor Services and AA – by Standard & Poor's Ratings Services as of September 30, 2014.

Termination risk. The University may be required to terminate the swap based on certain standard default and termination events, such as failure to make payments, breach of agreement, and bankruptcy. As of the current date, no events of termination have occurred.

Derivative payments and hedged debt. As interest rates fluctuate, variable rate debt interest and net derivative payments will fluctuate. Using interest rates as of the current date and assuming those current interest rates remain the same in the future; debt service requirements, including swap payments, by fiscal year are as follows (in thousands):

		Variable rate loan		Interest rate	
		Principal	**Interest**	**swap, net**	**Total**
2015	$	470	400	1,838	2,708
2016		490	643	1,568	2,701
2017		615	917	1,265	2,797
2018		640	1,088	1,060	2,788
2019		665	1,185	915	2,765
2020-2024		38,365	9,730	2,069	50,164
	$	41,245	13,963	8,715	63,923

(10) Net Patient Service Revenue

The Hospitals have agreements with governmental and other third-party payers that provide for reimbursement at amounts different from their established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospitals' billings at established rates for services and amounts reimbursed by third-party payers.

A summary of the basis of reimbursement with major-third party payers follows:

Medicare – Substantially all acute care 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 Hospitals are reimbursed for both direct and indirect medical education costs (as defined), principally based on per-resident prospective payment amounts and certain adjustments to prospective rate-per-discharge operating reimbursement payments. The Hospitals generally are reimbursed for certain retroactively settled items at tentative rates, with final settlement determined after submission of annual cost reports by the Hospitals and audits by the Medicare fiscal intermediary. The cost report for the USA Medical Center has been audited and settled through 2009. The cost report for USA Children's and Women's Hospital has been audited and settled through 2010. Revenue from the Medicare program accounted for approximately 15% and 14% of the Hospitals' net patient service revenue for the years ended September 30, 2014 and 2013, respectively.

Blue Cross – Inpatient services rendered to Blue Cross subscribers are paid at a prospectively determined per diem rate. Outpatient services are reimbursed under a cost reimbursement methodology. For outpatient services, the Hospitals are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospitals and audits thereof by Blue Cross. The Hospitals' Blue Cross cost reports have been audited through 2011 and settled for all fiscal years through 2010. Revenue from the Blue Cross program accounted for approximately 21% and 20% of the Hospitals' net patient service revenue for the years ended September 30, 2014 and 2013, respectively.

(Continued)

Medicaid – Inpatient services rendered to Medicaid program beneficiaries are reimbursed at all-inclusive prospectively determined per diem rates. Outpatient services are reimbursed based on an established fee schedule.

The Hospitals qualify as Medicaid essential providers and, therefore, also receive supplemental payments based on formulas established by the Alabama Medicaid Agency. There can be no assurance that the Hospitals will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified.

Revenue from the Medicaid program accounted for approximately 24% and 22% of the Hospitals' net patient service revenue for the years ended September 30, 2014 and 2013, respectively.

Other – The Hospitals have also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The bases for payments to the Hospitals under these agreements include discounts from established charges and prospectively determined daily and case rates.

The composition of net patient service revenue for the years ended September 30, 2014 and 2013 follows (in thousands):

		2014	2013
Gross patient service revenue	$	610,092	575,718
Less provision for contractual and other adjustments		(271,468)	(250,047)
Less provision for bad debts		(70,175)	(67,464)
	$	268,449	258,207

Changes in estimates related to prior cost reporting periods resulted in an increase of approximately $802,000 and $1,279,000 in net patient service revenue for the years ended September 30, 2014 and 2013, respectively.

(11) Hospital Lease

In 2006, the University and Infirmary Health System, Inc. (the Infirmary) entered into a Lease Agreement (the Lease) in which the University agreed to lease certain land, buildings and equipment used in connection with the operating of its USA Knollwood Hospital campus to the Infirmary. The original lease was effective through March 2056. The lease provided for its termination, at the option of the Infirmary, in the event that a change in any law, statue, rule, or a regulation of any governmental or other regulatory body was deemed by the Infirmary as significant, as defined by the lease. The hospital was operated as Mobile Infirmary West.

The total amount of the lease payments due the University was based on the fair value of the appraised assets, $32,418,000. The allocation of the appraised fair value was $29,370,000 for land and buildings and $3,048,000 for medical equipment, office furnishings and other equipment. In addition to an up-front payment, the lease agreement required monthly lease payments by the Infirmary to the University. In order

to properly report this transaction, the University bifurcated the lease into an equipment component and a real property component. The equipment component of the lease was considered a capital lease and as such, a lease receivable was reported in the accompanying basic financial statements of the University. The component of the lease attributable to land and buildings was considered an operating lease. As such, lease revenue was recorded and is being earned over the life of the lease. Lease revenue in the amounts of approximately $0 and $164,000 was reported as other operating revenue in the accompanying basic financial statements for the years ended September 30, 2014 and 2013, respectively. Payments received in excess of the amount recognized as lease revenue were unrecognized and amortized over the term of the lease.

In October 2012, officials of the Infirmary publically announced the closing of the Mobile Infirmary West effective October 31, 2012.

As a result of the closing of the hospital, in May 2013, the University Board of Trustees determined that it was in the best interest of the University to sell Knollwood Hospitals, all related furniture and equipment, adjacent medical office buildings and land. As such, the Board approved a resolution authorizing University management to seek proposals for the sale of Knollwood Hospitals and proceed with negotiations with potential buyers. Subsequent to a public advertisement and negotiation period, the University and the Infirmary entered into a Purchase and Sale Agreement (the Agreement), dated June 5, 2013. The Agreement called for the sale of all land, buildings, furniture and equipment at Knollwood Hospitals to the Infirmary for a purchase price of $5,000,000 and effectively canceled the original 2006 lease agreement. Following a period of due diligence the transaction was closed on July 19, 2013. At closing, the Infirmary made a payment of $2,500,000 to the University and issued a promissory note, dated July 19, 2013, for the remaining $2,500,000 which was received by the University in July 2014.

At the time of the closing, the University wrote off capital assets with a cost of approximately $31,597,000 and accumulated depreciation of approximately $19,601,000. Unrecognized revenue related to the original lease of approximately $5,692,000 was also written off. As of September 30, 2013, a note receivable in the amount of $2,500,000, due July 19, 2014, was recognized and is reported as a current note receivable in the University's 2013 statement of net position. As a result of the transaction, the University recognized a loss on the sale of $1,304,000 which is reported as an other nonoperating expense in the 2013 statement of revenues, expenses and changes in net position.

(12) Employee Benefits

(a) Retirement and Pension Plans

Employees of the University are covered by two pension plans: a cost sharing multiple-employer defined benefit pension plan administered by the Teachers' Retirement System of the State of Alabama (TRS), and a defined contribution pension plan.

Permanent employees of the University participate in TRS, a public retirement system created by an act of the State Legislature, with benefit provisions established by the Code of Alabama. Responsibility for general administration and operation of the TRS is vested in the Board of Control (currently 14 members). Benefits fully vest after 10 years of full time, permanent employment. Vested employees may retire with full benefits at age 60 or after 25 years of service. Participating

retirees may elect the maximum benefit, or may choose among four other monthly benefit options. Under the maximum benefit, participants are allowed 2.0125% of their average final salary (average of three highest years of annual compensation during the last ten years of service) for each year of service. The TRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Retirement Systems of Alabama, P.O. Box 302150, Montgomery, Alabama 36130-2150, or by calling (334) 832 4140.

Prior to October 1, 2011, essentially all employees covered by this retirement plan were required to contribute 5% of their eligible earnings to TRS. Effective October 1, 2011 and 2012, the required employee contribution was increased to 7.25% and 7.5%, respectively, of their eligible earnings. An actuary employed by the TRS Board of Control establishes the employer-matching amount annually. During 2014, 2013 and 2012, the University made total contributions of $24,573,000, $21,879,000, and $23,381,000 (100% of the required contributions), respectively, to TRS on behalf of participants. For employees that were hired before January 1, 2013, the University contribution rate was 11.7%, 10.1%, and 10.0% in 2014, 2013 and 2012, respectively, of each participant's gross earnings. For employees hired after January 1, 2013, the University contribution rate was 11.1% and 9.4% in 2014 and 2013, respectively, of each participant's gross earnings. The University's payroll for all employees was approximately $246,896,000 and $254,249,000 in 2014 and 2013, respectively. The LLC's payroll for all employees was approximately $78,975,000 and $61,645,000 in 2014 and 2013, respectively. Total payroll for University employees participating in the Teachers' Retirement System of Alabama was approximately $210,359,000 and $217,164,000 in 2014 and 2013, respectively.

The defined contribution pension plan covers certain academic and administrative employees, and participation by eligible employees is optional. Under this plan, administered by Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF), contributions by eligible employees are matched equally by the University up to a maximum of 3% of current annual pay. The University and the employees each contributed $840,000 and $928,000 in 2014 and 2013, respectively, representing 344 and 436, respectively, employees participating in this Plan.

All employees of the LLC working at least half time are eligible to participate in a defined contribution pension plan. Under this plan, contributions by eligible employees are matched equally by the LLC up to a maximum of 5% of current annual pay. The LLC and the employees contributed $2,454,000 and $1,885,000, respectively, in 2014 and 2013 representing 867 and 679, employees participating in this plan. University employees as of September 30, 2011 who later transfer to the LLC are immediately vested in the plan. All other employees do not vest until they have held employment with the LLC for thirty-six months; at which time they become 100% vested in the plan.

(b) Compensated Absences

Regular University employees accumulate vacation and sick leave and hospital and clinical employees accumulate paid time off. These are subject to maximum limitations, at varying rates depending upon their employee classification and length of service. Upon separation of employment, employees who were hired before January 1, 2012 are paid all unused accrued vacation at their

regular rate of pay up to a maximum of two times their annual accumulation rate. Employees hired after January 1, 2012 are not eligible for payment of unused accrued vacation or PTO hours upon separation of employment. The accompanying statements of net position include accruals for vacation pay and paid time off of approximately \$15,535,000 and \$15,763,000 at September 30, 2014 and 2013, respectively. The current portion of the accrual is included in accounts payable and accrued liabilities and the noncurrent portion is included in other long term liabilities in the accompanying basic financial statements. No accrual is recognized for sick leave benefits since no terminal cash benefit is available to employees for accumulated sick leave.

(c) Other Postretirement Employee Benefits

As the provider of postretirement benefits to state retirees, the state is responsible for implementing GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. In September 2003, the State of Alabama Legislature passed legislation that requires all colleges and universities to fund the healthcare premiums of its participating retirees. In prior years, such costs have been paid by the State. Beginning in October 2003, the University was assessed a monthly premium by the Public Education Employees' Health Insurance Plan (PEEHIP) based on the number of retirees in the system and an actuarially determined premium. During the years ended September 30, 2014 and 2013, the University's expense related to PEEHIP was \$7,963,000 and \$7,130,000, respectively.

(13) Risk Management

The University, USAHSF, LLC and SAMSF participate in the professional liability trust fund and the University, USAHSF, LLC, SAMSF and the Corporation participate in the general liability trust fund. Both funds are administered by an independent trustee. These trust funds are revocable and use contributions by the University and USAHSF, together with earnings thereon, to pay liabilities arising from the performance of its employees, trustees and other individuals acting on behalf of the University. If the trust funds are ever terminated, appropriate provision for payment of related claims will be made and any remaining balance will be distributed to the participating entities in proportion to contributions made.

As discussed in note 1, the PLTF and GLTF are blended component units of the University, as defined by GASB Statement No. 14, and as such are included in the basic financial statements of the University for the years ended September 30, 2014 and 2013. Claims and expenses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Those losses include an estimate of claims that have been incurred but not reported and the future costs of handling claims. These liabilities are generally based on actuarial valuations and are reported at their present value.

The University and LLC participate in a self-insured health plan, administered by an unaffiliated entity. Administrative fees paid by the University for such services were approximately \$1,770,000 and \$1,697,000 in 2014 and 2013, respectively. Contributions by the University and its employees, together with earnings thereon, are used to pay liabilities arising from healthcare claims. It is the opinion of University administration that plan assets are sufficient to meet future plan obligations.

The changes in the total self insurance liabilities for the years ended September 30, 2014 and 2013 for the PLTF, GLTF and health plan are summarized as follows (in thousands):

		2014	2013
Balance, beginning of year	$	21,297	22,747
Liabilities incurred and other additions		58,311	60,804
Claims, administrative fees paid and other reductions		(49,816)	(62,254)
Balance, end of year	$	29,792	21,297

Self-insurance liabilities due within one year are included in accounts payable and accrued liabilities. The noncurrent portion is included in other long-term liabilities in the accompanying basic financial statements.

(14) Other Related Party

SAMSF is a not-for-profit corporation that exists for the purpose of promoting education and research at the University. At September 30, 2014 and 2013, SAMSF had total assets of $12,882,000 and $12,235,000, net assets of $9,899,000 and $9,501,000, and total revenues of $3,635,000 and $3,474,000, respectively. SAMSF reimburses the University for certain administrative expenses and other related support services. Total amounts received for such expenses were approximately $707,000 and $711,000 in 2014 and 2013, respectively, and are reflected as private grants and contracts in the accompanying statements of revenues, expenses, and changes in net position.

(15) Commitments and Contingencies

(a) Grants and Contracts

At September 30, 2014 and 2013, the University had been awarded approximately $23,990,000 and $24,175,000, respectively, in grants and contracts for which resources had not been received and for which reimbursable expenditures had not been made for the purposes specified. These awards, which represent commitments of sponsors to provide funds for research or training projects, have not been reflected in the accompanying basic financial statements as the eligibility requirements of the award have not been met. Advances include amounts received from grant and contract sponsors which have not been earned under the terms of the agreements and, therefore, have not yet been included in revenues in the accompanying basic financial statements. Federal awards are subject to audit by Federal agencies. The University's management believes any adjustment from such audits will not be material.

(b) Letter of Credit

In connection with the Hospitals' participation in the State of Alabama Medicaid Program, the University has established a $77,000 irrevocable standby letter of credit with Wells Fargo, N.A. The Alabama Medicaid Agency is the beneficiary of this letter of credit. No funds were advanced under this letter during the years ended September 30, 2014 and 2013.

(Continued)

(c) ***Litigation***

Various claims have been filed against the University alleging discriminatory employment practices and other matters. University administration and legal counsel are of the opinion the resolution of these matters will not have a material effect on the financial position or the statements of revenues, expenses, and changes in net position of the University.

(d) ***Rent Supplement Agreements***

The University has entered into two irrevocable rent supplement agreements with the Corporation and a financial institution. The agreements require that, in the event the Corporation fails to maintain a debt service coverage ratio of one to one with respect to all of its outstanding indebtedness, the University will pay to the Corporation any and all rent amounts necessary to cause the Corporation's net operating income to be equal to the Corporation's annual debt service obligations (see note 8). As of September 30, 2014 and 2013, no amounts were payable pursuant to these agreements.

(e) ***State Bond Issues***

The State of Alabama has made allocations to the University from bond issues in prior years. Pursuant to these allocations, at September 30, 2014, approximately $112,000 is unspent and remains available to the University for certain future construction costs. The allocations have not been reflected in the accompanying basic financial statements.

(f) ***Sale of Brookley Campus***

On September 29, 2010, the University and the USA Foundation executed purchase and sale agreement calling for the University to sell approximately 327 acres on Mobile Bay, known as the Brookley campus, to the Foundation. The terms of the agreement required the Foundation to pay the University $20,000,000; $4,000,000 at closing and $4,000,000 annually thereafter through the 2015 fiscal year. The sale closed on November 10, 2010 and the initial payment was received by the University at that point. The transaction is recorded as an installment sale. As such, during the years ended September 30, 2014 and 2013, the University reported a gain on the sale of $2,201,000 and $2,116,000, respectively, which is reported as other nonoperating revenues in the statements of revenues, expenses and changes in net position. At September 30, 2014, the University is reporting a note receivable from the Foundation in the amount of $3,846,000 (reported as a current asset in notes receivable) and unrecognized revenue in the amount of $2,289,000 (reported as current unrecognized revenue). At September 30, 2013, the University is reporting a note receivable from the Foundation in the amount of $7,544,000 ($3,698,000 is reported as a current asset in notes receivable and $3,846,000 is reported as a noncurrent asset in noncurrent notes receivable) and unrecognized revenue in the amount of $4,489,000 ($2,201,000 is reported as current unrecognized revenue and $2,288,000 as other noncurrent liabilities). The unrecognized revenue will be amortized as an installment gain as payments are received through 2015.

(g) ***USA Research and Technology Corporations Leases***

The Corporation leases space in Building I to three tenants under operating leases. One lease has a 5-year initial term expiring in October 2018 with two 5-year renewal options. Another lease has a

10-year initial term expiring in March 2021, an option to cancel at the end of 6 years, and two 5-year renewal options. The third lease has a 67-month initial term expiring in December 2018 with no renewal options.

Space in Buildings II and III is leased under operating leases to the University and various other tenants. These leases have terms varying from month-to-month to ten years.

The Corporation leases from the University the third floor of a campus building. Located on that floor is the Coastal Innovation Hub (the Hub), a technology incubator, which currently houses three tenants with month-to-month leases.

Under leases for Buildings I, II, and III, the Corporation must pay all operating expenses of the buildings, including utilities, janitorial, maintenance, property taxes, and insurance. Tenants will reimburse the Corporation for such expenses only as the total expenses for a year increase over the total expenses for the base year of the lease (the Corporation's fiscal year beginning after the date the lease is signed). Under Hub leases, the Corporation must pay all operating expenses of the space, without reimbursement from tenants.

Space under lease to the University was 46,700 and 48,900 square feet at September 30, 2014 and 2013, respectively.

The Corporation owns a building located on the premises of the USA Medical Center which is leased to a single tenant. The Corporation paid for construction of the building shell and land improvements while the tenant paid for the cost of finishing the building's interior. The lease has a ten year initial term with three five-year renewal options. Under the lease, the tenant must also pay for utilities, taxes, insurance, and interior repairs and maintenance. The Corporation is responsible for repairs and maintenance to the exterior and HVAC system.

The Corporation, as lessor, had three ground leases in place at September 30, 2014 and 2013. One lease is for a 40-year initial term with 20-year, and 15-year renewal options. The second lease is for a 30-year initial term with four 5-year renewal options. The third lease has a 38.5-year initial term with 20-year and 15-year renewal options.

Minimum future rentals by fiscal year are as follows (in thousands):

2015	$	2,454
2016		1,894
2017		1,831
2018		1,721
2019		1,116
2020–2046		7,623
Total	$	16,639

(16) Functional Information

Operating expenses by functional classification for the years ended September 30, 2014 and 2013 are listed below (in thousands). In preparing the basic financial statements, all significant transactions and balances among accounts have been eliminated.

		2014	2013
Instruction	$	128,785	118,254
Research		22,454	21,095
Public service		39,601	46,723
Academic support		16,791	15,999
Student services		31,421	28,673
Institutional support		25,903	28,528
Operation and maintenance of plant		27,978	26,459
Scholarships		7,299	6,532
Hospital		286,387	265,775
Auxiliary enterprises		15,501	14,233
Depreciation and amortization		31,858	29,849
	$	633,978	602,120

(Continued)

(17) Blended Component Units

As more fully described in notes 1(b) and 1(c), the LLC, PLTF and GLTF are considered component units pursuant to the provisions of GASB Statement No. 61. In accordance with that statement, the LLC, PLTF and GLTF are reported as blended component units. Required combining financial information of the aggregate blended component units is presented below (in thousands):

		2014	2013
Current assets	$	9,257	21,018
Noncurrent assets		49,706	29,755
Total assets		58,963	50,773
Current liabilities		33,460	34,187
Noncurrent liabilities		24,981	16,301
Total liabilities		58,441	50,488
Net position	$	522	285
Operating revenues	$	103,895	83,710
Operating expenses		(105,665)	(86,948)
Operating loss		(1,770)	(3,238)
Nonoperating revenues		2,006	3,325
Change in net position	$	236	87

(18) Significant New (Future) Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions.* GASB Statement No. 68 changes accounting and financial reporting for entities participating in certain pension plans and will be effective for the year ending September 30, 2015. Statement No. 68 will require the University to record its share, as determined by an independent actuary, of the net unfunded pension liability, and its share of the changes in that net pension liability, for all cost-sharing defined benefit plans in which it participates.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations.* GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposal of government operations and will be effective for the year ending September 30, 2015. In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date.* GASB Statement No. 71 was issued as an amendment of GASB Statement No. 68 with an objective of addressing an issue regarding application of the transition provisions of Statement No. 68 relating to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. Statement 71 will be effective for the year ending September 30, 2015.

While the impact of the implementation of GASB Statement No. 68 has not yet been determined, it is expected that such implementation will have a material effect on the net position of the University. The effect of the implementation of GASB Statements Nos. 69 and 71 on the University has not been determined.

ITEM 9.A
December 5, 2014

RESOLUTION

DESIGNATION OF SIGNATURE AUTHORITY

WHEREAS, since the inception of the University of South Alabama, the President of the University has been authorized to sign general contractual agreements and other legally-binding documents for and on behalf of the Board of Trustees, and

WHEREAS, the University of South Alabama receives extramurally-sponsored funds to support sponsored research, instruction and public service, and

WHEREAS, sponsored funds are generally accompanied by contract and grant agreement terms requiring certified invoices and financial reporting, and

WHEREAS, it is believed by the Board of Trustees that such authority should be attached to position and not individual,

THEREFORE, BE IT RESOLVED, the University of South Alabama Board of Trustees reaffirms the authority of the President of the University of South Alabama to legally bind the University of South Alabama by certifying expenditures reported on sponsored contract and grant invoices and financial reports for and on behalf of the University of South Alabama and its Board of Trustees, as well as, delegate signature authority to other University officials as he/she sees fit for the limited purpose of submitting official invoices, draws and other financial information to sponsoring agencies, but only to the extent such authority is required by the regulations of the federal Office of Management and Budget or sponsor-specific terms, and

BE IT FURTHER RESOLVED that the University of South Alabama Board of Trustees also authorizes and approves the position of Vice President for Financial Affairs, with all necessary power, responsibilities, and obligations, to assume the authority to bind the University of South Alabama for the limited purpose of submitting official invoices, draws and other financial information to sponsoring agencies, but only to the extent such authority is required by the regulations of the federal Office of Management and Budget or sponsor-specific terms, and to designate in writing appropriate positions on the staff of the Division of Financial Affairs who are authorized to bind the University for the limited purpose of submitting official invoices, draws and other financial information to sponsoring agencies, but only to the extent such authority is required by the regulations of the federal Office of Management and Budget or sponsor-specific terms.

RESOLUTION

CONSENT TO AMENDMENT OF USA RESEARCH AND TECHNOLOGY CORPORATION LOAN DOCUMENTS

WHEREAS, the USA Research and Technology Corporation ("Corporation"), a not-for-profit, supporting organization of the University of South Alabama ("University"), was incorporated to further the educational and scientific mission of the University, to promote the University and its schools and departments, to promote the development of and to facilitate funding for infrastructure and services in Mobile, Alabama, to attract high technology and scientific enterprises, and to create, operate and finance one or more research and technology parks which further scientific research activities of the University and contribute to the development of high-technology businesses in the State of Alabama, and

WHEREAS, the Board of Trustees of the University ("Board") has heretofore approved Ground Lease Agreements ("Ground Leases") between the University and the Corporation pursuant to which the University leases certain real property to the Corporation to enable the Corporation to develop and construct facilities useful in connection with the mission of the Corporation as also heretofore approved by the University, and

WHEREAS, the Corporation previously purchased Building I in the Technology & Research Park from the University and constructed a building on the campus of USA Medical Center to be used in the provision of dialysis services, both of which are used in furtherance of the Corporation's mission, and

WHEREAS, in January 2011 the Corporation secured a $10,000,000 loan ("Loan") with RBC Bank (USA), which became PNC Bank in 2012, which was used to re-finance existing loans with Whitney Bank and Hancock Bank and to provide construction/tenant finish funds, and which carries a 4.88% interest rate and a 10-year term, and

WHEREAS, in order to protect the integrity of the Loan, the proceeds of which refinanced certain properties located on real property of the University subject to the Ground Leases, in the Rent Supplement Agreement the University shall (1) have the right to receive notice from RBC Bank (USA) of any payment or other default by the Corporation under the Loan, and (2) have thirty (30) days to cure any such default prior to the exercise by RBC Bank (USA) of any remedies it may have under the Loan, and requires consent by the University prior to any such amendment, and

WHEREAS, the Corporation is amending the loan documents related to the aforementioned note with PNC Bank thereby reducing the interest rate from 4.88 percent to 4.50 percent and extending the end of the amortization period from January 14, 2031 to January 14, 2036, which allows the Corporation to reduce annual debt service while avoiding a prepayment penalty, and

WHEREAS, all other terms and conditions of the current note will remain unchanged and the interest rate reduction and extended amortization period will result in a reduction of annual debt service on the note of approximately $142,548,

THEREFORE, BE IT RESOLVED, the Board of Trustees of the University of South Alabama hereby consents to the amendment of the loan documents related to the aforementioned note.

CAMPUS MEMORANDUM
UNIVERSITY OF SOUTH ALABAMA

Date: December 3, 2014

To: President Tony G. Waldrop

From: Stephen H. Simmons Stephen H Simmons

Approved Tony G Waldrop

Subject: Refinancing of USA Research and Technology Corporation Promissory Note

Attached is a resolution with attachments for consideration by the Budget and Finance Committee concerning the University's consent to the RTC's refinancing of a promissory note with PNC Bank. The note financed the acquisitions of Building I in the Technology & Research Park and the dialysis building on the USA Medical Center campus. The note currently has an outstanding principal balance of $8,754,981.31. The Rent Supplement Agreement signed by the University with respect to the note requires the University to consent to any refinancing. PNC Bank has offered to refinance the note by reducing the interest rate from 4.88% to 4.50% and extending the end of the amortization period from January 14, 2031 to January 14, 2036. By agreeing to refinance on these terms, PNC Bank allowed the RTC to reduce annual debt service while avoiding a prepayment penalty. All other terms and conditions of the current note will remain unchanged. The interest rate reduction and extended amortization period will result in a reduction of annual debt service on the note of $142,548.

With your approval, this item will be presented to the Board of Trustees at its meeting on December 5, 2014. Further, I recommend the adoption of the resolution by the Board of Trustees.

Attachment

REC'D
Office of the President

University of South Alabama

UNIVERSITY OF SOUTH ALABAMA
Vice President for Financial Affairs
AD 170

MEMORANDUM

DATE: December 1, 2014

TO: Dr. Tony G. Waldrop

FROM: Stephen H. Simmons Stephen H. Simmons

SUBJECT: Request for Board of Trustees Designation of Signature Authority

I request that an agenda item be added to the December 5, 2014, Board of Trustees meeting to formally designate approved signatories for sponsored-project invoices, draws and financial reports. Currently we do not have specific, formal designation of this authority from the Board and while it is a good practice to have such authority, implementation of the new Uniform Guidance (2 CFR Part 200) December 26, 2014, makes this authority necessary at this time.

Specifically, 2 CFR Part 200.415 (a) requires the University to assure that expenditures are proper and in accordance with the terms and conditions of the federal award and approved project budgets, the annual and final fiscal reports or vouchers requesting payment under the agreements must include a certification, signed by an official who is authorized to legally bind the non-federal entity, which reads as follows: ''By signing this report, I certify to the best of my knowledge and belief that the report is true, complete, and accurate, and the expenditures, disbursements and cash receipts are for the purposes and objectives set forth in the terms and conditions of the federal award. I am aware that any false, fictitious, or fraudulent information, or the omission of any material fact, may subject me to criminal, civil or administrative penalties for fraud, false statements, false claims or otherwise (U.S. Code Title 18, Section 1001 and Title 31, Sections 3729–3730 and 3801–3812).''

I recommend the attached proposed resolution be presented at the December 5, 2014, meeting and once approved we meet internally to further designate appropriate signatories for sponsored-project invoices, draws and financial reports.

SHS/cbm

Tony Waldrop

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

HEALTH AFFAIRS

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

HEALTH AFFAIRS COMMITTEE

September 11, 2014
2:15 p.m.

A meeting of the University of South Alabama Board of Trustees Health Affairs Committee was duly convened by Dr. Steve Stokes, Chair, on Thursday, September 11, 2014, at 2:16 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Chandra Brown Stewart, Bettye Maye, Arlene Mitchell, Ken Simon and Steve Stokes.
Member Absent:	Scott Charlton.
Other Trustees:	Tom Corcoran, Steve Furr, Ron Jenkins, John Peek, Jimmy Shumock, Sandy Stimpson, Mike Windom and Jim Yance.
Administration and Others:	Beth Anderson, Joe Busta, Lynne Chronister, Joel Erdmann, Julie Estis (Faculty Senate), Happy Fulford, Stan Hammack, David Johnson, Doug Marshall (Faculty Senate), Steve Simmons, John Smith, Jean Tucker, Tony Waldrop, Danielle Watson (SGA), Kevin West (Faculty Senate) and Kelly Woodford (Faculty Senate).
Press:	Sally Ericson (*Press-Register*/al.com).

The meeting came to order and the attendance roll was called. Dr. Stokes, Committee Chair, asked Ms. Anderson to address **ITEM 4**, a resolution authorizing the USA Hospitals medical staff appointments and reappointments for May, June and July 2014 (for copies of resolutions, policies and other authorized documents, refer to the minutes of the Board of Trustees meeting held September 12, 2014). Ms. Beth Anderson, Hospital Administrator at the USA Medical Center, stated that the credentials pass through a rigorous review process to assure accuracy. On motion by Ms. Maye, seconded by Ms. Mitchell, the Committee voted unanimously to recommend approval by the Board of Trustees.

Dr. Stokes called upon Dr. Franks to report on the activities of the USA Health System and the Division of Health Sciences, **ITEM 5**, and of the Mitchell Cancer Institute (MCI), **ITEM 6**. Dr. Franks said the MCI Director search is proceeding and more details would be shared at a future meeting. He announced the appointment of a senior scientist who will join the MCI in October to administer a new program. He gave biographical information on the individual, whose work includes a research interest in DNA repair research and development of a molecule that blocks cancer cell replication, which resulted in the formation of two private companies that will also be brought to USA, in addition to seven other researchers. Dr. Franks reported that preparations for a lab are in progress, and he said the success of the program will cover much of the operating costs.

Dr. Franks discussed MCI's research collaborations with consortium partner the University of Alabama at Birmingham (UAB) Comprehensive Cancer Center (CCC), led by Dr. Ed Partridge, Director. He advised of 14 grant proposals submitted to the National Institutes of Health (NIH) by scientists of both institutions, of which seven were top-rated by UAB, and two of these were tendered by MCI scientists. In support of the projects, UAB will invest $25,000 and USA will contribute $75,000. Dr. Franks advised that Dr. Michael Finan, Chief of Gynecologic Oncology and Professor of Interdisciplinary Clinical Oncology at the MCI, recently named Associate Director for MCI Clinical Affairs, would be recognized at the September 12 Board meeting as one of four USA physicians U.S. News & World Report listed in its annual "Top Doc" ranking. Brief comments were made on the future direction of Medicaid reform in the state.

There being no further business, the meeting was adjourned at 2:24 p.m.

Respectfully submitted:

Steven H. Stokes, M.D., Chair

RESOLUTION

USA HOSPITALS MEDICAL STAFF APPOINTMENTS AND REAPPOINTMENTS FOR AUGUST, SEPTEMBER AND OCTOBER 2014

WHEREAS, the medical staff appointments and reappointments for August, September and October 2014 for the University of South Alabama Hospitals are recommended for Board approval by the Medical Executive Committees and the Executive Committee of the University of South Alabama Hospitals,

THEREFORE, BE IT RESOLVED that the Board of Trustees of the University of South Alabama approves the appointments and reappointments as submitted.

UNIVERSITY OF SOUTH ALABAMA

STANLEY K. HAMMACK
VICE PRESIDENT
HEALTH SYSTEM

TELEPHONE: (251) 471-7118
2451 FILLINGIM STREET, SUITE 2110
MOBILE, ALABAMA 36617-2293
FAX: (251) 471-7751

MEMORANDUM

TO: Dr. Tony G. Waldrop
President

FROM: Stan Hammack

DATE: November 7, 2014

Attached for review and approval by the Health Affairs Committee and the Board of Trustees are:

Resolution – University of South Alabama Hospitals Medical Staff Appointments and Reappointments for August, September and October 2014

- Credentials Report – August, September and October 2014

Resolution – University of South Alabama Hospitals Medical Staff Bylaws and Rules and Regulations Revisions of November 4, 2014

- Summary of Revisions

University of South Alabama Hospitals Medical Staff Meeting

- Minutes from the November 4, 2014 Meeting

SKH:kh

Attachments

UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK
MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS
FOR BOARD OF TRUSTEE APPROVAL
August, September, and October, 2014

The following is a listing of recommendations for approval of new appointments, reappointments and other status changes of physicians and allied staff professionals. These have been reviewed and are recommended by the Medical Executive committee of the respective hospitals.

NAME	USACWH			USAMC			AMBULATORY CARE		
	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser
Barber, IV, William H., MD	New Appt.	Active	Surgery	New Appt.	Active	Surgery	New Appt.	Active	Surgery
Barbour, Ellen Grace, PA	New Appt.	Allied	Neurosurgery	New Appt.	Allied	Neurosurgery	New Appt.	Allied	Neurosurgery
Bhat, Ramachandra, MD	New Appt.	Active	Pediatrics	New Appt.	Active	Pediatrics	New Appt.	Active	Pediatrics
Bilboa, Nordie A., MD	New Appt.	Active	Pediatrics	New Appt.	Active	Pediatrics	New Appt.	Active	Pediatrics
Bosarge, Jr., Patrick L., MD	NA	NA	NA	New Appt.	Active	Surgery	New Appt.	Active	Surgery
Burkett, Jared L., MD	New Appt.	Courtesy	Orthopaedics	New Appt.	Courtesy	Orthopaedics	NA	NA	NA
Byrd, Carolyn, CCC-SLP	Reappoint.	Allied	Surgery	Reappoint.	Allied	Surgery	Reappoint.	Allied	Surgery
Carlyle, Megan E., PA	Reappoint.	Allied	Surgery	NA	NA	NA	NA	NA	NA
Chinrock, Brittany E., DA	Reappoint.	Allied	Surgery	NA	NA	NA	NA	NA	NA
Collins, Charmaine D., RN	Reappoint.	Allied	Internal Medicine	Reappoint.	Allied	Internal Medicine	NA	NA	NA
Cook, Amy L., CRNP	Reappoint.	Allied	Pediatrics	NA	NA	NA	Reappoint.	Allied	Pediatrics
Coumanis, Lewis G., MD	Reappoint.	Active	Radiology	Reappoint.	Active	Radiology	Reappoint.	Active	Radiology
Crews, LaDonna, MD	Reappoint.	Active	Pediatrics	Reappoint.	Consulting	Pediatrics	Reappoint.	Active/Consult.	Pediatrics
Daniels, Larkin J., MD	Reappoint.	Courtesy	Surgery	Reappoint.	Courtesy	Surgery	NA	NA	NA
Davenport, Linda K., MD	New Appt.	Refer & Follow	Family Medicine	New Appt.	Refer & Follow	Family Medicine	NA	NA	NA
Desverreaux, III, John N., MD	Reappoint.	Active	Anesthesiology	Reappoint.	Active	Anesthesiology	NA	NA	NA
Diegmann, Fred, E., MD	Reappoint.	Refer & Follow	OBGYN	NA	NA	NA	NA	NA	NA
DiPalma, Jack, MD	Reappoint.	Active	Internal Medicine	Reappoint.	Active	Internal Medicine	Reappoint.	Active	Internal Medicine
Eyrich, George A., MD	NA	NA	NA	Reappoint.	Courtesy	Internal Medicine	NA	NA	NA
Fedok, Fred G., MD	New Appt.	Consulting	Surgery	New Appt.	Consulting	Surgery	NA	NA	NA
Formwalt, David J., Psy. D.	Reappoint.	Allied	Psychiatry	Reappoint.	Allied	Psychiatry	NA	NA	NA
Franklin, Alan J., MD	Reappoint.	Active	Surgery	Reappoint.	Active	Surgery	NA	NA	NA
Gandy, Roy E., MD	Reappoint.	Active	Surgery	Reappoint.	Active	Surgery	Reappoint.	Active	Surgery
Green, William K., MD	Reappoint.	Active	Internal Medicine	Reappoint.	Active	Internal Medicine	Reappoint.	Active	Internal Medicine
Hamm, Jr., Charles R., MD	Reappoint.	Active	Pediatrics	Reappoint.	Courtesy	Pediatrics	Reappoint.	Active/Courtesy	Pediatrics
Hand, Jessica C., Neurotech	New Appt.	Allied	Neurosurgery	New Appt.	Allied	Neurosurgery	NA	NA	NA
Hanes, II, Charles R., MD	Reappoint.	Courtesy	OBGYN	NA	NA	NA	NA	NA	NA
Hannon, Jeffrey, MD	Reappoint.	Courtesy	Surgery	Reappoint.	Courtesy	Surgery	NA	NA	NA
Hart, Eugene L., MD	New Appt.	Academic	Pathology	New Appt.	Academic	Pathology	NA	NA	NA
Hartman, Catherine A., CRNP	Reappoint.	Allied	Pediatrics	NA	NA	NA	Reappoint.	Allied	Pediatrics
Haynes, Jr., Johnson, MD	Reappoint.	Active	Internal Medicine	Reappoint.	Active	Internal Medicine	Reappoint.	Active	Internal Medicine
Herrera, Jorge L., MD	Reappoint.	Active	Internal Medicine	Reappoint.	Active	Internal Medicine	Reappoint.	Active	Internal Medicine
Higgs, William R., MD	Reappoint.	Active	Surgery	Reappoint.	Active	Surgery	NA	NA	NA
Hill, Grayson B., MS, CCC-SLP	New Appt.	Allied	Surgery	New Appt.	Allied	Surgery	New Appt.	Allied	Surgery
Hires, Alicia R., RN	Reappoint.	Allied	Internal Medicine	Reappoint.	Allied	Internal Medicine	NA	NA	NA
Hupp, Saunders I., MD	NA	NA	NA	Reappoint.	Courtesy	Surgery	NA	NA	NA
Hutchens, Dennis W., MD	Reappoint.	Active	Anesthesiology	Reappoint.	Active	Anesthesiology	NA	NA	NA
Jones, Richard Edwin, MD	Reappoint.	Refer & Follow	Pediatrics	Reappoint.	Refer & Follow	Pediatrics	NA	NA	NA
Jones, Vanessa L., CRNP	New Appt.	Allied	Internal Medicine	New Appt.	Allied	Internal Medicine	New Appt.	Allied	Internal Medicine
Jurasek, Meleah A., CRNP	Reappoint.	Allied	Pediatrics	NA	NA	NA	Reappoint.	Allied	Pediatrics
Kays, Arlene J., RN	Reappoint.	Allied	OBGYN	Reappoint.	Allied	OBGYN	NA	NA	NA

UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK
MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS
FOR BOARD OF TRUSTEE APPROVAL
August, September, and October, 2014

NAME	USACWH			USAMC			AMBULATORY CARE		
	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser
LaFleur, John C., MD	Reappoint.	Active	OBGYN	Reappoint.	Active	OBGYN	Reappoint.	Active	OBGYN
Lane, Daniel, MD	Reappoint.	Courtesy	Surgery	Reappoint.	Courtesy	Surgery	NA	NA	NA
Laskay, Kathleen, CRNP	Reappoint.	Allied	Pediatrics	NA	NA	NA	Reappoint.	Allied	Pediatrics
Lee, Rowdy C., PA	New Appt.	Allied	Orthopaedics	New Appt.	Allied	Orthopaedics	NA	NA	NA
Leytham, Thomas J., MD	Reappoint.	Courtesy	Family Medicine	Reappoint.	Courtesy	Family Medicine	Reappoint.	Courtesy	Family Medicine
Lewis, Angelia D., CRNP	New Appt.	Refer & Follow	Family Medicine	New Appt.	Refer & Follow	Family Medicine	NA	NA	NA
Manci, Elizabeth A., MD	Reappoint.	Active	Pathology	Reappoint.	Active	Pathology	Reappoint.	Active	Pathology
Mayer, David, MD	Reappoint.	Active	Pediatrics	Reappoint.	Active	Pediatrics	NA	NA	NA
Maertens, Paul, MD	Reappoint.	Active	Neurology	Reappoint.	Active	Neurology	Reappoint.	Active	Neurology
McGee, Gregory S., MD	Reappoint.	Active	Surgery	Reappoint.	Active	Surgery	NA	NA	NA
McMullan, Eddrice M., MD	Reappoint.	Active	Anesthesiology	Reappoint.	Active	Anesthesiology	NA	NA	NA
Murphy, Patrick L., MD	NA	NA	NA	Reappoint.	Consulting	Internal Medicine	NA	NA	NA
Naritoku, Dean K., MD	Reappoint.	Active	Neurology	Reappoint.	Active	Neurology	Reappoint.	Active	Neurology
O'Dowd, John M., MD	NA	NA	NA	Reappoint.	Courtesy	Internal Medicine	NA	NA	NA
O'Gorman, Ronald B., MD	Reappoint.	Active	Surgery	Reappoint.	Active	Surgery	NA	NA	NA
Park, Christopher, MD	Reappoint.	Active	Surgery	Reappoint.	Active	Surgery	NA	NA	NA
Payne, Isaac C., MD	NA	NA	NA	New Appt.	Contract/Locum	Emergency Med.	NA	NA	NA
Peace, Ashley Danielle, PA	New Appt.	Allied	Internal Medicine	New Appt.	Allied	Internal Medicine	New Appt.	Allied	Internal Medicine
Pearsall, Albert W., MD	Reappoint.	Active	Orthopaedics	Reappoint.	Active	Orthopaedics	Reappoint.	Active	Orthopaedics
Petty, Melody L., MD	New Appt.	Active	Pediatrics	NA	NA	NA	New Appt.	Active	Pediatrics
Reed, Jason M., CRNA	Reappoint.	Allied	Anesthesiology	Reappoint.	Allied	Anesthesiology	NA	NA	NA
Revere, Cherie J., CRNP	NA	NA	NA	Reappoint.	Allied	Internal Medicine	Reappoint.	Allied	Internal Medicine
Rich, Leonard S., MD	Reappoint.	Consulting	Surgery	Reappoint.	Consulting	Surgery	NA	NA	NA
Roach, Tonya M., CRNP	New Appt.	Allied	Refer & Follow	New Appt.	Allied	Refer & Follow	NA	NA	NA
Roberson-Trammell, Katrina L., MD	Reappoint.	Active	Pediatrics	NA	NA	NA	Reappoint.	Active	Pediatrics
Roca, Theresa, MD	Reappoint.	Consulting	Pediatrics	Reappoint.	Consulting	Pediatrics	NA	NA	NA
Rogers, Vera Renee, RN	Reappoint.	Allied	OBGYN	Reappoint.	Allied	OBGYN	NA	NA	NA
Rosenbaum, Michael S., Ph.D.	Reappoint.	Allied	Psychiatry	Reappoint.	Allied	Psychiatry	NA	NA	NA
Salameh, Mohammed K., MD	Reappoint.	Active	Evaluation Center	NA	NA	NA	NA	NA	NA
Setzler, Roger M., MD	Reappoint.	Courtesy	Orthopaedics	Reappoint.	Courtesy	Orthopaedics	NA	NA	NA
Shaw, David, MD	NA	NA	NA	Reappoint.	Courtesy	Internal Medicine	NA	NA	NA
Shaw, Dewey P., MD	Reappoint.	Active	Anesthesiology	Reappoint.	Active	Anesthesiology	NA	NA	NA
Shell, Grantham M., MD	New Appt.	Courtesy	Orthopaedics	New Appt.	Courtesy	Orthopaedics	NA	NA	NA
Sheppard, Ryan S., DMD	New Appt.	Courtesy	Surgery	NA	NA	NA	NA	NA	NA
Simons, Brenda, CRNP	Reappoint.	Allied	Pediatrics	NA	NA	NA	Reappoint.	Allied	Pediatrics
Sindel, Lawrence, MD	Reappoint.	Pediatrics	Active	Reappoint.	Pediatrics	Consulting	NA	NA	NA
Slater, Nicole A., Pharm D.	NA	NA	NA	New Appt.	Family Medicine	Allied	NA	NA	NA
Stella, Felicia B., MD	Reappoint.	Courtesy	OBGYN	NA	NA	NA	NA	NA	NA
Stover, Phillip R., MD	Reappoint.	Refer & Follow	Pediatrics	Reappoint.	Refer & Follow	Pediatrics	NA	NA	NA
Taliaferro, Jacquise L., CRNP	Reappoint.	Allied	Internal Medicine	Reappoint.	Allied	Internal Medicine	Reappoint.	Allied	Internal Medicine
Terry, Sr., William J., MD	Reappoint.	Courtesy	Surgery	NA	NA	NA	NA	NA	NA
Thomas, Jacqueline, CRNP	New Appt.	Refer & Follow	Family Medicine	New Appt.	Refer & Follow	Family Medicine	NA	NA	NA
Thompson, Jack H., MD	Reappoint.	Refer & Follow	Pediatrics	Reappoint.	Refer & Follow	Pediatrics	NA	NA	NA
Thrasher, Michelle, CRNP	Reappoint.	Allied	Pediatrics	NA	NA	NA	Reappoint.	Allied	Pediatrics

UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK
MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS
FOR BOARD OF TRUSTEE APPROVAL
August, September, and October, 2014

NAME	USACWH			USAMC			AMBULATORY CARE		
	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser
Tucker, Joseph Allen, MD	Reappoint.	Active	Pathology	Reappoint.	Active	Pathology	Reappoint.	Active	Pathology
Ul Haq, Ehtesham, MD	NA	NA	NA	New Appt.	Contract/Locums	Emergency Med.	NA	NA	NA
Val-Gallas, John M., MD	Reappoint.	Courtesy	OBGYN	NA	NA	NA	NA	NA	NA
Vidal, Rosa A., MD	Reappoint.	Active	Pediatrics	Reappoint.	Active	Pediatrics	Reappoint.	Active	Pediatrics
Waldrop, Julee B., CRNP	New Appt.	Refer & Follow	Pediatrics	New Appt.	Refer & Follow	Pediatrics	NA	NA	NA
Ward, Hollis L., CRNP	New Appt.	Refer & Follow	Family Medicine	New Appt.	Refer & Follow	Family Medicine	NA	NA	NA
Weaver, Yaffa K., MD	NA	NA	NA	Reappoint.	Consulting	Surgery	NA	NA	NA
Weinstein, Leonard S., MD	Reappoint.	Courtesy	Surgery	Reappoint.	Courtesy	Surgery	NA	NA	NA
White-Spunner, Suanne, MD	Reappoint.	Courtesy	Orthopaedics	Reappoint.	Courtesy	Orthopaedics	NA	NA	NA
Williams, Lucile T., Psy. D.	Reappoint.	Allied	Psychiatry	Reappoint.	Allied	Psychiatry	NA	NA	NA
Wrights, Sharienne, MD	Reappoint.	Active	Pediatrics	NA	NA	NA	NA	NA	NA
Zarzour, Robert J., MD	Reappoint.	Courtesy	Orthopaedics	Reappoint.	Courtesy	Orthopaedics	NA	NA	NA
Change Requests									
Bright, Andrew C., DO	NA	NA	NA	Deleted Priv.	Active	Surgery	Deleted Priv.	Active	Surgery
Brown, Mark S., MD	NA	NA	NA	Changed to	Consulting	Surgery	NA	NA	NA
Glasser, James G., MD	Changed to	Active	Surgery	Changed to	Active	Surgery	Changed to	Active	Surgery
Wright-Sexton, Laura, MD	Add Privileges	Active	Evaluation Center	NA	NA	NA	NA	NA	NA
Retired/Resigned									
Name	**Reason**	**Date**	**Dept.**	**Reason**	**Date**	**Dept.**			
Alonso, Jorge E., MD	Resigned	9/30/2014	Orthopaedics	Resigned	9/30/2014	Orthopaedics			
Anderson, Scott A., MD	Resigned	9/25/2014	Surgery	Resigned	9/25/2014	Surgery			
Baliog, Crisostomo R., MD	Resigned	7/31/2014	Internal Medicine	Resigned	7/31/2014	Internal Medicine			
Chen, Mike K., MD	Resigned	9/25/2014	Surgery	Resigned	9/25/2014	Surgery			
Donald, Stacey, RN	Resigned	7/22/2014	Internal Medicine	Resigned	7/22/2014	Internal Medicine			
Dunne, Tami, CRNP	Resigned	9/5/2014	Neurology	Resigned	9/5/2014	Neurology			
Easter, Essie, RN	Resigned	11/8/2013	Radiology	Resigned	11/8/2013	Radiology			
Evans, David, Ph.D.	Resigned	7/31/2014	Surgery	Resigned	7/31/2014	Surgery			
Evans, Kelli, Ph.D.	Resigned	7/31/2014	Surgery	Resigned	7/31/2014	Surgery			
Hart, Eugene, MD	Resigned	6/30/2014	Pathology	Resigned	6/30/2014	Pathology			
Hodge, Juvonda, MD	Resigned	8/2/2014	Surgery	Resigned	8/2/2014	Surgery			
Howell, III, John B., MD	Resigned	8/27/2014	OBGYN	Resigned	8/27/2014	OBGYN			
Krolikowski, Francis, MD	NA	NA	NA	Resigned	6/30/2014	Pathology			
Martin, Colin A., MD	Resigned	9/25/2014	Surgery	Resigned	9/25/2014	Surgery			
Messer, Cynthia, CRNMW	Resigned	10/14/2014	OBGYN	NA	NA	NA			
Mullenix, Christopher D., MD, DMD	Resigned	8/5/2014	Surgery	NA	NA	NA			
Petty, Tiffany, MD	Resigned	6/30/2014	Pediatrics	NA	NA	NA			

UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK
MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS
FOR BOARD OF TRUSTEE APPROVAL
August, September, and October, 2014

NAME	USACWH			USAMC			AMBULATORY CARE		
	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser
Rigsby, Brenda D., CRNP	NA	NA	NA	Resigned	12/1/2013	Internal Medicine			
Rogers, David A., MD	Resigned	7/23/2014	Surgery	Resigned	7/23/2014	Surgery			
Russell, Robert T., MD	Resigned	9/25/2014	Surgery	Resigned	9/25/2014	Surgery			
Swartz, Barbara L., CRNP	NA	NA	NA	Resigned	12/1/2013	Internal Medicine			
Thorneycroft, Ian, MD	Resigned	8/30/2014	OBGYN	NA	NA	NA			
Turner, Staci, MD	NA	NA	NA	Resigned	6/30/2014	Pathology			

UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK
MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS
FOR BOARD OF TRUSTEES APPROVAL

August, September, and October, 2014

LEGEND:

New Appt.	New application for medical/allied staff privileges recommended for approval.
Reappt.	Reappointment application for medical/ allied staff privileges recommended for approval.
N/A	No privileges requested.
Change in Status	Added privileges or changed department.
Retired Resigned	Moved, retired or resigned.

RECOMMENDED BY:

Donna Dyess

Donna Lynn Dyess M.D., Chair of Medical Executive Committee or Chair Elect
USA Children's & Women's Hospital

Clara Massey

~~William O. Richards, M.D.,~~ Chair of Medical Executive Committee or Chair Elect
USA Medical Center Clara V. Massey, MD

Stanley K. H

Stanley K. Hammack
Vice President, USA Health Systems

RESOLUTION

USA HOSPITALS
MEDICAL STAFF BYLAWS AND RULES AND REGULATIONS
REVISIONS OF NOVEMBER 4, 2014

WHEREAS, revisions to USA Hospitals Medical Staff Bylaws and Rules and Regulations, approved at the November 4, 2014, medical staff meeting and attached hereto, are recommended for approval by the Medical Staffs and the Executive Committee of the University of South Alabama Hospitals,

THEREFORE, BE IT RESOLVED that the Board of Trustees of the University of South Alabama approves the revisions as submitted.

Proposed Changes to USA Hospitals Medical Staff Bylaws
Revisions approved at the USA Hospitals General Medical Staff Meeting on November 4, 2014

Revision/Additions Descriptions

		Location
1)	<u>**ARTICLE III – CATEGORIES OF MEMBERSHIP**</u>	
	Section 3.01 The Active Staff	(p. 1)
	Added practitioner to remain on FPPE status for low volume practitioners Deleted requirement to automatically be placed in Refer and Follow category	
	Section 3.02 The Courtesy Staff	(p.1-2)
	Added remaining on FPPE status for low volume practitioners Deleted requirement to automatically be placed in Refer and Follow category	
	Section 3.02 The Consulting Physician Staff	(p. 2)
	Added remaining on FPPE status for low volume practitioners Deleted requirement to automatically be placed in Refer and Follow category	
2)	<u>**ARTICLE IV – THE ALLIED STAFF**</u>	(p. 3)
	Added to state low volume practitioners will remain on FPPE review until activity obtained.	
3)	<u>**ARTICLE XII – APPOINTMENTS**</u>	
	Section 12.03 Conditions of Appointment	(p. 3)
	Added requirement for immunizations	
4)	<u>**ARTICLE XV – CORRECTIVE ACTION**</u>	
	Section 15.02 Summary Suspension (Care of Suspended Individual's Patients)	(p. 7)
	Added process for the patient to be referred to an alternative practitioner	
	Section 15.03 Automatic Suspension or Limitation	(p. 8)
	Added the process for removal of a practitioner from the medical staff membership due to a conviction or a plea of guilty or no contest to any felony or specific type of misdemeanor and steps for failure to notify.	
	Section 15.05 Reporting	(p. 10)
	Added reporting of adverse action requirements	

Underlines are additions - ~~Strikethroughs~~ are deletions

ARTICLE III - CATEGORIES OF MEMBERSHIP

Section 3.01 The Active Staff

The Active Staff consists of those physicians and oral maxillofacial surgeons who are regularly engaged in admitting and treating patients at the USA hospitals. The Active Staff shall be responsible to the Medical Executive Committee for making recommendations concerning the organization and management of the Medical Staff; and the review and evaluation of the quality and appropriateness of care being rendered in the USA hospitals.

The Active Staff shall consist of those members of the Medical Staff who are involved in the care and treatment of at least 15 (fifteen) patients per appointment period at either hospital as measured by patient contacts, which are defined as admissions, consultations, procedures (inpatient/outpatient), and/or evaluations and services performed in the Emergency Department/Evaluation Center.

All members of the Active Staff shall be notified of these activity requirements and the member's own specific requirements for Focused Professional Practice Evaluation (FPPE) monitoring and subsequent requirements for the Ongoing Professional Practice Evaluation (OPPE). ~~If any staff member fails to meet the FPPE activity requirements during the provision period of one (1) year, the practitioner shall automatically be placed in the Courtesy category for the subsequent appointment period upon the approval of the Credentials Committee.~~ **If any staff member has a low volume of FPPE activity during his/her provisional first year period on Active Staff, the practitioner will remain on FPPE review until FPPE activity can be obtained. When this practitioner is due to apply for reappointment, the Combined Credentials Committee will determine whether the practitioner should be given the privilege requested due to continued pendency of the FPPE or should remain in FPPE monitoring status due to the contractual arrangements or medical staff coverage needs. The Combined Credentials committee will make its recommendation to the MEC accordingly.**

~~If any staff member fails to meet the OPPE activity requirements for a period of two (2) years, the practitioner shall automatically be placed in Refer and Follow category for the subsequent appointment period with the approval of the Credentials Committee.~~

Section 3.02 The Courtesy Staff

The Courtesy Staff shall consist of those members of the Medical Staff who occasionally treat patients at USA hospitals. Members of the Courtesy Staff shall be members of the active staff of at least one other hospital and at reappointment time, provide evidence of clinical performance from their primary hospital in a format acceptable to or as specified by the Credentials Committee.

The Courtesy Staff shall consist of those members of the Medical Staff who are involved in the care and treatment of at least 5 (five) patients per appointment period at either USA hospital as measured by patient contacts, which are defined as admissions, consultations, procedures (inpatient/outpatient), and/or evaluations and services performed in the Emergency Department/Evaluation Center.

All members of the Courtesy Staff shall be notified of these activity requirements and the member's own specific requirements for Focused Professional Practice Evaluation (FPPE) monitoring and subsequent requirements for the Ongoing Professional Practice Evaluation (OPPE~~). If any staff member fails to meet the FPPE activity requirements during the provision period of one (1) year, the practitioner shall automatically be placed in the Refer and Follow category for the subsequent appointment period upon the approval of the Credentials Committee. .~~ **If any staff member has a low volume of FPPE activity during his/her provisional first year period on Courtesy Staff, the practitioner will remain on FPPE review until FPPE activity can be obtained. When this practitioner is due to apply for reappointment, the Combined Credentials Committee will determine whether the practitioner should be given the privilege requested due to continued pendency of the FPPE or should remain**

in FPPE monitoring status due to the contractual arrangements or medical staff coverage needs. The Combined Credentials committee will make its recommendation to the MEC accordingly.

~~If any staff member fails to meet the OPPE activity requirements for a period of two (2) years, the practitioner shall automatically be placed in Refer and Follow category for the subsequent appointment period with the approval of the Credentials Committee.~~

Section 3.03 The Consulting Physician Staff
The Consulting Staff shall consist of recognized Specialists who do not wish to admit patients to USA Hospitals but are available to provide consultations to other members of the Medical Staff. This category shall not be construed to preclude other members of the Medical Staff from providing consultations to the extent to which they are qualified.

The Consulting Staff shall consist of those members of the Medical Staff who are involved in the care and treatment of at least 1 (one) patient per appointment period at each USA hospital as measured by patient contacts, which are defined as consultations, procedures (inpatient/outpatient), and/or evaluations and services performed in the Emergency Department/Evaluation Center.

All members of the Consulting Staff shall be notified of the member's own specific requirements for Focused Professional Practice Evaluation (FPPE) monitoring and subsequent requirements for the Ongoing Professional Practice Evaluation (OPPE~~). If any staff member fails to meet the FPPE activity requirements during the provision period of one (1) year, the practitioner shall be referred to the Credentials Committee for consideration of community need and appropriateness of placement in the Refer and Follow category or other applicable category for the subsequent appointment period~~. **If any staff member has a low volume of FPPE activity during their provisional first year period on Consulting Staff, the practitioner will remain in FPPE review until FPPE activity can be obtained. When this practitioner is due to apply for reappointment, the Combined Credentials Committee will determine whether the practitioner should be given the privilege requested due to continued pendency of the FPPE or should remain in FPPE monitoring status due to the contractual arrangements or medical staff coverage needs. The Combined Credentials committee will make its recommendation to the MEC accordingly.**

~~If any staff member fails to meet the OPPE activity requirements for a period of two (2) years, the practitioner shall automatically be placed in Refer and Follow category for the subsequent appointment period with the approval of the Credentials Committee.~~

ARTICLE IV

THE ALLIED STAFF

The Allied Staff shall consist of those individuals who provide independent clinical services and who are not Physicians or members of the Medical Staff. The Allied Staff shall include but is not limited to, dentists, podiatrists, optometrists, chiropractors, clinical psychologists, physician's assistants, certified registered nurse anesthetists, certified nurse practitioners, certified nurse midwives, and sexual assault nurse examiners (SANE nurses) and non-licensed healthcare providers such as Optometry Technicians, etc.

Allied Staff may exercise judgment within their licensure, certification, and/or area of competence; where required by scope of practice. Certified nurse midwifes may write admission orders for inpatients and subsequent orders as long as they maintain an agreement with a collaborating physician. Otherwise, Allied Staff participate directly in the management of patients under the supervision or direction of a physician or employer; record reports and progress notes in patients' records; and write orders to the extent established by the appropriate Department Chair and in accordance with applicable law. Allied Staff shall be appointed by the BOT in accordance with the procedures herein.

Allied Staff shall be subject to Focused Professional Practice Evaluation (FPPE) per specialty and be subject to Ongoing Professional Practice Evaluation (OPPE). ~~If any LIP allied health staff member fails to~~

~~meet the FPPE activity requirements during the provision period of one (1) year, the practitioner shall be referred to the Credentials Committee for consideration of community need and appropriateness of placement in the Refer and Follow category or other applicable category for the subsequent appointment period.~~ **<u>If any LIP allied health staff member has a low volume of FPPE activity during their provisional first year period on allied health staff, the practitioner will remain on FPPE review until FPPE activity can be obtained. When this individual is due to apply for reappointment, the Combined Credentials Committee will determine whether the practitioner should be given the privilege requested due to continued pendency of FPPE or should remain in the FPPE monitoring status due to contractual arrangements or medical staff coverage needs. The Combined Credentials committee will make its recommendation to the MEC accordingly.</u>**

~~If any LIP allied health staff member fails to meet the OPPE activity requirements for a period of two (2) years, the practitioner shall automatically be placed in Refer and Follow category for the subsequent appointment period with the approval of the Credentials Committee.~~

Section 12.03 Conditions of Appointment

A. Any person accepting appointment to the Medical Staff of the Hospital agrees to immediate testing of blood and/or urine for controlled substances and/or alcohol upon appropriate request. An appropriate request is based upon suspicion of impairment from alcohol and/or drug abuse and may be made by the Chair of MEC, Department Chair, or Hospital Administrator. Medical Staff members who suspect another member of having impairment have a responsibility to immediately notify the Chair of MEC, Department Chair, or Hospital Administrator of their concerns.

Any person who refuses such testing will be treated administratively as though they tested positive for alcohol and/or controlled substances. Administrative procedures to be followed in such instances will be those defined for the involuntary detection of the impaired Physician. Mandatory periodic drug and/or alcohol testing shall be required of any Medical Staff member identified as impaired from drug and/or alcohol abuse disorders as part of ongoing treatment and monitoring of the impaired individual.

B. Any person applying for appointment to the Medical Staff of the Hospital, as a condition of maintaining such appointment, agrees that, at the request for cause of the Chair of MEC, Department Chair, Hospital Administrator, or a Fair Hearing or Corrective Action Committee of the MEC, as determined by the requesting body, they will undergo a complete physical and/or mental health evaluation concerning their ability to care for patients and/or ability to work cooperatively with colleagues, support staff, and other members of the USA Hospitals community. This evaluation shall be performed by a Physician and/or other appropriate health care professional who is mutually acceptable to the staff member or applicant and the party requesting the evaluation. The staff member or applicant shall agree to allow the report of the evaluation to be made available to the party requesting the evaluation.

C. It shall be the responsibility of the Medical Staff member to report immediately to his Department Chair any investigation or actions taken against him with regard to any hospital appointment or privileges, licensure, certification, health care affiliation, or criminal charges.

D. **<u>Each Medical Staff member must comply with hospital requirements for immunizations as set forth in the hospital policy.</u>**

ARTICLE XV

CORRECTIVE ACTION

Section 15.01 Corrective Action

Initiation of a Concern

A. Members/appointees of the Medical Staff, Contract Physician or Temporary appointees, and Allied Staff have the responsibility to report any Medical Staff, Contract Physician or Temporary appointees, and Allied Staff appointee whose activities or professional conduct are, or are reasonably likely to be, detrimental to patient safety or to the delivery of quality patient care, disruptive to Hospital operations, contrary to the Bylaws, or below applicable professional standards. A statement of such concern may be initiated in writing by any Medical Staff Member, describing the specific activities or conduct which gave rise to the concern. Concerns are automatically triggered by any action against a Medical Staff Member/appointee's license, DEA (Drug Enforcement Agency) or ACSC (Alabama Controlled Substances Certificate) registration, or OIG (Office of Inspector General) exclusion.

   Additionally, statements submitted in compliance with the Hospital's Code of Conduct Policy, are considered an initiation of a concern.

B. Concerns may be reported to one of the following:

   1) the Chair of the MEC;
   2) the Department Chair and/or CW Service Line Chair or
   3) the Hospital Administrator or designee.

C. The recipient of the statement of concern as defined above shall immediately forward a copy of the written statement of concern to the remaining members defined above.

D. The named Staff Member/appointee may be interviewed by the Chair of MEC, Department Chair, and/or CW Service Line Chair or Hospital Administrator or designee following receipt of the written statement of concern.

   1) This interview is discretionary and shall not be considered a procedural right, shall not constitute a hearing as defined in the Fair Hearing and Appellate Review section, shall be preliminary in nature and none of the procedural rules provided in Article XVII shall apply.
   2) At such interview, the named Staff Member/appointee shall be informed of the general nature of the concern and shall be invited to discuss, explain or refute such concern. A written record of such interview shall be made and maintained.

E. Potential Actions of the Chair of the MEC, Department Chair, and/or CW Service Line Chair and Hospital Administrator:
   1) If the Chair of MEC, Department Chair, and/or CW Service Line Chair, and Hospital Administrator agrees that no further action is warranted, the investigation is terminated.
   2) If the Chair of the MEC, Department Chair and/or CW Service Line Chair and Hospital Administrator conclude that further action is warranted, the Chair of MEC shall convene an ad hoc Corrective Action Committee of the MEC (CAC) as provided herein and shall present the written statement of concern to the CAC. If the decision is to proceed with a CAC, the Chair of the MEC shall promptly notify the Vice President for Health Systems of the concern that has been received and shall continue to keep the Vice President for Health Systems fully informed of all decisions and actions taken.

F. The Chair of MEC shall promptly write to the named Staff Member/appointee regarding the reported concern and notify them whether the investigation is terminated or whether a CAC has been formed. If a CAC is formed, the notification to the named Staff Member/appointee shall be sent by certified mail and shall include a copy of Articles XV and XVI of these Bylaws.

Convening the CAC

A. If the decision to convene a CAC is made, it shall be convened to begin the investigation within fifteen (15) business days of that decision.

B. The membership shall be appointed by the Chair of MEC and shall consist of:

   1) the Chair of MEC
   2) Chair-elect of MEC
   3) Two (2) medical staff members
   4) Additional members as deemed necessary by the Chari of the MEC

C. The Chair of MEC shall appoint the Chair of the CAC. There must be at least three (3) members of the CAC present at any meeting at which action will be taken or at which substantive investigation will be conducted. The membership <u>shall not</u> include the following: the Department Chair and/or CW Service Line Chair in which the named Staff Member/appointee has an appointment and/or delineated clinical privileges, anyone who has reported the concern for investigation, anyone involved in the situation to be investigated, or any other person who has a conflict of interest as determined by the Chair of MEC.

Investigation

A. The investigation by the CAC shall include an interview with the named Staff Member/appointee and may include interviews with any other individuals who may have relevant information and appropriate consultants or persons with special relevant knowledge. Only those individuals with direct involvement with the interview shall be present. The interviews shall not constitute Fair Hearings as defined in Article XVII herein, shall be preliminary in nature, and none of the procedural rules provided in Article XVII shall apply. A record of all CAC meetings shall be maintained.

   A CAC may request that the named Staff Member/appointee undergo a complete physical or mental health examination as outlined in Section 12.03, Conditions for Appointment. Failure to comply with such a request shall result in automatic termination of membership/appointment.

B. The CAC shall prepare a written report of the investigation as expeditiously as possible, but no later than forty-five (45) business days after initial convening of the CAC. The report shall include a determination of whether the concern is founded or unfounded, and if deemed founded, shall recommend corrective action including but not limited to:

   1) issuance of a warning or formal letter of reprimand;
   2) imposition of mandatory education, counseling, or other action as deemed appropriate;
   3) imposition of a probationary period with requirements of consultation or supervision;
   4) reduction or suspension of delineated clinical privileges;
   5) revocation of Staff appointment/membership.

C. At any time during the course of an investigation the named Staff Member/appointee may resign, however the investigation will continue. The Hospital shall report acceptance of the named Staff Member/appointee's resignation while under investigation as well as results of the investigation and actions taken, to the appropriate regulatory agencies as required by law. The MEC and Executive Committee shall be notified of such action.

D. Upon request by the CAC, the Chair of MEC may extend any deadline for taking action under this Section 15.01 for a reasonable period of time.

Action of the MEC

A. The MEC shall review the CAC's report and recommendations.
B. The MEC shall vote to uphold, modify or reject the CAC's recommendations. None of the following shall participate in the voting: the Department Chair and/or CW Service Line Chair in which the Staff Member/appointee has an appointment and/or delineated clinical privileges,

members of the CAC, anyone who has reported the concern for investigation, anyone involved in the situation to be investigated, or any other person who has a conflict of interest as determined by the Chair of MEC. If the decision is that the concern is unfounded, the Chair of MEC will notify the named Staff Member/appointee and the corrective action process is terminated.

C. If the concern is determined to be founded by the MEC the recommended corrective action may be approved or modified.

D. The Chair of MEC shall send notice of the recommended corrective action to the Department Chair and/or CW Service Line Chair in which the named Staff Member/appointee has an appointment and/or exercises delineated clinical privileges, Executive Committee, and Hospital Administrator. The MEC shall provide notice of the action and attendant procedural rights required by Article XVI herein to the named Staff Member.

Section 15.02 Summary Suspension

Criteria for Imposition

Whenever the conduct of a Medical, Contracted Physician, Temporary appointee or Allied Staff Member/appointee requires that immediate action be taken to protect the life of any patient or to reduce the substantial likelihood of imminent injury or damage to the health or safety of any patient, employee, or other person present in the Hospital, Summary Suspension of the Staff Member/appointee's appointment or any or all of the delineated clinical privileges may be imposed.

Imposition

A. Summary suspension may be imposed by:

1) Chair of MEC;
2) Department Chair and/or CW Service Line Chair or CW Peer & Quality Review Chair in which the named Staff Member/appointee has an appointment and/or exercises delineated clinical privileges;
3) Hospital Administrator or designee.

B. The Staff Member/appointee must be notified verbally or in writing of the suspension and may be asked to leave the premises immediately and instructed not to return to the Hospital until further notification. Notification and method of notification must be documented.

C. A summary suspension of a Staff Member/appointee's appointment or of all or any portion of the Staff Member/appointee's delineated clinical privileges shall become effective immediately upon imposition. When a Medical Staff Member/appointee is summarily suspended, immediate notification shall be made to the Chair of MEC, Department Chair and/or CW Service Line Chair in which the named Staff Member/appointee has an appointment and/or exercises delineated clinical privileges, and Hospital Administrator or designee by the person who summarily suspended the Staff Member/appointee.

D. The Chair of MEC shall convene an ad hoc committee consisting of the Chair of MEC, Chair-Elect/Secretary of MEC, Hospital Administrator and two (2) additional members of the MEC within three (3) business days of the suspension. None of the members shall be in the same department as the Staff Member/appointee under suspension. The Staff Member/appointee under suspension shall be afforded an opportunity to appear at this special meeting of the ad hoc committee and present oral argument in opposition to continuation of the summary suspension. However, the Staff Member/appointee under suspension has no right to be present during the ad hoc committee's deliberations.

E. The ad hoc committee of the MEC may modify, continue, or lift the summary suspension. If the ad hoc committee modifies clinical privileges or continues the summary suspension, then a Staff Member under suspension is entitled to the procedural rights outlined in Article XVI herein. If the ad hoc committee lifts the summary suspension, the concern is forwarded to the full MEC for consideration of a CAC under Section 15.01.

F. If the Chair of MEC or Hospital Administrator believes that continuation of suspension is necessary to protect patient safety, and the ad hoc committee recommends lifting the suspension, then a special meeting of the MEC shall be convened within three (3) business days, during which time the suspension continues. The decision of the MEC is final. The Hospital shall report the summary suspension to the appropriate regulatory agencies as required.

Notice

A. When the ad hoc committee or MEC recommends an action which triggers procedural rights, the Staff Member under suspension shall be sent the notice required by Section 16.02 within five (5) business days of the recommendation of an action.

B. All summary suspensions and actions or recommendations of the ad hoc committee shall be reported by the Chair of MEC to the MEC at its next scheduled meeting.

Care of Suspended Individual's Patients.

Immediately upon the imposition of a summary suspension, the appropriate Department Chair or designee and/or CW Service Line Chair shall assign to another member of the Staff with appropriate clinical privileges responsibility for care of the suspended Staff Member/appointee's patients still in the Hospital at the time of such suspension until such time as the patients are discharged. <u>The patient will be asked to whom he/she wishes to be referred as an alternative Practitioner. When the individual being suspended or restricted is an Advanced Practice Professional, then the collaborative physician shall be responsible for arranging alternative coverage for the care normally provided by the individual.</u>

Section 15.03 Automatic Suspension or Limitation

Events Resulting in Automatic Suspension or Limitation

A. A Staff Member/appointee's appointment and delineated clinical privileges shall be automatically suspended, limited, or terminated as described in items 1 through 5 below, without a hearing or further review.

1) **Licensure**
If the license to practice medicine or other health occupation is:

a. expired, then the Staff Member/appointee's appointment and clinical privileges at the Hospital shall be suspended until the Alabama license is renewed. After the conclusion of the applicable Alabama licensure grace period, if the license has not been renewed, the Staff Member/appointee's appointment and clinical privileges will be terminated;
b. revoked, then the Staff Member/appointee's appointment and clinical privileges at the Hospital shall be revoked;
c. restricted, then the Staff Member/appointee's appointment and clinical privileges at the Hospital shall be similarly limited or restricted;
d. suspended, then the Staff Member/appointee's appointment and clinical privileges at the Hospital shall be suspended; or
e. subject to conditions of probation, formal or informal reprimand, or limitation, regardless of whether such actions have been stayed, then the Staff Member/appointee's voting and office holding prerogatives at the Hospital will be suspended.

2) **Controlled Substances**
Whenever a Staff Member/appointee's DEA or ACSC certificate, or prescribing authority is:

a. expired, then the Staff Member/appointee's right to prescribe covered medications at the Hospital shall be suspended until the certification is renewed;

b. revoked, then the Staff Member/appointee's right to prescribe covered medications at the Hospital shall be revoked as of the date such action becomes effective and throughout its term;
c. restricted, then the Staff Member/appointee's right to prescribe covered medications at the Hospital similarly shall be limited or restricted as of the date such action becomes effective and throughout its term; or
d. suspended, then the Staff Member/appointee's right to prescribe covered medications at the Hospital shall be suspended as of the date such action becomes effective and throughout its term.

3) Professional Liability Coverage

a. The staff appointment and clinical privileges of any Staff Member/appointee whose professional liability insurance is lapsed for any reason, or whose coverage is not maintained in the minimum amount required under these Bylaws, shall be suspended until evidence of coverage is provided. If evidence of coverage is not provided after thirty (30) days, the staff appointment will be terminated. These actions are not reported to state or federal authorities and do not invoke any rights to procedural due process under Article XVII.
b. Reinstatement of privileges due to lapsed professional liability may be attained by following the procedure in Section 15.03, Reinstatement of Appointment and/or Privileges after Non-Renewal.

4) **Medical Records**

a. If, after a warning of delinquency from the Medical Records Department, a Staff Member/appointee has failed to complete medical records in a timely fashion, an automatic suspension may be imposed as provided in the Medical Staff Rules and Regulations.
b. Such suspension shall continue until all the delinquent records of the individual's patients have been completed. Failure to complete the medical records after 60 days from the date of automatic suspension shall constitute an automatic revocation of clinical privileges. This revocation is reportable to state and federal authorities. If the Staff Member/appointee wishes to have an appointment and privileges, the Staff Member/appointee must reapply as an initial applicant.

5) OIG or Governmental Payor Exclusion

If the Staff Member/appointee is excluded by the OIG from participating as a provider in any federal healthcare program (e.g., Medicare, Medicaid, Champus, Tricare, etc.), or otherwise debarred by any governmental payor, his staff appointment shall be suspended.

6) Criminal Activities

No individual shall be eligible to continue to hold medical staff membership or clinical privileges when the individual has a conviction or a plea of guilty or no contest pertaining to any felony, or to any misdemeanor involving (i) Medicare, Medicaid or insurance or health care fraud or abuse; (ii) violence against another, or (ii) related to the practice of a healthcare profession and/or the safety of patients and staff, even if not yet excluded, debarred, or otherwise declared ineligible by the federal or state government or payer.

The practitioner is to notify the USA Medical Staff Office within 5 business days of any of the above-listed legal activities as well as any potential inclusion on any sex offender registry or governmental exclusion/debarment list, including but not limited to governmental payors, during the appointment/reappointment period. The practitioner's privileges may be suspended during investigation of an offense that might result in such inclusion on the sex offender registry or a governmental exclusion list. The practitioner's privileges will automatically be terminated upon notification of a felony conviction or plea agreement or listing on any sex offender registry or payor exclusion list.

7. **Failure to Provide Information**
Failure of a Medical Staff member to notify the Medical Staff Office within 5 business days of any significant changes of status as outlined on the credentials application/reapplication shall be grounds for suspension.

Care of Suspended Individual's Patients.

Immediately upon the imposition of an automatic suspension, the appropriate Department Chair or designee and/or CW Service Line Chair shall assign to another member of the Staff with appropriate clinical privileges responsibility for care of the suspended Staff Member/appointee's patients still in the Hospital at the time of such suspension until such time as the patients are discharged. The patient will be asked to whom he/she wishes to be referred as an alternative Practitioner. When the individual being suspended or restricted is an Advanced Practice Professional, then the collaborative physician shall be responsible for arranging alternative coverage for the care normally provided by the individual.

Reinstatement of Appointment and/or Privileges after Non-Renewal Suspension

A. When the licensure, DEA or ACSC certification, or professional liability insurance of a Staff Member has been reinstated within 30 days of suspension of privileges for non-renewal of the forgoing, the Staff Member/appointee shall notify MSO of the reinstatement and provide a copy of the documentation which demonstrates reinstatement.

B. MSO, upon receiving the appropriate documentation, will automatically reinstate the Medical Staff Member/appointee's appointment and clinical privileges without further review by the Combined Credentials Committee, MEC, Executive Committee, or approval by the BOT.

Reinstatement of Appointment and/or Privileges after Revocation or Suspension other than Non-Renewal Suspension

A. When the licensure or DEA or ASCS certification of a Staff Member/appointee has been revoked or suspended for reasons other than described above, the Staff Member/appointee shall notify the MSO, in writing, that the terms of the licensing or certifying agency have been met and that the reinstatement of Hospital appointment and clinical privileges is requested.

B. The MSO will forward the information to the Department Chair who shall review the request and submit a recommendation to MSO regarding the request for reinstatement.

C. The MSO will transmit the Department Chair's recommendation to the Combined Credentials Committee for consideration at the next scheduled meeting. The provisions of Section 13.04 regarding the processing of applications shall apply to the Medical Staff Member's request for reinstatement of privileges.

D. The Combined Credentials Committee shall, after considering the Department Chair's request for reinstatement and the facts under which the suspension or revocation was invoked and the terms under which reinstatement was granted, forward its recommendation regarding the request to reinstate Hospital appointment and clinical privileges to the MEC.

E. The MEC shall, after considering all information gathered regarding the suspension or revocation and the terms of reinstatement make a recommendation to the Executive Committee regarding the request to reinstate Hospital appointment and clinical privileges.

F. The Executive Committee may either accept the recommendation of the MEC or make its own recommendation to the BOT on the reinstatement of Hospital appointment and clinical privileges, after consideration of all available information. A determination of the BOT to deny reinstatement of Hospital appointment and/or privileges under this Section will invoke procedural due process rights under Article XVI.

It shall be the responsibility of each Medical Staff Member/appointee to report immediately to the Chair of MEC, Department Chair, and Hospital Administrator any proceeding, investigation, complaint, or charge that might result in any of the actions described above.

Section 15.04 Extension of Time

The Chair of MEC may grant a reasonable request for an extension of any time limit within which action must be taken under this Article. Any such extension shall be disclosed to the MEC at the next meeting.

Section 15.05 Reporting

All adverse actions will be reported to the appropriate regulatory agencies, pursuant to the reporting requirements of the agencies that have jurisdiction over physician/practitioner practice including but not limited to the National Practitioner Data Bank, the Board of Medical Examiners and governmental entities.

UNIVERSITY OF SOUTH ALABAMA HOSPITALS
MEDICAL STAFF MEETING MINUTES
November 4, 2014

The quarterly meeting of the Medical Staff of the University of South Alabama Hospitals was held at the Faculty Clubhouse on Tuesday, November 4, 2014. Mr. Owen Bailey, USA Children's and Women's Hospital Administrator, called the meeting to order at 7:00 p.m. A roster of attendees is available in the Medical Staff Credentials Office.

Mr. Bailey introduced William O. Richards, M.D., Chair of the Medical Executive Committee for USA Medical Center. Dr. Richards presented the Medical Staff Bylaws revisions for discussion. (Revisions were made to Bylaws Articles III, IV, XII, and XV.) With no discussion, a motion was made, carried, and approved as presented with the effective date after approval at the December Board of Trustee Meeting.

Mr. Bailey introduced Ms. Lisa Mestas, Assistant Hospital Administrator of USA Medical Center. Ms. Mestas gave the USA Medical Center update regarding the following activities: consistent in high census and a decrease in diversion hours, Emergency Department wait time and patients leaving without being seen still on the rise, and the UHC Quality scorecard showing USA Medical Center near the third tier ranking. Latest accomplishments shared were the American Heart Association Stroke Gold Plus Target Award, ALAHA recognition for 100% participation in the Hospital Engagement Network, and the AACN Award for excellence in academic and practice partnership. She also reported two system-wide teams had been formed on Smoke-Free Campus and Ebola preparedness.

Ms. Mestas introduced Dr. Kevin Green who reported on the system-wide Ebola Committee efforts to standardize training, screening, supplies, and treatment protocols. He mentioned that an email had been sent out to 20,000 USA employees and students with a link to the screening criteria.

Mr. Bailey reported on USA Children's and Women's Hospital recent activities. The Joint Commission is due to arrive any day. The new Labor and Delivery Unit was named after Dr. Mendenhall. Phase II of construction was completed. He shared the vision for the Women's Tower to include remodeling of patient rooms, a Women's ICU, and renovation of the Evaluation Center. Mr. Bailey shared information pertaining to the acquisition of properties surrounding the hospital. Additionally, he reported on the Zero Campaign quality initiative.

Mr. Bailey introduced Dr. Ronald Franks, Vice President for Health Sciences. Dr. Franks asked Ms. Becky Tate, Chief Executive Officer for USA Health Services Foundation, to report on the Physician Office Building. She stated sealed bids were received from five contractors with the lowest bidder being under budget. Plans are being finalized for the project to begin soon. Dr. Franks recognized Lisa Mestas, Dr. Kevin Green, and Dr. Bert Eichold for their efforts in Ebola preparedness. He reported the search for the new Emergency Department Chair will be decided shortly. Additionally, he announced the MCI Interim Director is Dr. Michael Finan. Dr. Franks concluded with describing the impact of healthcare reform on the USA educational programs.

With no further business, the meeting was adjourned at 7:40 p.m. by Mr. Owen Bailey.

Respectfully submitted,

Juliana Kuck

Juliana Kuck
Medical Credentialing Coordinator

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

ACADEMIC AND STUDENT AFFAIRS

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

ACADEMIC AND STUDENT AFFAIRS COMMITTEE

September 11, 2014
2:24 p.m.

A meeting of the University of South Alabama Board of Trustees Academic and Student Affairs Committee was duly convened by Ms. Betty Maye, Chair, on Thursday, September 11, 2014, at 2:24 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Chandra Brown Stewart, Ron Jenkins, Bettye Maye and Mike Windom.
Members Absent:	Scott Charlton and Bryant Mixon.
Other Trustees:	Tom Corcoran, Steve Furr, Arlene Mitchell, John Peek, Jimmy Shumock, Ken Simon, Sandy Stimpson, Steve Stokes and Jim Yance.
Administration and Others:	Joe Busta, Lynne Chronister, Joel Erdmann, Julie Estis (Faculty Senate), Ron Franks, Happy Fulford, Stan Hammack, David Johnson, Doug Marshall (Faculty Senate), Steve Simmons, John Smith, Jean Tucker, Danielle Watson (SGA), Kevin West (Faculty Senate), and Kelly Woodford (Faculty Senate).
Press:	Sally Ericson (*Press-Register*/al.com).

The meeting came to order and the attendance roll was called. Ms. Maye, Committee Chair, moved approval of the revised agenda. Mr. Windom seconded and the revised agenda was unanimously approved.

Ms. Maye called upon Dr. Johnson to address items pertinent to the Division of Academic Affairs. Dr. Johnson said **ITEM 7**, an activities report, would be delivered at the September 12 Board meeting. He presented **ITEM 8**, a resolution to appoint retired faculty to the emeritus ranks specified, and conveying the Board's gratitude for the service of these individuals (for copies of resolutions, policies and other authorized documents, refer to the minutes of the September 12 Board of Trustees meeting). On motion by Mr. Windom, seconded by Capt. Jenkins, the Committee voted unanimously to recommend approval by the Board of Trustees.

Dr. Johnson presented **ITEM 9**, a resolution expressing best wishes and appreciation to Dr. Carl Moore, retired Dean of the Mitchell College of Business, for his many contributions to the University. On motion by Mr. Windom, seconded by Ms. Brown Stewart, the Committee voted unanimously to recommend approval by the Board of Trustees.

Dr. Johnson presented **ITEM 10**, a resolution to approve and adopt the amended Resident and Non-Resident Tuition Policy as set forth. He explained that the amendments are consistent with state law, which allows students who qualify for Alabama's G.I. Dependents' Scholarship Program to be eligible for in-state tuition. On motion by Capt. Jenkins, seconded by

Mr. Windom, the Committee voted unanimously to recommend approval by the Board of Trustees.

Ms. Maye called upon Dr. Smith for presentation of **ITEM 11**, a report on the activities of the Division of Student Affairs. Dr. Smith advised that a record number of students registered to live on campus this fall, citing a 99 percent occupancy rate. He added that all students on the residence hall wait list had been accommodated as well. He said the Administration is considering whether construction of a new residence hall is needed to prepare for housing growth into the future. He stated Dr. Chris Vinet, Director of Housing, is analyzing possible construction sites and architect firms. Ms. Maye inquired about the wait list process. Dr. Smith said wait list students were placed temporarily at The Grove, the privatized apartment community on campus, until availability in the dorms could be confirmed. He noted that students are not required to live on campus, but many choose to do so. Mr. Peek asked how competing apartment complexes adjacent to campus impact USA's occupancy. Dr. Smith stated those occupancy figures are not available, but acknowledged the impact the opening of the The Edge community made last year, which the University has made up for this year. He specified that only USA students can reside at The Grove.

Dr. Smith addressed Item **11.A**, a resolution authorizing the President to negotiate and sign a contract extension with Aramark, Inc., for food services as applicable under state law and guaranteeing that meal plan rates for the current academic year would not be increased as part of an extension. Dr. Smith noted that, with the University's steady growth, food outlets have been added to meet demand. He said talks with Aramark on increasing its investment at USA are taking place. He addressed the provisions of the resolution and said a restructuring of the contract still guarantees the University a 90-day notice of contract cancelation with just cause. He called the restructuring of the contract a good deal for the Institution going forward. He reiterated that rates would not be raised this year. On motion by Capt. Jenkins, seconded by Ms. Brown Stewart, the Committee agreed unanimously to recommend approval by the Board of Trustees.

There being no further business, the meeting was adjourned at 2:35 p.m.

Respectfully submitted:

Bettye R. Maye, Chair

RESOLUTION

SABBATICAL AWARDS

WHEREAS, in accordance with University policy, proposals for sabbatical awards have been reviewed and recommended by the respective faculty committees, Departmental Chairs, College Deans, and by the Senior Vice President for Academic Affairs and President,

THEREFORE, BE IT RESOLVED that the University of South Alabama Board of Trustees approves said sabbatical awards on this date, December 5, 2014, for the 2015-2016 academic year.

NAME	DISCIPLINE	TIME PERIOD
Dr. David Benko	Mathematics	Academic Year 2015-16
Dr. Patrick Cesarini	English	Fall 2015
Dr. Christine Eaton	Foreign Languages & Literatures	Spring 2016
Dr. Richard Hillyer	English	Spring 2016
Dr. R. Burke Johnson	Professional Studies	Fall 2015
Dr. Kelly Major	Biology	Spring 2016
Dr. Mihaela Marin	Foreign Languages & Literatures	Spring 2016
Dr. Dan Rogers	History	Spring 2016
Dr. Michele Strong	History	Fall 2015
Dr. Peter Wood	Music	Fall 2015

REC'D
Office of the President
NOV 12 2014

MEMORANDUM

University of South Alabama Office of Academic Affairs

University of South Alabama

REC'D
Office of the President
NOV 1 2014
University of South Alabama

November 10, 2014

TO: Tony G. Waldrop

FROM: G. David Johnson G. David Johnson

SUBJECT: Sabbatical Recommendation for Academic Year 2015-16

I recommend that the individuals whose names are listed below be granted a sabbatical for the period of time as indicated.

David Benko	Mathematics	Academic Year 2015-16
Patrick Cesarini	English	Fall 2015
Christine Eaton	Foreign Languages & Literatures	Spring 2016
Richard Hillyer	English	Spring 2016
R. Burke Johnson	Professional Studies	Fall 2015
Kelly Major	Biology	Spring 2016
Mihaela Marin	Foreign Languages & Literatures	Spring 2016
Dan Rogers	History	Spring 2016
Michele Strong	History	Fall 2015
Peter Wood	Music	Fall 2015

Teaching coverage has been addressed in a satisfactory manner for all recommended proposals. Proposals have been reviewed and recommended at the department and college level. Full applications and supporting materials are available in the Office of Academic Affairs. A brief summary of each request is attached.

Approved 11-11-14
TGW

GDJ/njc

Sponsored Activity Overview
FY13 and 14

Colleges/Departments	Fiscal Year 2014 Submissions		Fiscal Year 2013 Submissions		FY 2014 YTD Awarded		FY 2013 YTD Awarded	
Allied Health Professions	**Submitted**	**Budget Totals**	**Submitted**	**Budget Totals**	**Awarded**	**Budget Totals**	**Awarded**	**Budget Totals**
AHP Administration								
Biomedical Sciences	3	522,250	3	877,000	1	20,000		
Cardiorespiratory Care								
Emergency Medical Services Education	1	3,600	1	222,625	1	222,625	1	222,622
Occupational Therapy	1	50,000						
Physical Therapy	1	1,050,527						
Physician Assistant Studies	1	190,672	1	205,571	1	190,672	1	205,571
Radiologic Sciences								
Speech Pathology & Audiology	1	77,109	4	156,369	2	121,654	2	34,717
Unit Total	**8**	**$ 1,894,158**	**9**	**$ 1,461,565**	**5**	**$ 554,951**	**4**	**$ 462,910**
Arts & Sciences								
A&S Administration								
Biology	8	2,216,776	5	2,511,225	3	397,264	4	85,130
Chemistry	11	1,803,352	12	3,160,279	4	205,133	3	155,000
Communication	1	3,050	3	14,500	1	3,050	2	6,550
Dramatic Arts								
Earth Sciences	7	394,008	6	1,016,678	6	375,121	3	279,866
English			1	5,000			1	5,000
Foreign Languages & Literature								
History								
Marine Sciences	36	18,007,099	31	6,894,582	12	1,451,883	9	1,316,406
Mathematics/Statistics	11	739,669	10	1,045,128	5	33,000	5	31,000
Music	2	241,824	1	180,000	2	215,000	1	185,000
Philosophy			1	360,135				
Physics	5	1,819,750	3	742,228	1	360,135	1	330,135
Political Science & Criminal Justice	5	232,146	4	199,567	4	57,707	2	19,567
Psychology	11	2,670,702	7	3,538,462	5	1,829,742	5	3,118,500
Sociology, Anthropology, & Social Work	51	8,304,244	56	1,627,943	48	3,762,441	49	438,855

Sponsored Activity Overview
FY13 and 14

Colleges/Departments	Fiscal Year 2014 Submissions		Fiscal Year 2013 Submissions		FY 2014 YTD Awarded		FY 2013 YTD Awarded	
Visual Arts								
Unit Total	**148**	**$ 36,432,620**	**140**	**$ 21,295,727**	**91**	**$ 8,690,476**	**85**	**$ 5,971,009**
Business								
Accounting								
Economics & Finance	2	14,200			1	6,500	1	6,500
Management			2	89,500				
Marketing							1	49,745
MCOB Administration							2	54,266
Unit Total	**2**	**$ 14,200**	**2**	**$ 89,500**	**1**	**$ 6,500**	**4**	**$ 110,511**
Computing								
Computer Science	11	8,639,914	10	3,403,867	3	740,978	2	1,208,832
Information Systems	12	675,924	15	919,939	13	695,558	11	475,801
Information Technology	4	1,720,999	5	906,705	2	1,250		
SoC Administration	12	26,700,385	12	22,178,271	6	781,607	6	375,446
Unit Total	**39**	**$ 37,737,222**	**42**	**$ 27,408,782**	**24**	**$ 2,219,393**	**19**	**$ 2,060,079**
Continuing Education								
Center for Continuing Education	7	74,391	11	62,258	7	74,391	11	62,258
CESP Administration	2	156,883	2	760,986	2	156,883	2	139,288
Developmental Studies								
English as a Second Language								
Interdisciplinary Studies			1	38,000				
International Education								
Unit Total	**9**	**$ 231,274**	**14**	**$ 861,244**	**9**	**$ 231,274**	**13**	**$ 201,546**
Education								
EDUC Administration	6	651,730	3	875,000	6	651,730	3	875,000
Health, Physical Education & Leisure Studies								
Leadership & Teacher Education	24	9,739,829	19	13,950,598	11	4,323,345	16	4,887,673

Sponsored Activity Overview
FY13 and 14

Colleges/Departments	Fiscal Year 2014 Submissions		Fiscal Year 2013 Submissions		FY 2014 YTD Awarded		FY 2013 YTD Awarded	
Professional Studies	3	191,752	1	702,210	2	79,279	1	65,920
Unit Total	**33**	**$ 10,583,311**	**23**	**$ 15,527,808**	**19**	**$ 5,054,354**	**20**	**$ 5,828,593**
Engineering								
Chemical & Biomolecular Engineering	21	5,073,620	20	3,427,271	7	787,250	8	144,060
Civil Engineering	16	1,644,718	26	3,978,372	7	513,223	15	1,746,342
Electrical & Computer Engineering	9	10,589,339	11	3,850,877	1	78,516	2	163,662
ENGR Administration	13	4,190,596	13	88,265	10	108,130	13	70,928
Mechanical Engineering	9	1,638,862	15	2,507,579	6	267,654	8	487,500
Unit Total	**68**	**$ 23,137,135**	**85**	**$ 13,852,364**	**31**	**$ 1,754,773**	**46**	**$ 2,612,492**
Medicine								
Anesthesiology								
Biochemistry & Molecular Biology	10	6,020,078	19	12,999,017	5	812,950	8	1,361,168
Biomedical Library	1	221,688	1	50,000			1	50,000
Cell Biology & Neuroscience	24	15,159,051	10	8,544,682	4	215,000	3	470,303
Center for Healthy Communities			1	43,189				
Center for Strategic Health Innovation	8	5,889,048	4	2,011,741	7	3,137,350	3	1,466,224
COM Administration	1	647,427	3	1,148,886	1	647,427	2	1,121,896
Comparative Medicine								
Emergency Medicine			1	4,500				
Family Medicine	8	741,388	3	328,882	7	585,433	3	212,357
Internal Medicine	11	7,015,615	7	3,142,909	7	2,414,567	4	1,234,659
Microbiology/Immunology	11	11,537,638	13	5,746,527	6	1,608,885	6	1,331,233
Neurology	3	230,048	1	3,168	1	4,048	1	3,168
Neurosurgery								
Obstetrics/Gynecology	4	323,929	2	23,000	2	300,428	2	333,867
Orthopaedic Surgery								
Pathology			1	3,744				
Pediatrics	14	1,542,204	9	912,167	11	676,350	9	610,647
Pharmacology	26	20,336,572	31	10,883,638	11	3,012,850	9	3,123,274
Physiology	10	5,239,994	9	4,412,460	4	551,627	6	898,111

Sponsored Activity Overview
FY13 and 14

Colleges/Departments	Fiscal Year 2014 Submissions		Fiscal Year 2013 Submissions		FY 2014 YTD Awarded		FY 2013 YTD Awarded	
Psychiatry								
Radiology								
Sickle Cell Center								
Surgery	3	589,224	9	3,152,852	4	172,000	1	16,792
Unit Total	**134**	**$ 75,493,904**	**124**	**$ 53,411,362**	**70**	**$ 14,138,915**	**58**	**$ 12,233,699**
Nursing								
Adult Health Nursing	2	2,023,195	4	2,545,774	1	344,472	2	489,142
Community/Mental Health Nursing			3	557,398			1	465,204
Maternal/Child Health Nursing	4	2,129,589	6	2,704,766	1	443,716	4	1,404,379
NURS Administration	3	802,650			3	453,825		
Unit Total	**9**	**$ 4,955,434**	**13**	**$ 5,807,938**	**5**	**$ 1,242,013**	**7**	**$ 2,358,725**
University Library								
Library	1	1,200	2	181,782	1	1,200		
Unit Total	**1**	**$ 1,200**	**2**	**$ 181,782**	**1**	**$ 1,200**		
University Hospitals & Clinics								
Children's & Women's Hospital	1	2,401,707	1	2,368,555	1	2,401,707	1	2,368,555
University Medical Center	1	2,000	2	337,000	1	2,000	2	337,000
	2	**$ 2,403,707**	**3**	**$ 2,705,555**	**2**	**$ 2,403,707**	**3**	**$ 2,705,555**
USA Mitchell Cancer Institute								
Centers for Basic & Translational Sciences	41	28,536,057	56	24,389,638	12	2,176,864	15	2,824,348
Department of Radiation Oncology	1	37,500	1	0	1	0		
Division of Gynecologic Oncology	5	497,157	5	709,599	5	49,343		
Division of Medical Oncology	4	563,218	3	1,204,680	2	147,500		
USA MCI Administration			2	351,630			2	351,630
Unit Total	**51**	**$ 29,633,932**	**67**	**$ 26,655,547**	**20**	**$ 2,373,707**	**17**	**$ 3,175,978**
Other Units								
USA Police Department			1	26,102			1	26,102
Student Affairs	2	553,243	2	524,308	2	553,243	2	524,308
Academic Affairs			1	60,000				
Financial Affairs	1	19,819,247	1	19,172,629	1	19,819,247	1	19,172,629

Sponsored Activity Overview
FY13 and 14

Colleges/Departments	Fiscal Year 2014 Submissions			Fiscal Year 2013 Submissions			FY 2014 YTD Awarded			FY 2013 YTD Awarded		
Unit Total	**3**	**$**	**20,372,490**	**5**	**$**	**19,783,039**	**3**	**$**	**20,372,490**	**4**	**$**	**19,723,039**
Research & Economic Development												
Research Administration	2		1,155,781				2		1,155,781			
Unit Total	**2**	**$**	**1,155,781**				**2**	**$**	**1,155,781**			
TOTAL	**509**	**$**	**244,046,368**	**529**	**$**	**189,042,213**	**283**	**$**	**60,199,534**	**280**	**$**	**57,444,136**